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# HIGH FOOD PRICES

## The What, Who and How of Proposed Policy Actions

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Washington DC, May 28, 2008



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# Action Plan for Agricultural Production Growth

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Policy Seminar on “High Food Prices: The What, Who and How of Proposed Policy Actions”,  
Washington DC, USA, May 28, 2008

# Focus on Three Actions

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- 1. Initiate Fast-Impact Food Production Programs in Key Areas**
- 2. Change Biofuel Policies**
- 3. Boost Investments for Sustained Agricultural Growth**



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# 1. Undertake Fast-impact Food Production Programs in Key Areas

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- **Short-term action – access to seeds, fertilizers, credit for the small farm sector**
- **Procurement programs for small farmers - agricultural products guaranteed minimum prices that reflect long-term international market prices**
- **Targeted subsidy programs (seeds, fertilizers, irrigation, water) should**
  - **Focused on and limited to least-developed countries**
  - **Involve the private sector and facilitate a transition from initial “crash programs” to market-based arrangements**
  - **Timing and finance are crucial**
  - **Clearly defined and communicated exit strategies**
- **Higher yields rather than area expansion**



# 1. Undertake Fast-impact Food Production Programs in Key Areas

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## Expectation from these measures

- Fast-impact production programs
  - Jump-start agricultural growth in the short term
  - Create income earning opportunities during the crisis
  - Lower prices

## Key actors

- Donors, regional organizations: African Union, New Partnership for Africa's Development (NEPAD), NGOs, Civil society organizations

## Action most relevant

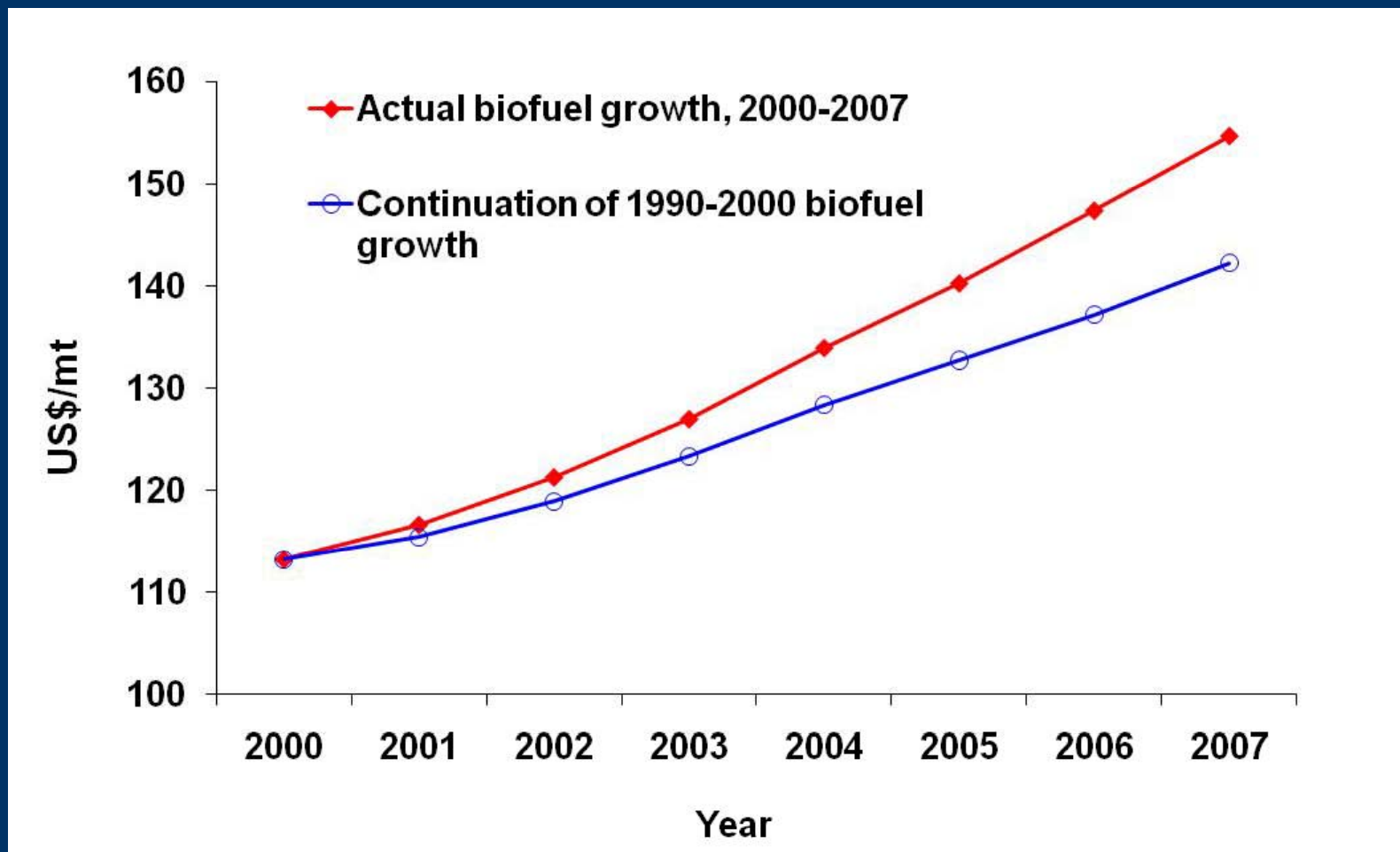
- Sub-Saharan Africa, selected Asian countries

## Risks

- Establishing long term subsidy programs that distort incentives and divert funding from more productive investments



## Simulated Real Grain Prices, 2000-2007 (US\$/metric ton)



**Note: Grain price is the production-weighted average of rice, wheat, maize, and other coarse grains**

**Source: IFPRI IMPACT**

## 2. Change Biofuel Policies

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- **Develop measures to make more grains and oilseeds currently used for fuel available for food and feed**
  - **Freezing biofuel production at current levels, reducing it, or imposing a moratorium for biofuels based on grains and oilseeds**
    - **Moratorium is not costless; may require compensating investors**
    - **Remove blending mandates, import tariffs, and biofuel blending subsidies in US and Europe**
    - **More support should go toward developing bioenergy technologies that do not compete with food**



## 2. Change Biofuel Policies

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### Expectation from these measures

- May bring maize prices down by about 20% and decrease wheat prices by about 10%

### Key actors

- OECD; others that moved heavily into grain- and oilseed-based biofuels

### Action most relevant

- Global impact; Asia, Sub-Saharan Africa, and Central America

### Risk

- May discourage investment in second generation biofuels due to reversal of fundamental industry policies





### **3. Scale up Investments for Sustained Agricultural Growth**

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- **Expanded public spending for rural infrastructure, services, agricultural research, science, and technology**
- **Crop management: water harvesting, minimum tillage, integrated soil fertility management**
- **New and innovative crop insurance mechanisms**
  - **Information technology, improved weather data, and expected high returns to insurance**
- **Need an additional \$15-20 billion per year in public investments in agriculture**



# 3. Scale up Investments for Sustained Agricultural Growth

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## Expectations from these measures

- Agricultural growth and poverty reduction in both rural and urban areas through increased production and employment and lower food prices

## Key actors

- Developing country governments, donors, regional organizations, foundations, and the private sector

## Action most relevant

- Asia, Sub-Saharan Africa, Latin America

## Risks

- Absorptive capacity to spend money effectively
- Diversion of funding from intended purposes



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# Action Plan for agricultural trade and for calming the markets

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Washington DC, May 28, 2008

# Focus on Three Actions

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- 1. Eliminate agricultural export bans and export restrictions**
- 2. Calm markets with the use of market-oriented regulation**
- 3. Complete the Doha Round of World Trade Organization (WTO) negotiations**



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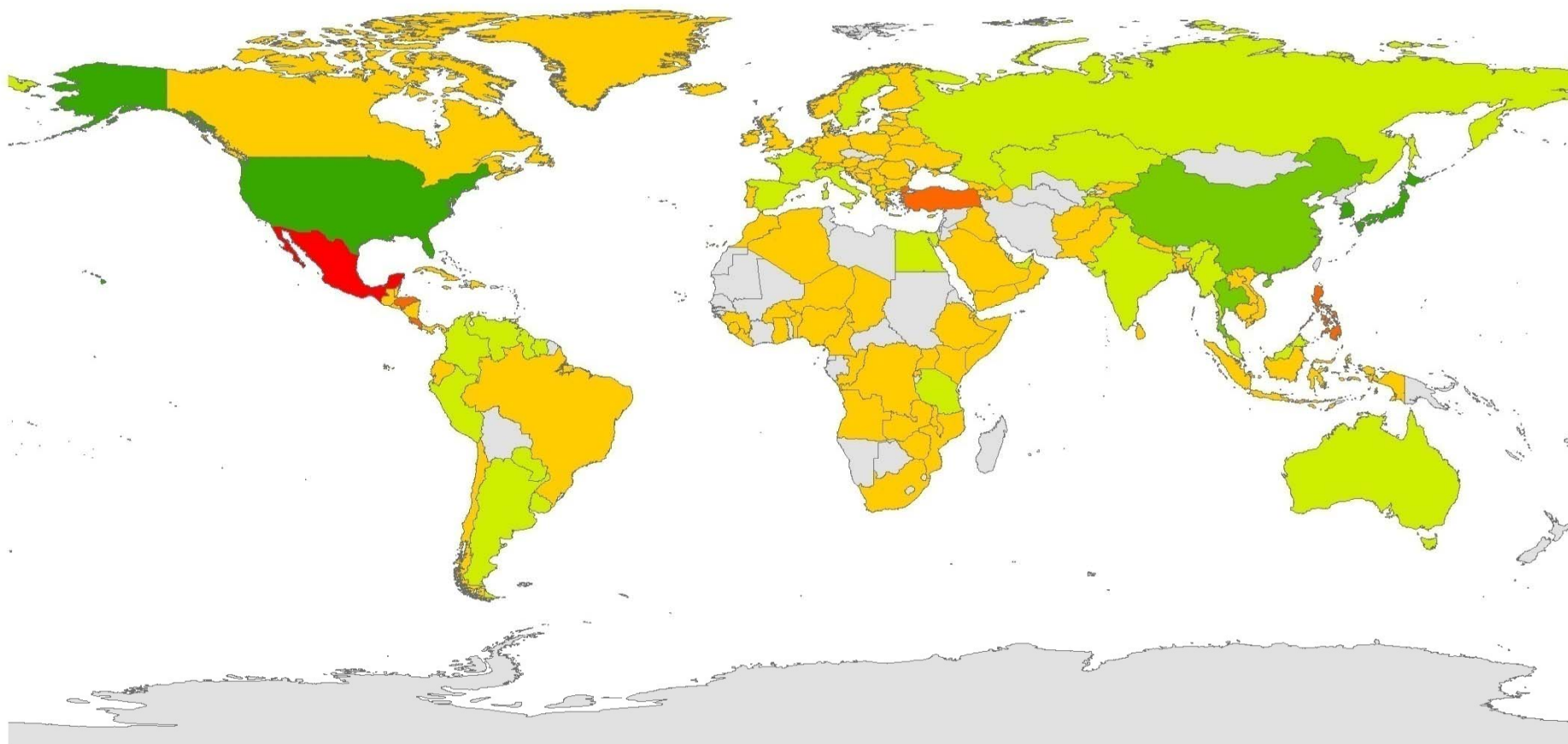
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# 1. Eliminate Agricultural Export Bans and Export Restrictions: WHY?

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- In the recent past, export bans, export taxes and export quantitative restrictions for selected products were imposed for example by:
  - Argentina
  - Cambodia
  - China
  - Egypt
  - Ethiopia
  - India
  - Malaysia
  - Kazakhstan
  - Pakistan
  - Russia
  - Vietnam
  - Zambia
  - Serbia
  - etc.
- Simulations with MIRAGE show this could be explaining around 30% of the current price increases











**Legend**

**RICE 2005**

**EXPORT - IMPORT (1000 TONS)**

-  -668 - -300
-  -299 - -100
-  -99 - 0
-  1 - 50
-  51 - 100
-  101 - 1986

Source: FAO

# 1. Eliminate Agricultural Export Bans and Export Restrictions: HOW?

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- The problem of export bans cannot be addressed country by country
- This issue should not be added to the WTO Doha Round
- This should be addressed by an ad hoc forum of global players negotiating according to a code of conduct and in spirit of mutual building
- At the very least, export trade for humanitarian purposes should be reopened now even before a forum is convened



# 1. Eliminate Agricultural Export Bans and Export Restrictions: WHAT, WHO and WHERE?

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- **WHAT** could be expected from these measures:
  - Stabilize grain price fluctuations
  - Reduce price levels by as much as 30%
  - Enhance efficiency of agricultural production
- **WHO** will be the key actors:
  - G8+5 and sub regional organizations
- **WHERE** is the action more relevant:
  - Mainly on countries which control major exports





## 2. Calm Markets with the Use of Market-oriented Regulation: Why?

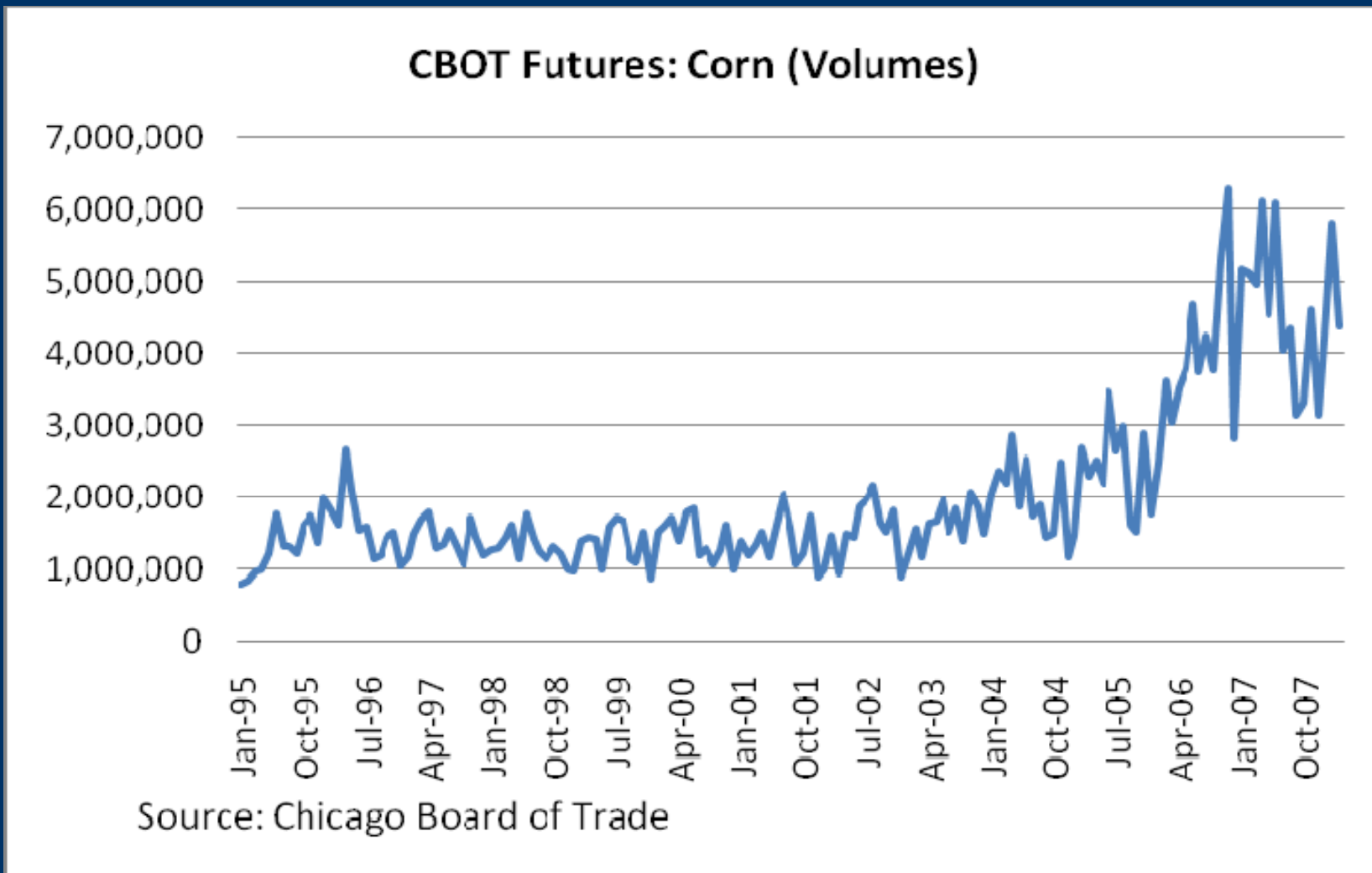
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- **Basics of price trends:**
  - supply & demand
  - rising expectations
  - market behavior e.g. speculation & hoarding
- **In 2007, volume of globally traded grain futures & options ▲ by 33 & 48%**  
(Chicago Board of Trade)
- **Governments increasingly curb hoarding (e.g. India, Pakistan, Philippines)**

**Commodity exchanges can help create fair, orderly, and efficient food markets**

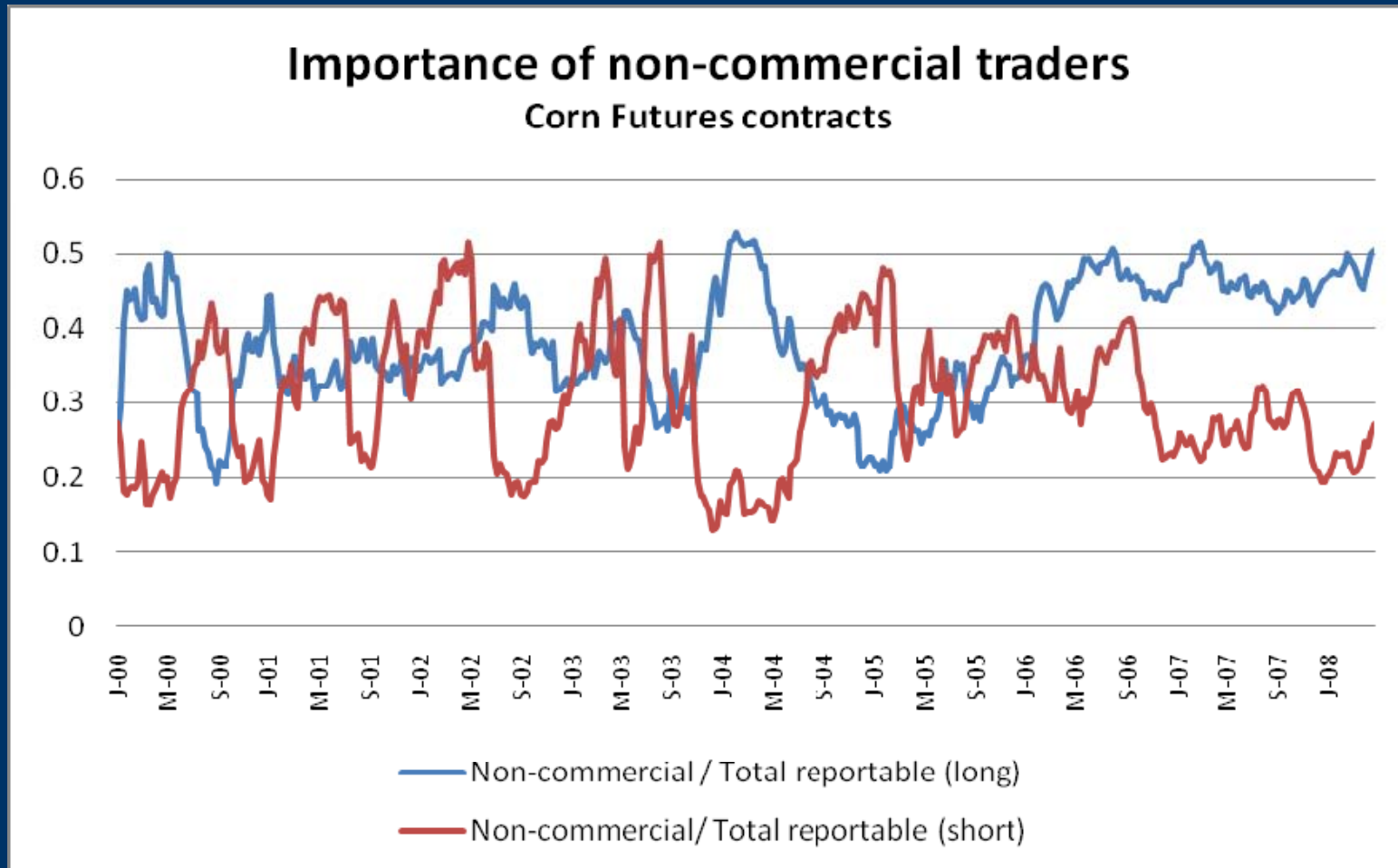


## 2. Calm Markets with the Use of Market-oriented Regulation: Why?



SOURCE: U.S. Commodity Futures Trading Commission

## 2. Calm Markets with the Use of Market-oriented Regulation: Why?



SOURCE: U.S. Commodity Futures Trading Commission

COMMODITY: CORN - CHICAGO BOARD OF TRADE; 5,000 BUSHELS (contract code 2602)

Description: the graph shows the total number of long/short positions by non-commercial traders as a fraction (vertical axis) of the total reportable long positions (commercial + non-commercial)

## 2. Calm Markets with the Use of Market-oriented Regulation: How?

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- A coordinated set of pledges for a modest grain reserve to be made by the main grain-producing countries should be established at global or regional levels
- A global intelligence network should be put in place
- The Food Aid Convention should be renegotiated and reformed, while current grain delivery and cash commitments should be expanded
- An accompanying option could be a finance facility, provided by the International Monetary Fund (IMF), for imports by countries in food emergencies



## 2. Calm Markets with the Use of Market-oriented Regulation: WHAT, WHO and WHERE?

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- **WHAT** could be expected from these measures:
  - Access to food supplies for countries with deficits
  - Help contain the speculative expectations
  - Costs and benefits need to be carefully weighed
- **WHO** will be the key actors:
  - The IMF, OECD countries, subregional organizations, and commodity exchanges
- **WHERE** is the action more relevant:
  - Latin America, Sub-Saharan Africa, North Africa, and the Middle East.



### 3. Complete the Doha Round of World Trade Organization (WTO) Negotiations: Why and How?

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- A world short in supply and facing regional and country-specific fluctuations needs **more** options to trade, not less
- It should be easier for countries to agree to lower agricultural tariffs when market prices, especially for sensitive commodities, are high
- The EU has already eliminated its applied tariffs on cereals, but it has not yet decreased its bound tariffs, which means that there is no certainty about these levels in the long term
- Major problem is that policymakers in developed countries want to keep their options open in case prices fall
- The current price situation should be viewed as an opportunity



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### 3. Complete the Doha Round of World Trade Organization (WTO) Negotiations: WHAT, WHO and WHERE?

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- **WHAT** could be expected from these measures:
  - They would lead to more fair and open trade, more efficient resource use, and higher welfare for people in developing countries
    - They would also have a stabilizing effect on agricultural prices and help prevent future crises.
- **WHO** will be the key actors:
  - The WTO and OECD countries
- **WHERE** is the action more relevant:
  - Global impact; Asia, Sub-Saharan Africa, and Latin America





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# Social Protection

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Washington DC, May 28, 2008



# A Quiet Crisis

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- **Faced with a price shock of this magnitude, the poor are forced to adopt coping strategies. While averting hunger in the short term, these risk irreversible consequences:**
  - **Loss of productive capital**
  - **Children withdrawn from school**
  - **Increased levels of malnutrition**



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# The Role of Social Protection ...

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- ... is to avert this quiet crisis by
  - ***Protective actions*** that mitigate short-term risks
  - ***Preventative actions*** to preclude these longer-term negative consequences



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# Protective Social Protection

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Two components:

- Finance the global safety net
- Strengthen national responses



# Preventative Social Protection

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## Three components:

- **Preserve the productive capital of the poor**
- **Ensure children stay in school**
- **Prevent malnutrition**



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