How does international price volatility affect domestic economies and food security?

The State of Food Insecurity in the World 2011 highlights the differential impacts that the world food crisis of 2006-08 had on different countries, with the poorest being most affected. While some large countries were able to deal with the worst of the crisis, people in many small import-dependent countries experienced price volatility on a scale unprecedented in recent memories. The report examines how food price shocks affect their future earnings capacity and ability to escape poverty.

This year's report focuses on the costs of food price volatility, as well as the dangers and opportunities presented by high food prices. Climate change and increased frequency of weather shocks, increased linkages between energy and agricultural markets due to growing demand for biofuels, and increased financialization of food and agricultural commodities all suggest that food price volatility is here to stay. The report discusses the effects of high volatility on food security and potential policy options to reduce volatility in a cost-effective manner, and manages its content in a way that it cannot be avoided. It will be important to promote improved market information, create food security safety nets that are designed in advance and can be implemented quickly in times of crisis, and invest in agriculture for the long-term to make it more productive and resilient to shocks.

What was the impact of the 2006-08 world food price crisis on food security – and why were some countries and regions able to cope better than others?

What do recent trends tell us about the likelihood of high and volatile food prices continuing?

Do high and volatile food prices offer smallholder farmers potential benefits, as well as costs? What needs to be done to change the balance?

What is the role of trade policies and buffer stocks in preventing or mitigating domestic price volatility?

What steps can be taken, by countries and by smallholder farmers, to manage the risks of production and price shocks?

How can targeted safety nets be designed and put in place to protect the most vulnerable from the negative impacts of volatile food prices?

What types of investment are needed to ensure the increased productivity, sustainability and resilience of agriculture and alleviation of food insecurity?
How does international price volatility affect domestic economies and food security?

The food and economic crises of recent years are challenging food security, and efforts to achieve the Millenium Development Goal of reducing the proportion of people who suffer from hunger by half by 2015. This edition of the State of Food Insecurity in the World focuses on food price volatility and high food prices, which are likely to continue in the years ahead. In 2010, the Group of Ten (G20) Finance Ministers and Central Bank Governors have become actively engaged in finding viable effective ways to reduce price volatility and to reduce the impact of food insecurity on the poor. By undertaking more policy work and by using previously unavailable data sources and studies, this FAO report can contribute to the global debate.

The report emphasizes that the impact of world prices on food and health matters is a highly context-specific. The impact depends on the nature of the policies that affect the food system, the production characteristics of different households and a world context.

In addition to harming the urban poor, high food prices also hurt many of the rural poor, who are typically net food buyers. The diversity of impacts within countries also points to a need for improved data and analysis so that governments can make context-specific and country-specific policies.

Price volatility makes both smallholder farmers and poor consumers economically vulnerable to shocks. High food prices are a large share of farmers’ income and budget of poor consumers, large price changes have large effects on rural households and poor communities, and a food price shock for farmers can lead to production asset- based and market failure. In addition, it can lead to food price volatility in domestic markets.

A food security strategy that relies on a combination of increased productivity in agriculture, greater policy predictability and general responsiveness to trade is more effective than other strategies. Reducing food prices can protect subsistence and other smallholder producers from world-market volatility, but these policies can also result in increased domestic price volatility as a result of demand-supply shifts, especially if government policies are predictable and new. Growing demand that is more predictable and is less predictable participation by the private sector in trade will generally decrease price volatility.

In recent years, international prices have been high and volatile. High prices present incentives for increased production and trade, and trade will generally decrease price volatility. However, in the short run, increased production will increase domestic prices due to stock accumulation and thus reduce food security. In the longer term, increased production will reduce prices but will not increase food security. Thus, a better food-security strategy is one that targets smallholder farmers and helps them to avoid market failure, such as buffer stocks, reserve management, constraints on financial participation and market failures.

Safety nets are useful for alleviating food insecurity in the short term, as well as for providing a foundation for long-term development. In order to be effective at reducing the long-term consequences of price volatility, targeted and well-coordinated policies need to be designed, implemented and evaluated with the end in mind.

In recent years, high food prices have created incentives for increased production and trade, and trade will generally decrease price volatility. However, in the short run, increased production will increase domestic prices due to stock accumulation and thus reduce food security. In the longer term, increased production will reduce prices but will not increase food security. Thus, a better food-security strategy is one that targets smallholder farmers and helps them to avoid market failure, such as buffer stocks, reserve management, constraints on financial participation and market failures.

Safety nets are useful for alleviating food insecurity in the short term, as well as for providing a foundation for long-term development. In order to be effective at reducing the long-term consequences of price volatility, targeted and well-coordinated policies need to be designed, implemented and evaluated with the end in mind.

In recent years, high food prices have created incentives for increased production and trade, and trade will generally decrease price volatility. However, in the short run, increased production will increase domestic prices due to stock accumulation and thus reduce food security. In the longer term, increased production will reduce prices but will not increase food security. Thus, a better food-security strategy is one that targets smallholder farmers and helps them to avoid market failure, such as buffer stocks, reserve management, constraints on financial participation and market failures.

Safety nets are useful for alleviating food insecurity in the short term, as well as for providing a foundation for long-term development. In order to be effective at reducing the long-term consequences of price volatility, targeted and well-coordinated policies need to be designed, implemented and evaluated with the end in mind.

In recent years, high food prices have created incentives for increased production and trade, and trade will generally decrease price volatility. However, in the short run, increased production will increase domestic prices due to stock accumulation and thus reduce food security. In the longer term, increased production will reduce prices but will not increase food security. Thus, a better food-security strategy is one that targets smallholder farmers and helps them to avoid market failure, such as buffer stocks, reserve management, constraints on financial participation and market failures.

Safety nets are useful for alleviating food insecurity in the short term, as well as for providing a foundation for long-term development. In addition to reducing the long-term consequences of price volatility, targeted and well-coordinated policies need to be designed, implemented and evaluated with the end in mind.
The food and economic crises of recent years have been a challenge to the stability of many domestic economies and food security. They underscore the importance of understanding the drivers and impacts of international food prices and how they interact with domestic markets. This report goes beyond the global-scale analyses to find out using previously unavailable data sources and studies, this is how much food insecurity in the world is driven by price volatility and what can be done to reduce it.

Key messages of the report

- Domestic food insecurity is driven by food price volatility, not by food production levels.
- High and volatile food prices are likely to increase food insecurity in the medium term, unless they are managed through targeted safety-net programs.
- Effective and evidence-based policies can help reduce the negative impacts of price volatility on food security.

Food security strategies that rely on a combination of increased productivity in agriculture, greater price predictability, and08

The State of Food Insecurity in the World

How Does International Price Volatility Affect Domestic Economies and Food Security?

The food and economic crises of recent years have been a challenge to the stability of many domestic economies and food security. They underscore the importance of understanding the drivers and impacts of international food prices and how they interact with domestic markets. This report goes beyond the global-scale analyses to find out using previously unavailable data sources and studies, this is how much food insecurity in the world is driven by price volatility and what can be done to reduce it.

Key messages of the report

- Domestic food insecurity is driven by food price volatility, not by food production levels.
- High and volatile food prices are likely to increase food insecurity in the medium term, unless they are managed through targeted safety-net programs.
- Effective and evidence-based policies can help reduce the negative impacts of price volatility on food security.

Food security strategies that rely on a combination of increased productivity in agriculture, greater price predictability, and general responsiveness to trade shocks are more likely to have positive impacts on food security.

Investment in agriculture remains critical to sustainability in the long term. Policies that target food security and reduce poverty should consider the rights of existing users of land and related natural resources. Investment in agriculture remains critical to sustainability in the long term. Policies that target food security and reduce poverty should consider the rights of existing users of land and related natural resources.

Investment in agriculture remains critical to sustainability in the long term. Policies that target food security and reduce poverty should consider the rights of existing users of land and related natural resources.
The State of Food Insecurity in the World

The State of Food Insecurity in the World 2011 highlights the differential impacts that the world food crisis of 2006-08 had on different countries, with the poorest being most affected. While some large countries were able to deal with the worst of the crisis, people in many small import-dependent countries experienced large price increases that, even when only temporary, can have permanent effects on their future earnings capacity and ability to escape poverty.

This year’s report focuses on the state of food price volatility, as well as the dangers and opportunities presented by high food prices. Climate change and an increased frequency of weather shocks, increased linkages between energy and agricultural economies due to growing demand for biofuels, and increased financialization of food and agricultural commodities all suggest that food price volatility is here to stay. The report describes the effects of food volatility on food security and some policy options to reduce volatility in a cost-effective manner and manage it when it cannot be avoided. It will be important to improve market information, create pro-poverty safety nets that are designed in advance and can be implemented rapidly in times of crisis, and invest in agriculture for the long-term to reduce price volatility and related shocks.

Further Information

The State of Food Insecurity in the World is the FAO’s impact evaluation exercise, which provides policy makers and other stakeholders with a comprehensive understanding of the impact of food security and nutrition policies and programs. The State of Food Insecurity in the World 2011 was produced in collaboration with the United Nations World Food Programme (WFP) and the United Nations Children’s Fund (UNICEF). The report will be available in Arabic, Chinese, French, Russian, Spanish.

ENQUIRIES:
sofi@fao.org

MEDIA RELATIONS:
FAO-Newsroom@fao.org

FAO PUBLICATIONS CATALOGUE:
www.fao.org/icatalog/inter-e.htm

Food and Agriculture Organization of the United Nations
Viale delle Terme di Caracalla,
00153 Rome, Italy
Tel.: +39 06 57051

F U R T H E R  I N F O R M A T I O N