

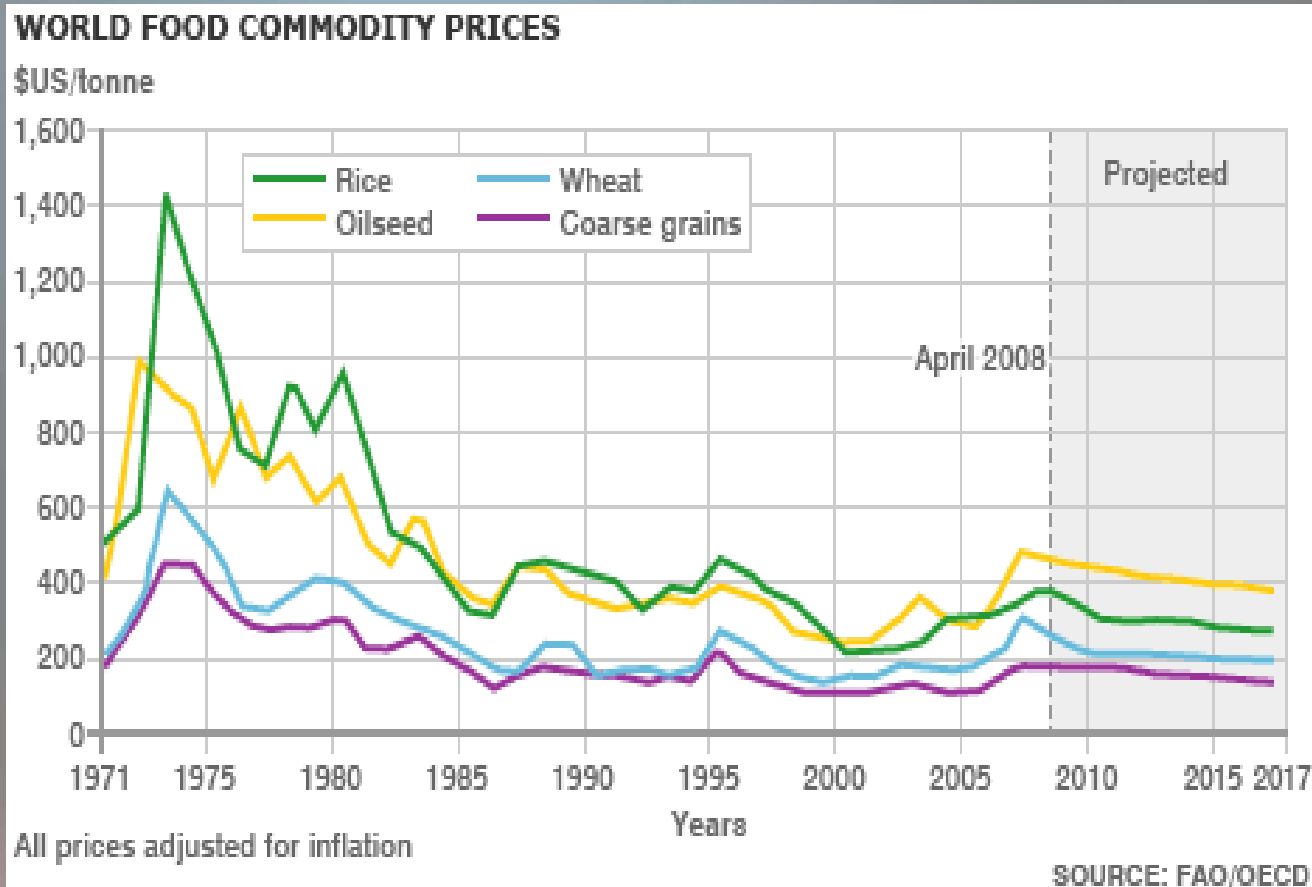
# *Food Price Crisis: Rethinking Food Security Policies*

*G24 Technical Group Meeting, Geneva, September 8-9, 2008*

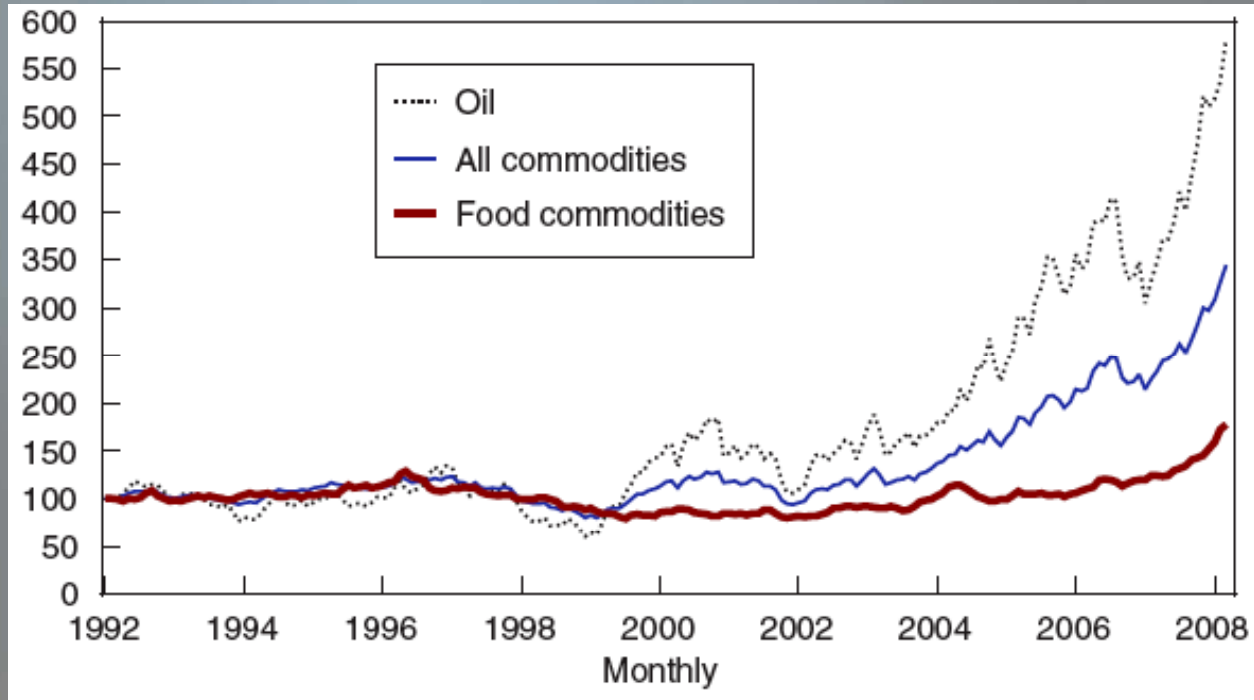
Anuradha Mittal  
Executive Director, The Oakland Institute

- Global hunger worsened by the 83 percent increase in food prices over the last 3 years..
- The increase first started in 2005 with corn registering a 31 percent increase between March 2007-2008, soya 87 percent, rice 74 percent, and wheat 130 percent.
- Food prices are finally stabilizing but the crisis is far from over. Prices expected to remain high in 2008 and 2009 and then begin to decline; however, likely to remain well above the 2004 levels through 2015 for most food crops.

# Trends In Food Prices



## All Prices are Rising

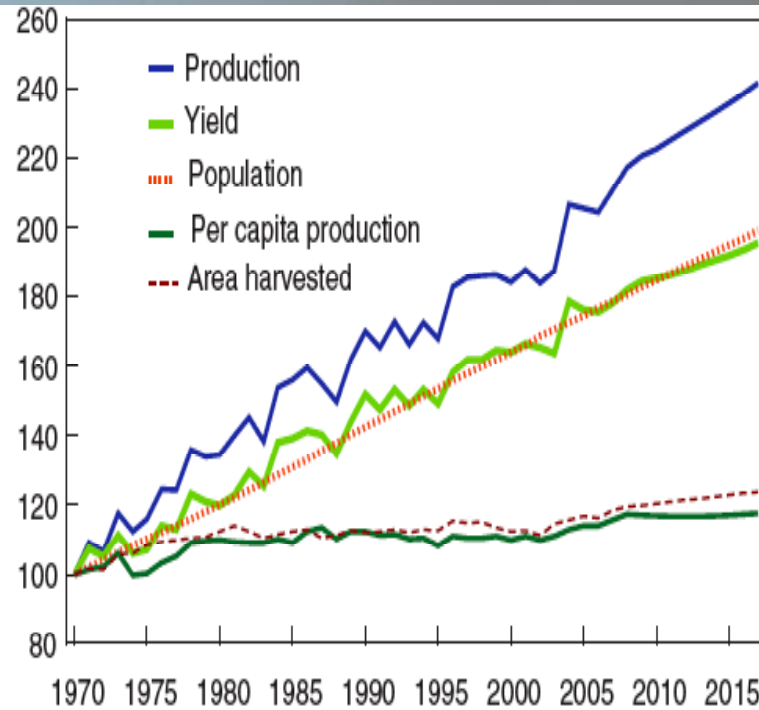


# CAUSES OF THE FOOD PRICE CRISIS

## Tightening of World Balance of Grains

### Exponential trend growth rates:

	1970-90	90-07	2009-17
Production	2.2	1.3	1.2
Yields	2.0	1.1	0.8
Area	0.15	0.14	0.39
Population	1.7	1.4	1.1
Per capita production	0.56	0.11	0.02



## Several Factors at Play

- Reduction of public support and state intervention
- Reduced overall investment in agriculture
- Resource scarcity issues, for instance water shortages
- Adverse weather conditions due to climate change

# **Decline in Global Stocks of Grains**

## **Several Factors Responsible:**

- The cost of holding stocks**
- Liberalization of agricultural markets**
- Nearly two decades of low and stable prices**
- Confidence in global markets for reliable and cheap food supply**

# The Role of Speculation in Financial Markets

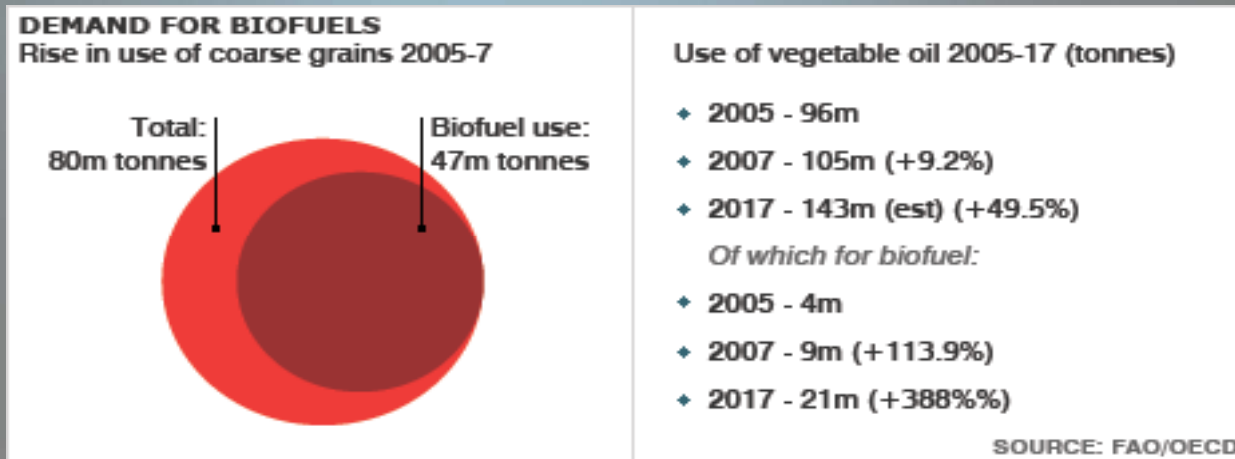
Burst of housing bubble and low global grain stocks presented opportunities in the food commodities markets

- Money invested in commodity indexes climbed from \$13 billion in 2003 to \$260 billion in March 2008
- Speculation increased price volatility



# The Role of Biofuels

Biofuels held responsible for 70-75 percent increase in food prices



# **Increased Use of Corn for Ethanol**

## **A Crucial Short-Term Factor Behind The Food Price Increase**

The amount of corn used to produce ethanol in the U.S. rose by:

- 24 million metric tons between 1980-2002
- 53 million metric tons between 2002-2007

## Factors Boosting Biofuels

- High oil prices in recent years
- Concerns over energy security
- Concerns over climate change
- Generous policy support (subsidies and tariffs on imports) in the U.S. and the EU
- Ambitious mandates set by the U.S. and the EU

# Changes in Policies of Major Cereal Exporting Countries Spill Over Onto World Markets

- U.S., Argentina, and Brazil control 90 percent of world corn exports
- Thailand, Vietnam, the U.S., Pakistan, and India hold 80 percent of world rice exports
- U.S., Canada, Russia, Argentina, and the European Union are responsible for 74 percent of world wheat exports.

## **Increasing Energy Costs Spur Production Costs**

Production costs for U.S. corn, soybeans and wheat increased by 21.7 percent between 2002-2007

- export prices went up by 15-20 percent between 2002-2007
- Increase in production costs far worse in developing countries

## Increased Demand From Emerging Economies

Surge in Food Prices attributed to “strong per capita income growth in China and India, and other emerging economies

Some Experts Disagree

“Increase in grain consumption in developing countries has been moderate and did not lead to large price increases.”

# LONG TERM STRUCTURAL FACTORS

## Decline in Support for Investment in Agricultural Productivity

- Spending on farming in developing countries fell by half between 1980-2004
- Public spending on agriculture as a share of agricultural GDP was just 4.2 per cent in LDCs in 2004
- Decline in international assistance to agriculture.
  - USAID, the U.S. development agency, has cut its agricultural aid by 75 percent in the past two decades
  - Just 4 percent of current development aid to Africa goes to investment in agriculture.
  - The World Bank decreased its lending for agriculture from \$7.7 billion in 1980 to only \$2 billion in 2004

## **Withdrawal of the State's Regulatory Role in Agricultural Production & Trade**

**“During the 1970s, especially in Africa, the Bank put a good deal of thought as well as lending muscle into the development and support of a variety of agricultural marketing and processing parastatals. Yet in the 1980s it encouraged the dismantling of the same parastatals.”**



# Removal of Agricultural Tariff Barriers Results in Import Surges

- **Agricultural subsidies allow industrialized countries to capture markets by dumping below the cost of production. In 2003:**
  - U.S. exported wheat at 28 percent below the cost of production
  - Soybeans and corn at 10 percent below the cost of production
  - Rice at 26 percent below the cost of production
- **Inability to govern the flow of agricultural imports has led to import surges**
  - **FAO documented 12,167 import surges between 1980 and 2003 in 102 developing countries**
  - **Countries whose local agricultural base was impacted by the dumping of cheap grains, in the form of food aid and cheap subsidized commodities from richer nations, are now experiencing shortages because the markets they have come to depend on have changed their policies.**

## **Shift to Export Crops**

**Specialization in a few commodities has created an increased dependence on food imports from developed countries with developing countries converting from net food exporters to net food importers.**

**- In the 1960s, developing countries had an agricultural surplus of U.S. \$7 billion. By the 1970s, imports had increased and the surplus had shrunk to U.S. \$1 billion. The deficit in 2001 was U.S. \$11 billion.**

**- LDCs now spend between 50 to 80 percent of their foreign exchange on food imports.**

# RESPONSES TO FOOD PRICE CRISIS

- **National Government Policy Measures**
- **G8**
- **World Bank's New Deal on Global Food Policy**
- **International Monetary Fund**
- **High Level Task Force on the Global Food Crisis**

## **A Multilateral Alternative**

**International Assessment of Agricultural Knowledge, Science, and Technology for Development (IAASTD) highlights four issues:**

- Systematic redirection of investment, funding, research and policy focus towards the needs of small-farmers;**
- The need to safeguard natural resources and agro-ecological practices, and to tap the wide range of traditional knowledge held by local communities and farmers;**
- The need for massive investment in agriculture;**
- The need for immediate attention to the growing involvement of women in agriculture in many developing countries.**

## **SPECIFIC RECOMMENDATIONS**

- **Provide Emergency Assistance**
- **National Safety Nets for the Poor & Most Vulnerable**
- **Impose a Biofuel Moratorium**
- **Increased Public Funding for Agriculture**
- **Increased Public Support for Small Farmers & Staple Foods Production**
- **Build National & Regional Food Reserves**
- **Ensure Access and Control Over Resources and Services**
- **Ensure Policy Space for Developing Countries to Protect Their Agriculture & Food Security**

Fear is the Cheapest Room in the House

I Would Like to See you Living in Better Living Conditions

- Hafez