Public or private management of market risk

Economics, Policies and Markets Programme

The gradual liberalization of agricultural trade since the 1994 Marrakech agreement has not helped to limit food price volatility or to reduce the risk such volatility poses for developing countries. Indeed, as a result of structural adjustment programmes, many such countries now find themselves without the public price guarantee structures that still exist in Europe (CAP) and the United States (marketing loans). What price risk management instruments or mechanisms could now be designed, developed or adapted to satisfy the demands of producers in developing countries? Two main types of instruments are being used and their efficacy compared, with a view to providing a solution: State intervention instruments (price support or stabilization policies) and individual and private management instruments such as futures contracts, swaps and options.

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Transporting rice in Thailand

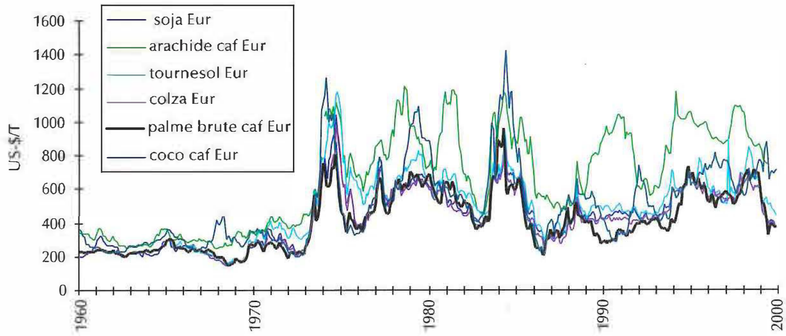
Objectives

The main objective of the project is to evaluate the complementarity of and competition between public and private risk management instruments.

Methods

The initial plan is to untangle the theoretical arguments in favour of public and market-based risk management instruments, and to define the services they can offer and their respective costs, in terms of complementarity and competition. Lastly, there are plans to measure and compare the effects of individual risk management and public and collective risk management, in terms of wellbeing, by integrating into the dynamic global agricultural trade model currently being developed by CIRAD a futures market designed to complete the market, in accordance with general balance hypotheses and recommendations made to developing countries by the World Bank or UNCTAD (United Nations Conference on Trade and Development).

Market instability: the case of vegetable oils, 1960-2000



Statistical sources: Oléagineux, Oil World

Achievements

This work is based on knowledge of how futures markets operate. The initial field results concerning the demand for risk management from smallholders or cooperatives in developing countries and the cost and access constraints related to financial management instruments were obtained in 2000, through a survey of cocoa cooperatives in Côte d'Ivoire.

Publications

Lefrand P., 2000. La gestion des risques liés au fluctuations des prix agricoles : le cas des coopératives de cacao en Côte d'Ivoire. Final dissertation, ENSA Rennes.

Voituriez T., 2001. What explains price volatility changes? Answers from the world palm oil market. Agricultural Economics 25, 295-301.

Gérard F., Voituriez T., 2002. Are the arguments against free-trade restricted to capital flows†? A comparison of capital and agricultural markets instability over a century. Paper submitted to the annual IAAE Conference, Durban, August 2003.

The prospects

This work should lead on to the production of practical notes on the different possible price risk management instruments for each commodity system, for both internal and external use. It is due to make use of the expertise that exists at CIRAD in order to develop price guarantee instruments that satisfy the demand for risk management from smallholders and cooperatives and apply those instruments in the field. It should also provide elements for debate and field information on the viability of income guarantee mechanisms in developing countries.

Cocoa pod

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Cirad-éditions, february 2002