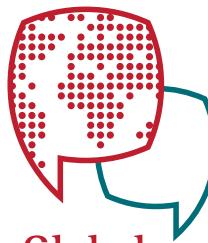


Global  
Forum  
on Food Security  
and Nutrition

# HLPE Consultation on Price Volatility

Summary



## Global Forum on Food Security and Nutrition

### About the Document

This document summarizes the results of an online discussion held on the Global Forum on Food Security and Nutrition <http://km.fao.org/fsn>

Please refer to the complete proceedings document which can be found online at:  
[http://typo3.fao.org/fileadmin/user\\_upload/fsn/docs/HLPE/PROCEEDINGS\\_Price\\_volatility.pdf](http://typo3.fao.org/fileadmin/user_upload/fsn/docs/HLPE/PROCEEDINGS_Price_volatility.pdf)

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## Table of content

I. Background	2
II. Issues to be addressed in defining policy responses to food price volatility	2
III. Policy measures discussed	3
IV. Additional Issues	4

## I. Background

The Steering Committee of the High Level Panel of Experts on Food Security and Nutrition (HLPE) held an online consultation on Price Volatility requesting feedback from a broad and interested audience on the work being carried in line with the CFS mandate. Members of the Global Forum on Food Security and Nutrition and many other experts were invited to comment on a draft framework of the terms of reference for the study and policy recommendations to address price volatility<sup>1</sup>.

The online consultation took place from 24th January to 10th February 2011 and attracted 71 contributions from experts in 65 organisations based in 29 countries.

This summary provides a brief overview of the issues raised by the contributors. For a complete record of the forum proceedings and the list of participants, please refer to the proceedings<sup>2</sup>. References contributed by participants are also available<sup>3</sup>.

## II. Issues to be addressed in defining policy responses to food price volatility

Many participants were of the opinion that understanding the causes behind the price increases is essential to identify appropriate policy responses and to drive the selection of instruments to be considered in the policy mix. As the CFS mandate explicitly highlights, there are many policy options that have immediate or longer term effects, geographic scope (local, national, regional and global level), and involved actors, such as small and large producers, rural and urban populations.

The current price crisis differs from the previous price spikes that occurred in 2007/08. The analysis that was carried out then can help in drawing lessons to limit present and future negative consequences. At the same time the different and new dimensions of the current price volatility phenomena need to be recognized and understood.

In the short term and most urgently, the attention has to focus on the effects of food price volatility on vulnerable populations in the LDC. This is a major concern for the realization of the right to food. Ongoing global trends such as the growing number of urban consumers, climate change challenges, effects of price spikes on nutrition, and global market chain dynamics should fully be considered in this debate when identifying policy measures.

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1 A parallel consultation has been carried out on Land Tenure and International Investments in Agriculture.

2 [http://typo3.fao.org/fileadmin/user\\_upload/fsn/docs/HLPE/PROCEEDINGS\\_Price\\_volatility.pdf](http://typo3.fao.org/fileadmin/user_upload/fsn/docs/HLPE/PROCEEDINGS_Price_volatility.pdf)

3 [http://typo3.fao.org/fileadmin/user\\_upload/fsn/docs/HLPE/References.pdf](http://typo3.fao.org/fileadmin/user_upload/fsn/docs/HLPE/References.pdf)

### III. Policy measures discussed

Participants provided extensive comments and several additions to the initial list of 19 policy options proposed for the consultation<sup>4</sup>.

The areas for policy intervention that were most often discussed, though with often very diverse points of views, are briefly described below.

#### **Improving public food reserves at the national and local level**

The role of public food reserves as a buffer against negative effects of food price spikes was proposed by many and examples of good practices to refer to were mentioned in Africa (ECOWAS). Comprehensive early warning and market information systems, which are not always present, are needed to ensure effectiveness of this policy instrument. A different position states that public food reserves have been in many cases costly and ineffective, due to lack of good governance and coordination or poor storage infrastructures.

Specific mention was made of the role of local food reserves such as community-based grain banks, to address the needs of vulnerable communities. An initial cash advance to establish these grain banks may make this option financially viable and self-sustaining. This approach offers an opportunity for community members to participate in decisions that affect their food security.

#### **Protective trade measures**

A well debated and controversial issue was the use of protective trade measures: many participants felt these to be a (short term) option to protect the most vulnerable producers and consumers whereas others pointed to evidence of bans and other measures being an additional cause of price destabilization. Supporters of the need for expanded levels of global trade in agriculture commodities clash with those who point to the greater vulnerability of smallholder farmers in developing countries due to unfair competition with bigger and far more efficient producers in the international market who also receive huge subsidies. Supporters of trade bans argue that in this way smallholders would become independent from international markets trends and dynamics and thus be protected to further develop their productive potential.

#### **Regulation of market speculation and futures**

Considerable attention was given to the issue of market regulation to control speculation and financial trade in food commodities which were considered by some as a relevant if not decisive cause of the food price crisis in 2007/08. While a few contributions highlighted the positive role of financial markets in terms of hedging against price risks and increasing liquidity in the sector, the vast majority of participants emphasized the need for some degree of market regulation if not an absolute ban on food commodity exchanges and financial transactions in food markets.

Overall, market regulations, as well as greater transparency, limitations on transactions and establishing speculative limits, in line with initiatives being considered by the USA and the EU, and within the G20 countries, were felt to be urgent steps to be taken now. Specific recommendations on regulation of derivatives and restrictions on access to spot and futures

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4 [http://typo3.fao.org/fileadmin/user\\_upload/fsn/docs/HLPE/Table\\_Price\\_Volatility.pdf](http://typo3.fao.org/fileadmin/user_upload/fsn/docs/HLPE/Table_Price_Volatility.pdf)

markets may be found in a briefing note prepared by Olivier De Schutter and sent as a contribution to this consultation<sup>5</sup>.

### **Support to enhancing resilience of vulnerable populations**

Participants highlighted, as a main area of action to be urgently considered, different policy options and instruments aimed at increasing the resilience of vulnerable populations to food price spikes. Among the suggested options are the support for income diversification opportunities (particularly through increased off-farm employment and small businesses), innovative social safety nets, and measures aimed at supporting and improving market opportunities for local food production (through local public procurement and promotion of local foods consumption), as a way of protecting livelihoods.

### **Investment in agriculture**

The need for more investment in agriculture was also emphasised by many as a necessary step for building a world with less crisis and more resilience to food price hikes. Investment in agriculture should though be carefully planned. This requires the identification of the worst-off rural locations and the most vulnerable populations. The type of agricultural activities to be prioritised for investment should in the first place benefit these vulnerable areas and populations based on equity grounds.

## **IV. Additional Issues**

Few participants mentioned the expanding bio-fuel production as a contributing cause of price volatility but there was little discussion of policy measures to deal with this issue. Some participants emphasized the role of rising fuel prices in pushing food prices up and proposed the promotion of organic and less input intensive farming systems. Reducing post-harvest losses and in general food wastage were mentioned by few as a good approach to keep food prices in check. Last but not least, many contributors identified the need for increased research and development in agriculture to keep up with the many challenges faced by the sector.

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<sup>5</sup> [http://typo3.fao.org/fileadmin/user\\_upload/fsn/docs/HLPE/Briefing\\_Note\\_02\\_September\\_2010\\_EN.pdf](http://typo3.fao.org/fileadmin/user_upload/fsn/docs/HLPE/Briefing_Note_02_September_2010_EN.pdf)