

AVERTING TOMORROW'S GLOBAL FOOD CRISIS

THE EUROPEAN UNION'S ROLE IN DELIVERING FOOD JUSTICE IN A RESOURCE-CONSTRAINED WORLD

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Planting on a *camellone* in Loma Suarez, Bolivia. © Mark Chilvers / Oxfam

Global food prices will more than double within 20 years as a new age of crisis forces the collapse of our global food system. These price rises will push millions into poverty in a world where, already, one in seven goes hungry. As the world's largest economy, the world's biggest aid donor, and an aspiring leader in the fight against climate change, the European Union has an important role to play in delivering food justice in a resource constrained world. This Oxfam Briefing Note sets out the steps the EU must take to meet this unprecedented challenge. It is published at the outset of GROW, Oxfam's new global campaign, aiming to transform the way we grow, share, and live together so that all of us have enough to eat, always.

INTRODUCTION

Why, in a world that produces more than enough food to feed everybody, do so many – one in seven – go hungry?

Oxfam's new global campaign, GROW, seeks answers to this question. GROW aims to transform the way we grow, share, and live together. GROW will expose the failing governments and powerful business interests that are propping up a broken food system and sleepwalking the world into an unprecedented and avoidable reversal in human development.

The warning signs are clear. We have entered an age of crisis: of food price spikes and oil price hikes; of scrambles for land and water; of creeping, insidious climate change. The 2008 spike in food prices pushed some 100 million people into poverty. Price rises since June 2010 have done the same to 44 million more – equivalent to almost the entire population of Spain. Behind these shocking statistics lie millions of tragic individual stories of suffering as families struggle to cope with spiralling food prices, fall into debt and are left with no money to send their children to school or treat them when they get sick. These crises are spikes – often deadly – on a longer term trend of surging food instability. New research commissioned by Oxfam and published in ***Growing a Better Future: Food justice in a resource-constrained world***¹ projects that global food prices will more than double within 20 years. Today we face unprecedented challenges.

The European Union (EU) was one of the first global players to respond to the 2008 food crisis, stepping up its emergency food aid as well as launching a €1bn *Food Facility* to help developing countries get their agricultural sectors back on their feet. However, the much promising *EU policy framework to assist developing countries in addressing food security challenges* is still to be implemented and other EU policies continue to fuel food price volatility. Unregulated European financial markets reward investors speculating on food prices with soaring returns. The EU's flawed biofuels policy has already fuelled waves of evictions and landgrabs in developing countries and diverts food from mouths to petrol tanks. Meanwhile, the EU is dragging its feet in international negotiations to tackle climate change - the greatest challenge of all to global food security. In the end the structural power imbalances that contaminate the global food system have been left untouched by the EU.

As the world's largest economy, the world's biggest aid donor, and an aspiring leader in the fight against climate change, the EU has an important role to play in delivering food justice and building a new prosperity in a resource-constrained world. This role should be played both at home and in key global fora such as the G20, the Committee on World Food Security (CFS) or the United Nations Framework Convention on Climate Change (UNFCCC). Major debates are now taking place within the EU that will reshape the future of its agricultural,

trade, and development policies, and define its new Multiannual Financial Framework.

At the outset of the GROW campaign, Oxfam calls on the EU to make global food security a priority across the board. To prove the world it means business Oxfam believes it should take the following steps without delay:

- tackle speculation on agricultural commodities to put a stop to spiralling food prices;
- put an end to the biofuels mandates and subsidies that fuel food price volatility and land grabs in developing countries;
- invest in small scale food producers in developing countries;
- lead in the fight against climate change and its impacts on global food production.

2

STOP SPIRALLING FOOD PRICES

Barclays Capital, Europe's most important player in the agricultural commodity derivative market, could have earned as much as €406m in 2010 from food speculation.

Regulate the European financial markets

Governments have abdicated their responsibility to regulate how food is grown, traded, and marketed worldwide. Instead, a few powerful and secretive agribusiness firms and investors are profiting while millions of farmers, agricultural workers, and consumers suffer in hunger and grinding poverty. Crops and land have become another asset class for investors to gamble on.

Poor families in developing countries spend up to three-quarters of their income on food, making them extremely vulnerable to sudden price changes. Women and children often feel the first impacts when families need to cut back on food, struggle to pay for health and education, and have to take on debt to get by.² But volatile food prices present big opportunities for speculators. For example, it is estimated that Barclays Capital, Europe's most important player in the agricultural commodity derivative market, could have earned as much as €406m (£340m)* in 2010 from food speculation.³ Holdings in commodity index funds, the main vehicle for financial investments in agricultural commodities, rocketed from €11bn (\$13bn) in 2003 to €204bn (\$317bn) in 2008.⁴

This year, food producers and processors, who have traditionally used derivatives to hedge risks and secure stable prices, are again outnumbered on the commodity derivatives markets by investors and speculators.⁵ To prevent future crises, governments must manage the food system better by regulating volatile commodity markets.

The European agricultural commodity derivatives markets are expected to grow significantly in the coming years as the EU's agricultural policy becomes more market-oriented. Yet derivatives markets in the EU remain less regulated than in the United States. Recently, the European Commission (hereafter 'the Commission') tabled new proposals to improve the regulation of derivatives markets. Its first legislative proposal - the Markets Infrastructure Regulation (EMIR) targeting risky derivatives traded outside regulated exchanges (so-called OTC or 'Over-The-Counter' derivatives) - is disappointing. Despite promises by the Commission to tackle food speculation, strong lobbying from the financial sector weakened the text substantially. It is now up to the European Parliament and the European Council to improve it.

Other important pieces of draft regulation are expected in the coming months. Amongst those, it is most important that the review of the Markets in Financial Instruments Directive (MiFID) should effectively regulate agricultural commodity futures exchanges and other trading platforms.⁶

Oxfam believes the European Union has the opportunity to set a global example and drive the G20 agenda by changing the rules of the game on its financial markets to avoid excessive speculation on agricultural commodities. To this end, the new EU regulatory framework must:

- increase transparency by mandating transaction reporting for all commodity derivatives, in as close to real time as is technically possible, by categorising traders by type of regulated entity and by trading activity, by requiring that trading of all sufficiently liquid derivatives take place on exchanges and that all OTC contracts be registered, by requesting publication of reports on a weekly basis;
- prevent excessive speculation and market abuse through aggregated position limits for all types of derivative contracts and participants, time-bound intra-day price limits and restrictions on passive speculation. These measures should be evaluated periodically to ensure they do not undermine the risk management function of futures markets.

3

FOOD FIRST

To cover Europe's needs alone, the EU biofuels target would require converting up to 69,000 km² of natural ecosystems into cropland, an area larger than Belgium and the Netherlands combined.

Reform the flawed European biofuels policy

Achieving a 10 per cent biofuels share in transport fuel globally by 2020 could put an extra 140 million people at risk of hunger, with the poor urban population, subsistence farmers and the landless in developing countries particularly at risk.⁷ To cover Europe's needs alone, this target would require converting up to 69,000 km² of natural ecosystems into cropland, an area larger than Belgium and the Netherlands combined. In the process, up to 56 million tonnes of CO₂ would be released in the atmosphere every year - the equivalent of putting as many as 26 million additional cars on Europe's roads by 2020.⁸

The EU's Renewable Energy Directive (RED) adopted in 2009 sets a 10 per cent target for renewable energy in transport by 2020.⁹ This target, which according to the plans submitted by EU Member States will be met almost exclusively through first-generation biofuels produced from food crops,¹⁰ is already fuelling a wave of evictions and landgrabs in developing countries.¹¹ Women are often the first victims as they often do not have legal titles to the land they farm - land that is often identified by governments and investors as 'available' for biofuel production.¹² It is also increasing food price volatility by creating a major source of new demand for food commodities and facilitating price contagion between energy markets and food markets.¹³

At a cost of several billion Euros a year to European taxpayers,¹⁴ a policy with such nightmarish consequences should give European policy makers sleepless nights. Yet the Commission continues to consider biofuels an essential part of its renewable energy policy, using sustainability criteria as a sticking plaster for a fundamentally flawed policy. The concerns raised by a seemingly endless flow of research reports seem unable to prevent the Commission from sleep-walking towards disaster.

Oxfam believes it is high time for leaders in the EU Member States and the European Parliament to call on the Commission to go back to the drawing board and reform its flawed biofuels policy by:

- taking immediate remedial action and introducing new legislation to scrap the 10 per cent target for renewable energy in transport;
- ensuring the full impact of biofuels on the environment is taken into account by adopting high indirect land use change (ILUC) factors in the calculation of the greenhouse gas emission savings of each type of biofuels;
- introducing strict sustainability criteria in relation to food security, access to land and water, human rights, and right to free prior and informed consent of local communities in developing countries.¹⁵

4

INVEST IN FOOD SECURITY

Ensure effective European support to small-scale food producers

All European aid to agriculture in developing countries in 2009 (€1.45bn) was 16 times less than the 2009 net sales of Louis Dreyfus – Europe’s largest agricultural trader (€24bn).¹⁶

Hunger and poverty are most concentrated in rural areas within developing countries. Investing in the 500 million small-scale food producers - who feed nearly two billion people - represents the single biggest opportunity to increase food production, boost food security, and reduce vulnerability. Years of disastrous neglect of developing country farming has led to many smallholders only producing the bare minimum, or less, for their families. This finally appears to be changing as there are signs of renewed investment in agriculture by (some) aid donors and national governments.¹⁷ However, not all donors are sticking to their commitments. Not just more, but better aid to sustainable small scale agriculture, particularly to women small holders, is required.

In recent years, Europe has taken action to strengthen food security by investing in agriculture. During the food price crisis of 2008, the EU set up the €1bn Food Facility, injecting funds into the agricultural systems of a number of key ‘food insecure’ countries. In 2010, it put forward a new policy framework on food security¹⁸ focusing on ecological smallholder agriculture and national and regional development plans, while giving political and financial support to the United Nation’s Committee on World Food Security (CFS).

Big upcoming debates on the future of EU development policy risk rolling back the progress that has been made in recent years.¹⁹ The Commission’s increased focus on growth will only benefit the poor if it is matched by an equal investment in sustainability and inclusiveness. The Commission appears to support a boost in the blending of loans with grants, and envisages a growing role for the European Investment Bank. This approach carries the risk that less profitable activities and poor small-scale producers, which are harder to reach, will not receive the investment needed to support poverty reduction.

The European Union must make the right choices now. Its vision for agricultural development must be one in which food security and support for sustainable small-scale agriculture are central, rather than the commercial interests of its own private sector. Oxfam calls on the EU to:

- agree on an ambitious and measurable plan of action derived from the EU Food Security Policy Framework, outlining specific steps to increase smallholder resilience, particularly of women, and to foster the participation of civil society in decision-making and program implementation;

- make support to sustainable small-scale agriculture, with a strong focus on women farmers, an essential feature of its future development policy. New mechanisms to blend grants with loans should not lead to decreasing support to small-scale producers, reduced focus on poverty eradication or even become a backhanded way to support European business at the expense of pro-poor development policies. The upcoming Multiannual Financial Framework (2013-2020) should reflect this priority;
- actively promote and resource the Committee on World Food Security to enable it to deliver on its global food governance role tackling hunger and malnutrition, while calling on global actors to do the same.

5

TAKE CLIMATE CHANGE THREAT TO FOOD SECURITY SERIOUSLY

Research suggests climate change will increase the price of maize on the world market by 86% by 2030 and added to other pressures, will lead to the doubling of food price rises by 2030.

Seize leadership on climate

Climate change poses a grave threat to global food security, adding further stress to an already creaking global food system. Research commissioned for the GROW campaign suggests climate change will increase the price of maize by 86% on the world market by 2030, and added to other pressures will lead to the doubling of food price rises by 2030.²⁰ Just when more food is needed to feed a growing world population, climate change will put a brake on yield improvements. Meanwhile, an increase in the frequency and severity of extreme weather events threatens further devastation for harvests. Already, slow onset changes in growing seasons are making it harder for poor farmers to know when best to sow, cultivate, and harvest their crops.²¹

A fair, ambitious, and binding global climate deal is essential to building a food secure world. We have only a short time in which to act before it is too late to stop food prices spiralling out of control. When pushing out ahead of others, the EU can make a difference, as it did when the EU set the target to keep global warming below 2°C well in advance of the rest of the world, and in the positions it took on the scale of long-term climate finance and concept of “Fast Start Finance” before the Copenhagen climate summit. Recently, however, Europe’s ambition has been systematically held back by pressure from Member States (such as Poland and Italy) and lobbying from dirty EU industries. As a result, the EU’s influence on global negotiations has decreased and its transition to a low-carbon economy has slowed down.

To reclaim leadership, the EU must push forward on the emission reductions it has long promised, and move quickly on committing its share of the money pledged to support poor countries to adapt to climate change and curb their emissions. Oxfam calls on the EU to:

- unilaterally and unconditionally raise its 2020 domestic greenhouse gas emissions reduction target from 20% to 30% below 1990 levels, as the first step towards the deeper cuts needed to avert climate catastrophe;
- fulfil its commitment to pay its fair share of the \$100bn a year pledged by developed countries at the UN climate summit in Cancun in 2010. The money should come from budgetary contributions – including the use of EU Emissions Trading Scheme auction revenues. The EU must put forward a plan outlining interim financial targets from 2013-2020;

- earmark half of its financial contribution for climate adaptation and ensure support to small-scale sustainable agriculture, particularly of women, is adequately addressed in the governance of climate finance flows;
- adopt an EU-wide financial transactions tax (FTT) and push for a global FTT and for measures to raise cash from international transport within the G20, the International Maritime Organisation, the International Civil Aviation Authority, and the UNFCCC;
- set a global example by ensuring that its climate finance reporting under the UNFCCC is fully transparent, comes in addition to existing Official Development Aid (ODA) commitments, excludes finance derived from carbon offsetting, and only includes grants, not loans for adaptation.

NOTES

- ¹ R. Bailey (2011) 'Growing a Better Future: Food justice in a resource-constrained world', Oxford: Oxfam, see www.oxfam.org/grow
- ² N. Hossain and R. Eyben et al. (2009) 'Accounts of Crisis: Poor People's Experiences of the Food, Fuel and Financial Crises in Five Countries', Brighton: Institute of Development Studies.
- ³ B. Scott (2011) 'Barclays PLC and Agricultural Commodities Derivatives', London: World Development Movement.
- ⁴ F. Kaufman (2010) 'The food bubble: how Wall Street starved millions and got away with it', *Harper's Magazine*, July, p. 32.
- ⁵ See for instance: the Letter on Position Limits for Derivatives, addressed by Mr. Kelleher, President and CEO of Better Markets Inc., to Mr. David A. Stawick, Secretary of the Commodity Futures Trading Commission, dated of 28 March 2011. D. Kelleher (2011) 'Position Limits for Derivatives', Washington: Better Markets Inc.
- ⁶ Other upcoming new regulations include the review of the Market Abuse Directive (MAD), the review of the Directive on Undertakings for Collective Investment in Transferable Securities (UCITS) regulating commodity index funds and the review of the Capital Requirement Directive (CRD 4).
- ⁷ International Institute for Applied Systems Analysis (IIASA) (2009) 'Biofuels and Food Security: Implications of an accelerated biofuels production', Vienna: The OPEC Fund for International Development (OFID).
- ⁸ Action Aid et al. (2010) 'Driving to destruction: The impacts of Europe's biofuel plans on carbon emissions and land', Brussels: Action Aid et al.
- ⁹ Directive 2009/28/EC of the European Parliament and of the Council of 23 April 2009 on the promotion of the use of energy from renewable sources, amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC, JO (2009) L140/16.
- ¹⁰ Based on an analysis of the National Renewable Energy Action Plans of 23 Member States, by 2020 biofuels would provide 9.5 per cent of total energy in transport and 92 per cent of these fuels will come from crops such as oilseeds, palm oil, sugar cane, sugar beat and wheat. Action Aid et al. (2010) 'Driving to destruction: The impacts of Europe's biofuel plans on carbon emissions and land', Brussels: Action Aid et al.
- ¹¹ Action Aid (2011) 'Fuelling Evictions – Community Cost of EU Biofuels Boom – Dakatcha Woodlands, Kenya' Brussels: Action Aid.
- ¹² R. Bailey, *op. cit.* pp. 28-29.
- ¹³ *Ibid.* pp. 33 & 35.
- ¹⁴ In 2008, total transfers in support of biofuels associated with policies of the EU and the Member States amounted to €3.01bn according to a study by the Global Subsidies Initiative. A. Jung, P. Doerrenberg, A. Rauch, and M. Thoene (2010) 'Biofuels – At what cost? Government support for ethanol and biodiesel in the European Union – 2010 Update', Geneva: Global Subsidies Initiatives.
- ¹⁵ Renewable Energy Directive requires the European Commission to report every two years on the impact of EU biofuel policy on food prices, land rights, and compliance with International Labour Organisation conventions in developing countries. The Commission is to submit its first report in 2012 and "if appropriate, propose corrective action, in particular if evidence shows that biofuel production has a significant impact on food prices." Art. 17(7), Directive 2009/28/EC, *op. cit.*
- ¹⁶ European aid to agriculture calculated from OECD Development Aid Activities 'ODA Agriculture' OECD Development database, <http://stats.oecd.org/Index.aspx?DataSetCode=CRSNEW> (last accessed May 2011) using data for the European Commission and the EU-15 (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom). LD Commodities net sales figure from: LD Commodities – 'About Us – Key figures', <http://www.ldcommodities.com/-About-us-.html> (last assessed May 2011).
- ¹⁷ ODA to agriculture may be increasing, but overall it is still under seven per cent of all aid, from a high of 20.3 per cent in 1983 and an all time low of 3.7 per cent in 2006 (includes forestry and fishing). Calculated from: OECD DAC5 'Official Bilateral Commitments by Sector' OECD DAC5 database, <http://stats.oecd.org/Index.aspx?DatasetCode=TABLE5> (last accessed May 2011).
- ¹⁸ COM(2010)127 'An EU policy framework to assist developing countries in addressing food security challenges'.
- ¹⁹ These discussions take place in the context of the upcoming Communication on the Future of European Development Policy (autumn 2011).
- ²⁰ R. Bailey, *op. cit.* p. 9.
- ²¹ S. Jennings and J. Magrath (2009) 'What Happened to the Seasons?', Oxford: Oxfam GB.
- * Where currencies have been converted into Euros, the historical rate for 1st June of the respective year has been used using data provided by XE (xe.com). The source figure in original currency is displayed afterwards between parentheses.

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