



FOOD PRICE CRISIS: RETHINKING FOOD SECURITY POLICIES

By Anuradha Mittal

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Food Price Crisis: Rethinking Food Security Policies

“The World Health Organization (WHO) calls hunger and undernutrition the number one threat to public health, killing more people than HIV/AIDS, malaria and tuberculosis combined. Every ten days the world loses 250,000 people to hunger related deaths, the equivalent of the casualties from the Asian tsunami. The vast majority of those casualties—160,000—will be children.

– Josette Sheeran, Executive Director WFP¹

In 1996 world leaders met in Rome for the World Food Summit (WFS) to discuss ways to end hunger and pledged their commitment to the target of halving the number of undernourished people – 815 million then – by 2015. Twelve years later this commitment has become a far - fetched goal.

The Food and Agriculture Organization (FAO) estimates that 854 million people were undernourished worldwide in 2001-2003, with the number increasing at a rate of almost four million per year since the second half of the 1990s. While most of the world’s hungry live in Asia (over 500 million) hunger is most intractable in Africa, with one in three people deprived of access to sufficient food. FAO projections show that by 2015 sub-Saharan Africa will be home to around 30 percent of the undernourished people in the developing world, compared with 20 percent in 1990–1992.²

This already grave situation was further worsened by the 83 percent increase in global food prices over the last three years. The increase first started in 2005 with corn registering a 31 percent increase between March 2007 and March 2008, soya 87 percent, rice 74 percent with the real price rising to a 19-year high, and wheat 130 percent, with the real price reaching a 28-year high.³ The average food prices went up by 3 percent in G7 economies between July 2006 and July 2007. Developing countries however saw an increase of 10.5 percent over the same period,⁴ with serious implications for the poor in these countries.

While the latest global forecasts show food prices are finally stabilizing after months of sharp increases, the crisis is far from over. Forecasts from FAO, Organization for Economic Cooperation and Development (OECD), and U.S. Department of Agriculture (USDA) project that increase in food prices is not a temporary phenomenon. “Food crop prices are expected to remain high in 2008 and 2009 and then begin to decline as supply and demand respond to high prices; however, they are likely to remain well above the 2004 levels through 2015 for most food crops.”⁵

Trends In Food Prices

An examination of food prices over the last few decades shows their volatility, making contextualization of the current food prices necessary.

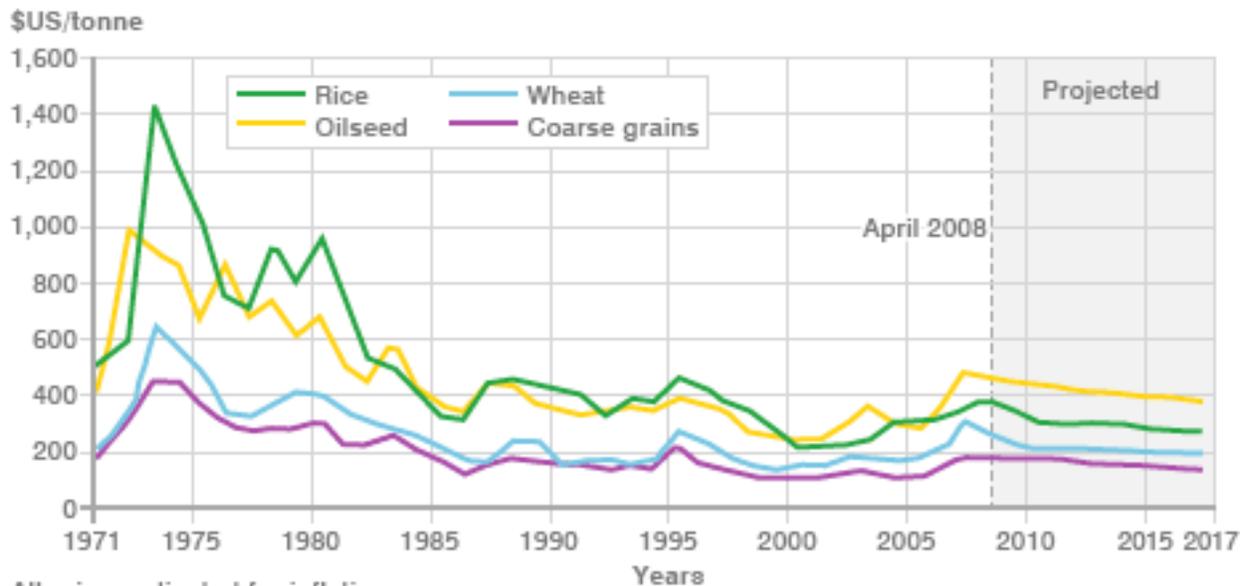
Chart 1 shows that there were several short periods (1980, 1983, 1988, and 1996) when prices did rise from the previous year, even if prices trended slightly downward between 1980 and 2002. Prices started to increase after 2001 and by 2004 reached the level that they had been in the mid-1980s. In early 2006, commodity food prices began to rise more quickly. Over the last two years (Chart 2), prices of food commodities rose sharply to a new high, more than 60 percent

above what they were in 2006.⁶ The recent price increase, while more “broad based and longer lasting than is usual,”⁷ “contrasts noticeably with the 1980s and 1990s, when most commodity prices were on a downward trend.”⁸ However, prices of many commodities in real terms at the end of 2007 were still lower than in 1960s and 1970s.

Chart 1

World Food Commodity Prices

WORLD FOOD COMMODITY PRICES

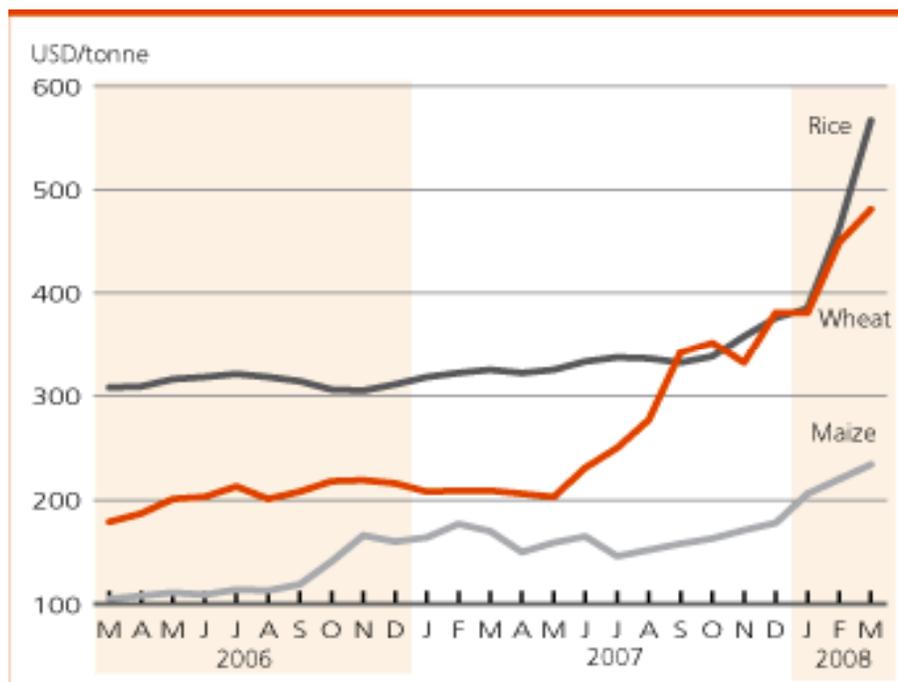


All prices adjusted for inflation

SOURCE: FAO/OECD

Chart 2

Selected International Cereal Prices 2005 -2008

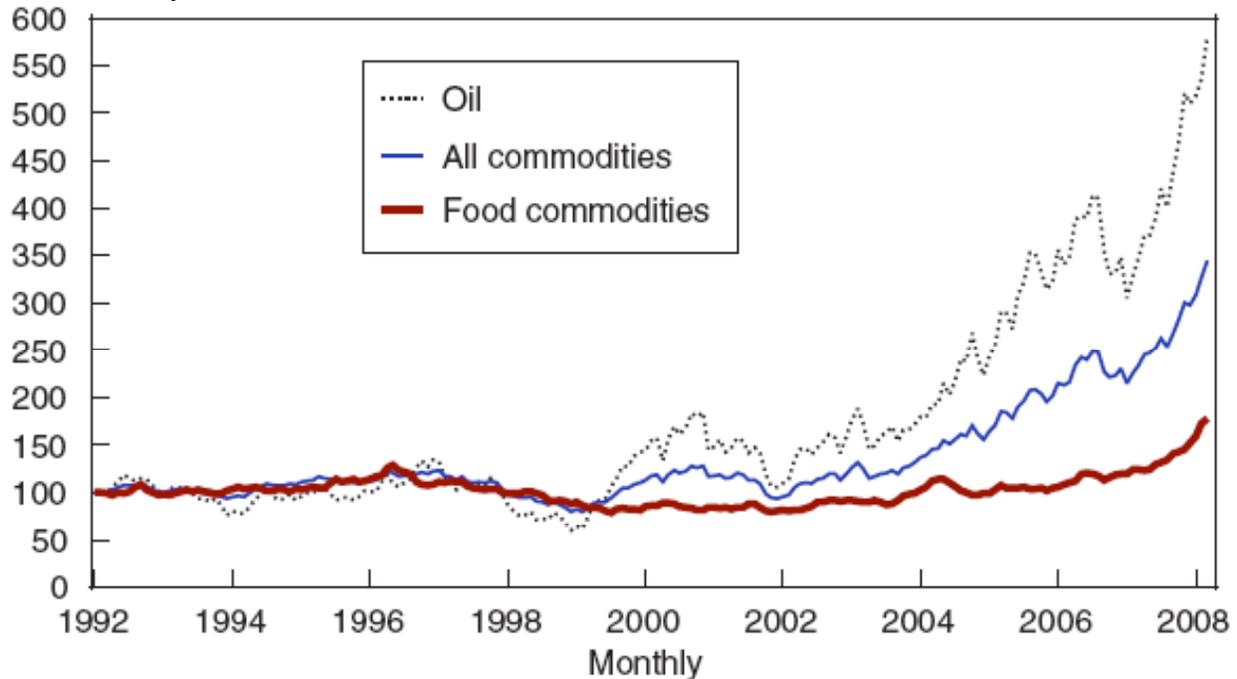


Source FAO

Chart 3

All Prices are Rising

Index: January 1992=100



Source: International Monetary Fund: International Financial Statistics

In addition, the rise in food commodity index by more than 60 percent in the last 2 years has been accompanied by a 60 percent increase in the index for all commodities while the index for crude oil has risen even more. (Chart 3) “Since mid-1999, when all three indices were at about the same level (and were about where they had been 10 years earlier), food commodity prices have risen 98 percent (as of March 2008); the index for all commodities has risen 286 percent; and the index for crude oil has risen 547 percent.”⁹

Compared to the rise in the index for all commodities and crude oil, hike in food commodity prices does not seem so severe. It is, however, the impact of food price increase on the poor and low-income consumers and resulting widespread discontent and protests, which has generated so much international attention and concern. For a detailed analysis of the impact of the crisis, see appendix 1.

Causes of the Food Price Crisis

“The dramatic rise in global food prices is not the result of any specific climatic shock or other emergency, but rather the cumulative effects of long-term trends and more recent factors, including supply and demand dynamics and responses which have caused further price increases and higher price volatility.”

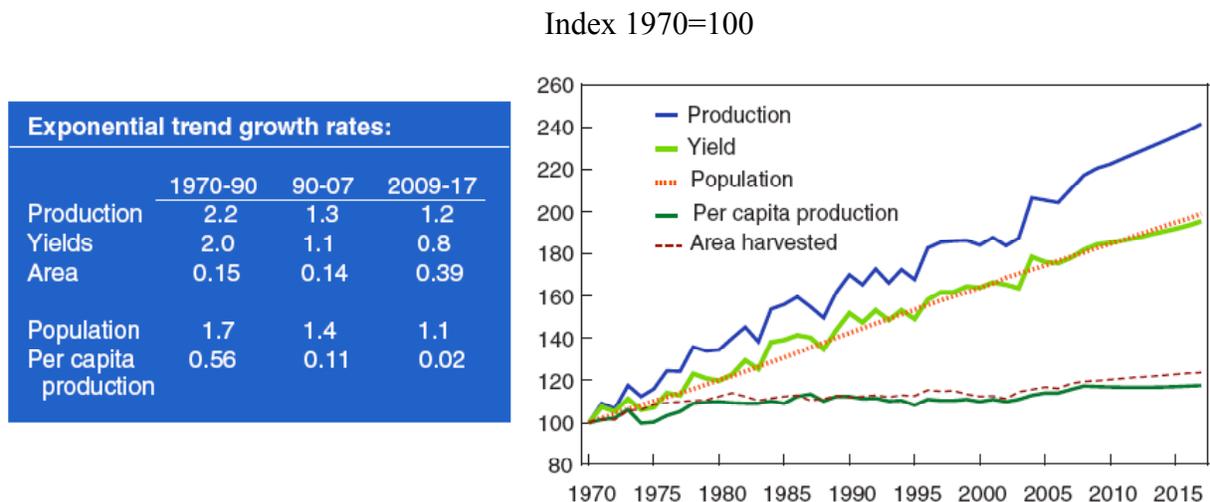
– *Comprehensive Framework for Action, High Level Task Force on the Global Food Crisis*

Many factors have contributed to the increase in food commodity prices. Those cited most often include tightening of world balances of grains and oilseeds over the last decade with slower growth in production in comparison to the growth in demand; increased global demand for biofuels feedstocks; export restrictions imposed by several nations to mitigate the crisis; the flow of speculative capital into commodity markets; rising energy prices; increasing fuel and fertilizer costs; and declining value of the U.S. dollar.

Tightening of World Balance of Grains

The global supply and demand for food commodities has been impacted by a number of long-term slowly evolving trends, as well as short-term factors, which have slowed growth in production on one hand and strengthened demand on the other, causing agricultural prices to increase.

Chart 4
Total World Grain & Oilseeds
Production, Yield, Area Harvested, Population & Per Capita Production



Source: USDA Agricultural Productions to 2017

Compared to the period between 1970 and 1990, when the production of aggregate grains and oilseeds rose an average 2.2 percent per year, the growth rate has declined to about 1.3 percent, since 1990 with estimates of further decline to 1.2 percent per year between 2009 and 2017.¹⁰

Between 1970 and 1990, global aggregate yield growth averaged 2.0 percent per year but declined to 1.1 percent between 1990 and 2007.¹¹ This decline is projected to continue over the next 10 years to less than 1.0 percent per year.

While many factors can be attributed to the gradual slowing of production growth, reduction of public support and state intervention in agricultural sector of the developing countries (discussed in detail later), resulting in reduced overall investment in agriculture and decline in research and development by governmental and international institutions, has played a key role.

Resource scarcity issues, notably climate change and water depletion have also impacted production growth. Water scarcity is increasingly dire, and each year, 5 to 10 million hectares (25 million acres) of agricultural land are lost because of degradation caused by water shortages.¹²

Droughts, floods, and freezing weather due to climate change have cut, and are expected to continue cutting, agricultural output and therefore food security in developing countries.¹³ Adverse weather conditions in 2006 and 2007 in some major grain and oilseed producing areas have been cited regularly as a cause for downturn in recent production. However World Bank points out that droughts in Australia and poor crops in the E.U. and Ukraine in 2006 and 2007 were largely offset by good crops and increased exports in other countries and would not, on their own, have had a significant impact on prices.¹⁴

Decline in Global Stocks of Grains

Decline in production growth has been accompanied by a decline in global stocks of grain. Congressional Research Service reports that wheat stocks are at their lowest level since 1977 while maize stocks are at the lowest since 1983. “For the private sector the cost of holding stocks, use of “just-in-time” inventory management, and years of readily available global supplies provided incentives to reduce stock holdings.¹⁵ Governments also deemed these stocks less important following liberalization of agricultural markets and after nearly two decades of low and stable prices.

However, low levels of global stocks have made importing countries vulnerable to any supply and price shock, jeopardizing their food security. Declining stocks have also been held as one of the fundamental reasons that triggered the initial spur of speculative demand in recent years.¹⁶

It is the strategic relevance of grain stocks that has led the Southern African Development Community (SADC) to revive plans to launch a strategic regional grain reserve to help bail out countries experiencing food shortages as part of a pre-emptive strategy to minimize the impact of natural disasters on food security.¹⁷

The Role of Speculation in Financial Markets

The futures market is supposed to be a “stabilizing” tool for farmers to sell their harvests ahead of time. In a futures contract, quantities, prices and delivery dates are fixed, sometimes even before crops have been planted. Because speculators are supposed to buy when prices are low and sell when prices are high, they thereby serve to make prices *less* volatile rather than more so. Futures contracts thus allow farmers and grain wholesalers a measure of protection against

adverse weather conditions and excessive price fluctuations. They can also help a farmer plan how much to plant for a given year. The Chicago Board of Trade is the nerve center for global futures contracts.

However, deregulation and the systematic exploitation of regulatory loopholes facilitated a surge in speculative investment in commodity markets at unprecedented levels in recent years.¹⁸ With the burst of housing bubble and global grain stocks growing low, financial speculators saw opportunities in the food commodities markets to diversify their financial portfolios and improve returns for their investors. According to calculations based on regulatory filings, the amount of fund money invested in commodity indexes climbed from \$13-billion in 2003 to \$260-billion in March 2008.¹⁹

In a testimony to the Senate on May 20, 2008, Michael Masters, a veteran U.S. hedge fund manager, warned about demand shock coming from Institutional Investors. He pointed out that Corporate and Government Pension Funds, Sovereign Wealth Funds, University Endowments – who have purchased over 1.3 billion bushels of wheat, enough to supply every American citizen with all the bread, pasta and baked goods they can eat for the next two years,” as being the primary factor behind the sudden take-off in food prices.²⁰

This influx of hedge funds, index funds, and sovereign wealth funds in agricultural commodity markets is estimated to have been one of the short-term driving forces behind the hyperinflation of basic food staples. It is also a factor that differentiates the current crisis from the previous ones. Wheat, a commodity that has been increasingly subject to speculative trade in the commodity futures exchanges, along with corn, rice, and soya, has been subject to extreme price volatility for instance. “Wheat prices increased by 46 per cent in the short period between 10 January and 26 February, fell by as much by 19 May, increased again but to a lesser extent (by only 21 per cent) until a minor peak in early June, and then have been falling again over August.”²¹

The Role of Biofuels

A prominent difference between the current food price crisis and earlier ones is the increase in demand due to biofuels production in the U.S. and EU. Biofuels and the related consequences of low grain stocks, large land use shifts, speculative activity, and export bans, have been held responsible for 70-75 percent increase in food prices by a report from the World Bank.²²

Historically, the amount of grain used to produce ethanol has been a small percentage of the global total used for all purposes. Between 1980 and 2002, however, the amount of corn used to produce ethanol in the United States rose by 24 million metric tons, accounting for 7 percent in the total increase in the demand for wheat and coarse grains.

Chart 5

Demand for Biofuels

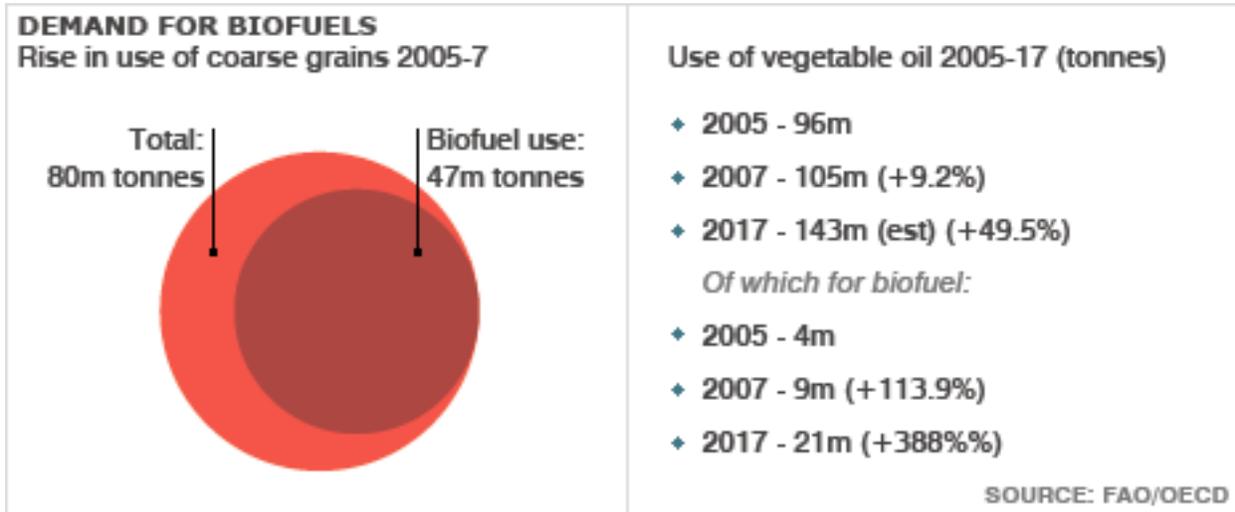
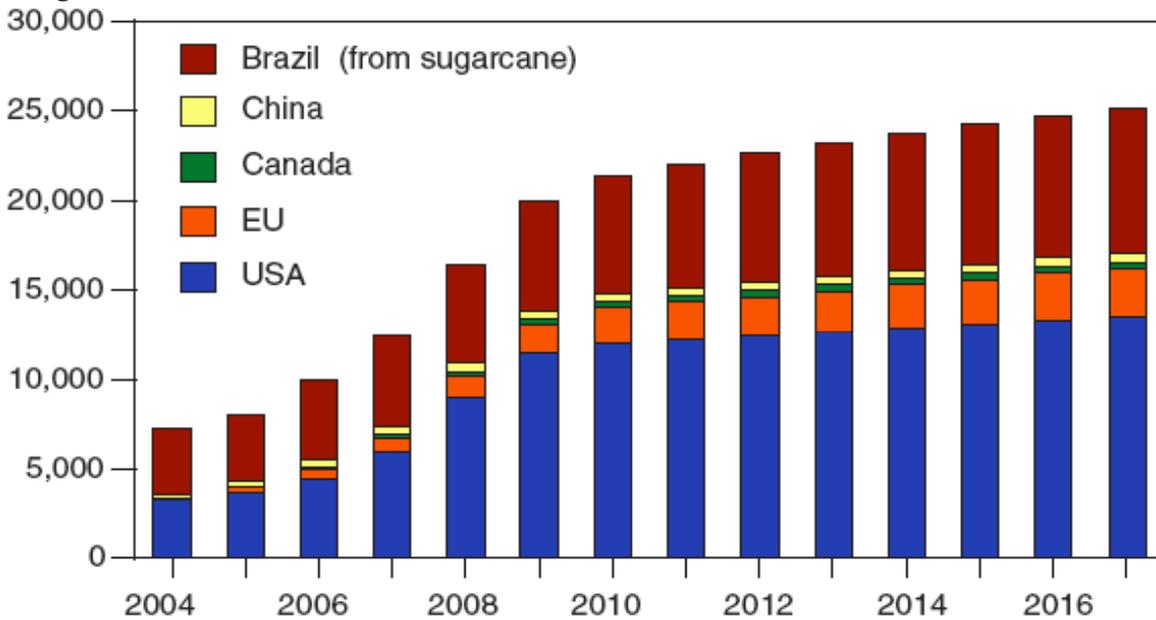


Chart 6

Ethanol Production - Mostly from Grain Feedstocks Except for Brazil

million gallons



Source: USDA Agricultural Projections to 2017

High oil prices in recent years, together with concerns over energy security and climate change, and generous policy support (subsidies and tariffs on imports) in the U.S. and the EU, led to a surge in production and the use of biofuels as a supplement to transportation fuels. This growth has been triggered by ambitious mandates that have been set: the 2007 U.S. Energy Bill almost quintupled the biofuels target to 35 billion gallons by 2022, and the European Union has mandated that 10 percent of transportation fuels must use biofuels by 2020.

As a result, the European Union, the largest biodiesel producer, began to increase biodiesel production in 2005.²³ U.S. ethanol production has risen more rapidly since 2003.²⁴ Between 2002 and 2007, the quantity of U.S. corn used to produce ethanol rose by 53 million metric tons accounting for 30 percent of the global growth in wheat and feed grains use.²⁵ Almost all of the increase in global maize production from 2004 to 2007 (the period when grain prices rose sharply) went for bio-fuels production in the U.S., while existing stocks were depleted by an increase in global consumption for other uses.²⁶ This increased demand is another crucial short-term trend that has boosted the surge in food prices.

The World Bank report estimates that “without these increases, global wheat and maize stocks would not have declined appreciably, oilseed prices would not have tripled, and price increases due to other factors, such as droughts, would have been more moderate. Recent export bans and speculative activities would probably not have occurred because they were largely responses to rising prices.”²⁷

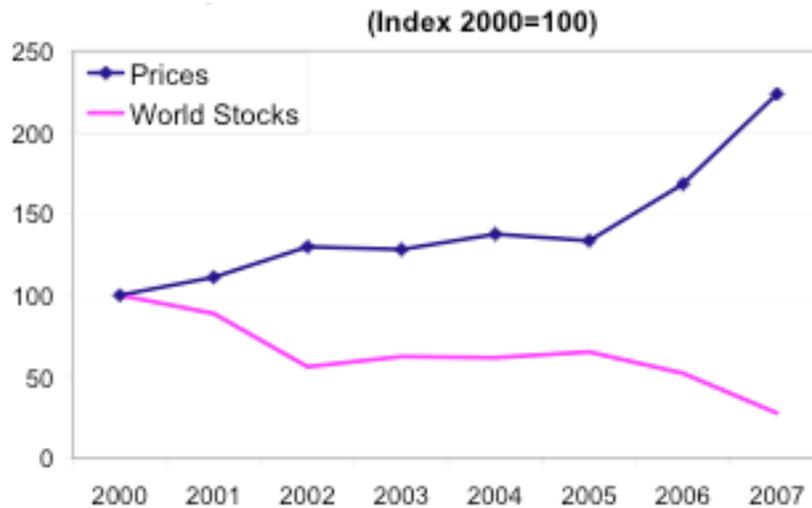
Many others recognize biofuels production as a major driver of food prices as well. World Economic Outlook (WEO) 2008 states, “Although biofuels still account for only 11/2 percent of the global liquid fuels supply, they accounted for almost half the increase in the consumption of major food crops in 2006–07, mostly because of corn-based ethanol produced in the United States. Biofuel demand has propelled the prices not only for corn, but also for other grains, meat, poultry, and dairy through cost-push and crop and demand substitution effects.”²⁸

U.S. Department of Agriculture acknowledges that “increase in U.S. ethanol production over the past 5 years and the related significant changes in the structure of the U.S. corn market might have had a more pronounced impact on the world’s supply and demand balance for total coarse grains.”²⁹ It has also been pointed out land use changes due to expansion of acreage under biofuels feedstocks has reduced production of other crops. For instance “the U.S. ethanol boom shares also a key responsibility in the explosion of the global rice price. The U.S. rice production has decreased by 12 percent from 2006 to 2007 after a 16 percent drop in the area sown in rice and moved to corn.”³⁰ Corn expansion also resulted in a 16 percent decline in soybean, thereby reducing soybean production and leading to a 75 percent rise in soybean prices between April 2007 and April 2008.³¹

The expansion of biodiesel production in the EU diverted land from wheat to oilseeds, slowing the increase in wheat production. The 8 largest wheat exporting countries expanded area in rapeseed and sunflower by 36 percent between 2001 and 2007 while wheat area fell by 1.0 percent. The wheat production potential of this land was 26 million tons in 2007 and totaled 92 million tons from 2002 to 2007. (Chart 7 shows the relationship between wheat stocks and prices.)³²

Chart 7

Wheat Prices Versus Stocks



Source: DECPJ

Given that a few countries are responsible for exporting staple cereal grains such as corn, rice, and wheat, LDCs and developing countries have come to largely rely on imports from these countries. 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; while the U.S., Canada, Russia, Argentina, and the European Union are responsible for 74 percent of world wheat exports.³³ So any changes in policies of major cereal exporting countries have a significant impact on the world markets. For instance, since the United States is the world's largest corn exporter, higher prices resulting from increased U.S. demand have spilled over onto world markets, triggering an international crisis. (See Soaring Prices Undermine Economic Sustainability of States, Appendix 1 for details).

Increasing Energy Costs Spur Production Costs

According to the USDA's cost-of-production surveys and forecasts (Table 1), production costs for U.S. corn, soybeans, and wheat increased by around 21.7 percent between 2002-2007, driven by nearly doubling increase of energy intensive components of production, including fertilizer and fuel. As a result of these higher energy and related costs, export prices of major U.S. food commodities increased by about 15-20 percent between 2002 and 2007.³⁴

Table 1

	Corn		Soybeans		Wheat	
	2002	2007**	2002	2007**	2002	2007**
Operating costs:						
Seed	31.84	48.93	25.45	38.27	6.65	9.51
Fertilizer	42.51	93.96	6.79	13.94	17.71	33.33
Chemicals	26.11	24.67	17.12	14.79	7.13	9.23
Custom operations	10.79	10.93	6.16	7.25	5.67	6.93
Fuel*	18.93	30.98	6.98	16.98	8.67	19.20
Repairs	13.91	14.86	9.76	11.93	10.15	12.78
Other	0.22	0.12	0.63	0.15	0.61	0.34
Interest	1.17	5.16	0.61	2.37	0.48	2.14
Total Operating	145.48	229.61	73.5	105.68	57.07	93.46
Allocated overhead:						
Hired labor	3.06	2.22	1.84	2.15	2.53	2.52
Unpaid labor	25.74	23.86	15.59	17.02	16.72	21.97
Capital recovery	55.26	69.99	43.30	54.00	48.97	53.86
Land	87.44	95.44	80.74	92.72	39.19	42.93
Taxes & ins.	5.42	7.39	5.66	6.93	3.90	7.24
Overhead	11.91	13.83	11.37	12.90	7.25	8.78
Total Allocated Overhead	188.83	212.73	158.5	185.72	118.56	137.3
Total Costs (\$per Acre)	334.31	442.34	232	291.4	175.63	230.76
Yields	134	151.5	40	40.5	27.9	34.4
Total Cost (\$/bu)	2.49	2.92	5.80	7.20	6.29	6.71

Source: USDA Cost of Production Surveys and Forecasts, July 2008. *Fuels include lubricants and electricity. ** is USDA's forecast.

Rising oil and natural gas prices are estimated to have hit farmers in myriad ways – dramatic cost increases for fertilizers and animal feed; higher charges for plastic supplies for greenhouses and irrigation systems for fields; larger energy bills for heating greenhouses, and soaring prices for diesel used to fuel farm equipment and the trucks that carry their products to the markets.

This increase in production cost has been far worse for farmers in the developing countries, where public support, such as input subsidies, has been removed (see Decline in Agricultural Investment for detailed discussion).

Increased Demand from the Emerging Economies

Surge in food commodity prices have also been attributed to “strong per capita income growth in China, India, and other emerging economies” which “buoyed food demand, including for meats and related animal feeds, especially grains, soybeans, and edible oils.”³⁵

While President Bush specifically took the case of “350 million” strong middle class in India to argue that its demand for better nutrition was a factor in pushing the global food prices up,³⁶

USDA has pointed to the “China factor.” It seems highly probable that mass consumption in Indian and China, which grew at 9.2 and 11.4 percent respectively in 2007, and accounting for nearly a third of world's population, could be well poised to create a food crisis.

The China Factor

- **Soaring import demand**
 - Ag: soybeans, poultry, among others
 - Non-Ag: oil and raw materials.
 - Causes rising ocean freight rates
- **Production fails to keep up**
 - Industrialization and urbanization competes with arable land
 - Falling water tables in Northern China Plain
 - Low efficiencies
 - No GM corn or soybean commercialization
 - Shift from bulk commodities to cash crops
- **Exports fall**
 - Retreats from exports of wheat, corn, rice, grain products, and fertilizers

China's Crude Oil Imports

Year	Imports (MMT)
1998	25
1999	35
2000	70
2001	60
2002	70
2003	90
2004	120
2005	125
2006	145
2007	165

Source: GTA/WTA

Prepared by OGA/FAS/USDA

However, presenting the crisis in terms of an imbalance between demand and supply, and hand picking the countries responsible for it, can be a convenient oversimplification. A closer examination reveals that this is not the case.³⁷ For instance, India has been a net exporter of agricultural and food products since 1995.³⁸ It is also a net exporter of meat and dairy products. Instead of increased consumption, the Economic Survey of India 2007- 2008, reports a decline in the consumption of cereals and pulses (the main source of protein for the poor) between 1990/91 and 2005/06.

The World Bank report which attributes rising prices to biofuels, also vindicates the developing countries in their role behind the food price crisis. It states: “Increase in grain consumption in developing countries has been moderate and did not lead to large price increases. Growth in global grain consumption (excluding biofuels) was only 1.7 percent per annum from 2000 to 2007, while yields grew by 1.3 percent and area grew by 0.4 percent, which would have kept global demand and supply roughly in balance.”³⁹

Long Term Structural Factors Behind the Food Price Crisis

While much emphasis has been placed on very relevant but short-term immediate causes for skyrocketing food prices, a failure to examine the structural causes that have been at work for the last few decades, presents an incomplete and an incorrect picture. Short-term factors did trigger lower supplies and thus a price increase. It is however essential to examine policies that have marginalized food security in developing countries over long term making them vulnerable to any supply changes that were caused by short term factors.

Decline in Support for Investment in Agricultural Productivity

Despite ample evidence which shows that investment in agriculture results in positive growth and poverty reduction, spending on farming as a share of total public spending in developing countries fell by half between 1980 and 2004,⁴⁰ with the situation being especially severe in sub-Saharan Africa.⁴¹ Public spending on agriculture as a share of agricultural GDP was just 4.2 per cent in LDCs in 2004, less than half the level in other developing countries (10.7 per cent).⁴²

This trend started during the 1980s and 1990 when the World Bank's Structural Adjustment Loans (SALs) promoted reforms in the agricultural sector. These reforms aimed at reducing the role of the public sector in agricultural marketing, removing agricultural input and food subsidies, and downsizing agricultural sector agencies, which included eliminating national grain reserves in many instances and also closing down marketing boards – as a condition of receiving new loans or restructuring existing debt. The overall impact in most countries was that government expenditure in agriculture fell sharply. Poor public investment, in turn, led to a lack of private investment in farming, farm input supply, and processing.⁴³ In several countries, failure to adhere to IMF and World Bank conditionalities triggered temporary (and sometimes permanent) postponements of cash releases and changes in commitments from other donors that further destabilized the level of expenditure in the agricultural sector.⁴⁴

These externally imposed mandates prevented developing countries, especially African nations, from making needed investments in agriculture. National government funding of agricultural science fell by 27 percent in sub-Saharan Africa between 1981 and 2000 with many governments currently allocating less than 1 percent of their national budgets to the sector. In July 2003, members of the African Union agreed to devote at least 10 percent of their government budgets to agriculture programs over the next five years. So far only Rwanda and Zambia have actually executed the plan.

Countries have reduced and even eliminated support for farm credit, crop distribution, and reserve programs. Elimination of seed and fertilizer subsidies, a keystone of World Bank austerity policies, resulted in African farmers abandoning higher-yield seeds with resulting decline in crop yields and production. When Zambia eliminated corn seed and fertilizer programs, corn acreage and fertilizer application both declined sharply.⁴⁵

At the same time, multilateral investment in agricultural projects in poor countries and agricultural research by the governments of rich nations and institutions such as the World Bank has been declining.⁴⁶ 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. Agricultural research grants were cut by half – from \$6 billion to \$2.8

billion yearly – between 1980 to 2006, with the U.S. alone decreasing its contribution from \$2.3 billion to \$624 million.⁴⁷

The World Bank decreased its lending for agriculture from \$7.7 billion in 1980 to only \$2 billion in 2004.⁴⁸ The Independent Evaluation Group (IEG) report on the Bank's agricultural programs in sub-Saharan Africa between 1991 and 2006 found that the Bank channeled only \$2.8 billion in investment lending to agriculture, constituting just 8 per cent of its investment lending to the region.

Case Study: Malawi's Fertilizer Subsidy Program⁴⁹

In the 1980s and 1990s, the World Bank and donor countries pushed Malawi to eliminate fertilizer subsidies entirely, converting it from a country with an agricultural surplus to one with a substantial food deficit.

During the 2004 electoral campaigning, both the ruling party and the opposition block pledged a universal fertilizer subsidy program. However out of the fear of not qualifying for debt relief through the Malawi Poverty Reduction Strategy (MPRS), which required fiscal prudence and discipline, the government hesitated to implement the program. When a disastrous corn harvest in 2005 threatened the country again, with almost five million of its 13 million people needing emergency food aid, the government responded by reversing some of the market-oriented policy reforms and a bold farm-subsidy program was introduced. Not supported by the donors who argued that subsidies would undermine the long-term effort to reform and liberalize the agricultural economy, the full cost of the program was borne by the Malawian government.

The result of this intervention, aided by favorable rains, has been described as “spectacular.” Corn production leapt to 2.7 million metric tons in 2006 – more than the annual national requirement of 2.1 million metric tons – and 3.4 million in 2007 from 1.2 million in 2005. This success of the 2005-2006 subsidy program is beginning to change the attitudes of some donors.

During 2006, a group of donors, including USAID, DFID, and the World Bank commissioned studies to learn from lessons from the 2005-2006 experience. UK's Department for International Development (DFID) and the Norwegian Agency for Development Cooperation (NORAD) supported the 2006-2007 continuation of the program. The United States has shipped \$147 million worth of American food as emergency relief since 2002 and \$53 million to help Malawi grow its own food. It has, however, not provided any financial support for the subsidy program, except for helping pay for the evaluation of it. The World Bank now sometimes supports the temporary use of subsidies that are aimed at the poor and carried out in a way that fosters private markets.

This underinvestment in agriculture by national governments as well as international donors and the conditionalities they imposed, prevented adequate farm programs in the poorest developing countries, thereby eroding their ability to maintain agricultural production and in the process, increased their reliance on imported food.

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

The World Bank and donor countries also strongly encouraged the dismantling of the State's

regulatory role, for instance through the agricultural marketing boards, which were considered wasteful of resources and cost ineffective, in the 1980s and 1990s.

Marketing boards implied management of food at the national level, which allowed governments to buy agricultural commodities from farmers at a price fixed high enough to cover the cost of production plus a profit, keep the commodities in a rolling stock, and to release them into the market in event of a bad harvest in the following years. Marketing boards also organized the redistribution of food from surplus to deficit areas of the country. Preventing price volatility, marketing boards protected both producers and consumers against sharp rises or drops in prices, prioritized self-sufficiency, and therefore reduced the need for food imports and for foreign currency.

The Bank's own historians present the irony of the move to dismantle marketing boards: "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."⁵⁰

Case Study: Doing Away with Marketing Boards

In the 1970s and 1980s, Indonesia focused on increasing agricultural production, with the goal of accomplishing self-sufficiency in rice, which was achieved in 1984. Rice production grew by nearly 150 percent between 1968 and 1989, from less than 12 to over 29 million metric tons.⁵¹ This policy combined protection and regulation measures for the rice market as well as research and dissemination of high-yield varieties of rice, the provision of agricultural inputs (seeds & fertilizers) to farmers, and investment in rural infrastructure and irrigation. BULOG, a parastatal agency in charge of the marketing and distribution of rice in the country since 1967, played a key role in this endeavor.

BULOG used price floors to support producers and price ceilings to protect consumers. Through a dense network of offices and warehouses, BULOG would buy food from farmers, then store, sell, and distribute food commodities according to the needs and market supply situations. The parastatal was thus able to ensure the availability of rice at affordable prices for consumers throughout the archipelago.

Yet, for many years, Indonesia was encouraged to reduce state intervention in agricultural production and markets, and to open the country to food imports through the reduction of import tariffs. The main arguments put forward were the alleged poor effectiveness and high cost of State intervention, along with the benefits expected for the population – liberalization was expected to benefit consumers through cheaper imports, while benefits for Indonesian farmers were supposed to come from exports of higher value crops.

Adhering to this advice, the Government of Indonesia liberalized food trade in 1998, reduced the mandate of BULOG to its rice operations alone, and removed fertilizer subsidies and marketing restrictions. This policy, however increased costs of production for local producers and reduced incomes due to the competition from cheap imports in local markets. Livelihoods further deteriorated with the Asian financial crisis in 1997 and 1998. As a result, the country became the world's largest importer of rice and the largest recipient of international food aid in 1998 (it received 885,000 and 822,000 metric tons of food aid in 1998 and 1999 respectively).⁵²

The liberalization policy was strongly opposed by farmers. In 2002, the government decided to reverse its policy and to curb imports of rice and encourage domestic production through higher tariffs. Soon Indonesia was back on track in terms of food production. With an import ban on rice, enforced against the recommendations of international institutions, it was self-sufficient in rice again in 2004. With more than 54 million metric tons of production, Indonesia could even export,⁵³ and also use the food stored by BULOG to provide emergency food assistance to the victims of the tsunami. In the last two years, this large autonomy in food supply also protected Indonesia when food prices went skyrocketing in the global markets. The current food price crisis thus questions the validity of the common argument heard from international experts that “greater integration into the international market would [...] reduce the variability of food prices” and reduce the cost of food supply.⁵⁴

Removal of Agricultural Tariff Barriers and Import Surges

“Trade agreements have a significant impact on our ability to sell America's agricultural products in world markets. Canada and Mexico, our two North American Free Trade Agreement (NAFTA) partners, currently buy 28 percent of the value of America's agricultural exports – up from 20 percent purchased 15 years ago when trade began under NAFTA.”

– U.S. Agriculture Secretary Ed Schafer⁵⁵

In 2001, a paper by the International Monetary Fund (IMF) claimed “Although there are benefits from improved access to other countries' markets, countries benefit most from liberalizing their own markets.”⁵⁶ More recently a fact sheet from the U.S. Trade Representative's (USTR) office states: “Trade is a powerful tool to generate income gains that can dwarf foreign assistance. To realize this benefit, developing country market opening is essential. The World Bank estimates that low and middle income countries would realize 50 percent of their potential economic gains from global free trade in goods, by the elimination of their own barriers.”⁵⁷

However, removal or lowering of import barriers and prohibition on maintaining limits on the volume of agricultural imports, has taken away the ability of countries to govern the flow of agricultural imports into their market leading to food import surges.

Heavily subsidized agriculture has allowed industrialized countries to capture markets by dumping commodities below the cost of production. In 2003, the U.S. exported wheat at 28 percent below the cost of production, soybeans at 10 percent below the cost of production, corn at an average price of 10 percent below the cost of production, cotton at 47 percent below the cost of production and rice was exported at 26 percent below the cost of production.⁵⁸ In fiscal year 2008, U.S. agricultural exports are expected to reach a record \$108.5 billion – \$26.6 billion above 2007.

The flood of cheap farm imports has made subsistence farming production in the developing world uncompetitive and financially unsustainable, resulting in farmers leaving or being forced off the land. This process of “deagrarianization”⁵⁹ has turned developing countries from net exporters to large importers of food, directly threatening their food security and economic sustainability.

The FAO Briefs on Import Surges document up to 12,167 import surges between 1980 and 2003 in 102 developing countries – with “devastating consequences for the rural poor and local economies in Africa.”⁶⁰ In addition to Africa, food import surges have affected developing countries everywhere including South and Southeast Asia, Latin America and the Caribbean. While each country is affected in different food markets, the narratives remain strikingly similar: an import surge of a food staple displaces the domestic market, thereby decreasing domestic production and employment by startling percentages.

Food Import Surges Devour Africa⁶¹

In Mozambique, vegetable oil imports (palm, soy and sunflower) saw a fivefold increase between 2000 and 2004. Domestic production shrank drastically, from 21,000 tons in 1981 to 3,500 in 2002, affecting some 108,000 small-holder households growing oilseeds, not to mention another 1 million families involved in substitute products (soy and copra). Small oil processing operations closed down, resulting in the termination of thousands of jobs.”

Sugar imports skyrocketed in Kenya between 1984 and 2004 with devastating impact on the entire sector – from producer to processors. Employment levels shrank by 79 percent, 32,000 people became jobless and this does not even include the farmers who were left with no access to markets.

FAO Briefs on Import Surges also demonstrate that even though Africa accounted for only 5 percent of global poultry trade, 50 percent of import surges in poultry occurred in that region. In Cameroon, lowering tariff protection to 25 percent saw poultry imports increase by about six-fold. In Senegal, 70 percent of the poultry industry has been wiped out in recent years because of EU poultry.

According to the UNCTAD, current high international food prices are expected to bring about yet another episode of food import surges, which have become more frequent in the LDCs in the post-trade liberalization era.⁶² 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. The U.S. and European biofuel policy is a case in point; corn production dedicated to biofuels instead of food compounds scarcity in both the market availability and food aid availability of the grain.

The Experience of Ghana⁶³

From the 1960s through to the 1980s, Ghana’s policies to promote self-sufficiency in food involved the government actively encouraging the agricultural sector through marketing, credit, and subsidies for inputs.

But under pressure from the World Bank and International Monetary Fund (IMF) – from the mid-1980s onwards and especially in the 1990s - the policies for self-sufficiency were reversed. Input subsidies were eliminated, the State trading enterprise (Ghana Food Distribution Corporation) was phased out, the system of minimum guaranteed prices for rice and wheat was

abolished, as were many state agricultural trading enterprises and the seed agency responsible for producing and distributing seeds to farmers, and subsidized credit also ended. 13.6 percent of loans from the commercial banks to the agricultural sector in 1993 dwindled to 1 percent by 2004. Simultaneously, applied tariffs for most agricultural imports were reduced significantly to the present 20 percent. These measures left local farmers unable to compete with imports artificially cheapened by high subsidies, especially in rice, tomato, and poultry.

These moves increased Ghana's rice imports from 250,000 tons in 1998 to 415,150 tons in 2003, an increase of 70 percent. Domestic rice, which had accounted for 43 percent of the domestic market in 2000, captured only 29 percent of the domestic market in 2003. In all, 66 percent of rice producers recorded negative returns, leading to loss of employment. It was not only the rice farmers who were squeezed out of the market, but also other players in the value chain – traders, millers, transporters, etc. In response the government wanted to raise tariffs on rice imports from 20 percent to 25 percent. This tariff increase was in place for four days before it was removed under pressure from the IMF. In the same year, the U.S. government provided rice subsidies worth \$1.3 billion. A government study found that 57 percent of U.S. rice farms would not have covered their cost if they did not receive subsidies. In 2000-2003, the average costs of production and milling of U.S. white rice was \$415 per ton, but it was exported for just \$274 per ton, a price 34 percent below its costs.

Similarly tomato was a thriving sector in Ghana. However reduction of tariffs enabled the heavily subsidized EU tomato industry to penetrate Ghana, and displace the livelihoods of tomato farmers and industry employees. Tomato paste imported in Ghana rose from 3,200 tons in 1994 to 24,077 tons in 2002.

Ghana's poultry sector was at its prime in the late 1980s but declined steeply in the 1990s due to the withdrawal of government support and the reduction of tariffs. Poultry imports rose by 144 percent between 1993 and 2003, and a significant share of this were heavily subsidized poultry from Europe.

Between 1996 and 2002, EU frozen chicken exports to West Africa rose eight-fold, due mainly to import liberalization, practically wiping out the half million chicken farmers in Ghana. In 1992, domestic farmers supplied 95 percent of Ghana's market, but this share fell to 11 percent in 2001.

In 2003, Ghana's parliament raised the poultry tariff from 20 to 40 percent. This was still much below the bound rate (allowed by the World Trade Organization) of 99 percent. However, the IMF objected to this move and the new approved tariff was not implemented.

Shift to Export Crops

The lure of increased earnings through agricultural exports encouraged developing countries to switch from growing food for domestic markets to growing cash crops for export to industrialized countries.

Many developing countries and most LDCs have now come to depend on the export of a small number of agricultural products for their foreign exchange earnings. However, the real prices of

these commodities are volatile and the direct consequence is often declining and erratic incomes for LDCs and their small producers.⁶⁴ For example, coffee prices in 2002 fell to less than a third of their 1997 level. Uganda, a country that implemented the trade and economic reforms requested of it in the 1990s and increased coffee production, saw many of the gains undermined, if not wiped about, by a decline of world coffee prices that were beyond its control.

This specialization in a few commodities such as coffee or cocoa has also created an increased dependence on food imports from developed countries with developing countries converting from net food exporters to net food importers.⁶⁵ “In the 1960s, developing countries had an overall agricultural surplus of U.S. \$7 billion. By the 1970s, imports had increased and the surplus had shrunk to U.S. \$1 billion. By the end of the 1980s, however, the surplus had disappeared. Most of the 1990s and 2000s saw developing countries develop into net food importers. The deficit in 2001 was U.S. \$11 billion.”⁶⁶ LDCs, consequently, now typically spend between 50 and 80 percent of their foreign exchange on food imports. For example, in 1999 Sierra Leone and Haiti spent 80.3 percent and 62.7 percent of available export revenue, respectively, on food imports.

Liberalization of markets and diverting resources from food crop production to cash crop investments has particularly impacted Africa which has added twice as many acres of new cotton production as new acres of corn and fifty percent more new acres of cocoa beans than new acres of millet since the WTO went into effect in 1995.⁶⁷ In the absence of international markets for traditional African crops like sorghum, cassava, yams, and millet, farmers have been encouraged to grow cash crops like coffee, sugar, cocoa beans, tea, and cotton and export earnings are used to purchase food, often low-priced imports from industrialized countries even as it displaces small farmers. With prices of imported food now rising, there is too little local production to provide food for local markets in many countries.

Responses to the Food Price Crisis

An estimated 41 countries have lost 3 percent to 10 percent of their GDP from rising food, fuel and commodity prices since January 2007. Over 30 countries have been hit by food riots, as the impact of the crisis reaches the household level.⁶⁸ In April 2008, protestors in Haiti tried to storm the National Palace while in Yemen children took to the streets to highlight child hunger. Demonstrators were killed in Senegal, Haiti, Cameroon, and Mozambique in 2008.

Widespread discontent has mobilized governments to take some action in an effort to avoid political instability. The government of Egypt has increased its spending on its food subsidy regime to nearly \$6 billion; Pakistan reintroduced ration cards for the first time in two decades; and Russia froze prices of bread, milk, eggs and cooking oil for six months. The government of Burkina Faso extended a suspension of import duties on staple foods. In Bangladesh, the government decreed that the armed forces should patrol the markets and intervene to prevent irregularities by traders. Indonesia revised its 2008 budget and increased food subsidies by \$280 million; while many countries including China, India, Egypt, Vietnam, and Cambodia have imposed export controls on key agricultural commodities.

At the global level, wealthier nations and the International Financial Institutions are responding as well. In July, the Group of 8 (G8) released a statement on global food security in July, calling for reinvestment in the agricultural sector. Proposed measures include doubling aid for key food

staples in Africa over the next five to ten years, improving infrastructure (roads, irrigation, storage, and distribution), rapid financing to address balance-of-payment difficulties, sustainable food security and biofuels policies, and support for country-led strategies to address climate change. Unfortunately, the G8's credibility is low given they still haven't met their 2005 aid commitments.

The World Bank proposed a *New Deal on Global Food Policy* to respond to the food crisis through social safety nets, increased agricultural production, and reduced trade barriers. The Bank has also set up a Global Food Crisis Response Program (GFRP). In response to its own estimates of the world's hardest-hit countries needing a total of \$10 billion in the short term for safety nets and agricultural support, the Bank has created a \$1.2 billion rapid financing facility to address immediate needs and \$200 million in grants targeted at the vulnerable in the world's poorest countries.⁶⁹

The Bank also recommends a range of interventions, including the distribution of seeds and fertilizers, the construction of rural infrastructures, and international assistance to agriculture. However, it fails to critically examine the model of agriculture it has promoted over the past thirty years. The Independent Evaluation Group (IEG) report on the Bank's agricultural programs in sub-Saharan Africa between 1991 and 2006, for instance, had concluded: "despite its presence for more than two decades in several countries, Bank support has so far not been able to help countries increase agricultural productivity sufficiently to arrest declining per capita food availability."⁷⁰

Expressing concern over countries "reverting to the food policies of the 1970s (food self-sufficiency at any cost, costly strategic grain reserves, reversal of diversification policies, etc.) which would eventually be harmful to both poverty alleviation and food security,"⁷¹ the Bank, instead, recommends market-based instruments to respond to market failures.⁷² It continues to recommend the creation of an enabling environment to stimulate private sector led-investment in agri-business and to move swiftly with an ambitious Doha round with sharp reduction of producer subsidies and import tariffs. The institution still fails to recognize that beyond emergency interventions to deal with high food prices, proactive agricultural and trade policies must be designed and implemented by governments in developing countries. After all, large food exporting countries have developed their agriculture through a mix of interventionist and protectionist policies. As observed by Michel Barnier, the French Minister of Agriculture, Europe after the Second World War had no other choice than an effective food sovereignty policy aiming at making the continent autonomous for its supply of cereals.⁷³

The withdrawal of state intervention in agriculture in developing countries has been strongly encouraged by the World Bank and the International Monetary Fund over the past thirty years. Yet, international experts usually recognize the importance and the positive impact of such intervention for the development of the agricultural sectors and the protection of the small farmers and consumers.⁷⁴

For instance, price stability ensured by grain marketing parastatals in Asia mitigated risks and gave farmers some degree of certainty in allocating their land in favor of the crops for which prices were guaranteed.⁷⁵ This had a positive impact on agricultural development and substantially increased economic growth in the countries studied.⁷⁶ Moreover, IFPRI observes that it was necessary for the practice of floor prices (minimum prices paid to farmers for their

production of certain commodities) to accompany the increase in food production and productivity, which was sought through different policy measures. Without this support, prices would have collapsed at times of good harvests (e.g. Ethiopia in 2001, when thousands of small farmers lost their livelihoods after their best cereal harvest in a decade which overwhelmed the markets and led to the collapse of commodity prices).

Different arguments have been put forward to promote the withdrawal of State intervention in the agricultural sector in developing countries including high cost and ineffectiveness of public interventions. A specific argument put against the use of grain reserves was that global food markets, have become larger and less volatile⁷⁷ which is supposed to allow countries to buy in global markets rather than to store domestic food production. The current crisis has proven that reliance on global markets could be dangerous, making import dependent nations very vulnerable to any supply shock or to the diversion of the production from exporting countries to other markets (e.g. biofuels, but also growing economies with increased demand).

In April 2008, a High Level Task Force (HLTF) on the Global Food Crisis was set up, under the leadership of the United Nations Secretary-General, to bring together the Heads of the United Nations specialized agencies, funds and programs, and Bretton Woods institutions. Its Comprehensive Framework for Action (CFA) recommends State regulation,⁷⁸ for example, the use of grain reserves to stabilize prices.⁷⁹ This is an interesting step for the signatory IFIs who have always promoted deregulation and the reliance on market and continue to do so in other venues.

The International Monetary Fund continues to advocate addressing the global food price shocks through keeping global food markets open.⁸⁰ More specifically, like the World Bank, it has pressed for a rapid conclusion to the Doha Round of trade talks, including agreements on agriculture “to broaden and stabilize international food trade and foster efficient agricultural production.”⁸¹

It was the refusal of developing nations to sacrifice food security measures that resulted in the collapse of trade talks at the July WTO mini ministerial in Geneva. The failure is best summed by India’s Commerce Minister, Kamal Nath: “It is unfortunate that in a development round we couldn't run the last mile because of an issue concerning livelihood security.”

As Harvard Political Economist Dani Rodrik points out, recommendations to conclude the Doha negotiations ignore World Bank’s own estimates which show that prices of coarse grains, wheat and rice will rise between 4 and 7 percent (relative to all other prices) if there is a successful trade round with complete removal of all restrictions.

Doha Round will also increase volatility of food and agriculture prices. Measures previously available to governments to soften the effects of price volatility (by controlling import and export volumes, managing domestic stocks, using price controls and price support tools, creating consumer subsidies through rationing systems, etc.) are either banned or discouraged under existing trade and investment agreements. The Doha Round proposals will further restrict the tools governments might use to ensure food security objectives.

The projected gains from the Doha Round anyway offer developing countries very little in potential gains. According to the World Bank’s own modeling, developing country benefits

would be just 16 percent of total world gains, or 0.16 per cent of GDP. This works out to less than a penny per day per capita in the developing world. Poverty reduction - which in itself would be very limited - would reach only 2.5 million people.⁸² More important as it has been pointed out, “most developing countries and regions do not benefit from agricultural liberalization in terms of overall real income, and the effects are highly differentiated. Argentina, Brazil, and some ASEAN countries, notably Thailand, are the main winners... The losers include many of the world’s LDCs, including Bangladesh and the countries of East Africa and the rest of sub-Saharan Africa.”⁸³ These projections do not include many of the costs of implementing the Doha Round, which UNCTAD estimates to be as much as four times the projected gains.

The World Bank's 2008 World Development Report (WDR), “Agriculture for Development,” echoed the same premonition, expressing particular concern for “food-importing countries with tight foreign exchange constraints.” The Report acknowledges that trade liberalization generates winners and losers and “the overall effect of trade policy reform on farm incomes of food staple producers in the poorer developing countries is likely to be small.”⁸⁴ UNCTAD’s Least Developed Countries Report goes even further. It states: “Frequently LDC farmers have been negatively affected by trade liberalization. ... The agricultural trade balance has worsened particularly strongly since the mid-1990s, as a high number of LDC producers have found it difficult to compete in their own markets for many key foodstuffs following trade liberalization.”⁸⁵

Yet, the policies of the Bretton Wood institutions have continuously failed to address these concerns, making the probability of such food crises recurring under current trade policies very high.

A Multilateral Alternative

A more promising set of recommendations comes out of an independent and multi-stakeholder international assessment of agriculture (a product of over 400 authors), the *International Assessment of Agricultural Knowledge, Science and Technology for Development* (IAASTD). Approved by 58 governments in Johannesburg, South Africa in April 2008, this report concluded that a radical change is needed in agriculture policy and practice, in order to address hunger and poverty, social inequities, and environmental sustainability questions.

Over three years, from 2005-2007, the IAASTD conducted an evidence-based assessment on the potential of agricultural knowledge, science and technology (AKST) for reducing hunger and poverty, improving rural livelihoods, and working towards environmentally, socially and economically sustainable development. It aims to drive the agenda for agriculture for the next fifty years. The report highlights four issues:

1. The need for a systematic redirection of investment, funding, research and policy focus towards the needs of small-farmers.
2. The need to safeguard natural resources and agro-ecological practices, as well as on tapping the wide range of traditional knowledge held by local communities and farmers, which can work in partnership with formal science and technology.
3. The need for massive investment in agriculture, both in physical infrastructure such as irrigation and roads) and non-physical, so-called “soft” infrastructure, such as access to markets and credit provision; and

4. The need for immediate attention to the growing involvement of women in agriculture in many developing countries.

Other key findings of the IAASTD report acknowledge that market forces alone cannot deliver food security to the poor. It particularly reiterates that developing countries are accorded special and differential treatment in agricultural trade, especially on the grounds of food security, farmers' livelihoods and rural development.

Nonetheless, while the report provides the policy options that could really make a difference, in the wake of the current food crisis, it will require a concerted effort of governments, civil society and the co-sponsoring agencies of the IAASTD, in particular the FAO, the World Bank, UNDP and UNEP to move the paradigm of food security back to policies that emphasize local food production and invigorate the agricultural sector particularly in developing countries.

Some Specific Recommendations to Deal with the Crisis

Provide Emergency Assistance: The current crisis first calls for an emergency response. The provision of immediate food aid is vital to prevent hunger and malnutrition. While the \$755 million extra funding for the World Food Programme (WFP) will allow the agency to maintain its operations at their 2007 level, an additional \$15 to \$20 billion a year is needed to overcome the food crisis.⁸⁶ Rich nations must commit to supporting UN agencies and developing countries in meeting this need.

It is essential that aid be in cash whenever possible to avoid since "in kind" food aid has often contributed to dependency on food imports through dumping of cheap food, which undermines local production. Local or regionally procured food aid also means lower costs and quick delivery. OECD estimates an extra \$750 million could be released if rich countries gave food aid as cash rather than as kind.

National Safety Nets for the Poor & Most Vulnerable: Beyond food aid, national level schemes should provide the poorest with resources to meet their basic needs as well as to protect them against shocks through minimum income guarantees, public work programs, and direct assistance.

Donor countries should provide more aid immediately to support government efforts in poor countries to deal with the current crisis and respond to appeals from UN agencies. Foreign aid to Africa fell by 40 percent during the 1990s and the commitment of 0.7 percent of the GDP has never been reached whereas according to UNDP, it constitutes only the minimum of what is required to stop the socio-economic decline of the poorest countries. World Bank's New Deal and other financial institutions, as well as the G8 have called for greater investment in social protection in developing countries. It is time for them to honor their word.

Impose a Biofuel Moratorium: It is time to impose a moratorium on government programs that accelerate biofuel development. Governments must dismantle current subsidies and tax exemptions and assess the impact of biofuel policies on national and global food prices and determine to what extent biofuel development is sustainable in the long term.

Increased Public Funding for Agriculture: Policies that help affected countries develop their own

agricultural sectors actually feed more people and decrease developing countries' dependence on food imports in the long run. Also addressing agricultural development in poor countries is an opportunity for alleviating poverty given many of the poorest countries are still dependent on agriculture for income and jobs.

Increased Support for Small Farmers and Staple Foods production: Tackling hunger requires that small farmers in developing countries are supported so they can provide for their own populations. This will serve to both reduce rural poverty and help ease the crisis. As pointed out by Oxfam, there are also strong efficiency arguments for investing in the developing world's 400 million smallholder farmers whose smallholdings show higher productivity per area than their larger counterparts. And in addition to preserving biodiversity and conserving water, these farms also spend more on locally manufactured goods and services.⁸⁷ It is also essential to support farmers in improving productivity through sustainable production techniques.

Ensure Policy Space for Developing Countries to Protect Their Agriculture and Food Security: Developing countries that have signed or are in the process of negotiating free trade agreements (FTAs) should ensure that the FTAs provide enough policy space so they are able to calibrate their agricultural tariffs in such a way as to ensure that the local products can be competitive, farmers' livelihoods and incomes are sustained, and national food security assured. This means that they must be allowed to reduce tariffs when appropriate, when prices escalate, but also to maintain or even increase such tariffs when exports threaten their food security or the survival of a sector which is central in the fight against poverty.

In the short term, countries are faced with the dilemma of ensuring low food prices for consumers through decrease or removal of tariffs and taxes on imported food, or supporting their own farmers and food production, with less available resources from tax revenue. Countries must therefore find the flexibility to be able to put back import tariffs as soon as required in order to protect local production and, when necessary, may seek international financing to compensate the loss in revenue and mobilize resources to invest in food production.

Build National/Regional Food Reserves: Countries that rely on food imports must be provided support to build up their food reserves. Where national grain reserves are not appropriate, regional reserves must be set up.

Ensure Access and Control over Resources and Services: Government intervention is also required through protecting and improving access to land, seed and fertilizer support, farm credit programs, improvement of storage, and marketing institutions such as the Marketing Boards, and the management of national or regional food stocks, all which are essential to mitigate the effects of the fluctuations of food production on producers and consumers. No industrialized country has been capable of developing its agriculture without such protection and support.

Support for G33's Special Products (SPs) and Special Safeguard Mechanism (SSM) Proposal: At the WTO, the G33, a coalition of 46 countries, a grouping led by Indonesia, has been highlighting concerns of food security, rural livelihoods, and rural development, and the problem of import surges and pushing for SPs and SSM for protection.

The G33 have proposed gentler treatment for at least 20 percent of their tariff lines in the Doha Round and for these to be designated as "special products." Given the diverse circumstances of

countries within the grouping, countries themselves will designate the products that are to be classified as SPs, using indicators that reflect the food security, livelihood security, and rural development criteria. The coalition has come under intense pressure from various quarters interested in market access to relax their SP position and a much weakened proposal was tabled at the Geneva mini ministerial.

While the SPs is a long term exemption, SSM is a shorter-term mechanism, in place for about a year each time it is activated, uses both volume trigger⁸⁸ and price trigger,⁸⁹ to help developing countries cope with fluctuations in prices and import surges. Both SP and SSM are critical instruments that serve different but complimentary purposes. While the SP is meant to protect sectors which are unable to compete in the distorted market, SSM provides a mechanism to mitigate vulnerability to risks of price depression or production displacement. It is however essential that SSM remedy allows countries to use both increased tariffs as well as quantitative restrictions. Also measuring an import surge as a 25 percent or 30 percent increase in volume is not an effective tool to support small farmers. An import surge really occurs when the volume of exports increases in real or absolute terms in a year to an extent which is detrimental to the domestic producers.

These are merely a few of the recommendations that will help turn the tide against the growing food crisis and help ensure food sovereignty of developing nations.

Notes

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- ³ *World Economic Outlook*. International Monetary Fund. 2008. Pg. 60.
- ⁴ *Rising Food Prices: International Drivers and Implications*. Center on International Cooperation. December 2007.
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- ⁶ Trostle, R. "Global Agricultural Supply and Demand: Factors Contributing to the Recent Increase in Food Commodity Prices." Economic Research Service, USDA. Pg.2.
- ⁷ Hebling, T. Valerie Mercer-Blackman, and Kevin Cheng. "Riding a Wave." *Finance & Development*. International Monetary Fund. March 2008, Volume 45, No. 1.
- ⁸ *Ibid.*
- ⁹ Trostle, R. Global Agricultural Supply and Demand: Factors Contributing to the Recent Increase in Food Commodity Prices. USDA. 2008. Pg.4.
- ¹⁰ *Ibid.* Pg. 5.
- ¹¹ *Ibid.* Pg. 5.
- ¹² Stigset, Marianne. "Food Price Gains Caused 50 Million More to Go Hungry, FAO Says," *Bloomberg.com*. 3 July 2008.
- ¹³ For instance, FAO reports that multiple year droughts caused "exceptional shortfall in aggregate food production/supplies" in Lesotho and Swaziland.¹³ In Nigeria and Ghana, the decline of coarse grain production led to tight food supply that affected rising food prices in Benin, Burkina Faso, Ghana, Niger, Nigeria and Togo. In China's harshest ice rains, snow, and freezing weather since 1951, millions of hectares of vegetable and oil crops were "severely damaged," and "as of the end of January [2008], about 90 million people were reported to be directly affected." In Mongolia, the harsh winter impacted livestock production as well. The villages of the Northern Atlantic Autonomous Region in Nicaragua, affected by powerful hurricane Felix in September 2007, are receiving international food assistance for the gradual recovery of their livelihood systems. Food and Agriculture Organization, "Countries in Crisis Requiring External Assistance," *Crop Prospects and Food Situation*, No. 1, February 2008. <http://www.fao.org/docrep/010/ah881e/ah881e02.htm>. Food and Agriculture Organization, "Food Emergencies Update," *Crop Prospects and Food Situation*, No. 1, February 2008. <http://www.fao.org/docrep/010/ah881e/ah881e03.htm>.
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- ¹⁸ In 2000, the Commodity Futures Modernization Act effectively deregulated commodity trading in the United States, by exempting over-the-counter (OTC) commodity trading (outside of regulated exchanges) from CFTC oversight. Soon after this, several unregulated commodity exchanges opened. These allowed any and all investors, including hedge funds, pension funds and investment banks, to trade commodity futures contracts without any position limits, disclosure requirements, or regulatory oversight.
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- ²³ United States uses nearly all corn as a feedstock while the EU, the largest biodiesel producer, uses rapeseed oil as its main feedstock.
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- ²⁸ *World Economic Outlook*. International Monetary Fund. April 2008, Pg. 60.
- ²⁹ Trostle, R.. Pg.5.
- ³⁰ Berthelot, J. Sorting the Truth out From the Lies in the Explosion of World Agricultural Prices. *Solidarité*, May 30, 2008. Page 8.
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