

A wide, horizontal photograph of a rural landscape. On the left, there is a red barn with a dark roof. In the foreground, there is a green field. On the right, there is a golden field with several large, round hay bales. The sky is blue with white clouds.

# **Price Volatility, Food Insecurity**

## **The need for international policy coordination?**

Carmel Cahill  
OECD Trade and Agriculture Directorate

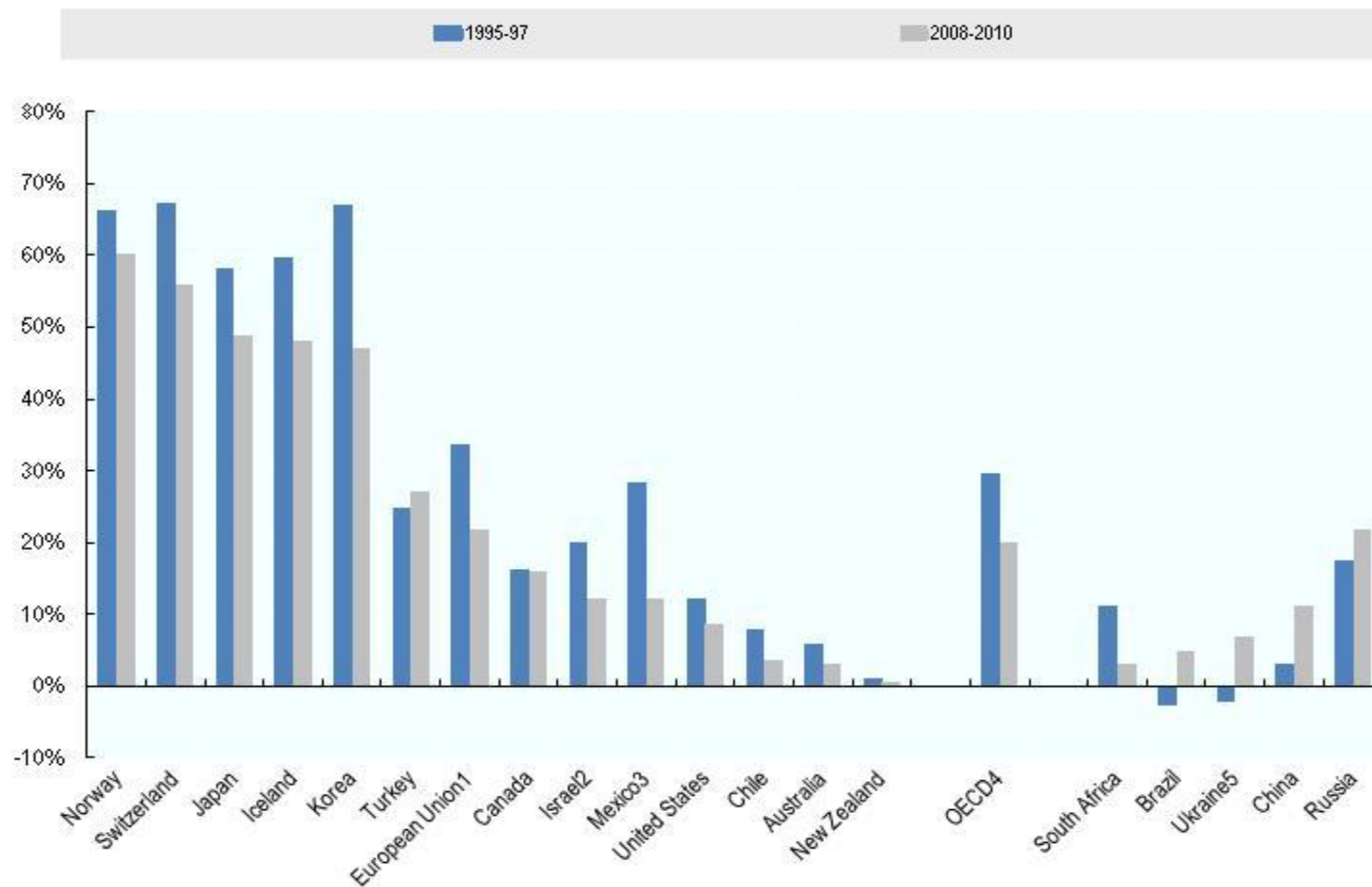
Global Forum on Agriculture,  
Paris, November 28<sup>th</sup> 2011

# Outline

- 1. The scale and scope of policy intervention in food and agriculture**
- 2. The policy dimensions in recent episodes of high and volatile prices**
  - Underlying, longer term
  - Short-term responses/policy shocks
- 3. The potential for international coordination**

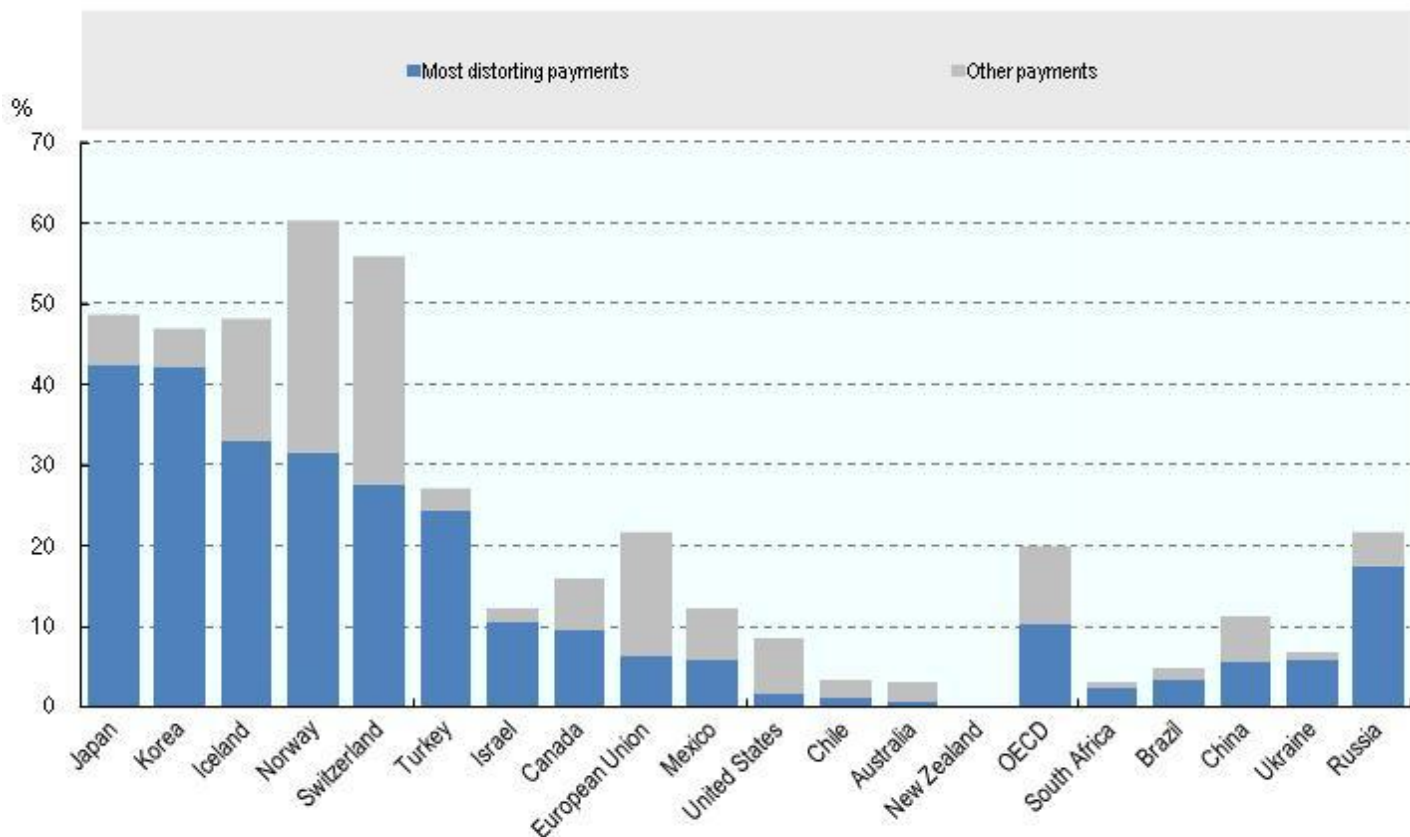
# Support to agriculture varies across countries

## Producer support as % of farm receipts



# Most distorting forms of support still important in most countries

Producer support estimate 2010 as % of farm receipts



Most distorting: price- and output linked support and payments based on (unconstrained) input use

# Salient features of trade policy measures in food and agriculture (OECD and major emerging economies)

- **Bound and applied tariffs on agricultural products almost always higher and sometimes much higher than on non-agricultural products**
- **Gap between bound and applied agricultural tariffs is often very large (notable exceptions are China, EU, Japan, Korea, US)**
- **High incidence of exceptionally high tariffs, ( $\geq 15\%$  applied MFN), in agriculture (notably China, EU, India, Korea, Mexico)**
- **All creating wide scope for pro-cyclical trade policy responses**

## 2 Policy factors contributing to recent high and volatile prices

### Underlying/longer term

- Policy reforms that have reduced/dismantled public stocks
- Policy induced demand for agricultural commodities for biofuel feedstocks

### Short term/policy shocks

- Pro-cyclical trade policy reactions
  - Reducing/removing tariffs
  - Export taxes and restrictions
- Panic buying/hoarding by governments or state owned enterprises
- Attempts at price controls

# Reducing policy conflicts between food and fuel

- **Policy induced demand for agricultural commodities for use in biofuels has added to the underlying supply-demand tensions and to higher prices**
- **Mandates – by creating demand that is totally inelastic to price – have added to volatility**
- **Use of agricultural commodities for biofuels has contributed to low stock-to-use ratios and hence to volatility**

# Pro-cyclical trade measures during the 2008/09 crisis - imports

- Tariffs have been operated like variable levies – coming down when prices are high and increasing when prices are low – this added to volatility
- The uncertainty created is disruptive to markets and impedes the development of smooth, deep, international markets that can supply reliably
- But the impacts on domestic prices were short-lived as the potential to reduce tariffs was quickly exhausted.
- Some countries experienced fiscal problems that reduced their “policy space”

# Pro-cyclical trade measures during the 2008/09 crisis – exports

- **Between 2007 and end March 2011, 33 countries implemented 87 export restricting measures. (Database in development at OECD)**
- **Domestic effectiveness varied but impacts were often relatively minor**
- **Major destabilising effects on international markets and domino effects leading to**
  - **Higher prices**
  - **Panic buying by governments and state owned enterprises**
  - **Poorest countries and humanitarian organisations were hard hit**

# RICE!!!!!!

An entirely policy-induced crisis

### **3 International coordination – how can it make a difference?**

- **By improving the information basis, better defining the degree and urgency of a problem (AMIS)**
- **By recognising national sovereignty in food security matters – dialogue and persuasion, not coercion**
- **A forum to explore the full range of possible policy responses and to exchange experiences**

# Some examples - biofuels

## Recommendations of the IOs to the G20,

- **Remove subsidies and mandates on biofuels production and consumption**
- **Open international trade in biofuels and their feedstocks**
- **Accelerate research on advanced biofuels**

# But failing that .....

## Introduce temporary flexibility in implementation of biofuels policies

- Suspend or weaken mandates
- Reduce/eliminate current subsidies (on production or consumption)
- Develop a system of call options

All of these mechanisms would require agreed trigger mechanisms and coordinated implementation to be effective and avoid slippage

# Trade policy – import measures

- **An agreement on The Doha Development Agenda negotiations target would eliminate much of the scope for pro-cyclical trade policy responses**
- **In the absence of an agreement key countries could agree on restraint in the use of pro-cyclical trade policy measures.**
- **This too would require dialogue and coordination**

# Trade policy – export measures

## International dialogue and coordination leading to strengthened definitions and procedures on a voluntary basis

- Work towards defining the parameters of a crisis justifying consideration of export restrictions
- Agree that any measures be “time-limited” and “last resort”
- Always accompanied by other measures - safety-nets for the most vulnerable - and only implemented when these have been exhausted
- Strengthen consultation and dialogue between major market players and those likely to be affected

# OECD Trade and Agriculture Directorate



[www.oecd.org/agriculture](http://www.oecd.org/agriculture)

**E-mail:** [tad.contact@oecd.org](mailto:tad.contact@oecd.org)

**Follow us on Twitter:** [@OECDagriculture](https://twitter.com/OECDagriculture)