

HIGHLIGHTS



Food Price Volatility: Implications for ACP countries

Brussels Development Briefing no. 25

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On 30th November 2011, CTA and other partners convened the 25th Brussels Development Briefing - part of a series of bi-monthly Development Briefings on ACP-EU rural development issues. 170 participants gathered in Brussels to discuss the issue of food price volatility and its implications for ACP countries.

Food Price Volatility: Implications for ACP countries. This Briefing was organised with the International Food Policy Research Institute (IFPRI) and the NEPAD Planning and Coordinating Agency. It provided an overview of the main challenges, instruments and policies in tackling food price volatility and gave a summary of the key policy issues that were discussed at the G20 meeting and their implications for ACP countries. Case studies were used to demonstrate the effects of food price volatility and to identify the urgent and concrete policy actions needed to mitigate the negative effects of food price volatility.

This Briefing was a joint initiative of CTA, European Commission (DG DEVCO), the ACP Secretariat and ACP Group of Ambassadors, CONCORD and various media.

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Staffan Nilsson, President of the EESC introduces the briefing



Jean-Pierre Halkin

The 25th Brussels Development Briefing was introduced by Staffan Nilsson, President of the European Economic and Social Committee (EESC). Mr. Nilsson stressed the importance of involving civil society organizations - such as EESC - to this kind of Briefing. Engagement from civil society can make pressure on political leaders and make the difference in the fight against food insecurity and hunger. Different stakeholders together will find the way to influence policy makers.

Jean-Pierre Halkin, Head of Unit on Rural Development, Food Security and Nutrition at the European Commission DG DEVCO, pointed out that food price volatility is very significant issue for EC and that - in 2008 - the EU provided €1 billion to face price volatility in developing countries through the so called Food Facility. Recently food security assumed a key role for EC through an array of proposals to better regulate financial and farming raw material markets. Mr. Halkin reminded that food price volatility cannot be contrasted by single initiatives and that it is important to pay attention to the international cooperation

with developing counterparts. This view will translate into efforts from EC at policy level, but also into local programmes starting from 2014.

Micheal Hailu, Director of CTA, concluded the introductory speech with acknowledgment to partners and participants. Mr. Hailu stressed that in ACP countries high food prices affect several millions people that fall into food insecurity and hunger. He recalled that a total of 1 billion people around the world suffer this situation and that there is desperate need for supporting the resilience of the poorest. Small changes in international prices translate into big changes for food insecure households, so food governance is also a key issue. Mr. Hailu reminded that it is important to work at regional level to identify best practices to contrast price volatility, and that having farmers' associations represented at the Briefing would help to hear the voices and concerns from the field. Concluding, he pointed out that food price volatility can be reduced by ameliorating production and minimizing losses and impact of climate change - with interventions such as risk management, food



Mylène Testut-Neves



Maximo Torero

reserves, and better strategies - but he also expressed the need for long term solutions at global scale.

Policies and instruments to tackle volatility

Panel 1 was moderated by Mr. Halkin and provided an overview of the main challenges in food price volatility and a summary of the key policy issues discussed at the G20 meeting in Cannes, France.

Mylène Testut-Neves, Head of Unit at the International Relations Department of the French Ministry of Agriculture, presented the G20 action plan on food price volatility and agriculture. Price volatility of raw materials was a priority of the French Presidency because of its impact on world's economy. During the last meeting of the G20 Ministries of Agriculture an Action Plan on price volatility and agriculture was adopted. Ms. Testut-Neves enlightened the Action Plan's five main objectives: i) improve agricultural production and productivity; ii) increase market information and transparency; iii) strengthening international coordination to prevent and respond to food market crises; iv) implement risk management tools for the most vulnerable; and v) improve the functioning of agricultural commodities' derivatives markets. She concluded by stressing that in future, the challenge will

be to maintain agriculture and food security at the top of the political agenda and to pursue the implementation of the actions that have been started. In this regard, the implication of the following G20 Mexican Presidency will be crucial.

Mitigating the consequences of food volatility

Maximo Torero, Director of the Markets, Trade, and Institutions Division at the International Food Policy Research Institute (IFPRI) presented the causes of food price volatility and how to mitigate its consequences. According to Mr. Torero the world is currently facing four different crisis that contribute to increase food price volatility: a food crisis, a financial crisis, a fuel crisis and the climatic change. He explained that real prices of commodities are not at their highest historical levels but nevertheless there has been a significant increase in excessive volatility. Key factors behind excessive volatility in food prices are: i) future prices that could influence international prices; ii) bio-fuel policies that create competition for water and land; iii) climate change putting long term pressure on volatility; and iv) secondary policies related to international markets. Moreover, at domestic level, key factors are: v) domestic demand; vi) domestic food prices; and vi) link to domestic supply and how these factors are interrelated. Excessive volatility

is very concerning for producers because increases expected losses - in the sense that they don't know how to allocate resources - and even worst for smallholders that have budget constraints - and can lose all their capital. Mr. Torero discussed specifically three solutions to mitigate price volatility: physical reserves that have high costs in terms of investments, loss of quality of the grains, need for trigger mechanism to avoid political intervention, distortion of markets, influence and distortion on producers; regulation of future exchanges that can avoid an increase in the volume of future markets but must encompass all entities and not only some, moreover regulations are not binding and not always effective; the AMIS that can help to have better information on reserves, early warning system of prices, and forecasting volatility. Mr. Torero concluded with some key recommendations regarding bio-fuel policies, volatility and resilience. According to him, there is a need for regulate financial activities, adapt and mitigate to extreme climate change and invest in agricultural research. Also, it is important to balance global export market structures, build up food global and regional emergency reserves, collect and share information on food markets. Household's coping strategies must be supported by national and social protection systems, emergency preparedness of countries, investments in smallholder farmers and sustainable agriculture and investments to foster non-farm income opportunities in rural areas.

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Hafez Ghanem



Carmel Cahill

Agricultural Market Information System (AMIS)

Hafez Ghanem, Assistant Director-General at the Economic and Social Development Department of the FAO, presented the new Agricultural Market Information System (AMIS). Building on previous presentations from Ms. Testut-Neves and Mr. Torero, Mr. Ghanem stressed the importance of information to promote a transparent market – which is a more stable market where it is more difficult to speculate. AMIS is a system that will enhance transparency on the markets and its main objective is to empower both markets and policy makers to guarantee transparency. According to Mr. Ghanem, AMIS should: i) improve agricultural market information, analyses and forecasts at both national and international levels; ii) report on abnormal international market conditions – including structural weaknesses – as appropriate; iii) strengthen global early warning capacity; iv) collect and analyze policy information; v) promote dialogue and international policy coordination; vi) build data collection capacity in participating countries. AMIS Secretariat is Rome-based within the FAO and all G20 countries are members of AMIS, plus the seven bigger importing/exporting countries of the four staple foods (wheat, maize, rice and soybean). It is divided into two main working groups: the Information Group, in charge of collecting information, meeting twice a year in order to produce reports on

production and stock levels in their countries; and the Rapid Response Forum, a high-level group of decision makers meeting once a year and in case of emergency, in order to create a policy coordination platform to exchange information and enhance international coordination among member states.

Improved markets and trade policies

Carmel Cahill, Senior Counselor, Trade and Agriculture Directorate of OECD, summarized the general policy environment for food and agriculture. According to Ms. Cahill, the level of support that OECD governments provide to farmers is very diverse (from high to almost zero) depending on the country. For emerging economies the support tends to be small or even negative. She pointed out that in some regions the level of distortion of prices is very high due to import tariffs, quantitative restrictions, etc. and that – despite EU has reduced to half its distorting support to agriculture – this still accounts for a very significant part. Ms. Cahill reminded that agricultural tariffs are bigger than non-agricultural tariffs in many countries, and lots of non-tariff measures are affecting trade and agriculture. In this regard, she recognized that trade is important for food security as it allows food to move from surplus areas to deficit areas. Trade also permits to absorb shocks. As climate change is very likely going to change agricultural production patterns, trade will help

to cope with the adaptation period but will be beneficial also in the longer term. Speaking about trade policies, Ms. Cahill said that during recent food crises policies inducing demands for agricultural commodities for bio-fuels have driven prices up and contributed to high volatility and low-stock use ratios. She also reminded the short-term factors that have exacerbated these crises were lack of information and panicking by individuals and governments. For this reason, it is the view of OECD that policy factors, market policies and trade policies, actually contributed significantly to exacerbating the food crises. Concluding, Ms. Cahill proposed some solutions: i) refrain from pro-cyclical trade measures on both the import and export side; ii) strengthen disciplines and consultation on export restrictions; and iii) direct domestic policy effort to developing market institutions, infrastructure, productivity and competitiveness.

Some issues were raised in the debate about the timing and effectiveness of AMIS. It was explained that the system is already operational but the quality of information should be progressively improved. Even if in many parts of the world cereals are not the staple food (e.g.: central and western Africa) focus on prices of cereals in AMIS is helpful because increase in prices of cereals often translates into higher prices of tubers and other food commodities. Mr. Halkin concluded the first Panel with some remarks about the link between agriculture and carbon sinks. There are existing financial facilities to

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Mr. Cédric Pène



H.E. Ms. Brave Ndisale

reduce/restore CO2 emissions but often stakeholders are missing to make sure that these mechanisms are properly. He pointed out two examples: the Clean Development Mechanism (CDM) funded by Kyoto Protocol; and the Reduction of Emissions linked to Degradation of forests and Deforestation (REDD) including land use changes (REDD+) and farming (REDD++).

Trade in response of food price volatility

H.E. Ms. Brave Ndisale, Ambassador of Malawi, moderated Panel 2, which focused on the effects of food price volatility on the ground by bringing various experiences from different actors and identify what urgent and concrete policy actions need to be in place to mitigate the negative effects of food price volatility.

Mr. Cédric Pène, Director of the Agriculture Division of WTO, shared with the audience present and future regulations of the World Trade Organization (WTO). Mr. Pène agreed with Ms. Cahill that trade is one of the tools that would allow to tackle food price volatility. According to him, WTO rules including farming rules have crucial role to play i) in limiting distortion caused by trade subsidies and promote better allocation of resources; ii) in encouraging transparency and limit side-effects in price volatility; and iii) in taking into consideration the needs of developing countries. Referring to the Doha Round, he said that this cycle should ameliorate present

agricultural agreement, especially on the themes of tariff protection, export competition, internal support, quantitative prohibitions and restrictions on exports. Unfortunately the talks are at dead-ends so there will be need to continue with negotiations in 2012. Mr. Pène concluded his presentation pointing out that new paths are needed to conclude the Doha round: indeed negotiations must be carried out in those fields where progress is possible.

Challenges and opportunities for farmers

Mr. Mamadou Cissokho, President of ROPPA, presented on the impact of price volatility on smallholders and small producers. Mr. Cissokho reminded to previous speakers that if it's true that food crises affected millions of people, it would also be interesting to calculate how much gain returned to export countries during these crises. In regards to smallholder agriculture, Mr. Cissokho reported that is expected an increase in small farmers number in Africa by 2020 and this - in addition to desertification and degradation of natural resources - will make food insecurity become a structural problem for Africans. Small farmers are looking for solutions because low incomes do not allow investments and discourage young farmers to carry on their activities. Addressing again previous speakers, he recalled that common belief is that farming will be develop through cooperation but in his opinion - instead

of promoting projects - politicians should prepare effective agricultural policies as it was made for US and EU agriculture. In Mr. Cissokho's opinion there is need to improve production and earnings of farmers because 85% of total production is achieved by smallholders in Africa. Therefore, this system must be improved instead of dismantled because 'it is not worth to invest in smallholder agriculture'. Mr. Cissokho concluded with some suggestions for NEPAD about what can be done to protect producers: i) reinforce public investments on local markets; ii) promote infrastructures and access to credit; and iii) support farming products in the future.

Risk management strategies for smallholders

Mr. Thomas Elhaut, Director of the Statistics and Studies for Development, IFAD, presented on global and local risks for smallholders. According to Mr. Elhaut, main global issues are: fiscal crisis, climate change, energy price volatility, global governance, economic disparity, critical information, infrastructure breakdown, and online data information security. In regard to smallholder agriculture, Mr. Elhaut enlightened that market price volatility exacerbates all the other risks, and because of all these risks food security is also compromised. Farmers have adapted over time to risks with a range of strategies which are

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Mr. Mamadou Cissokho



Mr. Thomas Elhaut



Mr. Chris Moore



Mr. Tobias Takavarasha

very diversified: transition of rural economies into modern economies has led new strategies to emerge. In Mr. Elhaut's view, it is important to help the transformation of smallholders agriculture from subsistence farming to commercial farming. Concluding his speech, Mr. Elhaut pointed out that in order to help farmers improving their productivity it's crucial to fill the information gap: not only prices, but also quality, certifications and value chain data.

Emergency food reserves to mitigate volatility

Mr. Chris Moore, Senior Global Public Policy Advisor, WFP, referred to the food crises of 1970-80s in Ethiopia in order to present about food emergency reserves. Ethiopian food security reserve was not a buffer stock to influence market prices but a mechanism designed to provide predictable and rapid access to food to vulnerable population during shocks through national safety net programs. According to Mr. Moore, after twenty years the impact of this reserve is clear: Ethiopia continues to experience droughts but the food reserve is an effective tool to respond to this challenge. The question posed by Mr. Moore was if food reserves can be effective also during periods of high volatility. In this regard there are numbers of food reserve that were taken as

models by Mr. Moore: the EAERR and SAARC in Asia, the SADC in South Africa, and the Ethiopian and Malian National Reserves. Drawing on these examples Mr. Moore identified ten key design features of a successful emergency food reserve: i) approach the problem with regional mechanisms; ii) think small, as large reserves are difficult to operate; iii) complement existing structures; iv) build to be financially sustainable; v) target the most vulnerable; vi) buy local to boost gains in agricultural production; vii) ensure national and regional ownership; viii) govern effectively and independently and include outside organizations in governance mechanisms; ix) be transparent; x) build capacity. Mr. Moore concluded that food reserves are useful to mitigate price volatility but in order to implement a regional reserve there is need for strong commitment, capital and collaboration.

Prevent food price volatility in Africa

Mr. Tobias Takavarasha, Senior Agricultural Policy and Investment Officer, NEPAD addressed the issue of policy responses to food price volatility. Key messages from Mr. Takavarasha were: i) volatility is higher in Africa compared to other continents; ii) sources of volatility in Africa are not necessarily originated there; iii) vulnerability and food insecurity in the African continent has intensified as a result of volatility.

Mr. Takavarasha said that many different interventions were put in place to address food price volatility, enhance domestic production, ensure political stability and security, facilitate cross border trade and regional trade and integration. On example is the maize-without-boarders initiative by COMESA. Mr. Takavarasha also reminded that focus on agriculture alone is not sufficient: rural transformation and rural development are also key issues as many people in rural areas cannot depend only from agriculture. In conclusion, he pointed out the need to accelerate implementation of programs to improve productivity, reduce costs of production, create employment and reduce risk associated with agricultural production, introduce safety nets and discuss further the issue of smart subsidies - in particular fertilizers - encouraging the private sector to invest more in African agriculture.

Final recommendations were made by Ms. Adriana Herrera Moreno, Coordinator General of Studies and Support to International Trade Negotiations, Ministry of Agriculture, Mexico. She pointed out some priorities for the next G20 Mexican presidency: reinforce the action plan adopted in June and implement the market information system (e.g. for maize and wheat). The focus should be on actions that have already started and discussed. In particular, on five strategic fields: i) research, transfer of technology and development; ii) sustainable agriculture, which is a cross-cutting

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Ms. Adriana Herrera Moreno

issue, natural resources and also water issues; iii) investment in public and private partnership to share objectives, funding and risks; iv) better risk management to properly tackle food security issues; and v) future work on the farming agenda.

Due to time restriction the debate was shortened but it was highlighted that increasing domestic productivity can go along with the wish to complete the Doha round by cutting

down on domestic support measures (there is no conflict due to low levels of productivity). Finally, there was consensus that practical measures should be taken in order to reduce the risk of AMIS to be profitable to companies rather than to public good.

Mr. Hailu, Director of CTA, made the closing remarks about short and long-term issues related to food price volatility. In particular Mr. Hailu reminded that the debate

and engagement should continue especially within G20 countries. Agriculture has recently come on top of the G20 agenda but governments don't include systematically the voice of people that are the most affected by food price volatility. In this regard, CTA would be happy to support the engagement from regional farmers organizations so they can contribute to the discussion.

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- The main site <http://brusselsbriefings.net/>
- The Briefing page <http://brusselsbriefings.net/past-briefings/no-25-food-price-volatility/>
- The video materials <http://client.arendsoog.be/CTA3/>
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