WHAT'S CAUSING HIGHER AND MORE VOLATILE FOOD PRICES AROUND THE WORLD?

MAIN CONCLUSIONS AND RECOMMENDATIONS OF THE HLPE REPORT

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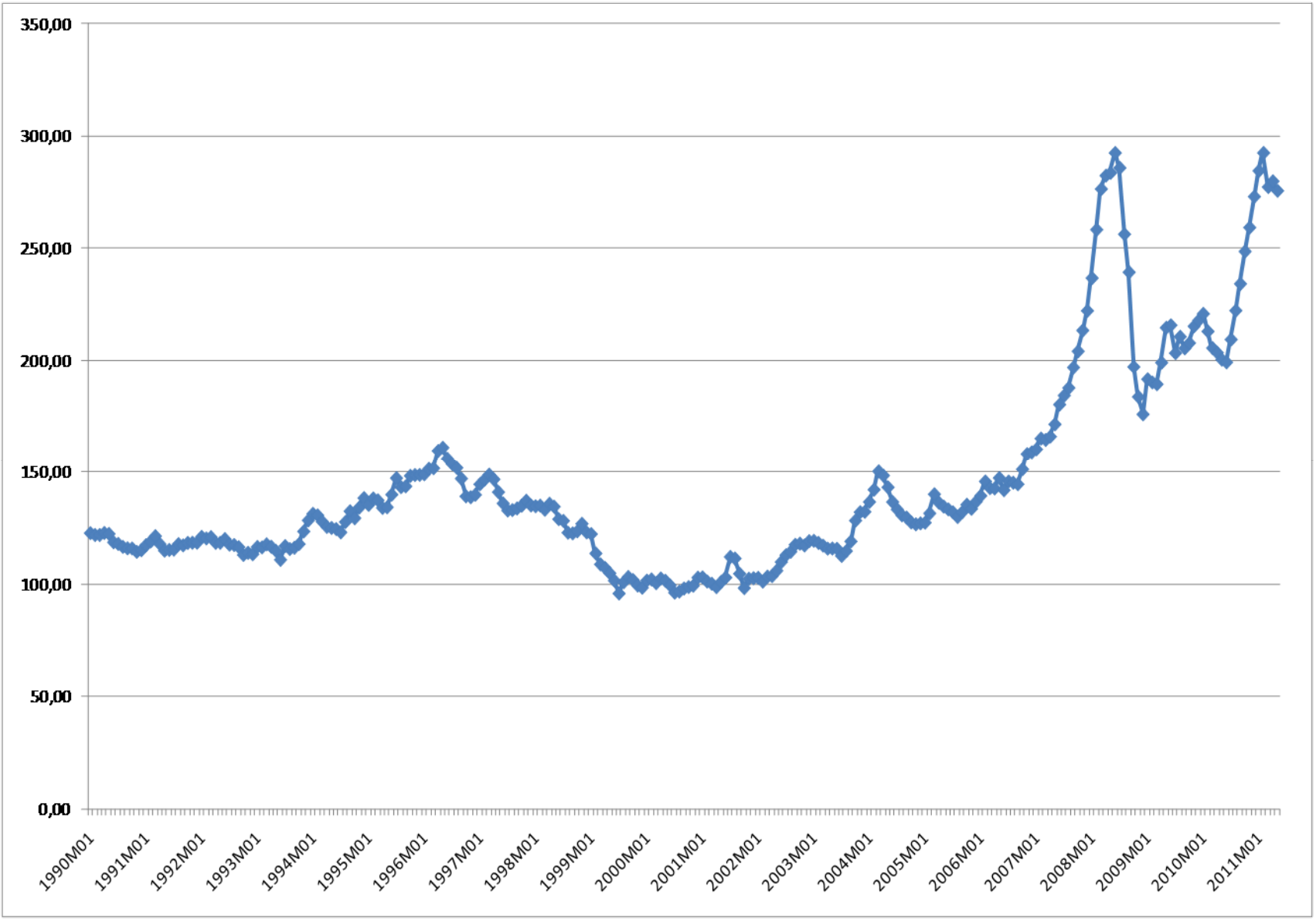
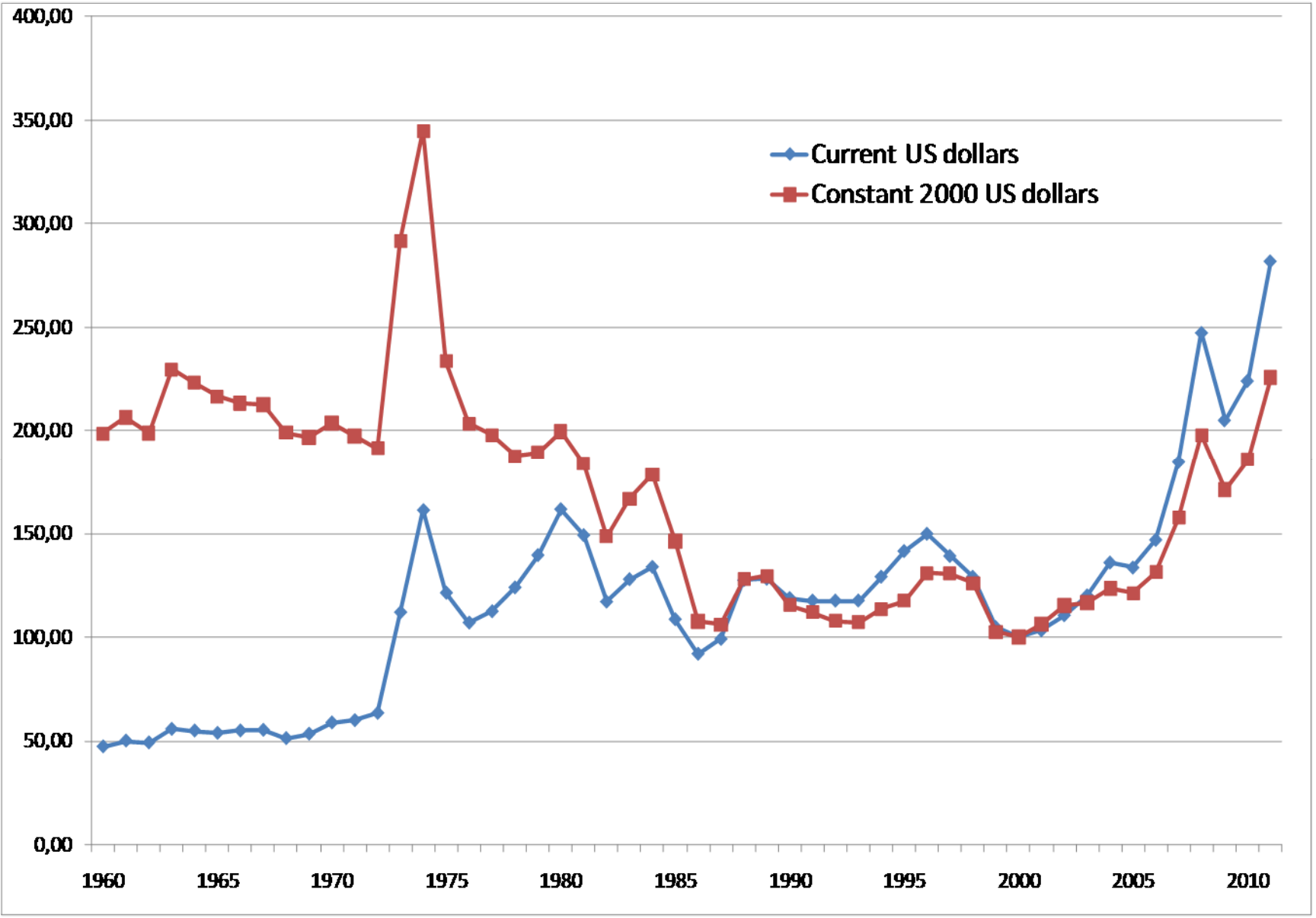
I – WHAT IS THE PROBLEM: VOLATILITY VERSUS PRICE RISE?

FOOD PRICE INDEX, MONTHLY, JANUARY 1990–MAY 2011 (2000 = 100)



FOOD PRICE INDEX, CURRENT AND CONSTANT US DOLLAR, ANNUALLY, 1960–2011 (2000 = 100)



WHY TO NOT LOCK THE DEBATE IN THE VOLATILIY ISSUE?

- Recent price behavior shows the the existence and persistence of upward pressures that provoke simultaneously higher and more volatile prices

- It is the price rise – more than volatility – that is the problem for world food security

- Framing the current price problem strictly as 'price volatility' points to a particular set of solutions, the ones that has been promoted for the last 20 years: market liberalisation + market based risk management instruments + social safetynet

II- THREE EXPLANATIONS OF RECENT FOOD PRICE BEHAVIOUR ON INTERNATIONAL FOOD MARKETS.

THREE COMPLEMENTARY EXPLANATIONS

- Price volatility is a “natural” and permanent problem of agricultural markets. Volatility is just stronger and may be excessive

- Periodic international food crises (1950s, 1970s, and present) happen and these can be explained by the cyclical nature of investments in agriculture, particularly the rise and fall of public investment

- The current price increases are the early signal of coming and lasting scarcities on agricultural markets created by the increasing pressures placed on natural resources

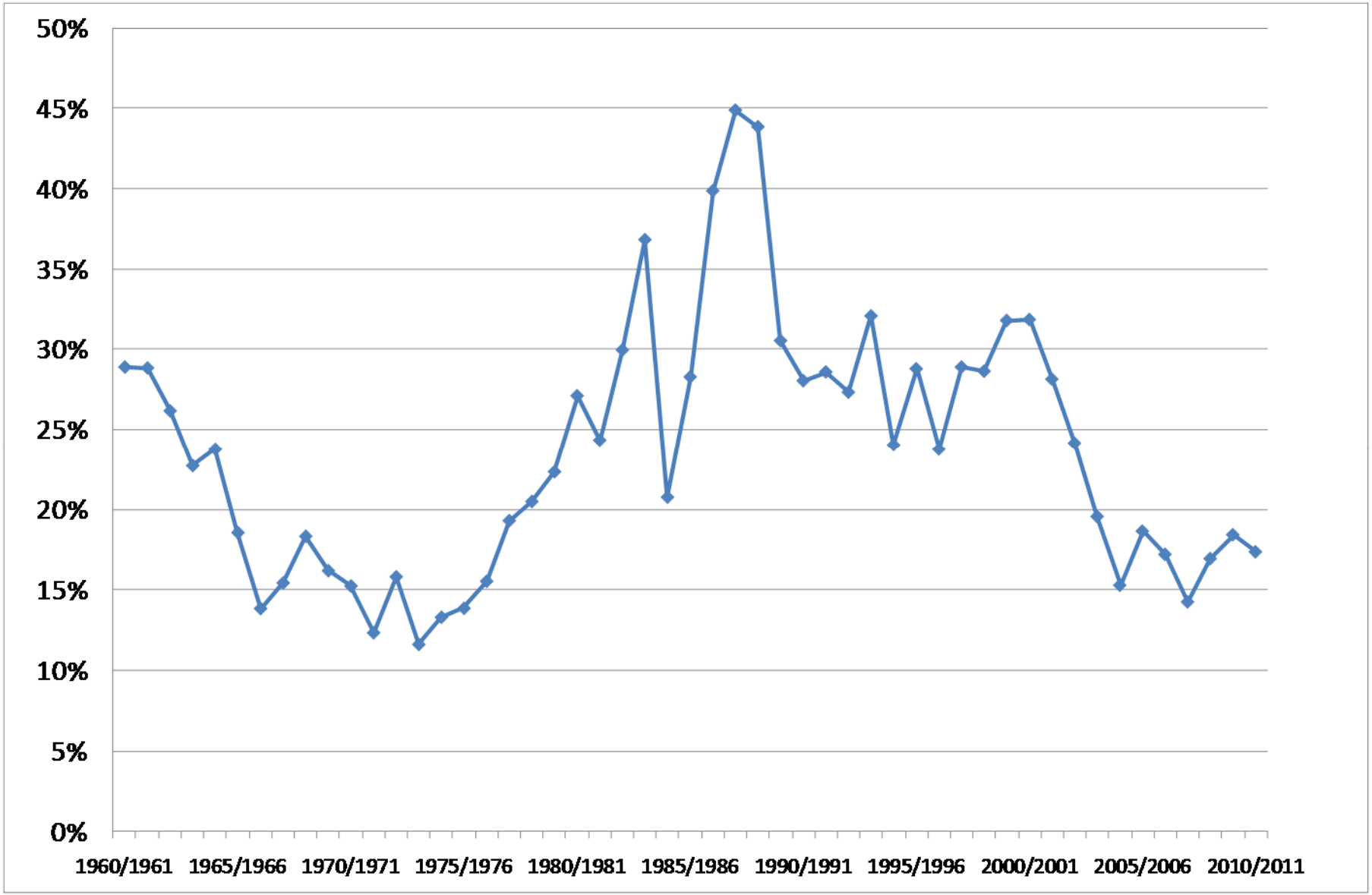
NARRATIVE N°1: FOOD PRICES ARE EXCESSIVELY VOLATILE

- Food demand becomes less sensitive to price changes as income increases
- Global food markets are more integrated but easily re-fragmented
- Speculation on futures markets

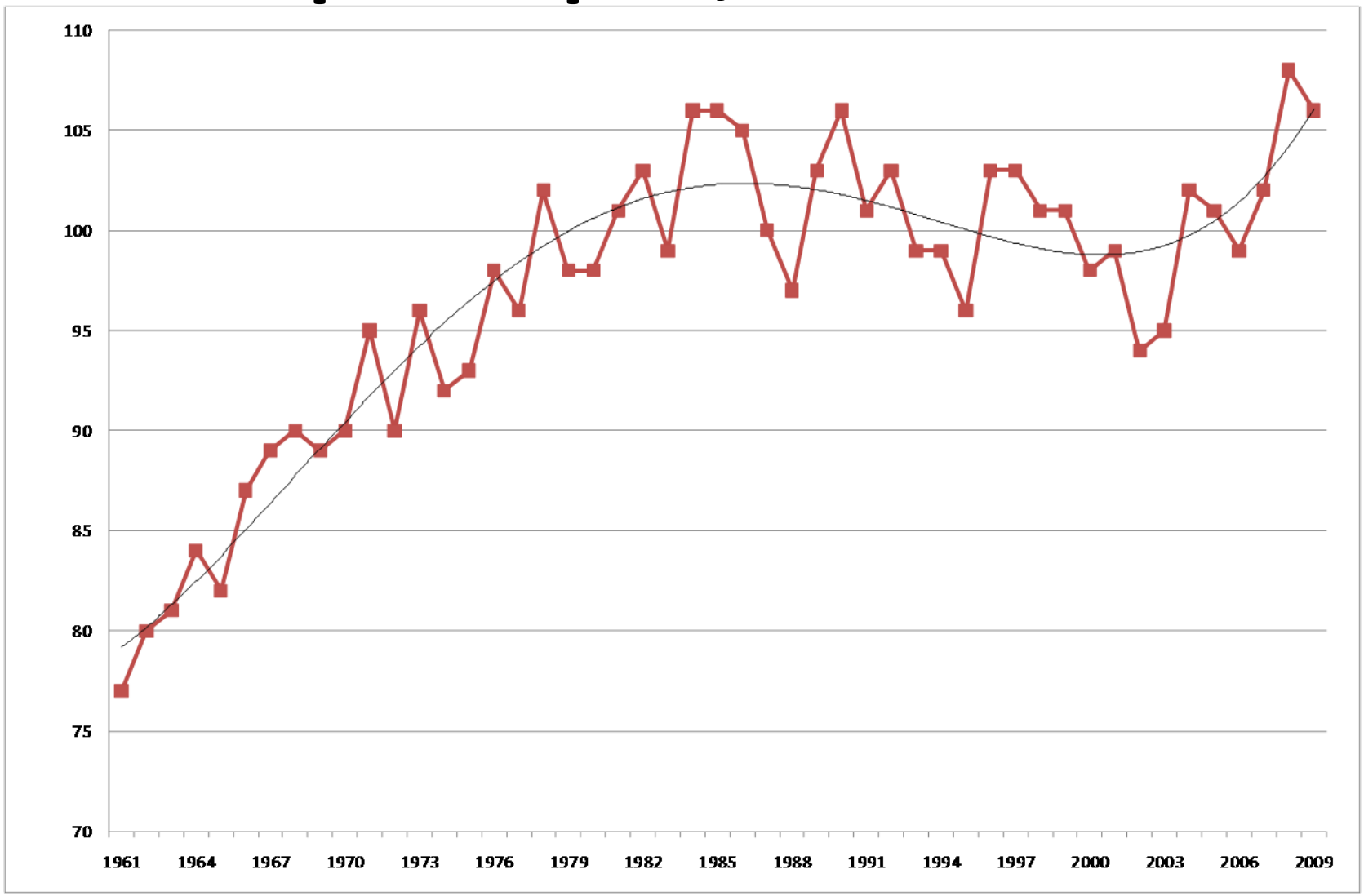
NARRATIVE N° 2: CYCLICAL CRISIS

- There have been periodic food crises (1950s, 1970s, and present) that can be explained by the dynamics of agricultural investment:
  - High prices trigger a rush of investment and technological development that succeeds in raising production and lowering prices.
  - In contrast, persistence of low prices leads to a reduction of public interest and waning investment
  - This situation persists until supply is so low that prices begin to spike, which again triggers a new round of investment.

stocks as a percentage of world consumption for corn, 1960-2010



Indice of World Cereal Production per Capita, 1961-2010



Average annual rates of growth in production, total and per capita

		1960-69	1970-79	1980-89	1990-99	2000-09
Total net	Cereals	4.0	2.8	1.9	1.3	2.5
	Food	2.8	2.5	2.3	2.4	2.3
	Agriculture	2.7	2.5	2.3	2.2	2.5
Net per capita	Cereals	1.9	1	0.1	-0.2	1.1
	Food	**0.6**	**0.7**	**0.5**	**0.9**	**1.3**
	Agriculture	0.8	0.6	0.6	0.8	1.2

NARRATIVE N°3: AN EARLY SIGNAL OF A LONG-LASTING SCARCITY IN AGRICULTURAL MARKETS

- One century of structural overproduction based on the mining of natural ressources and fossil energy
- An on-going move toward a biomass based economy
- The green revolution limits

Growth rate of cereals consumption

	1960-69	1970-79	1980-89	1990-99	2000-11
Total consumption	3.5	2.6	1.7	0.9	**1.8**
Feed consumption	4.5	2.5	1.5	0.4	1.1
Non-Feed (FSI)	2.4	2.7	1.9	1.3	2.2
Non-Feed less use for biofuel in USA	-	-	-	-	1.4
Total consumption less use for biofuel in USA	-	-	-	-	**1.3**

Vegetable oil: growth rate of world consumption and share of industrial use in world consumption

	1990-99	2000-09
Total consumption	4.5%	5.1%
+ Food consumption	4.4%	3.3%
+ Industrial consumption	5.6%	15.4%
– Use for biofuel production	-	23.0%
– Other industrial uses	-	4.7%
	2000	2010
industrial use in world consumption	11%	24%

III – POLICY OPTIONS

BUILDING A FOOD SECURITY ORIENTED TRADING SYSTEM

- Since the Uruguay Round, negotiations regarding agriculture have been conceived and conducted in the context of a structural overproduction.
- Access to food must be garanteed for consumers in poor countries
  - Measures to consider include disciplines on export restrictions, measures to better ensure that commercial actors respect contractual obligations,
  - Distinct rules for low-income food-deficit countries (LIFDCs) should be explored. Poor consumers should be protected of the unfair competitive use by rich consumers

PRECAUTIONARY REGULATION OF SPECULATION

- Uncertainty regarding the consequences of speculation on price volatility

+

- No clear benefit from in term of risk management costs

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- tighter regulation at least as a precautionary measure (increased transparency, by requiring exchange trading and clearing of most agricultural commodity contracts, and lower limits for non-commercial actors)

COORDINATING NATIONAL STORAGE POLICIES

- If a low level of world stock is a necessary condition for price then a certain level of world stock could be a sufficient condition for price stability.
- Storage policy = a forbiden debate
- Some suggestions:
  - Transparency: to organize some reporting system for traders
  - To no try to set the price in a price band but to organize a minimum level of stock at the world level (IEA as a model?)
- To re-open the debate

CURBING THE GROWTH OF DEVELOPED COUNTRY DEMAND FOR AGRICULTURAL PRODUCTS

- Demand is always analyzed as an exogenous variable that cannot be questioned. Curbing food demand must be integrated as an objective of developed country public policies.

- Mandates and subsidies for biofuel should be remove. Additional measures, such as taxation, could be required.

- Consumption tax on meat or on particular meats?

PROMOTING A PRO-POOR AND ECOLOGICAL AGRICULTURE

- Production growth should not be the priority
- Public investment to guarantee a transition from food and agricultural systems that deplete natural resources to sustainable food and agricultural systems that reduce the use of fossil energy and pollutions
- Internalizing the externalities