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THE STATE OF FOOD AND AGRICULTURE

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I. INTRODUCTION

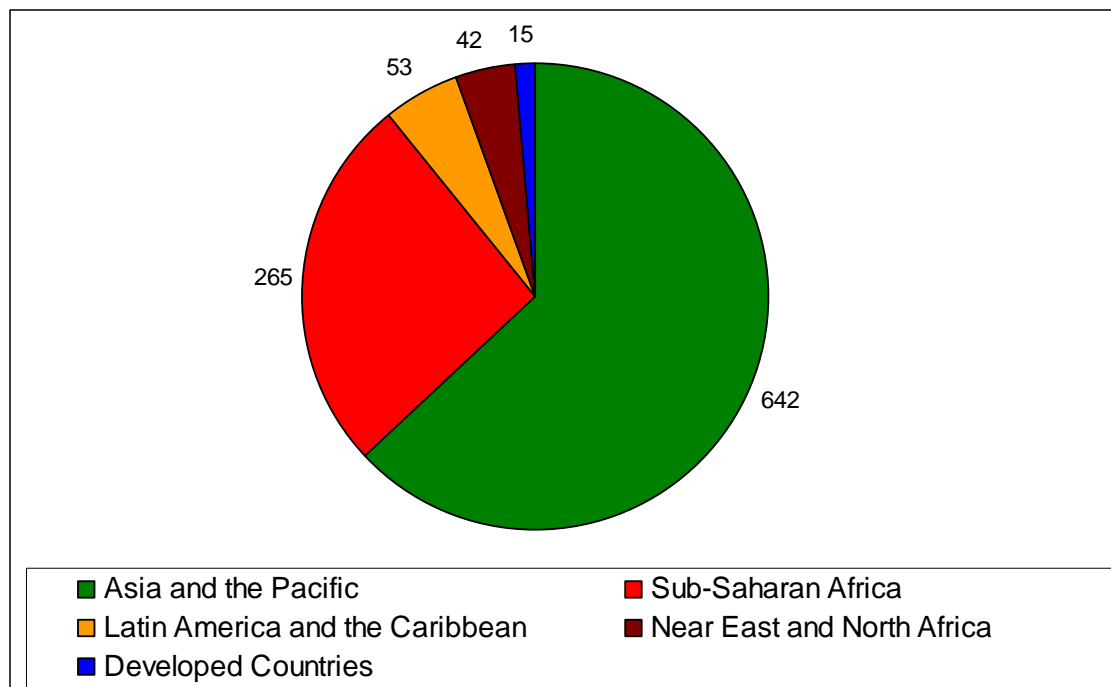
1. At the G8 Summit in Japan in July 2008, the leaders of the world's most industrialized nations voiced their deep concern "that the steep rise in global food prices, coupled with availability problems in a number of developing countries, is threatening global food security". The devastating effects of high food prices compounded an already worrisome trend of rising numbers of undernourished people throughout the world, which had been recorded over the preceding years.
2. The crisis caused by soaring food prices was followed in rapid succession by the most severe global financial and economic crisis witnessed in the last seventy years. These crises have hit large parts of the world simultaneously, pushing millions of more people into hunger and undernourishment. Months of unusually high food and fuel prices combined with weak economic activity have stretched the coping mechanisms of many poor households to the brink, as they have been forced to draw down their assets (financial, physical or human) in attempts to avoid large declines in consumption.
3. Both the prospects for recovery from the economic crisis and developments in agricultural markets are critical for the world's poor and hungry and for the possibility of moving towards rapid and sustained progress in hunger reduction. While the sources of the food price spike of 2006-08 remain latent, the outlook for the global economy and agricultural markets has grown increasingly uncertain. Real energy prices remain above trend levels, and resumed income growth in developing countries could put renewed upward pressure on food prices. Biofuel feedstock demand is being sustained by consumption mandates, fuel blending requirements, subsidies and tax incentives in many countries.
4. Commodity prices have dropped considerably from their peak in mid-2008, but most of them still remain at or above trend levels. More seriously, while international indicator prices have fallen, commodity prices - and particularly retail food prices - inside many countries have been slow in coming down. Although consumer food price increases have calmed, retail food prices have not dropped in line with lower commodity prices. Also, many of the various policies implemented by numerous countries to protect domestic consumers from high prices, several of which constituted a disincentive to a possible supply response, have been slow to be removed. Policy concerns about how to prevent a future food price crisis remain.
5. Beyond the overriding question of the timing and speed of recovery from the severe economic recession, some issues particular to agriculture and agricultural markets appear as critical for the future of global agriculture and food security. How efficient are global and domestic food markets in transmitting price signals to producers and consumers? Will resumed growth of the global economy lead to a renewed phase of soaring food prices? What is the capacity of global agriculture to expand in the face of higher agricultural commodity prices? How much have policies, initiated to protect domestic consumers from the effect of higher food prices, distorted international markets, exacerbating the problem and hampering an efficient supply response?

II. TRENDS IN GLOBAL FOOD SECURITY

6. The incidence of hunger and undernourishment in the world has been dramatically affected by the two successive crises. FAO's current estimate of the number of undernourished people in the world in 2008 is 915 million, the highest number estimated over the past 3-4 decades, although in terms of the percentage of the world's population the share of hungry people is still far below that of 1970. However, FAO projections based on analysis by the United States Department of Agriculture (USDA) point to an increase in the number of undernourished people

in the world to 1.02 billion during 2009. The regional breakdown of this number is shown in Figure 1¹.

Figure 1. FAO estimates of number of undernourished people in 2009, by region (million people)



Source: FAO, *The State of Food Insecurity in the World, 2009*

7. This sharp increase comes on top of an already worrisome upward trend in the estimated number of undernourished people, which had been observed over the past few years. Indeed, the number of undernourished people had declined significantly during the 1970s, 1980s and early 1990s, in spite of rapid population growth, as the proportion of undernourished people in the developing countries fell from one third in 1970 to less than 20 percent in the 1990s. Since the mid-1990s, the number of undernourished people has been increasing, despite a continued decline in the proportion of undernourished people to 16 percent of the developing country population and 13 percent of the world's population in 2004-06. The recent crisis, on the other hand, has led to an increase for the first time in decades in both the absolute number and in the share of undernourished people.

III. AGRICULTURAL PRICE DEVELOPMENTS – HIGH VARIABILITY OF BASIC FOOD PRICES

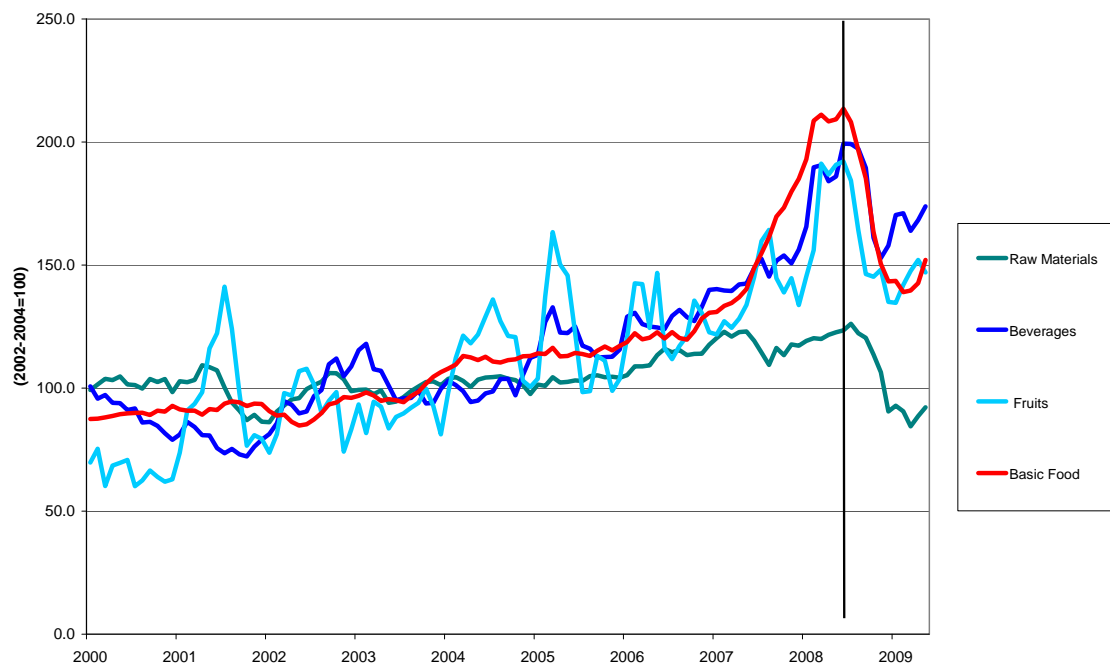
8. International food commodity prices have come down somewhat in the past year, but they remain high by historical comparison, and in many cases domestic consumer prices have been slow in receding. Prices began rising slowly in the early years of the decade, but accelerated precipitously in late 2006. The FAO Food Price Index of internationally traded basic food commodities (base 100 in 2002-04) attained a historical peak in June 2008 of 214, more than

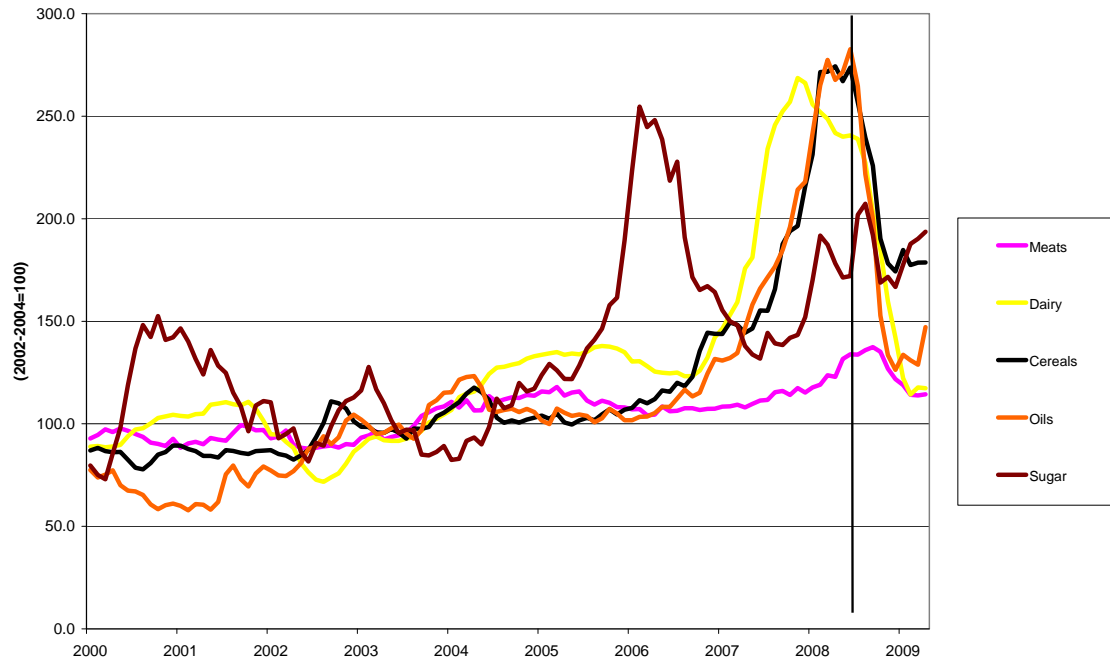
¹ For more details on trends in global undernourishment see FAO, *The State of Food Insecurity in the World, 2009*.

twice the level of the base period and 139 percent above the average of the year 2000. From June 2008 to the end of the first quarter of 2009, the index fell a full 35 percent, returning to its level of the first quarter of 2007. In May 2009, after a renewed surge in international prices of several major basic food commodities (excluding rice and meat), at 152, the index still stood almost 30 percent below the peak level of June 2008, but 52 percent above the (2002-04) base value and almost 70 percent higher than in 2000.

9. Most agricultural prices moved higher during the episode of high prices, but the fact that basic foods, and in particular cereals and vegetable oils, rose the most and displayed the highest variability received particular attention, as these food commodities represent the core components of both rural incomes and the diets of poor populations in developing countries. Other agricultural prices also displayed variability, but, with the exception of dairy products, to a much lesser extent. Raw materials, which are important to the economies of some developing countries, barely rose during the critical 2006-2008 period. In addition, in relative terms, these prices have been the most affected under the recession, given their strong dependence on income-sensitive sectors. An example is hides and skins for leather used in durable consumables such as cars, the demand for which has fallen drastically since the onset of global recession.

Figure 2. Indices of agricultural prices (2002-04 = 100)





Source: FAO Food Price Indexes, IMF Raw Material and Beverage Indexes (rebased), Fruit index constructed, FAO

10. Although remaining high by historical comparisons, international prices for agricultural commodities have nevertheless come down significantly. The essential causes of the price declines have been widely attributed to faltering consumer/import demand under global recession and conditions of limited credit, as well as to lower bio-fuel feed stock demand resulting from lower energy prices. However, supply-side indicators have also made an important contribution to price declines, especially given a significant crop supply response in 2008, and lower input prices, particularly for transport. Major uncertainty remains as to how these factors will evolve in the near term, and affect the future of agricultural markets.

IV. DOMESTIC FOOD PRICES IN DEVELOPING COUNTRIES

11. In spite of lower international prices for agricultural commodities, the transmission of these lower prices to domestic markets appears to have been low or delayed, in many developing and low-income food deficit countries, particularly in sub-Saharan Africa. In many cases, in early 2009 domestic prices were still higher than a year earlier and where they had declined, price reductions had been relatively smaller than those on international markets (see Box 1). Such low price transmission is a symptom of inefficient markets, and also tends to heighten variability in international markets.

Box 1. Domestic food prices in developing countries remain high

FAO GIEWS (Global Information and Early Warning System) has launched the “**National basic food price – data and analysis tool**” as part of the **FAO Initiative on Soaring Food Prices (ISFP)** to assist in the monitoring and analysis of domestic food price trends in developing countries.² The database covers about 800 monthly domestic retail/wholesale price series of major foods³ consumed in 58 developing countries as well as international cereal export prices.

An analysis of the data as of July 2009 confirmed that domestic prices in developing countries generally remained very high, even though international prices were considerably lower than in 2008. International export prices of maize, sorghum, wheat and rice were respectively 31, 38, 39 and 30 percent lower than 12 months earlier and between 37 and 53 percent below their 2008 peaks. The situation for domestic cereal prices in developing countries contrasted sharply with this situation. In about 80 percent of the countries covered by the database, the latest nominal domestic price quotations⁴ were higher than 12 months earlier. In 35 to 65 percent of the countries, depending on the type of cereal, they were higher than 3 months earlier and in 10 to 30 percent of the countries the latest food prices available in GIEWS by late March were the highest on record.

Source: FAO, *Crop Prospects and Food Situation*, No. 2, April 2009

12. Retail-level food-price increases became a major factor of concern in both developing and developed economies alike in 2008. Evidence suggests that food price inflation is tapering off significantly, following the drop in basic commodity prices in mid-2008. However, retail food prices have continued to increase in some countries and have fallen only marginally in others (Figure 3).

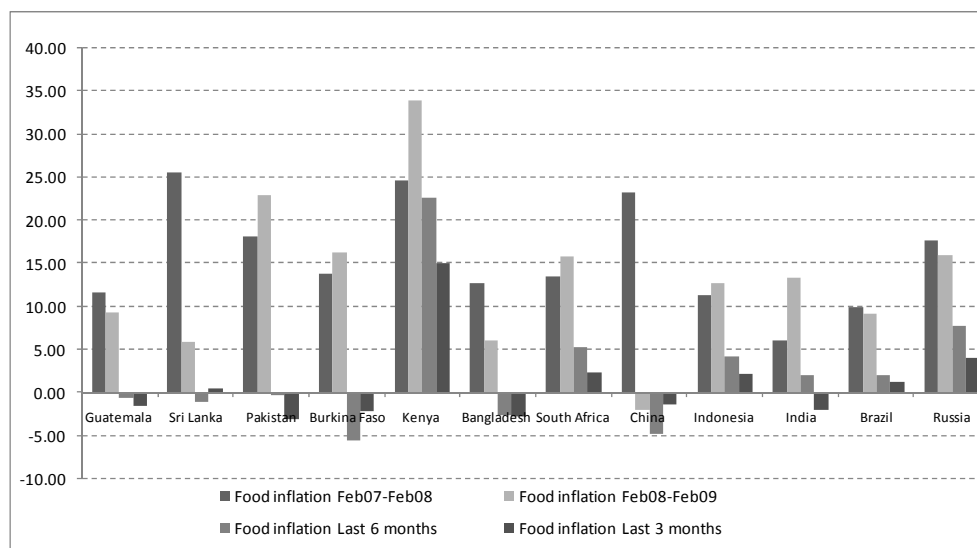
13. Thus, while the economic crisis is dramatically reducing incomes, at the same time persistent high food prices continue to negatively affect access to food of large numbers of low-income population groups, exactly those who tend to spend a large portion, if not most, of their income on food. Most affected are the urban poor and net food-buyers in rural areas.

² The “**National basic food price – data and analysis tool**” is available on the FAO Website at: www.fao.org/giews/pricetool

³ Mainly cereals and cereal products but also beans, potatoes and cassava and some animal products

⁴ The most recent price quotation refers, with few exceptions, to the period between January and April 2009

Figure 3. Consumer food price inflation 2007- 2009, selected countries



Source: OECD-FAO Agriculture Outlook: 2009-2018

V. MEDIUM-TERM PROSPECTS FOR INTERNATIONAL AGRICULTURAL COMMODITY PRICES

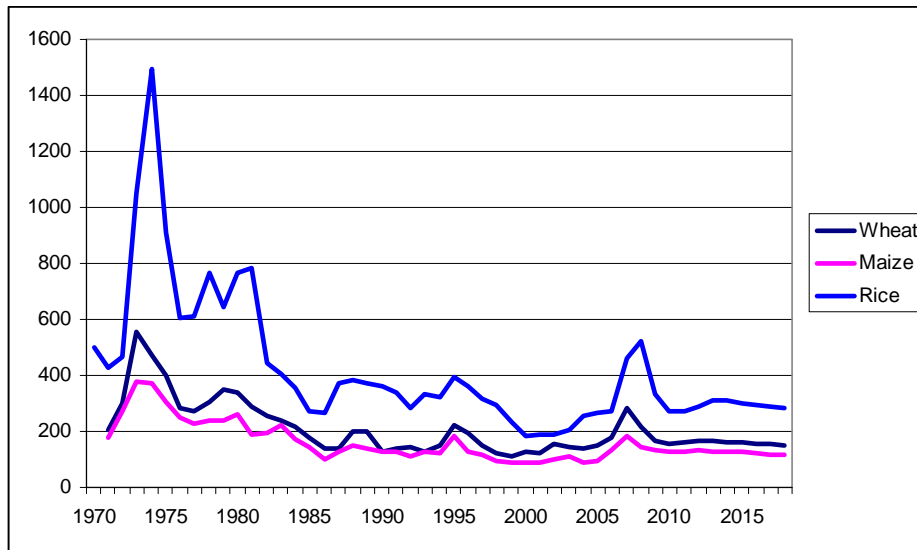
14. Although significantly below the peak levels of June 2008, commodity prices for food products remain high in 2009 by standards of the past ten year. OECD and FAO in their recent *Agricultural Outlook: 2009-2018*⁵ project food commodity prices to remain at these levels or to increase over the medium term, thus continuing to exceed in real terms the price levels preceding the price hikes of 2007-08. The OECD-FAO projections also indicate that these expectations are relatively resilient to the global recession, although more income-sensitive commodities such as vegetable oils, meats and dairy products may be more affected by economic conditions should they deteriorate further.

15. Prospects that real agricultural commodity prices may remain at these higher levels over the medium term are largely contingent on three important factors. Firstly, biofuel consumption mandates in several countries - which specify market shares for ethanol and for biodiesel in proportion to total fuel consumption, irrespective of market conditions - as well as various subsidies and tax incentives appear likely to perpetuate the influence of biofuel production on agricultural prices, despite the fact that the price prospects for crude oil appear lower than they did in early 2008. Indeed, since energy markets are large compared with agricultural markets, energy prices will tend to drive the prices of biofuels and their agricultural feedstocks.⁶ Secondly, while crude oil prices are at levels which would not induce further increases in biofuel production in the short term, they still remain high in real terms by historical standards. This will continue to translate into high input prices for chemicals and fertilizers as well as high transportation costs. Finally, agricultural productivity growth appears to be slowing, implying that at the margin, increased production will require higher real costs per unit. Analysis of developments in real crop prices show that the declining long-term trend, which has been evident for many decades, may have stopped by 2000, and projections do not suggest a resumption of the downward trend in the medium term (see Figure 4).

⁵ OECD-FAO, *OECD-FAO Agricultural Outlook: 2009-2018*.

⁶ For a discussion see FAO, *The State of Food and Agriculture 2008. Biofuels: prospects, risks and opportunities*.

*Figure 4. Real cereal prices**



* Wheat HRW No.2 US Gulf; Maize No.2 US Gulf; Rice milled, Grade b, Bangkok. Deflated by the USA GDP deflator

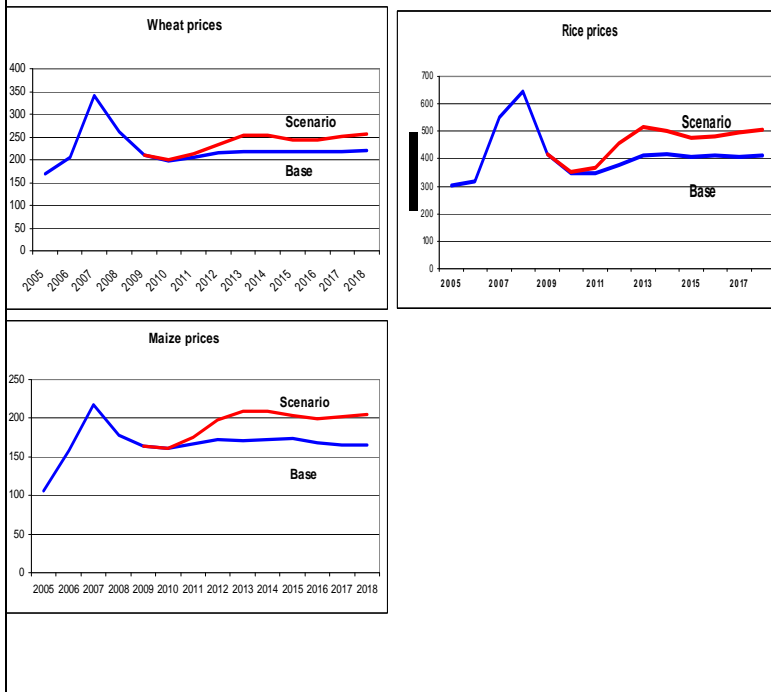
Source: OECD-FAO Agriculture Outlook: 2009-2018 for projections from 2009-2018

Box 2. A return to high agricultural commodity prices?

Agricultural commodity prices fell substantially with the onslaught of global recession in the last half of 2008. Virtually all primary product prices fell precipitously in the face of weak demand and supply responses to (often) record high agricultural prices of the two previous years. What is the likelihood of a resurgence of prices, if world growth were to resume a more rapid pace and if oil prices return to those of 2008?

The OECD-FAO's Aglink-Cosimo model was used to generate a scenario in which world economic growth for all countries resume the rapid pace experienced during the period 2004-2007 and in which world oil prices return to the level of US\$ 100/bbl⁷. The resulting scenario is compared to the base-line projection of the *OECD-FAO Agriculture Outlook 2009-2018*, in which economic growth of developed and developing countries is some 1 and 2 percent lower respectively, and in which world oil prices range from USD 60/bbl in 2012 to USD 70/bbl in 2018.

The model simulations indicate that under this simple scenario of resumed growth and higher crude oil prices, international basic food prices would increase some 20-25 percent relative to the baseline projection. However, they would not return to the levels of 2007-2008. An exception is maize, which is more closely linked to crude oil prices, due to its importance as feedstock in ethanol production. However, the analysis clearly demonstrates the current high sensitivity of the agricultural sector to increases in energy prices, which affect the supply, and increasingly also the demand-side of the global food economy.



⁷ More precisely, in the scenario growth resumes in 2011, and world oil prices move up to USD 100/bbl by 2012. All other conditioning factors, such as productivity, economy inflation and exchange rates, remain constant as documented in the *OECD-FAO Agriculture Outlook: 2009-2018*.

VI. AGRICULTURAL PRODUCTION

16. How has agriculture responded to the price crisis of 2007-08, and how may it respond in the context of the global recession and beyond? According to estimates based on FAO production index numbers⁸ and the *OECD-FAO Agriculture Outlook: 2009-2018*, global agricultural production grew by 3.8 percent in 2008 relative to 2007, as a number of countries expanded production in response to the higher prices (Figure 5). This response followed two successive years (2006 and 2007) of performance below the global trend growth for the decade of about 2.3 percent.

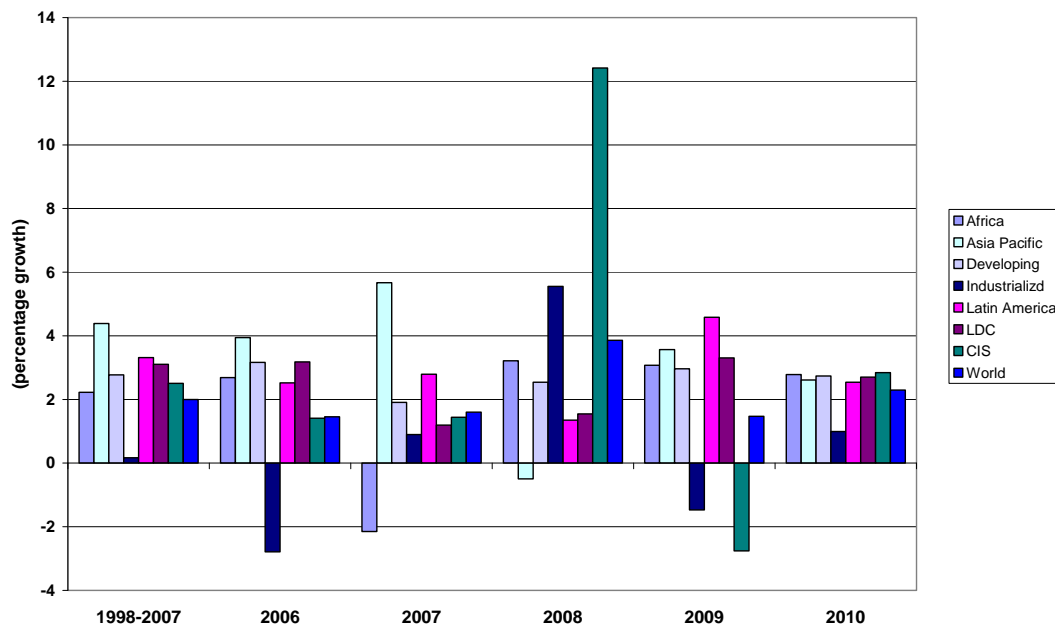
17. The agricultural supply response in 2008 was different by region. Most of the supply response originated in the CIS countries of Europe and the industrialized countries. Growth in the former group is estimated at 12 percent, although this high rate is largely the result of excellent crop conditions after several years of low growth. The most significant quantitative response came from industrialized countries, which also dominate export markets. Output from this country group grew almost 6 percent in 2008.

18. Among the developing countries, growth in Africa was significant, at 4 percent, mainly representing a rebound after negative growth in 2007. Estimates for the developing countries as a group indicate almost no above-trend production, with below trend-growth in Latin America and a small decline in output in Asia. Indeed, low price transmission in many developing countries along with limited availability of variable inputs and lack of access to markets and infrastructure in many countries reduces the supply response to improved incentives.

19. While global agriculture did expand in 2008, the expansion was fairly modest and mostly confined to a limited number of countries which have been traditional cereal exporters supplying global markets. The prospects for growth in agricultural production in 2009 also appear limited, particularly under the severe economic recession, with weak demand and the difficulty in replicating the performance of 2008 in the developed countries. Also, the waiving of set-aside requirements of crop-land set aside in the EU was a significant factor behind expanding production. Production in the CIS and the industrialized countries will not reach the level attained in 2008. By contrast, production response by many developing countries may be stronger if higher prices persist in these regions.

⁸ FAOSTAT Production index numbers of net agricultural production

Figure 5. Growth in agricultural production by region (percent)

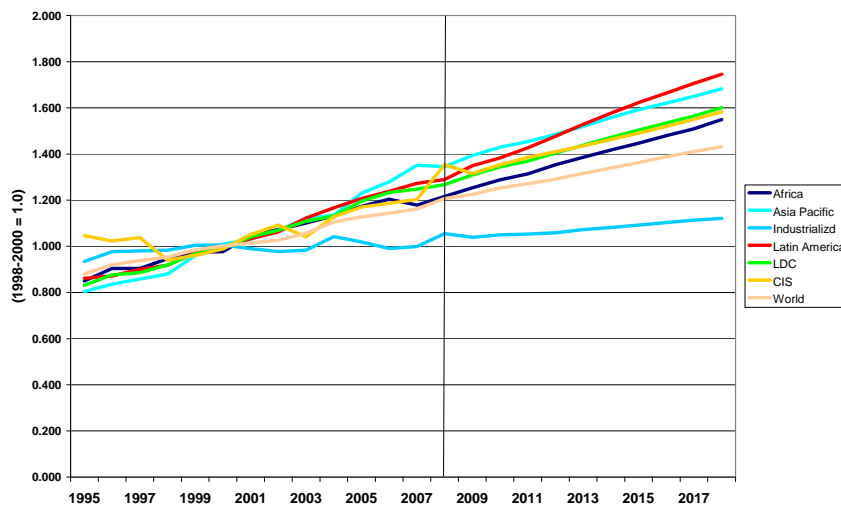


Source: FAOSTAT Net Agricultural Production Index to 2007. Extrapolation based on the *OECD-FAO Agriculture Outlook: 2009-2018*.

20. Looking to the medium term, according to the *OECD-FAO Agricultural Outlook*, agricultural output growth over the coming decade will not match that of the previous decade, with average growth over the period falling from 2.0 per year in 1999-2008, to 1.7 percent per year from 2009 to 2018. This implies growth on a per caput basis of 0.6 percent.

21. The industrialized countries have seen the slowest growth over the past decade, particularly due to stagnant production growth in Europe. In fact, agricultural output in the European Union (27) is estimated to be lower in 2009 than it was in 2000. Despite a depreciated exchange rate, which tends to increase export demand, agriculture in the United States is estimated to have increased by only about 12 percent over the same period. Also over the coming decade, growth in agricultural production is projected to be slowest in the industrialized countries, while Latin America, Asia and the CIS countries will see much more rapid growth. By 2018, agricultural output in these regions is projected to be 75, 53 and 58 percent higher, respectively, than in 2000, compared to an increase of only 12 percent in industrialized economies. Brazil, whose agricultural output is estimated to have grown by a remarkable 50 percent since 2000, may see growth by another 50 percent over the next ten years.

Figure 6. Long-term trends in agricultural production by region



Source: FAOSTAT Net Agricultural Production Index to 2007. Extrapolation based on the *OECD-FAO Agriculture Outlook: 2009-2018*.

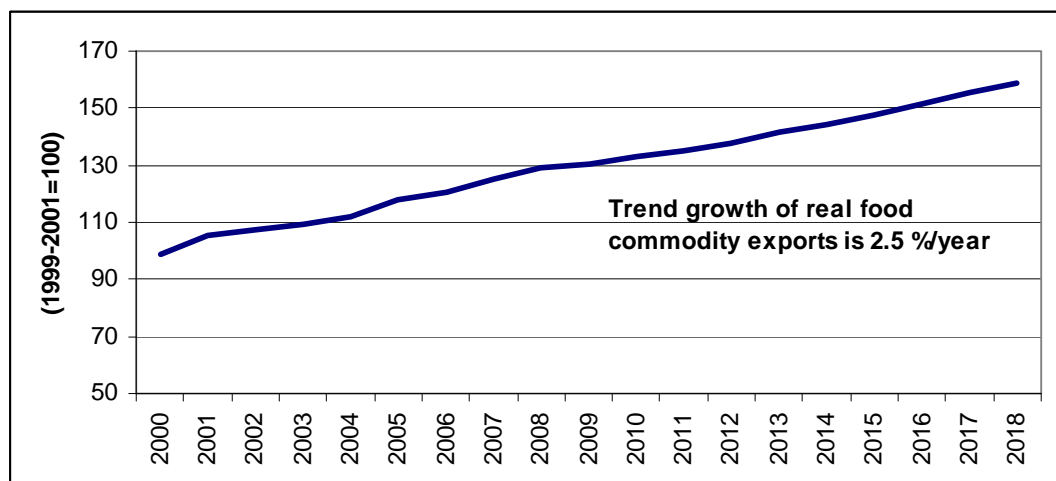
22. Longer-term growth opportunities in agriculture appear to lie in regions outside of the industrial countries. In this regard, investments are now being made in these potential supply regions by higher-income developing countries, who are concerned for their own long-term food security. Such investments may offer the potential for development of the agricultural sector and may further change the long-term location of agriculture. In the context of underdeveloped land markets, however, if these investments grow on a large scale, they will require significantly improved frameworks to protect domestic resources and local populations from exploitation.

VII. AGRICULTURAL TRADE

23. Trade volumes are very sensitive in the short term to economic conditions and to production changes, particularly in the net exporting regions. Still very little information is available on a global basis on changes in agricultural trade during the price crisis of 2008. It is also unclear how trade may be affected by recession in 2009 and 2010, considering also that availability of credit for importers, particularly in developing countries, is an important limiting factor in trade. For the medium term, projections based on the *OECD-FAO Agricultural Outlook 2009-18* indicate that real food commodity trade will continue to expand slowly⁹ (Figure 7).

⁹ Real food trade (as are the net agricultural production indices) is estimated at constant reference prices averaged for 1999-2001, from basic food commodities. Annual trade from these estimates are approximate, as they combine both marketing year basis data for crops with calendar data for other commodities. Estimates are used to examine recent trends, not annual trade performance.

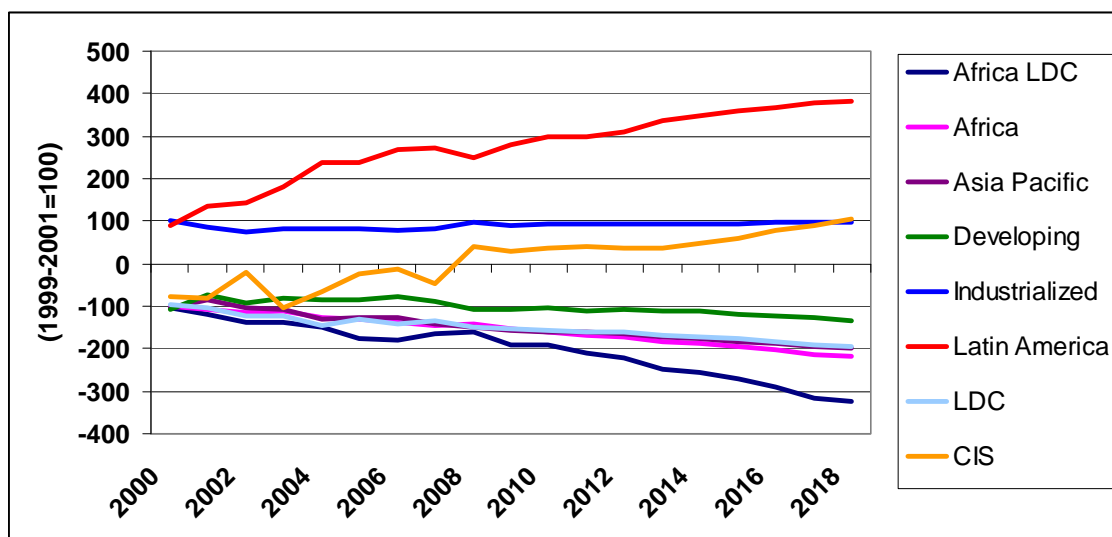
Fig 7. Changes in global real food commodity exports



Source: Index of real exports using 1999-2001 reference prices to weight exports by commodity, measures changes in exports in constant US dollars. Source of data is OECD-FAO Agriculture Outlook 2009-2018.

24. Medium-term trends in trade in food commodities will imply a changing landscape of international trading patterns (Figure 8). With relatively slow growth in agricultural output and stagnating food demand, real net food commodity exports from industrialized countries have been stagnant over recent years, a pattern that is not expected to change over the medium term. As a group, industrial countries will remain excess suppliers to other countries, while developing countries, as a group, will remain net food-commodity buyers.

Figure 8. Changes in real food commodity net trade by region



Note: Index of real net exports by region, using 2000 reference prices to weight net exports by commodity. Source of data is the OECD-FAO Agriculture Outlook. Calculations by FAO.

25. However, within the developing countries a continued significant expansion in net trade is projected from Latin American countries, notably Brazil and Argentina, while the Asia-Pacific and African regions will see a widening of their net import position. The net food surplus of

Brazil has grown almost quadrupled since 2000, and is anticipated to grow another 50 percent over the next ten years. Also the CIS countries are expected to emerge as net suppliers of food, reversing their position from that of net importers to that of net exporters in the medium term. An area of particular concern is the continued significant food deficit of LDC countries, particularly those in Africa, which is anticipated to increase in real terms by over 50 percent in the next ten years, thus further increasing their dependence on foreign supplies.

VIII. POLICY RESPONSES TO HIGHER FOOD PRICES AND THEIR IMPACT ON AGRICULTURAL MARKETS

26. Faced with high and rising world food prices in 2007 and 2008, many countries adopted policy measures designed to reduce the impact on their domestic populations. These measures, involving different key commodity sectors, can be classified into four broad categories: trade, production, consumption, and stock policies. Most of these policy measures were implemented for limited periods of time; however, some, put in place in 2007, still remain in effect in 2009, despite the substantial retreat of international prices.

27. An important question concerns the combined impact of these policy responses on both international and domestic markets and whether uncoordinated policy actions may have had the effect of destabilizing international markets by introducing greater price volatility. The question is important for at least two reasons. First, actions by one country or country group may impede or reduce the effectiveness of actions taken by others. Second, some policy measures may simply be ineffective, if not counterproductive, in addressing the key problem, which is the impact of high food prices on poor consumers.

28. Measuring the impacts of the complex assortment of policy responses to confront the high food prices is difficult. Even more difficult is disentangling these impacts from the other factors underlying the volatile market situation in 2007-2008 in which these policies were implemented. There are, however, important lessons to be learnt from such an examination. The Aglink-Cosimo model of international commodity markets, developed by the OECD and FAO for their joint projection work, was used to study some of the more important policy initiatives implemented in response to the high commodity prices. Policies were examined against a base-line scenario, into which key policies were then introduced. The analysis thus compares two scenarios: one with and one without these key policies in place¹⁰.

29. The policy measures which are object of the analysis were introduced into the model according to the time in which they were put in place, starting in the 2007-08 marketing year, and maintained until the time they were disbanded. In case of policies still in place, they were maintained within the modelling framework throughout the baseline period to 2012.¹¹ The analysis focuses on global rice and wheat markets, as these were the main markets most affected by policies. Estimated impacts for individual countries may vary substantially from these aggregate projection scenarios¹². The scenario impacts on global rice and wheat markets, presented in the Figure 9, illustrate some important issues. Rice markets, which are relatively “thin” compared to global production and consumption levels, saw a clear destabilizing effect of policies

¹⁰ Model simulations are based on information contained in Demeke M., Pangrazio G. & Maetz M., *Country responses to the food security crisis: nature and preliminary implications of the policies pursued*. FAO/ ESA Working Papers, December 2008. Coverage of policies focuses on those that were adaptable to the modelling environment and which were anticipated to have a measurable market impact.

¹¹ The Aglink-Cosimo model is annual. The impact of policies which were in place in part of two or more years were introduced proportionately in the different marketing years. However, in the case of policies that were in place only for short periods of time this procedure may have the effect of underestimating the magnitude of the short-term effects by distributing them over two years.

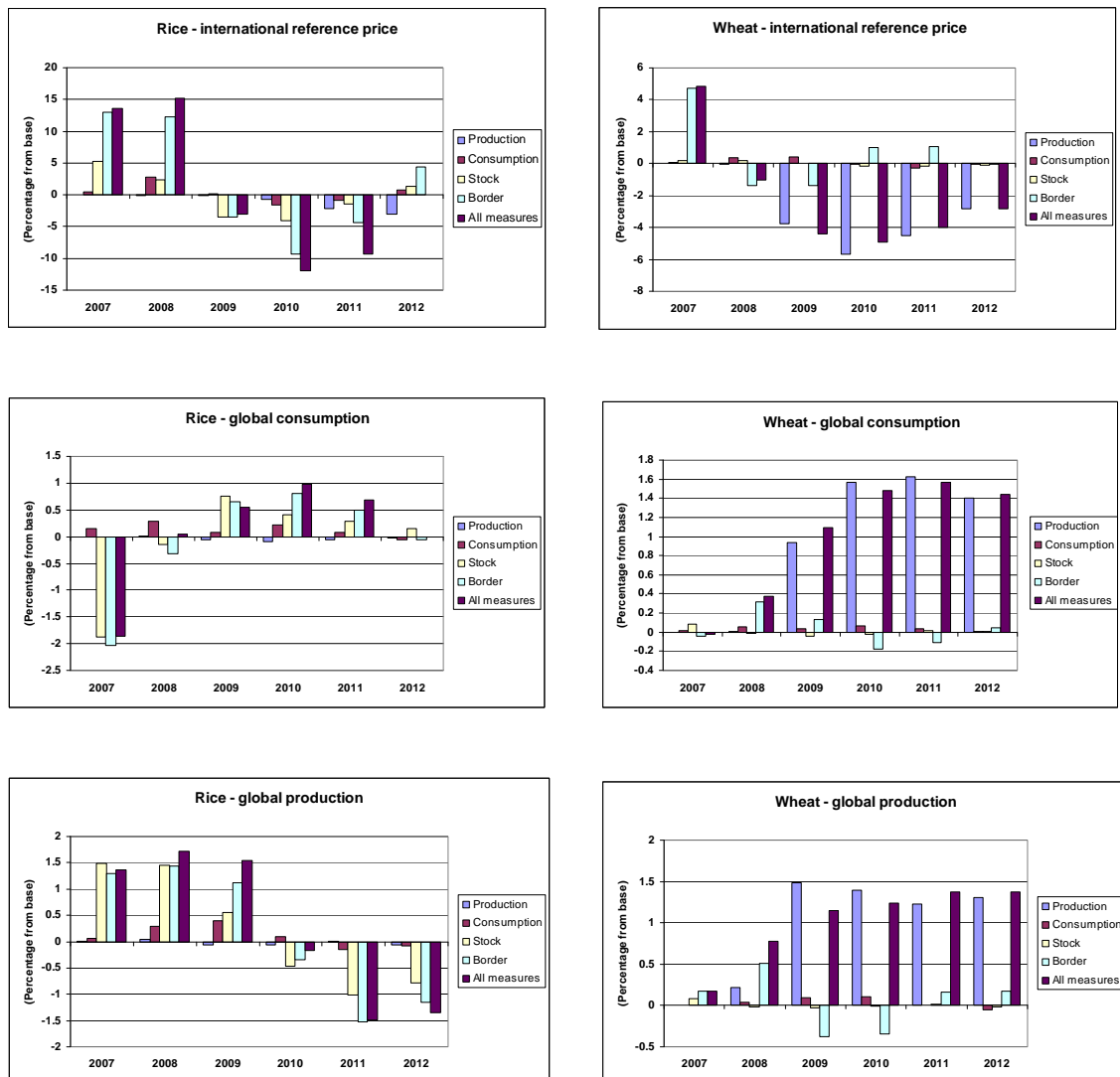
¹² A forthcoming report will assess impacts for other commodity sectors, and will refine the analysis.

implemented to address high food prices, with significantly higher international prices in 2007 and 2008 than in the baseline scenario. The most distorting policies in the case of rice were border policies implemented in 2007 and 2008. These alone drove international rice prices higher by an estimated 12 percent on an annualized basis in both 2007 and 2008. Had the policies been maintained throughout both marketing years, the measured effects would have been much higher. Stock policies are estimated to have driven global rice stocks up by some 30-35 percent both years, adding some 5 and 3 percent respectively to international rice prices in the 2007 and 2008 marketing years. Production policy measures, relatively minor in the case of rice markets, are estimated not to have affected international prices at all in the first few years of the scenario period. Also consumption-enhancing measures had little impact on market prices. Overall, the policies examined are estimated to have increased global rice production in 2007-09, but to have led to decreased global consumption in 2007.

30. For wheat markets, effects on world prices are estimated to have been smaller than for rice. With the exception of the initial period, where border measures drive prices up by 4-5 percent, the most significant impact on markets is attributable to production policies, which indeed reduced prices by as much as 6 percent (in 2009) and induced both higher consumption and production of wheat. In the case of wheat, border measures are estimated to be much less important than for rice both because the prevalence of such measures was less than that for rice but also because international wheat markets are much less “thin” than those of rice.

31. In conclusion, the analysis suggests that policy measures implemented for wheat had the effect of increasing production and consumption and lowering global reference prices, but measures implemented for rice destabilized markets without any significant longer-term effect on consumption levels. It is important to add that the reduction to zero of mandatory crop-land set-aside in the European Union was not included in this analysis. Had it been included, the estimated positive impact on crop production and consumption would have been significantly higher, especially for wheat and other major crops in Europe.

Figure 9. Estimated impact of production, consumption, stock and border measures on rice and wheat markets



Source: FAO

IX. CONCLUSIONS

32. The rapid succession of two major crises - the international food crisis and the subsequent financial crisis and economic recession - has delivered the hardest blow to world food security in decades. The two crises have led to a sharp increase in the number of people suffering from chronic hunger and undernourishment in the world and a reversal of the previously declining trend in the share of the world's population who do not have access to adequate food for a healthy and active life.

33. The financial crisis - and the consequent economic recession - has its origin far from the agricultural sector and far from the developing countries, where its most devastating effects on the poorest segments of the population are being felt. While recovery from global economic recession, whatever its speed, will depend on factors beyond the areas of food and agriculture, the

impact of the recession requires immediate and effective measures to protect the poor and food insecure who are the most affected victims of the crisis.

34. Beyond the - hopefully swift - recovery from the crisis, many problems related to global food and agriculture remain which have been highlighted in this report. In spite of a decline from their peak levels of 2008 and the economic recession notwithstanding, global food prices are still high compared to recent historical levels and are expected to stay high. At the same time, a number of underlying factors remain latent that may cause a return to even higher food prices. Resumed income growth in developing countries will lead to renewed expansion of demand for agricultural commodities. Higher real energy prices may affect agricultural food production through input and transportation costs as well as through increased demand for agricultural commodities as feedstock for biofuel production. Consumption mandates and other incentives to biofuel production and consumption in several countries will in their own right contribute to upward pressure on agricultural prices. To this can be added concerns over declining agricultural productivity growth, while the experience of the food crisis of 2006-08 has shown that several policy responses aimed at protecting domestic populations from high food prices may have exacerbated problems at the international level and destabilized markets.

35. This document has presented analysis of the likely consequences of higher income growth and a return to higher energy prices, which confirms that this would have a significant impact and could push agricultural prices to higher levels. The report also analyzed the impact on agricultural production and markets of policies implemented to protect against high prices, concluding that many of them had a destabilizing effect. Similarly, *The State of Food and Agriculture 2008* analysed the impact on agricultural markets of growing biofuel demand as well as the implications of different scenarios for agricultural productivity growth.

36. In the present situation of severe hardship and future risks and uncertainties, efforts are required in several directions. It is necessary to address the immediate impact of the crisis through appropriate safety nets and social programmes to protect the poor and food insecure. There is a need to step up investments in agriculture with the dual purpose of stimulating sustainable productivity increases to expand supply and of exploiting the potential of agriculture for contributing to economic development and poverty alleviation in the least developed countries. In this regard, high prices also represent an opportunity for agricultural producers and imply higher returns to investments in the agricultural sector, whether public or private. The fact that hunger was increasing even before the food and economic crises suggests that technical solutions are insufficient. To lift themselves out of hunger, the food insecure need control over resources, access to opportunities and improved governance at local, national and international levels based on right-to-food principles. Finally, it is necessary to strengthen the international trading system, so as to avoid that measures implemented to protect domestic populations destabilize international markets and penalize other countries.