European Economic and Social Committee

OPINION

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Food price crisis in the aftermath of the Ukraine war

Food price crisis: the role of speculation and concrete proposals for action in the aftermath of the Ukraine war
[Own-initiative opinion]

NAT/873

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1. Conclusions and recommendations

The EESC:

1.1 Draws attention to the global food price crisis, which has been exacerbated by the war in Ukraine, leading to supply disruption of vital food items such as wheat and sunflower oil; stresses that the crisis is not only due to the conflict but to structural and systemic problems that create hunger and threaten people's livelihoods globally. Food should not be treated as a financial asset as it is not a commodity like many others;

1.2 While recognising that the issue of food prices and speculation is highly complex where the causality has to be investigated further, **the current structure of the commodities market is not delivering** for the "sustainable economy we need" and for the objectives linked to sustainable development, climate ambition and just transition enshrined in the UN Agenda 2030 and the European Green Deal - but actively works against them. It undermines the efforts to solve hunger, foster fair revenues for farmers and workers and fair prices for consumers, as well as protect small and medium food processors and the retail sector from the risks of rising inflation. **It must therefore be changed through regulation in order to contribute to people's wellbeing and societal development for the implementation of the Sustainable Development Goals (SDGs)**. Bearing in mind that the EU is already the most regulated market, it is evident that, to be effective, such regulation should be extended at global level;

1.3 Highlights the need to deal with concentration in food chains and financial ownership; stresses that **global physical grain trade is highly concentrated**. Four companies control an estimated 70-90 per cent of global grain trade: Archer-Daniels-Midland, Bunge, Cargill and Louis Dreyfus. These companies not only exercise an oligopoly over global grain trade, but also over information about market fundamentals, and are also highly financialised;

1.4 Notes that exchange-traded funds (ETFs) and index-based mutual funds, including those specifically linked to food and agriculture, represent new and extensively used avenues for financial investment and profit, while ordinary individuals increasingly partake in these investment vehicles via their pension funds and individual retirement savings accounts. **The rise of these equity-linked investment funds works to reshape agri-food systems in ways that prioritise the needs of shareholders over other social and environmental goals**;

1.5 Notes that **high and fast-rising prices and secrecy about stock holdings create uncertainty and fan fear and panic**. Fear and panic, especially during times of high uncertainty, such as in the aftermath of the Ukraine war, drive excessive price levels and volatility as speculative traders, jumping on the bandwagon of the price boom, dominate the market;

1.6 Calls on Member States and EU institutions to **enhance market transparency,** in particular by:

- ESG reporting and non-financial disclosure of actors involved in speculation. The role of the ESG rating must be investigated as far as food speculation is concerned;
- Every player globally should report to the Agricultural Market Information System (AMIS), including countries and private actors;
- Further scrutinise Over-the-counter (OTC) transactions.

1.7 Highlights that commodity derivative markets fulfil key services to the producers and users of food commodities, namely risk management and price discovery, and that the functioning of these markets is undermined through speculative activity; urges Member States and EU institutions to take the necessary steps to curb **excessive commodity speculation,** in particular by:

1.7.1 Regulating the **futures market:**

- re-introduce a regulated market for food derivatives, as was the case for several decades until the end of the last century, which preserves the function of futures for hedging. Futures are important from the farmers' perspective in order to manage risks. It allows them to fix the price for both input and output for a given time in the future;
- introduce strict price movement curbs and daily position limits as soon as trading activities on the commodity futures markets show abnormalities (Directive on Markets in Financial Instruments - MiFID II). Position limits should be recalibrated to reflect the genuine interest of a trading party in relation to the need of real-life risk exposure hedging;
- limit access to derivative/hedging to qualified and knowledgeable investors and traders who are genuinely concerned about the underlying agricultural commodities;
- introduce short/medium/long term contract obligations to add stability;
- incentivise withdrawal of financial speculation in food commodities by banks and fund companies with the introduction of increased capital requirements in order to reduce leverage effects;

1.7.2 Regulating **indexes (commodities indexes and food indexes):**

- Regulate and ban commodity index funds and replication via swaps and exchange traded products, as this maximises the link between energy and food markets; position limits do not work for commodity index traders/swap traders, as these are synchronised;
- Stop public funds / mutual funds[1] to actors involved in food speculation – and no public actor should be trading in food derivatives for speculative purposes that are not serving the public interest;
- Ban soft commodities (e.g. funds, ETFs) allocated in portfolios of institutional actors (e.g. pension funds, insurances);
- Considering the need to regulate this market, concrete recommendations must be further developed in future EESC opinions;

1.7.3 **Addressing the financialisation of the food sector** as massive money-making off the backs of people:

- Introduce global windfall taxation on excess profits before dividends of trade and financing corporations and a food speculation tax[2] to curb high frequency trading;
- Break oligopolies at all levels of the international food trade chain and financial interests.

1 Undertakings for Collective Investment in Transferable Securities (UCITS).

2 A financial transaction tax exclusively on food speculation. See ECO 321 'Financial Transaction tax'.

2. Context – food price crisis in the aftermath of the Ukraine war

2.1 Despite hopes that the world would emerge more quickly from the crisis and that food security would begin to recover from the pandemic in 2021, **world hunger rose further in 2021**. Disparities in the impact of the pandemic and the recovery, together with the limited coverage and duration of social protection measures, led to **widening inequalities** that have contributed to further setbacks in 2021 with respect to achieving the target of Zero Hunger by 2030, with a particular impact on women and children. It is estimated that between 702 and 828 million people in the world (corresponding to 8.9 and 10.5 percent of the world population respectively) faced hunger in 2021 – a total of 150 million more people since 2019, prior to the COVID-19 pandemic[3].

2.2 The ongoing **war in Ukraine**, involving two of the biggest global producers of staple cereals, oilseeds and fertiliser, and other external shocks, are disrupting international supply chains and pushing up the prices of grain, fertiliser and energy. This comes as supply chains are still recovering from COVID and are already being adversely affected by increasingly frequent extreme climate events, especially in low-income countries, and has potentially sobering implications for global food security and nutrition. **There is no scarcity, but due to the conflict there is temporary shortage and a serious disruption in the food supply chain and distribution problems[4], including where stocks are located as well as a negative impact on production (harvesting and planting/sowing) in Ukraine.**

2.3 In the course of 2022 , the UN Food and Agriculture Organization (FAO) registered a **record food price index**, with prices 34% higher than the previous year. It is important to note that the FAO food price index had already hit levels as high as the peaks seen in 2008 back in January of this year. In this context, it was inevitable that a supply shock affecting two of the world's major grain exporting countries would destabilise global markets on some level. However, **the scope and scale of the current price volatility can only be partially explained by market fundamentals**. One of the underlying flaws in the food system that has turned the Ukraine crisis into a global food security crisis is the opaque and dysfunctional nature of grain markets[5].

2.4 In its resolution on "Ukraine – from relief to reconstruction – proposals by European civil society", the EESC draws attention to the global food price crisis, which has been exacerbated by the war in Ukraine, and calls on the Member States and EU institutions to take the necessary steps to curb commodity speculation and to enhance market transparency. The European Parliament also called for measures to prevent excessive speculation in two recent resolutions[6].

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3 FAO, IFAD, UNICEF, WFP and WHO (2022), In Brief to The State of Food Security and Nutrition in the World 2022. Repurposing food and agricultural policies to make healthy diets more affordable. Rome, FAO.

4 FAO statistics.

5 IPES Food.

6 Resolution (2021/2208(INI)) and Resolution (2022/2593(RSP)).

2.5 **The current structure of the commodities market is not delivering for the "sustainable economy we need"**[7] **and for the objectives linked to sustainable development, climate ambition and just transition enshrined in the UN Agenda 2030 and the European Green Deal.** It does not contribute either to fostering fair revenues for farmers[8] and workers and fair prices for consumers, nor to protecting food processors (especially SMEs) and the retail sector from the risks of rising inflation.

3. Role and implications of commodity speculation: markets and mechanisms

3.1 **Speculation is an investment in the hope of a future gain, with a risk of loss**. Commodity speculation can take three forms: (i) outright buying or selling of a physical commodity, (ii) buying or selling of a contract which specifies the future acquisition or delivery of a commodity, and (iii) buying or selling of the equity or debt of a corporation that produces or trades in commodities. Standardised commodity contracts are called "futures contracts" or "commodity derivatives" and are traded in "commodity derivative markets", which are regulated financial markets. **Commodity speculation can therefore take place in both physical and financial commodity markets, and indirectly in stock and bond markets**.

3.2 Commodity derivative markets have seen a large inflow of liquidity from "non-traditional" investors since the early 2000s following changes in the regulatory frameworks governing these markets. **The arrival of new traders has been termed the "financialisation" of commodity markets**[9]. While the increase in liquidity has contributed to the depth of commodity derivative markets, making outright market manipulation more difficult, **it has also introduced speculative demand that is unrelated to conditions in the physical commodity market, which undermines the ability of these markets to fulfil key functions**.

3.3 In their original form, **regulated commodity derivative markets fulfil two main purposes: (i) risk management for producers and users of commodities, and (ii) price discovery**. Risk management is achieved via hedging, which means taking offsetting positions in the physical and the derivative markets and thereby fixing the price of the commodity at the time of placing the hedge. Hedging requires a close relationship between commodity futures markets and the physical market. To ensure this close relationship, physical trade tends to be benchmarked against the derivative price. While this practice ensures hedging efficacy, it also ensures a **direct pass-through of speculative positions in derivative markets to the physical market**.

3.4 Futures contracts are traded for different maturity months. Each futures contract has an agreed buyer and seller. Offers made by buyers and sellers are matched by the clearing house of the exchange. The matched price is not paid in full. Instead, both traders transfer a security deposit to a margin account which is registered with the clearing house. Gains and losses are taken directly from the security deposit. **Commodity futures trading is therefore highly leveraged**.

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7 EESC own-initiative opinion on The sustainable economy we need, OJ C 106, 31.3.2020, p.1.

8 EESC opinion on Improving the food supply chain, OJ C 440, 6.12.2018, p. 165.

9 UNCTAD (2009), "The Financialization of Commodity Markets", chapter II of the 2009 Trade and Development Report. UNCTAD: Geneva; UNCTAD (2011), "Price Formation in Financialized Commodity Markets: The Role of Information".

3.5 When a futures contract approaches its maturity date, traders have two options: (i) holding on to the contract and forcing (if seller) or taking (if buyer) delivery, or (ii) taking an offsetting position to close the contract before the maturity date. The great majority of all commodity futures contracts are settled by offsetting positions. Therefore, **trading in commodity futures does not require the trader to own the physical commodity** that they are selling or to own storage capacity to take on the physical commodity that they are buying.

3.6 Only brokers can trade in registered commodity exchanges. Brokers trade on behalf of their clients and for their personal gain. **A large secondary market exists where commodity derivatives are sold on and repackaged outside the exchange**. Futures contracts are also traded outside regulated exchanges, referred to as Over-the-counter" (OTC) trades, where deals are agreed without the involvement of a clearing house. **This makes commodity derivatives easily accessible to retail investors**, mostly in the form of exchange-traded fund (ETFs) for specific commodities or commodity indices[10].

3.7 Due to the deregulation of commodity derivative markets and their ease of trading, these markets are highly liquid, and **trade in commodity derivatives outstrips trade in physical commodities by a long way.** Liquidity is a key requirement for price discovery. Price discovery is the market's ability to reflect, correctly and in good time, information about physical demand and supply conditions. Price discovery is provided if, and only if, all traders take positions independently and solely based on their knowledge about physical demand and supply conditions; these conditions are referred to as "market fundamentals". **Price discovery is undermined by traders that take positions that are unrelated to market fundamentals.**

3.8 **Not all traders take positions based on market fundamentals**[11]. The academic literature distinguishes between active and passive traders. Active traders are further subdivided into informed and uninformed traders. **Active and informed traders** are commodity trading houses, which trade commodity futures for hedging and speculative purposes as part of their core business, and specialist money managers (e.g. hedge funds) that pursue trading strategies based on market intelligence.

3.9 **Active and uninformed traders (positive feedback traders)** are money managers that pursue trading strategies that are based on statistical pattern analysis and little or no market intelligence. **Passive and uninformed traders (index traders)** are institutional investors, such as pension funds, as well as retail investors investing in ETFs, who seek exposure to a broad set of commodity prices, including agricultural commodities as well as energy and minerals and metals, for portfolio diversification purposes. Exposure is achieved via replication of commodity indices, akin to stock market indices.

3.10 Index replication involves taking on only buying positions which are rolled over at the end of the futures contract's maturity date. **Index traders are therefore one-sided in their position**

10 Heidorn, van Huellen, Loayza-Desfontaines, Riedler, Schmaltz, and Schröder (2014), "Flankierende Ansätze zur Verbesserung der Markttransparenz und Bekämpfung von Marktmissbrauch im Rohstoffterminhandel", Bundesministerium der Finanzen (BMF), Berlin, Mannheim.

11 van Huellen (2020), "Approaches to Price Formation in Financialized Commodity Markets", *Journal of Economic Surveys*, 34(1): 219-237. DOI: 10.1111/joes.12342.

taking. **They are also synchronised across commodity groups,** signalling strong demand across a broad spectrum of commodities, leading to co-movement between prices of different commodity groups that is unrelated to market fundamentals[12].

3.11 Such speculative price signals can be aggravated by positive feedback traders that gauge the market support for price directions. **By betting on a particular price direction, positive feedback traders lend further support in a self-fulfilling manner, leading to speculative bubbles and high price volatility**. Speculative bubbles can persist, especially if information about market fundamentals is limited, that is, in times of high uncertainty, and if uninformed and passive traders dominate in the market.

3.12 The gathering of market intelligence is costly, and relatively more costly than statistical analysis or quick scanning of headlines, especially when traders invest in multiple markets at the same time. **Informed traders are therefore relatively few, and they tend to be large trading houses which gather market intelligence as part of their physical commodity business**. This makes commodity derivative markets prone to persistent speculative bubbles, especially in times of uncertainty and market panic.

3.13 **Global physical grain trade is highly concentrated**. Four companies control an estimated 70-90 per cent of global grain trade and make excessive profit: Archer-Daniels-Midland, Bunge, Cargill and Louis Dreyfus, known collectively as ABCDs[13] (ADM recorded the highest earnings in its almost 120-year history, and a 38% year on year increase in operating profits[14]). Those companies not only exercise an oligopoly over global grain trade, but also over information about market fundamentals, including storage. **Storage positions are held for transactional, precautionary or speculative purposes.** Information about storage levels is carefully guarded against competitors. As traders, they are forward looking, attempting to buy low and sell high.

3.14 **The ABCDs are also highly financialised.** Archer-Daniels-Midland and Bunge are listed companies and subject to shareholder pressures, which favour short-term gains over long-term investments. Shareholders include hedged funds (e.g., Black Rock), investment banks and to a large extent also institutional investors such as pension funds. Cargill and Louis Dreyfus are privately owned companies, which besides trading in grains also count hedge funds, banks, haulage, freight, storage, real estate and infrastructure companies among their subsidiaries.

3.15 **Large physical commodity traders** trade in both the derivative and the physical markets and entertain their own broker service for direct access to commodity derivative markets. They also **wield substantial power over their suppliers and customers**. This power enables them to delay payments to increase cash reserves or delay commodity deliveries if they expect prices to change to their advantage. **In contrast to producers and consumers, physical traders thrive**

12 van Huellen (2018), "How financial investment distorts food prices: evidence from U.S. grain markets", *Agricultural Economics*, 49(2): 171-181. DOI: 10.1111/agec.12406.

13 Murphy, Burch, and Clapp (2012), "Cereal Secrets: The World's Largest Gain Traders and Global Agriculture", Oxfam Research Report.

14 From the shareholder report for the fiscal year Dec-2020 to Dec-2021.

on market volatility, as large, rapid price changes create opportunities to sell storage and financial positions with large profits within a short time span.

3.16 **High and rising prices and secrecy about stock holdings fan fear and panic. Fear and panic, especially during times of high uncertainty, such as in the aftermath of the Ukraine war, drive excessive price levels and volatility as speculative traders, jumping on the bandwagon of the price boom, dominate the market**[15]. Physical traders have little interest in intervening in the short and medium run as high prices increase the value of their speculative as well as their transactional storage positions, which they are selling at a huge profit. **The ABCD traders have all recorded record high or near-record high profits in 2021.**

3.17 **Exceptionally high prices cause fear over supply shortages and supply unaffordability and increase the demand for precautionary storage holdings.** Hoarding food commodities, either by stockpiling imports or through the introduction of export bans, creates artificial shortages in the physical market, lending further support for rising prices. Speculative price surges are thereby validated by market fundamentals *ex post*, in a self-fulfilling manner. During the 2008 food crisis, India reacted to high grain prices by introducing a rice export ban, leading to a sharp increase in rice prices. Currently, China is stockpiling large quantities of corn, rice and wheat over worries of shortages[16]. While governments that engage in the hoarding of food commodities act speculatively, their hoarding is out of fear and the desire to fulfil the right to food for their citizens rather than profiteering. This clearly distinguishes these activities from speculation by financial and physical traders. **Hoarding by governments and consumers is a reaction to high food prices, not a cause, and is not contributing to food security and strategic autonomy neither in the EU nor in developing countries.**

4. The role of environmental, social and governance (ESG) rating agencies and trading companies

4.1 Currently, national **eco-labels** such as the Austrian UZ49 eco-label or the German FNG eco-label do not explicitly consider food speculation in their evaluation process. Derivatives that are not used solely for hedging purposes are generally speaking banned. Eco-labels consider supply chains in the food industry as being too complex to provide an easily applicable set of rules. Some examples include the use of fertilisers, which can be evaluated differently based on their carbon footprint, the missing data for identifying land grabbing issues, and the lack of transparency surrounding speculative trading activities in annual reports, etc. The complexity of the supply chains does not lead to hardcoded exclusion criteria, but to less important "controversial criteria" that have a higher probability of being interpreted significantly differently by rating agencies. **National eco-labels do not include explicitly implemented criteria linked to soft commodities in their evaluation process. Controversial criteria, focusing on governance, play a minor part in the overall rating process due to the possibility of different interpretations. These controversial criteria mainly cover business ethics, where speculative trading, lack of transparency, land grabbing, etc. come into play. One eco-label, for instance, investigates the "ESG quality" of the fund when derivatives of**

15 IFPRI.

16 Bloomberg article.

commodities are used, but the process and its possible outcomes remain unclear and are not documented publicly.

4.2 A key component of the ESG rating is the assessment of corporate governance (ownership, control, board, accounting, etc.) and corporate behaviour (business ethics and tax transparency) of the food industry. **However, ratios such as percentage of speculative trading of soft commodities executed by treasury departments or transparent information concerning storage levels at storage facilities are missing and are rarely covered by governance criteria.**

4.3 **Rating agencies assess the food market as being more vulnerable than other sectors.** The food industry has a higher-than-average climate risk relative to other ESG industries, as the agri-food sector is both a contributor and vulnerable to climate related problems (such as temperature increase, draughts, floods etc.). Although the average ESG rating of food industry companies has risen over the last five years, the **food products peer set has been dominated by a high proportion of companies having a controlling shareholder, with a large prevalence of family ownership**. This corporate structure carries corporate governance risks associated with complex ownership structure with disparate voting rights: management contracts/transactions between the company and the controlling owner, or entities owned by the same controlling individual. Prioritising the personal enrichment of the dominant owner over ensuring sustainable profits may leave minority investors exposed to the risks of decisions that heavily favour family groups**. Controlled ownership dominates in the food products industry: 58.4% of the companies that make up the MSCI ACWI index have a shareholder or a shareholder group that controls 30% or more of the voting rights.**

4.4 The majority of companies in the food industry (60%) are listed as being above the ESG rating investment grade (BBB). Nearly 2 out of every 10 constituents have a high or very high ESG rating. This development leads to heavy inflows by asset managers into food industry stocks. Food prices are at their highest level in a decade and the rally could persist. However, investors are becoming increasingly averse to industries that violate ESG principles, such as the palm oil industry. **There will be a growing demand for ESG-compliant portfolio construction based on commodities.** From September 2008 to September 2011, the FAO index rose 12%, which is more than inflation. The impact of the food price spike on stocks was characterised by the following features: firstly, it was broad-based in its impact. The food price rally had a positive impact on food producers, food processors and fast-moving consumer goods (FMCG) companies. This time around, ESG will be a key determining factor in asset allocation decisions. The underperformance of palm oil stocks amid the 2021 palm oil price rally is an example of these new considerations having an impact on share prices. **However, as stated in points 4.1-4.4, these ESG ratings do not cover the issue of food speculation. When considering, for example, highly speculative trading or the excessive stockpiling of physical commodities forcing price levels to rise higher as part of the company's business ethics and governance, the overall ESG rating must be adapted accordingly. In this respect, the average ESG rating for the food industry as well as fund companies may be too high.** This must be investigated in more detail.

4.5 The high and rapidly increasing levels of concentration in the agri-food sector are reinforcing the industrial food and farming model, exacerbating its social and environmental fallout and aggravating existing power imbalances[17]. **Collectively, the asset management giants, namely BlackRock, Vanguard, State Street, Fidelity, and Capital Group, own significant proportions of the firms that dominate at various points along agri-food supply chains**. When considered together, these five asset management firms own around 10-30% of the shares of the top firms within the agri-food sector. The firms with the highest degree of ownership by the large asset management firms are those firms that dominate in highly concentrated market segments, including agricultural inputs, commodity trading, and processed and packaged foods[18]. These corporate strategies can collectively lead to broader effects, such as greater inequality in the food system, a weakening of innovation in the sector, and enhanced market and political power among the sector's leading firms. **Further research is necessary to build a solid base on which to formulate policy directions moving forward in the case of equity-related investments in the food and agriculture sector.**

4.6 In the case of equity-related investments in the agri-food sector, multiple aspects of financialisation feature prominently. Exchange-traded funds (ETFs) and index-based mutual funds, including those specifically linked to food and agriculture, represent new avenues for financial investment and profit, while ordinary individuals increasingly partake in these investment vehicles via their pension funds and individual retirement savings accounts[19]. **The rise of these equity-linked investment funds works to reshape agri-food systems in ways that prioritise the needs of shareholders over other social and environmental goals.** The Vaneck Vectors Agribusiness ETF, for instance, is the largest agricultural index fund. It has returned an annual average of 8.32% over the last 10 years. Meanwhile, its net asset value rose to 32% between 2020 and 2021.

5. Current regulatory framework: challenges and obstacles

5.1 The MiFID II Directive (2014/65/EU) imposed comprehensive disclosure and reporting requirements to curb excessive speculative trading and promote transparency. It proposed position limits per trading venue not only on securities trading but also extending to cover equivalent OTC transactions. Firms are also obligated to provide daily position reports to venues and regulators.

5.2 **These measures, especially the position restrictions, are useful but also limited in their effectiveness to curb excessive financial market speculation.** They are closely linked to the question of the role of such speculation in price formation. Criticism of position limits from civil society and academics is not exclusively related to position limits' (possible) weak execution, but also to regulatory issues such as (i) the frequency of review, (ii) the consideration of index funds in determining position limits, and (iii) regulators' exemption rules. Regulators must face questions about when position limits kick in and why the strong capital inflows in

17 IPES Food report.

18 Clapp, J. (2019), "The rise of financial investment and common ownership in global agrifood firms", *Review of International Political Economy*.

19 https://www.tandfonline.com/doi/full/10.1080/09692290.2019.1597755.

agricultural commodities over the past two years have not raised alarms. Increased regulator transparency is also essential.

5.3 **All transactions should be reported to national authorities as soon as they happen:** real-time (or as close as possible) transaction reporting should be put in place for all commodity derivatives, including OTC contracts, on all major exchanges. As many trades as possible should be done on transparent platforms and **all OTC contracts should be registered**. Different types of counterparties should be subject to appropriate disclosure requirements: market participants and positions should be categorised by type of entity (e.g. bank or physical trader) and activity (e.g. speculative or hedging) and be subject to appropriate disclosure requirements and regulatory constraints accordingly.

5.4 **The CFTC, for instance, only releases weekly data on trading positions, although daily data exist.**

5.5 Limits should be introduced on how much prices can move up or down within a day and the exchange should have the right to close the market if the limits are exceeded. Time-bound intra-day price limits should be put in place, initially set at cautious but appropriate levels, which could be gradually tightened after monitoring for any adverse consequences, such as poor liquidity.

5.6 In addition, position limits should be recalibrated to reduce the price impact of a single player. Ex-ante position limits should be aggregated across financial markets. Limits on the number of times contracts can be turned over in a single day should be introduced.

5.7 OTC trades should be regulated, and transactions should be registered with a clearing house for oversight. Registered exchanges should also have the right to cease trading if the order of the market cannot be ensured. No trader should be able to hold the exchange liable for any losses incurred due to trading stops that are within the exchanges' regulatory remit.

5.8 Aggregated position limits should be introduced for all types of derivative contracts and should be applied to all counterparties: **any exemptions to position limits should be restricted to businesses dealing directly in physical commodities and using commodity markets to hedge risks that are core to their commercial business.**

5.9 A tax regime should be put in place to limit the use of passive speculation, exchange traded funds and high frequency trading in agriculture derivatives markets. A financial transactions tax could also be used to help curb excessive speculation while raising money for development and climate change finance. However, it may be too difficult to tax transactions popping up in milliseconds. Thanks to automated trading, the average duration of a trade is eight seconds. It would be more appropriate to tax the exchange as an entity based on defined criteria rather than focusing on each trade entry and exit.

5.10 Due to the Ukraine crisis, wheat prices are diverging in some local markets, with the differential between cash prices and benchmark futures on the Chicago exchange plummeting as wheat buyers balk at the highest prices witnessed since 2008. This may be side-lining farmers, who are

already contending with the worst farm cost inflation in years. This cash market scenario we are seeing because of the war is hurting farmers' current ability to market their old and even new crop wheat. Some growers say their bids have been pulled from grain elevators. Wheat futures are in ludicrous mode. Futures and cash are diverging sharply.

5.11 To put the discussion of further regulation into perspective, it should be noted that the EU already has the most regulated financial markets. It is evident that, to be effective, such regulation should be extended at global level.

5.12 **In conclusion, financial market speculation is not the only contributor to price dynamics on commodity futures markets and thus to food price increases,** but it is a significant one! A deeper analysis of the regulatory instruments and their functioning and possible adaption during the crisis is needed.

6. The way forward: civil society's proposals for action

6.1 The EESC calls on Member States and EU institutions to **enhance market transparency,** in particular by ESG reporting and non-financial disclosure of actors involved in speculation. The role of the ESG rating must be investigated under the perspective of food speculation. In particular, the methodologies of the rating agencies must be put under review on how they are assessing the food industry and the participants in the food sector in general. Currently, ESG ratings correlate to less than 50%. This leads to misguided assessments which have a significant impact on the inflows of agro-funds.

6.2 Every player globally should report to the Agricultural Market Information System (AMIS), including countries and private actors, possibly through the FAO. The more is known about food reserves the better. Information about storage/flows of reserves globally is essential. OTC transactions should also be further scrutinised. All OTC products must be cleared and registered via a clearing house. Data about positions broken down by clients be made available to regulators.

6.3 The EESC highlights that commodity derivative markets fulfil key services to the producers and users of food commodities, namely risk management and price discovery, and that the functioning of these markets is undermined through speculative activity. The EESC therefore urges Member States and EU institutions to take the **necessary steps to curb excessive commodity speculation**, in particular by**:**

6.3.1 Regulating the **futures market** for food derivatives, as was the case for several decades until the end of the last century, which preserves the function of futures for hedging. Other recommended measures include:

- introducing strict price movement curbs and daily position limits as soon as trading activities on the commodity futures markets show abnormalities (MiFID II). Position limits should be recalibrated to reflect the genuine interest of a trading party in relation to the need of real-life risk exposure hedging. More transparency and effective implementation of position limits would be helpful;

- limiting access to derivative/hedging to qualified and knowledgeable investors and traders who are genuinely concerned about the underlying agricultural commodities;
- introducing short/medium/long term contract obligations to add stability;
- incentivising withdrawal of financial speculation in food commodities by banks and fund companies with the introduction of increased capital requirements in order to reduce leverage effects. Examples of big financial institutions (such as Deutsche Bank, ERSTE Bank, Raiffeisen Austria, etc.) banning the trading of food speculation by derivatives show that it is possible for those actors to adapt their governance accordingly;
- Stronger regulation in the event of anomalies. Exchanges should introduce rules that limit the destabilising influence of high-frequency trading[20].
- Monitoring and sanctioning mechanisms for abusive positions in the market need to be reinforced and made more agile to offer timely response.

6.3.2 Regulating **indexes (commodities indexes and food indexes),** in particular by regulating and banning commodity index funds and replication via swaps and exchange traded products, as this maximises the link between energy and food markets. Position limits do not work for commodity index traders/swap traders, as these are synchronised. Public funds to actors involved in food speculation should also be stopped – and no public actor should be trading in food derivatives for speculative purposes that are not serving the public interest. A ban on soft commodities (e.g. funds, ETFs) allocated in portfolios of institutional actors (e.g. pension funds, insurances) should also be introduced. Considering the need to regulate this market, concrete recommendations must be further developed in future EESC opinions.

6.3.3 **Addressing the financialisation of the food sector** as massive money-making off the backs of people, e.g. by introducing windfall taxation on excess profits before dividends of corporations and a food speculation tax[21] to curb high frequency trading, as well as breaking oligopolies at all levels of the chain and financial interests.

Brussels, 15 December 2022

Christa Schweng,
The president of the European Economic and Social Committee

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20 https://www.welthungerhilfe.de/welternaehrung/rubriken/wirtschaft-menschenrechte/befeuert-finanzspekulation-die-globale-ernaehrungskrise.

21 A financial transaction tax exclusively on food speculation – see ECO 321 "Financial Transaction tax".