„Impacts of Commodity Speculations on Food Security“

Committee Guide

Economic and Social Council

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Editors

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Personal Introduction

Honourable Delegates,

my name is Frederik Deters and I have the pleasure to be one of the chairs of this years‘ ECOSOC committee.
During the OLMUN conference I will turn 19 years old. I am living in Oldenburg and will be graduating from Liebfrauenschule this summer. After finishing school I will start studying sport management in Cologne, which leads me to what I do in my spare time. I love playing soccer but actually I am open for any kind of sport. That‘s why many of my friends describe me as a sport fanatic.

Even though I have not participated in many MUNs yet, the MUN enthusiasm caught me immediately when I firstly participated in the OLMUN of 2012 as the delegate of Australia. A few months later I have also attended the BERMUN conference as the delegate of the World Health Organisation. These two conferences were the crucial factor for my decision to serve as a chair of this years‘ OLMUN conference. I am very honoured to do so and I am really looking forward to successful debates and to meet all you in June. Together we will make this year‘s ECOSOC council a memorable week.

Yours Sincerely,

Frederik Deters

Dear honourable delegates,

My name is Marie Jelenka Kirchner and I am delighted to be one of your presidents this year.
The MUN fever caught me in 2008 when I took part in my first OLMUN and from that on I participated in several international conferences.
After my graduation from Cäcilienschule Oldenburg in 2011 I started focusing on European topics and spend the summer working in Turkey and 9 months volunteering in Poland. Now I am studying European Studies at the Chemnitz University of Technology in 2nd semester.

Since last year I am part of the European political education programme “Youth in Action” and try with many diverse projects to bring young Europeans together through exchange and information programmes.
My friends call me a workaholic among other things because I am constantly travelling from event to event through Europe.

I love my busy life, because it unites everything I enjoy: Europe, Intercultural Exchange, Politics, Philosophy, Human Rights, Gender Studies, the opportunity for a change and – most importantly – great crazy people with even crazier utopias of a better world.

I can’t wait to meet all of you for a productive and inspiring debate and loads of fun!

Yours sincerely,

Marie Jelenka Kirchner

How to use the committee guide

This committee guide provides a basis for this years‘ topic that will be debated and discussed in the Economic and Social Council. Tough, it is only the foundation for the delegates‘ research on this topic and is not meant to be used as an all-inclusive analysis. Accordingly, this guide serves as a thought provoking impulse to introduce every delegate to the topic. Indeed, the delegates will acquaint themselves with further information to be well prepared for the discussions and for the debates. This can be done by consulting scholarly materials, international news and more detailed proved background knowledge.

The Economic and Social Committee

The Economic and Social Council is one of the principal organs of the UN and was established in 1946. The Council is the place where such issues as economic, social and environmental challenges are discussed and debated. Therefore it is the responsibility of the ECOSOC to coor-

dinate those issues and to find solutions for the economically related social problems. It is just as much the function of the ECOSOC council that counts a total of 54 members to promote higher standards of living, to advance fundamental freedoms for all without distinction as to race, sex, language or religion, to respect and develop international cultural, educational, health and related matters and finally to make recommendations to any such matters to the General Assembly.

The Problem

In 2007-2008, the price of food highly increased. The International Monetary Fund‘s (IMF) food price index increased by more than 80 per cent. The impacts were felt all over the world. High prices pushed countries into recession and economies went into decline. The increase of commodity prices is one crucial factor of the financial crisis. How does the increase of food prices develop? Stock exchange speculators are betting on prices of staple food in financial markets, causing dramatic rising prices.

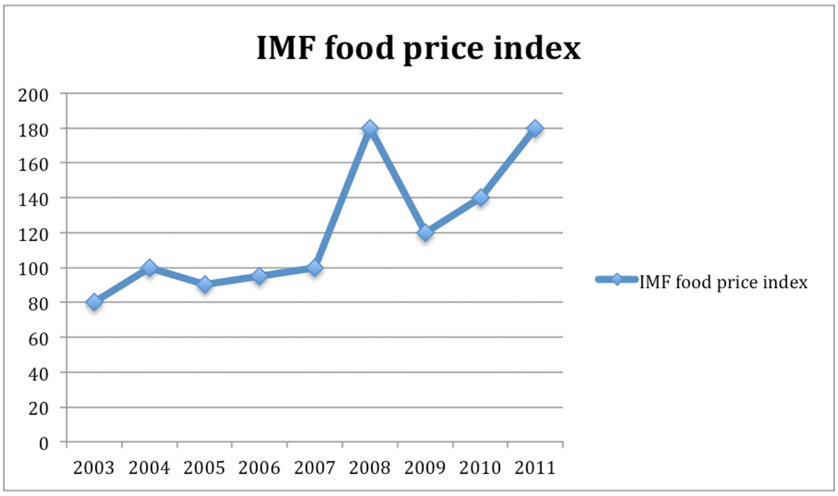
On account of this, many people in third world nations are driven into poverty. They cannot afford the rising food prices because average households in third world nations are spending about 60 to 80 per cent on staple foods. Average households in industrialised countries though, only spend 10 to 20 per cent on basic food. While the industrialised countries enjoy a life in comfort without having problems with food supply, the developing countries are starving due to insufficient nutrition maintenance. Because of those devastating conditions in developing countries, we have to find solution to stop the increased hunger as a result of the rising food prices.

Besides the excessive speculations the rising demand of food, the agricultural neglect, the production of Bio-fuels and the bad harvest due to natural catastrophes are also playing a roll but sure enough the commodities speculations are the main reasons of the extreme price peeks. The following will briefly point out the economic and social issues of this topic.

Financial perspective

Speculating on food prices has much to do with futures contracts (futures). It means farmers for example can sell their crops at a future date at a guaranteed price. They have been used hundreds of years. This assures the planning for farmers and stabilises the market. In general this idea of dealing with food that has its origins in the mid 19th century has many benefits as named above not only for farmers but also for consumers considering that it helps to handle the uncertainty of growing crops as seen in 2012 during a heat wave the USA had never seen before in history. The resulting aridity and drought of this catastrophe had fatal consequences for the human beings. It caused a massive crops failure for the farmers, which led to a decrease of food supply for the whole world since the USA is the main producer of wheat and grain. Due to futures contracts the catastrophe itself would not have had such a big impact on rising food prices. However, since the early 20th century these contracts (futures) cannot only be bought and sold by farmers but also by speculators who have no interest in the actual food they trade but rather in the profit they make by betting food prices. Many current negative aspects of criticism attack those speculators who are uninterested in physical commodities because they do not stabilise the market. In contrast they create price swings for food und destabilise the market. Although this is just one aspect there are many more negative as well as positive points of criticism that can be discussed during the conference.
After the stock market crash in 1929 Franklin D. Roosevelt realised the problem and took action. He adopted the Securities Act of 1933, the Securities Exchange Act of 1934 and the Commodity Exchange Act of 1936 to regulate the market by preventing excessive speculation. But in the 1990s these regulations were weakened again because of intense lobbying by the financial industry.

As seen in the graph[1] below from 2007 to 2008 the food price index increased by 80 per cent. The price then fell rapidly after 2008 until it dramatically increased once again. This graph reveals the drastic price swings due to commodities speculations. For sure, there are multiple reasons of the increase of the food price, however, the food speculations are solely accountable for the price swings because the rising demand of food for instance does not vary abruptly.



One reason for the extreme increase of food speculation were the weak regulations after 1990 as named above but this reason will be explained more precisely in the following:

The laws to gamble with food became extremely generous for the banks. 15 years ago, the commodities market was not open for the financial market. That means the two markets were separated from each other. While 15 years ago, the percentage of speculators involved in the commodities market was 20 per cent, today the percentage adds up to 80 per cent.[2] This shows that the speculators influence and determine the prices unlike the physical commodities regulated by demand and supply.

For example in 2002 the number of futures in the USA was eleven times larger than the actual wheat production, in 2007 it was even thirty times larger.[3] This points out that the system of demand and supply is manipulated by the speculators and does not regulate the market anymore because there are to many speculators who have nothing to do with the actual physical commodities. Due to that fact the demand is radically higher than the supply which leads to the increase of food prices. One reason for the rapid increase of the speculators in the commodities market is the collapse of the property markets in 2008 because of the world economic crisis. Many speculators were forced to move and to look for a different market. Therefore, many of them were driven to the agricultural sector.

In consideration of this rising speculation with future contracts, food commodities became less of a utility value and more of a financial investment. The price increasingly becomes affected by the fluctuations of the financial markets and is no longer affected by the needs of consumers and farmers.

1 http://www.wdm.org.uk/sites/default/files/hunger%20lottery%20report_6.10.pdf
2 http://www.foodwatch.org/de/informieren/agrarspekulation/mehr-zum-thema/foodwatch-report-die-hungermacher/
3 cp. the great hunger lottery, how banking speculation causes food prices

Social and Humanitarian Aspects

As food prices soar again to beyond 2008 levels, it becomes clear that everyone is now being affected by food speculation. Food prices are now rising by up to 10% a year in Britain and Europe. What is more, says the UN, prices can be expected to rise at least 40% in the next decade.

Already people all over the world but especially in less developed economies are starving, although there would be enough food for everyone.

In 1966 the United Nations General Assembly adopted the International Covenant on Economic, Social and Cultural Rights. Due to article 11 of this document the “Right to Food” lays under international law. It should be the responsibility of the United Nations to ensure written treaties.

Further, hunger easily incurs dissatisfaction in a population what quickly can lead to internal unrest especially in politically instable areas.

To secure international peace, human circumstances and justice between more and less developed countries food prices have to be affordable for every individual.

Position of Investment Groups

Although many investment groups especially international banks (Barclays, Deutsche Bank) are coming under criticism for there speculations with food many banks still justify there financial activities trading with commodities. In fact the german „Commerzbank“ and the british „Barclays PLC banking and financial service“ have already stopped the banking speculation but the „Allianz“ and the „Deutsche Bank“ still want to make profit with food speculations.

As the management boarder member of the „Allianz“ Jay Ralph said food speculations does not account for the global hunger problem. Instead the agricultural sector will even benefit from the investment of the Allianz for future contracts.

Furthermore the research of the „Deutsche Bank“ did not find out any correlation between their business and the worldwide hunger. A speaker of the Allianz supports this statement by saying that their financial activities only prevent price swing in spite of unsteady harvest which leads to a stabile price for agricultural commodities. Because of those reasons named above the „Deutsche Bank“ and the „Allianz“ decided to act for the costumers‘ interest.

What you have to bring to OLMUN 2013

Most importantly we want all of you to bring motivation and great ideas for our living future! But it is not all done with a positive attitude.

Every delegate (also NGO's) are supposed to send us a short (1 minute) policy statement by the 26th of May. We are also kindly asking everyone to add their MUN experience, so that we can prepare ourselves to ensure a great conference.

During the conference every delegate will have the possibility to read his/her policy statement out voluntarily in front of the committee.

We recommend everyone to write a draft resolution, and ask the permanent members of the Security Council (China, Great Britain, France, Russia, USA) to send their draft resolution at the latest by the 31st of May.

We remind all of you to acquaint yourself with the rules of procedure.
Please keep in mind that you are not preparing your own opinion but your delegation's.

Contact

If you have any questions concerning our committee's topic, your country's policies, how to conduct your research, procedural matters, how to write a resolution or any other issue, please feel free to contact us via **ecosoc@olmun.org**. We would also volunteer to correct your resolutions according to style and content to the best of our abilities. You can also find useful information on procedural questions in the OLMUN Handbook, which will be uploaded in time.
We are looking forward with vivid anticipation to another interesting and long lasting MUN experience with all of you from June 4th to June 7th.

Yours sincerely,

Frederik and Marie

Glossary

Future contracts	-Standardized financial contracts between two parties with a defined price upon today with a delivery at a specific future date -Negotiated at a future exchange with the purpose to minimize the risk of default by either parties
Recession	-Business cycle contraction, a general slowdown in economic acticity -Widespread drop in spending triggered by financial crisis
Commodity	-In economics, a marketable item produced to satisfy goods or needs -Commodities in this guide especially describe the agricultural and the humanitarian important commodities
Dissatisfaction	-The condition or feeling of being displeased or unsatisfied

Useful links

- weednetz- food speculation
  http://www.youtube.com/watch?v=rpM9XxJ-vo4

- the great hunger lottery- How banking speculation causes food crises
  http://www.wdm.org.uk/sites/default/files/hunger%20lottery%20report_6.10.pdf

- foodwatch - Die Hungermacher
  Wie die Deutsche Bank, Goldman Sachs & Co auf Kosten der Ärmsten mit Lebensmitteln spekulieren

- http://foodwatch.de/foodwatch/content/e10/e45260/e45263/e45318/foodwatch-Report_Die_Hungermacher_Okt-2011_ger.pdf

- Zocken mit Getreide- Nahrungsmittelspekulationen (nano 24.8.2012)
  http://www.youtube.com/watch?v=r6ClKWuZcck

- http://www.fao.org/index_en.htm

- http://www.wfp.org/