Policy Round Table: Managing vulnerability and risk
Market volatility aspects

Carmel Cahill
OECD Trade and Agriculture Directorate

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## Causes of the food price spikes

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

Percentage change in world prices in real terms relative to 1997-06

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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

- Catastrophic Layer
  - Low: Specific perils (hail, larger price variations) with potential for market instruments
  - High: Floods and droughts

- Market Layer
  - Medium: Normal weather variations and changes in market conditions

- Risk Retention Layer
  - High: Examples
  - Low: Frequency
  - Medium: Damage

Distribution of farm income: 47, 59, 72, 84, 97, 109, 121, 134, 146, 158

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Contact
tad.contact@oecd.org