



European Commission
Agriculture and Rural Development



*Food Commodities and Price Spikes:
Assessing the causes, identifying the responses*

*Session on “Institutions and Policies to manage global market risks...”
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Outline

- ***The global context of the current food commodity price spike***
- ***The EU context of the commodity price spike***
- ***Policy responses and implications***



Searching for the causes of the food price spike

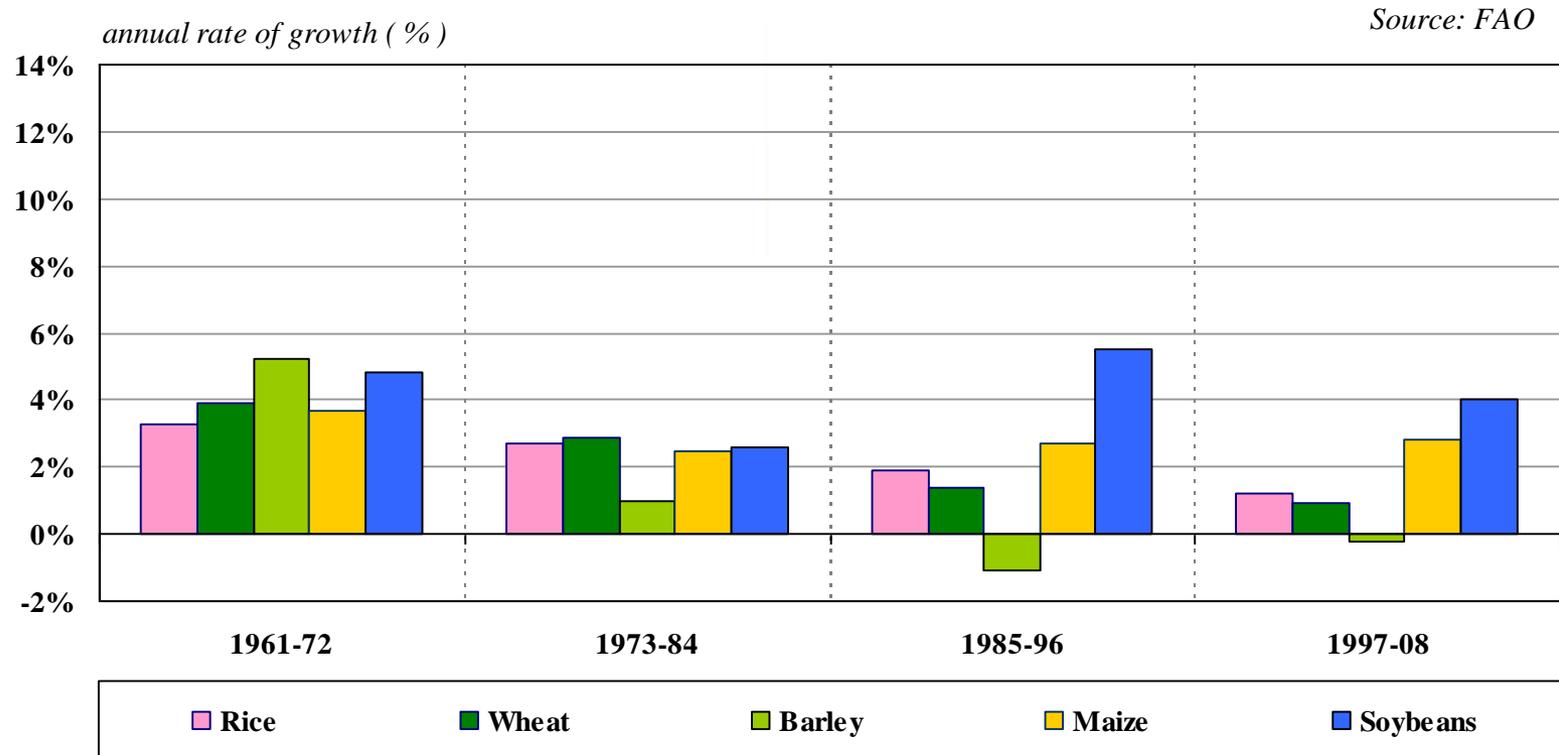
- ***It was is not so much about stronger food demand***
 - In most cases, demand growth has either slowed down (grains, soybeans, meats)...
 - ... or demand is still growing at past trends (maize and vegetable oils)
 - Future food demand needs are not greater than past challenges (when math is done)

- ***Supply response exhibits mixed patterns across commodities***
 - Yield growth patterns are very mixed among crops, and among countries
 - In livestock, supply response has so far been greater than demand growth
 - Supply shocks are not unknown in agriculture!

- ***The really new story is the parallel boom in all commodities***
 - Link of agricultural price developments to energy (or minerals) introduces new risks
 - Are farm price signals linked to farm fundamentals?
 - What could be trivial to overall economy is big for agriculture (e.g. role of funds)!

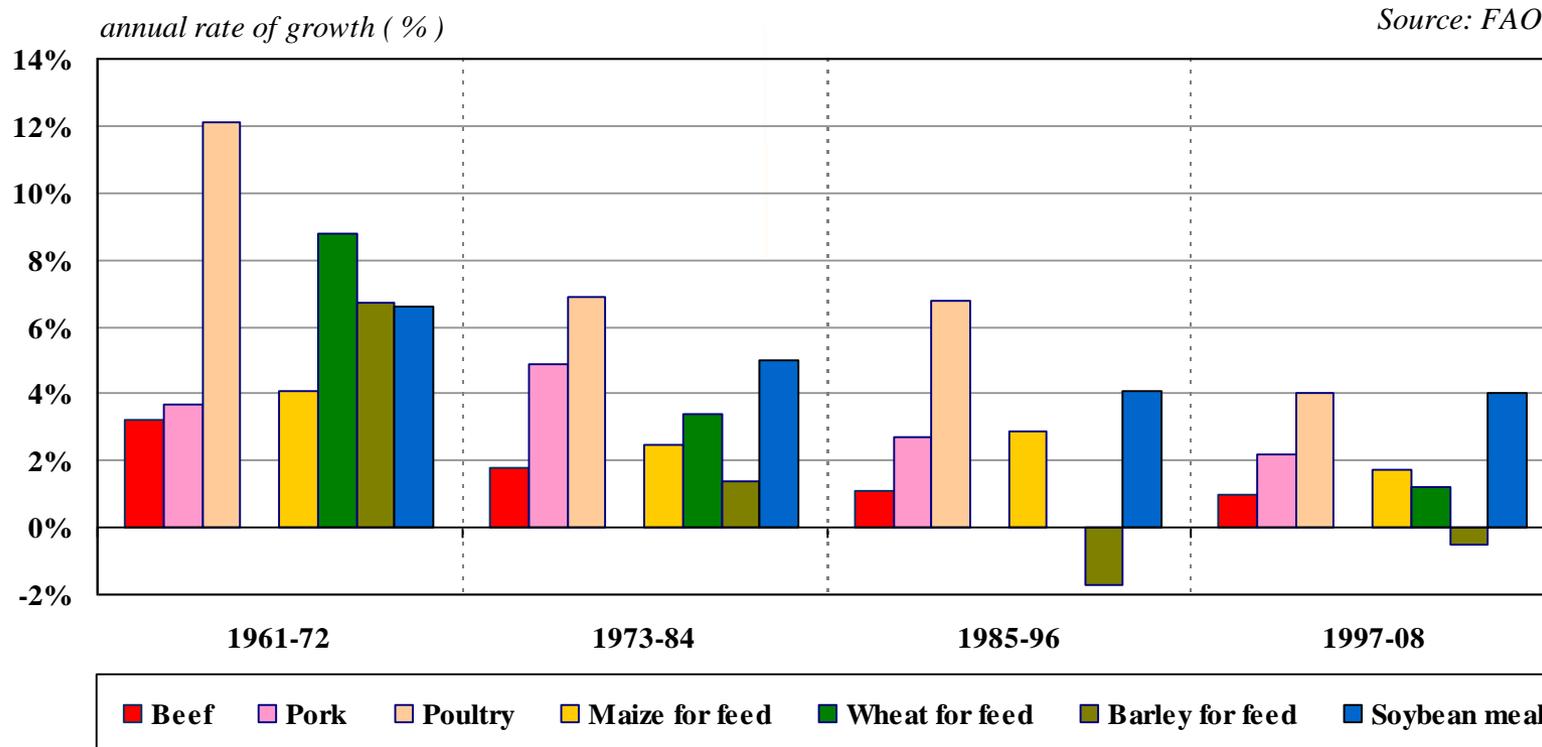


Total grain demand growth



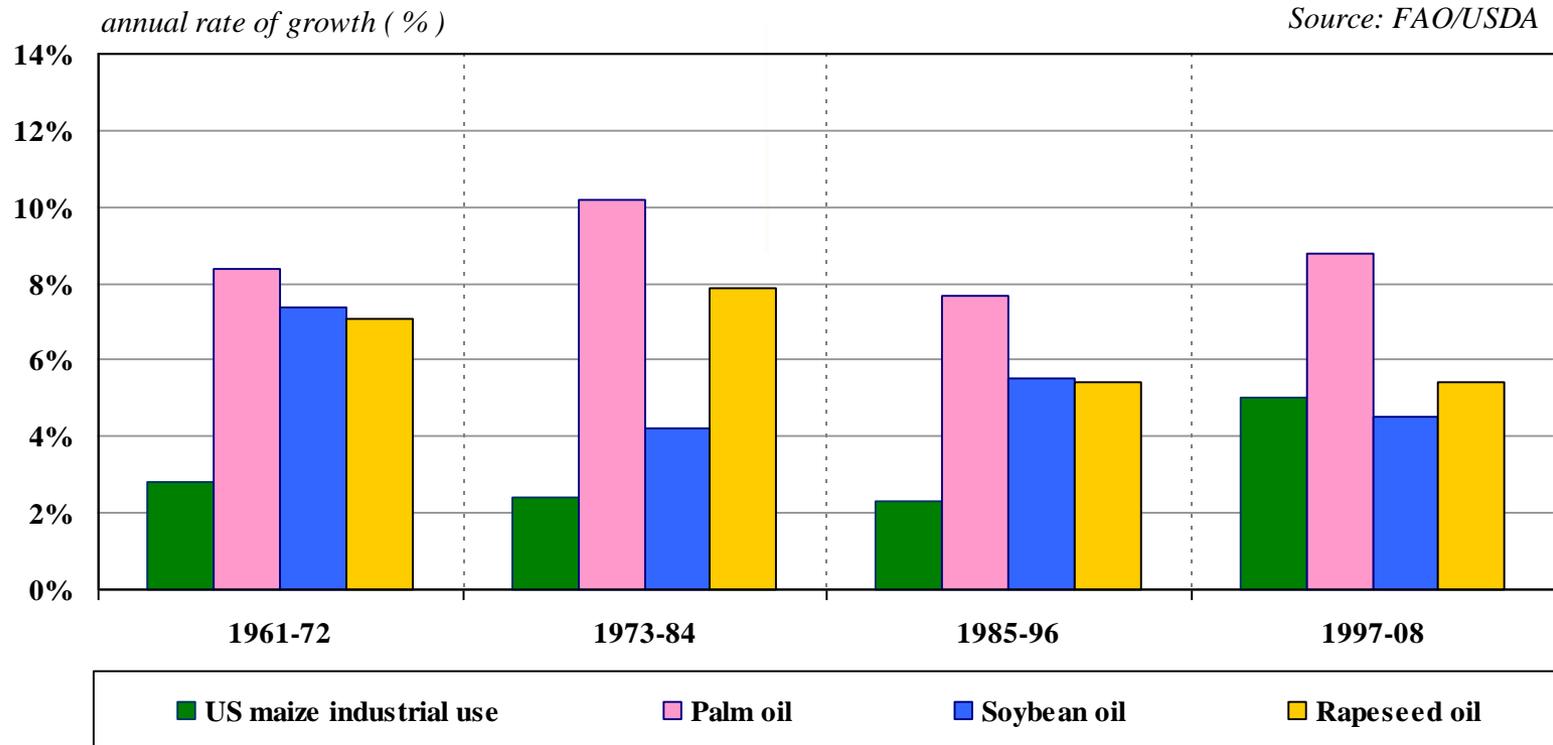


Meat and feed demand growth





Ethanol and edible oil use





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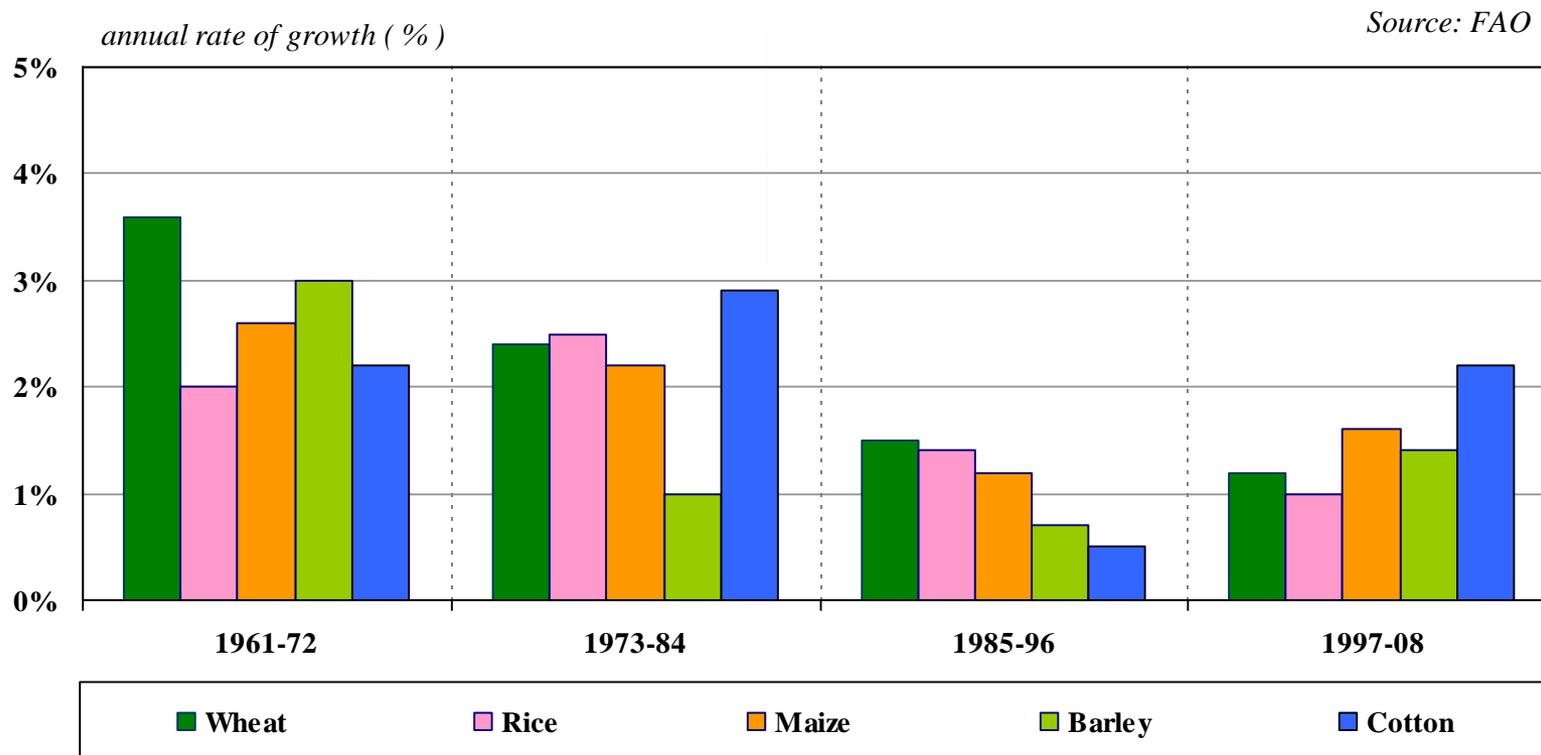
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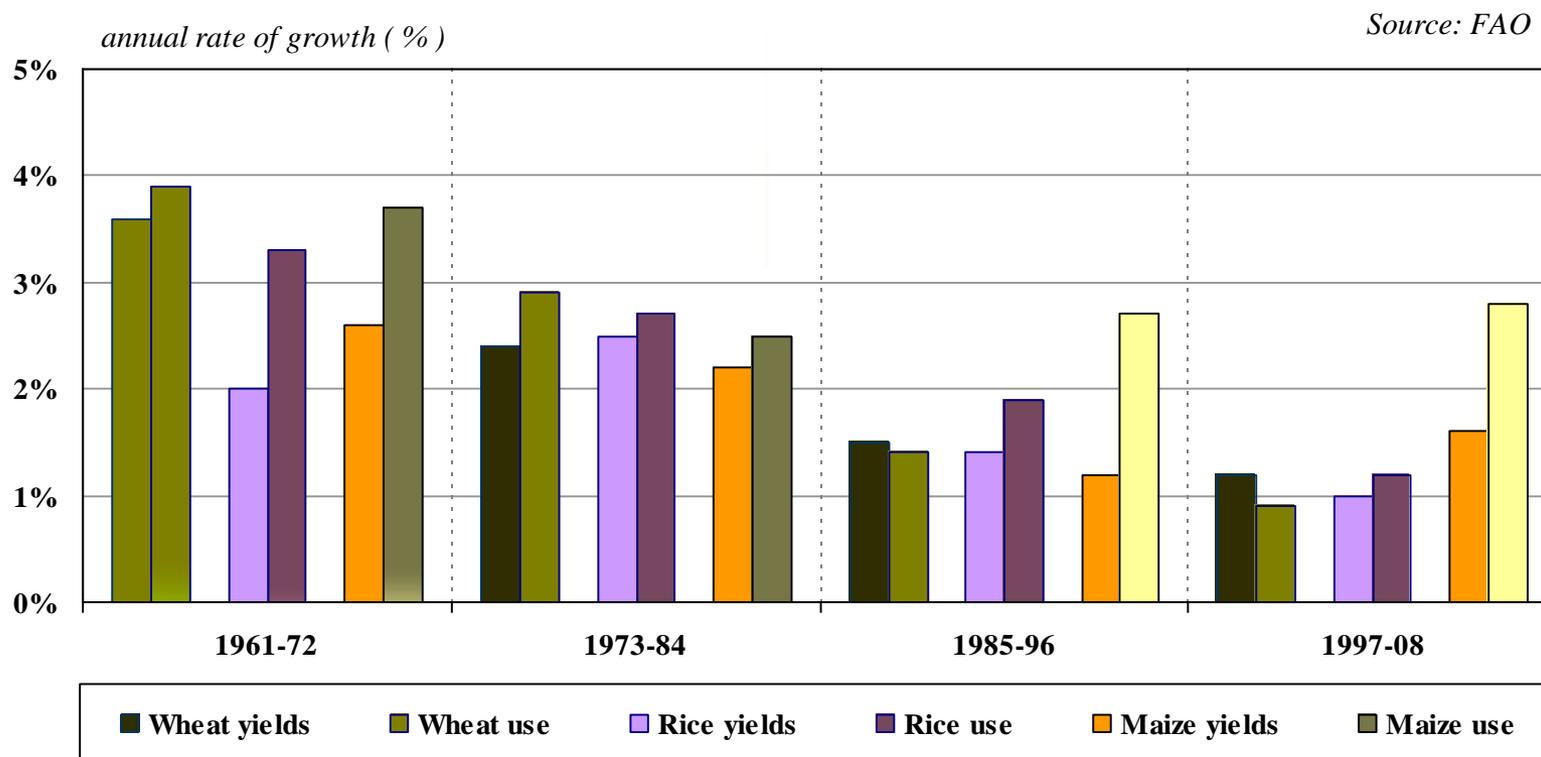


Crop yield growth





Yield compared to demand growth





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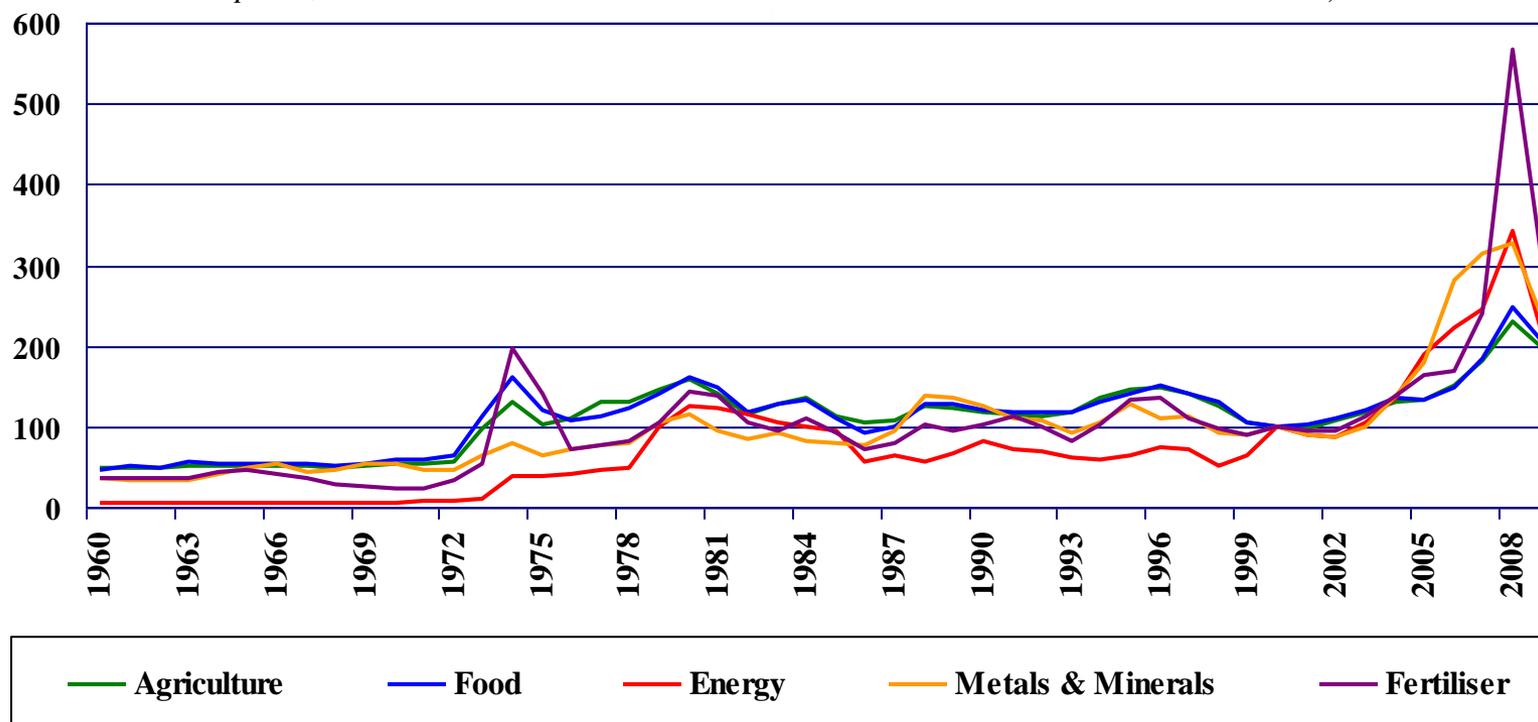
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The recent roller-coaster of commodity prices

in current prices, 2000=100

Source: World Bank, December 2009





Functioning of the EU supply chain (COM 821)

- ***Link of food consumer prices to food commodity prices***
 - “rockets and feathers” – consumer prices fast to increase, but slow to come down!
- ***Tensions in contractual relations among food chain actors***
 - Prospects for food processing and food retail clearly better than agricultural sector
- ***Clear lack of price transparency in food supply chain***
 - Do futures markets still play essential role in hedging and price discovery?
- ***Low and limited link between farm commodity and food prices***
 - Low price transmission is complex phenomenon with different reasons
- ***Dairy developments show different trends on gross margins***
 - Food industry seems to maintain margins, unlike other actors in the food chain



EU policy responses should address real problem

- ***Do we want to limit price volatility by fixing prices?***
 - High price support was tried and failed ; safety-net price level could still be useful
- ***Do we want to limit price volatility by fixing quantities?***
 - Was also tried and failed , even in a context of less flexible supply response needs
- ***Do we want to stabilise farm market revenue?***
 - Schemes exist, but fail to capture impact of increasing costs
- ***Do we want to minimise farm income variability?***
 - Decoupled support does this, despite its limitations
- ***Do we want some alternative income safety-net?***
 - Could also work, but probably with higher administrative costs



Global policy responses should also be focused

- ***Do we believe food demand would outstrip supply?***
 - Then prices would lead production, but environmental costs risk being high
- ***Are current investment levels hampering supply response?***
 - Then we need to identify clear priorities based on real long-run market fundamentals
- ***Do we want to resolve the rural/urban poverty split?***
 - One size does not fit all; same price levels imply different things to different people
- ***Do we need buffer stocks?***
 - We need (and have) a rapid response policy to humanitarian crises
- ***Are solutions to “food crisis” issues linked to agriculture?***
 - Some, but others are becoming more linked to the wider economy, CC debate