Policy Round Table:
Managing vulnerability and risk
Market volatility aspects

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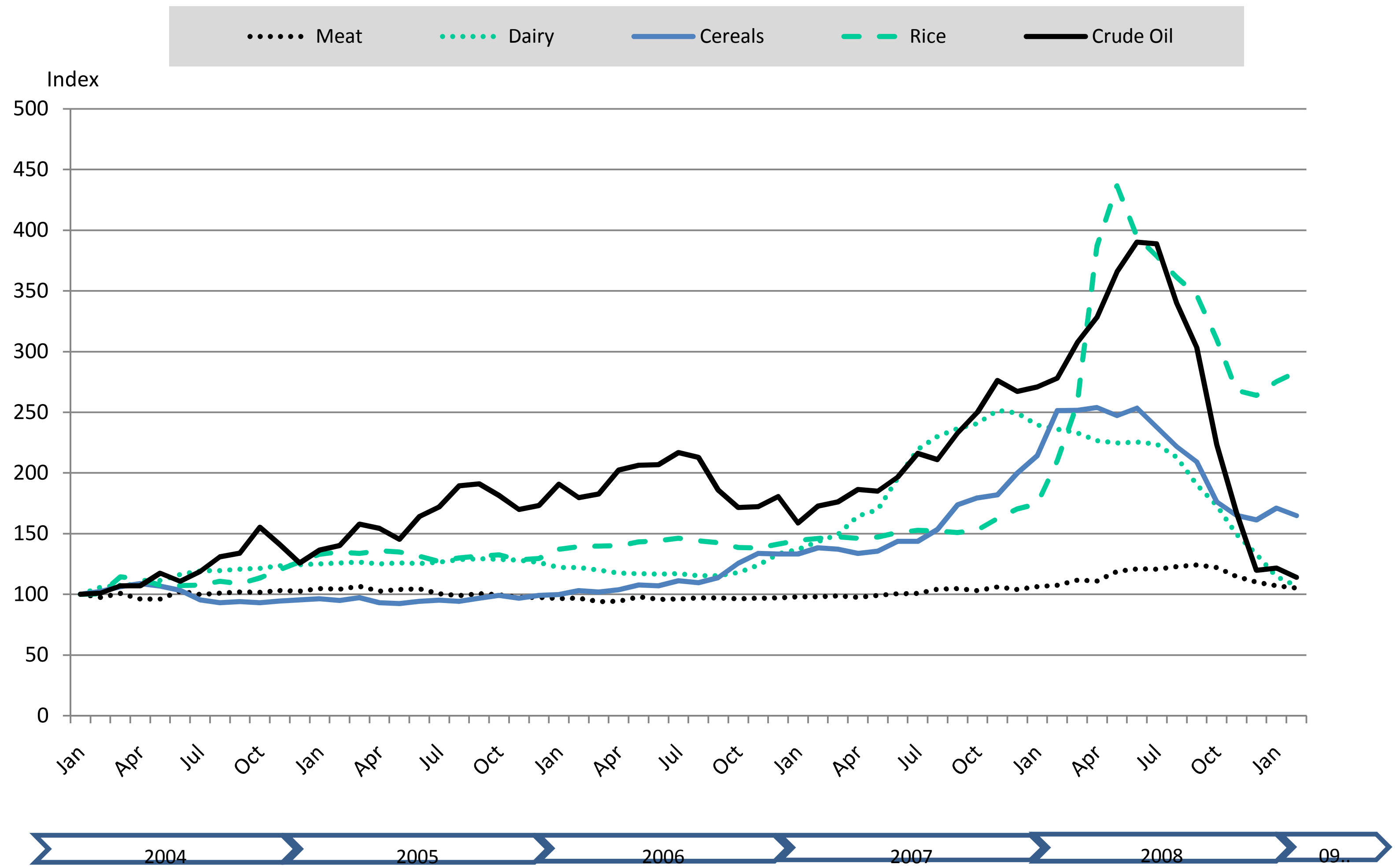
INDEX OF COMMODITY PRICES (Jan04=100)



Causes of the food price spikes

Temporary /Short-term Factors	Long-term factors	Unknown or uncertain factors
Weather problems, Drought	Increase in use of agricultural feedstocks for bio-fuels	•Speculation on commodity derivative markets •Hoarding
Export restrictions	Increase in demand for food and animal feed from emerging countries	Effects of climate change Water scarcity
Exchange rate fluctuations	Historically low stock levels	Technology, Yields

Consequences of market volatility

Adage – One man’s meat is another man’s poison

The impacts of market volatility differ:

- **between consumers and producers**
- **by level of development**
- **between crop and livestock producers**
- **between importers and exporters**
- **between the upside and downside**

Will the future be more volatile?

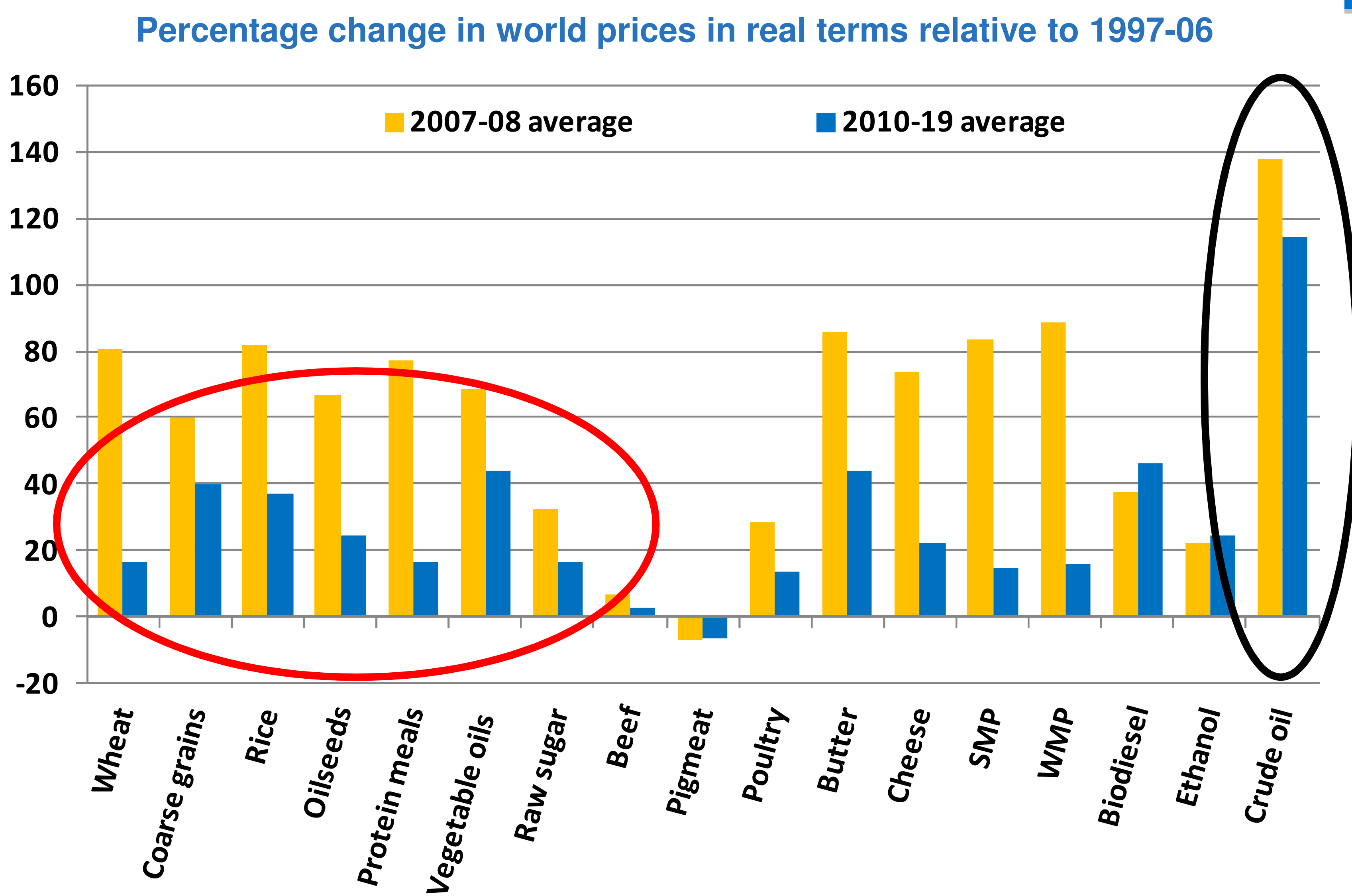
Factors for and against

- De-regulating reforms
- Low stocks
- Links to energy markets
- Production moving to less resilient areas
- Climate change increasing the frequency of extreme events

New technologies increasing resilience

- More open trade leading to less thin markets
- Better information flows

Most commodity prices at higher average levels



Vulnerability and risk

- Devastating effects of high prices on the poorest consumers
- Unambiguous for the urban poor but potentially devastating also for rural households many of whom both produce agricultural commodities and buy from the market
- Producers – depends on scale, depth of downside risk, risk management capacity
- Long term impact on investment decisions

Policy responses at international level

- Improve disciplines on export restrictions
- Improve information systems and transparency especially concerning stocks
- Improve emergency response capacity
  - More stable and predictable financing framework for international response
  - Financial mechanisms for the poorest net importing countries (Stabex, Marrakech decision, etc)
- In the long term free up trade (conclude the DDA) so that the risk of excessive volatility associated with « thin » markets is reduced

Policy responses at national level

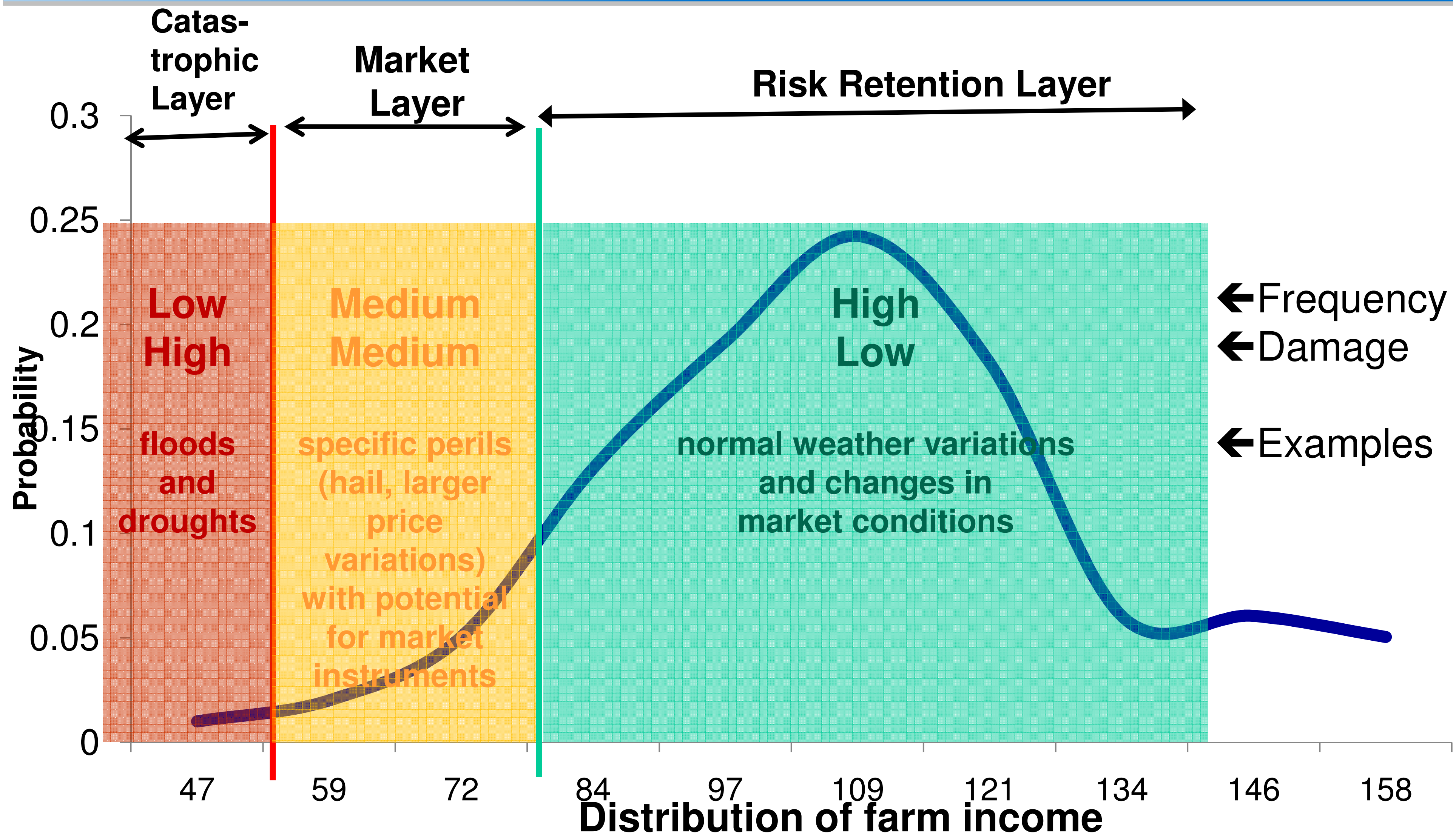
- In the short-term, targeted emergency measures, safety nets for the most vulnerable
- Develop stockholding mechanisms with well-defined operational rules
- Re-think biofuels policies
- Invest in agriculture to improve productivity and resilience

What solutions for producer risk?

Integrate volatility into a wider risk management strategy

- Diversification at the entreprise and household level
- Smoothing mechanisms – save in good years with the help of the tax system, or tailored schemes
- Use market instruments – futures, insurance
- Catastrophic situations call for government intervention, but with well defined conditions and terms

Three risk layers with different policy implications



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