

STATEMENT BY THE INDEPENDENT CHAIRMAN OF THE FAO COUNCIL
Thirtieth FAO Regional Conference for Latin America and the Caribbean
Brasilia, Brazil – 14-18 April 2008

Mr President

Mr Director General of FAO

Honourable Ministers,

Distinguished Ambassadors

Excellencies

Ladies and Gentlemen

It is my pleasure and indeed an honour to express on my behalf and on behalf of all Members States of FAO, our most sincere thanks and gratitude to you Mr President and through you to your Government and to the Great People of Brazil for the outstanding hospitality provided to all participants in the 30th FAO Regional Conference for Latin America and the Caribbean.

Distinguished Members of the Conference, it is a privilege for me to report to you, as your elected representative, on major issues with the greatest impact on the state of the world's food and agriculture and on the present and future role and effectiveness of our organization.

With the limited time available I touch upon only two major subjects: one is “the growing demand for agricultural products and the rising prices of agricultural commodities” and the other is “the progress on the Independent External Evaluation of FAO”.

Let me start with the first issue. The recent rapid increases in the international prices of many basic food commodities have caused lots of uncertainties and ambiguities among the decision-makers and many questions from policy makers, the media, the public, the farmers and the consumers. Above all, those who have the most reason to be concerned are vulnerable people who have to make a very difficult adjustment to the consequences of their decreased purchasing power with its negative effects on their household food security, health and welfare. Needless to emphasize this situation has created great responsibilities for all international and national decision-makers, extending far beyond food prices. Some questions which need answers are :

- Why are food prices rising?
- What is the effect of the demand for biofuel?
- Is the effect of climate change significant?
- Will the price rise continue into the long-term future?
- Who benefits and who loses?

Fortunately, FAO has done a great deal to put these questions in the context of national and international food security and vulnerability framework and has, to some extent, shown both the challenges and the opportunities which have or may emerge. Some of these questions have been dealt with in the “senior officers’ meeting” of this Conference and some will be discussed in the forthcoming discussions later today and tomorrow. I will only briefly mention a few points in this respect:

Agricultural commodity prices rose sharply in 2006 and even more sharply in 2007. Comparing December 2006 to December 2007, the increase in the value of the FAO Food Price Index was 37 percent. This price boom has also been accompanied by high price volatility, especially in the cereals and

oilseeds sectors, highlighting the prevalence of greater uncertainty in the market. The continuation of these trends into 2008 has caused serious difficulties and concerns in many countries, and fortunately has received the attention of national and international media. Studying market trends suggests that the long-term decline in real prices of agricultural commodities has come to a halt, signalling a significant change in these markets. It must be stressed that there is no single factor, as being the main responsible element, nor are there any quantitative assessments of the contributions of the major factors over the past two seasons.

On the supply side, weather-related production shortfalls are a considerable factor. Although global cereal output in 2005 and 2006 declined by only one and two percent respectively, more importantly, from the perspective of international markets the output in eight major exporting countries, which constitutes nearly half of the global production, dropped by four and seven percent in those years. Another major factor on the supply side is increasing fuel costs which have raised the costs of both production and transportation. In this regard, we have to be mindful of the fact that crude petroleum prices in real terms (inflation adjusted) are still slightly below the level in 1973.

On the demand side, the changing structure of demand, as a result of economic development and income growth in emerging economies, especially China and India, has been referred to as a major factor contributing to high agricultural commodity prices, but it is interesting to know that, despite the rather rapid increase of demand in these countries, the imports of cereals have been trending down, on average four percent per year since 1980, that is from almost fifteen million tonnes to about six million tonnes and, therefore, have not been the cause of the sudden spike that began in 2005.

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. This needs particular and comprehensive consideration both as an opportunity especially in the long-run and as a problem in the short-run.

Regarding operations of the financial markets, agricultural-based derivatives markets offer an expanding range of financial instruments to increase portfolio diversification and reduce risk exposures. The abundance of liquidity in certain parts of the world, matched with low interest rates and high petroleum prices, make such derivatives markets a magnet for speculators for spreading their risk and pursuing more lucrative returns. But it seems more likely that speculators contribute more to raising spot price volatility rather than affecting the price level.

What are the likely impacts? Substantial increases in fuel and food prices will have a negative impact on foreign exchange earnings, incomes and the welfare of many vulnerable countries. Net importers of both fuel and food will be hit particularly hard. Substantial increases in the global cost of imported foodstuffs have already occurred, estimated at US\$ 745 billion in 2007, twenty-one percent higher than 2006 and the highest on record. The sustained rise in imported food expenditures for vulnerable countries is alarming. Today, their annual food imports could cost well over twice what they did in 2000.

The cereal import bill of the world's poorest countries is forecast to rise by 56% in 2008, after a significant increase of 37% in 2007.

International cereal prices have continued to rise sharply over the past 2 months reflecting steady demand and depleted world reserves. Prices of the rice

increased the most following the imposition of the new export restrictions by major exporting countries. By the end of the March prices of wheat and rice were about double their levels of a year earlier while those of maize were more than one third higher.

FACING THE CHALLENGE

The mixed effects of soaring food prices on household welfare and food security, points to a set of options for policies, programmes and investments to be undertaken by the global community, national governments and other stakeholders. Short-term measures should aim at reducing prices in domestic markets, mitigating their negative effects and boosting supply response to higher prices. At the same time, higher prices provide an opportunity for re-launching agriculture in developing countries through long-term public investments and programmes which will, in turn, catalyze private sector investments in response to higher profitability.

Over the long term, the best way to reduce food prices is to increase agricultural productivity through public investment in agricultural research, rural education, rural infrastructure, capacity building and to create efficient markets especially in rural sector. The design of innovative risk management instruments such as index-based weather insurance can also increase productivity. Investment in institutions and physical infrastructure in order to develop adequately functioning competitive markets allows the price increases to arrive at the farm gate. Meeting this precondition allows greater market participation. Given the increases in food prices, it also assists in providing to farmers the incentives to expand their production and increase their productivity. While these investments will not reduce food prices in the short term, it is important to keep these longer-term measures in mind or else sustainable food security will not be achieved.

In the medium term, to avoid monopsonistic behaviours over the value chain, and to raise the producers' share of the price increase, it is important to strengthen the institutions and organizations of smallholder farmers, empowering them in the market and in the value chain.

Furthermore, interventions that facilitate producers' organizations to increase collective power and reduce transactions costs could also help smallholder farmers benefit from price increases. If access to assets for the poor is promoted, increasing market participation can be achieved. The benefits from increased market participation mean not only wider marketing margins (in contrast with self-consumption), but in addition may motivate expansion in the scale of production.

Securing access to land and strengthening the rights of the poor to agricultural assets and resources (land, water) should be high on the agenda of all stakeholders, both government and civil society organizations.

Mr Chairman, let me now turn to an important and comprehensive reform which is ongoing in FAO.

As many of you know, as well as having the honour to have been appointed Independent Chairperson of the Council by you, the Membership, you also appointed me Chair of the Conference Committee for Follow-up to the Independent External Evaluation of FAO (IEE). I would thus like to take advantage of my attendance at this Regional Conference to bring you up to date with where we stand in the process which we initiated with our IEE.

You will all remember that this has been a common journey, with its ups and downs but one which taken as a whole has reinforced our common purpose and unity. In November 2004, the Council agreed to launch an Independent External Evaluation of FAO (IEE). We rolled up our sleeves established a Working Group of the membership as a whole, and designed a common set of terms of reference, for a fully independent and professional evaluation. This we requested to provide forward looking proposals as to how to make our Organization FAO more effective in the service of us all. The Conference in November 2007 fully endorsed the terms of reference and we established a Committee of the Council to oversee the work.

We chose a highly qualified and professional evaluation team, drawn from all parts of the world and they did not disappoint us. They provided a comprehensive analysis and an extremely comprehensive set of proposals for **FAO Reform with Growth**. The Director-General has joined us the Membership in welcoming the report, its analysis and proposals. This we did in a Conference Resolution last November, which charted the next stage of our work on the basis of work undertaken by Friends of the Chair, involving all members, and which I had the privilege to preside over.

We have now established a Conference Committee of the membership as a whole, with three Working Groups. We are working our way systematically through the findings and recommendations of the IEE, providing our advice to management on the parts which are within their authority and arriving at our own conclusions on the many recommendations which concern us. We need to complete our basic work by July this year so that a special session of the FAO Conference in November of this year can chart the way forward, based on an Immediate Action Plan which includes the elements of a new strategic Framework and Medium-Term plan for FAO.

We have a challenging but exciting opportunity which is not going to come around again quickly if we do not grasp it now to build a better Organization to serve us better. This is not a zero sum game where a shrinking pot of resources has to be fought over perpetually by different interest groups among the membership. Of course we have very legitimate different interests, but we will all gain from more efficiency, and more relevance in what FAO does. We can also have reason for hope that as this increases confidence in the Organization, additional resources will start to flow.

The IEE contains very many worthwhile proposals, probably with a few which we might want to change. But I appeal to you that we do not lose sight of the big picture. The IEE is on balance a positive package and it presents an opportunity: let us continue to build on this opportunity. We have made a very good start. The IEE itself was a good start. The Conference Committee and its Working Groups are a good continuation. Much positive progress is being made in the working groups, but we could be making more. The Latin American and Caribbean region has played a very crucial role from the very beginning of this process. Brazil has chaired the Committee of the Council. Its report was welcomed both by the membership and by the Secretariat of FAO. Your representatives in Rome are very pro actively participating in the process.

The IEE recommends an enhanced role for regional conferences in FAO's decision making. This Conference along with the other regional conferences this year can provide both impetus and important views for us to take forward in the IEE-Follow-up process. I hope that you will take this opportunity in your interventions during the Conference and if you wish so informally to me and other colleagues from your own delegations who are working in Rome to carry our work forward.

Mr Chairman, usually it is impossible for me to resist the temptation to look back into history, of the so called developing world, not only to appreciate its unbounded richness but also to find solutions to the challenges facing us at the dawn of the third millennium. In this particular case, this temptation has its roots both in the magnificent history of our host region as well as in the recent successes of our host country (Brazil).

Latin America and the Caribbean are the centres of domestication for some of the crops which have become universal and absolutely essential worldwide. Tomatoes originating from Mexico have become associated in everyone's imagination with the cuisine of Italy and the Mediterranean. Maize has become a staple crucial to much of Africa and elsewhere. Cacao and chocolate have become basic to the most popular and globally traded sweets and drinks. Who could imagine our world today without these crops which came from the innovations of the farmers of the Americas? During 2008 there is widespread recognition of the contribution of the region with the International Year of the Potato decided upon by the Member Nations at the General Assembly of the United Nations. Originating in the Andes 8000 years ago, the potato is now the World's Number Four food crop. It is most fitting that this year humanity celebrates its importance to our common heritage.

The remarkable recent achievements of our host country, Brazil, in agricultural development and modernization of this sector both in large scale agriculture and in small farm producers, in any account, is eye catching and involves many lessons to be learned. One example of high importance to the future of agricultural development is the biotechnology. Brazil works on the borders of knowledge in this area. This can serve many developing countries in their efforts to increase their agricultural production targeted in reduced hunger

and food insecurity. I am confident that we can find similar examples in other countries of the region. Presence of the highest authorities of countries of the region in areas of agricultural development, food security and rural development provides an excellent opportunity to paying attention to our own collective abilities in overcoming the unacceptable situation of food insecurity and hunger in the world which is almost totally concentrated in developing countries and mainly in rural areas. Sharing of your national or even local experiences and successes could pave the roads for others to benefit from them and to adapt to their specific cases

Finally, at the regional level many Governments in Latin America and the Caribbean are facing the challenges to food insecurity and under-nourishment through national programmes in line with the Millennium Development Goals to half and ultimately end hunger. Our host country, Brazil, has developed an exceptional effort at the decentralised and national levels through *Fome Zero*, recognised globally for its accomplishments.

Mr Chairman, Distinguished Conference Members, there is now a regional platform for exchange of experiences, with 15 countries having established or in the process of establishing National Alliances against Hunger. This is an example of both regional and national commitment to alleviating the scourge of hunger.

Distinguished Members of the Conference, I wish you a very successful conference in promotion of the sacred goals of the FAO which is crystallised in its logo “FIAT PANIS” (food for all).