

Betting on hunger: Barclays bank and food speculation

This is the story of a hijack. The target: food markets. These markets were intended to offer food producers and buyers a way of insuring against price changes from varying harvests. But over the last fifteen years, as regulatory barriers were stripped away, they have been taken over by voracious financial speculators. Quickly they have become dominated by institutions with no interest in food, simply in betting on prices for profit, including big investment banks like Barclays. Since 2006, financial players have doubled their assets in food commodity derivative markets to reach USD126 billion.ⁱ As a result, even one of the financial sector's strongest defenders, UK Prime Minister David Cameron, concedes that these markets have become a 'casino'.ⁱⁱ

Speculation by Barclays and other financial institutions has become a powerful driver of world food prices, fuelling dramatic spikes and crashes in recent years. During the food crisis in 2007 and 2008, for example, the price of maize rose by 180% before falling sharply. Then in February last year, world food prices soared again to new record highs.ⁱⁱⁱ

Of course the food system is complex and prices are under pressure from a host of other directions, including climate change, agrofuel production and land grabs. But only when we factor in the magnifying effect of speculative bubbles, growing or bursting, can we explain why prices have fluctuated so much in recent years.

A report to the G20 by international organisations including the World Bank and UN agencies confirms that too much speculation "can cause frequent and erratic price changes".^{iv} This is now a broadly accepted consensus. An array of farmers, food industry bodies and civil society groups have also spoken out against speculation. It is an issue that unites people as diverse as the CEO of Starbucks, the National Farmers' Union in Scotland, and the global movement of small-scale farmers, La Via Campesina.^v

For people in poverty, higher food prices fuelled by speculation can be a matter of life or death. Some of my colleagues from the World Development Movement visited Kenya to find out what food price spikes mean for people there. Maize prices doubled between 2007 and 2008, meaning that in the poorest areas, one person's weekly supply of maize cost two days' wages. One woman, Fanice Munhonja Ongala, from Nairobi, told them: "When food prices shot up, we could only afford to eat ugali [the maize-based staple] on its own and sometimes we had to go without food". The effects of malnutrition on people's health and child development can outlast even a short-term food price spike.

I will say more on the impacts of food speculation in a moment, but let's now turn to why Barclays has been singled out among investment banks, hedge funds and pension investors for this award.

Barclays is a top player – one of the three biggest in the world when it comes to commodity speculation, with a history of aggressive expansion, recognised by a series of industry awards. World Development Movement research estimates that in 2010 Barclays made up to half a billion dollars from food speculation.^{vi}

Barclays is also a pioneer of food speculation, pushing into Asian markets and inventing new products that enable ever wider gambling on hunger. Industry insiders have warned that some of these financial products may be as opaque and risky as the toxic instruments that catalysed the credit crunch.^{vii}

Crucially, Barclays dominates this market in the UK and enjoys close ties to the British government. In less than a year of the current UK government Coalition government taking power, Barclays met finance ministers at least 15 times. Ministers from the Conservative party, which that receives half of its funding from the financial sector. The same ministers who are now working to weaken planned European reforms that would impose tough legislation to curb food speculation.

All this is going on behind a public relations offensive, with Barclays' chief executive Bob Diamond making media appearances to say that banks must be "good citizens" and "win back the public's trust."^{viii}

Let's return to what rising food prices mean in reality. Not simply hunger, which in itself can seem hard for us in Europe to imagine – though food centres offering emergency support to people struggling to afford a decent diet opened at the rate of more than one per week in the UK last year. In the global south, the effects are of course more extreme. To buy food, people are having to cut spending on school or medical fees, contributing to a cycle of poverty and ill health. Some have to take up hard and risky jobs, labouring into old age or facing exploitation as domestic workers, for example. It is children, women and elderly people who are the worst affected. Rising food prices can push people into a downward spiral as they go into debt or sell off their livestock or other possessions. In recent years, protests against rising food prices have been violently suppressed in countries including Haiti, Uganda and Egypt.

The impacts are on a devastating scale. Rising food prices pushed 44 million more people into extreme poverty in the second half of 2010 alone. To quote the European commissioner responsible for regulating these markets, Michel Barnier, "Speculation in basic foodstuffs is a scandal when there are a billion starving people in the world."^{ix}

When people find they cannot afford to buy enough food to feed themselves, they tend to blame factors close to home – local hoarders, reduced government subsidies, higher fertiliser prices. In the global north, commentators too often scapegoat population increases – actually rising more slowly than food production.

Speculators have got away with it in part because they are almost invisible. Shut off in high-security tower blocks in private islands within cities, doing deals out of the public eye, and dismissing attempts by regulators or citizens to hold them accountable as 'uninformed'

But over the last couple of years it has been encouraging to see that many people no longer accept the idea that we cannot understand what Barclays and other financial institutions are doing, and that we have no right to a say in the rules that govern their activities – because quite clearly they have serious impacts on all of us, including on the food we eat, or cannot.

Across the UK, members of the World Development Movement have held protests outside high street branches of Barclays. They dressed as bankers selling food at vastly inflated prices to bring home to people how unaffordable food is becoming for many of those living in the global south. These actions have inspired civil society groups across Europe to investigate whether banks in their countries are also speculating on food, and a recent report details widespread involvement.^x Public pressure has pushed Deutsche Bank to review its involvement in food speculation.^{xi}

But let's not leave the decision to those who profit from betting on hunger. The time for action is now: the EU is reviewing its regulations in light of the financial crisis.^{xii} This is our opportunity to ensure that banks are not allowed to again write the rules in their favour. Thousands of citizens have already called on their governments and representatives in the European parliament to curb food speculation. It is not merely a question of the technicalities of financial regulation, but a part of wider efforts to democratise our food system.

These citizens are part of a movement has become impossible for the elite to ignore. The Occupy movement has even made it onto the agenda of the World Economic Forum – whose sponsors include Barclays – this year.^{xiii} These awards are also a critical counter to that forum and I would like to thank Greenpeace Switzerland and the Berne Declaration for organising them. The Public Eye Award for Barclays' role in food speculation is part of that movement to expose injustice, to reclaim our economy, and to end hunger.

ⁱ Barclays Capital (2011) 'The Commodity Investor: Hold on...'

ⁱⁱ 'David Cameron, we have a few questions for you...' *The Guardian*. 25.11.2011.

ⁱⁱⁱ WDM. (2010) *The Great Hunger Lottery* and UN FAO world food price index.

^{iv} IMF, OECD, UNCTAD, World Bank et al. (2011) *Price Volatility in Food and Agricultural Markets*.

^v *The Telegraph*. 'Starbucks chief Howard Schultz attacks coffee speculators.' 11.5.2011; *Farmers Guardian*. 'NFUS calls for curbs on speculators.' 23.6.2011; *La Via Campesina*. 'La Via Campesina demands the UN to support the real solutions to the food crisis.' 5.10.2011.

^{vi} Brett Scott for WDM. (2011) 'Barclays PLC and agricultural commodity derivatives.' April 2011.

^{vii} Richard Wachman. New warning over exchange traded funds. *The Guardian*. 15.12.2011.

^{viii} Bob Diamond. 'Banks will be good citizens.' *Guardian Comment is free*. 3.11.2011.

^{ix} Summary of Hearing of Michel Barnier - Internal Market and Services. 13.01.2010.

^x Friends of the Earth Europe with WDM et al. (2012) 'Farming Money: How European banks and private finance profit from food speculation'

^{xi} 'Food NGO prompts Deutsche Bank commodities review.' Reuters, 20 October 2011.

^{xii} The European parliament and council of ministers are now considering proposals for revising the Markets in Financial Instruments Directive.

^{xiii} An Open Forum session on 'Remodelling Capitalism' notes that "As the Occupy protests that have spread around the world demonstrate, there is growing frustration with capitalism's failure to benefit the many, rather than just a few."