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AGRI Committee debates price volatility in agriculture

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Agriculture MEPs invited guest speakers on Tuesday to better understand how to reduce price volatility in agricultural markets

Patrick Ferrère, (Secretary General of the think tank Société des Agriculteurs de France) explained that volatility measures the extent and speed of the evolution of a market price in a given period. It is linked to variability and uncertainty. Price volatility is a natural element in the way the market works and the supply and demand adjust. When it comes to agriculture, there is supply and demand inelasticity and strong fluctuation. The CAP protected producers by putting in place protective measures. Given increasing globalisation, the change in agricultural policies in Europe and in the USA (getting rid of storage intervention), the increase of food demand in developing countries, climate change and financialisation, the global food system is more vulnerable and volatility is becoming more extreme and frequent. Now the very low prices are unbearable for several players and financialisation has heightened volatility. Therefore, different solutions, such as deposit systems, have been put forward but he explained that speculation is also linked to exchange rate. He noted the negative effect of this volatility on agricultural products. If there are low prices, it is a problem for producers but when the prices are excessive it causes problems for countries where there is no food security.

The G20 in Paris took actions in order to tackle this and pledged to:

- Increase production and agricultural productivity
- Improve market transparency (FAO AMIS and Geoglam)
- Set up a rapid reaction forum
- Regulate the financial market (IOSCO)

However, he argued that there has been very little progress on this action plan. Some countries feel that storage levels are strategic and are reluctant to share this information. He added that as a result of the 2008/2009 crisis, there has been much liquidity on the market which created a temptation to take position on agricultural products.

What is the EU doing, he wondered. The CAP opened to the rest of the world after 40 years of protection. Producers have borne the brunt of this. The EU now must act so that each episode of volatility does not become a restricting period for agricultural holdings in the Member States.

Felice Adinolfi (Professor of Agricultural Economics, University of Bologna) explained that he wanted to try to summarise the main drivers of volatility which threaten farmers' income. He looked at what tools are currently used in the EU but also in Canada and in the US when it comes to risk mitigation.

He stated that volatility has a lot to do with supply and demand. There is a complex interaction between variables (weather, trade, stock level, dollar depreciation) which feed to the roller-coaster of volatility.

Volatility does have an impact on the farming sector for Europe. There have been a number of reforms over 25 years which have resulted in a decrease in guaranteed price. European farmers are now more vulnerable to the volatility of the market. How to sustain farmers' income? There are three cases:

1. Market measures and direct aid to farmers
2. Strategy for *ex ante* prevention of risks (insurance contribution for natural disasters for example)
3. New development in EU: income stabilisation neutrality fund (severe income losses)

Talking about the Canadian experience, he said that there has been a long history in risk management in the Country. Canada rolled out a number of tools for farmers. First, the Canadian government supports investments which support research when it comes to risk management. Canada also developed a system which is based on a count for each farmer. It is co-financed by the government. The aim is to assist farmers if their losses are minimal. Farmers are in a position to have a margin of certainty when it comes to tackling losses. Canada has another system which is similar to the income stabilisation tool in Europe and which means the government can step in when there are losses that are more than 70% of reference margins for Canadian farmers. It is based on a contribution of 1$ for each 1000$ of income.

He then talked about the American experience. Under the last Farm Bill one period ended and another started. The US system swept aside direct payments and replaced it with resources dedicated to risk mitigation and programmes to support anti-cyclical payments.

He explained that these examples show there are opportunities out there to develop EU policies. The EU can come up with a system that is more flexible where direct payment can be allocated in a more flexible manner. He mentioned the example of what is happening in France.

Jeroen Buysse (Professor of Agricultural Economics, University of Ghent underlined the difference between US and EU policies: in the EU, there is income support irrespective of what farmers get from the market while in the USA, it is more counter-cyclical support. With respect to EU policies, he said that what is important is the safety net of private storage aid which helps farmers. Promotion policies, tariffs policies which contribute to risk management are also important. He also noted that cooperatives can have a role to play.

He then compared the agri-food market to the electricity market. He said that for both, actors want to have a stable supply. In the electricity markets, policy makers recognise there is need to intervene to make sure volatility is not only contained by the market. In most countries there is a reserved capacity. To some extent this corresponds to EU policies, farmers get income support but to have this, they need to keep agriculture lands in a good condition. However, in the CAP, there is no real system so that when there is over supply farmers can use the subsidies to reduce the supply. Transparency should be available for all market players, he argued, and we should not support production at moments where there is oversupply. The EU should further develop how to subsidise capacity and not production. He gave the example of subsidising farmers to reduce the amount of fertilizers they use in order to produce less.

Jacques Carles (Secretary-General of the think tank Momagri - Mouvement pour une Organisation Mondiale de l'Agriculture) said that volatility is more and more frequent. We are seeing great amplitude volatility and the authorities are not able to deal with the situation. The CAP has been reviewed and changed and cannot deal with fluctuations any longer. He mentioned the G20 strategy and argued that it does have distinct lacks, noting that public stocks are considered to be strategic. There is not a real international cooperation to manage the crisis and that makes the situation even more difficult. On the US and Canada, action is very limited because the authorities can only take action when the income has dropped by 30%. In Canada, they use a limitation to imports and have now moved to a risk management system. In the USA, it is a counter-cyclical system. The EU is doing the exact opposite of everyone else.

(...)

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