

Can the world get organized to avoid recurrent food crises?

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Based on the HLPE report on Price Volatility and Food Security prepared for the Committee on Food Security by Benoit Daviron and team, but with sole responsibility for the opinions advanced

Food crises

- What we have learned, the hard way
 - Food crises have serious welfare, economic, and political costs
 - The causes of past food crises are relatively well understood
 - Academia, IFPRI, FAO, World Bank, and many others
 - Addressing food crises in a globalized world requires enough world governance
- What has been done
 - World has become formally organized to respond through multiple global initiatives

Food crises

Multiple initiatives toward global governance

- UN High Level Task Force on the Global Food Security Crisis
- UN Special Rapporteur on the Right to Food
- CFS and HLPE - Rome-based (FAO, IFAD, WFP) Committee on Food Security with High Level Panel of Experts
- G20 – Agriculture Ministers’ Action Plan on Food Price Volatility and Agriculture
- G8 – Global Agricultural and Food Security Fund (WB based)
- GFRP – World Bank’s Global Food Crisis Response Program
- CGIAR - Consortium of Centers and Mega Programs

Food crises

- What is needed
 - Make these initiatives succeed at the international and national levels
 - This requires information, coordination, authority, resources, and learning
- Will the world's capacity to respond be effectively used?
 - HLPE diagnostic and recommendations
 - Potential role for the CFS as only world governance body on food security

Outline of presentation

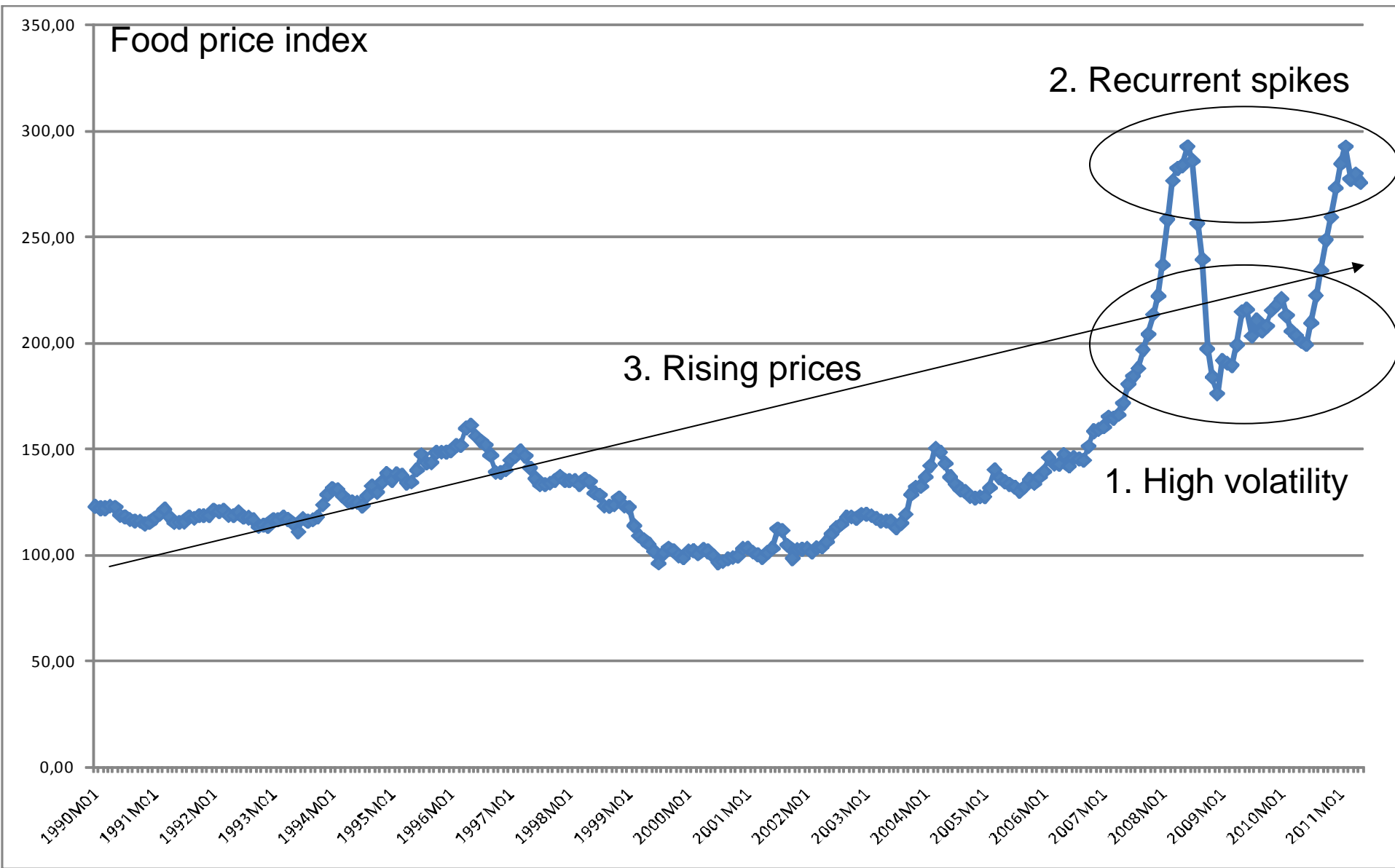
1. HLPE diagnostic on price events
2. Major HLPE recommendations to stabilize prices
 1. At the international level
 2. At the national level
3. Potential role for the CFS

1. HLPE diagnostic on price events

Four observations on price movements detrimental to food security

- International price movements
 - Volatility, spikes, trends
- Domestic price movements
 - International transmission
 - Endogenous volatility
 - Volatility of tradables even without transmission

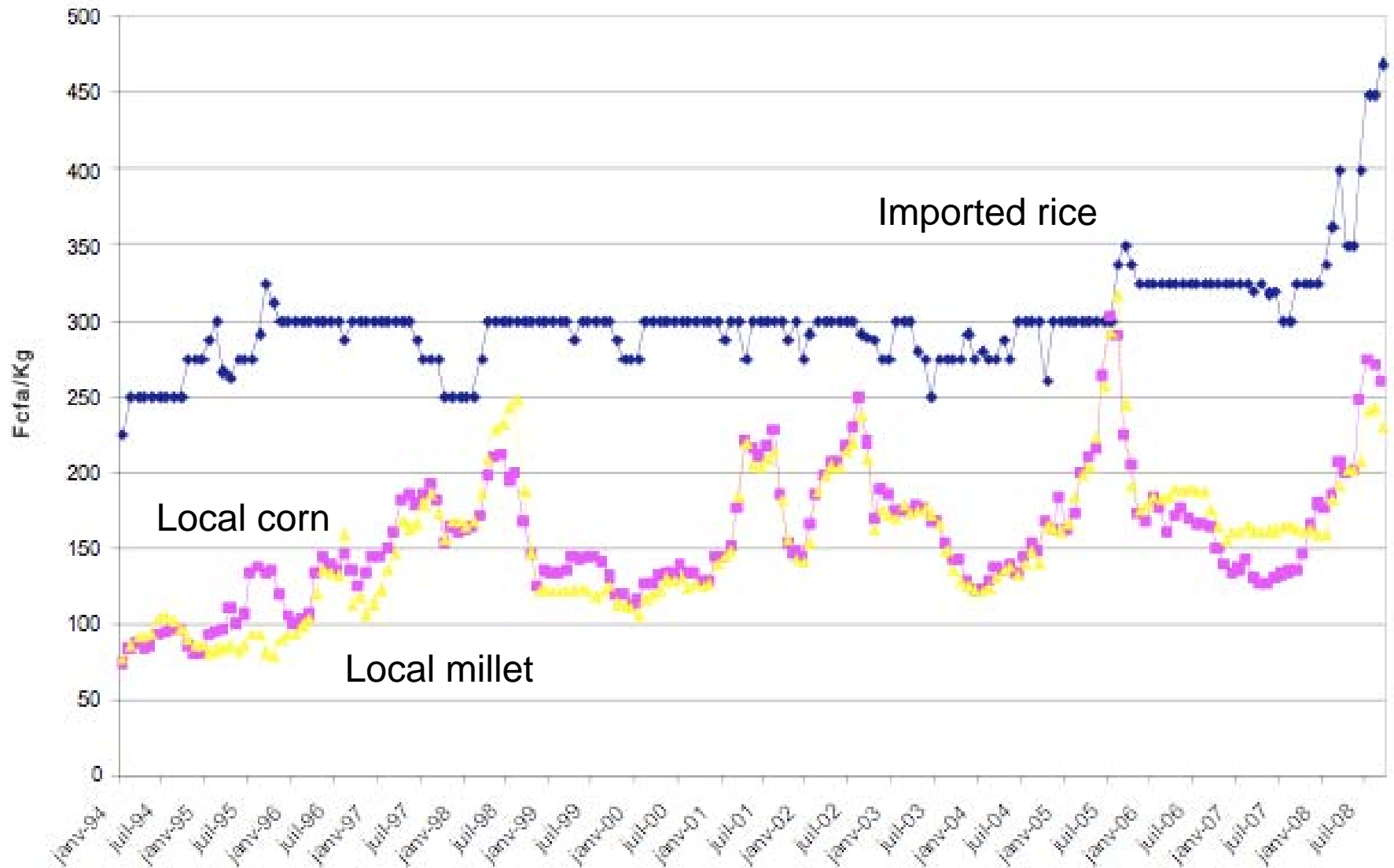
(1) Three dimensions of international price events: Volatility, spikes, rising levels



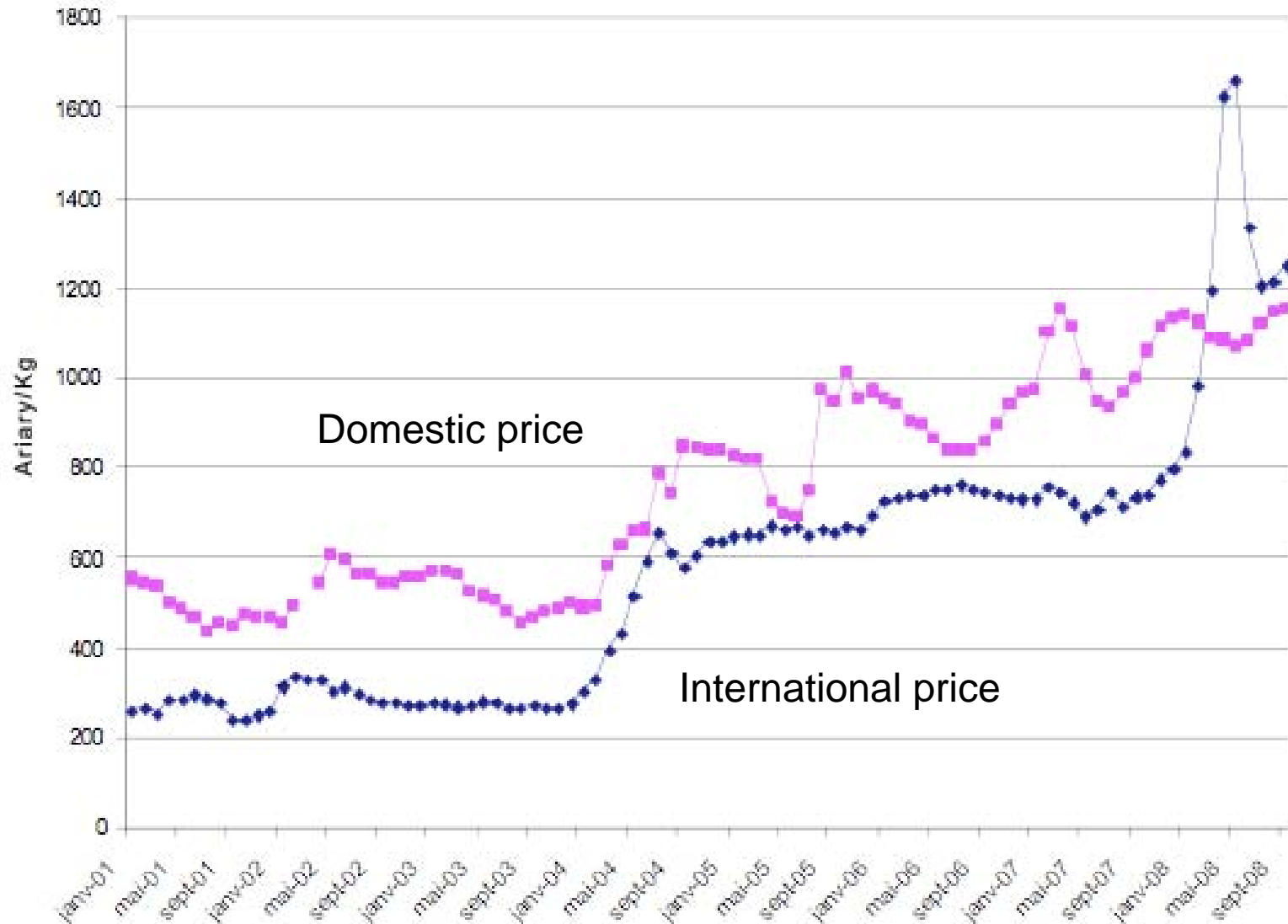
(2) High transmission contributes to domestic price instability: Rice in Senegal



(3) High level of domestic price volatility on non-traded staples: corn and millet in Niger



(4) High domestic price volatility of tradables even with low transmission: Rice in Madagascar



2. Major HLPE recommendations to address these four issues

- International prices movements
 - Issue No.1: Reduce price volatility
 - New WTO rules, regulate speculation
 - Issue No.2: Decrease the incidence of price spikes
 - Stocks policy, codify OECD demands for biofuels
 - Issue No.3: Counteract rising scarcities
 - Invest in sustainable agricultural growth
- Domestic price movements
 - Issue No.4: Reduce domestic price instability: Unwanted price transmission and internal price volatility
 - State roles in stabilizing prices
 - Comprehensive national approach to food security
 - New social safety nets

➔ Four issues and eight recommendations

Issue N°1: Reduce international price volatility

- Major causes
 - Global food markets are more integrated but easily re-fragmented: trade interventions
 - Speculation on futures markets

Recommendation 1: Build a food security-oriented trading system

- Need restore confidence in the role of international markets for food security
- WTO negotiations on agriculture were conceived and conducted in the context of structural overproduction (trade liberalization for exporters) ... and stalled (Doha)
- WTO negotiations need be reopened from the perspective of access to food for consumers in poor countries
 - Multilateral rules for disciplines on export restrictions, better respect of contractual obligations by commercial actors
 - Distinct rules for low-income food-deficit countries. Protect poor consumers from undue competition by rich consumers

Recommendation 2: Precautionary regulation of speculation

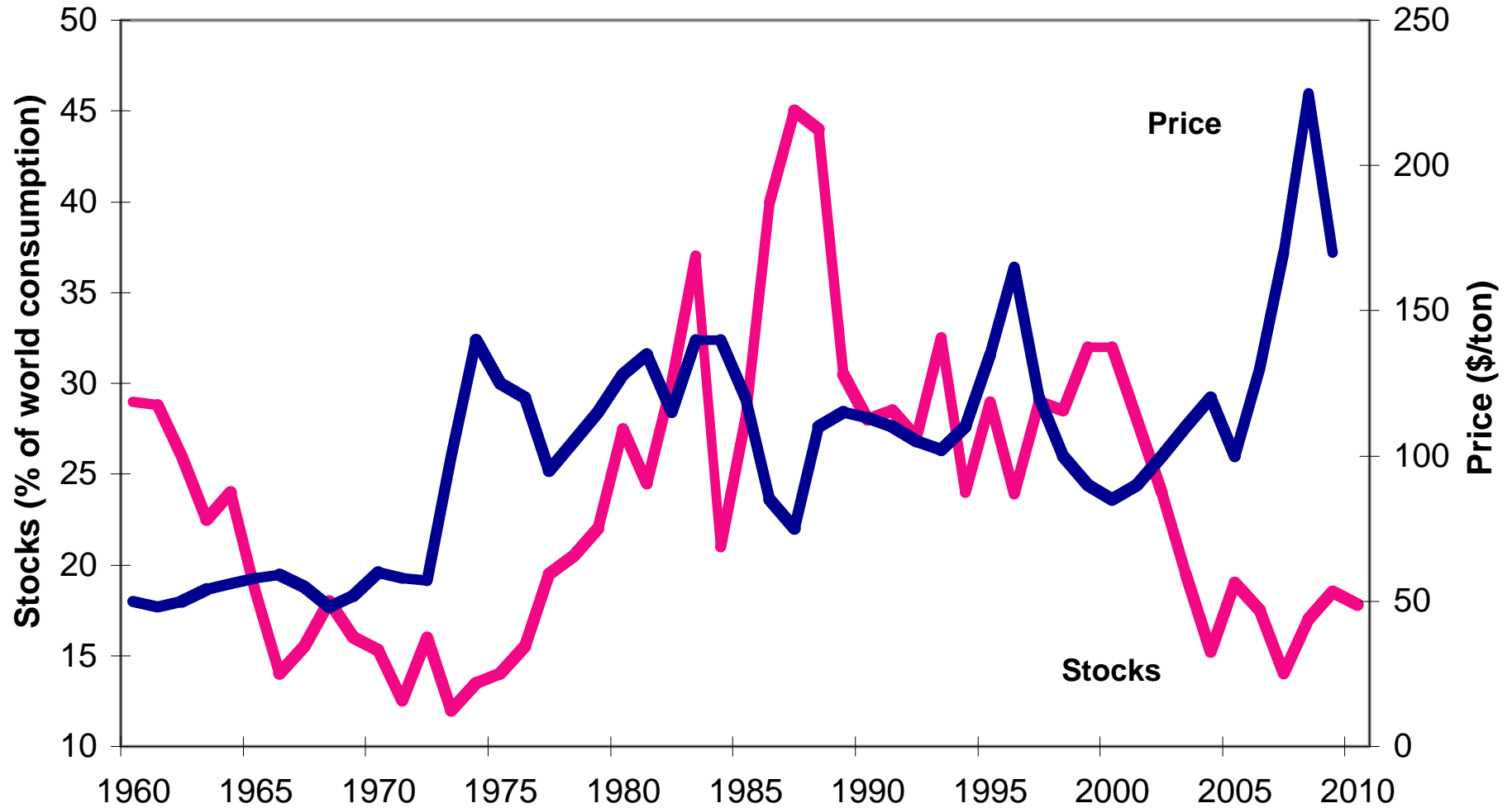
- Inconclusive evidence on the consequences of speculation on price volatility
 - But risks of bubbles and no clear benefit from speculators in term of risk management costs
- ➔ Need introduce tighter regulation at least as a precautionary measure:
- Increased transparency
 - Require exchange trading and clearing of most agricultural commodity contracts
 - Lower limits for non-commercial actors

Issue N° 2: Reduce the incidence of price spikes

- Major causes
 - Long cycles in world food stocks
 - Intrusion of energy demand in food markets

Counter cyclical movement of stocks and prices

World stocks and price of corn, 1960-20



Recommendation 3: Coordinate national storage policies

- Low level of world food stocks clearly associated with price spikes
- ➔ Need secure a minimum level of world food stocks for price stability
- Suggestions:
 - Increase transparency: organize a reporting system for traders (G20 AMIS)
 - Not try to set the price in a price band, but CFS provides guidelines for a minimum level of stock at the world level
- Need re-open the debate on coordination of storage policies

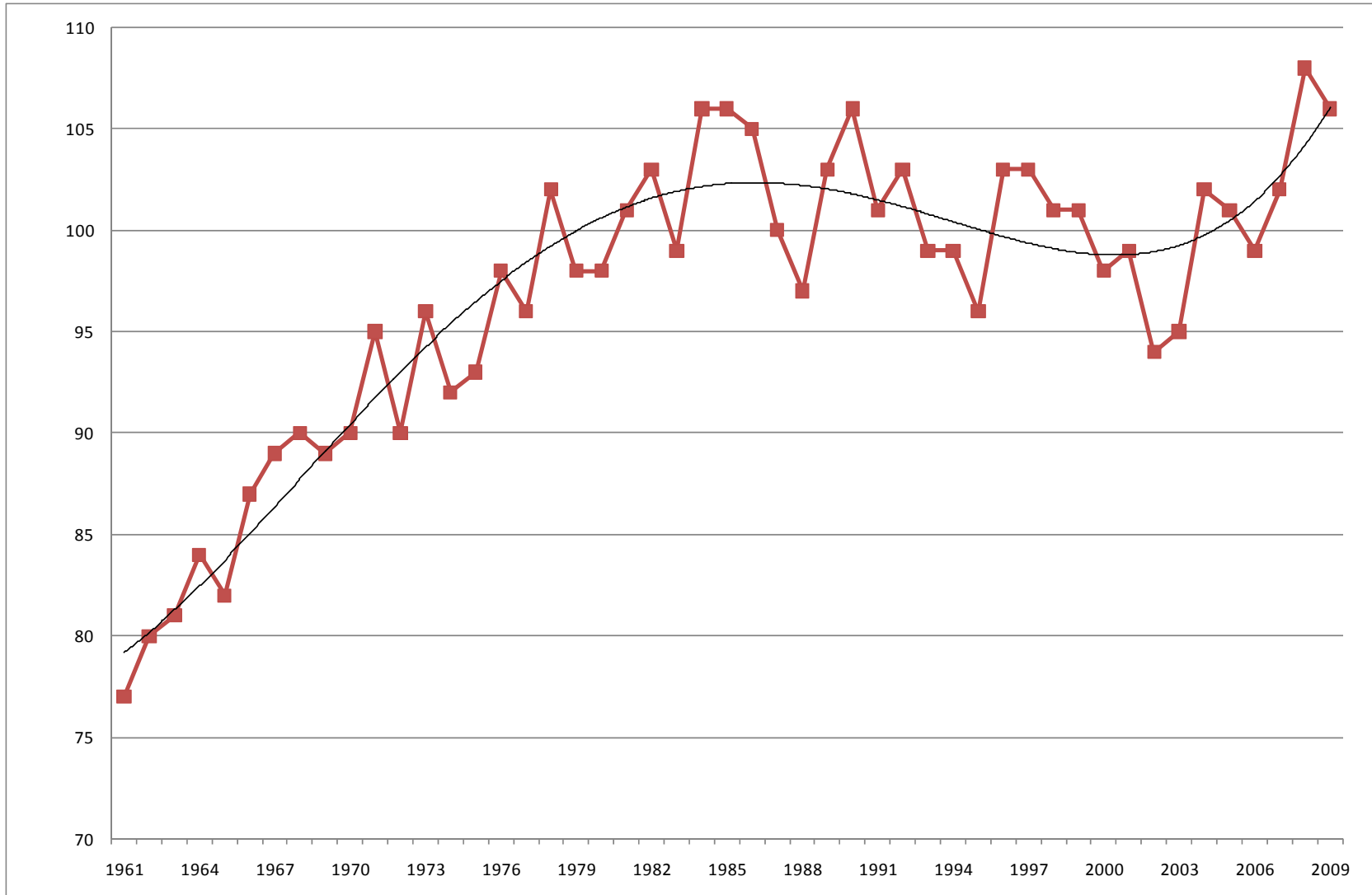
Recommendation 4: Curb developed countries' demand for food products

- Rich countries' demand for food grains as a source of energy crowds out poor people's demand
- Food demand in developed countries must be curbed when in conflict with poor countries food security
- Mandates and subsidies for biofuels should be coordinated to help stabilize world food prices instead of contributing to price spikes

Issue No.3: Counteract rising scarcities

- Major causes:
 - No Malthusian scarcities, but lags in adjusting supply to demand
 - In addition, past responses have been based on the mining of natural resources and fossil energy
 - Three major gaps:
 - Need a rapid aggregate response in food supply
 - Need a sustainable, resource-conserving, externality-internalizing approach to supply response
 - Need a targeted productivity revolution for Sub-Saharan Africa

Index of per capita World Cereal Production, 1961-2010: stagnant for 25 years before 2008 food crisis



Recommendation 5: Invest in research for both ecological agriculture and modern farming

- Need increase investment in sustainable agriculture for productivity growth, in context of climate change and resource scarcities
- Need reconcile two complementary approaches that have been unproductively opposed:
 - Agroecology for resource poor smallholders: IAASTD, de Schutter, NGOs
 - International agronomic research for more commercial smallholders and larger farms: WDR 2008, CGIAR, NARS, private sector
- Need internalize externalities
 - Full cost pricing in industrial agriculture, payments for environmental services, as part of the solution

Issue No. 4: Reduce domestic price instability

- Major causes:
 - Imported price volatility: international price, exchange rate, transactions costs
 - Domestic (endogenous) price volatility: natural shocks, cobweb phenomena, speculative bubbles, panics
 - Markets can give misleading signals
 - Price instability bad for both investors and consumers

Objectives and instruments in addressing domestic food security: Classificatory framework

Policies	Reduce price volatility	Manage price volatility	Cope with price volatility
Through the market	Make markets work better	Financial products Invest in agriculture	Emergency loans
Through the state	Intervene in markets	Productivity smallholders	Social safety nets
Through civil society		Producer organizations	Productive safety nets

Comprehensive Food Security Strategy

Pre-2008 approach to food security

HLPE proposal

Source: Extended from Frank Galtier

Recommendation No.6: Increase the role of the state in stabilizing domestic prices

Beyond market instruments and safety nets, a role for the state

- Pre-2008 food crisis (green)
 - Make markets work better
 - Financial products
 - Social safety nets
- HLPE emphasis at the national level (red)
 - National food security policy
 - More state intervention in markets to stabilize prices
 - Invest in agriculture
 - Productivity of smallholders for food security
 - Roles for civil society

Recommendation No.7: Design comprehensive food security strategies

- Food security is a multidimensional undertaking, requiring coordinated use of many policy instruments (e.g., Fome Zero, Brazil)
- A country needs a Food Security Strategy Paper (FSSP) by analogy with the PRSP
- The FSSP needs to be:
 - Informed by data collection and analysis
 - Rationalized in a Food Security Assessment with policy options
 - Broadly discussed and owned
 - Implemented by governments and donors

Recommendation No.8: Pursue new approaches to social safety nets

- Social safety nets are essential complements to state interventions to reduce price volatility and manage price risks
- Two major deficiencies of classical safety nets:
 - Do not work for poor rural populations (except school feeding): focus on subsistence farming as a cheap and effective safety net for the poorest rural and peri-urban
 - Are better for chronic poor than for vulnerable to poverty and transitory poor: flexible qualification and quick certification

3. POTENTIAL ROLE FOR CFS IN REDUCING THE INCIDENCE AND SEVERITY OF FOOD CRISES

- CFS could effectively serve as the highest governance body for world food security:
 - Inform on food security status: AMIS
 - Coordinate and guide policy responses to price shocks: code of conduct, Rapid Response Forum (G20)
 - Guide international cooperation on food stocks
 - Guide governments policies on biofuel mandates and subsidies in food security perspective
 - Receive donors' long term commitments to investment in food security and oversight
 - Guide governments on national food security strategies
 - Help reorient WTO's role on trade rules for food security

3. POTENTIAL ROLE FOR CFS IN REDUCING THE INCIDENCE AND SEVERITY OF FOOD CRISES

Can the world get organized to avoid recurrent food crises?

- Positive side of the story
 - With globalization, no food security without global governance
 - Multiple initiatives toward global governance
 - Reorganization of CFS: rare opportunity for global governance
 - Challenges
 - How will CFS respond when there is a crisis?
 - Will the CFS have authority over its members?
 - Can the CFS be heard without controlling resources?
- ➔ A chance at global governance for food security that needs to be recognized and assisted

3. POTENTIAL ROLE FOR CFS IN REDUCING THE INCIDENCE AND SEVERITY OF FOOD CRISES



www.fao.org/cfs/cfs-hlpe