

Rome, 15 June 2010

## **Higher average farm prices expected, food security concerns persist, say OECD and FAO**

**Dateline** - Farm commodity prices have fallen from their record peaks of two years ago but are unlikely to drop back to their average levels of the past decade, according to the annual joint report from the OECD and the UN Food and Agriculture Organization (FAO).

The OECD-FAO Agricultural Outlook 2010-19 sees average wheat and coarse grain prices over the next 10 years between 15-40 percent higher in real terms (adjusted for inflation) than their average levels during the 1997-2006 period. Real prices for vegetable oils are expected to be more than 40 percent higher. Dairy prices are projected to be on average between 16-45 percent higher.

Rises in livestock prices over the next 10 years are expected to be less marked on the whole, although world demand for meat is climbing faster than for other farm commodities as increasing wealth among some sections of the population in emerging economies alters dietary habits.

Sustained economic growth in emerging markets is an important factor underpinning growing demand and higher prices. Continued expansion of biofuel output – often to meet government targets – will also create additional demand for wheat, coarse grains, vegetable oils and sugar. Increasingly, higher production costs add upward pressure on prices, particularly where energy is used intensively

### **Growth in food production likely to meet future demand**

The Outlook sees global agriculture output growing more slowly over the next decade than in the past 10 years but nevertheless remains on track with previous estimates to meet the 70 percent increase in world food production required to meet the market demand of estimated population levels in 2050. Brazil is by far the fastest growing agricultural producer, with output expected to rise by more than 40 percent between now and 2019. Production growth is also expected to be well above 20 percent in Russia, Ukraine, China and India.

The report adds that although the world produces enough to feed its population, recent price spikes and the economic crisis have contributed to a rise in hunger and food insecurity. More than one billion people are now estimated to be undernourished. The Outlook argues that production and productivity will need to be stepped up, while a well functioning, rules-based trading system will be crucial to ensure that food can move from surplus to deficit production areas.

Retail food prices initially remained high in many countries even after world commodity prices had fallen in the wake of the price surge of 2007-08. As commodity prices fell, the contribution of food price increases to inflation fell sharply in 2009 in OECD countries but remained a key

factor in some developing and emerging economies. Higher food costs, if sustained, will undermine food security, especially for the poor.

### **Price volatility**

Price volatility is a key concern of policy-makers as the recent shocks – production shortfalls and surpluses, low and high stock levels, oil price fluctuations, the global economic recession – have unsettled agricultural commodity markets.

However, the Outlook says that while short term price volatility is now high, the evidence is inconclusive as to whether it has changed over the long run for major food crops. The report adds that the extent to which world price fluctuations are transmitted to domestic markets varies markedly across countries. Price transmission depends on a country's integration in world markets, its infrastructure and, often most importantly, its trade and agriculture policies.

Presenting the Outlook in Rome with FAO Director-General Jacques Diouf, the OECD's Secretary-General, Angel Gurría, said: "The agriculture sector has shown resilience to recent price shocks and the economic downturn. On the whole, this year's outlook is cautiously more positive than in recent years. But going forward, governments should implement measures to ensure that farmers have at their disposal better tools to manage future risks, such as production contracts, insurance schemes and futures markets."

Jacques Diouf agreed, warning that: "Net importing countries are concerned about access to international markets, and we must examine measures to improve confidence in the ability of markets to meet their needs, especially in times of emergency." He added: "The weight of developing countries in international markets is growing quickly, and as their impact grows, their policies also have an increasing bearing on conditions in global markets."

A summary of the OECD-FAO Agricultural Outlook 2010-2019 is available from OECD Media Division (tel: 00 331 4524 9700). Further details about the Outlook can be found at [www.agri-outlook.org](http://www.agri-outlook.org).

Information on the OECD and FAO's work on agriculture is available at [www.oecd.org/agriculture](http://www.oecd.org/agriculture) and [www.fao.org/ag/](http://www.fao.org/ag/).

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