FOOD PRICES

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 2010 to find ways of managing volatility on international food commodity markets. Under the presidency of France’s Nicolas Sarkozy, the world’s 20 largest economies agreed that any strategy directed to that purpose should protect the vulnerability of poor countries and groups of particular importance.

Today’s turbulent commodities markets contrast sharply with the situation that characterized the last 25 years of the twentieth century. Between 1975 and 2000, cereal prices remained substantially stable on a month-to-month basis, although trending downward over the longer term. For despite rapid population growth – world population doubled between 1960 and 2000 – the Green Revolution, led by Norman Borlaug in the 1960s, helped food security in developing countries. FAO monitors and analyzes the causes of food price volatility in global and national markets, through its Global Information and Early Warning System and publications like Food Price Index, Food Outlook and Food Price Watch.

FAO published recently the Guide for Policy and Programming Action in Countries at Risk by Addressing High Food Prices and embarked on the organization of a series of regional and sub-regional seminars to help countries make informed decisions and support the design of country-level/international plans.

In 2010, FAO delivered US$800 million in emergency and technical cooperation assistance to over 70 countries.

FOOD PRICES INDEX 1990–2011

FREE EDA OF FOOD PRICE VOLATILITY ENDS LONG PERIOD OF STABILITY

The global market is tight, with supply struggling to keep pace with demand. Countries paid more to their farmers. But the picture today is a very different one.

Many countries, including India, thanks to the work of M. S. Swaminathan, then Director of the Indian Agricultural Research Institute.

Norman Borlaug in the 1960s helped food supply to meet and even exceed demand in the world’s largest economies agreed that any strategy directed to that purpose should protect the vulnerability of poor countries and groups of particular importance.

In 2010, FAO assisted governments to programme over US$23 billion of investment by development banks to agriculture.

In 2007, FAO Food Price Index was 111, representing an increase of 11 percent over the previous year. FAO has helped 20 countries hardest hit by price volatility. FAO has helped governments to programme over US$34 billion in emergency and technical cooperation assistance to over 70 countries.

FOOD PRICES FROM CRISIS TO STABILITY

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 drops.

Today’s turbulent commodities markets contrast sharply with the situation that characterized the last 25 years of the twentieth century. Between 1975 and 2000, cereal prices remained substantially stable on a month-to-month basis, although trending downward over the longer term. For despite rapid population growth – world population doubled between 1960 and 2000 – the Green Revolution, led by Norman Borlaug in the 1960s, helped food security in developing countries. FAO monitors and analyzes the causes of food price volatility in global and national markets, through its Global Information and Early Warning System and publications like Food Price Index, Food Outlook and Food Price Watch.

FAO’s contribution

• Under its initiative on Surviving Food Prices, launched in December 2007, FAO has helped distribute key inputs such as seeds and fertilizer to poor farmers in some 90 of the countries hardest hit by price volatility.

• Recently, FAO, together with the OECD, led a team of nine international organizations in setting up a series of recommendations for the French Presidency of the G20 on how to manage food price volatility so as to do the most valuable.

• FAO monitors and analyses the causes of food price volatility in global and national markets, through its Global Information and Early Warning System and publications like Food Price Index, Food Outlook and Food Price Watch.

• FAO published recently the Guide for Policy and Programming Action in Countries at Risk by Addressing High Food Prices and embarked on the organization of a series of regional and sub-regional seminars to help countries make informed decisions and support the design of country-level/international plans.

• Increased investment in agriculture should be one of the main responses to high food prices. In 2010, FAO assisted governments to programme over US$23 billion of investment by development banks to agriculture.

• In 2010, FAO delivered US$800 million in emergency and technical cooperation assistance to over 70 countries.

“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.

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. In 2010 the world’s Low Income Food Deficit Countries (LIFDCs) spent a record US$164 billion on food imports, representing a rise of 20 percent on the year before.

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 what can be done to mitigate its impact on the most vulnerable.

At the level of poor countries, price spikes can also hurt poor countries by making it much more expensive for them to import food for their people. In 2010 the world’s Low Income Food Deficit Countries (LIFDCs) spent a record US$164 billion on food imports, representing a rise of 20 percent on the year before.

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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 G8, moved in 2001 to find ways of managing volatility on international food commodity markets. Under the presidency of France’s Nicolas Sarkozy, the world’s 20 largest economies agreed that any strategy directed to that purpose should have the protection of vulnerable countries and groups as its main priority.

Today’s turbulent commodity markets contrast sharply with the situation that characterized the last 25 years of the twentieth century. Between 1975 and 2000, cereal prices remained substantially stable on a month-to-month basis, although trending downward over the longer term. For despite rapid population growth – world population doubled between 1960 and 2000 – the Green Revolution launched by Dr. Norman Borlaug in the 1960s helped food supply to meet and even exceed demand in many countries.

In order to decide how, and how far, we can manage volatile food prices, we need to know exactly why they fluctuate. That is not good news. Price swings, sometimes in particular, represent a major threat to food security in developing countries. Hard-hit are the poor. According to the World Bank, in 2000–2009 rising food costs pushed nearly 70 million people into extreme poverty.

The downturn was short-lived, however. In 2010 grain prices shot up 50 percent and continued into 2011 before starting to dip somewhat in the second quarter of 2011. And at that point what would happen next was very much an open question: Economists believed, however, that the kind of price roller-coaster 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.

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. Maize, the world’s most important cereal, is the main staple food for 600 million people who eat it more than once a day. It is a food that is high in nutrients and relatively cheap. Maize price’s surge, therefore, is likely to have severe impacts on millions of people in many countries of the world. What lesson can we learn from this? What can be done to mitigate its impact on the most vulnerable?

In recent years FAO has supported the implementation of national food security strategies in developing countries. FAO has a country office in all countries hardest hit by price volatility. FAO has helped food security in developing countries. Hard-hit are the poor. According to the World Bank, in 2000–2009 rising food costs pushed nearly 70 million people into extreme poverty.

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In fact there was, in the Western Hemisphere at least, an over-abundance of food, so much so that many countries which OECD countries paid to their farmers. But the picture today is a very different one. The global market is tight, with supply struggling to keep pace with demand and stocks are at or near historical lows. It is a delicate balance that can easily be upset by shocks such as droughts or floods in key producing regions.

Moving in 2011 to find ways of managing volatility on international food commodity markets, through its Global Information and Early Warning System and publications like Food Price Index, Food Outlook and Food Price Watch.

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FAST FACTS

- 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 one.
- A market battered by sudden price spikes and troughs.
- Today’s turbulent commodities market stands sharply with the situation that characterized the last 25 years of the twentieth century. Between 1975 and 2000 cereal prices remained substantially stable on a month-to-month basis, although trending downward over the longer term. For despite rapid population growth – world population doubled between 1960 and 2000 – the Green Revolution launched by Dr. Norman Borlaug in the 1940s helped food supply to meet and even exceed demand in many countries, including India, thanks to the work of M. S. Swaminathan, then Director of the Indian Agricultural Research Institute.

"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.

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. In 2010 the world’s Low Income Food Deficit Countries (LIFDCs) spent a record US$5.944 billion on food imports, representing a rise of 20 percent on the year before.

At the level of individuals, people living on less than US$2.50 a day may never 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 aren’t likely they’ll plant more. If low prices are forecast they’ll plant less. A tenuous balance is needed for a market that can help poor countries and groups as its main priority.

FAO’s contribution
- Under its Initiative on Soaring Food Prices, launched in December 2007, FAO has helped distribute key inputs such as seeds and fertilizer to poor farmers in some 90 of the world’s poorest countries and people, and helped them plant in ways that protect the most vulnerable.
- FAO monitors and analyses the causes of food price volatility in global and national markets, through its Global Information and Early Warning System and publications like Food Price Index, Food Outlook and Food Price Watch.
- FAO published recently the Guidance for Policy and Programmatic Action in the Food and Agriculture Sector in the好不容易 to Address High Food Prices and embarked on the organization of a series of regional and subgroup seminars to help countries make informed decisions and support the design of country-level/national action plans.
- Increased investment in agriculture should be one of the main responses to high food prices. In 2010, FAO assisted governments to programmes over US$20 billion of investment by development banks to agriculture.
- In 2010, FAO delivered US$800 million in emergency and technical cooperation assistance to over 70 countries.
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 could not last forever and that continuing investment was needed in research, technology, equipment and infrastructure. From 1980 to 2000, the share of official development assistance provided by OECD countries earmarked for agricultural dropped 43 percent. Continued under-funding of agricultural 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 consume with the need for grains increasing rapidly as arable land in global trade in commodities, the world leading protein feed for animals has grown 67 percent over the past 10 years. A further contributing factor may be the recent entry of institutional investors with very large sums of money into food commodity futures markets. There is evidence to suggest that food prices may have surged partly as a result of speculation, FAO favours abandoning current distortive subsidies and policies or at least making them more flexible and ensuring that biofuel production is in the countries and with the crops best suited to such production.

Responding to food price volatility therefore involves two different kinds of interventions. First, we need to address the drivers of the price swings through specific interventions while the other seeks to mitigate the negative effects of price swings on countries and individuals.

One of the ways governments can help low-income developing countries to meet higher food import bills is through concessional food aid. Concessional food aid is low-cost food aid, proactively purchased by governments and sold to low-income developing countries with the aim of helping meet escalating food import bills. Concessional food aid is purchases by governments but is then sold to households through direct cash transfers 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 promote 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, commodity and futures markets can help low-income developing countries meet escalating food import bills. Commodities futures markets have a vital role in offsetting price risk and in price discovery, while investors also bring fresh liquidity into the sector.

The level of net investments required is around US$83 billion a year on average to raise agricultural productivity and help restore long-term stability to agricultural markets. Private sector investments in infrastructure, marketing systems, extension and research and development programmes in developing countries have lagged behind. From 1980 to 2000, the level of net investment in agriculture, particularly in developing countries, where 98 percent of the hungry live reached only US$8 billion a year or 30 percent of the required level. Market-based mechanisms can help low-income developing countries to meet higher food import bills. Concessional food aid is low-cost food aid, proactively purchased by governments and sold to low-income developing countries with the aim of helping meet escalating food import bills. Concessional food aid is purchases by governments but is then sold to households through direct cash transfers 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. Commodities futures markets have a vital role in offsetting price risk and in price discovery, while investors also bring fresh liquidity into the sector.

From crisis to stability

Markets discourage the private sector and hinder competition. As expensive and difficult to operate. Also, government intervention in food markets discourages the private sector and hinders competition. There is evidence to suggest that food prices may have surged partly as a result of speculation, FAO favours abandoning current distortive subsidies and policies or at least making them more flexible and ensuring that biofuel production is in the countries and with the crops best suited to such production.

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The level of net investments required is around US$83 billion a year on average to raise agricultural productivity and help restore long-term stability to agricultural markets. First step was to help them form farmers’ groups. Then the groups were helped to get credit through local savings schemes and with the help of microfinance institutions.

The case of the Philippines - several countries, including China, Indonesia, Vietnam, and Brazil, are building domestic food production as their strategic response to high food prices. For example, the Government of the Philippines, which used to be the world’s largest rice importer, is aiming to achieve self-sufficiency by 2013. Yet, food prices have been high in the summer harvest and achieve self-sufficiency. They have agreed to set aside an annual plan of the Philippines’ rice production to 17.46 million tonnes by 2011. The Philippines played a major role in the Green Revolution. In 1960, the hybrid rice variety that was to end recurrent famines in many parts of Asia, was developed at the International Rice Research Institute, established by the Philippines government and the Ford and Rockefeller Foundations in Los Banos. With the new, high-yielding hybrid rice, production increased by 50 percent in three years and helped to feed millions. The Philippines now produces about 17 million tonnes of rice per year.

Improving incomes through credit innovation

The Philippine government’s 1996 rice credit program targeted the rural poor who stood to benefit the most from higher prices. The program was designed to reduce farmers’ transaction costs and to improve access to finance. The long-term challenge to self-sufficiency was set by the government and the Asian Development Bank. The new, high-yielding hybrid rice variety, which was developed in the Philippines, helped to increase yields by 15 percent in six months. And since then was also to buy better seeds and fertilizers and yields went up by 40 percent and higher.
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 1960 to the start of the official development assistance to agriculture in 1980, which OECD countries earmarked for agriculture dropped 43 percent. Continued under-funding of agricultural R&D and poor policy advice 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 marine and dairy products, with the need for high-quality, rapidly developing rapidly as an asset. Global trade in soybeans, the world’s leading protein feed for animals, has grown 67 percent over the past 12 years.

The level of net investments required is around US$83 billion a year to ensure food security, and where food production needs to double by 2050 to feed growing populations (UN FAO 2008). The Philippines, for example, is one of the world’s largest rice exporters, seeing its exports increase from 39 to over 42 million tonnes while the number of beneficiaries went up by a million to 17.46 million tonnes this year.

Population growth is an important factor that must be considered. In the past 30 years from 1960 to date the share of official development assistance which went to support health and education, as well as in research and development, and where food production needs to double by 2050 to feed growing populations (UN FAO 2008). The Philippines, for example, is one of the world’s largest rice exporters, seeing its exports increase from 39 to over 42 million tonnes while the number of beneficiaries went up by a million to 17.46 million tonnes this year.

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SAFETY NETS AT WORK

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CONCLUSION

The level of net investments required is around US$83 billion a year to ensure food security, and where food production needs to double by 2050 to feed growing populations. The Philippines, for example, is one of the world’s largest rice exporters, seeing its exports increase from 39 to over 42 million tonnes while the number of beneficiaries went up by a million to 17.46 million tonnes this year.

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FAO’s contribution

- Under its initiative on Searing Food Prices, launched in December 2007, FAO has helped distribute key inputs such as seeds and fertilizer to poor farmers in some 90 of the countries hardest hit by price volatility.
- Recently, FAO, together with the OECD, led a team of nine international organizations in preparing a series of recommendations for the French Presidency of the G20 on how to manage food price volatility so as to ensure the most vulnerable.
- FAO monitors and analyses the causes of food price volatility in global and national markets, through its Global Information and Early Warning System and publications like Food Price Index, Food Outlook and Food Price Watch.
- FAO published recently the Guide for Policy and Programme Action at Country Level to Address High Food Prices and embarked on the organization of a series of regional and subregional seminars to help countries make informed decisions and support the design of country-level/strategic plans.
- Increased investment in agriculture should be one of the main responses to high food prices. In 2010, FAO insisted governments to programme over US$200 billion of investment by development banks to agriculture.
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**FAO FOOD PRICE INDEX 2000-2011**

**NEW ERA OF FOOD PRICE VOLATILITY ENDS LONG PERIOD OF STABILITY.**

![FAO’s Food Price Index](image)

### Food Prices from Crisis to Stability

**World Food Day 2011, let us work jointly at all levels, cause savings in food prices, and do what needs to be done to reduce their impact on the weakest members of global society.**

**Food prices**

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, prices increased by 76 percent while that of rice almost tripled, climbing a whole 166 percent.

Food riots broke out in more than 20 countries. Editors wrote of the end of cheap food. But then, after peaking in June 2008, prices started again — falling 33 percent in six months – largely as a vast financial and banking crisis threw the global economy into recession.

The downturn was short-lived. However, in 2010, prices stabilised up to 50 percent and continued to rise to before starting to dip somewhat in the second quarter of 2011. And at that point what would happen next was very much up in the air.

Economists believed, however, that the kind of price rollercoaster experienced since 2005 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.

That is not good news. Price spikes, sometimes in particular, represent a major threat to food security in developing countries. Hardest hit are the poor. According to the World Bank, in 2010 US$5 rising food costs pushed nearly 70 million people into extreme poverty.

**‘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.

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 population. In 2010 the world’s Low Income Food Deficit Countries (LIFDCs) spent a record US$3.6 billion on food imports, representing a rise of 20 percent on the year before.

At the level of individuals, people living on less than US$1.25 a day may now 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 expected they plant less and cut costs.

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