Press Conference on Soaring Food Prices and Action Needed
By Dr Jacques Diouf, Director-General, FAO; Rome, 17 December 2007

1/ Agricultural Prices

1.1/ Data

- Agricultural commodity prices rose sharply in 2006 and, in some cases, are soaring at an even faster pace this year. **The FAO food price index rose by nearly 40% in over a-one-year period in 2007**, while the increase in 2006 over the previous year was only 9%, The surge in prices has been led primarily by dairy and grains, but prices of other commodities, with the exception of sugar, have also increased significantly.
- **International wheat export prices that have been increasing since June remain at high levels.** In November, the United States wheat No 2 (HRW, fob) averaged US$332 per tonne, a slight decline from its peak in October, but still US$113 per tonne (or 52%) above the price a year earlier. **Since early December, wheat prices have started to rise again** with some soaring to new record, mainly on concern that some 2008 area may be diverted to higher-priced soybeans instead.
- **Export prices of maize which have remained volatile since February, when they reached a ten-year high of US$177 per tonne, have risen in the past two months.** In December, maize prices continued to increase following recent downward revisions of the 2007 world coarse grains and prospects of increased requirements for production of biofuels under the next Farm Bill. **Strong maize prices, combined with shortages of feed wheat, have pushed up the values of most other feed grains as well.**
- **International prices of rice have strengthen in the past two months.** Sustained by limited supply availability in major exporting countries and strong import demand around the world, the firmness of prices was generalized, affecting rice of all qualities and from all origins.
- **Prices in the oilseed complex have continued their pronounced rise in 2006/07.** In November 2007, the FAO price index for meals/cakes stood 42 points (or 22%) above last year's corresponding value, while for oilseeds and oils/fats this amounted to over 90 points (or over 70%). **International prices have reached an all time record in the case of oilseeds and 23 and 34 year highs for oils and meals respectively.**

1.2/ Causes / Stocks

- Historically **low levels of global stocks** of many commodities: global **cereal stocks** by the close of the seasons ending in 2008 are expected to fall to about 420 million tonnes, nearly 2 percent down from their already reduced opening level and the lowest since 1983.
- FAO expects **wheat** stocks to reach 142 million tonnes, down 17 million tonnes, or 11 percent, from the previous season and lowest since 1980. This corresponds to 12 weeks of total consumption; much lower than a 5-year average of 18 weeks (2000-2005). **Note:** It is possible that wheat stocks have fallen to 47 years low as reported by the USDA, but FAO's statistics start only in 1980.
- **Maize** stocks are expected to reach 129 million tonnes, up 12 million tonnes, or 10 percent, from the previous season. This represents almost 8 weeks of total utilization; lower than a 5-year average of 11 weeks (2000-2005). **Note:** FAO has higher maize stock estimate for China than does USDA.

1.3/ Climate

Unusual weather events have negatively affected production in many important exporting countries (e.g. Australia, Ukraine etc.), leading to tight supplies.

1.4/ Biofuels

New **demand for some agricultural commodities to produce biofuels** following significant increases in the price of crude oil, which made them viable substitutes. This possibility is increasingly leading to the implementation of public policies to support the biofuels sector that further encourages demand for these feedstocks (e.g. sugar, maize, cassava, oilseeds, palm oil etc.). **Example:** the US maize use for fuel production, which has doubled from 2003, is projected to increase from 55 million tonnes in 2006 to 110 million tonnes in 2016. In the EU, the use of wheat for biofuels is set to increase twelvefold to 18 million tonnes by 2016.

1.5/ Increasing demand

- Long-term **changes in the structure of food demand in developing countries** (especially in China, India and Brazil) as a result of rapid economic growth have led to diversifying diets away from starchy foods to meat products. On calorie basis, 3 kg of cereals are equivalent to 1 kg of beef/pork. In China, per capita meat consumption has increased from 20 kg in 1980 to 50 kg now. These developments have intensified the demand for feed grains. In terms of water use, it takes 1000-2000 litres of water to produce 1 kg of wheat and 10000-13000 litres for 1 kg of beef.
- This has been intensified by population growth, with global population increasing by 78.5 million per year (mostly in developing countries) and the phenomenon of urbanisation

1.6/ Impacts / Consequences:

- **Feed:** due to increased demand for feed commodities (1-2% per annum since 1980), resulting from higher demand for livestock products, feed prices (maize, oilseeds) have increased substantially, leading to further increases in meat and dairy prices.
- **Food aid:** it is usually counter-cyclical with commodity prices, i.e. when food prices go up, food aid goes down. This is also due to the fact that food aid decisions are made on a budgetary basis.

2/ Trends in petroleum and gas prices

- Oil prices have surpassed the US$90/barrel level, reaching a record since 1980 (when the price hit US$ 102/barrel). Over a one year period, the increase is in the order of 50 %. Gas prices have followed the same trend during the last few years, they tripled since 1990.
- US Light crude oil prices reached a new record of US96.24/barrel. Prices continued to rise to a peak of $98.62/barrel on 7 November 2007.
- Oil prices will remain high for the foreseeable future due to rapid increases in demand from the huge developing economies of India and China. A range of 70-80 dollars a barrel was suggested by some analysts to be OPEC's goal.
- Major oil exporting countries are rapidly developing and are using more oil domestically. Particularly Indonesia, which no longer exports oil, Mexico and Iran, where projected demand will exceed production in about 5 years, and Russia, which is growing rapidly.

- Soaring **petroleum prices** have contributed to the increase in prices of most agricultural crops: by raising input costs, on the one hand, and by boosting demand for agricultural crops used as feedstock in the production of biofuels on the other. Also, the high fuel costs have pushed up freight rates, contributing to further increases in food import bills.

3/ Combined Effects

3.1/ Negative effects

- Food Import Bill

- At US$745 billion, the global cost of imported foodstuffs in 2007 would be some 21 percent more than the previous year and the highest level on record. Much of the anticipated growth would be fuelled by higher expenditures on grain based products, in spite of expected net reductions in imported volumes of these foodstuffs. Soaring prices are to blame, especially for wheat, but also freight costs, which have doubled since last year, putting additional pressure on the ability of countries to cover their import expenditures. The combination of rapidly rising prices and record freight rates are also behind much higher global bills for imported dairy products and vegetable oils.
- The total cost of imported foodstuffs for Low Income Food Deficit Countries (LIFDCs) in 2007 would be some 25 percent higher than the previous year, surpassing US$ 107 billion.

- Government interventions

Countries including. Argentina, Azerbaijan, Bangladesh, Bolivia, Bosnia, Cameroon, China, Croatia, Ecuador, Egypt, Ethiopia, Honduras, India, Kazakhstan, Kenya, Malawi, Mali, Mexico, Morocco, Philippines, Vietnam and Zambia are trying to moderate the domestic impact of high world prices through the use of national policy instruments. In most cases governments are either restricting exports or reducing tariffs on imported food.

- Social consequences

High food prices are leading to social tensions in many parts of the world. Political unrest directly linked to food markets recently occurred in Morocco, Uzbekistan, Yemen, Guinea, Mauritania and Senegal.

3.2/ Positive effects

- High agricultural prices are good for farmers, assuming that food price increases “trickle down” to the farm-gate. Since farming is the major source of income in most developing countries, higher prices could help alleviate poverty and improve access to food. They will also encourage investment in agriculture and higher productivity in the future.
- Higher commodity prices should normally result in increased domestic production to respond to demand. The production of agricultural commodity becomes more competitive relative to secondary and tertiary sectors.
- Higher agricultural prices should also increase the incentives of farmers to invest in their production structures; with the investment having longer-term effects on their production capacity.

4/ Facing the situation / reacting

4.1/ Information: monitoring market situation and providing timely information on stocks, production, prices, imports and exports is critical for appropriate and timely response. Market analysis and early warning.

4.2/ Advocacy: press releases, interviews, press conferences, reports, alerts, etc.

4.3/ Concrete Actions by FAO

We need to quickly boost crop production in the most affected countries and improve access to inputs by issuing poor farmers with vouchers to buy seeds and fertiliser for major staple crops, which could increase production by about 20 percent.

Empowering beneficiaries with vouchers to increase their purchasing power makes sense if the private sector is able to respond. It also avoids cumbersome and costly procurement and distribution by the governments or aid agencies. FAO has successful experiences of distributing vouchers and promoting input fairs in eastern and southern Africa. Input fairs and vouchers can be less costly to implement than direct distribution, so a greater number of recipients can be covered for the same money. However, if markets are not well integrated, providing vouchers (or cash) will inflate prices thereby reducing accessibility of the poor to the inputs.

- *First*, measures to protect and boost production should include urgently stepping up investment in crop protection and veterinary services as well as in water control and farm to market infrastructure, but also in improving soil fertility. The pressure on governments to finance expensive food imports needs to be eased so that they can focus on long-term solutions. Increased investment in productivity and food production is fundamental. This can be achieved through a reduction in transactions costs and an elimination of restrictions on movement of farm products. Concomitantly, policies and provision of public goods should support increases in private investment and productivity. Investment in rural infrastructure can increase farmer access to key inputs such as fertilizer and credit, while simultaneously increasing the opportunities for selling into new markets, helping farmers increase productivity and output.

- *Second,* safety nets for the poor and food insecure should be strengthened. Immediate measures are needed to protect the poor net consumers or those who are vulnerable to food price increases. Safety nets such as conditional and unconditional cash transfers, nutrition programmes such as school meals, and programmes for vulnerable groups such as the sick and elderly have to be intensified to prevent the deterioration of hunger and poverty conditions.

- *Third,* the financing of food imports to developing countries needs to be facilitated. Private food importers are sometimes unable to secure adequate trade financing because of credit ceilings and a perception of high risk. The establishment of an international financing and guarantee mechanisms could help address this problem and the balance of payment of low income food deficit countries.

- *Fourth,* policies on bio-fuels need to be coordinated with international efforts to fight hunger. This issue will be discussed at the High-Level Conference on "World Food Security and the Challenges of Climate Change and Bioenergy", to be convened by FAO in Rome from 3 to 5 June 2008.