



Price volatility, food security, sustainable agriculture: a misunderstanding to be avoided

***Instabilité des prix, sécurité alimentaire, agriculture
durable: un malentendu à éviter***

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Price volatility and food security, a top item of the G20 Development

- Two issues closely linked in the preparation of the G20
- Impressive preparatory work (FAO, OECD, HLP/FSC, Report prepared for the French presidency by Pierre Jacquet, ...)
- But the link between the two issues has led to focus on price spikes rather than on the volatility itself

Reversal of the 70's approach to price volatility...

- In the mid 70's, a price commodity boom and a will of the G77 to stabilize prices at a high level, as illustrated by the « Integrated programme for commodities » of the CNUCED IV (1976, Nairobi) advocating « price indexation » for all the main commodities and the multiplication of ICAs
- The goal was both to avoid price shortfalls and to counteract a possible deterioration of TOT
- Strong opposition both political and technical
- Not any implementation..., even the end of existing ICAs



...reversal of the 70's approach to price volatility

- 30 years later new price commodity booms, in particular for food products, occurring after a long period of decline of *real* world food prices
- Severe consequences of the recent price spikes on urban poverty in developing countries...
- ... and even impact on price levels in developed countries
- Thus fighting against price volatility has become mainly understood as avoiding price spikes
- At the international and the national levels

The real volatility issue

- Volatility/instability is a succession of booms and shortfalls
- Not only the booms are detrimental to consumers, in particular poor consumers,... and for food security
- Not only the shortfalls are detrimental to producers, in particular poor farmers,...and for food security
- But also the volatility/instability around a given level or trend is detrimental to both,...and for food security
- Inducing a loss of welfare...and of agricultural output

Why producer price instability is detrimental to food security and sustainable agriculture

- Not only *shortfalls* of producer (farm gate) prices have negative short term effects on their own food security
- But producer price *instability* is detrimental to sustainable agriculture and long term food security by several ways
 - By increasing risk and thus lowering investment and innovation in agriculture
 - By asymmetric or irreversible effects on health and education (and other assets) in rural areas
 - By inducing behaviours harmful for environment

The recent concern: has world price volatility increased?

- Answer depends on the period considered: over 3 centuries, no (Williamson 2011); over 50 years, no; over 10 years, yes...
- Why this new surge of instability? No consensus on the causes:
 - speculation? (expansion of transactions on international markets)
 - Oil price and expansion of biofuels?
 - Climate change? Progressively on the yields or by increasing shocks
 - all the supply and demand factors having progressively led to the *decrease of stocks*
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Additional concern: the transmission of world price instability to domestic price instability

- A complex issue
- Even if *food products* are mainly not internationally traded, they are to a large extent tradable: their price is largely determined by world prices
- For *export products* it is even more the case: the impact of world prices instability on producer prices instability is amplified by the level of fixed transaction costs, in particular those due to poor infrastructure
- Seemingly strong transmission in recent years, although highly variable among countries (rise of cereals prices on Sahelian countries higher than rise of international prices)

Last crisis as an impetus for reform?

- Last food crisis more severe because connected with the global crisis
- Has pushed the food security on the top on the international agenda, in particular on the G20 development agenda
- Proposals will be examined at Cannes, a first significant step
- But largely influenced by the spikes issue, and constrained by the need to obtain a consensus



The G20 proposals: «risk management for agricultural development and food security»

- Promoting a better information on the markets situation (output forecasts, stock levels,...)
- International Forum for fast reaction to food crisis
- Ban of food export restriction
- Experimentation of food reserves, at the regional level (ECOWAS)
- Agriculture and food security risk management *tool box*, left to the choice of countries and possibly supported by the international community
- Mainstreaming systematic risk management in integrated farm policies (link with NEPAD)
- Joint advisory services mechanisms

Beyond the 2011 G20: landscape and next steps

- Little chance to see a decline of volatility in world prices, in particular as a result of shocks due to climate change
- A priority is then to invest in agriculture, with adaptation in mind
- Still a rationale of international or national price stabilisation schemes for some products, only if around the *trend* of market price
- Use of aid as an instrument of stabilisation, so that the countries can face effectively the volatility of import as well as export prices



Innovative insurance needed for poor farmers

- Stabilisation or insurance needed not only at the macro level
- If prices are stabilized, small farmers still exposed to the risk of rainfall or temperature volatility, and more and more so due to climate change, as evidenced by PVCCI (no compensation of crop losses by price rises)
- Usefulness of insurance schemes at the farmer level, preferably group insurance indexed on weather,
- If international prices are volatile and recurrently fall, their change being transmitted to producers, indexed price insurance may also be needed, reinsured by external resources