

# Global Agricultural Development Initiative

Issue Brief Series



## An Action Plan on Food Price Volatility and Agriculture: What to Expect from the G-20 Summit

by Robert Paarlberg

### Background on the G-20 Summit

**September 30, 2011** - The G-20 is a consultative forum of 19 national governments plus the European Union Commission. It was formally established in 1999, in the wake of the 1997 Asian financial crisis. The G-20 was created to broaden high-level international policy discussions, in the areas of economics and finance, beyond just the traditional G-7 of advanced industrial countries. The membership of the G-20 added to the original G-7 (Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States) a number of other “systemically significant industrial and emerging market economies”: Argentina, Australia, Brazil, China, India, Indonesia, Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, and the European Union Commission.<sup>i</sup> Member countries take turns serving as chair.

The G-20 meets regularly at the ministerial level (e.g., Finance Ministers, Central Bank Governors) and since 2008 at the heads of government level. The first of these G-20 “summit” meetings was called by President George W. Bush in response to the 2008 financial crisis; there have been occasional summits every year since in London, Pittsburgh, Toronto, and Seoul. The summits typically conclude with the issuing of a “Leaders’ Declaration.” On November 3-

4, 2011, the seventh G-20 Summit will convene in Cannes, France, hosted by French President Nicolas Sarkozy. It was President Sarkozy who insisted that the 2011 Summit include on its agenda the issues of financial regulations in the agricultural sector, commodity price speculation and instability, and food security. Sarkozy warned in January 2011 that if wild swings in food and commodity prices could not be curbed, “we run the risk of food riots in the poorest countries and a very unfavorable effect on global economic growth.”<sup>ii</sup>

### Preparation for Cannes

The G-20 countries have taken several preliminary steps to prepare for the Cannes discussions on food price volatility and agriculture. First, they commissioned from an assembly of ten prominent intergovernmental organizations, led by the United Nations Food and Agriculture Organization (FAO), the OECD, and the World Bank Group, a policy report titled “Price Volatility in Food and Agricultural Markets: Policy Responses.”<sup>iii</sup> Second, they convened a meeting of the G-20 Agricultural Ministers in Paris, on June 22-23, 2011, to discuss and consider the recommendations contained in the report. This was the first time the G-20 had ever convened a meeting

of Agricultural Ministers. France prepared a five-point draft “action plan” on food security to help focus the meeting; following the meeting a 24 page Ministerial Declaration titled “Action Plan on Food Price Volatility and Agriculture” was presented.<sup>iv</sup> This Action Plan was subsequently reviewed in mid-September at a technical meeting on agricultural research and development, in Montpellier, France, and then at a meeting of the G-20 Finance and Development Ministers coincident with the IMF and World Bank annual meetings in Washington, D.C. A final version will be submitted formally to the Leaders Summit in Cannes in November.

The June ministerial declaration fell considerably short of French aspirations by endorsing only a few of the initiatives recommended in the commissioned report. Much of this June Action Plan document was simply an acknowledgement, by the G-20 Agriculture Ministers, of the numerous programs and activities already being taken by other intergovernmental organizations. The language of the Action Plan was descriptive, aspirational, and mostly non-judgmental. Individual national governments and individual national policies were not singled out, either for praise or blame. The new initiatives endorsed by the Action Plan were constructive, but also quite modest. The Plan endorsed new initiatives in five areas:

### *1) Agricultural production and productivity*

After describing initiatives already underway, the June Action Plan announced the launch of a new International Research Initiative for Wheat Improvement (IRIWI). The fine print revealed, however, that there will be no new money for actual research; it is mostly an institutional initiative to “bridge” national research programs with the work of the CGIAR, particularly the International Maize and Wheat Improvement Center (CIMMYT). The language of the Plan delicately avoids any reference to a recent weakening of national funding efforts for agricultural productivity enhancement.

For example, it lauds the new Global Agriculture and Food Security Program (GAFSP), but fails to mention that faltering contributions to this new fund from nearly all donor countries have essentially paralyzed its ability to operate.

### *2) Market information and transparency*

On the assumption that markets would be less volatile if they were more transparent, the June Action Plan announced the launch of a new Agricultural Market Information System (AMIS) to improve the availability and sharing of data on production trends and price movements. AMIS will be housed at the FAO, where a great deal of this kind of work has long been going on, and will be supported only by “existing structures and resources,” so it is not immediately clear what the gain will be. In addition, the Action Plan launched a Global Agricultural Monitoring Initiative through an existing international voluntary network, the Group on Earth Observation. But again, no reference to new resources was provided.

### *3) International policy coordination*

In the area of international policy coordination, the June Action Plan creates a new group of senior officials as a “Rapid Response Forum” for market policy coordination. These officials will remain based in their own capitals, sharing information and coordinating policy as much as possible when market disruptions are threatened, yet the forum is not given any formal power. The Action Plan also gives pro forma endorsement to a completion of the Doha Development Round of trade negotiations in the WTO, but provides no guidance on how to break the longstanding impasse in those negotiations. The Action Plan makes no direct criticism of export restrictions on food commodities, even though these policies did the most to drive up international food commodity prices both in 2008 and in 2010. The Action Plan only calls for a removal of such restrictions in the case of food being purchased for

humanitarian purposes by the World Food Programme (WFP). This section of the Action Plan also makes no direct criticism of subsidies and mandates for biofuels, saying only that these policies “need to be analyzed further” to clarify unintended effects on food security.

#### *4) Reducing the effects of price volatility for the most vulnerable*

To reduce the adverse impacts of price volatility the Action Plan endorses extending a variety of risk-reducing and risk-managing “tools” to poor countries, to consumers in those countries, and to smallholder farmers. It welcomes the International Finance Corporation’s new Agriculture Price Risk Management (APRM) product and supports networks for the forward positioning of food aid.<sup>v</sup> It also supports development of a proposal for a new targeted humanitarian food reserves system, to complement existing regional and national reserves. It asks the WFP to conduct a feasibility study and a cost-benefit analysis, and to propose developing a “pilot project” to try out such a system.

#### *5) Financial regulation*

Concerns about under-regulated agricultural financial markets, including over-the-counter derivatives, were central to President Sarkozy’s insistence that the G-20 Summit take up food price volatility. In their June Action Plan the G-20 Agricultural Ministers ducked this issue, encouraging the G-20 Finance Ministers and central bank governors to take responsibility for such matters.

#### **Analysis: What to Expect from Cannes**

The measures in the June Action Plan were modest because key countries had effectively vetoed stronger measures. Press reports made clear that a stronger position on biofuels was not taken due to objections from both the United States and Brazil. Stronger

measures on export restrictions were rejected by Russia, which had employed an export ban on grains in 2010 in an effort to stabilize internal prices. Tighter agricultural financial market regulations were rejected by a number of countries including the United States, the United Kingdom, Canada, and Australia.

Will the G-20 Leaders be able to do any better than this at the Cannes summit? When the Leaders meet in November, they will be talking about much more than just agriculture and food security. The agenda may also include reform of the international monetary system, banking regulations, corruption, economic imbalances in savings rates and trade flows, and global governance. G-20 Summits are inevitably drawn to the most pressing economic issues of the moment, and amid today’s continuing macroeconomic crisis in the industrial world – driven by sovereign debt, budget imbalances, and high unemployment – the priority of agriculture and food security issues may be downgraded accordingly.

Even if agriculture and food take up little of the private discussion time among the Leaders, President Sarkozy can still be expected to use Cannes as a public platform to repeat his strong views on agricultural markets. He did this earlier in a speech at the G-20 Agricultural Ministers meeting in June 2011:

“The financialisation of agricultural markets, even if it does not explain everything, is a contributory factor in price volatility and food insecurity for the most vulnerable. It opens the door to the manipulations – I say again, manipulations – we have seen in recent months. We are all aware of what has happened in the cocoa market. Let me remind you that a market that is not regulated is not a market. It is a lottery, a lottery in which fortune smiles on the most cynical, instead of rewarding hard work, rewarding investment and rewarding the production of value.”<sup>vi</sup>

Sarkozy's belief that market speculators are a major factor in commodity price instability is popular in some circles in France, but it is a view not widely shared by experts. The joint intergovernmental organization study commissioned by the G-20 did not support Sarkozy's view; it placed far more emphasis on export restraints, other trade rigidities, high oil prices, and biofuels subsidies and mandates. In January 2011, the European Union completed a study that also questioned the link between speculation in commodities markets and rising prices.<sup>vii</sup> President Sarkozy criticized the findings of this study and pressured to have its release postponed.

G-20 summits present significant opportunities. If the Leaders do make a public commitment together in Cannes, the knowledge that this commitment will be reviewed at the next summit can increase the chance that words will become actions. Just the same, the G-20 summit approach has serious limitations.

First, the heads of government who attend are elected politicians; many will be paying as much attention to the next election at home as to serious negotiations with their international counterparts. At Cannes, five of the heads of government in attendance will be anticipating national elections in 2012, including those from Canada, France, Korea, Mexico, Russia, and of course the United States. What these leaders will want most from the summit is publicity, plus an ability to claim when they get home that they defended their nation's economic interests, either by winning a concession or by blocking some ill-founded plan. This domestic-focused political dynamic, when combined with the G-20 practice of acting only by consensus, tends to limit what summits can accomplish.

A second limitation also deserves mention. When heads of government assemble at a G-20 summit, the President of the United States must play a uniquely constrained role. In Cannes, President Obama will formally represent the single most important

member country in the G-20, yet under the distinctive United States Constitution he has surprisingly little authority to make firm economic policy commitments. The Constitution gives most national economic policy authority to Congress, not the Executive Branch.

This is especially true for food and agricultural policy. Commodity trading in the United States is governed not by the President or the Executive Branch, but instead by an independent commission under rules set by Congress. Biofuels mandates, subsidies, and tax credits do not emerge from the White House or the Executive Branch, but instead from the tax and energy committees of Congress. Farm subsidies are not determined by the President, or even by the Secretary of Agriculture, but instead by the agricultural committees of Congress. On trade policy, the United States Constitution gives all power to regulate international trade - including agricultural trade - to Congress. As for food security, America's domestic food assistance efforts, international food aid programs, and foreign agricultural development assistance agencies are all funded by Congress, specifically by the powerful House and Senate appropriations committees. Particularly with the House of Representatives under opposition party control, President Obama will have no authority to speak for Congress on these issues in Cannes.

For reasons such as these, we should not expect the upcoming G-20 summit to produce dramatic policy changes in the area of international food and agricultural policy. Changes may be needed, and the G-20 summit may help to highlight that need, but the real policy action will have to occur in national capitals, not in Cannes.

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<sup>i</sup> G-20. 2011. "How does the G-20 differ from the G-7?"

[http://www.g20.org/about\\_faq.aspx](http://www.g20.org/about_faq.aspx).

<sup>ii</sup> Reuters. 2011. "Comments from Sarkozy G20 news conference."

January 24. <http://uk.reuters.com/article/2011/01/24/us-g20-highlights-idUKTRE70N1SB20110124>.

<sup>iii</sup> FAO, IFAD, IMF, OECD, UNCTAD, WFP, the World Bank, the WTO, IFPRI, and the UN HLTf. 2011. *Price Volatility in Food and Agricultural Markets: Policy Responses*. June 2.

<http://www.ifad.org/operations/food/documents/g20.pdf>.

<sup>iv</sup> G20 Agriculture Ministers. 2011. *Ministerial Declaration: Action Plan on Food Price Volatility and Agriculture*. Meeting of G20 Agriculture Ministers, Paris. June 22-23.

<http://reliefweb.int/sites/reliefweb.int/files>

[/resources/Full\\_Report\\_5.PDF](http://reliefweb.int/sites/reliefweb.int/files/resources/Full_Report_5.PDF).

<sup>v</sup> For more information about the Agriculture Price Risk

Management product, please visit:

<http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:22945434~pagePK:34370~piPK:34424~theSitePK:4607,00.html>.

<sup>vi</sup> Sarkozy, N. 2011. "Speech by the President of the Republic:

Opening of the meeting of G20 Agriculture Ministers." June 22.

<http://www.g20-g8.com/g8-g20/g20/english/for-the-press/speeches/nicolas-sarkozy-addresses-a-speech-to-the-g20.1402.html>.

<sup>vii</sup> For a review of the evidence regarding the impact of speculative

investments on commodity price volatility, please see the FTI UK

Holdings Limited (FTI) report prepared for the Futures and Options

Association (2011), found at: [http://www.foa.co.uk/admin/tiny\\_mce](http://www.foa.co.uk/admin/tiny_mce)

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## **About the Author**

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