THE PRESIDENT
OF THE
GENERAL ASSEMBLY

13 March 2012

Excellency,

On December 22, 2011, the General Assembly of the United Nations adopted the resolution entitled "Addressing Excessive Price Volatility in Food and Related Financial and Commodity Markets" (A/RES/66/188), in order to better understand the causes of excessive price volatility, how these affect countries' efforts to achieve food security and discuss policy options to address this issue.

This resolution requested the President of the General Assembly to convene a High Level Thematic Debate, at the sixty-sixth session, to be held in a plenary meeting, with the participation of Member States, independent experts and other stakeholders, to promote an exchange of views on addressing excessive price volatility in food and related financial and commodity markets while taking into account relevant work done at national, regional and international levels.

In this regard, I am pleased to inform you that the fore mentioned event will take place on April 11, 2012 at UN Headquarters. It will consist of an Opening Session and two High Level Panels. The first panel will deal with the motivations, mechanisms and impacts of financial investment in commodity markets, while the second will tackle policy options to address excessive price volatility in food and related financial commodity markets. I am convinced that this format will provide Heads of State/Government, Ministers and High Level Officials with a unique platform for very fruitful discussions.

Finally, I hereby enclose the Concept Note for this event, which includes the background information and the objectives of this High Level Thematic Debate. Details concerning the venue and agenda will follow shortly.

Please accept, Excellency, the assurances of our highest consideration.

Nassir Abdulaziz Al-Nasser

All Permanent Representative
and Permanent Observers to the United Nations .
New York

High Level Thematic Debate on 11 April 2012
"Addressing Excessive Price Volatility in Food and Related Financial and Commodity Markets"

Concept Note

Background:

On December 22, 2011, the United Nations General Assembly (UNGA) adopted by consensus a resolution entitled "Addressing Excessive Price Volatility in Food and Related Financial and Commodity Markets" (A/RES/66/188). The resolution was based on an initiative by Dr. Leonel Fernández Reyna, President of the Dominican Republic. The President of the General Assembly welcomed that initiative, which aligns itself with the pillar of "Sustainable development and global prosperity" of his vision for the work of the Assembly in its 66th Session.

The origin of the initiative can be traced to a growing concern in 2008, even as the financial crisis began to unfold, that record food prices might have an especially pernicious impact on the least developed countries, and on the poor and vulnerable in many developing countries. Among other effects, the rapid increase in food prices caused the number of hungry people in the world to pass the 1 billion threshold, making it much more difficult to achieve the internationally agreed goal of reducing the number of undernourished people in most countries of the world by 50 percent.

After following this situation closely for a year, President Fernández became deeply concerned, realizing that the great majority of the world's poor live in net food-importing developing countries. In addition, while taking a closer look at the possible causes of this sudden world-wide jump in the price of food, he became aware that in recent years, food price volatility had reached extraordinary levels and driven food prices to historic highs in nominal terms.

Most analysts, in trying to explain the causes that have led to this crisis in food and related commodity prices, point to a variety of factors, including: non-seasonal droughts in major grain producing countries; the rise of the price of oil, which leads to a rise in the price of fertilizers, pesticides and the transportation of goods; the increasing use of foodstuffs for the production of biofuels; rising demands for a more varied diet, including meat products; the continuation in major developed countries of production and export subsidies for agricultural goods, which undermine production incentives in developing countries; the local and regional impact of climate change; demographic changes in different parts of the world; and ad-hoc restrictions on exports in various food-exporting countries; and slower growth in supply resulting from the previous prolonged period of low prices, which discouraged investment in agricultural research and led to slower growth in agricultural productivity and reduced production in key food-producing regions.

All of these factors certainly contribute to rising food prices across the globe. Yet there is, also another more recent development that may have had a major role in the increase in food prices. The massive increase in non-commercial, or "speculative", financial investment in futures markets for food and related commodities, which has grown very rapidly in the last decade, is a novel phenomenon that is one of the most distinctive and significant aspects of today's international financial system. Indeed, recent academic papers and analyses increasingly support the view that the greater involvement of financial investors and their consideration of commodities as financial assets have altered the functioning of commodity markets. While precise estimates of the price impact of financial market activities on food and other commodity prices are difficult to obtain, some leading experts and scholars estimate that financial inflows into commodity futures markets may have had an impact of between 10 and 40 percent on the price of foodstuffs.

Speculation, or financial activity conducted without any intention to engage directly related in the production, distribution or consumption of commodities, especially in commodity futures, first emerged among producers and consumers of agricultural goods in the United States in the middle of the 19^{th} century. Ironically, in view of what is happening today, commodity futures markets first arose and quickly became accepted as a way of providing liquidity to commodities markets with a view to reducing the extreme volatility of price swings. Since then, commodity futures exchanges have been assigned a key function in price formation, the provision of reliable price signals, and in the reduction of financial risks for both producers and consumers. Until recently, this has also been the traditional way in which futures contracts have operated in international financial markets, providing increased financial security and price risk management instruments to both producers and consumers.

However, what is happening today is quantitatively and qualitatively different. Today, the typical commodities market participant is neither a producer nor a consumer, but a financial investor who sells a contract linked to the price of a product that he doesn't have, or intend to acquire, to a buyer who, in turn, does not expect to receive, and has no use for, the physical product. Instead of transactions involving the transfer of physical and tangible goods, which has been the traditional and most common way of investing in commodities, now transactions are conducted through the purchase and sale of purely paper instruments, or even electronic contracts, that have no direct connection to the acquisition or transfer of physical goods. In essence, they simply represent complex bets against future price movements.

The predominance of such speculative activity in futures markets, treating commodity futures as purely financial assets, has proven particularly attractive to large-scale institutional investors, including pension funds, insurance companies, university endowment funds, sovereign wealth funds, investment banks and hedge funds.

These financial investors, in turn, now conduct most of the transactions that involve commodities traded on the commodity futures exchanges, and it has been the continuous cumulative increase in the flow of investment into financial assets linked to commodity prices that has made this market far more susceptible to price hikes and extreme volatility than it was in the time when producers, distributors and consumers were the predominant market participants.

Between 2003 and 2008, speculative investment in commodity indices, it is estimated, increased from \$15 billion to about \$200 billion (A/66/207). Because such speculative investments usually have an only remote and indirect relationship to the production and consumption of physical goods, the vast majority of transactions on commodity futures markets relates to purely financial considerations.

The damage that this form of financial speculation can have on the functioning of the global economy, as well as its impact on national economies, in poor and rich nations alike, is undoubtedly immense. The impact on food prices is particularly important. The populations of developing countries are most vulnerable to the worst consequences, since 98 percent of those suffering from hunger and malnutrition live in these countries. More broadly, price pressure caused by commodity price hikes related to financial investors may trigger premature monetary tightening. This means that the financialization of commodity markets can inflict damage on the real economy by distorting signals for macroeconomic management.

The response to the international financial and economic crisis has gone through several stages of evolution since 2007, but the need to implement effective financial regulation to insulate vulnerable producers and consumers from the impacts of remote financial activities remains. In the absence of coordinated, effective regulation of financial activity that profoundly affects poor and vulnerable populations across the globe, national governments throughout the world face impossible challenges in attempting to restrain financial activity that has proven to have a direct and immediate effect on the stability of their nations and on the prosperity of their peoples.

The Role of the United Nations

The United Nations Charter envisions a strong role for the organization in coordinating and harmonizing Member States' responses to economic issues of common concern. The central importance of commodities and of commodity prices movements for development was recognized and a major programme of work was launched at the first United Nations Conference on Trade and Development in 1964. While the approach of the world community to the problem has changed dramatically over the years, the impact of commodity price movements has remained a central concern for development and for developing countries' participation in the global economy.

The High-level Thematic Debate convened by the President of the General Assembly reflects a long-standing interest of UN Member States, and draws attention to mounting discussion of an important new phenomenon influencing price formation in commodity markets.

Objectives of the High level Thematic Debate:

1- Contribute to the building of a global consensus that would recognize the important impact that speculative activity in commodity futures markets has had on economic and social stability and development, and particularly on food prices; acknowledge the need to ensure greater transparency in the operations of futures markets; and look to the establishment of appropriate monitoring and regulatory mechanisms to limit the price impact of financial speculation in food and related commodity markets, with a goal of preventing excessive commodity price volatility from continuing to be economically, socially, and politically disruptive.

2- Promote a rich exchange of ideas about different ways to reduce excessive price volatility in food and related financial and commodity markets, identifying appropriate measures that might be adopted and harmonized at regional, national and international levels.

3- Begin a process that would lead to more definitive, in-depth examination and monitoring of the issue by the international community, recognizing that the lack of detailed, accurate and reliable information about financial speculation in commodity futures markets makes it difficult for Member States to have the appropriate basis on which to assess fully the impact of speculative activity and adopt appropriate regulatory and oversight mechanisms.

4- In view of the impact of excessive price volatility of food and related commodities on development, contribute to accelerating the achievement of the vision contained in the Millennium Declaration and the Millennium Development Goals, thereby enhancing global governance and prosperity.

Leading Questions

How large have the flows into commodity futures markets been, and how stable are the conditions that have made these markets attractive or useful to investors? What motivated financial market participants to exit from commodities in May 2011, and then return soon afterward?

What is meant by "financialization of commodity markets," how has this process developed, and why is it economically important in shaping investment decisions? How have the responses to the world financial crisis affected commodity price behavior? In particular, what have been the relative impacts of "real" vs. "monetary" drivers of commodity price behavior, and what impact, if any, has central bank quantitative easing had on commodity prices?

What are the analytical difficulties presented in assessing the relative impacts of demand or market fundamentals vs. speculative financial behavior in contributing to high food and other commodity prices? Alternatively, what evidence exists to suggest that emerging market demand is not the main explanatory factor for synchronized commodity price movements since 2006?

How have unusually high prices and extreme volatility influenced the supply response of food and other commodity producers, and what explains the sluggish supply response to sustained high prices for commodities? In the case of food, what has been proposed to be done to improve incentives for sustainable local food production? What are the origins of AMIS, and how it is expected to reduce volatility, improve the quality of food price information, and foster an efficient supply response?

What approaches have been defined in recent legislation in major financial jurisdictions, such as Europe and the United States, to address commodity price volatility? How have political authorities has gone about designing and implementing these laws, and what hurdles have arisen in this process? How well are rules adopted or proposed to be adopted in different jurisdictions aligned with proposals elsewhere, and what mechanisms, if any, exist for coordinating action of different and competing jurisdictions? Is effective regulation of commodity futures markets truly possible, and if so, what international conditions are necessary for an effective approach?

Are there factors that make the UN an appropriate and compelling forum for deliberation and coordination of issues related to financial regulation? What are the most efficient ways for the UN to enable all Member States to have greater voice and impact on the evolution of international standards and rules? What, if any additional steps are required to strengthen the ability of the United Nations to promote effective harmonized regulation of financial markets?

Guidelines for panelists and participants:

We anticipate two sessions, each of which will include a panel of eminent persons to highlight and debate the core issues. The eminent persons will be invited to make brief presentations on different topics. Moderators will lead an initial discussion among the panelists, and then invite questions and statements from Member States and Groups.

1- Each presentation should last some 8-10 minutes.
2- There will be four presentations in the morning and four in the afternoon.
3- Each panelist will have 2-3 minutes for final responses.

Acknowledgments:

The President of the United Nations General Assembly wishes to acknowledge the support of the Government of the Dominican Republic and the United Nations Conference for Trade and Development (UNCTAD) in the organization of this High Level Thematic Debate.