

Managing Food Price Volatility

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What is the right price of food?

Quotations collected by
Johan Swinnen and Scott Rozelle

What is the right price of food?

Oxfam:

In 2005:

"US and Europe's surplus production is sold on world markets at artificially **low** prices, making it impossible for farmers in developing countries to compete. As a consequence, **over 900 millions of farmers are losing their livelihoods**."

In 2008:

"**Higher** food prices have pushed millions of people in developing countries further into hunger and poverty. There are now **967 million malnourished people in the world**…."



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

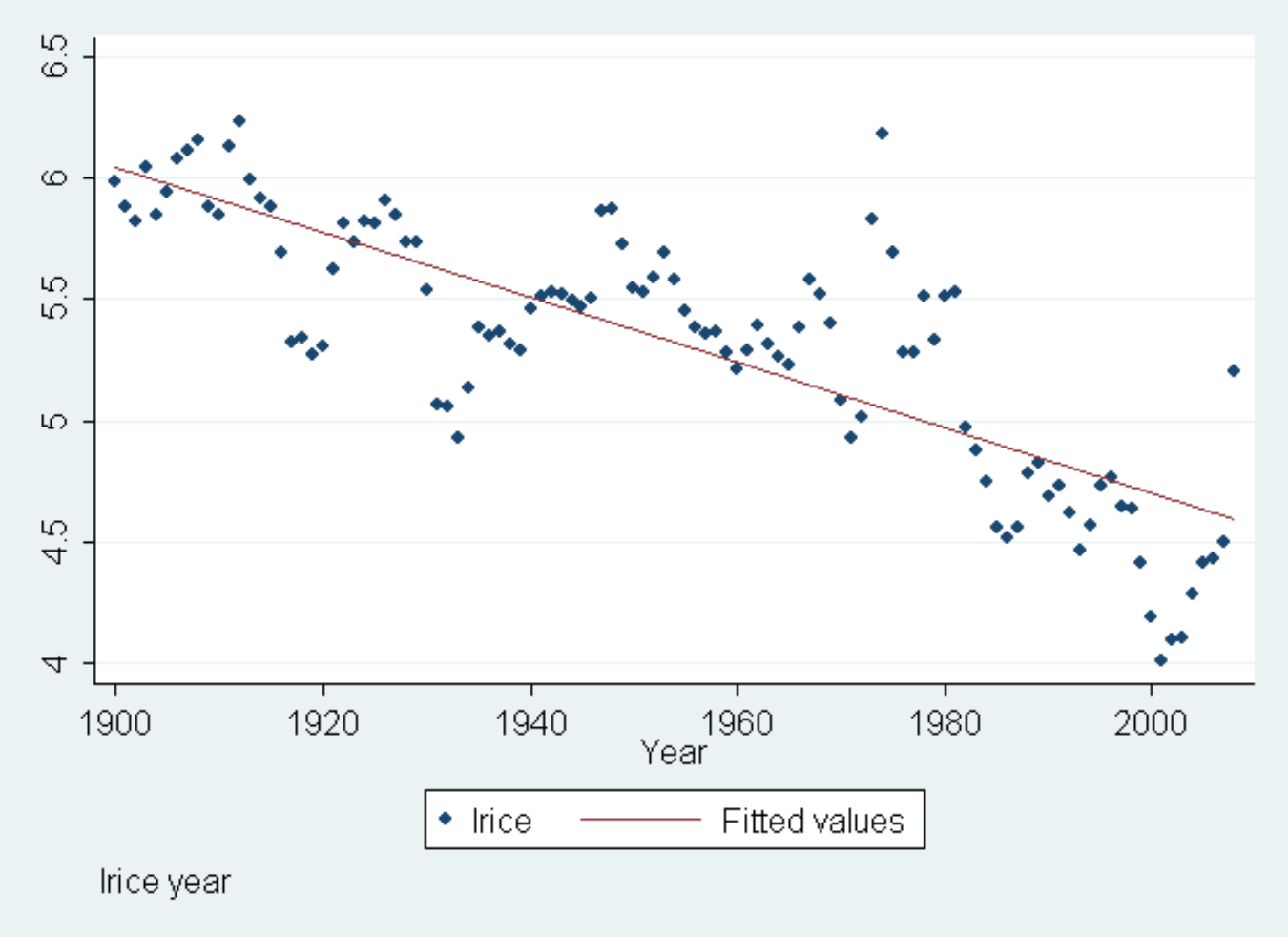
GOVERNANCE	OBJECTIVE: STABILIZE PRICES	OBJECTIVE: REDUCE EFFECTS OF PRICE INSTABILITY
MARKET-BASED	**Category A** *Storage and transportation*	**Category B** *Insurance, hedging, and futures markets*
PUBLIC	**Category C** *Buffer stocks* *Import/export controls*	**Category D** *Safety nets*

Source: Galtier, 2009


Some historical perspective:
What's the problem?

Real rice prices since 1900

Figure 2. Long-run trend in real rice prices, 1900-2008



Source: Data from Eberstadt (2008), analysis by author.



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?

Approaches at the Global Level:

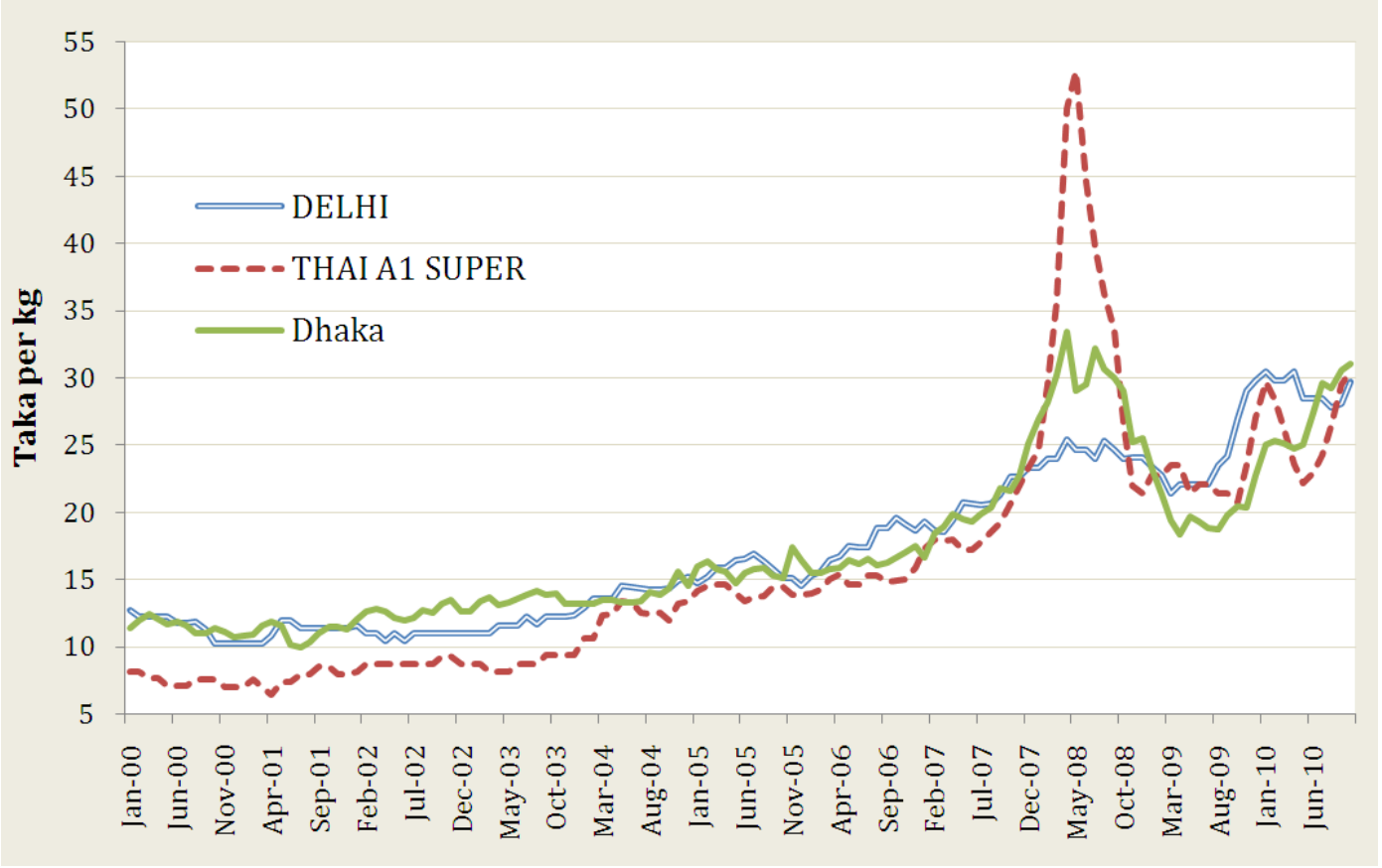
- Information/analysis as a public good
- Transfer risk from countries to donors
- Invest in raising agricultural productivity
- Stabilize food prices in world markets (?)
- Prevent/mitigate climate change (?)



Contrasting experiences in Asia and Africa

Rice prices in India and Bangladesh, relative to Thai export price

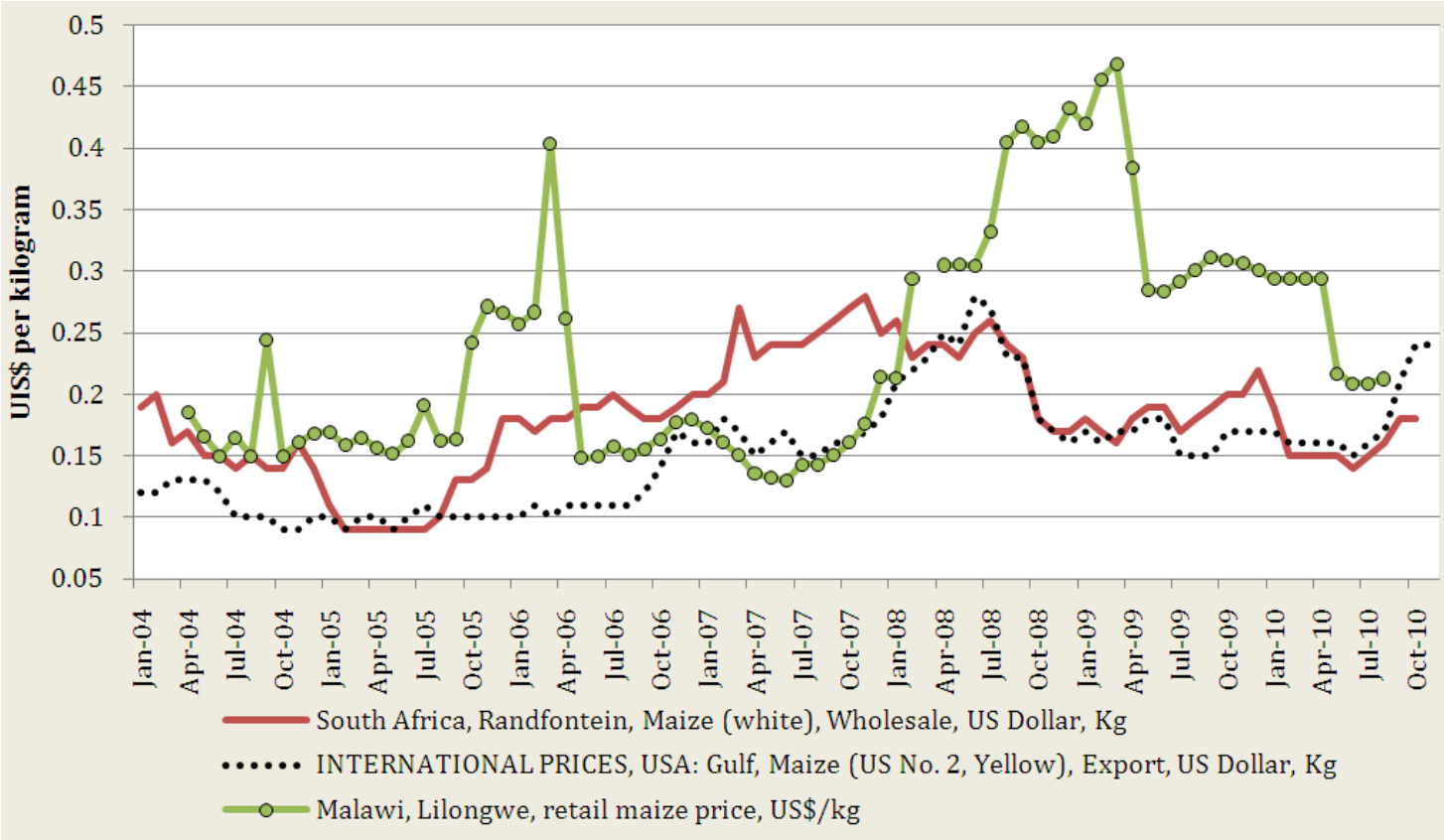
Figure 4. Dhaka, Delhi and Bangkok Rice Prices from Jan 2000 to Oct 2010, converted to Taka



Source: Clay, Keats, and Terhal, 2011

Maize prices in Malawi compared with world export prices

Figure 5. Monthly Malawi and International export prices in US dollars since 2004



Source: Clay, Keats, and Terhal, 2011

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”


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