

Responding to the World Food Crisis

Getting on the Right Track

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- ▼ *Rising prices have a way of shining a bright light on any sector, no matter how overlooked previously. The rapid run-up in food prices is no exception. Food may be an essential good, but when food prices spent decades moving downward, the food sector held little interest for policymakers and investors. Now, with the doubling and tripling of the prices of some food grains in the past two years, the world has snapped to attention. Faced with rising food insecurity, social unrest, and accelerated inflation driven to a large extent by food prices, developing and developed countries and international governmental and nongovernmental organizations have begun responding to the rapid rise in food prices with a new sense of urgency.*

How effective will these responses be in actually ameliorating the food and agriculture crisis? Are they likely to move the world closer to or farther from a resilient and sustainable food system that can supply the food needs of all people? After all, the point is not just to do something, but to do the right thing. So far, however, although some sound actions have been taken in response to high food prices to mitigate the crisis, many others appear likely to exacerbate it and further distort the fair and efficient functioning of the food system.

But crises can also offer opportunities by causing a rethinking of basic issues and assumptions. There is no doubt that the crisis in food and agriculture poses tremendous risks and hardships for poor people. At the same time, it also has the potential to stimulate changes that will improve the functioning of the global food system for years to come, although it is important to be aware of the potential cynicism of seeing "opportunities" in crises that hurt many. Careful policy

action can alleviate the current crisis while also reducing the chances of another such crisis in the future and in fact helping reduce poverty and hunger overall.

AGRICULTURE TRANSFORMED BY NEW FORCES

Over the past century, the world has seen only three major spikes in food prices: one occurred after World War II, the second took place in the 1970s, and the third is underway now. Otherwise, international food prices have generally followed a slow decline since the 1870s. At the same time huge fluctuations have occurred at country and regional levels, especially in Africa.

Now, the world's farmers are operating in a context where new forces are pushing agricultural prices upward—this context appears likely to persist. Demand for agricultural products has risen rapidly owing to climbing incomes in many developing



countries, especially in Asia, and to the surging appetite for biofuels in Europe and the United States. At the same time, droughts have constricted supply in Australia and Ukraine, major wheat exporters. Farmers who are connected to world markets are therefore benefiting from the higher prices, but they also face much higher costs. With oil prices well above US\$120 a barrel and predicted to stay there for the foreseeable future, farmers find the cost of cultivating and fertilizing their land and transporting their inputs and products reaching new levels. Looking ahead, it seems likely that farmers will face the task of meeting the food and energy needs of a growing world population while coping with increasingly scarce water supplies and more variable and extreme weather caused by global climate change.

POLICY RESPONSES

The current food price crisis is a short-term emergency for millions of people, but it also signals longer-term failures in the functioning of the world food system. Responses to the crisis therefore must accomplish two tasks.

They must address the immediate food needs of poor people priced out of food markets, and they must begin to correct previous failures in agricultural policy by investing in agriculture and food production, setting up reliable systems for assisting the most vulnerable people in a timely way, and establishing a fair global trading system and a conducive investment environment.

The following are high-priority policy actions both to cope with immediate needs for food and to build a stronger food system that can respond to future challenges:

1. expand emergency responses and humanitarian assistance to food-insecure people and invest in social protection;
2. undertake fast-impact food production programs in key areas and scale up investments for sustained agricultural growth;
3. eliminate agricultural export bans and export restrictions and complete the Doha Round of World Trade Organization (WTO) negotiations;
4. change biofuel policies by freezing biofuel production at current levels, reducing it, or imposing a moratorium on biofuels based

on grains and oilseeds until prices come down to reasonable levels; and

5. calm markets with the use of market-oriented regulation of speculation, innovative virtual shared public grain stocks, and strengthened food-import financing.

All of these actions should be undertaken immediately, but some will have short-term impact, whereas others are designed to have impact in the medium and longer term.

The United Nations, multilateral agencies, and national governments all acknowledge the urgent need for action and are taking steps. So how well do their actions square with the steps recommended by IFPRI? How effective are their responses likely to be in alleviating the food crisis in the short and long term?

Humanitarian Assistance and Social Protection

The highest priority must be to protect the food consumption levels of poor people, which requires that national governments, aid agencies, nongovernmental organizations (NGOs), and civil society organizations expand food and cash transfers targeted to the poorest and most vulnerable people. The most effective interventions would focus on early childhood nutrition, regions in distress, school feeding with take-home rations, and food and cash for work.

Indeed, emergency responses are underway at international and national levels. At the global level, the World Food Programme (WFP), the United Nations agency responsible for emergency food assistance, made a call in spring 2008 for US\$755 million in assistance to help pay for the rising cost of food to higher numbers of poor people and got the requested support.

At the national level, countries are undertaking distributions of food and cash targeted

to poor people affected by the food price crisis. Across the world, governments have revised their budgets upward to account for increased spending on new and existing social protection programs. The most common type of program, especially in South and East Asia and Latin America and the Caribbean, is the sale of food to the poor at subsidized prices. In Sub-Saharan Africa, protection measures include increasing the salaries of teachers and civil servants and urban food rationing. Across the world, a few governments have also introduced new employment programs, such as India's nationwide program, and school-feeding and cash-transfer programs.

Yet the most widespread responses to the current food crisis are general consumer price controls, lowered taxes on staple foods, and the sale of staples and fertilizer at subsidized prices. These general measures are not targeted at the most vulnerable and indirectly hurt them by diverting scarce public resources from pro-poor investments. Price controls also discourage producers from increasing their output of food by reducing their profits.

This range of responses signals the need for better preparation for slow-onset food emergencies like the current crisis. By carefully monitoring the well-being of vulnerable groups and adopting a series of triggers to activate assistance to these groups, international and national emergency agencies could establish an effective and orderly system of reaching the poorest people during food emergencies.

Beyond emergency relief, countries should invest in comprehensive social protection measures that will both help mitigate the risks of high food prices to poor people and help prevent longer-term negative consequences. Such measures would include cash transfer programs, pension systems, employment programs, microfinance programs, and

preventive health and nutrition programs. Countries that do not already have comprehensive social protection programs will find it difficult to create them in the short term and thus should focus on launching targeted cash transfers to the poorest.

Responses by People in the Streets

It has long been recognized that social and political conflict increases food insecurity, but food insecurity can also be a source of conflict. The strong link between food and political security has been often underestimated in the current food crisis. The trivial energy security gains due to the biofuel production that has been one of the causes of rising food prices have been largely overwhelmed by broader losses in social and political security triggered by the food-price surge. From January 2007 to June 2008, food protests—strikes, demonstrations, and riots over food- or agriculture-related issues—have occurred in more than 50 countries, with some countries experiencing multiple occurrences and a high degree of violence. Food protests have not affected only poor countries, but states with varying levels of income and government effectiveness. Yet food protests in high-income countries have tended to be nonviolent, whereas protests in low-income countries have often involved the use of physical force or resulted in casualties. Within countries, as food prices increase, the middle class typically has the ability to organize, protest, and lobby, but the poor usually suffer silently for a while.

Trade Policies

When agricultural prices were low, many countries focused their trade policies on boosting agricultural exports and discouraging imports. Policymakers sought to prevent cheap agricultural imports from undercutting their own farmers' output. Now, with food prices soaring and supplies tight, policymakers in many countries have turned that strategy on its head.

In an effort to maintain domestic supply, many countries worldwide have banned exports of certain staple foods. Other countries have raised export duties or adopted regulatory restrictions on exports.

National governments naturally wish to care for their own citizens first, but restrictions on exports are narrowing the food supplies available on the world market while import policies are putting further pressure on these dwindling supplies. These policies thus drive prices up even higher and are counterproductive even for the countries that adopt them, yet removal of export restrictions by countries acting individually is highly unlikely, given countries' focus on their own citizens. What is needed, then, is an ad hoc forum of global players, such as the Group of Eight + Five and perhaps the other five main grain exporting countries, that can negotiate for widespread removal of export bans and restrictions. Why should countries want to participate? Removing export bans would make food prices more stable and could have reduced price levels by as much as 30 percent in 2007–08—outcomes that are in every country's favor. Widening trade opportunities for agricultural goods will also increase the incentives for farmers worldwide to raise their output.

In the longer term, trade has the potential to be a valuable tool for coping with regional and national supply and price fluctuations,



but its effectiveness has been reduced by the failure to implement fair and rule-based trade for agriculture through the Doha Round of negotiations. Ultimately, however, completion of the Doha Round is key to creating a rule-based system of trade. High prices may make it easier for the developed countries to reduce their domestic support and export subsidies to farmers. So far, the European Union has eliminated its applied tariffs on cereals, but not its bound tariffs, whereas the United States has made no moves to restrain support to U.S. farmers. The food crisis has made the environment for achieving trade agreements more difficult—confidence in the world trading system has been lost, and as a result some developing countries may increase their focus on food self-sufficiency. First-best means to foster a supply response would include free trade and responsive international finance and banking that would channel capital to agriculture. However, a new trend by cash-rich countries to acquire land from poor, land-rich countries in order to secure food supplies indicates that confidence has been lost in trade and that international financial markets have failed to facilitate domestic investment

expansion. First-order policy distortions—export bans and restrictions—are now leading to second-order distortions, i.e. an attempt—by those countries that can pay for it—to secure supply lines by investing in foreign farm land.

Food Production and Sustainable Agricultural Growth

It has been said that the best cure for high prices is high prices. For some farmers, higher prices alone are helping to stimulate more food production. The U.S. Department of Agriculture has projected that global wheat production in 2008–09 will rise 8.2 percent over the previous year, with U.S. production projected to rise by 15.7 percent. Projections are not rosy for all crops, however. The USDA projected that global maize production would fall by 7.3 percent in 2008–09.

In many countries, farmers need better access to seeds, fertilizers, and water if they are to substantially ramp up production. Farmers also need buyers, and procurement programs offering farmers guaranteed minimum prices that reflect long-term



international prices can help stimulate greater production.

A few countries have begun to take such steps. In an effort to raise agricultural production quickly, China has increased subsidies for seeds and other inputs. It has added to funds for flood and drought preparedness and for agricultural infrastructure. It has also raised the minimum purchase prices for wheat and rice and improved financial services available to farmers. India and Russia have raised the prices at which they procure grain for their reserves as well.

The international community is also jumping in with support to agriculture. The World Bank has announced a US\$1.2 billion fast-track facility for dealing with the food crisis that will include not only financing for emergency food assistance, but also funding for seeds and fertilizer, irrigation, and crop and livestock insurance for small-scale farmers. The bank will also increase its overall support for agriculture from US\$4 billion to US\$6 billion between 2008 and 2009. In addition, the European Commission has created a one billion euro emergency fund to help

developing countries cope with high food prices by raising agricultural production and strengthening safety nets.

Fast-track food production programs to improve farmers' access to inputs and credit should plan for a transition from initial "crash" programs to market-based arrangements, because the private sector can generally supply inputs and credit more effectively than the public sector. Involving the private sector from the start would help ease the transition.

The food price crisis is a stark reminder that in the long run much more investment is needed to create a viable and healthy global food system that can cope with shocks and shifts like climate change. Substantial public investments are needed in rural infrastructure, services, agricultural research, and science and technology. Such investments would not only add to the global food supply, thereby helping to control prices, but also improve livelihoods in rural areas.

China and India have taken the lead among developing countries in investing in agriculture. In 2007 India announced a new National Agricultural Development Plan,

through which it will spend US\$6.1 billion in the next four years. The country is also increasing spending on irrigation by about 80 percent in 2008–09. Under India's National Food Security Mission, it plans to raise production of rice to 10 million metric tons, wheat to 8 million tons, and pulses to 2 million tons by 2011–12. Likewise, China increased its budgetary spending on agriculture by 20 percent in 2008. In their 1999 Maputo Declaration, African governments committed themselves to spending 10 percent of their budgets on agriculture, but to date only four countries—Chad, Guinea, Madagascar, and Mali—have reached this target.

Ultimately, building the kind of food system that would support the achievement of Millennium Development Goal 1—halving hunger and poverty by 2015—will require much more investment in agriculture worldwide. IFPRI researchers estimate that the incremental public investment in agriculture in Sub-Saharan Africa needed to halve poverty and hunger is between US\$4 and US\$5 billion a year.

Biofuel Policies

IFPRI research shows that biofuel production accounted for about 30 percent of the price increase in average grain prices between 2000 and 2007. New biofuel policies must therefore be part of the solution to the food price crisis. Biofuel production based on cereals and oilseeds, especially in Europe and the United States, should be reduced, or at least frozen, to make more grains and oilseeds available as food and feed. According to IFPRI research, a moratorium on grain-based biofuels could lower maize prices by about 20 percent and, in turn, reduce wheat prices by about 10 percent.

So far, however, none of these options has been adopted. In its 2008 farm bill, the United States Congress maintained subsidies

for maize-based biofuels while increasing investment in second-generation biofuels that do not compete with food. In its climate change policy package, the European Union sets a target of meeting 10 percent of transportation fuel needs with biofuels by 2020. In time, ethical consideration for the consequences of biofuel policies on the poor need to come to the fore and become an element in the rationale for changing such policies.

Biofuel production that does not depend on food crops could help reduce pressure on the food supply. Sugar-cane based biofuels do not, in many instances, compete much with food for the poor. Investments in biofuels produced from cellulose, biomass, and other nonfood feedstocks are rising, but most experts believe that widespread commercial viability of these second-generation technologies is still a decade or more away.

Market Calming

The existence of adequate public grain stocks that could be released during food emergencies would help moderate price increases and reduce volatility by smoothing supply. Some countries, including Cambodia and Thailand, have released rice stocks during the current crisis, but such action has not materialized on a global scale. Global wheat stocks are at their lowest level since 1978, and the USDA has forecast that at the end of 2008–09 global maize stocks will be at their lowest level since 1996 and global soybean stocks will have declined by 22.2 percent from the previous year. Although tight markets make it difficult to boost global stocks immediately, some individual countries have started taking steps to build up their grain reserves. India, for instance, has decided to establish a strategic grain reserve consisting of 3 million metric tons of wheat and 2 million tons of rice, over

and above its buffer stocks, and that level seems to have been exceeded already in 2008.

Stronger food import financing and reliable food aid could also help calm markets. The International Monetary Fund could create a mechanism to finance imports by countries facing food emergencies. The Food Aid Convention should be renegotiated to bring about more reliable food aid, and food aid commitments should be increased.

Excessive build up of stocks and speculation has also fueled price increases, although the extent of this activity is unclear. Food processors, for example, normally speculate to hedge against the risk of price increases or decreases as a normal part of their business practices. Governments therefore should avoid overregulating speculation but should take steps to curb excessive speculation. IFPRI has proposed a global virtual food commodity reserve system in which the Group of Eight + Five countries, perhaps together with five or so additional main grain exporting countries, would commit to virtually earmarking some stocks for intervention in markets and to providing funds to intervene in futures

markets in the event of excessive speculation that pushes food prices well above the level indicated by market fundamentals.

CONCLUSION

Part of the difficulty in responding to the food crisis is the lack of credible and up-to-date data on the impacts of food prices on poor people and on the effects of policy responses. Such information would allow international and national decision makers to use feedback to adjust their responses and achieve maximum effectiveness. Much more investment and sound coordination is needed in this area.

So far, national and international responses to the food crisis are mixed in terms of their likely effectiveness. Important steps have been taken with regard to emergency humanitarian assistance and, in some countries, social protection, but more is needed. Some countries and institutions are launching substantial investments in agricultural production, but, again, meeting global demand for food will require even

Responses by the Private Sector

Speculative capital continues to flow into commodities markets. At the Chicago Board of Trade, the average daily volume of grain and oilseed futures traded increased by 19 percent between the first half of 2007 and the first half of 2008, while the volume of options increased by 34 percent in the same period. As commodity speculation has widened the gap between cash and futures prices of agricultural commodities, some governments have responded with increased regulation, while others have halted grain futures trading on some African and Asian commodity exchanges.

Private-sector players along the whole food-value chain have a key role to play in stabilizing food prices and in the recovery from the crisis by offering technological advances for improving agricultural productivity, providing infrastructure, and innovating in the spheres of agricultural insurance and small farm credit.



greater investments. And, in the areas of trade and biofuel policies, many of the actions taken are counterproductive and actually put more upward pressure on food prices. It is promising that the issue of global food security is now on the agenda of the Group of Eight countries, but disappointing that at their July 2008 meeting they did not do more to promote social protection, revise biofuel policies, make specific commitments for funds to overcome the food crisis, or delineate the actors and mechanisms that would play roles in strengthening the global governance architecture for food and agriculture. It is crucial that the funds already committed by the G8 countries be released in a timely manner.

What will it take to get food crisis responses on the right track? First of all, leadership is needed to coordinate implementation of appropriate responses. This effort could be led by the UN, as a follow up to the Group of Eight + Five countries' activities, and by major groups of developing-country players.

At the moment, high and unstable food prices look like they are here to stay for some time—perhaps years. But because no one

actually knows what the future holds, it is important that responses to this crisis help build the kind of food and agriculture system that can cope with a variety of possible outcomes, ranging from even higher food and energy prices to a possible short-term glut of low-priced food emerging from the current high-price environment and a world in which demand collapses due to recession. Millions of poor people would benefit from a system that would allow policymakers and others to respond calmly and rationally to eventualities like these instead of lurching from crisis to crisis. Building such a system will require collective action on an international scale. Given the strong links that tie so many countries to each other and to the world market, each country's actions inevitably have implications for others, so areas of common interest must be identified and trade-offs made. Moreover, these changes need to be made now, for the benefit of all people today and in the future.

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