



Food Price Crisis: Causes and Consequences

Key Points

- The war in Ukraine leads to turmoil in the food market and rising food prices. This is a problem for countries that are dependent on grain imports, as the countries that export grain are very concentrated and market power in the global food market is high. Ukraine and Russia account for almost 30% of globally traded grain and especially Russia is also an important exporter of fertilizer.
- While the war in Ukraine is the catalyst for the current problems, the fact that the global food system is so prone to instabilities lies in its overall structure that is characterized by market power, import dependencies and opaque grain markets. Climate change and debt problems that were exacerbated during the Covid-19 crisis also add up to this instable background. The problems thus lie deeper than just in the current war.
- Investigations by [Lighthouse Reports](#) found out that on top of that, financial speculators capitalize on the situation and speculate on agriculture commodity markets. Already during the 2007–2008 food price crisis there were attempts to stronger regulate the food markets, but the agenda of doing so was torpedoed by the finance lobby. In the current situation, speculation is even more obvious and action is needed urgently.
- The problems show that reforms in the global food system are more than urgent. While to solve the current problems, ideas like acute debt relief must be discussed, in the long term the structure of the global food system must change towards more food sovereignty and resilience.

Background

It only took a few days after the Russian invasion of Ukraine, for a problem, that many would not have expected in this context to arise: A global food price crisis. **Russia is the largest exporter of wheat and Ukraine the fifth largest.** Together, they account [for a third of all the globally traded cereals](#). Within days, the price of these commodities rose to highs, exceeding even the high the world experienced during the food price crisis in 2008. In March, [the Global Wheat price hit a 14-year peak](#). The FAO now predicts that this will lead to an [increase in the number of undernourished people by 13.1 million](#) in the short term. The reasons for this crisis are numerous. Firstly, the war directly affects the transportation possibilities due to blocked ports, limiting exports leaving Ukraine. Secondly, the ongoing war limits the possibility of planting the seeds for autumn and winter. Another factor influencing the problematic situation are further export restrictions. India, for example, announced in May 2022 that it would stop exporting wheat, [which led to a further price increase on the global food markets](#). Further exacerbating the problem is the fact that **the UN food program**, supporting regions that are already confronted with limited food security, normally buys [half of its wheat from Ukraine](#). All this together led to an unprecedented shock in the global food system.

While these are the most pressing issues right now, the fact that such a comparatively small shock – most of the world's grain is still produced locally and not traded on global markets – has such far reaching consequences lies in the **political economy of the global food system**. A focus on export orientation, high market power and financial speculation have made the global food system vulnerable for crises like the current one. Hence, it is important to look at the instabilities in the global food system beyond the shock induced by the war in Ukraine.

Main Findings

The structural problems of the political economy of food

While the war in Ukraine led to a shock in the global food system, the reason for its volatility lies much deeper. [IPES highlights several aspects](#) that amplify the current problems. The first one they elaborate on is the **high import dependency** some countries face with regard to food. While most of the global grain is consumed locally, those who are dependent on imports face a problematic situation as soon as problems like the current one arise. This is also connected to the **reliance on a few exporters**. The evolution of food import dependency dates to various trends over the last decades. One relevant factor especially in Africa is the adoption of **Structural Adjustment Programs** that promoted cash crops while simultaneously undermining local production structures. At the same time, the market they are now dependent on is strongly monopolized with only a few countries and companies controlling it. When export bans are enacted like in the current situation, the problems accumulate.

Furthermore, many countries that are dependent on food imports are facing high levels of debt. During the Covid-19 pandemic, **attempts to organize debt cancellation have failed** and many countries even increased their debt levels. In this context it must be emphasized that what we are facing is **not a crisis of food availability, but of distribution**. While disruption is already problematic, the deeper issue lies in the **structure of the global food system** and not in too little grain.

Food dependence on Russia and Ukraine

The high dependence on a few exporting countries hits many African countries especially hard. Altogether, there are more than thirty states that import more than 30% of their whole wheat imports from these two countries and at least twenty countries source over 50% of all wheat imports from these countries. Egypt already requested assistance from the IMF, as wheat prices [increased by 33%](#) compared to the last year.

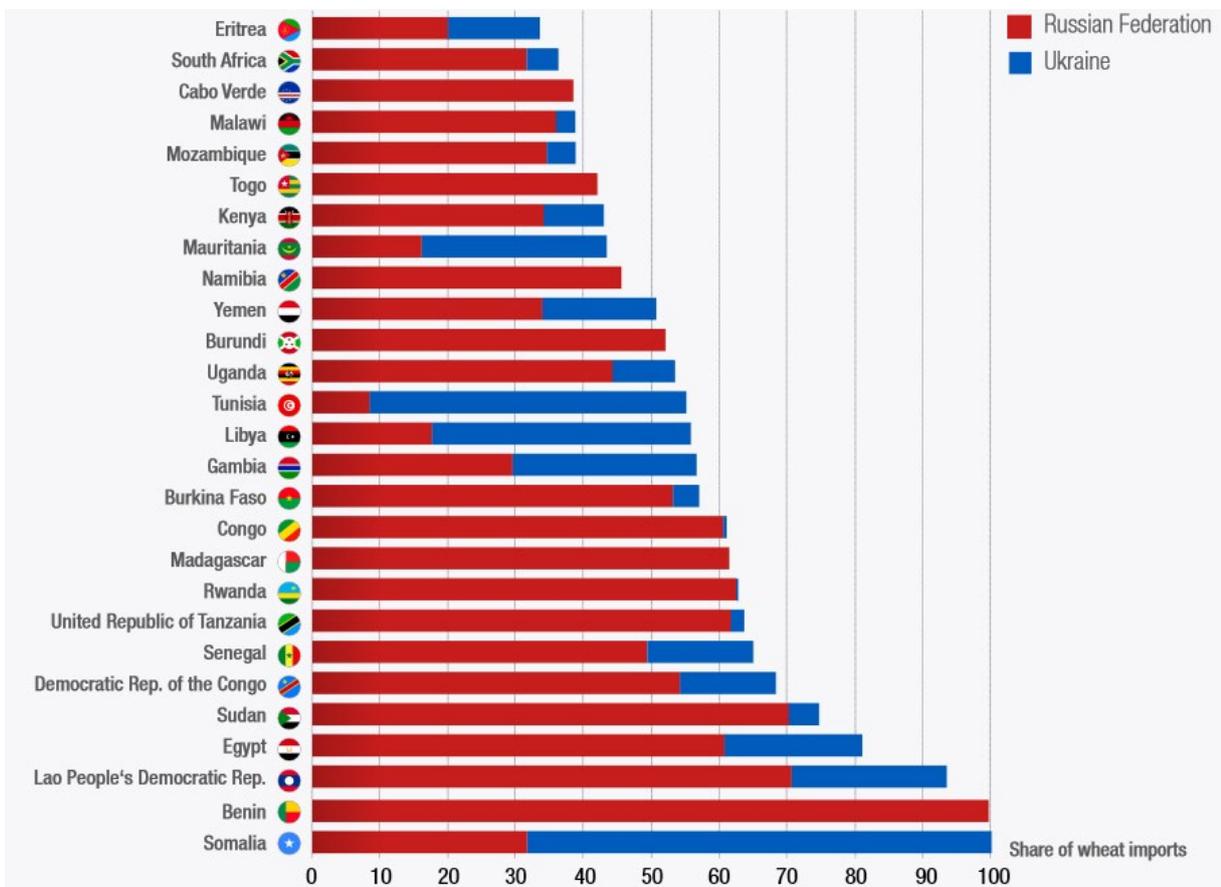


Figure 1: Wheat Dependence in African and Least Developed Countries

Source: UNCTAD 2022

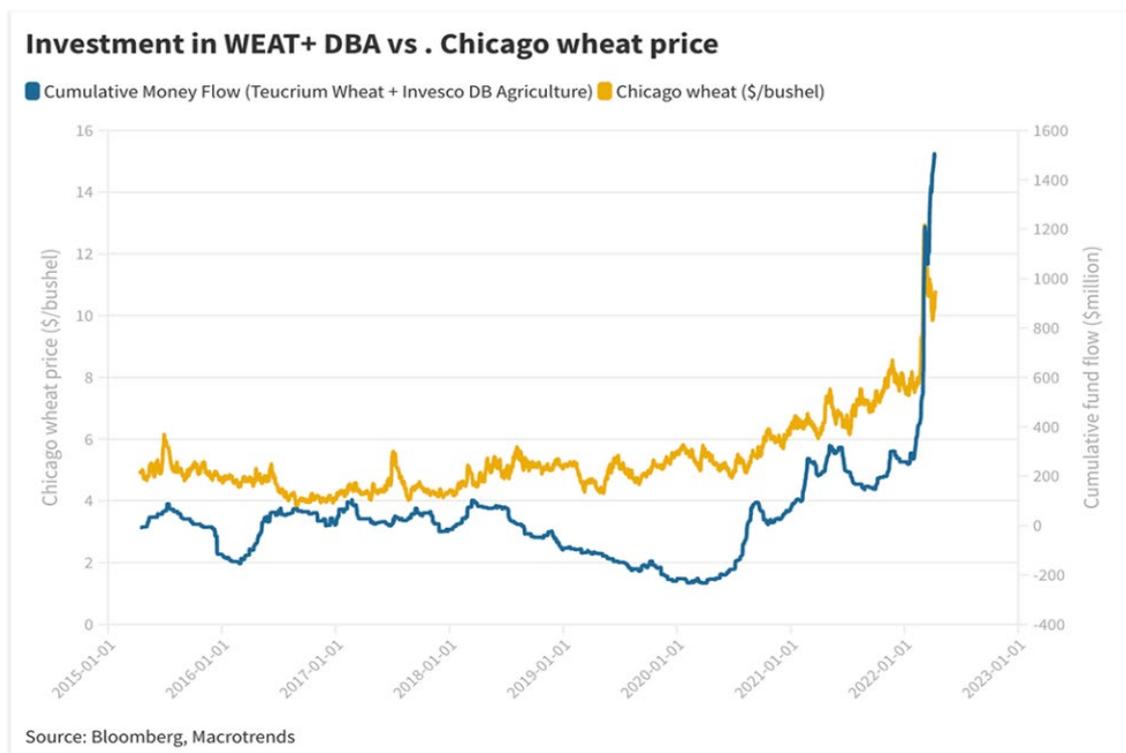


Figure 2: Investment in WEAT and DBA vs. Chicago wheat price
Source: Lighthouse Reports 2022

Especially at risk are countries that cannot compensate the higher food prices with revenues from other sources, such as higher income because of the rise in oil prices. Already in the context of the Arab spring, it was visible that countries without oil revenues had more turmoil and civil society protests where more often successful. Rupert Russel speaks in this context about the term “democracy of bread”, meaning that the social contract depends on the maintenance of food and basic needs. When this cannot be guaranteed, social unrest is no big surprise.

Financial Speculation

While the price fluctuation and the rising prices can partly be explained by the war in Ukraine, the amount of price volatility can also be traced back to **market speculation**.

Lighthouse Reports investigated the price development in light of the war and found out that speculators have flooded commodity markets, profiting from escalating prices. Hedge funds, investment banks and pension funds seemingly used the crisis as a chance and increased their activity in agricultural commodities markets. Compared to the previous years, the amount of money linked to commodity ETFs (exchange traded funds) skyrocketed. Already by April 2022 two top agriculture ETFs had attracted six times more money than in 2021.

Similar developments can be found on the Paris milling wheat market, where the share of speculators’ wheat futures contracts has increased from 23% of open interest in May 2018 to 72% in April 2022. Leading economists point out that the activity of investment funds is a strong sign of speculation, as they – compared with physical traders – are only interested in grain as an asset class while having no interest in the physical commodity (ibid.).

While in the years before and during the 2007–2008 food crisis the mainstream repeatedly denied the role finance had in influencing commodity prices, this time even the ministers of agriculture of the G7 warned against “**artificially inflated prices**” and speculation.

However, the market power of the “physical” traders also comes into play when looking at artificially inflated prices. 70 to 90% of all global grain trade is controlled by four companies (Archer-Daniels Midland, Bunge, Cargill, Dreyfus), which are not obliged to report their stocks. This strengthens their positions towards competitors, but at the same time weakens the reliability of information.

Demands

The war in Ukraine shockingly reveals the weaknesses in the global food system. To guarantee livelihoods and to fulfil the **human right to food**, responses that absorb the current shock, as well as circumvent further problems that arise because of the instability of the global food system need to put in place. Some of the necessary steps include:

- **Debt relief** for states currently struggling with rising food prices
- International arrangements and **co-operative interventions**, multilateral measures to stabilize the price of globally traded commodities
- Focusing on local food production and **food sovereignty**, rethinking export-oriented production models leading to import dependencies
- Improving **market transparency** in global commodity markets, fighting commodity speculation with lower position limits and tax windfall profits

Literature

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