



Short Article

Rising Prices and the Food Crisis: Don't Look for a Scapegoat

So-called 'food riots' have multiplied over the recent weeks and triggered the proliferation of media articles looking for culprits. The demand for agricultural products to feed biofuel production, the booming demand for animal products caused by the growing purchasing power of people in emerging economies, economic liberalization and international financial institutions, and falling public investment in agriculture in a good number of poor countries have been successively blamed for causing the crisis. But these factors are merely presented as scapegoats.

Rising prices do not foretell some global food shortage resulting from a world production that is not sufficient to feed a booming demand. They are due to the combination of two main factors.

The first one is a trend, a long foretold factor: the slowdown of supply growth. This slowdown results from the effect of policies aimed at mitigating the chronic oversupply of agricultural products – and associated low prices – that has expanded over the last 20 years. This situation was blamed for exerting competitive pressure on the agricultural sectors of the poorest countries. The slightest public funding support for agriculture in the USA or in Europe translated into a slowdown of supply growth. World stocks have thus diminished, and climatic shocks during recent years have sped up their reduction. The current situation is one of more tense markets, having less regulation and fewer stocks to face production fluctuations. In agriculture, these fluctuations are quite normal because of climatic variations. Also, rising oil prices and associated production costs in agriculture and transport enhance the trend towards higher food prices.

The second factor is an occasional one: speculation and export restriction. The financial crisis resulted in a shift of investment towards more buoyant markets such as oil products, minerals and agricultural raw materials. Fear of rising prices led some countries to restrict exports so as to prioritize the supply of their domestic markets. Both positions are 'self-realizing': the countries' planning measures in anticipating rising prices, actually create high prices and boost them.

The long-term trend and this occasional factor thus raise the issue of international market regulation. On the one hand, global warming induces and multiplies climatic shocks, especially in the inter-tropical zones. One must then expect further fluctuations of agricultural production. On the other hand, the development of speculation on agricultural raw materials leads to the fear of new market instabilities; and this, by anticipation, amplifies price variations due to production fluctuations. This situation leads to a

spotlight being thrown, or more precisely, being thrown again, onto the debate over the mechanisms for smoothing price fluctuations such as regulatory stocks and rules of speculation. However, in a context of economic liberalization, the idea of regulation or intervention may cause fear that the return of public intervention will distort markets.

If agricultural markets become more and more unstable in the future, then research faces a formidable challenge. The challenge is to invent production systems, plant material, crop protection systems, transport and trading systems adapted to these climatic and economic instabilities.

The current price increase is not due to the booming food demand of emerging countries such as China. To the contrary, cereal consumption growth in these countries is slowing down. In China, the demand for animal feed did not raise cereal imports, but rather it was due to soybean imports. The reason for rising prices of rice or wheat cannot be found in higher consumption.

Yet, one can anticipate real difficulties in the future due to the long-term prospects of food demand for animal proteins in the diet of a growing population in emerging countries. If emerging countries wish to adopt the consumption patterns of industrialized countries, they are just at the very beginning of their journey. According to Agrimonde (2007), crop production, whatever its final consumption purpose (food, feed, industrial), expressed in energy equivalents, increased from 3,300 kcal/capita/day in 1985 to 3,700 kcal/capita/day in 2005. In the USA, the production was about 16,000 kcal/capita/day over the same period, due to feed and industrial use. In order to reach this level, China would have to multiply its production by five. Ambitious agri-fuel development programmes will only boost this demand.

A cautious management of the future supply and demand balance cannot avoid serious consideration of the limits of expanding the agri-food model of industrialized countries to the entire planet. Before stigmatizing the evolution of demand in emerging economies, the most industrialized countries should question their own consumption models. ■

Written by Nicolas Bricas, Senior Economist, French Agricultural Research Centre for International Development (CIRAD).

(References available upon request)

Flash **BREAKING****Family Farms Key to Food Security**

Policies to help small family farms in developing countries must be at the heart of the global response to high food prices if food security is to improve in the long-term, says the International Fund for Agricultural Development (IFAD). Smallholders and their families account for a third of the world's population. "If we forget them, we wind up with an even greater imbalance in the global supply system and greater food insecurity", said IFAD President Lennart Båge. Båge said that while emergency food assistance is required, as are seed and fertilizer inputs, we must not forget medium and long-term investment in policies, institutions, productivity, irrigation and soil fertility.

IFAD, 2008. Family Farms Key to Food Security and Poverty Reduction in Developing Countries, <http://www.ifad.org/> (21 May 2008).

WFP Strategic Plan Charts Revolution

The World Food Programme (WFP) has announced a new four-year strategic plan that marks a revolution in food aid and supports local markets in breaking the cycle of hunger. It is called the '80-80-80 solution'. Eighty per cent of WFP's cash for food is spent in the developing world, 80 per cent of its ground transport is procured in the developing world, and 80 per cent of its staff is hired locally in the developing world. The tools laid out in the plan include early warning systems and vulnerability analysis, as well as preparedness and disaster reduction and mitigation, while ensuring fast and effective emergency response in life-saving situations.

WFP, 2008. WFP Strategic Plan Charts Revolution in Food Aid, <http://www.wfp.org/> (13 June 2008).

Underestimated Potato – Food for the Future

As cereal prices rise, the price of potatoes, the world's third most important food crop, has remained stable. Potatoes have the potential to contribute significantly to food security in developing countries. Potato crops are grown and eaten locally, with little significant international trade compared to cereals. Potatoes have many advantages as a food and cash crop. Potatoes produce more nutrition, energy and edible biomass per unit area and time than any other major crop. But the potential of the potato has yet to be fully realized. Past research has greatly improved productivity and resistance to disease, and raised potential earnings, but further research, and support for research, is needed.

CIP, 2008. Underestimated Potato as the Food for the Future, <http://www.cipotato.org/> (30 May 2008).

FAO Initiative Helps Small Farmers Increase Food Production

In response to high food prices, the FAO Initiative on Soaring Food Prices, launched in December 2007, has begun emergency activities with start-up funds of US\$ 17 million. The funds will cover the immediate needs of farmers in some of the poorest countries, for seeds fertilizers and tools to boost agricultural production in the upcoming planting season. The FAO is also offering technical assistance and advice, and providing regional co-ordination for countries with close physical and market links. Much of the work entails scaling-up existing long-term programmes to support agriculture and rebuild the livelihoods of the rural poor, 80 per cent of whom make their living from farming.

FAO Newsroom, 2008. FAO Initiative Helps Small Farmers Increase Food Production, <http://www.fao.org/> (4 June 2008).

The Supermarket Revolution – Policies for 'Competitiveness with Inclusiveness'

A 'supermarket revolution' has been underway in developing countries since the early 1990s. Within the food system, the effects of this trend reach not only traditional retailers, but also the wholesale, processing and farm sectors. The supermarket revolution is a 'two-edged sword'. On the one hand, it can lower food prices for consumers and create opportunities for farmers and processors to gain access to quality-differentiated food markets, and raise incomes. On the other hand, it can create challenges for small retailers, farmers, and processors who are not equipped to meet the new competition and requirements of supermarkets. Developing-country governments can put in place a number of policies to help both traditional retailers and small farmers pursue 'competitiveness with inclusiveness' in the era of the supermarket. The first such recommended policy is to 'regulate modern retail', to make sure that competition is maintained and small farmers are included. The second is to 'upgrade traditional retail' such as those retailers implanted in East and Southeast Asia. The third is to 'upgrade wholesale markets to serve retailers and farmers better' because upgrading wholesale markets' infrastructure and services is important to the whole traditional supply chain. The fourth is to 'help farmers become competitive suppliers to supermarkets' such as programmes to help small farmers get the assets and services they need to supply supermarket channels. Good policies and investments will prepare farmers and retailers to face the challenges of the supermarket revolution. ■

Based on Reardon, T. and Gulati, A., 2008. The Supermarket Revolution in Developing Countries: Policies for "Competitiveness with Inclusiveness", IFPRI, <http://www.ifpri.org/> (June 2008).

Turning High Prices into an Opportunity

Over the past two years, climate change, the rising price of oil, biofuels, speculation on financial markets and income growth in emerging economies have caused an unexpected rise in commodity prices. After decades of low prices, this increase should be good news for farmers and countries that produce agricultural products. In the short-term, however, the rapid price increases are causing enormous stress for the urban and rural poor in regions dependent on food imports. In this regard, strong agricultural policies are needed to make high prices work for development by rebalancing agricultural policies and markets in favour of marginalized and resource-poor farmers. The international community needs to come together and fundamentally rethink its approach to agriculture and food security. Some first steps for world leaders to consider are: (a) urgently stepping up support to the agriculture sector in developing countries to a level that reflects its importance for development and food security; (b) addressing price volatility by co-ordinating action to manage agriculture supply, to discourage speculation on commodity prices, and to allow commodity-producing countries to strike agreements among themselves in order to stabilize prices; (c) regulate the distribution of benefits along value chains by analysing and maintaining a databank with comprehensive information on the dominant actors in the global food system; (d) develop environmentally sustainable methods of production and adapt agriculture to climate change; and (e) design bioenergy policies adapted to local conditions and needs, then integrate these into a wider rural development strategy. ■

Based on Constantin, A. L., 2008. Turning High Prices into an Opportunity: What is Needed? IATP, <http://www.iatp.org/> (April 2008).

Agricultural R&D Capacity and Investments in the Asia-Pacific Region

This IFPRI Research Brief reviews major institutional developments, and investment and human resource trends in agricultural research and development (R&D) in 11 countries of the Asia-Pacific region. Regional investments in agricultural R&D grew considerably during the period 1981–2002, during which both China and India intensified their agricultural research spending. Other countries, such as Malaysia and Viet Nam, also realized impressive agricultural R&D spending growth over this timeframe, whereas spending in Pakistan, Indonesia and Lao People's Democratic Republic, proved sluggish and at times negative. Although the bulk of Asian agricultural R&D is still financed by national governments, new sources of funding are emerging in some countries. With the exception of Laos and Nepal, donor dependency is low. The private sector has also become more involved both in conducting its own research and in funding public agricultural research. Human and financial resource capacity is also varied: several countries have well-managed and funded systems producing world-class research, while others – some of which are highly dependent on agriculture – experienced significant reductions in their R&D spending and research intensity levels. More than ever, a knowledge divide between the region's rich and poor countries and the scientific 'haves' and 'have-nots' is becoming visible. Sustainable financial and political support for agricultural R&D is crucial, as is the creation of attractive investment climates for private investors, if the challenges of sustainable economic and social development facing the region are to be met. ■

Based on Beintema, N. M. and Stads, G., 2008. Agricultural R&D Capacity and Investments in the Asia-Pacific Region. IFPRI, <http://www.ifpri.org/> (May 2008).

Rice Contract Farming in Cambodia: Moving Farmers toward Independence

Contract farming provides farmers with stable market access, credit, extension services and other benefits. But it has drawbacks such as limiting the flexibility of farming and marketing. Based on a survey of rice contract farming for export in Cambodia, larger family sizes, younger and more educated household heads and those with a farm location closer to the highway are characteristics of farmers more open to contract farming. The results of the survey provide evidence that contract farming of non-certified organic rice has a positive impact on farmers' profitability. Furthermore, progressive farmers living near the highway tend to be the first to take a contract, but leave contract farming early, while farmers in more remote areas remain under contract. It appears that farmers' profitability did not decline after leaving contract farming as they further intensified their farming systems to produce goods for the less chemical-conscious market. Thus, contract farming may be involved in the process of helping subsistence farmers develop into independent commercial farmers. The study provides empirical evidence that contract farming of safe food in remote areas where land is less contaminated could be an effective private-sector led poverty reduction strategy. However, since contract farming in this case does not include the poorest farmers, public-sector support is required to lower the transaction costs of working with these farmers. ■

Based on Cai, J., et al., 2008. Rice Contract Farming in Cambodia: Empowering Farmers to Move Beyond the Contract Toward Independence. ADBI Discussion Paper 109, ADB Institute, <http://www.adbi.org/> (5 June 2008).

Flash EVENTS



5th Microfinance Training of Trainers: A Blended Distance Learning Course

16 July – 30 October 2008

Info:

<http://www.adbi.org/event/2532.5th.microfinance.distance.learning.course/>

eAgriculture India 2008

29 – 31 July 2008

Info:

http://www.e-agriculture.org/100.html?&no_cache=1&L=0

Agricultural Biotechnology International Conference (ABIC 2008)

24 – 27 August 2008

Cork, Ireland

Info:

<http://www.scidev.net/en/events/agricultural-biotechnology-international-conferenc.html>

6th ASAE International Conference

The Asian Economic Renaissance: What is in It for Agriculture?

28 – 30 August 2008

AIM Conference Center

Makati City, Philippines

Info:

<http://www.6thasae.searca.org>

International Training Course on Responding to Changing Climate: Knowledge-based Strategies in Managing Risks in Agricultural Production and Aquaculture

9 – 17 September 2008

SEARCA, Los Baños, Laguna, Philippines

Info:

http://www.searca.org/web/training/courses/2008/climate_change/index.html

Book Review

Fuelling Exclusion? The Biofuel Boom and Poor People's Access to Land

Lorenzo Cotula, Nat Dyer and Sonja Vermeulen, International Institute for Environment and Development (IIED) and Food and Agriculture Organization (FAO), 2008. ISBN: 978-1-84369-702-2.

Recent years have witnessed a rapid and accelerating expansion of bioethanol and biodiesel production. With oil at over US\$ 100 per barrel and future supplies uncertain, countries are seeking alternative energy sources to increase long-term energy security and reduce energy imports. A new and profitable land use will provide better opportunities and long-term security for farmers and farm labourers. For countries with favourable land, labour and trade conditions, biofuels are an opportunity to develop new export markets and improve the trade balance.

Parallel to these developments, the policy debate about the merits of biofuel is growing rapidly. "Fuelling Exclusion? The Biofuel Boom and Poor People's Access to Land" contributes to these debates by examining the current and likely future impacts of the increasing spread of biofuel on access to land, particularly for poor rural people. The two main chapters discuss the anticipated links between spread of biofuel crops and land access.

The book indicates that biofuels could be instrumental in bringing an agricultural renaissance that revitalizes land use and livelihoods in rural areas. However, this possibility depends on security of land tenure. Where competing claims exist among local resource users, governments and incoming biofuel producers, the rapid spread of commercial biofuel production may result in poor groups losing access to land. It may also have a major negative effect on local food security and on the economic, social and cultural dimensions of land use.

Increasing demand for land for biofuels will result in changes to land access for poor people through direct and indirect linkages. Direct linkages involve direct land use change from other uses to biofuel crop production. The spread of biofuels to meet growing internal and international demand tends to increase the value of land. This may result in poorer land users being priced out of land markets. Indirect linkages involve changes in land use triggered by biofuel expansion elsewhere. For example, food crop farming is displaced from higher-value lands by the expansion of biofuels and consequently it retreats to less fertile areas.

Both direct and indirect linkages between biofuels and land access are mediated through a range of policies and processes. These include processes such as: fluctuation in international commodity prices and barriers to trade in biofuels at the international level; policy and legal frameworks on biofuels and on land tenure at the national level; and, at the local level, the balance between traditional and formal land rights.

It is interesting to note the possible impacts of biofuel on food

security land access and the anticipative policies to deal with potential problems. In the case of some countries in Africa, Latin America and Asia, a large-scale commercial biofuel production will have a negative impact on access to land and food security. In some contexts, smallholders have been able to seize opportunities offered by biofuel feedstock cultivation, whether for income generation or local energy self-sufficiency. Large and small-scale biofuel production can co-exist and even work together to maximize positive outcomes for rural development. Secure land rights are an asset for smallholders negotiating with larger players. But this promising approach or model has so far received little attention.

Based on their policy analysis, the authors provide pointers for policy and practice by government and private sector at local, national and international levels, as follows: (a) governments must develop robust safeguards in procedures to allocate land to large-scale biofuel feedstock production; (b) large-scale privately owned plantations are not the only economically viable model for biofuel feedstock production; (c) clearer definitions of concepts, such as 'under-utilized', 'unproductive', 'degraded land', etc., are required to avoid allocation of land on which local user groups depend for their livelihoods; (d) land access for rural people requires policy attention not only to land tenure, but also to broader policy areas including taxation and subsidies, interregional trade, and standards for environment and labour; (e) international policy arenas also influence the impact of biofuel expansion on land access; (f) policies, laws and institutions are likely to achieve little if they are not accompanied by sustained investment in building people's capacities to claim and secure their rights; and (g) local, national and international NGOs and civil society organizations have a continued role to play in holding governments and industry to account regarding their promises on protection of land access and food security.

The authors have successfully addressed the complexity of biofuel development in relation to food security and access to land for the marginal farmer. They give a wide coverage, a sharp assessment and draw conclusions about wide-ranging policy implications by considering spatial dimensions of the issues at local, national and international levels. ■

Reviewed by I Wayan Rusastra, R&D Programme Leader, UNESCAP-CAPSA, Bogor, Indonesia.