



# Rising Food Prices

## Drivers and Implications for Development

Alex Evans, Centre on International Cooperation, New York University

Chatham House Food Supply Project | April 2008 | CH BP 08/02

### Summary points

- Global food prices have risen 83 per cent over the last three years. The increases have been driven by high income growth in emerging economies (probably the single most significant factor), use of crops for biofuels, the relative inelasticity of supply, historically low stock levels and some speculative investment.
- More recently, national concerns over inflation and prices have led some countries to reduce exports and others to try to build up stocks – creating a feedback loop that feeds on itself to drive prices up still further. In the medium to longer term, ‘scarcity trends’ – climate change, the cost of energy inputs, scarcity of land and water – could limit the supply-side response.
- In the immediate term, the priority is to increase both the volume and the quality of humanitarian assistance available to poor people, including by moving away from in-kind food aid and towards cash transfers or voucher systems – although it is important to be clear that there are outstanding questions about how these social protection systems will work, and they should not be seen as a panacea. The issue of compensatory financing may also arise for some countries facing balance-of-payments difficulties.
- In the longer term, the key challenge is to increase the supply of food: the World Bank estimates that demand for food will rise by 50 per cent by 2030, as a result of rising affluence and growing world population. Achieving this challenge will require something close to a revolution, and a massive investment in agriculture in developing countries.
- If supply fails to keep pace with rising demand, then the question of ‘fair shares’ is likely to emerge as a significant global issue. Already, the effect of a burgeoning global middle class switching to diets with more meat and dairy products – both relatively inefficient in terms of grain use – has been to reduce the affordability of staple foods for poorer consumers.

## Introduction

Food prices are rising fast. In 2006, the FAO food price index rose by an average of 9 per cent compared with the previous year. By 2007, that figure had increased to 23 per cent – 37 per cent if December 2007 is compared with December 2006.<sup>1</sup> Over the last three years, according to the World Bank, global food prices have increased by 83 per cent.<sup>2</sup> While high price events are not unusual in agricultural markets – even if food prices stabilize at 25 per cent above their 2001 level, this would still only bring them to early 1990s levels – the unusual feature of the current situation is that the price spike applies to almost all major food and feed commodities, rather than just a few of them.<sup>3</sup>

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The move to current price levels has also been unusually sudden. As recently as 2005, the Outcome Document from the UN World Summit noted the need to ‘address the impact of weak and volatile commodity prices and support the efforts of commodity-dependent countries to restructure, diversify and strengthen the competitiveness of their commodity sectors’.<sup>4</sup> Less than three years later, corn is at around its highest level in 11 years,<sup>5</sup> rice and soya are at their highest level in 34 years,<sup>6</sup> and wheat – like crude oil and gold – has recently touched its highest level ever.<sup>7</sup>

This briefing paper focuses on what this important change means for international development. It starts by assessing the drivers of rising prices, noting that while in the short term the pressure is on the demand side, a suite of ‘scarcity issues’ – climate change, water scarcity, energy security, pressure on land – will increasingly affect the supply side over the longer term. The paper then discusses the implications of higher prices for developing countries, before setting out a brief survey of implications for development policy, focusing in particular on humanitarian assistance, but also touching on increasing supply, helping low-income countries to benefit from rising prices, scarcity issues, trade and the question of fair shares.

## Drivers of increasing prices

At present, the main drivers of increasing prices are on the demand side. Historically, demand growth for food has been about 1.5 per cent each year; now, however, it has risen to 2 per cent, and Goldman Sachs estimate that it will be as high as 2.6 per cent within a decade.<sup>8</sup> The World Bank estimates that food production will need to grow by another 50 per cent by 2030 (and 85 per cent for meat) to fulfil projected demand.<sup>9</sup>

A particularly important part of the picture has been rapidly rising income growth, notably in emerging economies such as China and India. Joachim von Braun, Director General of the International Food Policy Research Institute (IFPRI), argues that high income growth accounts for perhaps half of the recent increases in food prices.<sup>10</sup> As middle classes grow more affluent, food consumption patterns change too – often

1. IFAD, ‘Growing demand on agriculture and rising prices of commodities – an opportunity for smallholders in low-income, agriculture-based countries?’, briefing note for Round Table at IFAD Governing Council, 14 February 2008.
2. Andrew Martin, ‘Fuel choices, food crises and finger-pointing’, *New York Times*, 15 April 2008.
3. Ibid.
4. UN World Summit 2005 Outcome Document: see <http://tinyurl.com/2vp8ol>.
5. Chris Flood, ‘Wheat and corn prices poised for further rises’, *Financial Times*, 11 January 2008.
6. Javier Blas, ‘Rising prices set to worsen global hunger’, *Financial Times*, 18 December 2007; Javier Blas, ‘UN pleads for \$500m to avoid food crisis’, *Financial Times*, 24 March 2008.
7. Javier Blas and Isabel Gorst, ‘Wheat prices in biggest one-day rise’, *Financial Times*, 25 February 2008.
8. Jeffrey Currie, ‘Food, Feed and Fuels: an outlook on the agriculture, livestock and biofuels markets’, Goldman Sachs presentation, March 2007: see <http://tinyurl.com/yqldjv>.
9. Jenny Wiggins and Javier Blas, ‘Bread and butter issues: rising prices may herald the first global food shortage since the 1970s’, *Financial Times*, 23 October 2007.
10. Julian Borger, ‘Feed the world? We are fighting a losing battle, UN admits’, *The Guardian*, 26 February 2008.

towards diets richer in meat and dairy products that are much more intensive in terms of both grain and water use.

The role of **biofuels** as a source of demand for grain has also been a significant element of recent food price rises (von Braun estimates 30 per cent of the picture).<sup>11</sup> The US already spends \$7 billion a year supporting ethanol.<sup>12</sup> This consumes 20 per cent of America's corn crop<sup>13</sup> – a figure likely to rise to 32 per cent by 2016.<sup>14</sup> Looking ahead, the EU has a target for 10 per cent of its transport fuel to come from biofuels by 2020, while the US has proposed a target of 36 billion gallons of renewable fuel by 2022.<sup>15</sup>

But there are also supply factors in play. In the shorter term, one issue is that food supply is quite **inelastic**, i.e. supply responds relatively slowly to increases in demand. IFPRI estimate that aggregate agricultural supply increases by only about 1–2 per cent for each 10 per cent increase in price – and by even less when (as now) prices are very volatile.<sup>16</sup> The problem of **reduced exports** from important food producers (such as India, Argentina and Kazakhstan) is also problematic, especially when matched by importing countries seeking to purchase larger than normal volumes of food in order to build up stockpiles. Another shorter-term supply-side issue is that some current price volatility is attributable to **speculative investors** seeking safety in commodity markets from the weak dollar and from falling equity and bond markets – although opinion is divided over how significant a factor this is.<sup>17</sup> There is also the factor of **low inventory**

**stocks**, which explains some of the current market volatility.

In the short term, food prices look set to ease somewhat, particularly if (as now seems likely) the northern hemisphere enjoys a good wheat crop.<sup>18</sup> But in the longer term, four more fundamental supply-side factors – which might collectively be termed 'scarcity issues' – are already starting to make themselves felt, and are likely to become more significant.

First, the costs of agricultural **inputs** – and especially **energy** – are rising. Today's global agricultural system is predicated on the availability of cheap, readily available energy, for use in every part of the value chain: both directly (e.g. cultivation, processing, refrigeration, shipping, distribution) and indirectly (e.g. manufacture of fertilizers, pesticides – the cost of urea, a fertilizer, has almost tripled since 2003).<sup>19</sup> But as noted earlier, oil prices are already at their highest ever level; many analysts expect them to stay relatively high over the medium to long term. In addition, since food can now be converted into fuel, there is effectively an arbitrage relationship between the two, implying an ongoing linkage between food and fuel prices.<sup>20</sup>

Second, **water scarcity** is likely to become a more pressing issue. Global demand for water has tripled in the last 50 years;<sup>21</sup> 500 million people live in countries chronically short of water, and this number is likely to rise to 4 billion by 2050.<sup>22</sup> A particular worry is depletion of limited groundwater resources, on which some parts of the world – including the US, Egypt, Pakistan,

11. Ibid.

12. International Institute for Sustainable Development: [www.iisd.org/pdf/2007/media\\_grain\\_journal.pdf](http://www.iisd.org/pdf/2007/media_grain_journal.pdf).

13. Reuters, 'Ethanol, biodiesel eats into US corn stockpiles', 15 May 2006, at <http://tinyurl.com/27cuk8>.

14. US Department of Agriculture estimate: see <http://tinyurl.com/yp4juw>.

15. Worldwatch Institute: see <http://tinyurl.com/ypdnrm>.

16. International Food Policy Research Institute food policy report, *The World Food Situation: New Driving Forces and Required Actions*, December 2007: see <http://www.ifpri.org/pubs/fpr/pr18.pdf>.

17. See, for example, Martin Wolf, 'Life in a tough world of high commodity prices', *Financial Times*, 4 March 2008.

18. Javier Blas and Krishna Guha, 'Commodities' prices fall as hedge funds cut exposure', *Financial Times*, 24 March 2008.

19. Lex column, 'Flying fertiliser', *Financial Times*, 10 April 2008.

20. Jeffrey Currie, interview with FT.com, 19 July 2007: see <http://tinyurl.com/24dmdp>.

21. Ashbindu Singh, *A Tale of Two Trends: providing information and knowledge for decision-making in water-scarce regions through water assessments*, UNEP: see <http://www.unwater.org/downloads/wwwSingh.pdf>.

22. Robin Clarke and Jannet King, *The Atlas of Water* (London: Earthscan, 2004).

India and China – have been enjoying a ‘free ride’ for the past two or three decades.<sup>23</sup>

Third, there is the issue of **land availability**. Some commodities analysts argue that whereas historical increases in demand have been met through increasing yields, in future an expansion of acreage will also be required.<sup>24</sup> However, this will be expensive, given the infrastructure investment involved; there may also be diminishing returns, since much of the best land is already under cultivation.<sup>25</sup> Above all, there is simply increasing competition for what land there is, including food, feed, fibre (e.g. timber, paper), fuel, forest conservation, carbon sequestration and urbanization, on top of high rates of soil loss to erosion and desertification. The FAO estimates that there is at most 12 per cent more land available that is not already forested or subject to erosion or desertification, and that 16 per cent of arable land is already degraded.<sup>26</sup>

The fourth, and perhaps most fundamental, factor is **climate change**. Overall, the International Panel on Climate Change (IPCC) projects that global food production could rise if local average temperatures increase by between 1 and 3 degrees Celsius, but could decrease above this range. Crucially, however, this is before extreme weather events are taken into account; and the IPCC judges that extreme weather, rather than temperature, is likely to make the biggest difference to food security.<sup>27</sup> Glacial melting will affect agriculture as well: the IPCC estimates, for example, that many Himalayan glaciers could disappear by 2035, with catastrophic results for Chinese and Indian agriculture during the dry season.<sup>28</sup> Its assessment is also that

‘climate change increases the number of people at risk of hunger’, and will lead to an increase of between 40 million and 170 million in the number of undernourished people.<sup>29</sup>

Many of these factors, on both the supply and the demand side, also apply to **fisheries and aquaculture**. Demand for fish and seafood is rising sharply, again largely because of increasing affluence. But while the FAO estimates that an additional 40 million tonnes of aquatic food a year will be needed by 2030, it also notes that catches of wild fish have remained roughly stable since the mid-1980s, at around 90 million tonnes a year, and forecasts that this figure is unlikely to rise substantially.<sup>30</sup> These underlying trends will place increasing emphasis on aquaculture, which last year accounted for 43 per cent of fish consumption (up from just 9 per cent in 1980).<sup>31</sup> However, future expansion of the sector will depend not only on increasing investment capital, but also on availability of land, fresh water and energy – which as noted above, are all already subject to stresses of their own.

All in all, the jury is still out on whether recent food price rises will be sustained or not. Many commentators, including the World Bank, estimate it will take ‘several years’ for supplies to increase to rebuild stocks and allow prices to fall.<sup>32</sup> However, over the longer term, structural factors – a population forecast to rise to 9.2 billion by 2050, rising affluence and the four ‘scarcity trends’ referred to above – suggest the possibility of a structural, rather than merely cyclical, shift. Models from both IFPRI and the US Department of Agriculture show that while food prices will not rise much more

23. Ibid.

24. Jeffrey Currie, ‘Food, Feed and Fuels’ (note 8 above).

25. Bidwells, *The bull run in soft commodities: commodity cycle or structural shift in food and farming?*, briefing note: <http://www.bidwells.co.uk/documents/SoftCommodities.pdf>.

26. Ibid.

27. IPCC, *Fourth Assessment Report, Working Group 2, Chapter 5: ‘Food, fibre and forest products’*, 2007, pp. 275 and 299.

28. Lester Brown, ‘Melting Mountain Glaciers Will Shrink Grain Harvests in China and India’, Earth Policy Institute briefing note, 20 March 2008.

29. IPCC, ‘Food, fibre and forest products’, p. 300.

30. The FAO’s last *State of World Aquaculture* report (2006) estimated that of the nearly 600 species groups it monitors, 52 per cent of wild fish stocks are fully exploited, 17 per cent over-exploited, 7 per cent depleted and 1 per cent recovering from depletion; 20 per cent are moderately exploited and only 3 per cent under-exploited.

31. FAO, ‘Nearly half of all fish eaten today farmed, not caught’, news release, 4 September 2006, at <http://www.fao.org/newsroom/en/news/2006/1000383/index.html>.

32. World Bank, *High Food Prices: A Harsh New Reality*, 29 February 2008: see <http://tinyurl.com/362wgc>.

over the next decade, they are also unlikely to fall significantly.<sup>33</sup>

## Implications for development

Rising food prices will hit poor countries and poor people hardest, and will present an obvious impediment to achieving the Millennium Development Goal of halving hunger by 2015. The FAO has already announced that 36 countries are in crisis in terms of food security, and will need external assistance;<sup>34</sup> of these, 21 are in Africa (although not all of them have been affected equally).<sup>35</sup>

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Poor people typically spend a high proportion of their income on food purchases: Oxfam put this figure at around 50–80 per cent.<sup>36</sup> Of particular concern are landless poor people in rural areas. Most poor people are rural, and most rural poor people are net food buyers, who are unlikely to be compensated fully by additional employment as agriculture grows, or by higher wages.<sup>37</sup> However, the extent and rapidity of current rises mean that urban populations are also being hit, as World Food Programme head Josette Sheeran recently noted: ‘There is food on shelves but

people are priced out of the market. There is vulnerability in urban areas we have not seen before.’<sup>38</sup>

## Humanitarian assistance

High food prices are already posing extensive challenges to the provision of humanitarian aid. The World Food Programme currently feeds 73 million people in 78 countries (less than a tenth of the world’s undernourished). Its agreed budget for 2008 was \$2.9 billion, but rising costs – for logistics as well as for food itself – mean that, according to the WFP, this level will not even cover current deliveries and at least \$500 million more will now be needed.<sup>39</sup> Josette Sheeran raised the possibility in a recent interview that the agency would have to look at ‘cutting the food rations or even the number of people reached’ if the additional funding were not forthcoming.<sup>40</sup>

Improvements in aid quality are needed too: humanitarian aid still needs to shift to a proactive insurance model from its current reactive configuration. Although the Central Emergency Response Fund – in which funds are allocated *before* emergencies – is likely to meet its 2008 target of \$500 million, this remains a small proportion of the overall requirement. Humanitarian requirements in 2007 were \$4 billion, for example, and the older, more reactive Consolidated Appeals Process remains the main window for funding.<sup>41</sup>

## Domestic policy measures

Numerous countries have already reacted to rising food prices with concern and a broad range of policy inter-

33. Simon Maxwell, ‘Will rising food prices derail development efforts?’, ODI blog, 29 February 2008, at <http://blogs.odi.org.uk/blogs/main/archive/2008/02/29/5520.aspx>.

34. World Bank, High Food Prices; FAO, *Crop Prospects and World Food Situation*, February 2008.

35. The full list is Afghanistan, Bangladesh, Bolivia, Burundi, Central African Republic, Chad, DRC, Republic of Congo, Côte d’Ivoire, Dominican Republic, Ethiopia, Eritrea, Ghana, Guinea, Guinea-Bissau, Haiti, Indonesia, Iraq, Kenya, DPR Korea, Lesotho, Liberia, Mauritania, Moldova, Nepal, Nicaragua, Pakistan, Russia (Chechnya), Sierra Leone, Somalia, Sri Lanka, Sudan, Swaziland, Timor Leste, Uganda and Zimbabwe.

36. World Food Programme briefing note at <http://www.wfp.org/english/?ModuleID=137&Key=2778>; Borger, ‘Feed the world?’ (note 10 above).

37. Simon Maxwell, ‘Will rising food prices derail development efforts?’, World Bank, High Food Prices.

38. Borger, ‘Feed the world?’.

39. *Ibid.*

40. Javier Blas and Gillian Tett, ‘High food prices may force aid rationing’, *Financial Times*, 24 February 2008.

41. Data taken from OCHA: see <http://ochaonline.un.org/Default.aspx?alias=ochaonline.un.org/cerf>.



ventions designed to address the situation. The approach taken by most countries so far (Azerbaijan, Bangladesh, Bosnia, China, Egypt, the EU, Ghana, India, Indonesia, Mexico, Morocco, Nigeria, Peru, the Philippines, Russia, Taiwan and Turkey) has been to reduce or eliminate import tariffs.<sup>42</sup> However, at least some of these reductions in import tariffs have been offset by the imposition of additional export tariffs or quotas by other countries – some of them major producers – in order to reduce domestic prices (Argentina – where the move has led to major unrest among farmers – China, India, Kazakhstan, Ukraine and Vietnam).<sup>43</sup> Among other approaches currently being tested are making purchases to establish or replenish stockpiles and strategic reserves – which in turn increases pressure on prices (Iraq, Malaysia, Turkey and the UAE); increasing subsidy levels (Egypt, India and Oman); capping prices (China, Russia and Thailand); and examining the possibility of introducing rationing (Malaysia and Pakistan).<sup>44</sup>

Various countries have witnessed protests, riots or other forms of civil unrest that are at least partly attributable to rising food prices. At the time of writing, some of the most serious disturbances so far have been in Egypt, Haiti and Lebanon; unrest has also been experienced in Burkina Faso, Cameroon, China, Côte d'Ivoire, Guinea, Mauritania, Mexico, Morocco, Mozambique, Niger, the Philippines, Senegal, Uzbekistan, Vietnam and Yemen.<sup>45</sup>

As these lists show, rising food prices are of concern in every part of the world, and so far there is little consensus among governments on what to do about the issue. Currently most donors appear to be in information-gathering mode themselves, although World Bank President Bob Zoellick has called for a 'new deal' on food, including a recommendation that countries investigate cash transfers targeted at poor consumers,

rather than the less efficient option of regulating food prices across the entire economy.<sup>46</sup> There is significant scope for donors to help developing countries to share information on which approaches have worked where.

#### Import costs and trade balances

The World Bank has argued that more expensive food imports will disrupt the trade balances of relatively few countries, because the majority will see largely offsetting gains in other commodity exports; from the Bank's perspective, the countries most adversely affected include Jordan, Egypt, the Gambia, Lesotho, Djibouti and Haiti.<sup>47</sup> However, the impact of rising food prices needs to be looked at in tandem with concurrently rising energy prices, which are also imposing strain on many importing countries. An International Energy Agency study in December 2007 found that the rising cost of oil had already wiped out the benefits of increased aid and debt relief to 13 non-oil-producing African countries including South Africa, Ghana, Tanzania, Ethiopia and Senegal. According to the IEA, the increased cost of oil bought by these countries since 2004 was 3 per cent of their combined GDP – more than the total sum of debt relief and aid they had received over the past three years.<sup>48</sup>

If the combined effect of higher food and energy prices is to create balance-of-payments problems for countries, the question of compensatory financing may emerge as a significant issue. So far, the International Monetary Fund reports that demand for financing from funding windows such as the Exogenous Shocks Facility has been low, although critics retort that this is at least in part because of the significant conditionality attached to such lending. It is also important to note that funding windows designed to provide liquidity on shocks such as sudden changes in terms of trade are built on the assumption that such shocks will be *short-lasting*. If – as suggested earlier – food prices have risen as a result of a longer-

42. Sources: media coverage.

43. Ibid.

44. Ibid.

45. Matthew Green, 'Cameroon crisis continues as inflation surges', *Financial Times*, 4 March 2008.

46. Krishna Guha and James Politi, 'Zoellick stresses fight against hunger', *Financial Times*, 23 January 2008.

47. World Bank, *High Food Prices – a Harsh New Reality*, briefing note, at <http://tinyurl.com/362wgc>.

48. Ed Crooks and William Wallis, 'Africa aid wiped out by rising cost of oil', *Financial Times*, 28 December 2007.

term *structural* shift, then there are open questions about how quickly countries taking out loans will be able to pay them back, potentially heightening pressure to increase the concessional element of such loans.<sup>49</sup>

## Policy implications

What does all this mean for policy-makers – and especially for donors?

### Humanitarian assistance

Start with what rising food prices mean for the humanitarian system, where short-term pressures are likely to be most acute. First, consider the issue of aid volume in the context of humanitarian assistance. As noted earlier, the World Food Programme has called urgently for an additional \$500 million. Given the scale of recent food price increases, it does appear likely that additional funds will be needed just to maintain current levels of food assistance. It would be of particular concern if the US were to follow up on suggestions that it might reduce the amount of food aid it provides to the WFP as a result of rising prices and costs, given that the US is by some distance the largest donor to the programme.<sup>50</sup> (Washington is reported to have told the WFP that it is facing a 40% increase in food commodity prices compared with last year, and hence will ‘radically cut’ the amount it gives away – although more recently it has announced a \$200 million increase in food aid, suggesting that this risk may have abated somewhat.<sup>51</sup>)

But at the same time, more specificity is needed on how the WFP’s headline figure breaks down. It would be useful, for example, to know how the \$500 million would be distributed between different types of aid (such as food aid, vouchers or cash transfers), and between which recipient countries. It is also essential that the WFP’s call for additional funds be set in the

context of the needs of the UN humanitarian system as a whole, given that the programme accounts for only around half of total global food aid.<sup>52</sup> While there is no doubting the WFP’s effectiveness in setting out its case, donors also need to hear from other multilateral agencies (notably UNICEF, the UN Development Programme, FAO and the World Health Organization), and ensure that OCHA (the UN’s Office for the Coordination of Humanitarian Affairs) is in the lead on coordinating funding calls as well as other emergency action from across the sector.

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This raises the question of wider humanitarian system coherence. While progress was made in 2005 on strengthening OCHA’s coordination role at global level, on the role of Humanitarian Coordinators in country and in the use of pooled funding arrangements, much remains to be done. The WFP has much to contribute here. It is fair to say that at the time of the UN High Level Panel on System-Wide Coherence in 2006, the WFP was not among the principal enthusiasts for a more coherent approach. But as the humanitarian system moves into a demanding context with the potential for faster-paced operations, better inter-agency coherence becomes more important than ever.

On a related note, it would be interesting to explore the possibility of a ‘one UN’ initiative on food security, which

49. Stephany Griffith-Jones, letter, *Financial Times*, 2 January 2008. See also Stephany Griffith-Jones and José Antonio Ocampo, ‘Compensatory Financing for Shocks: What Changes are Needed?’, working paper, 2008: see <http://tinyurl.com/5w5pxt>.

50. The US provided around \$1.1bn of assistance to the WFP last year, mostly as food aid. The EU and Canada are the second and third largest donors, at \$250m and \$160m respectively, mostly given in cash.

51. Borger, ‘Feed the world?’, Reuters report, ‘Bush releases \$200 million in emergency food aid’, 14 April 2008, at <http://tinyurl.com/4nn2hr>.

52. World Food Programme, *Food Aid Flows 2006*, at <http://www.wfp.org/interfais/index2.htm>.

could bring a harmonized approach to bear both at the global level and in specific countries (UNDP's office in Yemen has already been approached by the government with a view to piloting such an approach). Such an initiative might bring together the WFP, FAO, IFAD, UNICEF, UNDP and WHO, and focus on developing and mobilizing resources for a package of policies and programmes, potentially for presentation at the Secretary-General's summit meeting on the Millennium Development Goals in New York in September 2008.

Another important current issue is changing ways of giving humanitarian assistance. As noted earlier, many donors (including the WFP) are increasingly focusing attention on social protection programmes, given that poor countries tend to lack social welfare systems – a deficit that places many poor people with precarious livelihoods at acute risk from economic shocks and stresses. For such vulnerable people, access to food is as important as the *availability* of food, and social protection programmes can play an important role in closing the gap.<sup>53</sup> But it is important to stress that the current enthusiasm for social protection approaches is relatively novel, and that the evidence base on the effects and challenges of such projects is not yet as extensive as it could be.

In particular, humanitarian donors need to be acutely aware of the political impact of a large-scale shift towards the provision of safety nets. If donors provide cash or food directly – as opposed to through national governments – then there is a potential risk of diluting states' own accountability to their citizens. Better answers are also needed to questions about the potential inflationary impact of some social protection measures, the best combination of cash and in-kind transfers, what kind of targeting and conditionality works best, and so on.<sup>54</sup> It is too soon to see social protection systems as any kind of panacea to the issue of high food prices. Donors should also assess carefully what the value added would be of the WFP's moving into wider social protection, given the humanitarian

sector's relatively limited experience of social safety nets, and the extent of the organizational change and shift away from traditional core business that this would imply for the WFP.

In the background lies the question of what it will mean for humanitarian assistance if (as considered earlier in this paper) the recent shift to higher food prices is structural rather than just a blip – if, in other words, this is the 'new normality'. At present, around 850 million people are classified as 'food insecure'. At times of peak demand, humanitarian agencies have been able to feed about 100 million people at the very most. If a longer-term effect of changes in world food markets were to increase the number of people in need of humanitarian assistance significantly beyond that level, then it is not clear that the humanitarian system would have the capacity and knowledge to respond, even if sufficient financial resources were available. It is therefore *essential* that in addition to coping with the current short-term turbulence in food markets, donors make a sustained effort to ask 'what if?' questions and plan for further contingencies.

#### Wider issues

As discussed above, the implications of higher food prices extend far beyond humanitarian assistance. The suddenness with which the issue has emerged has raised not only the political stakes, but also the risk of knee-jerk policy responses. Meanwhile, the complexity of the drivers of rising food prices makes a comprehensive approach essential – while also increasing the likelihood of unintended consequences from policy responses. Policy-makers therefore face an awkward and hazardous balancing act between the urgency of responding, on the one hand, and taking enough time to understand the consequences of what they are doing, on the other.

The remainder of this paper identifies some of the larger policy questions that arise for aid donors. In most cases it does not attempt to answer them; at this stage, the aim is to build the evidence base and to act as a cata-

53. Elizabeth Cromwell and Rachel Slater, *Food Security and Social Protection*, ODI submission to Commission for Africa, September 2004.

54. *Ibid.*; see also DFID, *Using social transfers to improve human development*, DFID practice paper, February 2006.



lyst for more intensive and thorough conversations, involving a wider range of actors, with the objective of building shared awareness around the issue. With that caveat stated, consider the following issues:

**Increasing supply.** Perhaps the hardest question is how the world is going to increase food supply to meet the huge rise in anticipated demand noted at the beginning of this paper.<sup>55</sup> Much work needs to be done, quickly, to figure out where this increase is going to come from (both geographically, and in terms of new agricultural techniques and technologies), and what needs to be done to make it happen. An urgent first step towards increasing the available food supply should be to ensure that production of biofuels does not undermine food security – an issue now acknowledged by President Bush, who has commented that ‘If you look at what is happening in corn, you’re beginning to see the food issue and the energy issue collide.’<sup>56</sup> While an outright ban would probably be unwieldy and undesirable, discussion of basic standards for biofuels production – with food security at their heart – should be an early priority for policy-makers.

**Helping low income countries to benefit.** While supply increases in the shorter term are likely to come from existing ‘breadbasket’ countries such as the US, Canada, Russia, Ukraine, Brazil and Argentina, there is longer-term potential for lower-income countries to play a significant part as well – especially in Africa, largely bypassed by the first Green Revolution, where productivity remains far lower than in other regions. But although poor countries should in theory be able to benefit from rising prices for agricultural commodities, the reality is that they are held back by poor infrastructure, the need for better access to technology and finance, restrictive supply chain standards and other barriers as well. Aid donors therefore need to be clear about how *crucial* their role will be in this. Until

recently, agriculture was seen as a rather unfashionable relic of the past in many donor agencies (and perhaps especially in their country offices). That needs to change quickly: donors need to invest heavily in programme aid – and in many cases, rebuilding their own capacity – in rural development.

**Managing scarcity.** Donors will also need to be capable of helping countries to devise integrated strategies for managing scarcity in land, water, energy, food and the effects of climate change. The first step towards this is mainstreaming throughout donor agencies a much better sense of how these scarcity trends link to each other – as they all do, frequently in subtle and complex ways. On top of that, donors need to integrate scarcity issues more thoroughly into their governance and economic analyses (as underlined by the role of land disputes as a catalyst for the recent post-election violence in Kenya). Within the specific context of food, a good starting point would be to build a much more comprehensive picture of the overall resource footprint of different foods (and in the process, move the debate on from its current unsophisticated focus on the minutiae of specific variables, such as ‘food miles’).

**Trade.** Donors also need a clearer picture of the trade dimensions of the current food prices issue. As noted earlier, the current picture of food-focused trade measures is growing more complex by the day, as importers lower import tariffs even as exporters raise export tariffs. Meanwhile, some countries – including China – are apparently exploring the potential for bilateral food supply arrangements, of the kind already becoming more common in energy supply. Other countries are displaying enthusiasm for import substitution policies – most notably the Philippines, which has announced its intention to move from being one of the world’s largest importers of rice to self-sufficiency within just three years.<sup>57</sup> Donors and development advocates need to find

55. See Wiggins and Blas, ‘Bread and butter issues’ (note 9 above).

56. Javier Blas and Jenny Wiggins, ‘Expensive tastes’, *Financial Times*, 18 March 2008.

57. Conrad Carino, ‘Rice sufficiency not impossible, experts say’, *Manila Times*, 7 April 2008.

their way towards a renewed strategic stance on agricultural trade. Even before food prices began their sharp increase, there was lively debate in the donor community about the extent to which agricultural trade liberalization would in practice benefit low-income countries. That debate is now further complicated by the fact that even if liberalization is desirable in principle, careful attention will need to be paid to the need to sequence reforms, in order to avoid (for example) the risk that rapid elimination of Common Agricultural Policy export subsidies could increase food prices in developing countries.

#### The question of fair shares

Finally, there is the elephant in the room: the long-term question of fair shares, pithily illustrated in a recent cartoon in the US in which a portly man in a suit takes a maize cob out of an African child's food bowl, with the speech bubble, 'Excuse me. I'm going to need this to run my car.'<sup>58</sup>

Inequality between countries is falling for the first time in a generation. From 2003 to 2007, per capita income grew faster in every region of the South than in developed countries: hardly news in East and South Asia, but a major shift in Latin America and Africa. In 1980 developed-country GDP was 23 times higher than in developing countries; in 2007 it was 18 times higher.<sup>59</sup> Yet even as inequality *between* countries falls, it is rocketing within them – particularly within developing countries, and above all in emerging economies such as China, where the difference between the top 20 per cent and the bottom 20 per cent has grown by 40 per cent over the last three years.<sup>60</sup>

In his book *Development as Freedom*, Amartya Sen observes that 'the focus has to be on the economic power and substantive freedom of individuals and families to buy enough food, and not just on the quantum of food in the country in question.' Later, he observes that '[some] who buy food may be ruined

because the real purchasing power of their money incomes may have shrunk sharply. Such a famine may occur without any decline in food output, resulting as it does from a rise in competing demand rather than a fall in total supply.'

Now, Sen's questions may be starting to apply at the global level. Even while the line between developed and developing countries grows more blurred with each passing year, the gulf between the haves and the have-nots has never looked wider. In a context of increasing tightness of food supply – which is likely to grow further as population, affluence and scarcity trends all continue to rise – we may well reach a situation in which relative inequality can have absolute implications for the world's poor, and in which a burgeoning global middle class inadvertently takes food beyond the purchasing power of the world's poorest people. Indeed, we may already be there.

## Conclusion

This is a time of massive change for global food policy, in developed as well as developing countries. In addition to the concerns discussed in this paper about what higher food prices mean for poor people, there are questions about environmental standards; obesity and health; animal welfare; competitiveness, between countries and companies; the security of globalized 'just-in-time' supply chains; and numerous other issues.

At the heart of these debates is the deceptively simple question: what should global food policy be trying to *achieve*? We need to be clear at the outset about the nature of the choices that we face. There are real trade-offs between different potential objectives in food policy – such as competitiveness for consumers, security of supply, environmental conservation, local sourcing. That raises the question: who is the 'we' that decides the shape of 21st-century food policy? Who has the power to make choices?

58. See <http://www.globaldashboard.org/scarcity/a-thousand-words/>.

59. Figures from UNCTAD Trade and Development Report 2008, quoted in John Vandaele, 'Globalisation "localises" inequality', IPS analysis note, 11 March 2008: see <http://www.ipsnews.net/news.asp?idnews=41549>.

60. Ibid.

It is *vital* that advocates for development get involved in these debates now, and start making the argument that the primary objective of the world food system in the 21st century must be to feed *all* of us, as healthily as possible. From there, work can be started to evaluate what such a food system might look like. But if the hard questions about overall objectives are swept under the carpet, or answered without being properly considered, then one outcome seems certain: the world's poor will be under-represented in the debate, and marginalized by its outcome.

‘Stressing the reality that we have the power to make choices about the kind of food system we want is a good starting point’

But as they start to put forward their case for a food system designed to meet the needs of all the world's people, advocates for development should take great care with the narratives they set out. Food has always been an emotive subject, and never more so than when questions start to be asked about whether there is enough to go around. People rarely make better decisions for being in a fearful frame of mind. ‘Malthusian’ narratives carry with them a risk of self-fulfilling prophecy if they lead to bad decisions, and are in their way just as deterministic as ‘Cornucopian’ narratives with their message of inexhaustible plenty.

Instead, development advocates may find that the emergence of food as a top-rank political issue provides them with an opportunity to form new alliances, new coalitions and new drivers for change. Stressing the reality that we have the power to make choices about the kind of food system we want is a good starting point. In that light, we may find that ‘food democracy’ is a more useful frame than ‘food security’ – both in the kind of thinking that it engenders, and in the policy options and approaches that it implies.

Chatham House is one of the world's leading organizations for the analysis of international issues. It is membership-based and aims to help individuals and organizations to be at the forefront of developments in an ever-changing and increasingly complex world.

Alex Evans is a Non-resident Fellow at New York University's Center on International Cooperation, where he runs the Climate Change and Global Public Goods programme (email: alex.evans@nyu.edu). He is leading a joint CIC/Chatham House initiative designed to provide policy-makers with a strategic assessment of global food prices and their implications, particularly for developing countries. The study is being conducted in association with Chatham House's research project, *UK Food Supply in the 21st Century: the New Dynamic*. The financial support of Oxfam and Foodvest is gratefully acknowledged.

Chatham House  
10 St James's Square  
London SW1Y 4LE  
[www.chathamhouse.org.uk](http://www.chathamhouse.org.uk)

Registered charity no: 208223

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