FOOD FOR ALL

FOOD FOR SUSTAINABLE GROWTH

FOOD FOR HEALTH

FOOD FOR CULTURE

BARILLA CENTER FOR FOOD & NUTRITION

1ST INTERNATIONAL FORUM ON FOOD AND NUTRITION

ROME, DECEMBER 3, 2009

con il patrocinio di:

Senato della Repubblica

MINISTERO DELLE POLITICHE AGRICOLE ALIMENTARI E FORESTALI

Comune di Roma

in collaborazione con:

The European House Ambrosetti

FOOD FOR SUSTAINABLE GROWTH

FOOD FOR HEALTH

FOOD FOR CULTURE

FOOD FOR ALL

ALEXANDER SARRIS

THE ERRATIC EVOLUTION OF AGRICULTURAL MARKETS AND APPROACHES TO DEAL WITH MARKET VOLATILITY AND ASSURE FOOD IMPORTS

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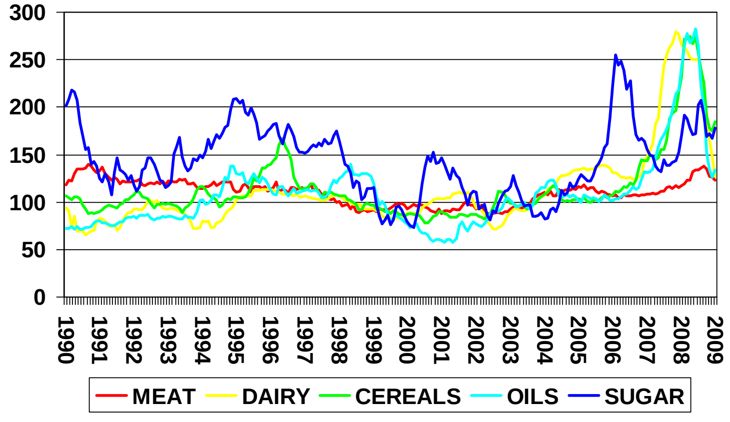
PLAN OF PRESENTATION

- Agricultural commodity price developments
- Global food price volatilities
- Factors affecting food commodity market volatility
- Food import risks
- Problems of access to cereal imports
- Ways to manage food import risks
- Ways to deal with market volatility

ALMOST ALL BASIC FOOD COMMODITIES HAVE SEEN THEIR INTERNATIONAL PRICES RISE SIGNIFICANTLY OVER THE PAST TWO YEARS BUT THEY HAVE DECLINED LATELY

(COMMODITY PRICE INDICES: 2002-2004=100)



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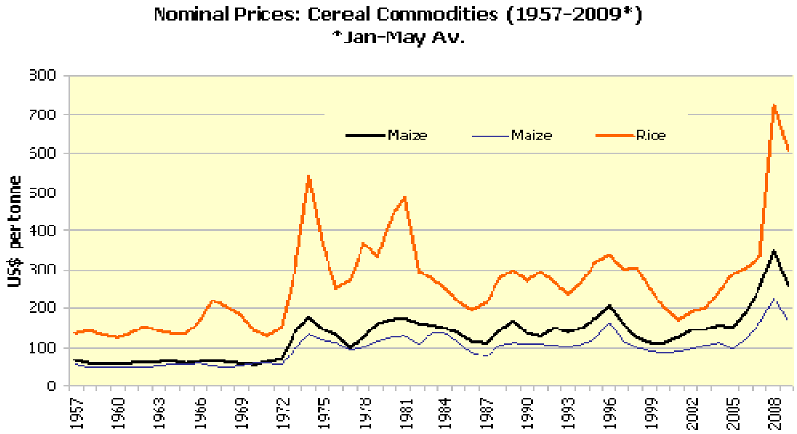
NOMINAL INTERNATIONAL GRAIN PRICES RECENTLY AT HIGHEST LEVELS SINCE EARLY 1970S



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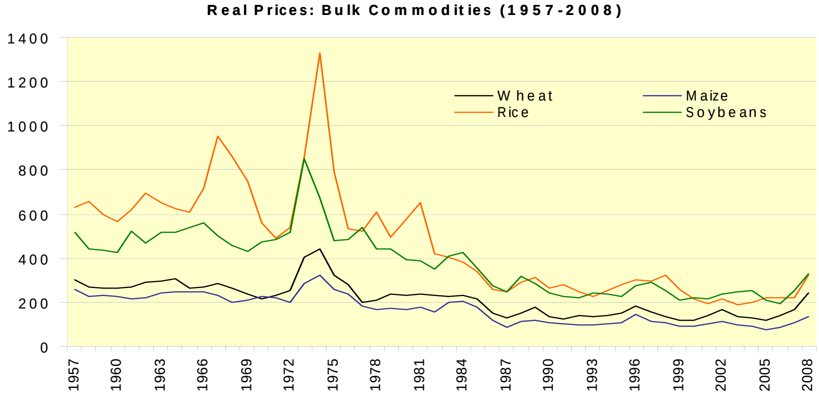
IS THERE AN END OF CHEAP FOOD?
REAL PRICES OF BULK FOOD COMMODITIES HAVE TENDED TO DECREASE BUT SINCE MID 1980S TENDENCY SEEMS TO HAVE STOPPED



WHAT DETERMINES LONG TERM COMMODITY PRICES?

- Supply of agricultural commodities highly elastic at low wages
- Demand for agricultural commodities quite inelastic
- Opposite case for non-agriculture
- Implication: Differential productivity gains can alter terms of trade between agriculture and non-agriculture

DECLINING TERMS OF TRADE FOR AGRICULTURAL COMMODITIES HAS BEEN DUE TO FASTER RATES OF TOTAL FACTOR PRODUCTIVITY GROWTH FOR AGRICULTURAL THAN NON-AGRICULTURAL PRODUCTS

- Rate of growth of TFP has been faster in agriculture than in non-agriculture
- The rate of growth of TFP in agriculture seems to be higher than that of manufacturing.
- “Globalization” of agricultural research, has contributed to faster TFP growth in agriculture,
- Incidence of productivity advances largely on consumers (through lower prices) and little to producers.
- Has productivity growth slowed down? No
- Has productivity growth lagged in LDCs? No

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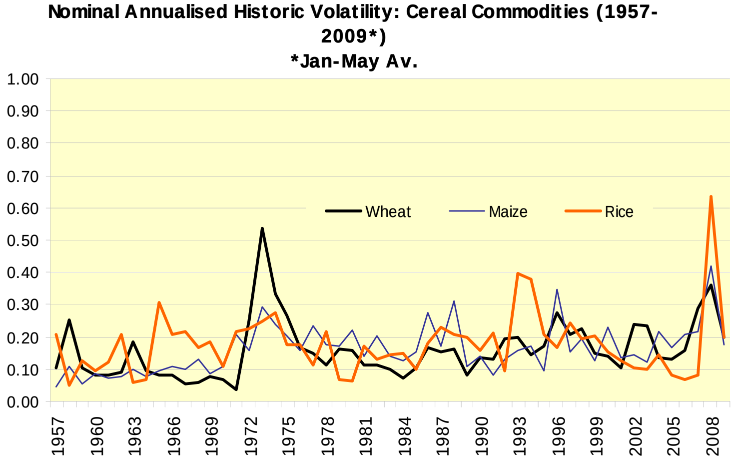
GRAIN PRICE VOLATILITY DOES NOT SEEM TO HAVE INCREASED OVER TIME FOR CEREALS



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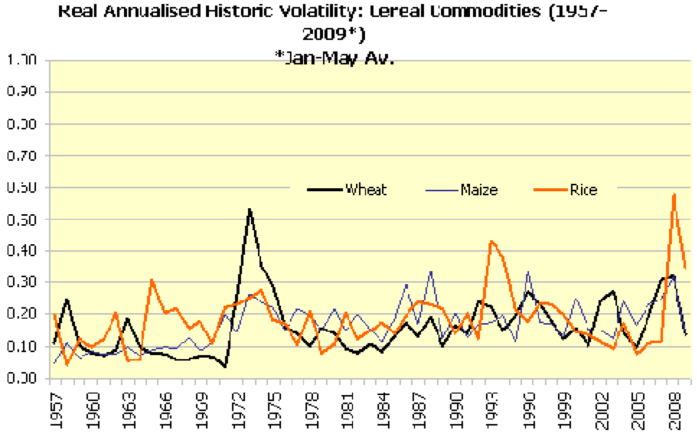
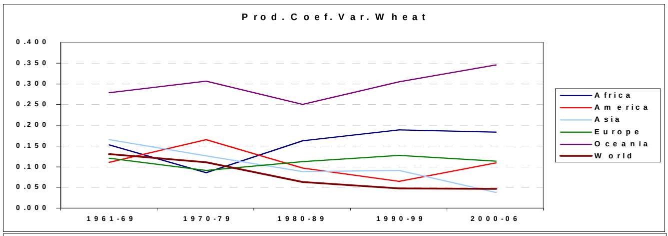
VOLATILITY OF REAL CEREALS PRICES NOT DIFFERENT THAN THAT OF NOMINAL PRICES

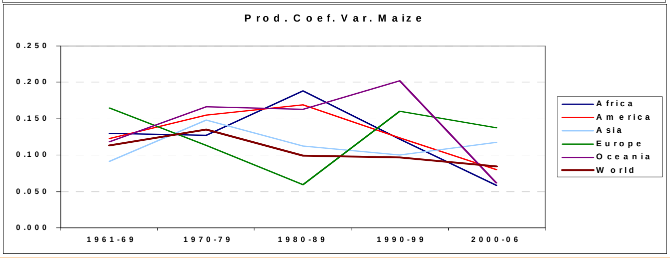


FACTORS AFFECTING CURRENT AND FUTURE PRICE VOLATILITY (NEW FACTORS IN BLUE)

- Production variability and trends
- Stocks
- Financial speculation
- Exchange rates
- Oil prices and biofuel production
- Trade policies and price transmission
- Other factors

PRODUCTION DOES NOT SEEM TO HAVE BECOME MORE VARIABLE FOR WHEAT AND MAIZE





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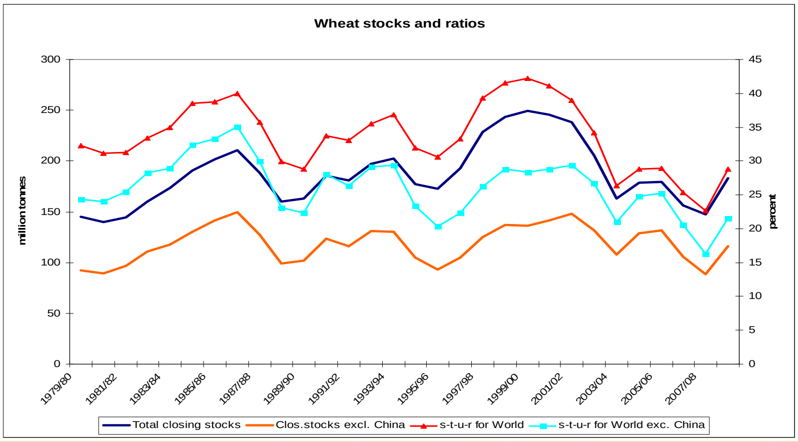
GLOBAL ENDING STOCKS OF WHEAT AND STOCK TO UTILIZATION RATIOS FOR THE WHOLE WORLD AND FOR THE WORLD WITHOUT CHINA DO NOT EXHIBIT LONG TERM TRENDS



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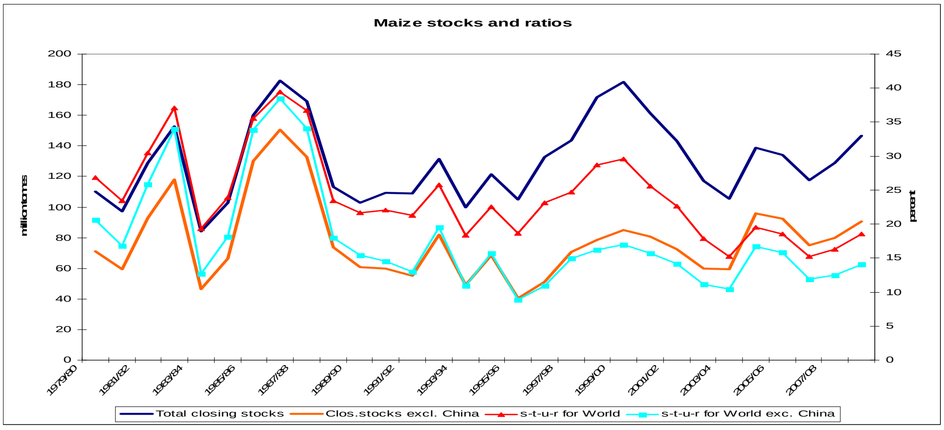
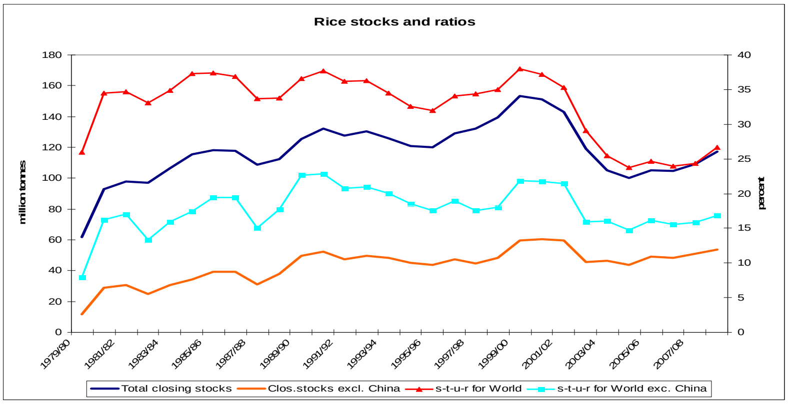
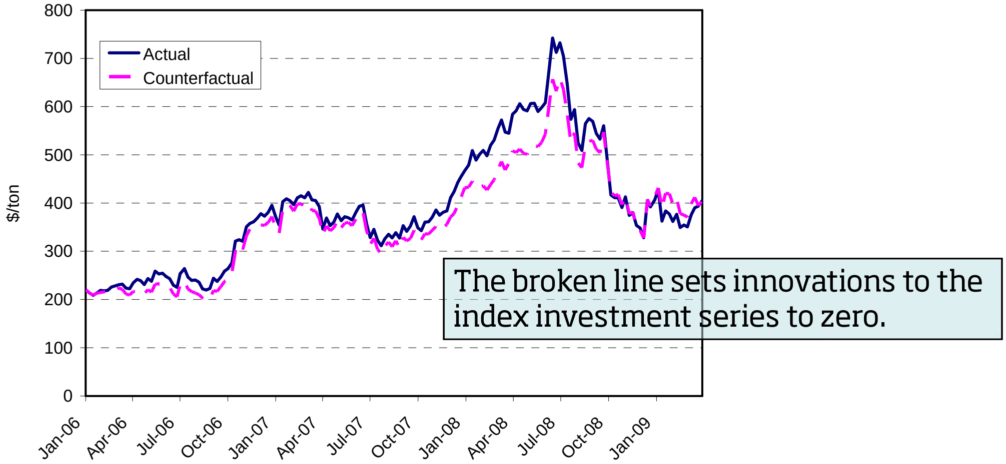
GLOBAL ENDING STOCKS OF MAIZE AND STOCK TO UTILIZATION RATIOS FOR THE WHOLE WORLD AND FOR THE WORLD WITHOUT CHINA DO NOT EXHIBIT LONG TERM TRENDS



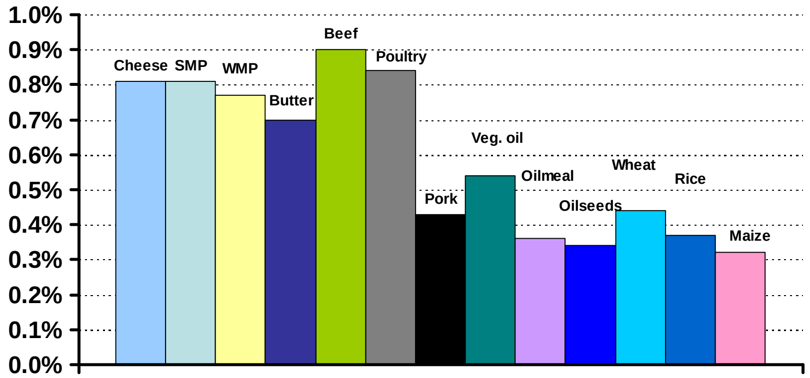
GLOBAL ENDING STOCKS OF RICE AND STOCK TO UTILIZATION RATIOS FOR THE WHOLE WORLD AND FOR THE WORLD WITHOUT CHINA EXHIBIT POSITIVE LONG TERM TRENDS



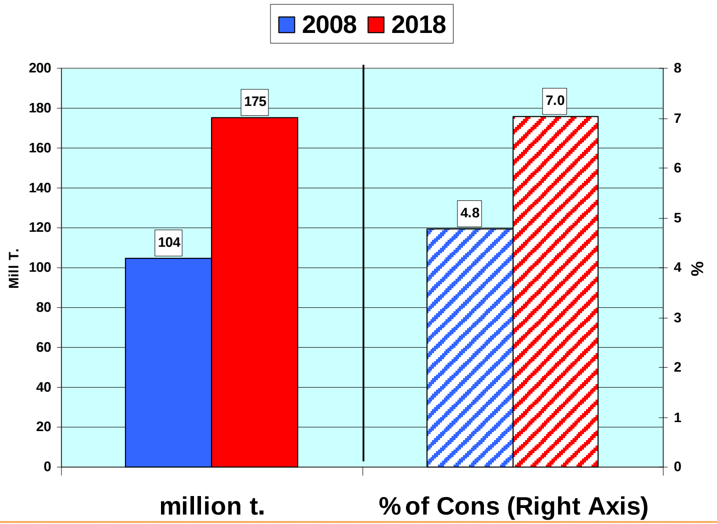
SPECULATION. ACTUAL AND COUNTERFACTUAL CORN FUTURES PRICES WITH AND WITHOUT INDEX FUNDS (SOURCE GILBERT 2009)



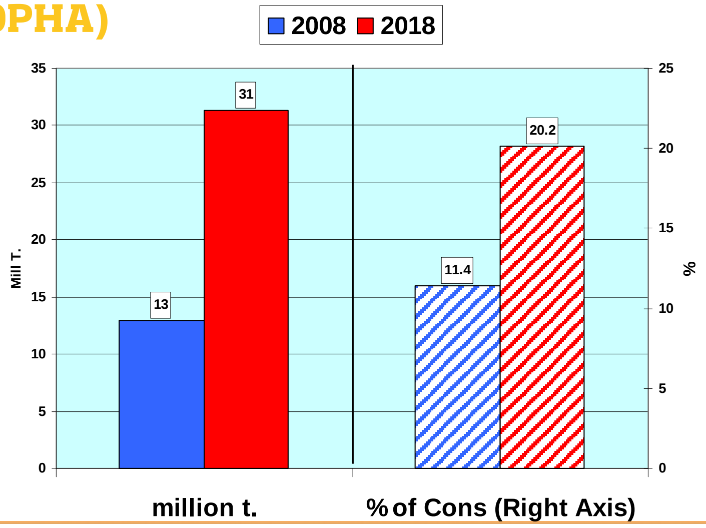
IMPACT ON COMMODITY PRICES OF A 1 % USD DEPRECIATION AGAINST ALL CURRENCIES



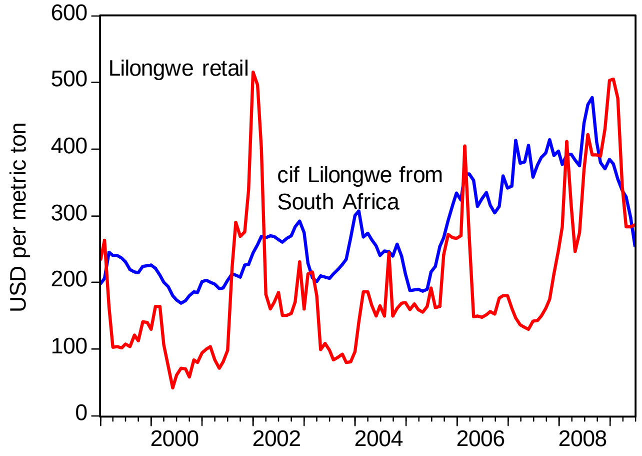
MEDIUM TERM. CEREALS USE FOR ETHANOL



MEDIUM TERM. MAJOR VEG. OILS USE FOR BIODIESEL (EXCL. JATROPHA)



PRICE TRANSMISSION HAS BEEN IMPERFECT. MAIZE PRICES VS. IMPORT PARITY, NAIROBI, KENYA (SOURCE JAYNE 2009)



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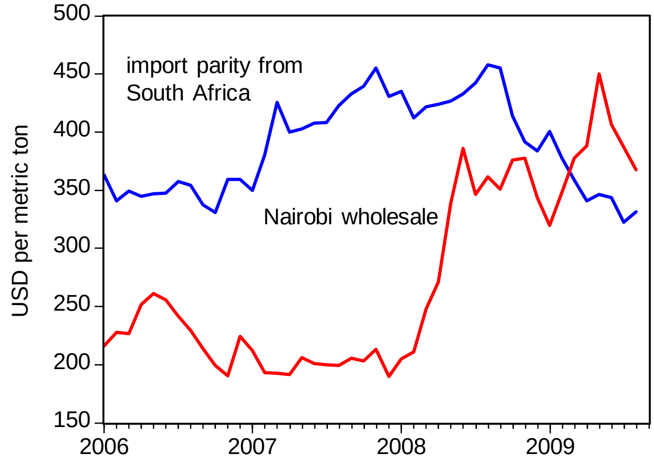
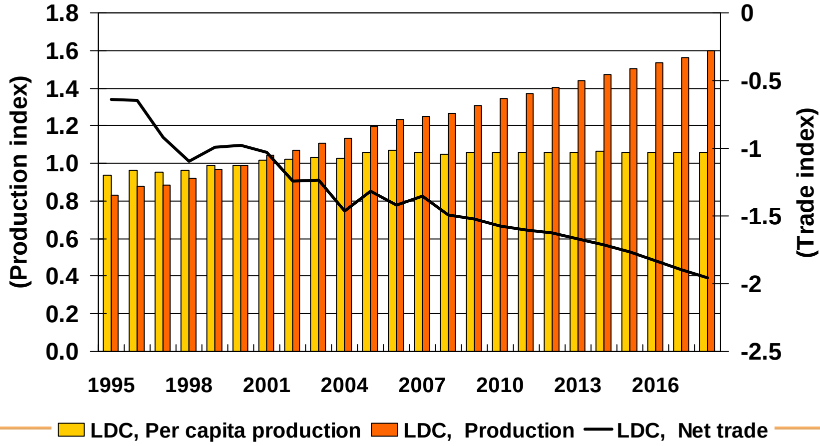


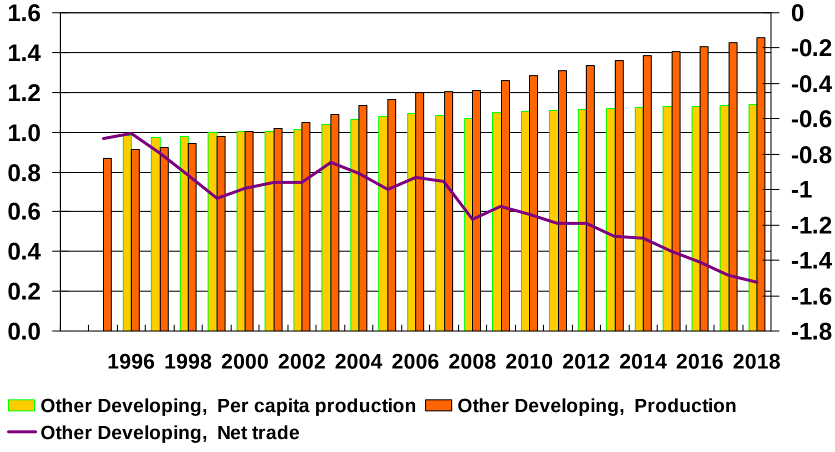
MAIN FACTORS THAT WILL AFFECT MEDIUM TERM AGRICULTURAL COMMODITY PRICES AND PRICE VOLATILITY (NEW FACTORS IN BLUE)

- Developments in total incomes and consumption
- Stocks and stock replenishment rates
- Shocks to production
- Petroleum prices
- Biofuel policies and technology prospects
- Developments in exchange rates
- Developments in financial markets and speculative fund positions
- New investments in agricultural production
- Country policies vis a vis domestic markets
- **Overall: New factors are likely to dominate. Considerable uncertainty and likely volatility**
- Implications for agri-food trade. International markets may become less reliable sources of food, but may offer new opportunities for growth exports of developing countries

FOOD IMPORT DEPENDENCE OF DEVELOPING COUNTRIES WILL GROW. AGRICULTURAL PRODUCTION AND TRADE LDC COUNTRIES (BASE 1999-2001 =1)



AGRICULTURAL PRODUCTION AND TRADE OTHER DEVELOPING (NON-LDC, NON-BRIC) (BASE 1999-2001 =1)



PROBLEMS OF ACCESS TO GRAIN IMPORTS MAY BECOME MORE ACUTE

- High grain prices induced speculative purchasing and hoarding by many agents, including importing countries.
- Many middle and high income regular net food importing countries, apart from higher food import bills, faced risks of lack of adequate supplies
- Many of these countries have low capacity for domestic production albeit capacity to finance imports
- Low income countries faced both rationing out of global supplies by richer countries as well as higher costs
- To achieve global and equitable food security need system to assure supplies to both types of countries

FOUR WAYS TO MANAGE FOOD IMPORT RISKS

- **Avoiding or reducing the risk** altogether (by altering domestic production, higher degree of staple food self sufficiency)
- **Change the fundamentals of supply and demand**, by manipulating directly the markets that create those risks (through for instance buffer stocks for global price stabilization)
- **Transfer some of the risk to a third party for a fee**. This is the standard approach to insurance
- **Do none of the above** and just cope
- Basic problem is **market unpredictability**

SHOULD PHYSICAL, PUBLIC, GLOBALLY MANAGED GRAIN RESERVES BE DEVELOPED? ANSWER: MOST LIKELY NO

- **Why:**
- Three main challenges in maintaining strategic reserves:
- **determination of optimum stocks is politically loaded**
- Predicting supply and demand and where the potential shortfalls in the market may be can be extremely difficult
- Reserves are dependent on transparent and accountable governance
- **level of costs / losses**
- Reserves cost money and stocks must be rotated regularly
- The countries that most need reserves are generally those least able to afford the costs and oversight necessary for maintaining them
- The private sector is better financed, better informed, and politically powerful, putting them in a much better position to compete
- **uncertainties that strategic reserves can bring about in the market place**.
- Reserves distort markets and mismanagement and corruption can exacerbate hunger rather than alleviate it

SHOULD WE REFORM COMMODITY EXCHANGES BY:

- limiting the volume of speculation relative to hedging through regulation;
- making delivery on contracts or portions of contracts compulsory;
- imposing additional capital deposit requirements on futures transactions.
- Answer: probably NO –
- Speculation is a symptom not a cause of spikes, and has not altered market fundamentals albeit has enhanced spikes. This is true irrespective of the existence of exchanges

CONCLUSIONS AND POLICY DIRECTIONS

- Medium term agricultural outlook appears to be for non-declining prices in real terms
- World markets may become more unstable in the future
- Can the world avoid another food price spike? Not likely
- Managing food import risks rather than trying to change global market fundamentals seems a more viable way to ensure food import supplies
- Global or national stockholding arrangements are inefficient and may not achieve much
- Reforming existing commodity exchanges is not likely to change fundamentals of commodity markets
- To increase reliability of global food import markets, need new market based institutions such as better contract enforcement mechanisms and a food Import financing Facility (FIFF) to deal with the financing constraint facing low income food deficit countries