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Organización  
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para la  
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## HIGH-LEVEL CONFERENCE ON WORLD FOOD SECURITY: THE CHALLENGES OF CLIMATE CHANGE AND BIOENERGY

Rome, 3 – 5 June 2008

### SOARING FOOD PRICES: THE NEED FOR INTERNATIONAL ACTION

#### ABSTRACT

1. International prices of basic food commodities have increased rapidly over the last three years. The FAO food price index rose by 9 percent in 2006 and by 23 percent in 2007. As of March 2008, wheat prices were 130 percent above their level a year earlier, rice prices were 66 percent higher, and maize prices were 38 percent higher. Developing countries, where already more than 800 million people are suffering from hunger, have been particularly hard hit by soaring food prices. The situation is also threatening peace and stability around the world as food riots and civil unrest spread in many countries. This situation requires concerted international action.

#### Causes of high food prices and the medium-term outlook

2. Five reasons explain the increase in food prices. First, world cereal production fell by 3.6 percent in 2005 and 6.9 percent in 2006 due to bad weather in major producing countries. Second, stock levels are very low, which magnifies the impact of production shortfalls as markets worry about the lack of a buffer. The ratio of world cereal ending stocks in 2007/08 to the trend in world cereal utilization is estimated at 18.7 percent, the lowest in three decades. Third, petroleum prices and food prices are highly correlated, with an estimated correlation coefficient of more than 0.6. The rapid rise in petroleum prices exerted an upwards pressure on food prices as fertilizer prices nearly tripled and transport costs doubled over a two-year period. Fourth, increased demand from the biofuels sector also tended to push prices upwards. It is estimated that about 100 million tonnes of grain (some 4.7 percent of global cereal production) are being used for biofuels in 2007/8. In 2007/8, the United States alone is expected to use about 80 million tonnes of maize to produce ethanol, a 37 percent increase over the previous year. Fifth, economic growth in some large developing countries is leading to changes in diet and increased demand for food crops. Over the last 15 years, meat consumption more than doubled in China and grew by 70 percent in Brazil and 20 percent in India. Since it takes some 7 kg of cereals to produce 1 kg of meat, this shift in diet is also leading to higher cereal prices.

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3. Prices remain high today although world cereal production recovered, increasing by 4.7 percent in 2007 and 2.6 percent in 2008 (projected). Available medium-term projections by the International Food Policy Research Institute (IFPRI) and by OECD/FAO indicate that food prices will remain above their previous trend level for the foreseeable future. Prices of food commodities for the next 10 years are likely to be higher than during the previous 10 years, even though a small decline is expected in 2009 or 2010. Those projections are explained by three factors. First, it is believed that the demand for biofuels will continue to rise rapidly. According to the International Energy Agency (IEA) the share of the world's arable land devoted to the growing of biomass for liquid biofuels could triple over the next 20 years. Second, developing country economic growth is expected to continue at about 6 percent a year with significant implications for food demand. Third, climate-change risks are likely to have adverse impacts on food production, compounding the challenge of meeting global food demand.

#### **Impact on developing countries and policy responses**

4. Soaring food prices have negative short-run effects on developing countries that depend on imports for their food security and where the vast majority of households, including those in rural areas, are net food buyers. Hence, it is not surprising that increasing food prices have triggered riots and even contributed to political instability. Unrest linked to high food price has already occurred in a number of countries, including Burkina Faso, Cameroon, Egypt, Guinea, Haiti, Mauritania, Mexico, Morocco, Nepal, Senegal, Uzbekistan and Yemen. This highlights the importance of increasing food prices as a political as well as a developmental issue.

5. The total cost of food imports for developing countries was US\$254 billion in 2007, some 33 percent higher than in 2006 which was already 13 percent higher than 2005. Annual food import bills for Low Income Food Deficit Countries (LIFDCs) were more than twice their 2000 level. Having to deal with higher food and energy import prices is placing a heavy burden on LIFDCs, especially as they have to tackle existing problems of under-nourishment. African countries have been particularly hard hit.

6. Households around the developing world, where food represents more than 50 percent of consumer spending, are suffering from domestic food inflation. In Cote d'Ivoire, prices of rice in March 2008 were double their level of a year earlier, while in Senegal wheat prices by February 2008 were twice the level of a year earlier and sorghum was up 56 percent. In Nigeria, prices of sorghum and millet have doubled in the past five months. In Somalia, the price of wheat flour in the northern areas has almost tripled over 12 months, and in Sudan (Khartoum), it increased by 90 percent. The price of maize in Uganda was 65 percent higher in March 2008 than in September 2007. In March 2008, maize prices in Mozambique (Maputo) were 43 percent higher than a year ago. Rice prices in the Philippines increased by 50 percent in the past two months. In Sri Lanka, prices of rice in March 2008 were almost double those of a year ago, while in Bangladesh, they increased by 66 percent over the same period. In February 2008, bread prices in Tajikistan were double their levels of February 2007 while, in Armenia, the price of wheat flour increased by one-third during the same period. Food prices in Haiti increased by 50–100 percent over the last year.

7. Risk analysis conducted by World Food Programme (WFP) in a number of countries suggests that the impact on household food security will be significant. It is likely that high food prices will make the fight against hunger and poverty an uphill struggle if no additional actions are taken to mitigate the impact. The vast majority of poor rural and urban households in developing countries are net food buyers who are negatively affected by higher prices. According to World Bank household data, less than 10 percent of poor households in Bolivia, Ethiopia and Bangladesh are net sellers of food. Simulations by FAO using household data from Malawi indicate that a 10 percent increase in food prices leads to a 1.2 percent income loss for the poorest quintile in rural areas and a 2.6 percent income loss for the poorest urban quintile. According to this analysis, only the richest rural quintile gain from an increase in food prices.

8. Faced with this situation, many governments have tried to limit the increase in domestic food prices by raising subsidies, lowering import tariffs or imposing export restrictions. By keeping domestic prices below international levels, those interventions provide short-term relief for distressed consumers but could also have negative effects for three reasons. First, by maintaining farm-gate prices artificially, they discourage the much needed supply response and productivity increase that is required for long-term food security. Second, export restrictions lower supply on international markets, pushing prices higher and aggravating the global situation. Third, higher subsidies and/or lower taxes and tariffs increase the pressure on national budgets and reduce fiscal resources available for much needed public investment and other developmental expenditures.

### **Possible areas of international action**

9. The international community needs to consider taking urgent action to deal with the food crisis. Short-run actions could include increasing resources for food aid and safety nets in developing countries, providing more balance of payments and budget support to help meet soaring food and energy bills, and financing emergency programmes aimed at increasing agricultural production in food deficit countries. In addition, greater policy coordination would help maximize synergies in responding to the crisis and avoid situations where one country's market intervention hurts others. In the medium term, there is a need to put agriculture back in the centre of the development agenda, to ensure that it can continue to meet the demands of a world population that is increasing, becoming more urbanized and richer.

10. *Safety nets.* The top priority should be to ensure access of the most vulnerable to food. This can be achieved through expanded safety net programs, which would include assistance in the form of food, vouchers or cash transfers, employment programmes (food or cash for work), school feeding and insurance schemes. Targeted programmes addressing the nutritional status of pregnant and lactating women, children less than five years of age and other vulnerable groups, such as people living with HIV/AIDS or tuberculosis, should be scaled up.

11. Food aid has been declining even as the need for it is increasing rapidly. Given the current crisis, it appears that this trend must be reversed with greater international support for relief agencies, particularly WFP and UNICEF. The high food and fuel prices mean that food aid can reach fewer people with the same resources. Food aid deliveries from WFP have declined almost continuously from 15 million metric tonnes in 1999 to 7 million metric tonnes in 2006. The cost for WFP to deliver food to beneficiaries increased by more than 70 percent over the period 2002-07. Further increases between the end of 2007 and early 2008 have meant additional costs to simply maintain the current low levels of assistance. WFP and UNICEF have extensive experience in the development of safety-net programmes and targeting them to the most vulnerable, especially women and children. But they will require additional resources in order to respond effectively to the current situation.

12. *Balance of payments and budget support.* Developing countries will need support to face increasing food import bills as well as higher energy costs. Thus, the International Monetary Fund (IMF) and the World Bank have important roles to play in providing balance of payments and budget assistance to those countries. Failure to do so runs the risk of jeopardizing important developmental programmes and projects as scarce national resources are diverted to meet immediate food import requirements.

13. *Short-term supply response.* Support needs to focus particularly on enabling poor rural producers – those least able to respond to changing market signals – to expand their production and seize the opportunity offered by higher commodity prices. In fact, cereal production by LIFDCs (excluding China and India) declined by 2.2 percent in 2007 as international prices were rising. Yields in many LIFDCs continue to be much lower than the rest of the world as they lag in

the use of fertilizers, high-yielding varieties, irrigation, integrated nutrient and pest management, and conservation tillage.

14. Actions at country level are needed both to mitigate the impact of high prices and to provide the basis for rapid and medium-term supply response to take advantage of the emerging opportunities through investment in agricultural assets. In particular, FAO, through its Initiative on Soaring Food Prices (ISFP), is offering technical and policy assistance to developing countries to advance efforts to increase food supplies in the upcoming agricultural seasons. FAO already has allocated US\$17 million to provide advice and policy assistance and increase advocacy and raise funding for the most affected countries in responding to high food prices. FAO has already started to use this funding in the following ways.

- Assist vulnerable farmers who are not able to take advantage of high prices – because of insufficient access to inputs – to increase local production (US\$13.5 million). Field activities have started in Burkina Faso, Mauritania, Mozambique and Senegal and will target other affected countries.
- Reinforce the concerned FAO country offices and help governments prepare appropriate actions and strategies to expand agricultural production and productivity, within the framework of national development processes, policies and programmes and national partnerships (US\$2.5 million).
- Establish a Food Market Information Unit (FMIU) to monitor, collect, analyse and disseminate market information for global food security monitoring and food security of individual countries; and to integrate available information on markets, policies, food security and vulnerability at global, regional, country and household levels. The FMIU will build on existing work in FAO and extend it in two directions: 1) coordinate and integrate available information within FAO, partner agencies and member countries and 2) monitor and analyze country policies affecting agricultural development, markets and food security. This FMIU will contribute to deliver FAO's sound policy assistance to the member countries, based on exhaustive food market information and analysis (US\$1 million).

15. FAO also will promote the creation of National Committees on Soaring Food Prices, primarily in the countries most affected by the food crisis. These committees would include relevant government departments, development partners, private sector and civil society organizations, and provide a forum for helping governments formulate and implement programmes and policy adjustments. To support the work and discussions in these committees, FAO is preparing an "ISFP Guide for country-level action" that reviews various instruments that could be used, their likely effects as well as the conditions under which they are likely to be successful.

16. Tailoring policy assistance and intervention mechanisms to the current food price crisis will require remaining focused on the specific situations in individual countries and on the needs of different stakeholders. During the next seasons, the ISFP will focus on increasing the food supply in domestic markets through measures to boost production on the one hand and to improve access to food for poor vulnerable households on the other hand. FAO will join forces with governments, the World Bank, IFAD, WFP, regional development banks and private foundations, and propose to integrate these new projects and programme interventions to facing soaring food prices into regional institutions and programmes, such as NEPAD and CAADP in Africa and others similar in Latin America and Asia.

17. Donors and international financing institutions need to consider increasing their assistance or reprogramming part of their ongoing aid in countries negatively affected by high food prices. A tentative estimation of the additional funding required ranges between US\$1.2 and US\$1.7 billion, depending on the number of countries and the scope of interventions. The release

of these funds can provide important support for poor farmers, including access to inputs and assets, to enhance the food supply response in the next agricultural seasons.

18. *Medium-term support to agriculture.* Over the medium and long term, there is a need to consider ways of increasing public and private investment in developing country agriculture. Much more investment is required, particularly for water management, rural roads and storage facilities, as well as research and extension. Therefore, donors need to consider increasing the share of official development assistance (ODA) going to agriculture, while developing country governments allocate more from their national budgets. Concomitantly, policies conducive for private sector investment in agriculture need to be developed and implemented.

19. *Policy coordination and support.* Countries could work together to put in place appropriate policies to deal with the current situation. Better coordination is needed in the areas of (1) agricultural trade policies to ensure that there is a level playing field and that countries do not engage in “beggar thy neighbour” type policies that end up harming everybody; (2) policies affecting the demand for biofuels; and (3) policies to deal with climate change and help poor farmers adapt. In addition, international organizations can provide policy advice and support to developing countries to mitigate the impact of high food prices, improve the food security situation, protect the productive assets – including land – of poor rural households and benefit from the opportunities that high food prices create for farmers. The UN system can disseminate experiences and best practices to help countries prepare their policy frameworks and strategies. This could include:

- helping design food insecurity and vulnerability monitoring systems;
- identifying and assessing the effectiveness of various measures (e.g. off-season utilization of irrigated land for producing short-duration vegetables or other crops, distribution of seeds and fertilizers through various schemes) that could enhance the ability of producers to respond to improving market signals;
- assessing the impact of changing support to and taxes on food commodities;
- analyzing how to use existing food distribution systems effectively and determining the most appropriate targeting criteria for food sales to vulnerable groups;
- assessing the appropriate role of food reserves for reducing intra-annual price fluctuations and emergency shortfalls; and
- determining the most effective means of enabling the private sector to participate more fully in agricultural development and, in particular, play a critical role in trade of food and supply of agricultural inputs.

### **The way forward**

20. The High-Level Conference will provide an opportunity for world leaders to reiterate their commitment to fighting hunger and achieving the World Food Summit and Millennium Development Goals, discuss the serious trend in world food markets, and agree on concerted actions to mitigate its impact on the poor. Actions to be discussed could include increased financial support for the most vulnerable, greater investment in agriculture, and better policy coordination among countries. Soaring food prices are directly affecting the lives of billions of people and are pulling many into poverty. Action is needed now to mitigate their negative impact and to help millions of poor farmers around the world seize the opportunity provided by greater demand for their products.