

CROPLIFE INTERNATIONAL PERSPECTIVE ON FOOD PRICES

Food commodities are subject to more price volatility than other goods and products. Small shocks in production can have large impacts on prices. When food prices surge, the major impacts are felt by the world's poorest – among them many farmers - who have very little room to adjust their budgets. The 2007/2008 price spikes contributed to the peak in the number of undernourished, reaching over one billion in 2009.

According to the UN Food and Agriculture Organization (FAO, 2010), food prices are expected to rise in the next decades and price volatility is also anticipated to increase.¹ These developments are negatively impacted by the projected population growth and effects of climate change. They represent a major threat to both global food security and political stability.

CropLife International believes that avoiding food price shocks and reducing food price volatility is imperative to achieving food security. The following three measures will help achieve this:

- I Increasing productivity sustainably**
- II Improving distribution and access to food**
- III Mitigating the risk of price surges**

What is food security?

Food security exists when all people, at all times, have physical, social and economic access to sufficient, safe and nutritious food that meets their dietary needs and food preferences for an active and healthy life.

We urge policymakers to address these measures.

I INCREASING PRODUCTION SUSTAINABLY

The FAO predicts that global food production must rise by 70% to meet the food needs of a growing population by 2050. Production in developing countries needs to almost double. This tremendous increase in demand will have to be matched with an increase in supply. To achieve this growth, we must:

- **Increase yields on existing land**

Opportunities to expand arable land are limited and not sustainable. Thus, to achieve production increases without damaging the environment, we need to increase yields on land already under production. It is estimated that 90% of production increases must come by increasing yields on existing land. Innovative crop technologies, including biotechnology, have the potential to increase yields to up to 30% and modern crop protection solutions avoid harvests being lost to pests and diseases.

- **Improve resource management**

- Waste management. Waste must be reduced and consumption practices must become more sustainable. Waste occurs throughout the supply chain – from pre- and post-harvest crop losses to pests and disease, to unsustainable food consumption practices at the consumer level. Policies to address waste at each stage of the production and consumption process are needed.

¹ At a recent FAO Special Meeting in Rome it was concluded that “the experts recognized that unexpected price hikes ‘are a major threat to food security’ and recommended further work to address their root causes,” which includes “exploring alternative approaches to mitigating food price volatility’ and ‘new mechanisms to enhance transparency and manage the risks associated with new sources of market volatility” (FAO, September 27, 2010).

- Water management. Water resources must be preserved at each step of the food production process – agriculture currently consumes 70% of all blue water². Improved irrigation practices make a significant difference. Crops that are adapted to better withstand drought will be on the market in the near future, helping farmers to grow food using less water.

- **Foster innovation**

Policies to incentivize continued private and public R&D investment are critical to generate solutions for the challenges to food production in the coming years. Farmer-focused and locally relevant research must be prioritized to ensure that the outcomes are both impactful and relevant.³

The FAO says that those countries with “higher net investment per agricultural worker have been more successful at reducing hunger”.

- **Access to knowledge and technologies**

If productivity increase is an important factor for keeping food prices stable, then the wider application of modern technologies and knowledge to farmers – particularly in the developing world - is crucial. A situation in which yields in many developing parts of the world reach only 20% of the yields achieved in the developed world is unacceptable.

- **Access to financing**

Production increases need to be accompanied by income-generating measures for the poor to increase their purchasing power – both for the inputs required to raise productivity, as well as for food for consumption. An effective tool is the establishment and support of micro-financing programs in developing countries. Such credit facilities must be transparent and well-regulated to be fully beneficial.

II IMPROVING DISTRIBUTION AND ACCESS TO FOOD

Many smallholder farmers are denied the opportunity of entering the marketplace by insufficient infrastructure. If there is no road or form of transportation, taking goods to market becomes almost impossible. Post-harvest losses are highest among smallholder farmers, largely due to lack of storage infrastructure, leaving harvested produce susceptible to attacks by pests and disease. The FAO estimates that to achieve the necessary productivity increases, the required average annual investment in primary agriculture and other services such as storage and processing amounts to USD 209 billion. Much of this must come from private sources.⁴

- **Improving infrastructure**

Infrastructure must improve to raise crop production and quality, reduce post-harvest losses and secure farmers’ access to inputs and markets. Infrastructural shortcomings mean that often inputs such as crop protection products, quality seed and fertiliser have no chance of reaching the farmer.

² Blue water is defined as stored rainwater

³ Many experts argue that the long period of low real food prices in the 1980s and 1990s led to underinvestment in agricultural production. At the same time, Overseas Development Assistance (ODA) for agriculture dropped from 17% to 3% of total ODA between 1982 and 2006³. Agricultural productivity gains have simultaneously fallen from an annual average of 3-6% to 1-2%³. Indeed, global food demand outstripped production for a number of years prior to the food crisis 2007/2008. Because of the buffer provided by the depletion of stock, however, prices did not rise at first, but when they did it was with even greater power, and the described consequences (Timmer, 2009). Therefore, to prevent this scenario from recurring, investment in agricultural R&D must rise.

⁴ This sum amounts to a 50% increase from current levels and does not include the public investments required for improvements in roads, irrigation, electricity and education.

- **Open markets and free trade**

With regard to the 2007/2008 price spikes, Headay (2010) suggests that once one sizable trading country imposed an export ban or moved to buy up cereals before others, it became rational for others to do so.

Headay's – and many others' - analysis suggests that a more functional world trade system would have reduced price surges. New trade agreements should focus more on the need to keep export markets open. Moreover, trade agreements must be truly international and binding, while flexible enough to leave policymakers the option of locally adapted policy instruments to maintain food price stability.⁵

- **Reducing rural poverty**

75% of the poor in developing countries live in rural areas, and although many count farming as one of their activities, they cannot always feed themselves, and as net food buyers, are particularly sensitive to increases in food prices. They need purchasing power.

Economic growth in the rural and agricultural sectors – particularly among smallholders – is twice as effective at benefiting the poor as growth in other sectors. This is a strong argument for investment in rural communities and effective agricultural growth policies for both economic growth and food security.

III MITIGATING RISKS OF PRICE SURGES

Climate-related events have always been a major risk to the agricultural sector. Climate change will amplify the threat to food security by increasing fluctuations and extremity in weather conditions, leading to reduced yields and soaring prices. Modern seed technologies offer ways to adapt crops to the effects of climate change, thus keeping food supplies stable and avoiding price surges. In addition, governments should ensure the availability of risk management tools for farmers.

- **Adapting to climate change**

Climate change means drier and hotter conditions in regions such as Sub-Saharan Africa, where hunger and poverty are already severe. This threatens to render vast swathes of land uncultivable. Concerted, decisive international action to reduce greenhouse gas emissions to mitigate the most serious effects of climate change is needed. Adaptation measures are equally important – especially in agriculture.

Plant science has helped develop seed varieties that tolerate heat, drought, floods and pests, while maintaining yields. However, for these technologies to be available where they are needed, countries need to have policies and legislation in place that ensure effective regulation and proper use.

- **Employing good risk governance**

Governments should underpin farmers' risk management strategies, particularly those for rare but serious risks that may have long-term negative effects on a farmer's business. This way, farmers' livelihoods are protected.

⁵ This flexibility for national markets is especially crucial for countries where the poor population is highly dependent on one staple (like rice for Asia). At the same time it is vital that those countries decrease their import-dependency on the international markets by investing in local production and innovation.

The OECD-FAO Agricultural Outlook (2010) also recommends national and local emergency stockholding of key food security commodities for food emergencies, particularly for low-income food-importing countries. This can increase confidence in access to food and help stabilize markets. Increased research, capacity building, and sharing of best practices to improve the functioning of emergency stock schemes are required, the report says.

- **Diminishing speculation on food prices**

The 2007/2008 price surges were attributable in small part to speculation on food prices. Expectations of bad harvests led speculators to bet on higher food prices, leading those holding the food stocks not to sell, in the hope that prices would go up again. In turn, this prompted states to impose export bans, which led commodities' buyers to buy as soon as possible, for fear of further price surges. Such actions prompt a chain reaction, which is dictated more by panic, than by the realities of stocks. Better regulation of futures markets is needed to guard against speculation negatively impacting on food security.

CropLife International believes that with increased investment and a commitment among policymakers and private sector actors to address the above issue areas, major fluctuations in food prices can be avoided in the future. We believe that improved international management of food price volatility is an important factor in achieving food security worldwide.

BACKGROUND

The 2007/2008 price surge

The surge in agricultural prices in 2007/2008 triggered an unprecedented rise in the cost of basic food staples and led to serious riots in several developing countries. These developments brought food security and threats to it to the top of international political agendas.

Rising numbers of undernourished

The 2007/2008 price spikes contributed to the peak in the number of undernourished, reaching more than one billion in 2009. While numbers declined in 2010 as a result of a more favorable economic environment, they are still higher than before the economic and food crisis (FAO 2009, 2010).

Extreme price fluctuations will continue

Experts agree that the 2007/2008 price shocks were caused by a range of factors, including rising oil prices, growing biofuel demands, trade events, low stocks, droughts, the weak dollar and export restrictions which are not likely to be repeated in the near future. However, further price fluctuations in agricultural commodities can certainly not be ruled out. On the contrary, the effects of climate change and the dynamics of expected population and income growth make them even more likely.

Demand will outpace production growth

The OECD-FAO Agricultural Outlook 2010-2019 concludes that 'stronger demand, with anticipated return to higher growth following economic recovery and from increasing populations, should outpace production growth, on average, over the projection period to maintain all commodity prices on a higher plateau relative to the average of the last decade prior to the 2007/2008 price surge (OECD-FAO, 2010, p. 26).