



# Sounding early warning of food market crises

**WORKING FOR** the world's commodity producers, policy makers, traders, and consumers

**WORKING WITH** IFAD, IFPRI, WFP, OECD, the World Bank, UNCTAD, UN-HLTF, WTO

**WORKING TO** enhance transparency in global food markets

**WORKING THANKS TO** G20 initiative and support

# FOOD MARKET CRISIS WARNING

When a summer drought prompted Russia, a major grain producing country, to initiate a ban on its grain exports in August 2010, it created a nervous stir in global markets, with flashbacks to the food price spikes of 2007–08. As media began to raise alarms about a resurgence of the food crisis, FAO moved quickly, calling an extraordinary meeting of its Intergovernmental Groups (IGGs) on Grains and Rice. In spite of the short notice, more than 100 countries sent representatives to the meeting, indicating a global sentiment craving accurate market information from a neutral source. Out of that meeting, which contributed to calming markets and averting a crisis, the idea of establishing a new agricultural market information system was formed. Its goal – reduce price volatility by increasing the transparency and efficiency of world commodity markets.

Starting in mid-2006, FAO began to see a steep increase in requests for supply and demand analysis of major food crops – not only from governments and media but increasingly from the private sector, including leading investment banks. Recognizing this, FAO began publishing a Monthly Food Price Index in 2007, now a global benchmark for food prices, which played a key role in helping markets keep a close watch on international prices of basic foodstuffs and proved critical for supporting governments and markets during the 2007–08 food price crisis. Providing governments and the private sector with complete and accurate market information and forecasts they needed for making cognizant decisions established FAO as a reliable and neutral, non-market-aligned purveyor of market information.

Thus, when grain prices began rising again on international markets in 2010, FAO recognized the need to provide timely and tangible evidence that the global supply situation was not as dire as it had been in 2007. In calling an extraordinary meeting of its Intergovernmental Group on Grains and Rice, FAO was able to provide supply and demand updates and forecasts, and illustrate that current supply could meet anticipated world demand. This rapid response by FAO proved sufficient to calm a very nervous market, thereby mitigating the potential for speculation and stockpiling which could have resulted in higher prices and artificial restrictions in food supply to those least able to shoulder the burden, especially in less developed countries.



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## Transparency for trust

The IGGs meeting also provided a forum where exporting and importing countries could discuss the type of actions they should take in the case of future market blips. This demonstrated the importance not only of transparency in reporting but also the value of establishing trust in the source and accuracy of market data.

In addition, with the 2010 resurgence of high food prices, the G20 placed global food security among the nine key pillars of the Multi-Year Action Plans for Development at its Seoul Summit in November 2010. This led to a study by FAO along with several relevant international organizations – IFAD, IFPRI, WFP, OECD, the World Bank, UNCTAD, UN-HLTF and WTO – on ways to improve management and mitigate risks of food price volatility without distorting markets. The report of the international organizations, submitted to the G20 Summit held in November 2011 in France, included ten recommendations, one of which called for the establishment of an Agricultural Market Information System (AMIS). The G20 leadership endorsed the proposal, establishing AMIS as an open global agricultural market information system that would keep a close eye on major developments influencing world markets and report quickly on abnormal market conditions, while working in parallel to improve the quality of data, market analysis and forecasts at national and international levels.

In housing the AMIS secretariat at FAO, the G20 enabled this initiative to take advantage of networks and systems FAO already had in place to provide information needed to avoid or quell unfounded market crises – information that could go beyond the numerics of agricultural statistics to offer a representative picture of the true on-the-ground situation.

## Market forecasts

For example, FAO publishes several market reports throughout the year, including its biannual *Food Outlook*, which forecasts world production, consumption, trade and stocks, using data compiled and analysed by FAO commodity specialists. *Food Outlook* also incorporates the expert views provided by FAO networks into its predictions, to fill in statistical vacuums and develop market analyses that are not just about numbers. Thus, in 2010, FAO's ability to call upon its established networks of those involved in production and trade at local, national and regional levels meant it could respond to outside requests about market conditions with reports that mirrored the reality of the situation. FAO has also launched an initiative to improve the quality of global statistics.

The AMIS secretariat includes the nine international organizations that made the original proposal to the G20, and the secretary of the FAO IGG on Grains also serves as AMIS secretary. As part of its effort to improve market transparency, AMIS has established a Rapid Response Forum with policy experts from major producing and importing countries who meet in the case of food crisis alerts. Forum members assess the market information and analyses as they emerge from the AMIS secretariat, issue regular media statements on food security implications of the situation, and coordinate the responses of the governments. Although the founding members of AMIS are G20 members – the world's 20 largest economies – seven non-G20 countries were invited to join because of their importance in world markets. AMIS has also set up a collaborative website providing free access to market information, including a unique database tool that provides short-term forecasts and accurate baseline data – data that will allow the international community to make factually based decisions for dealing with emergency situations as they arise.



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