



BETTER POLICIES FOR BETTER LIVES

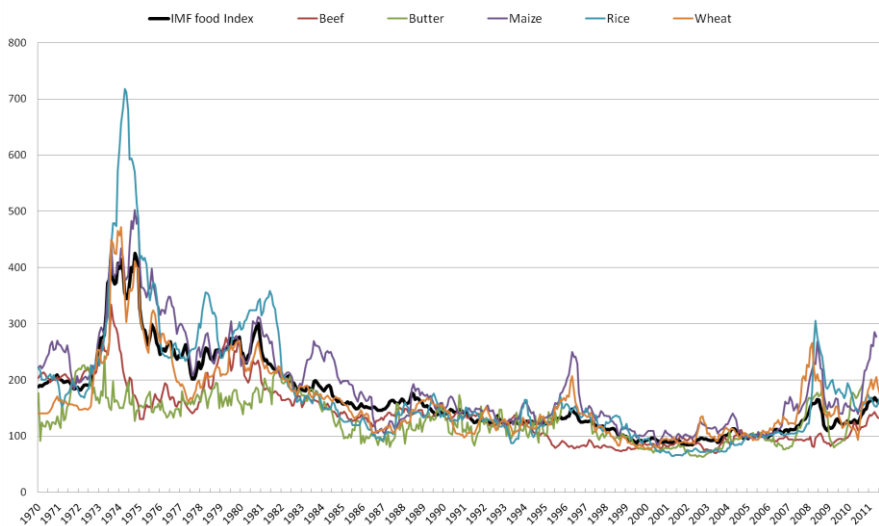
Competition and commodity price volatility

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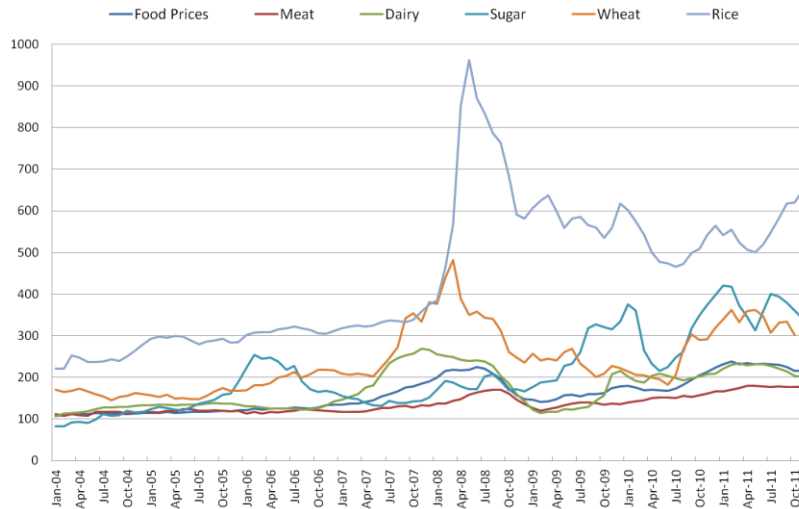
A long term view of volatility

Agricultural commodity prices in real terms (2005=100)



A shorter term view of volatility

Monthly commodity price indices (2002-04=100)



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Causes of food price volatility

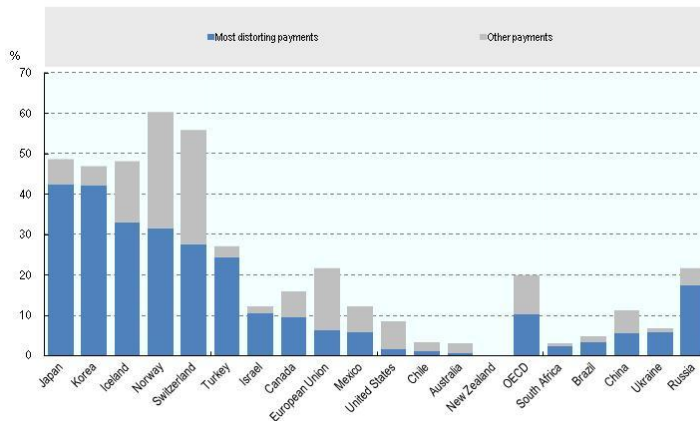
Long-term structural change	Short term market shocks	Policy factors
Increase in demand for food and animal feed from emerging and developing countries Historically low global stock-to-use ratios	Weather problems Drought Hoarding and panic buying by private agents	Trade policy measures •Export restrictions •Import measures Panic buying - SOEs and governments,
Effects of climate change Water scarcity Slowing productivity growth	Exchange rate fluctuations	Biofuel mandates and subsidies
Increase in use of agricultural feedstocks for bio-fuels	Speculation on commodity derivative markets	



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Market interference in agriculture still prevalent despite reforms

Producer support estimate 2010 as % of farm receipts



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



IO Mandate from G20

- G20 leaders at their summit meeting in November 2010 requested FAO, IFAD, IMF, OECD, UNCTAD, WFP, the World Bank and the WTO (to) work with key stakeholders “to develop options for G20 consideration on how to better mitigate and manage the risks associated with the price volatility of food and other agriculture commodities, without distorting market behaviour, ultimately to protect the most vulnerable”



The IO's proposal

A three-part approach to solving the problem:

- Increase long-term productivity, sustainability and resilience
- Policy options to reduce volatility
- Policy options to deal with the consequences



Policy options to reduce or mitigate volatility

- Improve short term market information with a view to:
 - Improving market efficiency through better transparency and more accurate, and timely data and projections
 - Providing a better basis for policy decisions
 - Providing a forum for policy dialogue and coordination
- Improve information and transparency in futures and OTC markets in agricultural commodities
- Remove subsidies and mandates on biofuels
- Strengthen discipline on all trade measures and on trade distorting domestic measures
 - Notification, consultation, stronger rules around export restrictions
 - Exemption of humanitarian purchases and shipments



Policy options to deal with the consequences of volatility

- Improve emergency reserve systems (not buffer stocks)
- Code of conduct for the free movement of humanitarian supplies
- Improve financing arrangements for humanitarian agencies
- Contingent financing for poorer importing countries
- Develop safety nets – targeted, capable of being stepped up
- Develop market based risk management options at household and country level (hedging, disaster risk financing, meteorological services etc.)



Next steps

- AMIS (Agricultural Market Information System) and Rapid Response Forum is being implemented
- Mexico has taken up the long term issues of productivity, sustainability and resilience
- Risk management, contingent financing being taken forward in other forums
- Same consortium of IO's are producing a new set of concrete policy recommendations under leadership of OECD, FAO and the World Bank



For more information



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