Managing Food Price Volatility

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Presented at IFPRI

June 14, 2011

What is the right price of food?

Quotation collected by
Johan Swinnen and Scott Rozelle

What is the right price of food?

IFPRI:

In 2003:

"The combination of agricultural protectionism and subsidies in industrialized countries [and the resulting **low** agricultural prices] has limited agricultural growth in the developing world, **increasing poverty and weakening food security in vulnerable countries**."

In 2008:

"In 2007, rapidly **rising** food prices began to **further threaten the food security of poor people around the world**. … The current food-price crisis can have long-term, detrimental effects on peoples' health and livelihoods, and can contribute to the **further impoverishment of many of the world's poorest people**."

A Framework for Discussion

Basic framework for understanding food security issues

Table 1

	SHORT RUN	LONG RUN
MACRO	Managing food price crises and budgeting for safety nets	Inclusive economic growth and the management of price stability
MICRO	Vulnerability to shocks, coping mechanisms and resilience	Poverty reduction and access to nutritious food = ***sustainable food security***

Different categories of price instability management instruments

Table 2

		OBJECTIVE	
		STABILIZE PRICES	REDUCE EFFECTS OF PRICE INSTABILITY
GOVERNANCE	MARKET-BASED	**Category A** *Storage and transportation*	**Category B** *Insurance, hedging, and futures markets*
	PUBLIC	**Category C** *Buffer stocks* *Import/export controls*	**Category D** *Safety nets*

Source: Galtier, 2009

General Issues to be resolved:

- Where is price instability a problem?
- Which commodities need more stable prices?
- What instruments are available to stabilize prices?
- How can interventions be governed?
- How do we evaluate results?

What to do?

• Help households cope with price risks

• Help countries stabilize domestic food prices, with minimal spillover to global markets

• Help regional organizations provide productive forums for coordinated food reserve policies

• Treat stable food prices as a “good” rather than a “bad”

Assistance Objective (AO)

Expand Intra-Regional Food Commodity Trade in South and Southeast Asia

Development Context:

- Persistent pockets of poverty and food insecurity exist
- Thin food commodity trade key driver of 07-08 price volatility crisis
- Transnational constraints need to be addressed through coordination
- Poor enabling environment limiting private investment in ag. value chains
- Agriculture productivity and trade are key drivers of economic growth

Critical Assumptions, or Risks to Program:

- Political stability maintained
- Asian countries committed to regional integration
- Food insecure countries committed to agricultural sector development, creating enabling environment for private sector investments in agricultur
- Policy coherence assured

Sub-Intermediate Results

Intermediate Result 1:

ASEAN Institutional Platform for Improving Regional Food Security Strengthened

IR 1.1: Regional Enabling Environment for Commodity Trade Enhanced

IR 1.2: ASEAN's Capacity to Monitor, Evaluate and Coordinate the ASEAN Integrated Food Security Framework Increased

Methodology:

Build capacity of regional institutions through embedded technical assistance to ASEAN

Facilitate ASEAN and SAARC partnerships with the private sector

Intermediate Result 2:

Partnerships and Private Sector Engagement in Regional Agricultur Increased

IR 2.1: Information Sharing Increased

IR 2.2: Access to and Utilization of Technolog Enhanced

Illustrative Activities

IR 1:

- Identify policy and regulatory constraints to strengthening regional trade
- Harmonize agriculture product standards and certification procedures to improve trade efficiency
- Improve & harmonize regulatory framework for biotechnology
- Identify appropriate performance indicators and targets under ASEAN's Strategic Plan of Action for Food Security (SPA-FS) and monitor progress
- Support implementation of SPA-FS Strategic Thrusts 2 (markets & trade) and 5 (investment in food & agro-industry)

IR 2:

- Establish a regional framework and work plan for regular private sector engagement with ASEAN
- Promote transfer and adoption of new agricultural technologies by strengthening regional networks of agricultural development and extension
- Support regional platform for South-South cooperation
- Strengthen regional food security information systems, including information collection and supply chain analysis
- Support introduction and expansion of crop insurance

Illustrative Indicators

IR 1:

- Percent change in value of intra-regional food trade
- Change in number of days to trade goods across borders
- Number of SPA-FS performance indicator targets achieved

IR 2:

- Number of public-private partnerships formed
- Value of new private sector investment in ag sector
- Number of value chains showing increased competitiveness

Image: Dino De Luca

So, what is the right price of food?

About US $400 per metric ton for 25% broken rice, fob Bangkok or Saigon