



INTERNATIONAL FOOD POLICY
RESEARCH INSTITUTE

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PRESS STATEMENT

Effectively Responding to the Drought in the United States Can Prevent another Global Food Crisis

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August 6, 2012— Below-normal rainfall and above-normal temperatures have contributed to the most severe and extensive drought in the United States since the 1950s. Spanning over half the country, the severity of drought conditions increased dramatically since early July, adversely affecting the production of maize (yellow corn) and soybeans, driving up agricultural prices, and increasing the volatility of those prices to excessive levels.

According to the Economic Research Service of the US Department of Agriculture (USDA), 62 percent of US farms are located in areas experiencing drought. About 40 percent of maize and soybeans and 44 percent of livestock are produced in areas experiencing severe drought. As a result, national crop yield and harvest estimates for maize and soybeans have been lowered considerably. Experts suggest that crop losses for maize are coming close to 20 percent and could reach 30 percent or more if extreme drought conditions persist. Prices of maize and soybeans have already started to rise rapidly and could increase further depending on the degree of severity and extent of the drought. In the past two months alone, US export prices for maize and soybean increased by 30 and 19 percent respectively, with prices for both crops reaching record highs.

Poor and vulnerable groups in developing countries are hard hit by high and volatile prices of the agricultural commodities they depend on for their primary daily caloric intake. As experienced during the 2007-08 global food price crisis, price movements in domestic markets can have significant impacts on global markets, and vice versa.

The United States plays a key role in international commodity markets as it is the top producer and exporter of maize and soybeans. As of 2011, US production of maize and soybeans

accounted for more than 30 percent of total world production, and US exports of those crops represented over 40 percent of total world exports. In countries like Mexico and Egypt, the second and fourth largest importers of US maize, imports account for 26 and 42 percent of total maize available, respectively. In Mexico and China, the two largest importers of soybeans among developing countries, imports make up 88 and 45 percent of their total soybean supply, respectively.

Rising maize and soybean prices can cause an increase in other commodity prices as the livestock industry switches from maize to wheat for animal feed and consumers are forced to shift their consumption to other commodities like wheat. In the last two months, wheat prices have risen by 26 percent. Egypt and Brazil, the two largest importers of wheat, may likely experience adverse effects of potential price hikes, as they import more than half of their total wheat supply.

As a result, prices for livestock products—such as meat and dairy—may also see an increase as the cost of feed increases, which may result in a deterioration of the diet quality of the poor if they shift their consumption from meat and dairy products to cereal crops.

Several urgent actions must be taken to address the current situation in order to prevent a potential global food price crisis:

- 1) **Monitor the situation.** Key institutions, including the USDA, FAO, UNCTAD, the World Bank, and the World Food Programme (WFP), and G20 supported initiatives like Agricultural Market Information System (AMIS) in collaboration with local partners, should pay close attention to developments in food supply, consumption, prices, and trade, as well as agricultural commodity speculation. This will help quickly detect any imbalances and facilitate swift responses.
- 2) **Halt biofuel production from maize.** Food crop demand for biofuels, particularly in the United States and European Union must be cut substantially, as should mandates for ethanol content in fuel, to help relieve the pressures on both domestic and global food markets. Currently, about 40 percent of total maize production in the United States is used to produce ethanol.
- 3) **Avoid export bans and panic purchases.** Countries must stay away from imposing export restrictions when food prices increase because they lead to tighter market

conditions and panic purchases by food-importing countries, thereby exacerbating food price hikes.

- 4) **Prepare to use national grain reserves and link it to safety net programs.** Large food-producing countries must be ready to deploy some of their grain reserves to address food emergencies, with emphasis on vulnerable populations.
- 5) **Ensure the WFP has sufficient access to food purchases for emergency relief efforts.** WFP's access to food purchases must be enhanced in order to facilitate effective responses during times of crises. Such emergency preparedness is crucial as rising food prices have implications for the effectiveness of WFP's food assistance programming, as well as the availability of funds for resilience building activities.
- 6) **Boost developing country agricultural output and productivity.** Developing country crop production for the next season must be enhanced in order to reduce the effect of high and volatile prices on their national food security. In the long run, boosts to smallholder productivity, including enhanced access to high-quality/stress-tolerant seeds, fertilizer, new and affordable technologies, and rural infrastructure, must be made top priority. Innovations in financial services, for example, the use of modern communication technologies; risk-management mechanisms, such as weather-based index crop insurance; and institutional arrangements like social and rural knowledge networks are also imperative.

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The International Food Policy Research Institute (IFPRI) seeks sustainable solutions for ending hunger and poverty. IFPRI was established in 1975 to identify and analyze alternative national and international strategies and policies for meeting the food needs of the developing world, with particular emphasis on low-income countries and on the poorer groups in those countries. It is a member of the CGIAR Consortium. www.ifpri.org.