

**International Monetary Fund
Organisation for Economic Co-operation and Development
World Bank**

**Workshop on Food and Fuel Prices
September 23, 2008**

Summary of the Workshop

FAD hosted a joint IMF/OECD/World Bank workshop to discuss issues related to the recent surge in food and fuel prices. Mr. Lipsky (IMF) opened the workshop, and he was followed by remarks by Mr. Padoan (OECD) and Mr. Leipziger (World Bank). The discussion was organized in four separate sessions, which are summarized as follows.

Session I: Impact on Countries and Policy Response

The food and fuel price surge was largely driven by the interaction of strong global growth, lack of sector-specific spare capacity, low inventories at the onset of the surge, and slow supply response. Cross-commodity price linkages played a role as well, with rising energy prices spilling into food prices. In the case of food, bio-fuel production, trade restrictions, growing demand in emerging economies, and supply disruption for major crops due to adverse weather conditions contributed to rising prices. Most participants agreed that food and fuel prices are likely to remain high over the short- to medium-term. Some Bank representatives, however, opined that over the long-term the prospects are for real oil prices to move lower, although much will depend on OPEC's behavior and the supply response from non-OPEC sources.

These price surges have led to increased inflation in most countries and worsened the current account balance in about 50 low-income and middle-income countries; this had not yet spilled over a significant way to demand for higher wages. High oil prices have led to a transfer of wealth from OECD to oil producing countries, but a large share of this has returned in the form of additional exports and financial investments in oil-importing OECD countries. Food price increases have increased the number of poor by 3–5 percent, and made the poor poorer.

Policy responses to price surges have varied. These included increasing food and fuel subsidies, reducing taxes and tariffs, expanding transfer programs, and increasing public sector wages and pensions. The fiscal costs of these policies are substantial in many countries and continue to increase. The lack of flexibility in exchange rates has sometimes limited their role in mitigating global price pressures. Monetary policy has generally accommodated the first round price effects but the monetary authorities need to remain vigilant to contain second-round price effects.

Session II: Policies to Encourage Supply Responses and Alleviate Market Tightness

Increased investment is key to alleviating market tightness in agriculture and energy.

- A combination of sluggish investment and low prices has slowed yield growth in agriculture. Food supply could be boosted through passing price incentives fully to producers; better access to essential inputs and information; strategic investments in infrastructure, marketing, research, and agricultural extension services; and trade reforms. In the medium term, there is a need to foster growth and development in poor countries, to improve the purchasing power of food buyers.
- In the energy sector, escalating oil prices have been accompanied by higher costs of production. The reasons for this include shortages of specialized labor and equipment, geological constraints leading to more technical risks and project delays, security risks in some major oil producers, and uncertainty about contract and taxation terms. There is a need to improve the investment climate in some resource-rich countries, enhance access to reserves, and expose national oil companies to competition.

Session III: Ongoing and Future Work Programs

The ongoing work program as well as future plans of the three institutions are as follows:

- The Fund will continue to monitor commodity price developments, assess the policy responses of member countries, follow donor responses, and monitor trade policy developments. It will continue to provide policy advice and financial support, and assist countries in making their subsidy regimes more cost-effective. Planned further analytical work includes the role of financial factors in commodity markets, the relationship between commodity prices and interest rates, a review of commodity price forecasts, inflation targeting, and demand response to high prices.
- The OECD's work plan includes more analytical work on commodity markets (including new estimations of demand and supply functions of the pass-through of international prices to consumer prices and wages). There could also be work on the adequacy of safety nets in member countries for dealing with price shocks. The 2009 Agriculture Outlook (being prepared in cooperation with FAO) will take a closer look at the long-term impact of structural changes in the agriculture sector. Another area of work would be to analyze the relevance of the OECD's agriculture policy prescriptions for developing countries. The OECD continues to advocate open trade regimes and will hold consultations with countries on bio-fuel policies. Work to monitor aid flows continues.
- The World Bank's work program on the food and fuel crisis centers on two complementary roles: global advocacy and country engagement. At the global level,

the Bank is working with other multilaterals and donors on the humanitarian response to the food and fuel crisis, monitoring commodity markets and prices, addressing trade restrictions, analyzing the factors behind low investment in agriculture, and reviewing bio-fuel policies. At the country level, the World Bank is helping countries design and expand safety nets and food market interventions. At the sectoral level, the Bank plans to undertake analytical work on the adequacy of food stocks and food supply insurance facilities; and on the characteristics of demand and supply for individual commodities.

Session IV: Ensuring Consistency in Policy Advice and Way Forward

This session focused on three issues: (i) how to make the work programs on the three institutions complementary; (ii) how to share information better; and (iii) how to ensure coherence in policy advice. There was broad agreement that cooperation is enhanced when the institutions recognize their comparative advantages and are selective in their work areas.

Making work programs complementary. The following areas of work were highlighted:

- The Fund and the Bank could draw on the OECD's work on agriculture policies in its member countries and on commodity markets to help inform their macroeconomic and sectoral dialogue with member countries. The OECD is working on defining best practices with regard to agriculture policies and providing assessments of member country policies to facilitate other countries to benefit from these experiences. The Bank plans to do more work on agriculture sector development in emerging market and low-income countries, and it could benefit from this analysis.
- The OECD is willing to share its experience in working on the link between structural and macroeconomic policies with the Bank and the Fund. It is expanding its policy dialogue to five nonmember countries and is eager to work with the Bank and the Fund on refining its analytical tools to suit these countries.
- The OECD would like to draw on the work done at the Bank and the Fund on the distributional impact of subsidies.
- The Fund would benefit from the work of the Bank and the OECD on issues that fall outside its mandate. These include: the role of private sector financing in responding to the food and fuel crisis; the investment climate; land reform; property rights; and social safety nets.
- The Fund and the Bank have already undertaken joint work on the impact of high prices in CEMAC countries and there is scope for similar work in the future. A closer collaboration at the country level would ensure that the institutions deliver consistent policy advice.

- There is scope for the World Bank to do more on the distributional analysis of expenditure policies, on exploring the links between short- and long-term tradeoffs; and on agricultural production chains, which could inform the work of the Fund and the OECD.
- The Fund and the OECD would benefit from the Bank's work and expertise on establishing safety net mechanisms for protecting poor household from price shocks.

Better sharing of information: This could be best achieved through greater use of communication technology. A share-point between the three institutions to pool materials could be created. Periodic videoconferences to keep each other informed of work programs would also help in this regard. A formal mechanism for this purpose is not needed.

Achieving more coherence in policy advice: This could be achieved through a more active and earlier exchange of research ideas, information, analytical work and policy assessments, along the lines discussed above. This would have the benefit of enhancing policy coherence across three institutions. Synergy in external communications would be helpful. In particular, the three institutions could issue joint policy statements on important topics where there was commonality of views, such as agricultural trade restrictions and bio-fuels; this could give the institutions a stronger voice on the issues. However, it would require closer collaboration and early exchange of information and analytical work.

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List of Speakers

Patricia Alonso-Gamo
Assistant Director, PRGF Operations Division, Strategy, Policy, and Review Dept., IMF

Ken Ash
Deputy Director, Trade and Agriculture Directorate, OECD

Carlos Braga
Director, Economic Policy and Debt Dept., World Bank

Hugh Bredenkamp
Deputy Director, Strategy, Policy, and Review Dept., IMF

Benedicte Christensen
Deputy Director, African Dept., IMF

Charles Collyns
Deputy Director, Research Dept., IMF

Carlo Cottarelli
Deputy Director, Fiscal Affairs Dept., IMF

Uri Dadush
Director, Development Prospects Group, World Bank

Shantayanan Devarajan
Chief Economist, Africa Region, World Bank

Robert Gillingham
Deputy Division Chief, Expenditure Policy Division, Fiscal Affairs Dept., IMF

Sanjeev Gupta
Senior Advisor, Fiscal Affairs Dept., IMF

Thomas Helbling
Head, Energy and Commodities Surveillance Unit, Research Dept., IMF

Danny Leipziger
Vice President, Poverty Reduction and Economic Management (PREM), World Bank

Jeff Lewis
Head, International Policy and Partnerships Group, World Bank

John Lipsky
First Deputy Managing Director, IMF

Valerie Mercer-Blackman
Senior Economist, Energy and Commodities Surveillance Unit, Research Dept., IMF

Rolando Ossowski
Assistant Director, Fiscal Affairs Dept., IMF

Pier Carlo Padoan
Deputy Secretary-General, OECD

Ana Revenga
Director, Poverty Reduction Group, World Bank

Antoinette Sayeh
Director, African Dept., IMF

Jean-Luc Schneider
Director, Policy Studies Branch, Economics Dept., OECD

Mona Sur
Senior Economist, Agriculture and Rural Development, World Bank

Teresa Ter-Minassian
Director, Fiscal Affairs Dept., IMF