



6 July 2012

Meeting on food price volatility and the role of speculation

Your Excellency Mr. Leonel Fernández, President of the Dominican Republic,
Your Excellency Mrs. Margarita Cedeño de Fernández, FAO Special Ambassador, and First Lady
and Vice-President Elect of the Dominican Republic,
Honourable Ministers,
Ambassadors and Permanent Representatives,
Distinguished Guests,
Colleagues of FAO and the United Nations
Ladies and Gentlemen,

It is a great honor to welcome the President of Dominican Republic to FAO to participate in this special event on food price volatility, focusing on the role of excessive speculation.

Today's event takes that process forward. We will be exchanging views on the extent to which speculative behavior on commodity futures markets has contributed to food price volatility and on associated regulatory issues.

While there has been much analysis of food price volatility, including in FAO, more understanding is still needed, especially concerning the impacts of speculation.

Let's make one thing clear: we are not talking about speculation related to price discovery and future markets. We are talking of excessive speculation in derivative financial markets, which increases price swings and their speed.

Ladies and gentlemen,

Excessive food price volatility, especially at the speed at which they have been occurring since 2007, has negative impacts on poor consumers and poor producers alike all over the world.



In the last years we have seen the reversal of a downward tendency in prices of agricultural commodities that had lasted four decades.

Food prices reached their highest level in 2008, fell sharply with the recession in 2009 and peaked again in early 2011.

High food prices and volatility are expected to continue in the medium-term, according to the FAO-OECD Agricultural Outlook. This will continue to challenge the ability of consumers, producers and governments to cope with the consequences.

Food price inflation has already been higher than overall inflation in almost every country. This has a greater impact on the poorer population, who can spend up to 75 percent of their income in food.

In principle, higher prices should be good news for agricultural producers because it provides an incentive for increased investment and a positive supply response.

However, excess volatility makes it hard for them to seize the opportunity of higher food prices.

Ladies and gentlemen,

FAO has been actively involved in better understanding food price volatility and appropriate policy responses.

Our information products have become an international reference on the current state of world markets.

Last year, FAO, together with OECD, coordinated the preparation of the inter-agency report to the G20 on this subject. At the request of the G20, FAO also hosts the Secretariat of the Agricultural Market Information System (AMIS), aimed at promoting market transparency.

At the same time, our analytical work is contributing to deepen the



understanding of the nature, causes, impacts and responses to volatility. This includes looking into the increasingly complex inter-relationships between agricultural, financial and energy markets.

Of all the causes of volatility, the role of excessive speculation is, without a doubt, among the most controversial. And it is not a new controversy. Following the stock market crash of 1929, and the depression of the 1930's, the United States Government tried to limit the negative effects of unchecked speculation.

Some analysts argue that speculation has none or only minimal effect on prices. At the other, some consider that there are people gambling with agricultural commodities in international markets.

An old Spanish saying perhaps best translates the polemic: "I do not believe in witches, but that they do exist, they do"!

The view that speculation contributed to recent price volatility has led to more awareness among governments on the need for the introduction of greater regulation to limit this activity. However, the question of how much and what form of regulation is polemic.

In the United States, the Commodities Futures Trading Commission, CFTC, has been given greater powers in 2010. The CFTC defines and enforces speculative position limits and reporting requirements to promote transparency.

The European Union is following suit to strengthen regulatory measures.

I am sure we will all benefit from the exchange of views at this meeting. Once again, I would like to thank President Leonel Fernandez for being here today, the panelists that will participate in the debate we have, and all of you joining us today.

Ladies and gentlemen,



In December 2011, the United Nations General Assembly adopted, by consensus, a resolution presented by the Dominican Republic on "Addressing Excessive Price Volatility in Food and Related Financial and Commodity Markets".

As mandated in this resolution, the President of the General Assembly of the United Nations convened a High-Level Thematic Debate on this topic in April 2012.

It focused on the causes of volatility, how these affect countries' efforts to achieve food security and policy options to address this issue.

Today's event is part of this process.

Without further ado, let me give the floor to President Leonel Fernández, who has made the fight against hunger a personal commitment and a political commitment of his government.

Mr. President, it is an honor to have you with us. You have the floor.