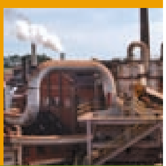
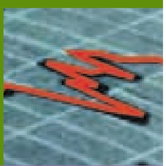
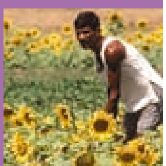
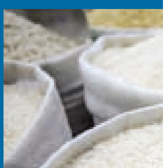
2009

The State of Agricultural Commodity Markets

High food prices and the food crisis – experiences and lessons learned

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Note:
Unless otherwise stated, data for China also include those for Taiwan Province of China, Hong Kong Special Administrative Region and Macao Special Administrative Region.

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About this report

In the second half of 2006, world prices of most major food commodities began to climb. By the first half of 2008, international US dollar prices of cereals had reached their highest levels in almost 30 years, threatening the food security of the poor worldwide and provoking widespread international concern over an apparent world food crisis. While the second half of 2008 saw a rapid fall in international food prices as oil prices tumbled and the financial crisis and global recession reduced demand, prices are well above the levels seen in recent years and are expected to remain so. Many poor consumers still face high or rising food prices. Furthermore, while international food prices may have fallen, many of the adverse supply and market conditions remain unchanged. The fall in prices was not caused by any widespread expansion in food availability. In most developing countries, there was no positive supply response to high food prices. Therefore, it is timely to review what happened and why, and to consider what lessons (especially for policy) might be learned.

While the broad facts of the "soaring food prices" episode may be well known, questions remain concerning the relative importance of the various factors suggested as being responsible, whether new developments have led to a fundamental change in market behaviour, and whether high prices might be expected to be the norm from now on. How governments and the international community should respond depends on the answers to these questions. Furthermore, while the dramatic price increases and the plight of poor consumers dominated the world's media, the impact on poor agricultural producers attracted far less attention. Following years of low agricultural product prices, high prices should have been an opportunity for poor producers to improve their incomes and an incentive to increase their output for the benefit of all. Why was this apparently not so?

The State of Agricultural Commodity Markets 2009 begins by reviewing the nature of price increases on world markets and how these become higher food prices for individual consumers and agricultural producers. Agricultural commodity prices have always been highly variable, but around a long-run downward trend. However, some commentators and analysts have suggested that there are now new factors at work, especially the expansion of biofuel production, that mean that food prices will not return to their historical trend. As yet, the available evidence is not conclusive, although some market fundamentals could indeed suggest the end of so-called "cheap food". What those features are and how they have influenced food prices are looked at in some detail.

Particular attention is focused on the extent to which the different explanations – biofuel demand, record oil prices and increasing food demand arising from rapid economic growth in China and India – can account for the sudden food price inflation witnessed around the world and on what the role was of the traditional market drivers such as low stock levels or weather-related supply shortfalls. The questions of whether the situation was exacerbated by inflows of speculative funds or policy measures introduced by governments are also discussed. In practice, while biofuel demand and high oil prices arguably had the major impact, all of these factors played some role and interacted to produce the jump in food prices. Several of these factors are likely to have a persistent effect, so a return of food prices to their previous levels is unlikely in the short term.

The State of Agricultural Commodity Markets 2009 assembles the evidence on the impacts of high food prices. The negative food security impact of higher food prices is greatest on *developing country* poor consumers, who include many of the rural poor. Many developing and least-developed countries are food importers and have seen their annual food import bills more than double since 2000. Where they are also dependent on imported oil (which was also at record prices) and have existing high levels of undernourishment, their situation has been especially precarious. On the positive side, higher food prices should enable producers to invest in raising productivity and production. However, as *The State of Agricultural Commodity Markets 2009* explains, whether high food prices can be turned into an opportunity for producers in developing countries depends on their ability to respond. This is far from guaranteed. The prices of key inputs such as energy and fertilizer increased along with product prices – sometimes faster – so the incentive to produce more actually weakened. Furthermore, the capacity to produce more is limited for developing country smallholders with weak technology and limited access to inputs. High food prices do not appear to have led to any significant supply response from the vast majority of developing country producers.

How to help producers to produce more is one policy problem facing governments in developing countries. How to ensure consumers have access to food at affordable prices is a more immediate one. In most cases, understandably in view of the social unrest that high food prices provoked, the policy measures introduced focused on the immediate short-term food security problems by attempting to slow price increases and increase food availability. The medium- and long-term needs to support producers were neglected, and some of the short-term measures – notably trade measures – were likely to have a negative impact. *The State of Agricultural Commodity Markets 2009* concludes with a review of the policy options available to governments and an appraisal of how developing countries have responded to the high food prices. It calls for complementarity and consistency between targeted measures introduced to address immediate emergencies and longer-term measures to address the strategic need for long-run food security. However, it recognizes the difficulties some developing countries face in making the right policy choices and in putting effective policies into practice. They simply cannot afford to ensure food supplies for the poor, meet higher food import bills and reverse, overnight, years of neglect of their agriculture sectors. The international support that has been building is urgently needed to provide technical and policy assistance and, as the "right" policies tend to cost more, additional budgetary resources.

The State of Agricultural Commodity Markets 2009 aims to bring to a wider public an accessible discussion of agricultural commodity market issues and related policy matters. Although the findings and conclusions presented rely on recent technical analyses by FAO specialists in commodity and trade issues, this is not an overly technical report. Rather, it seeks to provide an objective and straightforward treatment of what are at times complicated economic issues for policy-makers, commodity market observers and all those interested in agricultural commodity market developments and their impact on developing countries.