

# the facts on

food



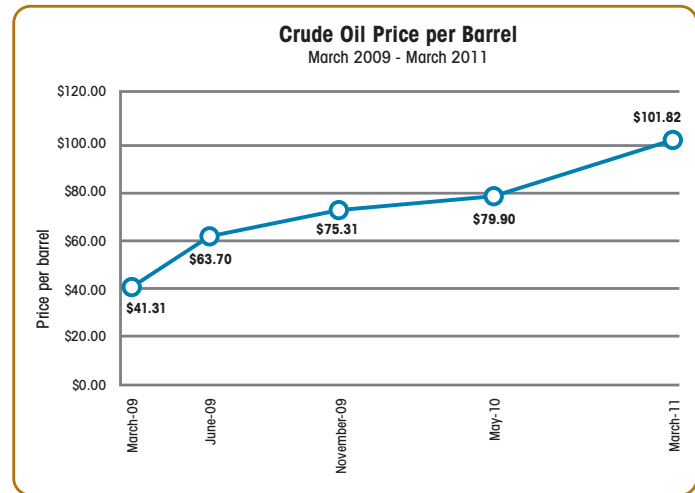
fuel

**The real reasons food prices are increasing, and don't think "food vs. fuel":**  
There are many factors on the world stage that are behind the increase in food prices.

- **food price driver:** Oil prices have gone up 246% over the past 2 years.

"Crude oil got up to \$147 per barrel briefly in 2008, during the last food spike. The food companies I spoke with said 'Yes, we are paying more for grains, but what is really affecting our bottom line is fuel prices.' Talking to farmers and the whole spectrum of food producers, they will tell you fuel prices have a bigger impact than any other factor. The greater dependence we have on international petroleum, the more sensitive our economy becomes to rising fuel prices – far more than to other commodity prices."

(Jay O'Neil, Senior Agricultural Economist, International Grains Program, Kansas State University)



(Source: U.S. DOE Energy Information Administration)

- **food price driver:** Speculation in the commodities markets is driving prices to artificial highs.

Index fund speculation increased by 1,900% between 2003 and 2008. (Source: Lehman Brothers)

Outstanding contracts in corn futures increased from 500,000 in 2003 to almost 2.5 million in 2008.

(Source: Morgan Stanley)

"A number of signs indicate that a significant portion of the [2008] price spike was due to the emergence of a speculative bubble. Prices for a number of commodities fluctuated too wildly within such limited time-frames for such price behavior to have been a result of movements in supply and demand... The 2008 food price crisis was unique in that it was possibly the first price crisis that occurred in an economic environment characterized by massive amounts of novel forms of speculation in commodity derivative markets."

(Source: "Food Commodities Speculation and Food Price Crises," September 2010, Olivier de Schutter, United Nations)

The ratio of non-commercial speculators to commercial hedgers (those with an actual commercial interest in the traded commodity) is 4:1.

Ten years ago, speculators accounted for only 20% of the activity.

(Source: Timothy A. Wise, Tufts University, "Food Price Volatility: Market Fundamentals and Commodity Speculation," January 27, 2011)

## Research by The World Bank found that biofuels were NOT a major contributor to the food price increases in 2007-08:

In a 2008 report, The World Bank originally cited biofuels production as one of the reasons behind the 2007-2008 increase in global food prices – but, upon further review of the facts, it changed its mind.

The World Bank's report in July 2010 found that:

"... the effect of biofuels on food prices has not been as large as originally thought, but that the use of commodities by financial investors (the so-called "financialization of commodities") may have been partly responsible for the 2007/08 spike."

"We conclude that a stronger link between energy and non energy commodity prices is likely to have been the dominant influence on developments in commodity, and especially food, markets."

"... worldwide, biofuels account for only about 1.5 percent of the area under grains/oilseeds. This raises serious doubts about claims that biofuels account for a big shift in global demand."

"Even though widespread perceptions about such a shift played a big role during the recent commodity price boom, it is striking that maize prices hardly moved during the first period of increase in U.S. ethanol production, and oilseed prices dropped when the EU increased impressively its use of biodiesel. On the other hand, prices spiked while ethanol use was slowing down in the US and biodiesel use was stabilizing in the EU."

(Source: "Placing the 2006/08 Commodity Price Boom into Perspective" by The World Bank Development Prospects Group, July 2010.)