

PART 3:  
WHAT SHOULD BE THE POLICY  
RESPONSE?

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## WHAT ARE THE POLICY PROBLEMS?

Faced with rapidly increasing food prices, many countries made policy changes or introduced new policy measures. High food prices pose a series of inter-related policy challenges. Most obviously, there is the short-run emergency of ensuring affordable food supplies for poor consumers to avoid increasing incidence of malnutrition. While this can be achieved to some extent at least with available food supplies, there may also be some scope for measures to increase food production and moderate prices even in the short-run. However, the main potential for a significant supply response and more stable prices is in the medium to longer term. The current problems reflect the continuing underlying precariousness of the food security situation in some countries and this needs to be rectified. High prices provide an incentive and an opportunity to producers in developing countries but, as indicated earlier, there are many constraints to be overcome if a significant supply response in the medium to longer-term is to materialise. Actual policy interventions by governments around the world have emphasised a limited range of easy, fast acting and cheap measures, especially trade policy measures, to secure food supplies for domestic markets and to moderate the cost to consumers. This short-termism, while entirely understandable in view of the emergency situation, means that in many cases medium and longer-term needs to raise production have been neglected. Efforts to protect consumers from higher food prices need to be balanced against maintaining incentives for producers to achieve productivity and production increases which are necessary to stabilize prices and supplies. Some of the short-term measures introduced by governments to address the immediate food security needs of poor consumers have held down prices for producers and hence incentives to invest in increasing productivity and production. There is a need for policy measures to be targeted, non-distortionary and positive towards agricultural investment.

Policy problems are not confined to the agricultural and food sector. High food prices also have macroeconomic impacts. For food importers these include balance of payments problems resulting from higher food import bills and increased inflationary pressure since food is such a big element in the consumer's basket of goods. Food exporters enjoying higher earnings from higher food prices on world markets, may need to consider how best to manage increased export earnings to ensure that they are channeled into productive investments to stimulate long-run growth.

## HOW HAVE DEVELOPING COUNTRIES RESPONDED?

National policy responses to high food prices have varied in nature and effectiveness. In many cases governments have used existing policy measures already in place. The policy responses made can be grouped into three broad categories, targeting respectively consumption, trade and production. There appears to have been relatively little action on longer-term measures.

### SAFEGUARDING FOOD CONSUMPTION

Many countries, especially least developed countries, have intervened to safeguard poor consumers' access to food through a variety of emergency and 'safety-net' measures. This includes distribution of basic food staples (grains, bread, and milk), cash to buy food or food for work to the most vulnerable groups – the poorest in urban and rural areas, schoolchildren or the sick in hospitals. Consumer price subsidies especially for the main food staples are widely-used. Simultaneously with the provision of consumer price

### Policy Responses to Rising Commodity Price in Selected Countries

	SUB SAHARAN AFRICA																
	Angola	Benin	Burkina Faso	Burundi	Cameroon	Central African Republic	Chad	Dem. Rep. of Korea	Eritrea	Ethiopia	Ghana	Guinea Bissau	Guinea	Ivory Coast	Kenya	Lesotho	Liberia
Policies																	
ON CONSUMPTION																	
Emergency & targeted food aid				Main staple (grain; maize) to the vulnerable	Main staple (rice; other grains) to the vulnerable		Main staple (grain; to the vulnerable)	Main staple (grains) to the vulnerable		Cereals (tef) to the vulnerable					Food (corn, milk) to poorest		
Cash transfer										To the vulnerable							
Food for work										Food (tef cereals) to the vulnerable					Basic meal (based on corn, milk)		
School/hospital feeding	Basic meal		Basic meal												Basic meal		
Consumer price subsidy																	
Consumer price control & stabilization		Wheat	Most staple food		Rice; wheat; bread					Cereals							
Reduction/elimination of consumption taxes			Grains & other staples foods														
ON PRODUCTION																	
Producer price control																	
Reduction of producer taxes			Grains & other staple foods	Grains & other staple food	Rice					Grains					Grains	Grains	
Production subsidies																	
Input subsidies															Agric production; a government loan		
ON TRADE																	
Input export ban																	
Export ban																	
Export quota/control			Staples							Cereals							All agric (incl livestock) commodities
Raising export taxes																	
Reduction/elimination of import tariff & quota		wheat flour	Staple food														
Other policies																	
(With long-term effects)			Partial payment of poor household's energy & water bills	Improving ag productivity		Improving ag productivity		Improving ag productivity		Food for assets. Improving ag productivity					Improving agric productivity (Kenya vision 2030)		

### Policy Responses to Rising Commodity Price in Selected Countries (Cont)

SUB SAHARAN AFRICA														Zim- babwe			
	Madagascar	Mal- awi	Mozam- bique	Namibia	Niger	Nigeria	Senegal	Sierra Leone	Somalia	South Africa	Sudan	Swaziland	Tanzania	Tunisia	Uganda	Zambia	
Policies																	
ON CONSUMPTION																	
Emergency & targeted food aid	Rice; wheat flour; biscuits																
Cash transfer		To vulner- ables								To vulner- ables							
Food for work	Basic meal; food stamp																
School/hospital feeding	Basic meal (rice; bread; milk)														Meal (including corn and milk)		
Consumer price subsidy																	
Consumer price control & stabilization	Rice				Cereals	Cereals	Rice; wheat Rice; wheat										Corn; sor- ghum; wheat
Reduction/elimination of consumption taxes	Rice																
ON PRODUCTION																	
Producer price control																	
Reduction of producer taxes			Grains		Grains	Grains				Grains	Grains				Maize		Grains
Production subsidies						Rice											
Input subsidies	Rice pro- duction		Under consideration for food grains	Rice production: free seeds and fertilizers													Corn
ON TRADE																	
Input export ban																	
Export ban	Rice		Maize														Corn (on news contria)rc
Export quota/control																corn	
Raising export taxes																	
Reduction/elimination of import tariff & quota	Rice				Rice	Rice	Rice	Wheat flour									
Other policies																	
(With long-term effects)	Improving ag productivity; Diversifying staple sources & preparations (e.g. plan to expand sorghum production)		Improving ag pro- ductivity		Improving ag pro ductivity	Improving ag productivity	Improving ag pro- ductivity	Improving ag pro- ductivity	Improving ag pro- ductivity			Raising the interest rate to reduce inflation	Improving ag productivity		Increase investment in agriculture		Increase invest- ment in agric.

## Policy Responses to Rising Commodity Price in Selected Countries (cont)

	Middle East and North Africa										Latin America and the Caribbean						
	Angola	Egypt	Iraq	Jordan	Lebanon	Mauritania	Morocco	Saudi Arabia	Yemen	Argentina	Bolivia	Brazil	Chile	Cuba	Dominican Rep.		
Policies																	
ON CONSUMPTION																	
Emergency & targeted food aid											Food to the vulnerable						
Cash transfer		To vulnerable									To vulnerable						
Food for work																	
School/hospital feeding																	
Consumer price subsidy		Wheat, bread and other food		Wheat				Wheat									
Consumer price control & stabilization																	
Reduction/elimination of consumption taxes																	
ON PRODUCTION																	
Producer price control																	
Reduction of producer taxes							Grains			Grains	Grains						
Production subsidies																	
Input subsidies																	
ON TRADE																	
Input export ban																	
Export ban		Rice								Corn	Grains, soy meat						
Export quota/control		Key ag commodities (staple, dairies)															
Raising export taxes										Grains, soy oilseeds							
Reduction/elimination of import tariff & quota		Dairies, edible oil, rice			Food in general	Wheat	Dairies, vegetable oil, wheat			Corn, rice, soybean oil, wheat, wheat products, meat	Wheat						
Other policies (With long-term effects)	Long-term investment on agric	Raising the wages of some civil servants								Improving ag productivity				Rising wheat flour imports from Argentina			

## Policy Responses to Rising Commodity Price in Selected Countries (cont)

	Latin America and the Caribbean							East and South Asia				
	Ecuador	El Salvador	Guatemala	Haiti	Honduras	Mexico	Nicaragua	Peru	Afghanistan	Bangladesh	Cambodia	China
Policies												
ON CONSUMPTION												
Emergency & targeted food aid	Food to the vulnerable			Rice to the vulnerable			Wheat and other food		Rice to the vulnerable	Food to the vulnerable		
Cash transfer												To the vulnerable
Food for work										Basic meal to the vulnerable	Basic meal (especially rice to vulnerable)	
School/hospital feeding					Meal (incl. corn)	Meal (incl. corn)						Food
Consumer price subsidy	Wheat, wheat flour, bread									Rice		
Consumer price control & stabilization				Rice			Wheat					Rice, wheat, milk, eggs, bread
Reduction/elimination of consumption taxes												
ON PRODUCTION												
Producer price control										Rice		
Reduction of producer taxes					Grains			Grains	Grains	Grains		Grains
Production subsidies												Rice, livestock
Input subsidies												
ON TRADE												
Input export ban												Ag. production
Export ban					Corn					Palm oil, soybean oil	Rice	Rice, maize
Export quota/control											Key ag commodities	Ag. commodities
Raising export taxes												Grains
Reduction/elimination of import tariff & quota	Wheat, wheat flour from neighbouring countries	Wheat flour from neighbouring countries	Wheat flour from neighbouring countries		Wheat flour from neighbouring countries	Corn						
Other policies												
With long-term effects						Plan to cut fertilizer prices by a third, Allowed experimental planting of genetically modified crops including corn)	Innovation in food preparation, potato bread to replace wheat bread					Risk mitigation and compensation to avian flu losses for poultry production

subsidies, some governments have also reduced consumption taxes. Price controls, for example, through sales from public stocks at pre-set prices or simply freezing retail prices by decree, have also been used.

An FAO survey of 77 countries showed that 55 percent of them used price controls or consumer subsidies in an attempt to reduce the transmission of price increases to consumers. While such measures can be effective in controlling prices in the short-run, they are expensive in terms of scarce budgetary resources and can distort food markets. Price controls can lead to rationing and suppress incentives to producers. Income transfers are less distortionary than subsidies on food and can be targeted on the poor and vulnerable whereas non-selective blanket subsidies and price controls benefit the rich and poor equally. This also applies to other safety-nets such as food and nutrition programmes.

### ENCOURAGING FOOD IMPORTS AND DISCOURAGING FOOD EXPORTS

Many countries have introduced trade policy measures to curtail price increases and ensure adequate supplies on domestic markets. These include reduction of tariffs to facilitate imports and export bans and taxes to divert supplies onto domestic markets. Over half of the 77 countries in the FAO survey had reduced grain import tariffs and a quarter had imposed export controls of some kind – either taxes or physical controls such as bans and quotas. In the short term these trade measures are feasible, cheap and easy to implement but they may have adverse effects on incentives to expand food supplies through increased domestic production and on world markets by further restricting supplies and pushing up prices even further. While imposing export taxes raises some additional government revenues, a number of exporting countries have reported that export controls and hence low output prices coupled with high input prices actually led to decreased planting of cereals. Reducing import tariffs also incurs a loss of tariff revenue which may make an important contribution to overall budgetary resources for development.

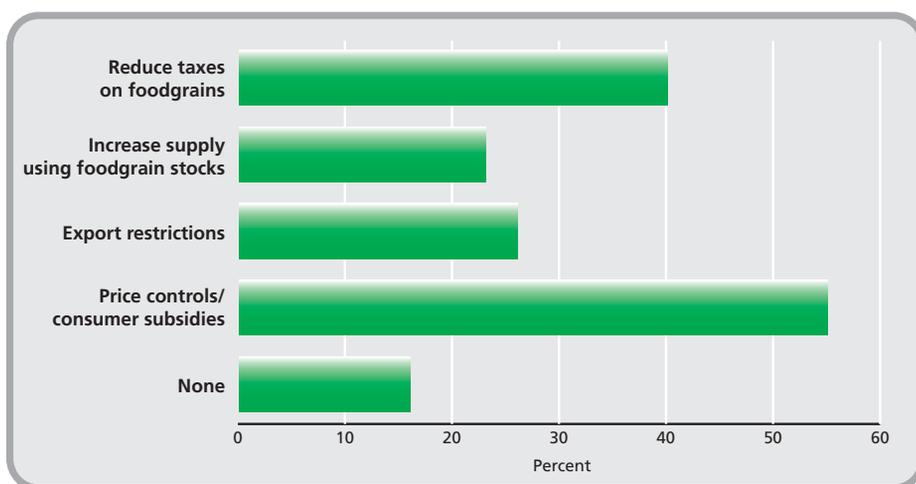
### BOOSTING AGRICULTURAL PRODUCTION

Reduction of producer taxes especially on grain production has been a widely-used policy to boost production in both low and middle income countries. Production subsidies, especially on grain production, have been used to reinforce incentives. Subsidies on inputs such as fertilizer and seeds have also been common. While such subsidies and distribution of productive inputs such as seeds and fertilizers can provide a short- or medium-term stimulus to production such schemes can be costly and may lead to sub-optimal use of these inputs especially if they are maintained over a long period. In spite of a perceived need to secure adequate food supplies, some countries continue to

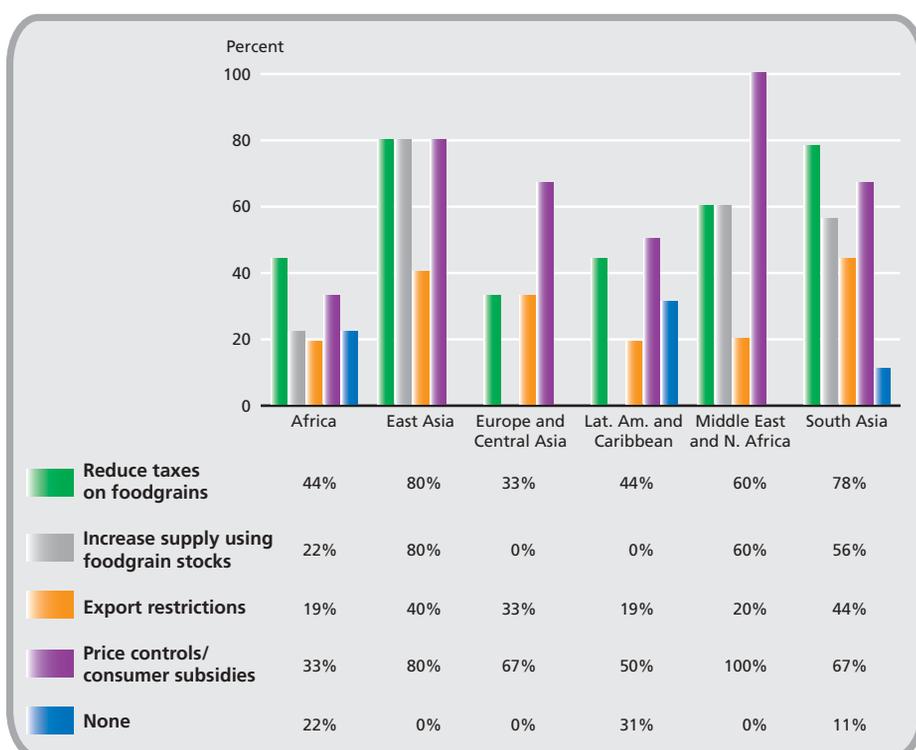
#### FAO survey of policy responses

A survey of policy responses for 77 countries undertaken in May 2008 showed the following: reduction or elimination of cereal import duties in about half of the 77 countries; price controls or consumer subsidies in 55 percent of the countries; some form of export restrictions, including taxes, in one-quarter of the countries; and roughly the same proportion took measures to increase supply, drawing on cereal stocks. On the other hand, only 16 percent of countries surveyed took no policy responses whatsoever.

### Policy actions to address high food prices (sample of 77 countries by type of action)



### Policy actions to address high food prices (sample of 77 countries by region)



control producer prices, setting the price lower than the free market price or procure grains from domestic suppliers at low prices for stockholding. Moreover, the release of grain stocks at low prices puts downward pressure on prices discouraging increases in domestic production.

Policy responses also varied considerably by region. Countries in East Asia, South Asia and the Middle East and North Africa undertook significant activities in all four areas of

intervention. In every geographical region except sub-Saharan Africa, 50 percent or more of the countries reported using price controls or consumer subsidies. On the other hand, sub-Saharan Africa and Latin America and the Caribbean regions showed the lowest policy interventions, with roughly 20 percent and 30 percent of their countries, respectively, reporting no activity in any of the policy categories listed above.

## WHAT POLICY MEASURES SHOULD BE TAKEN?

As the previous section showed, governments around the world have responded to high food prices with a variety of policy measures. Understandably, these have emphasised a limited range of fast acting measures to secure food supplies for domestic markets and to moderate the cost to domestic consumers. However, the medium and longer term needs to increase food production and the international implications of unilateral national policy choices should not be overlooked. What is the 'best' policy choice depends on a variety of considerations including the cause of the price increases, the severity of their impact, the size of the vulnerable population groups, their location, the policy options and policy space available to the government, the financial and budgetary situation and the administrative and institutional infrastructures to implement policies. This section looks in more detail at the policy options and reviews the pros and cons of the various policy instruments available. These address two basic challenges. The first is to provide direct support to consumers, especially those in vulnerable groups, to help them maintain their food consumption levels through so-called "safety-net" measures. The second is to increase supplies of food on domestic markets through manipulating food stocks or trade or by stimulating a short-run supply response from the domestic agricultural sector. Ultimately, it is increasing agricultural productivity and production which is the foundation for achieving adequate and stable food supplies and prices in the medium- and long-term and care must be taken to ensure that short-run emergency measures do not compromise that goal.

### SAFETY NETS FOR POOR CONSUMERS

Safety net is an umbrella term that covers various programmes aimed at assisting vulnerable population groups, such as targeted food distribution programmes, targeted cash transfer schemes, feeding programmes and employment schemes. Many countries have one or more safety-net programmes with a varying degree of coverage of the population and the extent of assistance delivered. An employment scheme may also be a guaranteed programme, backed by legislation. The case for targeted interventions can be made on budgetary cost grounds or to avoid leakage to non poor populations. Although they can be administratively burdensome, they can be narrowly targeted on beneficiaries without creating distortions in the markets. A food for work programme can also be made self-targeting by the choice of the food distributed, the food that the poor consume, or by targeting an area with most vulnerable population groups.

In the context of high food prices, one of the problems noted is that not all countries have safety net programmes in place because of their budgetary costs and administrative complexity. Where this is the case, it will be very difficult to put in place a scheme in a short period, given the administrative, institutional and other supports required for this. It is only where such a scheme already exists that it can be scaled-up when an emergency arises.

Cash transfers can include the distribution of cash or cash vouchers and can be tied to cash for public works programmes and/or microfinance initiatives. They are appropriate where food markets work and improved access to food is the objective of the intervention. In addition to providing the ability to procure higher priced food, unrestricted cash

transfers allow households to make decisions as to how to spend or invest the cash. For example, some households, in allocating labour to on-farm activities, may have produced sufficient food, but may have limited cash for other consumption or investment needs. Such interventions can also foster local market development in food and other goods by providing greater incentives to the private sector to engage in higher volume, more stable marketing channels.

However, where markets work imperfectly, for example where they are poorly integrated with other markets, or where there is limited supply response to increased prices, such interventions can result in price inflation as the increased spending power bids up the prices of scarce goods. Similarly, the design should be appropriate – in some contexts, increasing public sector wages as a means of transferring cash can assist poorer urban consumers, but in other contexts, the poor are engaged primarily in informal sector activities and may not benefit. Where food prices are increasing rapidly, adjustment to the value of transfers will be needed to maintain purchasing power and this can be administratively difficult.

Other schemes aimed at ensuring that the poor have access to food offer less flexibility than straight cash transfers. Such interventions include food stamps or vouchers, conditional cash transfers (for example, in exchange for attendance at schools or clinics). As with cash transfers, these interventions are appropriate where local food markets work and improving access to food is the objective. Vouchers can become a parallel currency in food and other goods' markets. As such, they can have some of the positive effects of unrestricted cash transfers in fostering local market development, but tend not to be used for investment. The schemes tend to have higher transaction costs than cash based measures and although restricting undesirable consumption may be an objective, this can be difficult. The design of these interventions can be complicated. For example, school feeding programmes can miss target populations, such as poor households without children who attend school. It is important, as with cash transfers, to determine ex ante, any potential disruption to private marketing channels. Approaches such as vouchers, cash transfers and nutritional programmes should only be implemented in combination with targeted food sales through public food stores if private channels are constrained in their ability to scale up distribution. Otherwise, the side benefit of fostering local market development will be diluted.

Local food supplies can also be augmented directly through the distribution of food aid, which is most appropriate where insufficient food supply is the main reason for reduced consumption. In such cases, cash transfers would result in price inflation, particularly where markets are not functioning well, or where food is in short-supply as a result of weakly integrated markets, whether infrastructure- or policy-constrained. Food aid is also more difficult to divert to undesirable consumption and is therefore more appropriate in such situations. In addition, it places a lower budgetary strain on government resources.

### **MANAGING MARKETS AND STOCKS TO INCREASE FOOD SUPPLIES**

Governments in many countries also resort to a variety of other measures which may be called “market management policies”. These could include measures such as price controls through administrative orders, restrictions on stockholding by private traders, restrictions on inter-district movement of foods, anti-hoarding measures, restrictions on futures trading of basic foods and open market operations selling public stocks of foods with a view to lowering market prices. These measures were fairly widespread in many developing countries in the 1970s and 1980s, but have been discontinued in normal times for not being market-friendly or pro-private sector development. However, the fact that governments resort to such measures during food crises shows that such policies can help the situation to some extent.

Experience has shown that many of these measures may work for a very short period but could also be destabilizing as economic agents often react by hoarding and thus add to further price rises, defeating the basic purpose of such measures. The longer-term solution to this problem is to take measures to nurture various elements that will ensure that food markets are function well and are competitive. The concentration of market power, observed typically for semi-processed or processed agricultural products, is perceived by society at large – as well as by the government - as a major source of the problem. The solution lies in effective pro-competitive policies which are lacking in many developing countries.

An important market management policy is open market operations using publicly held food stocks. Open market operations – the selling of publicly held stocks to lower or stabilize domestic market prices - used to be fairly widespread but many countries have since eliminated such programmes. In Asia in particular, these measures are actively used. Examples are open market operations by the Food Corporation of India, BULOG's operations in Indonesia and the Rice Marketing Board's operations in Viet Nam. The government parastatals maintain the food reserves, through domestic purchases or imports, including food aid, and release the stocks when food prices begin to rise, which could be for seasonal reasons or due to increased prices in the world markets.

The effect of these measures is to check food prices in the short-run. However, food availability can only be augmented and prices restrained by releasing public stocks if adequate public stocks exist. This can be problematic given that maintaining stocks is a high cost operation. Furthermore, releasing public stocks to hold down prices can have a negative impact on incentives for producers and traders, discouraging production expansion and investment. Unlike safety net measures, these operations cannot be targeted and they also benefit rich consumers who may not need the support.

Given the high costs associated with open market operations and the potential for unintended negative effects, most governments have preferred to rely more on trade policy measures to encourage imports or restrict exports for price stabilization and less on stocks operations. Trade measures are discussed next. However, where governments do not perceive trade to be a reliable source of food at short notice, some stockholding and open market operations are still carried out.

### **CUTTING TARIFFS TO INCREASE FOOD IMPORTS**

Import tariffs raise the price of imported foods, protecting domestic production from international competition and in the process providing tariff revenues for the government. Reducing import tariffs increases the volume of imported food, adding to domestic supplies and slowing the increase in domestic prices. Being a policy that impacts the market as a whole, reducing import tariffs affects all households, food insecure as well as secure, in contrast to the kind of targeted policies described earlier. As prices climbed through 2007 and into 2008, many countries lowered tariffs initially, eventually eliminating them as world prices continued to soar. Obviously, there needs to be scope to reduce tariffs significantly to be able to offset such dramatic price increases so tariffs have to be high enough to begin with to permit this. However, while the tariff rates 'bound' in the World Trade Organization might be high, those actually charged – the 'applied' tariffs – tend to be much lower. Available tariff data show that the majority of developing countries did not have applied tariffs high enough to be able to use them to stabilize domestic prices as prices soared. In a sample of 60 LIFDCs, applied tariffs on cereals and key vegetable oils were already quite low in 2006 - in the range of 8 to 14 percent on average - and tariffs were much lower than these averages for a majority of LIFDCs. This means that reducing

these applied rates, even to zero, was sufficient to stabilize only a small part of the overall rise in the world prices, which were higher by at least 50 percent in 2008 compared with the 2006 levels. Tariff reductions alone therefore could not be relied upon to counter the dramatic increase in food prices. Reducing or eliminating import tariffs also reduces tariff revenues which can be an important source of budgetary funds for many governments. Reducing all food import tariffs to zero would have cost least developed countries around USD 2.1 billion in lost revenues.

Besides reducing domestic prices and therefore the incentives for farmers and food manufacturers to invest and produce more, reducing import tariffs exposes the domestic agricultural and food sectors to greater international competition. Increased competition can provide a challenge to domestic food production to make additional efforts to increase competitiveness for the benefit of consumers. However, in many developing countries the agriculture and food manufacturing sectors are weak and may not be able to withstand competition easily, especially where it is from imports whose production receives support. There is therefore the risk of compromising efforts to develop domestic agriculture and food sectors. Reductions in import tariffs may also have an impact on the country's exchange rate since they increase the incentive to import and reduce foreign currency reserves. This can lead to a depreciation of local currency, especially in the agriculture and food dependent economies. If agricultural inputs are imported and paid in the increasingly high-value foreign currencies, then the risk of high food prices could re-emerge, cancelling out the intended price reduction effects of the import tariff cut.

### **RESTRICTING EXPORTS TO INCREASE DOMESTIC FOOD SUPPLIES**

About one-quarter of the countries in the FAO survey resorted to some form of export restrictions in attempts to ensure domestic food availability. These restrictions range from increasing or imposing export taxes through to outright export bans. They have been perhaps the most controversial of the various policy measures introduced in response to rising food prices although current WTO rules do not constrain policies on export taxes, while those on export restriction and prohibition are also very weak and essentially not binding. By diverting a certain volume of food which would otherwise have been exported to the domestic markets, domestic prices are reduced providing relief to consumers. Where export taxes are used, the government also raises tax revenue which might be used to fund other measures such as safety nets. On the other hand, by reducing domestic prices, export restrictions reduce incentives to producers. Producers may shift resources away from the taxed commodities to other activities. The eventual result could therefore be a decline in productivity and production which might reverse the decline in prices that the policy initially intended to achieve. However, the main criticism of export restrictions is that they make the international market smaller and can exacerbate price instability in world markets, thus hurting consumers in other countries. This is especially so where the country imposing the export restrictions is a significant exporter of the product in question or where internationally traded volumes are small. Export restrictions also have longer-term implications - producers in the exporting countries may be discouraged from investing in agriculture and the price competitiveness of the export products in international markets is negatively affected. For net importing countries the image of the world markets as reliable sources of food supply could be undermined, leading towards a policy of import-substitution. As with cutting import tariffs, export restrictions may also have an impact on exchange rates. As export earnings decline, there will be pressure on the local currency to depreciate, increasing the domestic prices of imported goods including agricultural inputs adding a further disincentive to expand food production.

## OVERCOMING SUPPLY SIDE CONSTRAINTS AND INSTITUTIONAL WEAKNESSES

In the medium- to longer-term, increased productivity and production are seen as the structural solution for stable food supplies and prices. High agricultural prices in principle provide producers with an incentive to expand production. In this sense, the high food prices can be seen as an opportunity. However, in many cases, realising this supply response will require overcoming a variety of supply-side constraints. These include not only high input costs and a variety of infrastructural obstacles, but also institutional weaknesses which lead to problems of access to inputs, credit, technology and inefficient marketing systems. Institutional weaknesses are a major cause of poor performance of developing country agriculture and especially in food production in Africa.

In general, these supply-side constraints cannot be addressed and overcome in the short-run, although there may be some scope for immediate action to improve access to necessary inputs such as seeds and fertilizers which can enhance food availability in the following growing season. If implemented effectively, such immediate interventions can increase the income of small producers and may reduce price increases in local markets, thereby contributing to improvements in the nutritional status of net food-buying families. However, the budgetary costs of programmes to improve access to inputs can be high. Such programmes might include productive safety nets (for example, seed and fertilizer distribution), smart subsidies to selectively reduce the cost of fertilizers and seeds, and support to finance institutions to help alleviate credit constraints. Efforts to improve access to inputs in the short-run need to be carefully designed to avoid any potentially adverse side-effects, taking account of the availability of additional inputs and the possible impact on private sector distribution networks. Where input markets are working and inputs are available, although producers do not have the cash to buy them, voucher systems are appropriate, as free distribution could undermine input markets. Where input markets are not working, starter packs could be distributed. However, if local output markets are not well integrated, such interventions, in promoting increased production, could result in a fall in local food prices to the detriment of producers and wage labourers.

Short-term measures to improve access to inputs need to be supplemented and supported by longer-term actions to address institutional weaknesses, including facilitating the development of the private sector. These actions include research and dissemination of improved technologies through more effective extension systems, development of market and credit infrastructure and capacity building. Support needs to focus particularly on enabling poor rural producers – those least able to respond to changing market signals – to expand their production and market their supply. Often, they do not have even the basic information necessary to make rational choices and efficient choices about what to produce and how. They need information on market opportunities, price trends, appropriate input packages and production and marketing alternatives. Agricultural research needs to focus on the needs of these poor rural producers and their capacity to take advantage of research results needs to be strengthened through more effective extension networks. The scope of individual smallholders to contribute to increased food supplies is limited by the economics of marketing outputs and buying inputs which require a certain scale of operation to be viable. There are significant economies of scale in transportation of fertilizers, for example, and it may be uneconomic to supply individual smallholders whose needs are small. However, individual smallholders can benefit from these economies of scale if they organise themselves to collaborate in accessing inputs, including credit, and marketing outputs. Organising themselves into groups to market their outputs collectively can reap economies of scale in storage and in transporting products to market. Farmers' organizations, cooperatives and producer associations can all help smallholders to access inputs and market outputs more efficiently and on better terms. However, many producer

organizations are weak. They also need support to strengthen their capacity to fulfil these roles.

### **MANAGING INCREASING FOOD PRICES FOR INVESTMENT**

While high food prices can be seen as an opportunity to kickstart agricultural growth, the agricultural sector and commodity producing households may fail to benefit in the long run if the high price windfalls are consumed right away instead of invested. Unless the institutional environment in a country assists in the creation of investment opportunities, high prices will have no permanent impact on the sector. Governments play a crucial role even if the sector is not protected or characterised by price or trade policies. Commodity price booms have to be appropriately managed by producers, consumers, as well as by governments if they are to result in sustained benefits for commodity producing countries and minimum costs for importing countries. Policies need to be put in place to provide incentives to private agents and promote favourable economic conditions for investment that would lead to long run sustained growth and poverty reduction. This involves macroeconomic as well as sectoral policy measures.

### **CAN THE RISK OF HIGH PRICES BE MANAGED?**

Volatility in agricultural commodity prices creates risks for market participants whether as producers facing revenue and export earnings risk, or as consumers facing food import bill risk. Increasing international food prices prompt the interesting question of the extent to which commodity-dependent and net food importing developing countries might benefit in the future from an increased use of market-based risk management tools to hedge against world market fluctuations. Futures, options and other forms of derivative contracts can be considered as tools to hedge against unpredictable changes in both import and export prices. However, such instruments are not designed to stabilize export revenues or import bills, but only to make them more predictable. This can be beneficial to the extent that it allows proper planning of financial and other resources. In theory, the unpredictability of import bills and export revenues of developing countries might be reduced through appropriate hedging. However, in most countries, a number of institutional obstacles need to be overcome before hedging the national import or export positions with the aim of promoting food security would be feasible.

### **POLICY CHOICES AND COMPLEMENTARITIES: THE NEED FOR A TWIN-TRACK APPROACH**

Determining appropriate policy solutions to the problems caused by the recent sustained high food prices is not straightforward given the needs both for immediate action to protect the food security of vulnerable groups and for establishing a foundation for more stable prices and supplies in the future. There is a potentially strong relationship between measures to protect consumers against higher food prices, and the enhancement of agricultural productivity. Well-designed complimentary policy measures can encourage risk-averse food staples producers to take the risks necessary to invest in improved technologies, and can stimulate local market development, increasing volumes and reducing volatility. However, if poorly designed or implemented, they can distort incentives, discourage investment and be unsustainable in terms of budgetary resources. Clearly, this kind of policy conflict needs to be avoided. What is required is non-distorting safety-net measures to address the immediate food security problems of the vulnerable poor coupled with incentives and support for the investment and productivity growth needed to ensure continuing food security in the longer-term. Such a twin-track approach provides a coherent policy strategy that avoids the policy conflicts warned against above. . However, budgetary costs can be prohibitive for some governments and the scope for financing such

schemes through internal or external borrowing can be limited. There is therefore a need for international support.

## THE NEED FOR INTERNATIONAL ACTION

There appears to be an expanding consensus that the appropriate policy response to sustained high food prices should be a package of safety net measures to address immediate food security needs and targeting those worst affected, accompanied by measures to encourage and facilitate supply response to stabilise supplies and prices in the medium- and longer-term. However, it is also recognised that not all developing countries will have the resources, institutions or know-how to design and implement such policies. Safety nets have a high budgetary cost and are administratively burdensome. Policies aimed at sustainable expansion of food supplies are also demanding in budgetary terms requiring a reversal in the downward trend in investment in agriculture. As a result, many have resorted to cheaper and more readily implemented policies which aim to boost food availability and restrain prices on domestic markets but which may compromise incentives to producers to increase production and productivity and may have adverse effects on trading partners. Many countries therefore need international support in the form of resources and technical assistance. The domestic policy problem also has an international dimension in that, most strongly in the case of export restrictions, policies introduced by one country to increase local food availability and restrain prices can reduce availability and increase prices to other countries. There is therefore also a need for at least international discussion of policy choices to promote coordination and avoid these negative side-effects. The issues of high food prices and the impacts of policy are not only the preserve of developing countries. Developed country policy choices, in relation to biofuels, for example, are also relevant to the discussion of what should be done. More generally, many aspects of international food markets developments and policy are the concern of the World Trade Organization and under negotiation in the Doha Round. Disciplines agreed in the WTO have a bearing on the choice of policy responses to high food prices.

High food prices are an issue of global dimension and therefore a matter for international debate and international action. The international community mobilised to deal with what was seen as an international food crisis through actions to mitigate the negative impact of high food prices on the poor and food insecure and to help millions of poor farmers around the world seize the opportunity provided by greater demand for their products. The immediate food needs of the poor are being addressed through short-term actions which include increasing resources for food aid and safety nets in developing countries, providing more balance of payments and budget support to help meeting increased food and energy bills, and financing emergency programs aimed at increasing agricultural production in food deficit countries. In the medium-term, efforts are being made to put agriculture back in the centre of the development agenda, reversing the long-term decline in agricultural investment to ensure that it can continue to meet the demands of a world population that is increasing, becoming more urbanized and richer. In addition, greater policy coordination is being promoted to assist countries in making efficient policy choices and to maximize synergies in responding to high food prices and to avoid situations where one country's market intervention hurts others.

### INTERNATIONAL SUPPORT TO MEET IMMEDIATE FOOD NEEDS

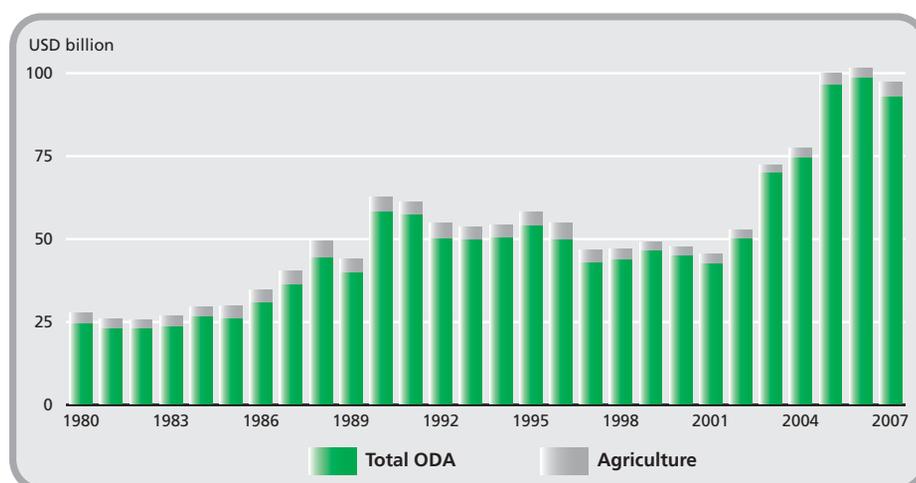
The top immediate priority is to ensure access of the most vulnerable to food, and expanded safety net programmes along the lines described above are seen as the most effective way of achieving this. Those would include assistance in the form of food, vouchers or cash

transfers, employment programmes (food or cash for work), school feeding and insurance schemes. Targeted programmes, addressing the most vulnerable groups need to be scaled up. However, safety net programmes involve significant budgetary costs which many developing countries will require international support to meet. For food deficit countries, increasing food prices push up their food import bills which together with higher energy costs lead to a need for balance of payments support. The International Monetary Fund (IMF) and the World Bank have an important role to play providing balance of payments and budget assistance to those countries. Failure to do so runs the risk of jeopardizing important developmental programmes and projects as scarce national resources are diverted to meet immediate food import requirements.

Food aid has been declining even as the need for it is increasing rapidly. Aid agencies found food more costly to procure as food prices increased. This prompted requests from aid agencies such as the World Food Programme for additional funding even to maintain their current levels of assistance. Their difficulties were further compounded by increasing transportation costs. Given the high food prices, the declining trend in food aid needs to be reversed with greater international support for relief agencies, particularly WFP and UNICEF. High food and fuel prices mean that food aid can reach fewer people with the same resources. Food aid deliveries from WFP declined almost continuously from 15 million MT in 1999 to 7 million MT in 2006. The cost for WFP to deliver food to beneficiaries increased by more than 70 percent over the period 2002-07. Further increases between the end of 2007 and early 2008 meant additional costs to simply maintain the current low levels of assistance. WFP and UNICEF have extensive experience in the development of safety-net programmes, and targeting them to the most vulnerable especially women and children. But they require additional resources in order to respond effectively to the current situation.

Some scope exists for increasing food supplies from domestic production in the short-run. Support needs to focus particularly on enabling poor rural producers – those least able to respond to changing market signals – to expand their production and seize the opportunity offered by higher commodity prices. In fact, cereal production by LFIDCs (excluding China and India) declined by 2.2 percent in 2007 as international prices were rising. Yields in many LFIDCs continue to be much lower than the rest of the world as they lag in the use of fertilizers, high yielding varieties, irrigation, integrated nutrient and pest

### Official development assistance



### FAO's Initiative on Soaring Food Prices

FAO's Initiative on Soaring Food Prices (ISFP), launched in December 2007, targets current problems to avoid further deterioration. The ISFP has put in place emergency measures worth USD 40 million in 57 countries. Much of the work carried out by FAO implies the scaling-up of existing programmes to support agriculture and rebuild the livelihoods of the rural poor, 80 percent of whom make their living in farming. FAO is working closely with UN partners, especially WFP and IFAD, as well as the World Bank, the International Monetary Fund, regional organizations and development banks. The ISFP measures provide essentially start-up funds; they cover only the most immediate needs of small farmers in LIFDCs and aim to enable them to boost agricultural production for the upcoming planting seasons.

An ISFP Programme Document outlines the type of actions countries need to undertake in the short term (between now and the end of 2009) to face the food security crisis arising from high food prices:

- providing seeds, fertilizer and tools together with good extension services to ensure the best possible use of the inputs supplied, which will lay the foundations for sustainable intensification of production in the future;
- work to improve infrastructure such as irrigation systems, market infrastructure, and better rural roads;
- strengthening know-how to add value to smallholder farmers' final marketable product, by growing crop varieties that are higher-quality and higher-yielding, or by utilizing processing techniques to diversify products, and facilitating supply contracts with agricultural companies that are secure and beneficial to farmers;
- reducing losses, sometimes as much as one-fifth of the harvest, through better handling, milling and storage, defending crops and livestock from pests, sickness and disease, for example, through integrated pest management systems; and taking measures to limit the impact of natural disasters.

In all these areas, FAO offers technical and policy assistance and advice, as well as capacity building, along with support in delivery where the Organization already has strong emergency programmes in place. The programme document, complemented by action plans and specific project/programme proposals developed with countries, is now being used to mobilise resources to implement country action plans. The support provided by the ISFP is put in motion at countries' request. Exactly what is needed is determined by needs assessment missions and consultations with governments. These focus on identifying the most vulnerable groups, hardest hit by the food price increases. Possible response options and policy measures are then identified. Individual action areas include: provision of food security programmes, safety nets and social support networks; improving access to essential inputs such as seeds and fertilizer; help to improve water and soil management; technical support in all these areas; and policy assistance which includes assessment of current agricultural and trade policies, tariffs, taxes, price controls, competition and market policies, and food security policies.

The resulting country action plans focus on the food security of the most vulnerable groups and aim at creating new opportunities for small farmers to access inputs, investments and technology and take advantage of high market prices.

FAO has contributed significantly to the development of the Comprehensive Framework for Action (CFA), created through the UN Secretary General's High-Level Taskforce on the Global Food Security Crisis, partnered with other UN agencies and the Bretton Woods Institutions. All activities undertaken under the ISFP are fully consistent with the CFA and aim at achieving the Framework's short-term outcomes.

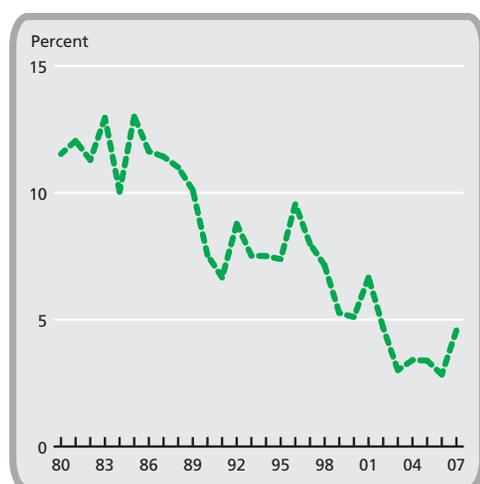
management, and conservation tillage. International assistance can help provide necessary seeds and fertilizers.

### SUPPORT TO INVESTMENT IN AGRICULTURE

The high food price episode serves as a reminder of the fragility of the balance between global food supplies and the increasing needs of the world's population, and also of the fact that agriculture has been neglected in global efforts to reduce poverty. Thus, while the immediate need is to prevent human suffering due to hunger and malnutrition as well as to induce a rapid supply response to restore a better balance between food supply and demand, these must be accompanied by actions in the medium term that will result in sustained agricultural growth. There is ample scope for substantial increases in agricultural production and productivity in developing countries. Production and productivity have not grown because resources channelled to agriculture have fallen. There is a need to increase public and private investment in developing country agriculture. Much more investment is required, particularly for water management, rural roads, marketing and storage facilities, as well as research and extension, yet investment in raising agricultural productivity has been trending downwards. Also, there has been a slowdown in investment in international agricultural research centres, even as new challenges such as climate change and increased demand for biofuel feedstocks have arisen.

The fall in resources devoted to agriculture is in large part due to the sharp reduction in

#### Proportion of total ODA on agriculture



external assistance to agriculture. Total ODA (combined bilateral and multilateral flows) has increased sharply from USD 43949 million in 1997 to USD120942 million in 2006 (all values in current USD). ODA directly earmarked for expenditure in the agriculture sector has also risen, albeit more slowly, from just over USD3000 million to about USD4000 million in 2006.

As a proportion of total ODA however, ODA for agriculture has continued to decline, falling from 7 percent in 1997 to less than 4 percent from 2002 onwards. However, 2006 suggests a slight increase in the proportion of total ODA allocated to agriculture.

Donors need to increase the share of official development assistance going to agriculture. Many donors expressed their willingness to provide additional funds and made pledges to address the immediate and longer-term agricultural and food security problems of developing countries at the High Level Conference on World Food Security organised by FAO in June 2008. It is important that these commitments be maintained in spite of the financial crisis and global recession. More generally, the international community needs to take concrete steps to increase its capacity to respond in a coordinated and expeditious way to requests from developing countries not only for financial support but also for technical assistance to revive agricultural growth over the longer term. However, developing country governments also need to act on their part by allocating additional resources to agriculture

from their national budgets, and to put in place policies that are conducive to private sector investment in agriculture.

### IMPROVING THE POLICY ENVIRONMENT

Besides the need to ensure access to key productive inputs, a conducive policy environment is crucial if producers are to respond to the opportunities offered by high food prices and make the necessary investments to increase productivity and production. However, as noted above, some policy measures introduced by developing countries to cope with increasing food prices have militated against a significant supply response. At the national level, therefore, there is a need to promote greater policy coherence. In some cases, poor policy choices have been made simply because of a lack of reliable information concerning key market variables such as available supplies, prices and especially stocks, both public and private. There is an urgent need to establish a comprehensive and reliable international market information system to provide a stronger basis for more efficient policy choices.

International organizations can provide policy advice and support to developing countries to mitigate the impact of high food prices, improve the food security situation, protect productive assets – including land - of rural poor households and enable them to benefit from the opportunities that high food prices create. The UN system can disseminate experiences and best practices to help countries prepare their policy frameworks and strategies. This could include: helping design food insecurity and vulnerability monitoring systems; identifying and assessing the effectiveness of alternative measures that could enhance the ability of producers to respond to improving market signals; assessing the impact of changing support to, and taxes on, food commodities; analyzing how to use existing food distribution systems effectively and determining the most appropriate targeting criteria for food sales to vulnerable groups; assessing the appropriate role of food reserves for reducing intra-annual price fluctuations and emergency shortfalls; and determining the most effective means of enabling the private sector to participate more fully in agricultural development and in particular play a critical role in trade of food and supply of agricultural inputs.

The use of trade policy measures to increase domestic food supply may also have implications for other countries, notably in the case of export restrictions. Clearly, this implies a need for better coordination of policy internationally, which the international organizations might facilitate. International trade policies fall under the jurisdiction of the World Trade Organization whose rules, currently under negotiation in the Doha Round, provide the context for trade policy responses to high food prices. WTO rules are discussed further below.

It is not just in poor developing countries that policy changes might be introduced to increase food supplies and slow the increase in prices. If, as appears to be the case, biofuel production is commanding outputs and resources that would otherwise have contributed to food production, then reduction of subsidies or usage targets would correct for any market distortions. As was described above, the emerging biofuels market is a new and significant source of demand for some agricultural commodities such as sugar, maize, cassava, oilseeds and palm oil that are also basic foods. A considerable part of the diversion of food commodities to biofuel production is considered to be policy driven, notably by subsidies. One issue being debated actively is the WTO-compatibility of the biofuel subsidies. The other related issue is the indirect effect on food prices due to subsidies on biofuel production, and whether this amounts to cross-subsidization from the standpoint of the WTO Agreement on Agriculture or other Agreements. Aside from these legal aspects, there is also the ethical viewpoint: whether subsidies that are perfectly legal from the WTO

perspective should be removed if such subsidies have a negative impact on food supplies, poverty and food insecurity.

### **ENSURING THAT THE WTO RULES ARE SUPPORTIVE OF POLICY MEASURES TO RESPOND TO FUTURE FOOD CRISES**

One of the problems addressed by the Uruguay Round Agreement on Agriculture (UR AoA) was excessive production and the resulting trade distortions due to domestic and export subsidies. The Doha Round is continuing the reform process along similar lines. A question being asked in the context of the high food prices is whether some of the trade rules require rethinking so that governments and the international community can respond better to future food crises. One of these would be rules on export restrictions and taxation on basic foods. While export taxation is not disciplined either by the UR AoA or by the parent GATT 1994 rules, current discipline on export restrictions is rather weak, merely calling upon the exporter to give advance notification and to give due consideration to the effects of the restriction on the importer. One of the dangers of a weak discipline on export restrictions is that it raises doubts about the reliability of the world market as a source of food supplies.

Rules on food aid are likely to be made much tighter if the Doha Round is successfully concluded. While this will prevent circumvention of export subsidies, the draft provisions for food aid during non-emergencies – most probably events like the high food prices episode – may need revisiting so that appropriate triggers are built in to facilitate the provision of timely food aid in such periods also.

A third consideration is the coverage of countries for special treatment. Currently, several special treatments are limited only to the two groups of countries mentioned in the Marrakesh Decision on measures to counter negative effects of trade liberalisation – the least developed countries (LDCs) and the net food importing developing countries (NFIDCs). Aside from the LDCs, there are many other low-income food-deficit countries that are not among the NFIDCs but who also require special treatment or access to food aid, export credit, food financing facility and so on.

The current crisis of high food prices has been used both to argue for a speedy resolution of the Doha Round negotiations, and to argue against any further reductions in protection that might result from a new agreement. Those arguing for a substantive agreement to further liberalization of agricultural markets suggested that current levels of protection and support have depressed global market prices and curtailed incentives for investment in increased food production in many food importing countries, contributing to recent surges in import bills. Those arguing against pointed to evidence that liberalization would result in upward pressure on prices as surplus production in subsidizing countries falls. Perhaps more importantly, they raised concerns that further reducing the policy space available to developing countries to provide adequate protection in promoting the development of their agriculture would result in further reductions in investment in the sector which could leave countries even more susceptible to rapid increases in food import bills in future crises. It was one of the proposed mechanisms for protecting vulnerable agricultural sectors, the Special Safeguard Mechanism, that proved to be the stumbling block which led to the breakdown of the negotiations in July 2008.

In general, it appears that current rules do not constrain policy responses to high food prices, and that the draft agreement that was under negotiation was unlikely to have changed this situation. However, many rules could be improved and strengthened to promote future policy responses that are more appropriate both to implementing countries

and to their WTO partners. The current impasse provides an opportunity for further debate and negotiation on rules and agreements that might reduce the potential negative impacts of future food price crises.

### **A SYSTEM OF GLOBAL ASSURANCES OF SMOOTH SUPPLIES.**

Global food price spikes obviously impact most negatively on those countries that rely on food imports for a large share of their domestic food supplies and among those, they affect even more negatively the many low-income food-deficit countries (LIFDCs). If food security is to be enhanced for the LIFDCs (and FAO's current list includes 82 such countries), and if they are to avoid costly policies of food self sufficiency, a reliable system of assurance of food supplies is needed for these countries on a bilateral and possibly a multilateral basis. Such a system can be built by reference to agreed "protocols for collaboration", much as the International Energy Agency (IEA) has done for petroleum. A system of such protocols could be explored and agreed by all concerned in appropriate international or regional fora. Such protocols would also provide an enhanced form of international collaboration and should lead to a "win-win" situation.

### **A ROLE FOR REGIONAL FOOD RESERVES?**

The hike in food prices fuelled partially by low levels of global cereal stocks has prompted discussion regarding the role of regional food reserves to help mitigate food shortages and reduce price volatility. Regional food reserves, if properly coordinated and managed, can assist food import dependent countries in particular to access food at stable prices, especially during times of crisis. Although the concept is well-founded, implementation of such schemes is hampered by the need for *ex-ante* agreement among interested and participating parties in management – something that has proven elusive. Currently only a few such schemes exist and unfortunately the experience with these has not been satisfactory. For instance, experience with IMF's Buffer Stock Financing Facility (BSFF), a mechanism for facilitating creation of buffer stocks, has shown that modest price stabilization achieved in practice by buffer stocks has typically been outweighed by the interest and carrying costs of the stocks<sup>9</sup>. Similarly, the ASEAN Emergency Rice Reserve, a food reserve scheme established by the Association of Southeast Asian Nations (ASEAN), has seen reserves of only up to 87,000 tonnes, which equals 0.4 day's consumption volume (0.1 percent of total demand) of ASEAN countries<sup>10</sup>, and hence has not had any influence on rice prices.

Food reserves can perhaps be better utilized for facilitating food availability during severe food shortages as opposed to stabilizing food prices which requires availability of resources to finance imports. Thus, a more feasible approach to deal with food price risks can be the setting up of mechanisms or facilities to assist countries in financing their food imports especially during sudden, sharp emergencies.

<sup>9</sup> *Contingency Financing Facility (CCFF) and Buffer Stock Financing Facility (BSFF)*--Preliminary Considerations, <http://www.imf.org/external/np/ccffbsff/review/>, IMF.

<sup>10</sup> *Toward a World Free of Starvation and Poverty (Introductory Information on the International Food Stockholding Scheme and East Asia Emergency Rice Reserve)*, <http://www.maff.go.jp/eaerr.pdf>, Ministry of Agriculture, Forestry and Fisheries of Japan.

## THE ISSUE OF A GLOBAL ARRANGEMENT TO GUARANTEE FINANCING OF FOOD IMPORTS TO LDCs AND NFIDCs

The issue of possible difficulties in financing normal levels of food imports during food crises has been a recurring concern to net food importing developing countries from the time the Uruguay Round was negotiated, resulting in the *Marrakesh Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least Developed (LDCs) and Net Food Importing Developing Countries (NFIDCs)*. One of the response instruments listed in the *Decision* is international food financing facilities. Work by FAO and UNCTAD since the Uruguay Round revealed that one of the most severe constraints facing developing country importers at times of excess food import needs (because of domestic shocks or higher international prices) is credit and exposure limits that export financing institutions (mainly banks) place on themselves for financing destined to various developing countries. In times of excess financing needs, such as those accompanying the recent high food price period, these limits prevent private exporters to LDCs and NFIDCs, and importers in LDCs and NFIDCs from obtaining the appropriate letters of credit to finance exports and imports even if developing country importers have the capacity to pay for them. The idea that has followed from this logic is to create a system of public (nationally or internationally agreed) guarantees to the financial institutions (in both developed and developing countries) to augment the relevant credit ceilings under specific conditions.

In itself, this concept is not revolutionary. In recent years, EBRD, IFC, IADB and ADB have introduced similar "Trade Facilitation Schemes" to add risk capacity to the market, and at a bilateral level, US Exim, USDA and some others have been doing this for years. But little of this has targeted food importers in LDCs and NFIDCs, and these schemes do not have proper capacity-building components for local banks which are often the weakest part in the chain. Moreover, OECD countries have signed a commitment to set up a mechanism of this nature in the run-up to the creation of WTO.

In that context, FAO and UNCTAD proposed in 2005, in a paper that was circulated to delegations in Geneva, the creation of a *Food Import Financing Facility (FIFF)*. The FIFF would involve no new institution or additional financial resources, but instead would provide additional guarantees, utilizing existing multilateral facilities, to relevant export and import financing banks of exporting and also importing countries for the cost of excess (additional) food import bills during excess food import bill periods. Financing would be provided to traders via central and commercial banks with the government of the borrowing country providing sovereign guarantee. The facility would utilise donor guarantees to allow banks to extend the relevant credit. Unlike some of the current international financing schemes, lending would not be limited by any conditionality (for example, low balance of payment position of the borrowing country). However, keeping in line with the Marrakesh Decision, priority lending could be accorded to LDCs and NFIDCs facing food crisis. FAO estimated that over the period of 1974-2003, a system of such guarantees would have required to guarantee "excess financing" of only about 2 percent of the total food import costs of NFIDCs and LDCs. Given the reservations regarding the feasibility of maintaining physical food reserves, it may be timely in the context of the recent food price increases to re-examine the rationale for this proposal and explore how it could be implemented in practice.

## MOBILISATION OF INTERNATIONAL ACTION

The need for international action to assist developing countries suffering the adverse consequences of high food prices and the forms this assistance might take were discussed

at the High Level Conference on World Food Security in June 2008. Representatives of 181 countries, including 43 Heads of State and over 100 Ministers and high-level representatives of international organizations, non-governmental and civil society organizations met to review the issues and address the challenges of high food prices.

The Conference's declaration on world food security called on the international community to increase assistance for developing countries most negatively affected by high food prices through a programme of urgent and coordinated action. Donors and international financial institutions were urged to provide balance of payments and budgetary support to low income food importing countries and to assure the international agencies of sufficient resources to expand and enhance their food assistance and support safety net programmes. The Declaration called for assistance to countries to put in place policies and measures to help producers to increase production. Reaching consensus on the more contentious issues surrounding biofuels and their relationship to food availability and prices proved more elusive and more detailed research was called for.

Although the Conference was not intended to be a pledging event, a number of donor countries and international financial organizations used the opportunity to announce significant additional financial support totalling more than USD 12 billion. Perhaps even more importantly in the medium- and longer-term, the outcome of the Conference indicates a new recognition of the importance of agriculture, putting it back centre-stage on the development agenda, and a commitment to reverse the downward trend in agriculture-focused development aid. The High Level Conference clearly called for increased food production and investment in agriculture in order to ensure food security.

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## ANNEXES

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## Trends in real commodity prices (base year 2000)

	1970's	1980's	1990's	2000-2005	2003	2004	2005	2006	2007	Notes:
Fao food price index (1998-2000=100)	194	129	105	102	101	106	109	116	138	
Bananas	746	675	559	476	351	478	532	578	562	Banana, Ecuador (USD/Ton)
Beef	88	84	117	96	90	104	105	99	98	Beef, Australia, cif USA (US cent/lb)
Butter	164	131	99	68	57	74	85	69	111	Butter, NZ (US cent/lb)
Cocoa	252	154	70	61	75	64	62	62	74	Cocoa, ICCO indicator price (US cents/lb)
Coffee	322	215	109	56	49	57	79	82	89	Coffee, ICO indicator price (US cents/lb)
Cotton	201	121	82	52	64	48	50	51	61	Cotton, United States (US cents/lb)
Hides	104	98	96	70	64	61	58	59	60	Hides, United States (US cents/lb)
Jute	1087	599	380	269	226	256	256	325	277	Jute, Bangladesh (USD/Ton)
Maize	311	191	130	93	98	102	87	104	135	Maize, United States (USD/Ton)
Rice	932	504	329	203	187	224	254	266	278	Rice, Thailand 100% B (USD/Ton)
Soybean	742	431	291	230	248	278	242	228	319	Soybean, Rotterdam (USD/Ton)
Sunflower	1004	470	364	259	269	294	268	258	410	Sunflower, Amsterdam (USD/Ton)
Rapeseed	825	452	287	234	277	276	230	268	355	Rapeseed, Rotterdam (USD/Ton)
Sisal	1578	997	802	693	654	786	780	792	813	Sisal, East Africa and Brazil (USD/Ton)
Sorghum	292	182	124	94	102	102	89	111	143	Sorghum, US No.2, Yellow (USD/Ton)
Sugar	37,27	18,91	12,13	7,51	6,63	6,53	8,72	12,60	8,36	Sugar, ISA (US cent/lb)
Tea	n/a	3,14	1,96	1,52	1,41	1,51	1,44	1,67	n/a	Tea, Mombasa (USD/kg)
Wheat	371	237	153	123	143	128	n/a	135	206	Wheat, Argentina (USD/tonne)

Note:

Base year is 2000.

Basis for prices for individual commodities:

banana, Ecuador (USD/tonne)

beef, Argentina (US cents/lb)

butter, New Zealand (US cents/lb)

cocoa, ICCO indicator price (US cents/lb)

coffee, ICO indicator price (US cents/lb)

cotton and hides, United States of America (US cents/lb)

Jute, Bangladesh (USD/tonne)

maize, United States (USD/tonne)

rice, Thailand (USD/tonne)

rubber, Malaysia (US cents/lb)

sisal, East Africa (USD/tonne)

sorghum, (United States USD/tonne)

sugar, ISA indicator price (US cents/lb)

tea, FAO indicator price (USD/kg)

wheat, Argentina (USD/tonne)

n.a. = not available

### Monthly commodity prices, nominal terms

	2007											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Fao food price index (2002-2004=100)	131	133	135	137	140	149	155	161	170	173	180	185
Bananas	639	655	648	648	689	779	734	697	665	659	651	648
Beef	118	119	118	118	117	119	117	118	118	116	118	120
Butter	88	92	94	107	100	116	142	160	168	172	188	184
Cocoa	1702	1814	1924	1977	2005	2017	2153	1902	1938	1915	1967	2113
Coffee	106	104	100	99	100	107	106	108	113	116	114	118
Cotton	59	59	59	57	55	60	64	59	61	64	62	66
Hides	76	78	78	78	77	73	68	67	68	67	68	68
Jute	330	330	325	325	325	325	330	330	330	330	350	370
Maize	164	177	170	150	159	165	146	152	158	163	171	179
Rice	318	322	325	322	325	333	337	336	332	338	358	376
Soybean	306	323	324	320	334	362	374	386	430	445	489	516
Sunflower	338	339	346	368	395	416	456	513	636	697	711	704
Rapeseed	357	349	342	345	360	371	407	440	486	518	560	594
Sisal	920	926	918	928	939	930	1019	1030	1025	1032	1041	1042
Sorghum	175	182	173	148	158	168	159	170	179	174	172	201
Sugar	10,7	10,8	11,1	11,3	11,2	11,5	11,1	11,7	11,4	11,4	12,0	12,3
Tea	1,72	1,64	1,62	1,59	1,53	n/a						
Wheat	183	175	187	209	219	239	249	273	325	321	290	310

### Monthly commodity prices, nominal terms

	2008											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug				
Fao food price index (2002-2004=100)	193	209	211	208	209	214	208	197				
Bananas	689	792	1027	967	923	868	722	799				
Beef	122	129	133	137	154	162	176	169				
Butter	184	184	181	179	178	182	184	171				
Cocoa	2216	2523	2670	2628	2690	3022	2954	2810				
Coffee	122	139	136	127	127	131	133	131				
Cotton	68	71	83	71	68	69	70	69				
Hides	65	65	66	67	67	67	68					
Jute	383	383	410	460	460	460	510	510				
Maize	206	220	234	247	242	281	267	232				
Rice	385	463	567	853	963	870	835	787				
Soybean	536	579	576	556	570	625	634	557				
Sunflower	752	826	920	919	785	767	767	589				
Repeseed	645	700	758	709	713	722	679	596				
Sisal	1088	1088	1092	1141	1141	1142	n/a	n/a				
Sorghum	226	224	230	242	242	277	234	211				
Sugar	11.7	10.7	9.8	9.8	9.2	8.0	8.6	8.5				
Tea	n/a											
Wheat	330	365	395	n/a	n/a	363	329	307				

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