

Foreword

In the first half of 2008, the world was facing the highest food price levels in 30 years and a global food insecurity crisis. Food prices were up as much as 40 percent from their 2007 level and 76 percent from 2006. The sharpness of the price increases and their persistence, which left many developing countries struggling to cope with the consequences, make this episode different from past events of food price increases.

Social and political stability was challenged around the world as rising food prices and falling purchasing power sparked riots and civil disturbance. One should imagine the impact on the poor in developing countries who were already spending, in some cases, up to 80 percent of their meagre incomes on food. FAO estimates that soaring food prices pushed another 115 million people into chronic hunger in 2007 and 2008. This means that today the world has nearly one billion hungry people. Malnutrition worsens when the poor are unable to afford higher-quality foods. They eat less in quantity and less well in terms of quality. Low-income food-importing countries are especially vulnerable owing to a high incidence of chronic hunger and poverty. The food import bill of these countries was estimated at about US\$170 billion for 2008 – 40 percent more than in 2007. The impact is most severe in Africa, where many countries are highly dependent on imported cereals (in some cases for up to 80 percent of their dietary energy supplies) and undernourishment is already rife.

International food prices have fallen back towards their 2007 levels as the financial crisis and world recession have taken hold. However, prices are still significantly above the levels we have seen in recent years and are likely to remain high by historical standards. In many developing countries, food prices are still at unprecedented high levels. In fact, high food prices have not gone away,

nor have the underlying causes of the food crisis they created. Soaring food prices and the food crisis highlighted the threats to global food security and the urgent need to strengthen the international food system.

The negative impact of high food prices on the food security of poor consumers around the world is clear. However, one would have expected the impact on producers to be positive and to encourage them to invest more and increase production. This did not happen. Years of low agricultural prices understandably gave farmers little incentive to invest in means of production, but why did the highest food prices in 30 years fail to provide that incentive? In principle, high food prices represent an opportunity to reverse that decades-long decline in investment in agriculture and secure a sustainable future for world food supplies. “In principle” because high food prices alone are not sufficient. Some of the incentive to produce more has been eroded by increasing input costs – fertilizer prices have risen much faster than producer prices. Smallholders in developing countries need to overcome many “supply-side” constraints if a significant supply response in the medium to longer term is to materialize. Lack of rural infrastructure, limited access to modern inputs and irrigation, poor roads and storage facilities, rudimentary technology, limited knowledge of modern farming techniques and limited access to credit all led to low productivity, limited participation in markets and lack of investment. These constraints need to be overcome to allow a significant supply response, and proper policy interventions are needed to break out of this vicious circle that has trapped small producers in poverty and left many developing countries heavily dependent on imported food and more vulnerable to price hikes.

As early as July 2007, FAO warned of the impending crisis, and in December



2007 it launched an Initiative on Soaring Food Prices, known as the ISFP, initially funded from FAO's own resources to boost food production quickly by facilitating small farmers' access to seeds, fertilizers, animal feed and other farming tools and supplies. This initiative should catalyze support from donors, financial institutions and national governments to improve the provision of inputs on a much larger scale. Countries most affected by the crisis, especially in sub-Saharan Africa, need at least US\$1.7 billion now to revive agriculture that has been neglected for decades.

Soaring food prices and the consequent food crisis are matters of international concern that require international action. They were the main focus of attention at the FAO High-Level Conference (HLC) on World Food Security held in Rome in June 2008, which brought together governments, international organizations, donors, non-governmental organizations, the private sector and civil society to discuss what should be done. The HLC saw the participation of 181 countries, including 43 Heads of State or Government and more than 100 Ministers. The declaration adopted unanimously by the HLC has clearly indicated the need to increase production in the developing countries and boost investment in the agriculture sector.

Furthermore, and as expressed recently in several fora, including the HLC, the G8 Summit in Japan in July 2008 and the Special Session of the FAO Conference last November, there is an urgent need to strengthen the governance of world food security. An improved system is needed to prevent international food crises and help develop and implement the required policies at national, regional and international levels. In addition, rules and mechanisms need to be devised to ensure not only free but also fair trade in agricultural products – a system that offers farmers in both developed and developing countries the

means of earning a decent income that is comparable with their fellow citizens in the secondary and tertiary sectors.

The technical knowledge of how to eradicate hunger from the world and to double world food production by 2050 to feed a population of nine billion is available. The time to move from talk to action has come. We urgently need to forge an international consensus on the rapid and final eradication of hunger and a plan of action.

The twin-track approach advanced by FAO in its Anti-Hunger Programme remains valid – making food accessible to the most vulnerable, and simultaneously helping small producers to raise their output and increase their income. Affordable food supplies need to be made available for poor consumers to avoid increasing the incidence of malnutrition. Some countries already have safety net mechanisms in place, others need to establish them and may need international assistance to do so. The experience of high food prices resulted in the widespread recognition that the structural solution to the problem of food insecurity in the world lies in increasing production and productivity in the developing world, notably in low-income and food-deficit countries. Investments need to be boosted significantly and sustainably for improved productivity and increased food production. Supply-side constraints need to be overcome across the board and appropriate policies and institutions need to provide a conducive environment for a supply response to exist. Without these in place, investments in agriculture will not be forthcoming.

In addition to its direct support through the ISFP, FAO is also playing its part in helping countries define and implement appropriate policy responses. All these activities are underpinned and guided by thorough and up-to-date economic analyses of food price movements, their impacts on consumers and producers and the alternative policy responses. Much of

this work is presented in this new edition of *The State of Agricultural Commodity Markets*. It provides a comprehensive review based on research by FAO specialists of the issues surrounding the soaring food prices and their consequences. It explains why food prices increased and what steps developing countries and the international community need to take in order to ensure that high food prices are turned into an opportunity for developing country farmers to help safeguard world food supplies at affordable prices.



Jacques Diouf
FAO Director-General