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Food price spikes put the spotlight on the need for sustained commitment to agriculture

Barcelona, Spain – May 31, 2010 – Experts in the fields of agriculture and international trade analyzed the 2007-08 food price spikes and arrived at recommendations for policy responses to potential future spikes in agricultural prices during a seminar held by the International Food & Agricultural Trade Policy Council (IPC), the International Centre for Trade and Sustainable Development (ICTSD), and the University of Barcelona (UB). The seminar, "Agricultural Price Volatility: Prospects, Challenges, and Possible Solutions," took place on May 26 – May 27, 2010 at the Historic Barcelona Chamber of Commerce Building, the Casa Llotja de Mar. Seminar participants included distinguished representatives of governments, the private sector and civil society, international institutions and academia from around the globe.

This seminar provided a timely debate on the issue of agricultural price volatility, an issue which came to the foreground of public policy and international development during the food crisis of 2007 - 08, and which has continued to stay in the headlines, with many concerned about price volatility increasing in the future.

The large increase in biofuel production and a widespread implementation of export restrictions were identified as important factors that built upon the longer term trend of increasing demand for food due to population and income growth coupled with a decline in agricultural investment. Panelists emphasized that price volatility in itself is not necessarily a problem, as it provides valuable market signals that provide necessary information to farmers about what and how much to produce. However, extreme price volatility can be devastating in terms of public policy goals, especially in developing countries. Speakers also emphasized that prior to the recent food price spikes, prices had been undergoing a long term decline for several decades, which were particularly problematic for producers in developing countries.

"Demand and supply factors are bridged by changes in prices," stated IPC Chairperson Carlo Trojan, "and as such send important signals to producers. Sudden and drastic price changes, however, cause significant challenges, in particular to the world's poorest who can spend up to 70% of their very low incomes on food."

"Price volatility is a life-and-death issue for many people around the world" warned ICTSD Senior Fellow Sergio Marchi. "Trade policies need to incentivise investment in developing country agriculture, so that poor farmers can build resistance to future price shocks".

Recommendations encompassed both longer term as well as more immediate policy responses to sharp volatility:

- A sustained, long term commitment to agricultural investment is required in order to ensure ongoing productivity growth and poverty alleviation – both important factors for achieving greater food security.
- Developing country governments, donors and international organizations must focus on improving social safety nets to protect the poor during price spikes. Although such systems require scarce financial resources, they are in the long run less costly, more effective and targeted than emergency measures imposed during a price spike.
- The widespread resort to export restrictions and price controls during the 2007 - 08 food crisis created further panic in the international markets and sent the wrong signal to agricultural producers. GATT/WTO rules on agricultural export restrictions need to be improved to offer greater supply assurances to net food importing countries.
- The international community should continue to seek ongoing reforms to the still heavily distorted agricultural trade system to improve the incentive structure for increased agricultural production in developing countries. Regional and international trade also plays a stabilizing factor, helping with the management of steep price volatility.
- Low stocks clearly exacerbate price shocks. Although stocks are difficult to manage and costly, and past attempts to have international reserves influence markets were not successful, participants agreed that reserves at the national and regional level for net food importers can smooth the impact of price shocks on the consumption side. Moreover, the need for greater transparency on stock levels was emphasized.
- A growth in biofuel production triggered by ambitious mandates and subsidies and/or an increasing oil price risks more firmly linking the price of food to the price of energy. Participants emphasized the need to ensure that agricultural feedstocks can be diverted away from biofuel production towards food and feed use.
- Developed country producers, are clearly also affected by steep price changes, in particular sharp price drops. Agricultural policies in the EU as in other OECD countries, will continue to place emphasis on risk management, but must do so in a context of shrinking government budgets and be vigilant that such measures are non distorting.
- The financialization of commodity markets likely played a role in the recent price spikes, but potential reforms should be carefully considered so as not to jeopardize the crucial role played by futures markets in price discovery.

Sponsorship of this seminar was provided by the Catalan Department of Agriculture, Food and Rural Development, the Barcelona Chamber of Commerce, and the Barcelona City Council.

Additional information about the seminar, including the full agenda, background briefs, and panelist presentations, can be found at www.agritrade.org/events/2010Spring_Seminar_AgPriceVolatility.html.

Background Briefs written for the conference include:

- "FAO's Long-term Outlook for Global Agriculture - Challenges, Trends and Drivers" by Josef Schmidhuber
- "Alternative Mechanisms to Reduce Food Price Volatility and Price Spikes" by Maximo Torero and Joachim von Braun
- "Recent Agricultural Price Volatility and the Role of Grain Stocks" by Brian Wright
- "Price Volatility and Border Measures" by Alberto Valdés
- "How Can Policy Underpin Farmers' Risk Management Strategies" by Jesús Antón

About the Host Organizations:

The International Food & Agricultural Trade Policy Council promotes a more open and equitable global food system by pursuing pragmatic trade and development policies in food and agriculture to meet the world's growing needs. IPC convenes influential policy makers, agribusiness executives, farm leaders, and academics from developed and developing countries to clarify complex issues, build consensus, and advocate policies to decision-makers. More information on the organization and its membership can be found on our website: www.agritrade.org.

The International Centre for Trade and Sustainable Development (ICTSD) is a non-governmental organization, based in Geneva, which - by empowering stakeholders in trade policy through information, networking, dialogue, well-targeted research, and capacity building - seeks to influence the international trade system such that it advances the goal of sustainable development. www.ictsd.org.