World Food Day/TeleFood 2011 Information Note
"Food prices – from crisis to stability"

Between 2005 and 2008, the world's staple food prices soared to their highest levels in 30 years. During the last 18 months of that period, maize price increased by 74 percent while that of rice almost tripled, climbing a whole 166 percent.

Food riots broke out in more than 20 countries. Editorialists decreed the end of cheap food. Economists believed that the kind of price roller-coasters experienced since 2006 are likely to recur in the coming years. In other words food price volatility – the technical term for the phenomenon – has probably come to stay.

"Food prices – from crisis to stability" has been chosen as this year's World Food Day theme to shed some light on this trend and what can be done to mitigate its impact on the most vulnerable.

Price swings, upswings in particular, represent a major threat to food security in developing countries. Hardest-hit are the poor. According to the World Bank, in 2010-2011 rising food costs pushed nearly 70 million people into extreme poverty.

At the level of net food importing countries, price spikes can hurt poor countries by making it much more expensive for them to import food for their people. At the level of individuals, people living on less than US$1.25 a day may need to skip a meal when food prices rise. Farmers are hurt too because they badly need to know the price their crops are going to fetch at harvest time, months away. If high prices are likely they plant more. If low prices are forecast they plant less and cut costs.

Rapid price swings make that calculation much more difficult. Farmers can easily end up producing too much or too little. In stable markets they can make a living. Volatile ones can ruin them while also generally discouraging much-needed investment in agriculture.

Recognizing the major threat that food price swings pose to the world's poorest countries and people, the international community, led by the G20, moved in 2011 to find ways of managing volatility on international food commodity markets.

In order to decide how, and how far, we can manage volatile food prices we need to be clear about why, in the space of a few years, a world food market offering stability and low prices became a turbulent marketplace battered by sudden price spikes and troughs.

The seeds of today's volatility were sown last century when decision-makers failed to grasp that the production boom then enjoyed by many countries might not last forever and that continuing investment was needed in research, technology, equipment and infrastructure.

In the 30 years from 1980 to date the share of official development assistance which OECD countries earmarked for agriculture dropped 43 percent. Continued under-funding of agriculture by rich and poor countries alike is probably the main single cause of the problems we face today.

Contributing to today's tight markets is rapid economic growth in emerging economies, which means more people are eating more meat and dairy produce with the need for feedgrains increasing rapidly as a result. Population growth, with almost 80 million new mouths to feed every year, is another important element. Population pressure is compounded by the erratic and often extreme meteorological phenomena produced by global warming and climate change.

A further contributing factor may be the recent entry of institutional investors with very large sums of money into food commodity futures markets. Lastly, distortive agricultural and protectionist trade policies bear a significant part of the blame.

Responding to food price volatility therefore involves two different kinds of measures. The first group addresses volatility itself, aiming to reduce price swings through specific interventions while the other seeks to mitigate the negative effects of price swings on countries and individuals.

Greater policy coordination in international food trade can reduce volatility by helping maintain an assured flow of goods. FAO supports the multilateral negotiations under the World Trade Organization and the elimination of trade-distorting agricultural subsidies in rich countries.

On speculation, FAO's research suggests that while this might not trigger price movements, it could exaggerate their size and duration.

More and better information is needed to allow greater transparency in trade on futures markets. This would help ensure that governments and traders make informed decisions and avoid panic or irrational reactions.

As to mitigating the effects of volatility, national or regional safety nets, possibly featuring emergency food reserves, can help assure food supplies to needy and vulnerable population groups during crises. Poor consumers can also be assisted with cash or food vouchers and producers helped with inputs such as fertilizer and seeds.

Market-based mechanisms can help low-income developing countries to meet higher food import bills. At country level, governments can protect themselves from food price increases through a variety of financial arrangements such as call options, which would give them the right to buy food at a set price even months ahead, regardless of how the market has moved in the meantime. At international level, compensatory facilities can help low-income developing countries meet escalating food import bills. Concessional financing facilities such as those provided by the IMF helped countries contend with the balance of payments problems that soaring food prices provoked in 2007-2008.

Ultimately though, stability in the food market depends on increased investment in agriculture, particularly in developing countries, where 98 percent of the hungry live and where food production needs to double by 2050 to feed growing populations.

Investment in infrastructure, marketing systems, extension and communication services, education, as well as in research and development, can increase food supply and improve the functioning of local agricultural markets, resulting in less volatile prices. In this way, markets can work for the poor people who bear the burden of food price volatility. The level of net investments required is around US$83 billion a year which would help millions of people around the world escape poverty and help restore long-term stability to agricultural markets.

On World Food Day 2011, let us look seriously at what causes swings in food prices, and do what needs to be done to reduce their impact on the weakest members of global society.

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