



Agricultural Commodities

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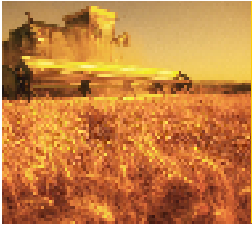
price trends

&

policy responses

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Holger A. Kray
Acting Sector Manager, Agriculture & Rural Development
Europe and Central Asia Region
The World Bank



Price trends for selected agricultural in- and outputs

WHEAT, \$/mt



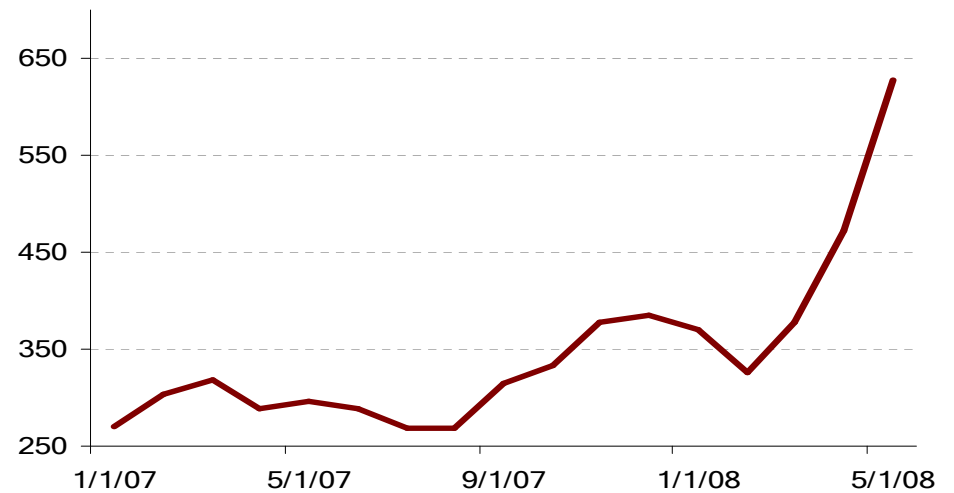
CORN, \$/mt

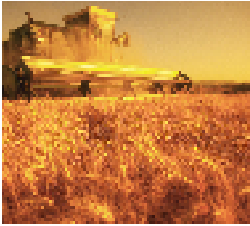


BRENT CRUDE OIL, \$/B



UREA, \$/mt





Main drivers of rising food prices

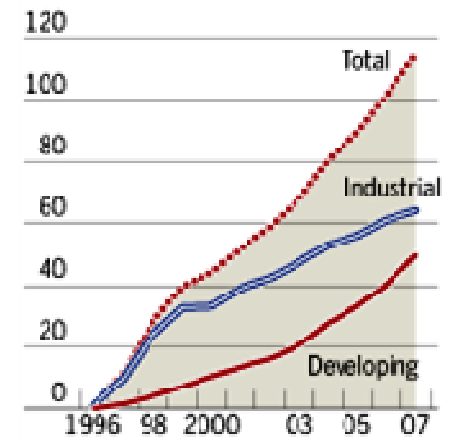
- Increasing demand
 - Sustained food demand from net-importing emerging markets following population growth and diet changes
 - Biofuel mandates and state support schemes
- Very low stock-to-use ratio, contributing to extreme market volatility
 - Consumption > production over a number of years
 - Shortfalls in grain production due to regional droughts
 - Disappearance of intervention stocks in USA and EU due to policy reforms
- Increasing production costs (energy, fertilizer, feed grain)
- Speculation and inflation hedge
 - Inflow of funds causes commodities to diverge from trading on their fundamentals (e.g., recent sugar price volatility)

Agricultural commodity prices
S&P/GSCI

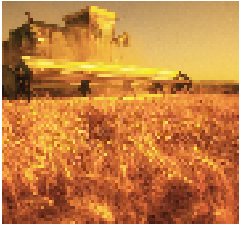


Source: ThomsonDatastream

Global area of biotech crops
Hectares (m)



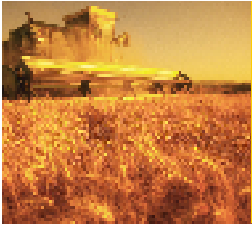
Source: ISAAA



Higher long-run food prices offer opportunities for higher agricultural incomes and diversification

- Increased commodity prices induce direct increased income for many agricultural producers
- Higher prices/income should induce additional investments and increased productivity
- Indirect effects on non-agricultural rural income (e.g., trade and services)
- But this requires an open trade regime and an effective sector support



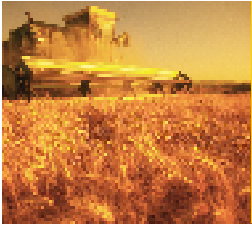


An ideal short-term response protects vulnerable consumers without discouraging agricultural producers

- **Avoid use of trade interventions**
 - Restrictions might safeguard high domestic prices only in a very short run
 - **But:** Discourage rural investments, distort incentives and promote hoarding

- **Target/limit the use of direct payments and short-term subsidies**
 - More effective in short-term
 - Raises incomes, contributes to income stability, facilitates transition, might correct price distortions
 - **But:** Do little to raise competitiveness, reduce incentives to restructure, and carry a risk of irreversibility and entitlement

- **Focus on investment and risk-mitigation programs**
 - More effective in a medium- to long-term
 - Improves competitiveness and economic diversification, raises farm and non-farm income, reduces income disparities
 - **But:** Access can be difficult for smaller farmers/entrepreneurs



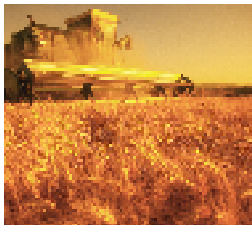
Despite prevailing weaknesses, agriculture in ECA has unparalleled strengths

Weaknesses

- Policy transition not fully finished, incentive framework not yet fully consistent
- Dual farming structure
- Partial absence of legal and institutional framework and public goods
- Big productivity gap and outdated technologies in many countries/areas/segments
- Lack in specific vocational training and continued professional training

Strengths

- Largest underutilized land/productivity potential worldwide
- Dominated by rainfed agriculture with temperate climate without serious environmental constraints
- Relatively developed infrastructure
- Pronounced growth in the overall economy
- Strong general educational background



WB food security support addresses agricultural productivity in synergy with consumer support measures

- Food price policy and market stabilization
 - Assessments, analytical support, policy design and support
 - Grain stock management
 - Price and weather risk management
 - Promotion of bilateral and regional trade
- Enhancing domestic food production and marketing response
 - Support to agricultural production (seed, fertilizer, livestock management, irrigation rehabilitation, information provision)
 - Reducing post-harvest and marketing losses, including agribusiness and processing development
 - Strengthening access to finance and risk management tools
- Social protection actions for food access and nutrition

