



THE 2007-2008 SURGE IN CEREAL PRICES

Implications for
policies

Joint Meeting of the Intergovernmental Group on
Oilseeds, Oils and Fats (30th Session),
Intergovernmental Group on Grains (32nd Session) and
Intergovernmental Group on Rice
(43rd Session)

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The cereal price surge in 2007–2008: possible underlying causes

- **Cereal reserves in major exporting countries at critically low levels**
- **Soaring petroleum prices**
- **Massive financial funds entering agricultural commodity futures**
- **Government policy reactions exacerbating market imbalances**



Historically, limited number of food price spikes

- Cereal prices surged in 1974-76, 1980-82, 1988-90, 1995-97 and 2007-08
- Some similarities with previous episodes, but new elements in 2007-08, namely the advancement of biofuels and growing interest of financial operators in commodities



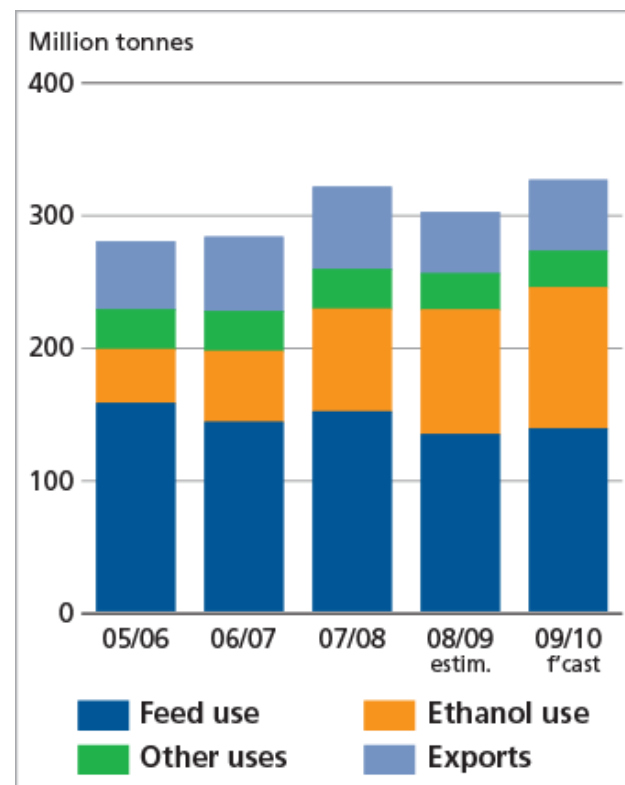
Stocks

- **Wheat and maize exporters' stocks particularly low in 2007**
- **But information on global stocks rather weak**
- **No legal WTO binding on government food security stocks**
- **Alternatives: futures contracts; G to G agreements**
- **Case for building regional food security reserves**

Energy Costs

- **Historical correlation between energy and food prices – via input costs and transport**
- **A structural shift in 2006-2008: amid high petroleum prices and supportive policies, bio-fuel becomes a new end-use for grains, mostly maize, in the USA**

Maize usage and exports in the USA





Financial factors

- **Investors without direct interest in grains move massively into grain futures for portfolio diversification purposes**
- **Short and long positions very high compared with the actual volumes of cereal trade or stocks**
- **Controversy over their effects on cash and futures prices levels and on price volatility**



Export Policies

- **Used to stabilize rice domestic prices and to contain domestic price inflation**
- **Export restrictions not forbidden under WTO**
- **Exporting State Trading Enterprises: WTO focus on export subsidies, not export taxes**
- **Proposal in the Doha Round to streamline export restrictions in similar manner as import duties**



Import policies and food aid

- **Reduction or waiving of import duties – but tariffs generally already low so little scope for alleviating the impact of rising world prices**
- **Concessional financing – the IMF Exogenous shock facility revamped in Sep. 2008**
- **Food aid - Discussions in Doha Round centered around definition of an “emergency”**



Can lessons be drawn?

- **Assess effectiveness of stock policies for price stabilization with alternatives such as risk-management schemes and the international import financing facilities**
- **Make information on national stocks more transparent in both importing and exporting states and encourage consultations**
- **Give consideration to the establishment of regional food reserves, such as the East Asian Emergency Rice Reserve (EARR)**



Can lessons be drawn?

- **Evaluate the merit of disciplining export restraints at WTO**
- **Consider the possibility of making sudden price surges a reason for emergency food aid eligibility**
- **At the international level, increase Official Development Assistance (ODA) to Agriculture**



Can lessons be drawn?

- **Need to review interactions between biofuel and food markets and to assess the impacts of bio-energy policies on food markets**
- **Analyze effects of massive financial flows on the commodity cash and futures prices and volatility – should these markets be more regulated?**



THANK YOU

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