



Speech delivered on behalf of Dr Jacques Diouf, Director-General of FAO

Conference on Fighting Food Inflation through Sustainable Investment

London, 10 March 2008

*Distinguished Ministers,
Ladies and Gentlemen,*

Allow me to begin by warmly thanking you for having responded positively to the invitation of the European Bank for Reconstruction and Development (EBRD) and the Food and Agriculture Organization of the United Nations (FAO). Your presence in London today reflects an awareness of the extraordinary agricultural potential of the countries of the region. Your participation underlines also the importance of the challenges to be overcome if that potential is to be fully realized.

I also thank President Lemierre for the excellent spirit of collaboration that has enabled us to jointly organize this meeting. Since the creation of the EBRD, our two institutions have worked closely together for the revival of agriculture in Central and Eastern Europe, the Caucasus and Central Asia. I should like to take this opportunity to underline the importance of this partnership, which reinforces the activities undertaken by each of our institutions.

As you all know, since over a year now, the world has experienced a sharp rise in agricultural prices. Between December 2006 and December 2007, FAO's food price index rose by nearly 40 percent, an increase rarely seen in the past.

It is still difficult to imagine how the situation will continue to evolve. The soaring prices of 2006 and 2007 were partly due to circumstantial factors. Since 2004, world harvests have been mediocre – apart from 2007 – and global stocks have fallen. However, this spectacular increase would also appear to be linked to structural changes, in particular on the demand side.

Firstly, we cannot ignore that the world's population is growing. We estimate that it will reach 9 billion in 2050, which is 50 percent more than today. Dietary habits in the emerging countries are changing and require a greater supply of meat and dairy products. Let me remind you, for example, that it takes more than eight and a half kilos of grain to produce one kilo of beef. If we add the strong demand for biofuels driven by rising fossil fuel prices and the European Union's energy policy, there is every reason to believe that agricultural prices will not return in the near future to the particularly low levels of previous years.

For the poorest countries, importing agricultural products is increasingly costly. And more generally, in all the regions of the world including the region in which the EBRD operates, the more vulnerable consumers, especially the urban poor who spend a large part of their income on food, find themselves in a critical situation. It is our duty to alleviate those difficulties.

However, we also need to recognize that higher agricultural prices also present a unique opportunity to millions of farmers around the world. From Central Asia to the Balkans, the most disadvantaged populations are often those who live in the rural areas and who depend entirely or partly on agriculture for their income. For example, one third of the active population of Tajikistan works in agriculture; and more than half the population of Bosnia and Herzegovina lives in rural areas.

Let us therefore consider this new situation from the perspective of farmers in the countries in transition. Countries like Russia, Ukraine or indeed Kazakhstan have considerable production potential, especially for cereals. Few other regions of the world have as large a reserve of arable land. For reasons of adjustment that we know, the cultivated land area in these three countries experienced a historical cutback after the collapse of the Soviet Union, amounting to some 23 million hectares.

At least 10 to 13 million hectares could be brought back into production without posing any major problem for natural resources, which is not necessarily the case in other regions of the world. At the same time, significant gains in productivity could be achieved. Average cereal yields in the Ukraine currently stand at only 2.4 tonnes per hectare. But there are no particular soil or climatic constraints to prevent that country from attaining the European Union's average yield of 6 to 7 tonnes.

For now, the OECD and FAO projections envisage – for the countries of the Commonwealth of Independent States – a production of 159 million tonnes and exports of 35 million tonnes in 2016, which is equivalent to the European Union's expected contribution to world exports.

But let us imagine the removal of the institutional and financial constraints that limit production in the region. The region's cereal output and its contribution to world exports would then be well above those projections.

The big question is: how can we ensure that this potential is fully realized? Higher agricultural prices will naturally impact on supply, encouraging the use of inputs and agricultural investment. But the level of response for a genuine recovery of the agricultural sector will also depend on the governments of the major agricultural countries of the region having the political will to revive this long neglected sector.

If the private players – from the farmers to the agrifood multinationals – are to be fully involved and to make the necessary investments, there has to be a stable and favourable political, institutional, economic and trade environment. However, because individual responsibilities have been not been sufficiently defined or assumed in the region, the complementarity of the roles of the private and public sectors has not produced all the synergies possible. That is also why we have convened this debate to provide an opportunity for you to express your expectations so that the region's agricultural sector can make a sustainable comeback.

After decades of planned economy, the expectations of the countries in transition with respect to the private sector have been high in the past few years. But the private sector cannot do everything by itself. Some investments – in agriculture in particular – do not have sufficiently rapid or attractive returns for the private sector compared with other sectors. Also, the investments in transport infrastructure or irrigation are long term in nature, and require significant public intervention. Other services essential for the sustained revival of agriculture,

such as research, extension or training – or indeed social services in rural areas – will also need the full support of the public authorities. But if they are to attract private investment, stable agricultural policies are indispensable, as are predictable and transparent rules and systems of control.

Finally, we will also be speaking today of the social and environmental responsibilities of farmers and agrifood companies. In recent years, very large holdings have emerged in several countries of the region, some covering tens or indeed hundreds of thousands of hectares. Will this model – which could raise concerns over balance in rural communities and use of natural resources – be viable in the long term? And under what conditions? I hope you will have the opportunity to discuss this.

The goal of this meeting is to allow everyone to express their views, in order to jointly outline solutions so that the agricultural potential of the region can be fully realized and to identify respective responsibilities. Governments, agrifood companies, farmers: each will have a role to play. FAO is listening: separately and in collaboration with the EBRD, FAO is ready to help you meet the challenge.

*Distinguished Ministers,
Ladies and Gentlemen,*

Thank you for your attention.