

**Facing Up to the Food Crisis:
Governance Challenges for International Cooperation on Food and Agriculture
Jennifer Clapp
CIGI Chair in International Governance and Professor,
Faculty of Environmental Studies, University of Waterloo**

The food crisis of 2008 came upon us suddenly with rapid and steep price rises that pushed hundreds of millions into poverty and food insecurity. Civil unrest, interrupted economic growth, poverty and malnutrition are all consequences of the crisis. Although world food prices have risen sharply over a relatively short period of time, the crisis highlights ongoing problems in the global food and agriculture system.

Existing governance structures for food and agriculture were established on an assumption of cheap and plentiful agricultural commodities and international agricultural trade rather than self-reliance. Experts now agree that the era of cheap food has come to an end. This new reality forces us to rethink the way we govern food and agriculture at the international level.

This short paper provides an overview of the key issues facing the governance of food and agriculture and provides recommendations for action and reform. Following a brief review of existing governance mechanisms and an overview of the immediate and underlying causes of the current crisis, the paper maps out areas where global action needs to be taken. These include action along four key dimensions:

- Improve food aid policies
- Strengthen developing country agricultural systems
- Address problems in global agricultural markets
- Revise biofuel policies

Existing Institutional Architecture for Food and Agriculture

The main global actors in the governance of food and agriculture were established to promote agricultural development, provide food assistance, and facilitate agricultural trade.

- Agricultural Development: The Food and Agriculture Organization (FAO) of the UN originated in the immediate post-war era with the aim of providing technical and research assistance for the improvement of agriculture and rural development. The World Bank also took on a growing role in providing agricultural assistance to developing countries from the 1960s onward.
- Food Aid: In the 1950s and 60s, many industrial country governments began bilateral programs to provide food aid, and the World Food Programme (WFP) was established in 1961 in response to growing needs for multilateral cooperation in food emergencies. The Food Aid Convention (FAC) was established in 1967 to establish minimum tonnage requirements for food aid from donors which could be channeled either bilaterally or via the WFP. The WFP currently delivers approximately 50% of the world's food aid, with bilateral donors making up the rest, of which the US is the largest donor (accounting for 58% of all

food aid last year). The FAC is currently under renegotiation pending the completion of the Doha Round of trade talks.

- Agricultural Trade: Initially exempt from the 1947 General Agreement on Tariffs and Trade (GATT), agriculture was brought under international trade rules with the 1994 Agreement on Agriculture (AoA) as part of the Uruguay Round, which also established the World Trade Organization (WTO). The aim of the AoA was to reduce the high levels of domestic farm subsidies in industrialized countries and also to improve market access for agricultural products. The agreement was immediately seen to be insufficient in meeting these aims, with particularly uneven consequences for developing countries. Launched in 2001, the Doha Round of WTO trade talks aims to rectify these imbalances, but have not yet been completed.

The current food crisis challenges us to look more closely at these governance mechanisms to evaluate their effectiveness in today's context. Their collective aim is to prevent the very kind of crisis we are now experiencing. What went wrong?

Triggers to the Current Crisis

Since 2006, food prices have risen on average by 80%, with a 54% increase in the past year alone. For certain commodities there were precipitous price spikes in a single day. Initial analysis of the crisis pinned the blame on 'market fundamentals' – i.e. supply and demand:

- stagnating production/adverse weather (supply)
- changing diets in India and China (demand)
- diversion of grains for biofuel production (demand)

It has since become increasingly clear that supply and demand alone cannot explain the full extent of the price rises. There are questions about whether production on a global scale is really stagnating, as food production per capita has been somewhat stable on a global scale. And increased demand from India and China represent longer term trends that could not cause price spikes. Diversion of grains for biofuels has been important, but even this has been a trend occurring for several years and cannot on its own explain the recent rapid price rises. It is now clear that other important factors have played a key role:

- higher agricultural production and transportation costs due to the meteoric rise in oil prices in the past year (costs)
- agricultural commodity speculation (market imperfections)
- agricultural export bans/trade restrictions (market manipulation)

Each of these additional factors relates to fluctuations in markets that may have nothing to do with basic functions of supply and demand for food. Many argue that rising oil prices are largely the product of commodity speculation, fuelled by financial instability that is linked to the credit crisis in the US. This speculation has spilled over into the agricultural futures markets, with large institutional investors moving in *en masse* to reap gains from higher prices, which pushes up prices even further. Finally, a number of developing countries vulnerable to higher prices have

restricted exports of food in order to keep prices lower at home, with the effect of reducing supply on global markets, sparking market panic and price spikes.

Underlying Problems

The more immediate triggers of the food crisis occurred overtop of an already problematic global food and agricultural system – a point which is widely recognized by experts. These long term problems are linked in complex ways:

- Highly unequal agricultural trade patterns over the past 30 years that harm agricultural incentives in the world's poorest countries.
- Declining agricultural productivity in the world's poorest countries combined with rising import dependence.
- A significant drop in both overseas development assistance to and domestic investment in agriculture in developing countries over the past 30 years.
- The industrial agricultural model has reached its limits of productivity and has been responsible for multiple negative environmental consequences.
- Increasing corporate concentration and control in the global food and agriculture system (commodity trade, processing and retail sectors) that disadvantage small scale farmers, particularly those in the developing world.

It is important to take account of these underlying problems in response to the current food price rises. Without addressing both the underlying and the immediate aspects of the global food crisis, vulnerability to food insecurity is likely to persist.

Governance Challenges and Recommended Responses

The global community recognizes that it must take action on the food crisis. In April 2008 the UN established a high-level task force on the crisis and response measures were discussed at the Rome FAO Food Summit in June and the G8 meetings in July. Because of the complexity of the crisis and the underlying problems that exacerbate the current situation, there are a number of dimensions along which action must be taken. Some reforms and actions have already begun, while others are still under discussion.

1. Improve Food Aid Policies

Rising food prices have resulted in not just a humanitarian crisis in which over 100 million people have been pushed into food insecurity (on top of the 850 million already chronically hungry), but also a broader security crisis due to political instability and civil unrest. Over 30 countries have already experienced protests and riots this year in response to food price rises.

- *Increase food aid with additional funds to WFP*

Recognizing that it is not a long-term solution to the food crisis, additional funds need to be directed toward short term food aid. Although the FAC seeks to provide minimum tonnages for

food aid each year, the agreement is woefully out of date and the minimum tonnage requirements for donors are far below appropriate levels.

By mid-2008, most major donors increased their food aid budgets in response to the food crisis, and a number had earmarked portions of their donations to the WFP, which had requested an additional \$755 million. Although the WFP was able to secure sufficient funding for 2008, thanks largely to a \$500 million cash donation from Saudi Arabia, asking for top-ups to donor food aid budgets in the face of rising food prices is not a sustainable way to address changes to food prices on an ongoing basis. The US for example must obtain congressional approval for each additional appropriation for food aid which can be a long and cumbersome process.

The World Bank estimates that the WFP alone, which currently spends around \$3 billion annually on food aid, will require a budget of \$6 billion per year on an ongoing basis. A renegotiated Food Aid Convention that locks in substantially higher funding requirements, with specific allocations to the WFP, could address this problem.

- ***Provide better food aid by untying aid, promoting local purchase policies, and increasing access for the most vulnerable***

Research shows that food aid which is tied to production in the donor country is highly inefficient resulting in high costs and long lags for aid to reach recipients. In many cases, food is available in developing countries, but high prices make it inaccessible to the poor. Local procurement of foodstuffs for food aid helps boost agricultural sectors in the South while enhancing food security for the poorest.

The WFP supports local purchase policies with its 'Purchase for Progress' program, and the EU, Canada, and Australia have all moved to untie their food aid. The US, however, continues with a policy of 100% tied food aid.

In order to ensure more timely and efficient food aid delivery in the most effective way, there should be serious consideration of requirements in a renegotiated FAC to untie all food aid, enabling donors to provide cash which can be used much more effectively to ensure food security for the most vulnerable.

2. Strengthen Developing Country Agricultural Systems

Many of the world's poorest countries were agricultural exporters in the 1960s but today are net food importers. The reasons for this are complex, and linked to the underlying problems in the food system mentioned above. These countries face extreme vulnerability to price rises on global grain markets. There is a wide recognition of the need to improve agricultural systems in the poorest countries to reduce this vulnerability.

- ***Substantially increase agricultural investment in the world's poorest countries***

Investment in agriculture in the world's poorest countries – by both developing country governments and foreign aid agencies - has declined markedly in the past 30 years. World Bank

lending for agriculture, for example, has declined from 30% of its overall lending in 1980 to 12% today, while the percentage of ODA earmarked for agriculture dropped from 18% to 3% in the past two decades. This drop in agricultural assistance is likely linked to historically low world food prices that led to a belief that self-provisioning was not as important as it had been in the past.

Recent rising food and fuel prices have increased the import bills of the world's poorest countries resulting in interrupted economic growth and a tightening of government expenditures. In this context, external assistance for agricultural development will need to increase dramatically. A number of initiatives have been recently announced:

- The World Bank will increase overall agricultural lending to \$6 billion over the next year, including a near doubling of agricultural lending to Africa and Latin America, and has established a \$1.2 billion rapid finance facility for those countries most affected by the crisis.
- The EU has pledged to allocate unused agricultural subsidies (totaling €1 billion) for agricultural assistance to developing countries, primarily directed to Africa.
- The US recently approved over \$600 million in aid for agricultural development assistance for 2009.

These initiatives are welcomed, though much more assistance is required. Critics have complained that these recent announcements still fall short of amounts of \$50 billion additional assistance promised at the 2005 Gleneagles G8 summit.

- ***Invest in the promotion of small scale sustainable agriculture***

Most of the focus of agricultural assistance since the food crisis erupted has been on providing improved seeds (including genetically modified seeds), fertilizer and other technological inputs to facilitate a 'new green revolution', particularly in Africa.

Given the known environmental consequences of the first green revolution and the fact that genetically modified seeds have not yet conclusively been demonstrated to consistently provide drought resistance or increased yields, donors should direct funds toward demonstrated sustainable farming methods.

The recommendations produced by the UN-sponsored International Assessment of Agricultural Knowledge, Science and Technology for Development (IAASTD), which released a report in Spring 2008 after 5 years of study involving over 400 scientists, calls for the promotion of small scale sustainable farming systems. These recommendations should be followed by donor governments.

- ***Promote greater self-reliance and food sovereignty***

There has been a widespread assumption in global food and agriculture governance institutions that integration into global food markets is the most efficient way to ensure food security in developing countries. The food crisis highlights some of the downsides of extensive reliance on

global food markets and has reinvigorated interest in the benefits of promoting greater food self-reliance in developing countries.

Major donors and lending agencies should support agricultural investment that promotes local, national and regional food sovereignty, which respects the rights of communities or nations to decide the extent to which they practice self-reliance vs. international trade for food provisioning. While restrictions on trade in food items in order to promote greater self-reliance may run counter to current efforts to liberalize agricultural trade under the WTO (as discussed below), such moves may be necessary to provide a more secure food safety net for the world's poorest countries.

3. Address Problems in Global Agricultural Markets

If responses to the food crisis are to be effective and sustainable, they must go beyond agricultural sector investment to address the key underlying structural and market factors that are partly responsible for declining agricultural productivity and rapidly rising prices.

- ***Rectify inequities in agricultural trade rules***

Very high levels of agricultural subsidies (over \$300 billion per year) and restricted market access for products exported by developing countries characterize agricultural trade policy in the North. Most developing countries, especially the world's poorest countries, do not have resources to provide subsidies to their own farm sectors and have already liberalized their trade policies under programs of structural adjustment in the 1980s and 90s. This highly uneven playing field has been identified by many analysts as a key cause of reduced incentives for agricultural production in developing countries in the past two decades.

Many are now calling for a swift completion of the Doha Round as a way to alleviate the food crisis. It is important to ensure that any trade deal adequately addresses these North-South equity concerns on the agricultural front, especially for the developing countries. Striking a Doha deal that does not adequately redress the basic inequities could be more damaging to the South's agricultural sectors than not reaching a deal at all.

- ***Consider global rules for agricultural export restrictions***

Some 26 countries have put export restrictions in place in a bid to lower domestic food prices as international prices rose. This is now widely seen to have played a role in sparking further price spikes on global markets. Countries that have put export restrictions in place have noted that they are one of the few tools available to them to minimize the impact of higher prices domestically and promote greater food self-reliance. WTO rules aim to reduce restrictions on imports, but do not prohibit restrictions on exports.

Whether the goals of greater food self-reliance and unrestricted exports of food are compatible is as yet far from clear. Further research needs to be undertaken by independent research organizations such as the International Food Policy Research Institute (IFPRI) and the Institute for Agriculture and Trade Policy (IATP) to establish the extent to which these trade restrictions

have contributed to the price rises. This research should probe the question of which kinds of trade restrictions are legitimate measures to promote food self-reliance and sovereignty, and which are likely to exacerbate the global food price situation. Discussion also needs to occur at the WTO and in other international fora regarding the potential for the establishment of global rules regarding legitimate and non-legitimate uses of agricultural export restrictions.

- ***Regulate to reduce agricultural commodity speculation***

Agricultural commodity speculation is increasingly being acknowledged as a key factor in triggering the food price rises. As financial instability set in over the past year, all commodities, including oil and food, have seen huge influxes of investment funds' speculative money. Relaxed rules on commodity trading over the past decade have enabled large shifts to occur.

Rules need to be put in place to regulate agricultural commodity markets to protect against sharp price rises that have nothing to do with market fundamentals. The global community should consider an international agreement or a common set of guidelines to regulate and dampen the amount of speculation in agricultural futures markets. Measures could include a cap on amounts investors can put into agricultural futures markets or a tax on food commodity futures trading along the lines of the Tobin tax idea, with revenues directed to the FAO.

- ***Consider a globally coordinated grain reserve management system***

The world's grain stocks have fallen to relatively low levels compared to the global rate of use of grains. The declining 'stock to use' ratio has played a role in triggering speculative investment in the sector. There are a number of reasons for the decline in stocks, including a long period of low food prices prior to 2006, high costs for storage and just-in-time processing, which do not necessarily indicate a drop in global food production.

There are several proposals on the table for a globally coordinated system of grain reserves that the G8 is currently considering. Global coordination of grain stocks could provide stability in emergencies and a virtual reserve (consisting of funds) could be used to stabilize grain prices through agricultural commodity market intervention.

The idea of a globally coordinated system of grain reserves, as proposed by IFPRI and endorsed in principle by the G8, warrants further study to choose appropriate mechanisms for its coordination. It is important that such stocks are not controlled only by G8 countries to ensure that countries most affected by price rises also play a role in its deployment.

- ***Reduce corporate concentration***

A small handful of corporations dominate the markets for nearly every aspect of the global food system, from seeds to commodity trade to processing and retailing. Corporate concentration in the global food system has become more pronounced in recent decades, resulting in efficiency losses rather than gains in the sector.

The top grain companies are reaping enormous profits from global food price rises, in part because of their participation in agricultural commodity speculation. At the retail end of the spectrum, privately set quality standards established by retailers have created a situation where it is difficult for small scale farmers in developing countries to sell their products in the retail market, further reducing incentives for increased production in developing countries.

Thus far there has been little discussion in global institutions such as the UN, WTO or the G8 on the impacts of corporate concentration in the food system and the ways in which it may exacerbate the food crisis. These issues should move onto the global agenda and discussion should take place in global fora on potential global anti-trust rules for the food and agriculture sector.

4. Revise Biofuel Policies

Industrialized country biofuel policies have been identified as a significant contributor to the food price rises by increasing demand for grains and removing them from the food supply. Revising these policies could go some way to relieving pressure on food prices.

- *End subsidies for food crop-based biofuel production and remove tariffs on imports of non-food crop biofuels*

The production of biofuels in the industrialized countries has been largely based on grains and oilseeds. Policies that subsidize biofuel production and restrict imports of non-food based biofuels have been implemented in recent years across the industrialized world as part of a strategy to reduce dependence on foreign energy sources and combat climate change by reducing fossil fuel use.

Given the clear links identified between price rises for basic grains and biofuel promotion through these policies, it is imperative that industrialized countries take steps to end the production of food crop-based biofuels. A minimal first step would be to remove subsidies for grain and oilseed based biofuels. Tariffs should also be removed on imports of certain non-food biofuels (such as those based on sugarcane) which have higher energy-to-use efficiencies.

- *Adopt global guidelines on biofuels*

In order to effectively coordinate biofuel production and use and minimize their environmental and food security impacts, a global set of guidelines for sustainable biofuels should be adopted. This could involve a certification scheme for biofuels that are the most environmentally benign and have the least impact on food security.