

Financial speculators reap profits from global hunger

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A series of reports in the international media have drawn attention to the role of professional speculators and hedge funds in driving up the price of basic commodities—in particular, foodstuffs. The sharp increase in food prices in recent months has led to protests and riots in a number of countries across the globe.

On Tuesday, April 22, a UN spokesperson referred to a “silent tsunami” that threatens to plunge more than 100 million people on every continent into hunger. Josette Sheeran, executive director of the UN World Food Programme (WFP), noted: “This is the new face of hunger—the millions of people who were not in the urgent hunger category six months ago but now are.”

A recent article in the British *New Statesman* magazine, entitled “The Trading Frenzy That Sent Prices Soaring,” notes that increases in global population and the switch to bio-fuels are important factors in the rise of food prices, but then declares:

“These long-term factors are important, but they are not the real reasons why food prices have doubled or why India is rationing rice, or why British farmers are killing pigs for which they can’t afford feedstocks. It’s the credit crisis.”

The article states that the food crisis has developed over “an incredibly short space of time—essentially over the past 18 months.” It continues: “The reason for food ‘shortages’ is speculation in commodity futures following the collapse of the financial derivatives markets. Desperate for quick returns, dealers are taking trillions of dollars out of equities and mortgage bonds and ploughing them into food and raw materials. It’s called the ‘commodities super-cycle’ on Wall Street, and it is likely to cause starvation on an epic scale.”

World prices for basic commodities such as cereals, cooking oil and milk have risen steadily since 2000, but have escalated dramatically since the developing financial crisis in the US began to bite in 2006. Since the start of 2006, the average world price for rice has risen by 217 percent, wheat by 136 percent, corn by 125 percent and soybeans by 107 percent.

Under conditions of growing debt defaults arising from the US subprime crisis, speculators and hedge fund groups have increasingly switched their investments from high-risk “bundled” securities into so-called “stores of value,” which include gold and oil at one end of the spectrum and “soft commodities” such as corn, cocoa and cattle at the other. The article in the *New Statesman* points out that “speculators are even placing bets on water prices” and then concludes:

“Just like the boom in house prices, commodity price inflation

feeds on itself. The more prices rise, and big profits are made, the more others invest, hoping for big returns. Look at the financial web sites: everyone and their mother is piling into commodities.... The trouble is that if you are one of the 2.8 billion people, almost half the world’s population, who live on less than \$2 a day, you may pay for these profits with your life.”

Investment in “soft commodities” is currently highly recommended by leading market analysts. According to Patrick Armstrong, a manager at Insight Investment Management in London, “Raw materials can prove to be the best investment class for hedge funds because the market is so inefficient. This results in more chances for profit.”

Much of the international speculation in food commodities takes place on the Chicago Stock Exchange (CHX), where a number of hedge funds, investment banks and pension funds have substantially increased their activities in the past two years. Since January of this year alone, investment activity in the agricultural sector has risen by a quarter at the CHX, and, according to the Chicago firm Cole Partners, involvement by hedge funds in the raw material sector has trebled in the past two years to reach a total of \$55 billion.

Large-scale investors such as hedge and pension funds buy futures—shares in basic goods and foodstuffs to be delivered at a fixed date in the future. When the price of the commodity rises significantly between the time of the investment and the time of delivery, the investor is able to take home a large profit.

In light of the current food crisis, substantial returns of profit are guaranteed. According to CHX figures, wheat futures (for delivery in December) are expected to rise by at least 73 percent, soybeans by 52 percent, and soy oil by 44 percent.

Major ecological disasters, such as the recent drought in Australia, which hit food production and drive up basic commodity prices, are good news for the corporate investor.

Substantially reduced harvests in Australia and Canada this year have led to soaring wheat prices. Deutsche Bank has estimated that the price for corn will double, while the price for wheat will rise by 80 percent in the short term.

Such ecological disasters, which can ruin ordinary farmers and mean poverty for millions through increased food prices, are an aspect of the “inefficiency” of the raw materials market referred to above, which currently makes “soft commodities” such an attractive prospect for major speculators.

An article headlined “Deadly Greed” in the current edition of the

German weekly *Der Spiegel* gives some details of the activities of hedge funds in food market speculation. The magazine cites the example of the hedge fund Ospraie, which is generally regarded as the biggest of the management funds currently dealing in basic foodstuffs.

The manager of the fund, Dwight Anderson, is nicknamed “the raw materials king.” Already, in the summer of 2006, Anderson was recommending the “extraordinary profitability” of agricultural crops to his shareholders. While Ospraie is reluctant to publicise its profit levels from speculation in basic commodities, a leading German investor is less reticent.

Andreas Grünewald started up his Münchner Investment Club (MIC) in 1989 with seed capital equal to just €15,000. MIC now controls a volume of €50 million, of which €15 million is from investment in raw materials.

According to Grünewald, “Raw materials are the mega-trend of the decade,” and his company intends to intensify its involvement in both water and agricultural stocks. MIC investment in wheat alone has already yielded profit levels of 93 percent for the 2,500 members of the club.

The *Spiegel* article points out that MIC and its members give little thought to the catastrophic consequences of their speculative investment policy for undeveloped countries. “Most of our members are rather passive and orientated to profit,” Grünewald notes.

MIC, with its €50 million, is a minor player compared to the finance giant ABN Amro, which recently acquired a unique certificate allowing it to speculate on behalf of smaller investors on the CHX.

In the wake of the hunger revolts that took place a few weeks ago, ABN Amro put out a prospectus noting that India has enforced a ban on exports of rice, which, together with poor harvests in a number of countries, has led to a worldwide decline in rice reserves. “Now,” ABN Amro notes in its prospectus, “it is possible for the first time to have a share in the number one foodstuff in Asia.”

According to the *Spiegel* report, those responding to the ABN Amro appeal were able to realise a 20 percent rate of profit in the space of three weeks—a period that saw a huge increase in investment in rice in Chicago and other major centres.

Another particularly lucrative investment sector contributing substantially to the current global food crisis is biofuels. Initially championed as a means of protecting the environment, biofuels have become increasingly identified by big business as a profitable alternative to increasingly expensive oil. Within the space of a few years, biofuel has become a booming private industry capable of generating large rates of profit.

Huge tracts of land across the planet have in recent years been switched from food crops to the production of ethanol or biofuel, aimed primarily as a supplement to oil-based gasoline. Next year, the use of US corn for ethanol is forecast to rise to 114 million tonnes—nearly a third of the entire projected US crop.

In the words of Jean Ziegler, the United Nations special rapporteur on the right to food, the switch to biofuels at the expense of traditional forms of agriculture is nothing less than a “crime against humanity.”

Although maize production worldwide is growing, the increase is being more than absorbed by biofuel diversification. According to the World Bank, global maize production increased by 51 million tonnes between 2004 and 2007. During that time, biofuel production in the US alone (mostly ethanol) rose by 50 million tonnes, absorbing almost the entire global increase.

Subsidised by the US government, American farmers have diverted fully 30 percent of corn production into the ethanol scheme, driving up the cost of other, more expensive, grains that are being bought as substitutes for animal feed.

The European Union, India, Brazil and China all have their own targets to increase biofuels. The EU has declared that by 2010, 5.75 percent of all gasoline sold to motorists in Europe must stem from biofuel production. This month, a UK law enforced a mandatory mix of 2.5 percent biofuel in gasoline sold to motorists. A similar law stipulating a staggered 10 percent increase in biofuel share in gasoline was recently struck down in Germany following opposition from the auto industry, as well as ordinary car owners who would be forced to buy new cars to accommodate the new fuel.

In addition to the rapidly rising price of basic commodities as a result of the decreased production of grains for food purposes, the switch to crop production of biofuels has served to orient food prices to the high price of fuel. An equivalence is emerging between the price of food and the price of oil.

According to Josette Sheeran of the World Food Programme: “We are seeing food in many places in the world priced at fuel levels,” with increasing quantities of food “being bought by energy markets” for biofuels.

With oil topping \$100 a barrel, the biofuel sector is currently regarded as a potential source of huge returns for investors. The drive for maximum profits by the biofuels sector was summed up in the advertisement for a congress held in 2006, which declared:

“*Biofuels Finance and Investment World* is Europe’s definitive investor congress focusing exclusively on the value chain evolving around the new biofuels economy. Investors and financial institutions will gather with key industry stakeholders to discuss future investment opportunities, the risks and areas with huge potential for profit.”

The April 22 edition of *Money Week* recommends that investors stung by the subprime crisis switch their funds to the lucrative biofuels market. *Money Week* sides with *Fortune* magazine in identifying the oil multinational Royal Dutch Shell group as a guarantor of good returns: “We love it because it makes huge profits and is very cheap, but apparently it also has a large stake in Iogen, a Canadian firm with an exciting-sounding ‘potential breakthrough in ethanol technology.’”



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