

Price Volatility in Food and Agricultural Markets: Policy Responses

**Committee on World Food Security
Seminar on Addressing Food Price Volatility
27 May 2011**

Trends and determinants

What is the future likely to bring?

- Reverse of the long term decline in real agricultural commodity prices
- For the next decade, nominal and real prices for most commodities higher than during the decade to 2006
- High probability of continuing strong volatility around higher levels

What are the main driving factors?

- Demand growth (population, incomes, non-food uses including biofuels)
- Supply growing more slowly
 - Resource scarcities
 - Climate change
 - Changing production patterns
- Stocks
- Exchange rates, other macroeconomic factors
- Speculation, panic, hoarding
- Government policies

Who and what is affected by agricultural price volatility?

- **The poorest households – sometimes with severe impacts in the longer term**
- **Producers, especially smallholders**
- **Uncertainty leads to sub-optimal investment decisions**
- **At macro level low income countries dependent on agricultural exports or imports**

Lessons learned from recent experience

What worked well?

- Targeted measures to assist the most vulnerable
- Appeals and responses (although less than ideal)

And less well?

- Inadequate information and dissemination
- Insufficient *ex-ante* readiness (institutions, countries, individuals)
- *Ad hoc* policy reactions (trade policy measures, panic-buying)
- Blanket interventions

Investment

- **Strengthen longer term productivity, sustainability and resilience**
- **Improve food and agriculture innovation systems**
- **Strengthen the CGIAR system – emphasise smallholders/women**
- **Support technologies for climate change and sustainable resource use (land and water)**
- **Increase public (ODA and national governments) investment**
- **Support comprehensive national food security strategies, follow up previous G20 commitments, such as Global Agriculture and Food Security Program (GAFSP)**
- **Provide the enabling environment, above and beyond ODA and national government spending, bring in the private sector**

Trade

Demonstrate leadership in on-going WTO DDA negotiations, specifically:

- **Improve market access substantially**
- **Reduce trade distorting domestic support substantially**
- **Eliminate export subsidies**

Taking existing WTO rules into account and the state of play in the DDA negotiations, governments should:

- **Better define when and how an export restricting measure might be used**
- **Widen, strengthen and enforce consultation and notification processes**

Market information

- **Establish an agriculture market information system for better transparency**
- **Involve International Organizations, countries, commercial enterprises and other major stakeholders – global early warning system**
- **Support improved monitoring, Early Warning Systems in vulnerable developing countries and regions**

Futures markets

- **Improve information and transparency, pay attention to the need for harmonization**
- **Consider on-going review of regulatory oversight of all financial markets**
- **Support United States and the European Commission efforts already under way**

Biofuels

- **Remove subsidies and mandates**
- **Open markets to trade**
- **Accelerate scientific research**
- **Encourage energy demand reduction**
- **Develop contingency plans to introduce flexibility in mandates**

International and national safety nets - Risk Management

- **Define the parameters of international mechanisms to assist low income developing countries to meet higher food import bills**
- **Support targeted and cost effective safety nets**
- **Support effective, market-based risk management options (integrated with social safety nets)**
- **Maintain, at least, Food Aid Convention commitments**

Emergency food reserves

- **Support increased capacity to implement food emergency reserve systems**
- **Support World Food Programme - small, strategically positioned humanitarian food reserves**
- **Code of conduct**
- **Predictable and reliable access to finance**

Price Volatility in Food and Agricultural Markets: Policy Responses

Thank you