



## Tackling the global food crisis

*The rush to address the most urgent humanitarian aspects of the global food crisis should not deflect attention from the profound failure of trade and development policy that underlies the crisis. This policy brief addresses the systemic causes of the crisis and identifies strategic policy measures – such as boosting investment, innovation and productivity growth – for creating a more robust and sustainable framework for global agricultural production and trade. It also suggests the need for a coordinated global response to speculation in food prices.*

World food prices have roughly doubled over the past three years, but between April 2007 and April 2008 alone they increased by 85%. This price rise has been broad-based, led by wheat (whose price almost doubled), then maize (up 67% since July 2007), followed by rice (which has tripled since September 2007 and soared by 160% between January and April 2008 alone). Prices for vegetable oilseeds and oils also shot up, multiplying by about 2.5 since early 2006.

The fact that the current price boom includes nearly all major basic foodstuffs and feedstocks is what most distinguishes it from earlier such booms. And the fact that it applies to all commodities, not just food, hints at driving forces that go beyond shocks from drought and flooding. No single factor has been responsible. Rather, different factors have been of varying importance for different food items.

### Many contributing factors...

By now, the constellation of these contributing factors is well known. Some analysis is, however, essential, especially of how the factors interact. Without it, not only is the crisis likely to recur in one form or another, but the policy failure that underpins it will be with us for decades.

Most experts trace the start of the crisis to the long-term trend of **increased demand** for food. The effects of that rising demand – largely the result of population growth, urbanization, and rapid economic development in East and South-East Asia in particular – were amplified by recent droughts, slow supply response, the fall in the dollar, high energy prices, and concerns over increased demand for biofuels. The effects of these factors on food commodity prices were in turn exacerbated by government export restrictions and market speculation.

It is probably no coincidence that global food prices surged in the wake of the **global financial volatility** sparked by last year's collapse in the US subprime mortgage market. Speculators looking for assets with

rising prices may well have sensed the strains in world food markets and re-oriented their portfolios towards food commodities. This would go a long way towards explaining why the UNCTAD food price index rose by 84% between April 2007 and April 2008, when a much more gradual increase might otherwise have been expected. In 2006, for example, the index was up by only 8.5%, even though both China and India, for example, were already growing at record rates.

But the crisis also has deep-seated, longer-term causes, including **low and declining agricultural productivity** in many developing countries. Particularly in the LDCs, the sector was more productive 50 years ago than it is today, according to UNCTAD figures. In terms of yield, the annual growth of cereal crops in many LDCs shrunk from 3-to-6% in the 1980s to just 1-to-2% today.

Low productivity has its own contributing factors, which are physical, policy-related, institutional, and financial in nature. The availability of arable land is dwindling. More and more farmers work on ecologically fragile land, and average farm size is diminishing. In countries like Ethiopia and Malawi, for example, since the 1990s it has fallen by one third, to about 0.8 hectares. This worrying trend is only being accelerated by climate change and, paradoxically, attempts to mitigate climate change, such as the increasing use of arable land for afforestation.

Also contributing to the low productivity are policies that abolished or weakened the role of key institutional support measures. Such measures include, for example, state-supported extension services, marketing boards, and state subsidies for agricultural inputs like seeds, pesticides, herbicides and fertilizers. Farmers are further discouraged by the availability of cheap food products on international markets, due largely to export subsidies in developed countries. According to recent analysis by the FAO and UNCTAD, these subsidies have been associated with rapidly increasing food imports in developing countries. Indeed, a number



of traditionally food-exporting developing countries – many of them LDCs – have become net food importers over the past 20 years. Sadly, these countries are the hardest-hit by the current crisis, a crisis made even worse for them by mounting oil prices.

Investors – whether domestic or foreign, public or private – are discouraged as well, leading to a downturn in investment in agriculture and the transport and logistical infrastructure needed to distribute agricultural products. Worse still, international aid to developing-country agriculture has been seriously inadequate, and actually declined in recent years. Donors' new emphasis on social-sector and emergency aid, while essential, has meant less investment in productive sectors like agriculture. Between 1980 and 2002, multilateral institutions slashed ODA on agriculture from US\$ 3.4 billion to US\$ 500 million, an 85% decline. Bilateral donors reduced spending by 39%, from US\$ 2.8 billion to US\$ 1.7 billion. Most crucially, donors appear to have neglected aid for science, technology and innovation in agriculture.

### ...and many possible solutions.

While emergency measures can address the most urgent needs, the food crisis in the longer run must be addressed at the national and international policy level in order to boost sustainable investment, innovation and productivity growth.

#### • In the short term:

Emergency measures through UN food programmes and bilateral food-related development aid are one priority for ensuring that sufficient food is available to the poorest households. So is assistance to poor smallholder farmers to boost production – for example, by expanding their access to such vital inputs as seeds and fertilizer.

At the international level, preparing a coordinated global response to global speculation in food prices is another urgent task. This should include measures to allow concerted government intervention in food markets if there is a strong indication that speculation is driving prices. Similarly, international coordination could help minimize the potentially dangerous implications of food hoarding and restrictions or bans on food exports. Producer-consumer cooperation schemes, and schemes that promote integrated agricultural production for food and fuel, should also be looked at anew.

The inflationary effects of rising food and energy prices need to be tackled as well. Many central bankers may be faced with inflation beyond targeted levels, which could well make them reluctant to ease monetary policy, even though that is what is required to offset the expected slowdown in economic growth. Again, global cooperation may be needed to avoid an accumulation of repressive measures.

#### • In the medium term:

A priority in the medium term is to address the under-capitalization that limits food production and productivity in many developing countries. Cheap and reliable credit for small farmers and enhanced public investment in infrastructure and irrigation are therefore important. With greater public and private investment in agriculture and rural development, and especially in agricultural R&D, the world's 400 million smallholders could mobilize their potential, improving not only their own nutrition and incomes but national food security and economic growth as well.

Other medium-term priority measures must be for developed countries to consider some flexibility for their biofuel blending targets; to review the erection of protectionist barriers against ethanol and biodiesel imports from developing countries; and to review the granting of subsidies to domestic biofuel and feedstock producers. At the same time, the opportunities that biofuels can present in terms of reduced energy bills and a more dynamic agricultural sector should not be ignored.

#### The biofuel controversy

Biofuel production and the land use it entails are often cited as key determinants of the current food crisis. Such positions rightly point to some of the pitfalls of introducing biofuel policies without duly assessing their overall implications, including on the agricultural sector. In UNCTAD's view, increased biofuel production has been – for certain crops and certain countries – a driver of food price inflation, but not the dominant one. The price of rice, for example, has increased dramatically over the past 12 months. But rice is not used for biofuel production, and so far, only small amounts of rice cropland have been shifted to producing biofuel feedstocks. The long-term factors discussed above are probably far more accountable for the crisis than biofuels. Where biofuels have had an impact, the relationship between them and food price spikes should be interpreted more as a policy failure than as an intrinsic and unavoidable consequence of the production of biofuels, as argued in this policy brief.

Yet another priority is to reduce long-standing agricultural export subsidies and domestic support policies in developed countries, which have hurt developing-country agriculture, as mentioned above. In this regard, current price levels offer a «double dividend». In the developing world, they can motivate farmers to boost production. And in the industrial world, where they offer farmers a decent return without the need for subsidies, policy makers can use the opportunity to phase out the subsidies and invest the freed-up financial resources in agricultural development in developing countries. An agreement on agriculture in the current Doha Round of negotiations could help capitalize on this dividend.

#### • In the long term:

Raising agricultural productivity around the globe is clearly crucial in addressing the substantial increase of both food consumption and land use for non-food purposes. At the national level, it needs to become a priority in development strategies. Developing countries must design a policy framework that creates the right incentives for investment in agriculture and defines the appropriate mix between food and export crops. They must provide the necessary infrastructure and extension services. They should calibrate their national trade policies to promote agriculture production; eliminate tariffs on agricultural inputs; and provide better training and knowledge to farmers. At the international level, these efforts must be supported through increased ODA and investment in infrastructure and agricultural R&D, and by removing distortions in the international agricultural market.

*For more information, see UNCTAD's report on Addressing the global food crisis: Key trade, investment and commodity policies in ensuring sustainable food security and alleviating poverty; the Trade and Development Report 1989 and 2005; and the Least Developed Countries Report 2006 and 2007.*