

## **SUMMARY NOTE ON ROUND TABLE ON POLICIES TO ADDRESS FOOD PRICE VOLATILITY**

Since late 2006, food prices on international markets increased by unprecedentedly high rates and witnessed sharp fluctuations not experienced for more than three decades. Moreover, national food prices have also been volatile in recent years. In most countries of the Asia-Pacific region, the food price index rose faster than the consumer price index in 2010. In view of the serious implications of this development on the welfare of small producers and poor consumers, on 16 March 2012 the Thirty-first FAO Regional Conference for Asia and the Pacific held a round table on policies to address food price volatility.

The objectives of the round table was to share country experiences and perspectives on short- and long-term policy options at international, regional and national levels to reduce price volatility and help stakeholders, especially the poor, manage the associated risks and uncertainty and the impacts of price volatility.

The meeting was opened by Mr Hiroyuki Konuma, FAO Assistant Director-General and Regional Representative for Asia and the Pacific. He welcomed the participants and introduced the objectives of the round table. He invited participants to share their views and contribute to the development of recommendations for future action.

Mr Purushottam K. Mudbhary, Coordinator, Economic, Social and Policy Assistance Group, FAO Regional Office for Asia and the Pacific, introduced Professor Sisira Jayasuriya, the facilitator of the round table.

Professor Jaysuriya moderated the round table with an introductory presentation on the subject that provided the background and an agenda for discussions on the topic, highlighting the need for policies to lower volatility and, recognising that some volatility will always remain in food markets, there is need to take measures to cope with such volatility while ensuring food security. Since 2007, there have been three big shocks with the potential to severely affect food security: two sharp food price increases and a global economic crisis, worse than anything seen since the 1930s, threatening employment and incomes.

Following the presentations, a plenary discussion was held with the country delegates and civil society organizations present. There was a frank and lively discussion on the issues raised in the introductory presentation. The discussion was structured around these two themes: (a) how to reduce volatility in food markets, and (b) how to cope with volatility.

It was stressed that underlying long term supply and demand conditions had tightened markets so that even minor shocks to supply or demand could generate large price shocks.

On supply-side issues, there was general consensus on the urgent need to increase food production to meet increasing demand. Speakers emphasised that this requires efforts by governments and other agencies to increase necessary investments to generate and disseminate better technologies, to develop irrigation and other infrastructure, and to provide farmers with positive incentives. Already many governments have recognised this and are working to achieve increases in food output. The lesson of the Asian Green Revolution was that Improved, cost reducing technologies can simultaneously increase farm profitability and food production, while lowering consumer prices. Cooperatives can play an important role in assisting smallholder farmers to adopt technology and link more effectively with markets.

On Demand-side issues, the implications of closer links between food prices and energy prices were highlighted. This arises from the great importance of energy as an input in food production, processing

and distribution, as well as because of the increasing importance of bioenergy as an alternative source of sustainable energy. Energy prices have been historically more volatile than food prices; hence this closer link tends to increase food price volatility. As government policy decisions can influence resource allocation for bioenergy, several speakers emphasised the need for strategies that can minimise the potential conflict between food and bioenergy production. In this regard, use of agricultural residues, livestock by-products and non-edible crops on degraded land for bioenergy production were cited as possible approaches. It was suggested that FAO should study these possibilities, drawing on country experiences to support bioenergy policy decisions in member countries that are consistent with food security objectives and address sustainable energy security concerns.

A second aspect of demand relates to changes in food consumption patterns. Continuing high emphasis on production and consumption of staple grains has adverse effects on nutrition and health, causing higher incidence of diseases (such as diabetes) leading to productivity losses and higher government expenditures. Campaigns to improve nutritional education and shift food consumption patterns in healthier directions may alleviate pressure on staple grain demand while also delivering health benefits. The role of expectations in driving market price behaviour is very important. It was generally agreed that improved market information can help to reduce price volatility. The Vietnam experience showed that imperfect information was a big factor in exacerbating price volatility and the international initiatives such as AMIS are welcome. It was also pointed out that the impact of increased speculative activities in commodity markets should be looked at to see if regulatory measures are justified and effective.

Most Asian countries attempted to insulate domestic food prices from recent international price spikes, and were successful to varying degrees. Different countries used different combinations of trade policies, domestic stocks and safety nets to maintain food security. But price stability came at a price. Importing countries had to incur large fiscal costs to subsidise imports. Trade restrictions undermined confidence in the international food trading system.

There was agreement about the need to establish a reliable, rules-based international trading system but it was pointed out by some speakers that such a system should not only try to avoid sudden trade restrictions by food exporters but also address other trade distorting policies, such as large farmer subsidies paid by some developed countries. Bringing the Doha development round negotiations to a successful conclusion would be greatly helpful.

There was considerable discussion about the cost effectiveness of buffer stocks, distinguishing between buffer stocks and emergency reserves. Much historical evidence based on various commodity price stabilisation buffer stocks cast doubt about their effectiveness. But this issue requires more study as (a) often the objective of many past buffer stock schemes was to maintain higher than market-equilibrium prices and (b) there is some evidence from countries like India and Indonesia that, in combination with other instruments, they may be able to make a useful contribution. Recent initiatives such as the ASEAN Plus 3 emergency rice reserve show the potential for regional action to reduce volatility and safeguard food security. .

There was strong support for the need to strengthen safety nets. Unlike price stabilisation measures and other measures that do not specifically target vulnerable groups, safety nets have the advantage that they can deliver food security to the affected vulnerable groups while maintaining positive price incentives to producers.

The general conclusion of the discussion was that the issues of high and volatile food prices require determined national and international action. FAO should play a leadership role in facilitating policies and programmatic actions at the country level, and international cooperation and coordination at the regional level in Asia and the Pacific.

The round ended with concluding remarks by Mr Konuma thanking the country delegates and civil society representatives for their participation.