



Brussels Policy Briefing no.25

Food Price Volatility: Implications for ACP countries

*Organised in partnership with the International Food Policy Research Institute (IFPRI)
and the NEPAD Planning and Coordinating Agency*

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European Economic and Social Committee (EESC) Van Maerlant Building, 2, rue Van Maerlant,
Brussels, B-1040, Room VM3 (2nd floor)

<http://brusselsbriefings.net>

1. Background

Price volatility is one of the most critical economic and food security challenges facing global policymakers today. Moreover, spikes in food prices can have significant impact on incomes, markets, and nutrition worldwide. In extreme cases, food price volatility can have serious political and social repercussions; in the 2007-08 food price crisis, 33 countries saw violent riots and social unrest as a result of volatile food prices, while in 2011, food price spikes have been at least partially blamed for political turnover in Tunisia and Egypt, as well as riots in several other countries. Extreme price fluctuations often lead to political and market overreaction such as export restrictions. While such policies are designed to protect the population of a particular country or region, they can have devastating consequences for global food security. Understanding the causes behind price volatility, and the policy options that exist for dealing with periods of volatile food prices, can significantly lessen the likelihood of policymakers engaging in such knee-jerk responses¹.

In recent years world food markets have been characterized by rising and more volatile prices. This situation has serious implications for poor and hungry people, who have little capacity to adjust to price spikes and rapid shifts. Price increases and volatility have arisen for three main reasons: increasing use of food crops for biofuels, extreme weather events and climate change, and increased volume of trading in commodity futures markets. These factors are exacerbated by highly concentrated export markets that leave the world's staple food importers dependent on just a few countries, a historically low level of grain reserves, and a lack of timely information about the world food system that could help prevent overreaction to moderate shifts in supply and demand. Price increases and price volatility have been shown to cut into poor households' spending on a range of essential goods and services and to reduce the calories they consume. It can also affect poor people's nutrition by causing them to shift to cheaper, lower quality, and less micronutrient-dense foods².

High Food Prices to stay

As of spring 2011³, world price levels reached again the levels of 2007/08 food crisis and several of the same factors were also present – weather-related crop losses, export restrictions, high oil prices, and a depreciating US dollar, against a background of a continuing tight supply-demand balance – although with differences. Firstly, the 2010 harvests in many food importing countries in Africa were above average or very good, stocks were higher at the outset which has also helped to mitigate the price rises and the price increases have been differently distributed among commodities (meats, sugar and dairy products are all affected, and these are commodities that are less important in the food bills of the most vulnerable and the price rises have not affected rice which is a staple food of many millions of the world most

¹ Maximo Torero, *Alternative mechanisms to reduce food price volatility and price spikes*, International Food Policy Research Institute, http://www.foodsecurityportal.org/sites/default/files/Alternative_Mechanisms_Reduce_Price_Volatility.pdf

² *The 2011 Global Hunger Index, The Challenge of Hunger: Taming Price Spikes and Excessive Food Price Volatility* the International Food Policy Research Institute (IFPRI), Concern Worldwide, and Welthungerhilfe,

³ *Price Volatility in Food and Agricultural Markets: Policy Responses*, Policy Report by FAO, IFAD, IMF, OECD, UNCTAD, WFP, the World Bank, the WTO, IFPRI and the UN HLTF, 2 June 2011. G20. G20 leaders at their summit meeting in November 2010 requested FAO, IFAD, IMF, OECD, UNCTAD, WFP, the World Bank and the WTO (to) work with key stakeholders "to develop options for G20 consideration on how to better mitigate and manage the risks associated with the price volatility of food and other agriculture commodities, without distorting market behaviour, ultimately to protect the most vulnerable."

vulnerable consumers. Nevertheless, there are serious risks to food security. The OECD-FAO Agricultural Outlook 2011-2020 states that over the coming decade real prices for cereals could average as much as 20 % higher and those for meats as much as 30 % higher, compared to 2001-10. Available medium-term projections by the International Food Policy Research Institute (IFPRI)⁴ and by OECD/FAO indicate that food prices will remain above their previous trend level for the foreseeable future. Prices of food commodities for the next 10 years will be higher than during the previous 10 years, despite a small decline in 2009 or 2010. Those projections are explained by three factors. First, it is believed that the demand for biofuels will continue to rise rapidly, partly driven by high oil prices. According to the International Energy Agency (IEA) the share of the world's arable land devoted to the growing of biomass for liquid biofuels could triple over the next 20 years. Second, developing country economic growth is expected to continue at about 6 percent a year with significant implications for food demand. Third, climate-change risks are likely to have adverse impacts on food production, compounding the challenge of meeting global food demand.⁵

2. The determinants of future increases in food prices and of volatility⁶

Growing population and increasing income in emerging and developing countries will add significantly to the demand for food in the coming decades and will pressure on commodity prices. By 2050 the world's population is expected to have reached to 9 billion people and the demand for food to have increased by 70% to 100%. The demand for food crops for the **production of biofuels** is another significant factor. During the 2007-2009 period biofuels accounted for a significant share of global use of several crops – 20% for sugar cane, 9% for vegetable oil and coarse grains and 4% for sugar beet. Projections suggest that biofuel production will exert considerable upward pressure on food prices in the future. Agricultural commodity prices are becoming increasingly correlated with **oil prices**. Oil prices affect agricultural input prices directly and indirectly (through the price of fuel and fertiliser, for example).

Low food stocks relative to use, and uncertainty about stock levels in some parts of the world contributed to the 2007/2008 price spike. When stocks have been depleted, supply can no longer be increased until new production comes on board. **Climatic variations** have indisputably contributed to the price rises in 2007/2008 and again in 2010 and will lead to more frequent extreme events such as droughts, heat waves and floods. **Stronger demand for food crops and animal products** in conjunction with slow growth in agricultural productivity and low stocks results in upward pressure on prices.

There is no doubt that investment in financial derivatives markets for agricultural commodities increased strongly in the mid-2000s, but there is disagreement about the role of financial speculation as a driver of agricultural commodity price increases and volatility.

3. Policy challenge for governments, especially in ACP countries

Recognising that volatility will remain a feature of agricultural markets, coherent policies are required to both reduce volatility where possible and to limit its negative impacts. Governments face a series of policy challenges⁷ which need urgent attention. First to **promote productivity growth**, particularly for small producers, that improves market resilience to external shocks, reduces waste and increases supplies to local markets at affordable prices. Considering the role of small-scale farmers in most of ACP countries, this should be a priority. **Public sector investments** are required in agricultural research and development, institutions and infrastructure to increase sector productivity and resilience towards weather/climate change and resource scarcity as well as to reduce post harvest losses. Enhanced **market information and market transparency** can reduce or mitigate price volatility. Greater efforts are required to improve global and national information and surveillance systems on market prospects, including better data on production, stocks and trade in sensitive food security commodities. Removal or **reduction of policy distortions** such as restrictions on imports and exports or biofuel subsidies and mandates can also reduce price volatility. Managing volatility will require **social safety nets** which can

⁴ Headey D & Fan S., 2010. *Reflection on the Global Food Crisis*. International Food Policy Research Institute, Washington DC, 42 p. <http://www.ifpri.org/publication/reflections-global-food-crisis>

⁵ *High food prices: Impact and recommendations*, Paper prepared by FAO, IFAD and WFP for the meeting of the Chief Executives Board for Coordination on 28-29 April 2008, Berne, Switzerland: <http://www.ifad.org/operations/food/ceb.htm>

⁶ *Price Volatility in Food and Agricultural Markets: Policy Responses*, Policy Report by FAO, IFAD, IMF, OECD, UNCTAD, WFP, the World Bank, the WTO, IFPRI and the UN HLT, 2 June 2011.

⁷ OECD-FAO Agricultural Outlook 2011-2020

http://www.agri-outlook.org/document/63/0,3746,en_36774715_36775671_47923007_1_1_1_1,00.html#drivers

assist the most vulnerable consumers when food prices rise while producer safety-nets can offset low incomes, thereby maintaining their ability to purchase inputs and maintain production. Emergency food reserves for targeted assistance to poor people are useful to lessen the impact of high prices. **Fiscal measures**, such as cuts in import tariffs and in taxes on food, subsidization of food consumption, and increased demands on risk management instruments entail increased budgetary costs that will have to be met by increased government borrowing and budgetary discipline.

Enhancing regional processes for food governance

In addition to the need to have agricultural policies in place at national level, several regions have taken steps toward improving regional food security through regional cooperation in order to reduce dependence on imports outside the region. For example, in August 2008, the Southern African Development Community (SADC) announced that it will establish a Regional Food Reserve Facility, while urging member states not to impose export restrictions on maize. Kenya, Uganda and Tanzania are discussing the possibility of setting up a regional fertilizer plant to offset high costs and ensure long-term sustainable supplies. In Africa, the AU, through the New Economic Program for African Development (NEPAD) and the Comprehensive African Agriculture Development Program (CAADP), has been actively developing policy for a number of years to address the region's deep and long-running food security challenges.

4. The G20 Cannes Summit: what outcomes? ⁸

The G20 leaders⁹ held a Summit in Cannes, France, on 3-4th November 2011 which major outcomes of relevance for the agricultural sector are listed below.

- **Need to invest in infrastructure** in developing countries and build human resources and capacity to prepare a larger number of infrastructure projects that could attract private funding. The G20 decided to highlight 11 exemplary projects, whose realisation could have a decisive effect on growth, regional integration and access to global markets, if the countries and regional organizations concerned so wish. 5 projects are in sub-Saharan Africa: (1) The *Inga Hydropower Site* in the Democratic Republic of the Congo could mobilize significant private funds; (2) The *West African Power Pool* will interconnect power grids across 1,400km in four fragile West African countries (Ivory Coast, Guinea, Liberia and Sierra Leone) servicing 200 million people. (3) The *Ethiopia-Kenya Interconnector* is seeking interconnecting two East African countries (Ethiopia and Kenya) and will eventually interconnect all the countries in this sub-region; (4) *The North-South Corridor*, linking Tanzania to South Africa aims to improve traffic flow and build regional business integration and competitiveness of the continent through the construction and maintenance of roads, railways and ports; (5) *The Isaka-Kigali Railway* will link, by rail, Rwanda and Tanzania.
- **Protecting against the instability of agricultural prices:** Market-based risk management tools, such as physical or financial commodity price hedges, insurance and guarantee instruments, can play an important role in helping vulnerable countries and populations mitigate and manage these risks. Integrate risk analysis and management in agricultural and food security policies. The New Partnership for Africa's Development (NEPAD) has come up with a roadmap for the implementation of a pilot project integrating analysis and risk management strategies in the framework of the Comprehensive Africa Agriculture Development Programme (CAADP). The World Food Programme (WFP) is invited to define a risk hedging strategy. Develop risk management tools: the Multilateral Development Banks (MDB) have reviewed the existing instruments (hedging strategy of humanitarian agencies, advance purchase, counter-cyclical mechanisms, weather insurance, contract farming and crop insurance, etc.). The International Finance Corporation (IFC) is developing a risk management instrument pilot project (Agricultural Price Risk Management – APRM) in Latin America, with an extension in Africa. Put in place a risk management advice mechanism for the clients of developing countries through multilateral and regional banks and bilateral development agencies, in order to network the different

⁸ *The Cannes Summit: What outcomes*, <http://www.g8-g20.com/g8-g20/g20/english/the-2011-summit/the-summit-by-theme/the-cannes-summit-what-outcomes.1558.html>

⁹ Together, the G20 countries account for 85 percent of global output and two thirds of the world's population. Its members are Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom, the United States and the European Union.

actors and their experiences. This platform, made up to begin with of the World Bank, the Inter-American Development Bank, the International Fund for Agricultural Development (IFAD) and the French Development Agency (AFD), should also contribute to building risk management capacities in developing countries.

- **Ensuring food security and fight against pronounced price volatility:** the G20 adopted an *Action Plan on Food Price Volatility and Agriculture* and decided to increase world agricultural production sustainably and promote the coordination of international agricultural research, starting with the development of new wheat varieties.

The G20 decided to make the agricultural products markets transparent, by creating an Agricultural Markets Information System (AMIS), housed by the FAO, to coordinate the collection and analysis of the main data on production, consumption and stocks, and to help developing countries to build their market analysis capacities. It will cover wheat, maize, rice and soya.

At the international level, the G20 launched a Rapid Response Forum to prevent and manage market crises in a coordinated manner. The G20 also decided to exempt World Food Programme humanitarian aid from all export restrictions.

For the most vulnerable, the G20 initiated the implementation of a system of prepositioned emergency humanitarian food reserves (PREPARE¹⁰) in the Economic Community of West African States (ECOWAS) countries. This emergency humanitarian reserve is based on a regional approach, and the system will be made up of a physical reserve and a virtual reserve which will allow the time necessary for international assistance to be delivered. In addition, the World Bank should develop innovative insurance and risk management instruments for the poorest to protect them from rising prices or events affecting harvests. Like for all other financial markets, the G20 welcomed the on-going work done by the G20 Finance Ministers, Central Bank Governors and securities and derivatives regulators on the regulation and supervision of commodities' derivatives markets including agricultural commodities' derivatives markets.

Fight against protectionism: The G20 members have renewed their pledge not to introduce new measures restricting trade before 2013 and to withdraw all protectionist measures which have already been implemented.

Objectives of the Briefing

To improve information sharing and promote networking, CTA, the DG DEVCO from the European Commission, the ACP Secretariat, Concord and various media organise bimonthly briefings on key issues and challenges for rural development in the context of EU/ACP cooperation. The Briefing on 30th November 2011, organised with the International Food Policy Research Institute (IFPRI) and the NEPAD Planning and Coordinating Agency, will address the following issues: (i) discussing the implications of food price volatility for ACP countries; (ii) reviewing the results of the recent G20 Summit in Cannes (iii) providing a dialogue platform to feed into the policy debate for the G20 in Mexico¹¹. This Briefing will build upon the Briefing on Geopolitics of Food¹² and the work done by IFPRI and other organizations.

Target group

More than 150 ACP-EU policy-makers and representatives of EU Member States, civil society groups, research networks and development practitioners, and international organisations based in Brussels.

Available material

Input and comments before, during and after the meetings will be included in the Briefings blog: <http://brusselsbriefings.net>. A short report and a Reader in printed and electronic format will be produced shortly after the meeting.

¹⁰ For more information on the Pre-Positioning for Predictable Access and Resilience (PREPARE) system see: *Emergency Humanitarian Food Reserves, Feasibility Study, Cost-Benefit Analysis and Proposal for Pilot Programme*, 14th September 2011. http://www.foodsecurityportal.org/sites/default/files/PREPARE_feasibility_study_and_pilot_proposal.pdf

¹¹ The next G20 Summit will be in Los Cabos, Mexico in June 2012.

¹² A reader: Resources on Issues related to Geopolitics of Food, February 2011, http://brusselsbriefings.files.wordpress.com/2011/03/br21_reader_geopolitics-of-food-version-en-ligne1.pdf



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12h00-13h45 Registration and Seated Lunch (Restaurant of the EESC)

14h00-14h15 Introductory remarks: Mr. Staffan Nilsson, President of the EESC; Mr. Jean-Pierre Halkin
Head of Unit Rural Development, European Commission; Mr. Michael Hailu, Director of CTA

14h15-15h30 Panel 1: Policies and instruments to tackle food price volatility

Panel 1 will provide an overview of the main challenges in food price volatility and a summary of the key
policy issues discussed at the G20 meeting which have implications for ACP countries.

*Chair: Jean-Pierre Halkin, Head of Unit 'Rural Development, Food Security, Nutrition' EuropeAid -
Development and Cooperation Directorate-General, European Commission*

Panellists:

- G20 action plan on food price volatility and agriculture: key issues and expected impacts
*Mylène Testut-Neves, Head of Development and International Organisations Unit, Ministry of
agriculture, food, fisheries, rural development and territorial planning, France*
- Understanding the causes of food price volatility and mitigating its consequences
Máximo Torero, Director, Markets, Trade and Institutions Division, IFPRI
- Agricultural Market Information System (AMIS) and international policy coordination
Hafez Ghanem, Assistant Director-General, Economic and Social Development Department, FAO
- Tackling volatility through improved markets and trade policies
Carmel Cahill, Senior Counsellor, Trade and Agriculture Directorate, OECD

15h30-15h45 Coffee break

15h45-17h30 Panel 2: Implications of food price volatility on the ground: urgent actions needed

Panel 2 will focus the effects of food price volatility on the ground by bringing various experiences from
different actors. It will also identify what urgent and concrete policy actions need to be in place to mitigate
the negative effects of food price volatility.

Chair: H.E. Ms Brave Ndisale, Ambassador of Malawi

Panellists:

- Which approaches to enhance the multilateral trading system favourable to the poor countries?
Cedric Pène, Counsellor of the Agriculture Division, WTO
- Improving agricultural production: challenges and opportunities for farmers
Mamadou Cissokho, President, ROPPA
- Risk management strategies for smallholders and vulnerable production areas
Thomas Elhaut, Director, Statistics and Studies for Development, IFAD
- Emergency food reserves: mitigating the impact of food price volatility on the hungry poor
Chris Moore, Senior Global Public Policy Advisor, United Nations World Food Programme
- Continental and regional approaches to prevent food volatility
Tobias Takavarasha, Senior Agricultural Policy and Investment Officer, NEPAD

The way forward: From Cannes to Los Cabos: *Adriana I. Herrera Moreno, Coordinator General of Studies
and Support to International Trade Negotiations, Ministry of Agriculture, Mexico*

Conclusion