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

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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

annual rate of growth ( % )

Source: FAO

Rice Wheat Barley Maize Soybeans

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Meat and feed demand growth

Source: FAO

annual rate of growth ( % )

Beef
Pork
Poultry
Maize for feed
Wheat for feed
Barley for feed
Soybean meal
Ethanol and edible oil use

Source: FAO/USDA

US maize industrial use
Palm oil
Soybean oil
Rapeseed oil

annual rate of growth ( % )
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Crop yield growth

annual rate of growth ( % )

Source: FAO
Yield compared to demand growth

Source: FAO
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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