Item 5. Soaring Food Prices and Food Security

Background

The recent rapid rise in food prices has had an immediate impact that affecting all countries, but particularly Low-Income Food-Deficit Countries, where it is raising the cost of food imports and exacerbating the balance of trade. It is causing greater hardship for poor families in both developed and developing countries. Hundreds of millions of people in developing countries already face hunger and malnutrition on a daily basis, and many more will be added to their number. Even in wealthy countries, consumers are scaling down on quality and scaling up on quantity so as to contain their food costs.

The current rise in prices also raises fundamental questions about the adequacy of the current global food management system to ensure world food security, and about the long-term sustainability of production and distribution systems on which the world's food supply is currently based. The new

challenges posed by climate change and the emerging market for biofuels make it all the more urgent to begin addressing these long-term strategic issues that will determine whether the world can assure adequate food for its burgeoning population.

The persistence of widespread food insecurity and malnutrition is negatively influencing economic growth where it is most needed and creating conditions that are bound to breed social and economic instability and, potentially, political insecurity worldwide. While some countries have made rapid progress towards reducing hunger, far too many people remain chronically undernourished and many more suffer from various forms of malnutrition. As a result of the current price rises, any gains made so far risk being wiped out, and many more people's lives are at serious risk.

This document provides information about some fundamental issues affecting food security.

The Food Price Crisis[1]

The world is experiencing a dramatic increase in international prices of basic food commodities. The increase has been rapid, sustained, and across all major crops. In the first three months of 2008, international prices reached their highest point, in real terms, in nearly thirty years, for all major food commodities. Projections suggest that prices are likely to remain high for the next few years, and that this will affect most developing countries' markets. The indications are that the observed long-term decline in real prices could come to a halt, signalling a structural change in agricultural commodity markets, though it is too early to be certain. The FAO Food Price Index rose by 8 percent in 2006 and by a further 24 percent in 2007. The index average for the first three months of 2008 was 53 percent higher than for the same period in 2007. Over the same period, the price of vegetable oils rose by 97 percent, grains by 87 percent, dairy products by 58 percent and rice by 46 percent. Sugar and meat prices also rose, but to a lesser extent. There was much greater price volatility than in the past, which has lasted longer than in past high price events. The World Bank estimates that some 100 million people have been pushed into poverty as a result of high prices over the last two years.

Impacts of rising food prices

Balance of payments situations have worsened. Large increases in food and fuel prices threaten macro-economic stability and growth, especially in low-income, net-importing countries, which are especially vulnerable, due to a combination of chronic hunger and dependence on imports of petroleum, and, in many cases, of cereals and oilseeds. The total cost of food imports for developing countries was US$ 254 billion in 2007, some 33 percent higher than 2006, which was already 13 percent higher than 2005. These countries' annual food imports could now cost over twice what they did in 2000. Low-Income Food-Deficit Countries are expected to face cereal import costs in the 2007/08 that are 56 percent higher than the previous marketing year. Africa is particularly affected. In some poor countries, the increased costs lead to a substantial deterioration in their current accounts, sometimes by over 3 percent of GDP in a year. A negative balance of payments places a heavy burden on developing countries, as higher food and energy prices compound existing problems of under-nourishment and further reduce the availability of funds for essential investments.

Household food insecurity and malnutrition have been aggravated. Rising prices are bound to deepen the already unacceptable level of food deprivation suffered by 854 million people (SOFI, 2006), and risk adding many more millions to their numbers. The impact of domestic food inflation on food security in developing countries, where food represents over half of consumer spending and as much as 70-80 percent of expenditure by low-income families, is severe. Malnutrition is worsened, when the poor are unable to afford higher quality foods, including meat, dairy products and vegetables. The impact of soaring food prices on households depends crucially on their position in agricultural output food markets as producers and consumers: taking an unweighted average across countries, only 23

[1] A detailed analysis is available in *Soaring food prices: the need for international action* (HLC/08/INF/1)

percent of all households and 31 percent of rural households are net food sellers, indicating that a majority of households are net buyers of staple foods: this means that the majority of the poor stand to lose from rising prices.

Agricultural production, for net exporting countries and net-sales households, will usually benefit from rising prices. They can raise incomes, induce an expansion in production, and encourage additional investment in productive assets. For this to be the case, price rises must be allowed to reach farmers, and they must have confidence that high prices will continue in the medium term. The current price rise should therefore trigger a spontaneous growth in world food production, in both developed and developing countries, and provide a unique opportunity to re-launch agricultural investment and increase agricultural productivity in developing countries. The risk, however, is that this stimulus will be dampened if governments adopt policies that unduly lower prices, in order to protect consumers from hunger and malnutrition, by measures such as the removal of import tariffs, export restrictions, or the sale at low prices of government-owned food stocks. Rising energy and input prices will also dampen production responses, if higher farm-gate prices do not compensate for them.

Factors behind the food price crisis

Supply scarcity. There were production falls in cereals in some major exporting countries, by 4 percent in 2005 and 7 percent in 2006, though there was an estimated 5 percent increase in cereal output in 2007, at the expense of a decline in oilseed output. Most of this decrease is the result of adverse weather in major producing countries but some can be attributed to long-term declines in the profitability of farming, given a falling trend in food prices that is only now being reversed. Climate change (rising temperatures) and climate variability (droughts, floods) are expected to exacerbate food supply instability.

Food stocks decline. A growing imbalance between world food output and a progressive rise in food demand due to a growing world population and a rise in average disposable income levels, combined with a reduction in the size of publicly owned reserves, has reduced world stock levels by 3.4 percent yearly since the last high price event in 1995. World stocks are now at the lowest level since the 1970s, at an estimated 18.8 percent of annual utilization[2]. By the end of the 2008 main production seasons, they are expected to decline by a further 5 percent.

*High energy price*s. Increasing fuel costs (which have more than tripled since 2003) have fed through to increases in the costs of agricultural inputs (particularly some fertilizers, which rose over 160 percent in the first two months of 2008, compared to a year earlier), transport and farm machinery operations. Freight rates doubled in the year up to February 2007, adding to food import costs.

Biofuel demand. A new factor has been the rapidly expanding use of agricultural commodities for the production of liquid biofuels. The rising demand for maize for bioethanol production and rapeseed for biodiesel has been the principal new factor behind rising food prices. Increased plantings of individual crops for biofuel leads a reduction in planting of other crops, and to price rises in these. Increased conversion of tropical forests to oil palm plantations is being driven by high demand for palm oil for biofuel. This results in greenhouse gas emissions, particularly when the draining of peat swamp forests is involved.

Speculative transactions. The abundance of liquidity among certain countries, matched with a collapse in other formerly attractive areas of investment, low interest rates and high petroleum prices, made agriculture-based derivative markets a magnet for speculators looking to spread their risk and pursue more lucrative returns. This influx of liquidity seems to have affected the decisions of farmers, traders and processors of agricultural commodities, thus contributing to price volatility.

[2] This has severely reduced the availability of food for use by WFP in emergency activities, from 15 million tons in 1999 to 7 million tons in 2006.

Exchange rate swings. The decline of the US dollar, in which most agricultural commodities are quoted, has had critical effects in agricultural markets and trade patterns. Short-term policy responses by Governments, in banning or taxing exports, have exacerbated market volatility.

The way forward

Food security in its four dimensions food availability, food accessibility, food stability and food utilization will be further affected by the impacts of climate change. The nexus of food security, climate change, and bioenergy will be discussed by world leaders at the High Level Conference on World Food Security: The Challenges of Climate Change and Bioenergy (http://www.fao.org/foodclimate/) which will be hosted on June 3- 5 by FAO. At that meeting the international community is expected to come up with some suggestions for the way forward.

The 49th session of the ACPWP will be briefed on the results of the High Level Conference.