



Linda Karrer

Global Food Crisis

A critical Analysis

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Acronym

AoA	<i>Agreement on Agriculture</i>
AU	<i>African Union</i>
bn	<i>billion</i>
CCT	<i>Conditional Cash Transfer</i>
CERF	<i>UN's Central Emergency Response Fund</i>
CFA	<i>Comprehensive Framework for Action</i>
CGD	<i>Centre for Global Development</i>
CT	<i>Cash Transfer</i>
DSW	<i>Deutsche Stiftung Weltbevölkerung</i>
EU	<i>European Union</i>
FAO	<i>Food and Agriculture Organization of the United Nations</i>
FDI	<i>Foreign direct investment</i>
GDP	<i>Gross domestic product</i>
GIEWS	<i>Global Information and Early Warning System</i>
G8+5	<i>Group of Eight Plus Five</i>
IAASTD	<i>International Assessment for Agricultural Science and Technology for Development</i>
IFA	<i>International Fertilizer Industry Association</i>
IFPRI	<i>International Food Policy Research Institute</i>
IMF	<i>International Monetary Fund</i>
IPCC	<i>The intergovernmental panel on Climate Change</i>
LDC	<i>Least-developed country</i>
LIFDC	<i>Low-income-food-deficit country</i>
LME	<i>Liberal market economy</i>
m	<i>Million</i>
MDG1	<i>First Millennium Goal</i>
NEPAD	<i>New Partnership for Africa's Development</i>
NGO	<i>Non-Governmental Organizations</i>
OCHA	<i>UN Office for the Coordination of Humanitarian Affairs</i>
ODA	<i>Official Development Assistance</i>
OECD	<i>Organisation for Economic Co-operation and Development</i>
PRGF	<i>Poverty Reduction and Growth Facility</i>
PSE	<i>Producer Subsidy Estimate</i>
R&D	<i>Research and Development</i>
SAP	<i>Structural Adjustment Programs</i>
SP	<i>Special Product provision for Developing Countries</i>
SMM	<i>Special Agricultural Safeguard Mechanism for Developing Countries</i>
TNC	<i>Transnational Corporation</i>
UN	<i>United Nations</i>
UN HLTf	<i>UN system's High Level Task Force on the Global Food Security Crisis</i>
UNHCHR	<i>United Nations High Commissioner for Human Rights</i>
UNCTAD	<i>United Nations Conference on Trade and Development</i>
UNDP	<i>United Nations Development Program</i>
USA	<i>United States of America</i>
WB	<i>World Bank</i>
WFP	<i>United Nations World Food Programme</i>
WHO	<i>World Health Organization</i>
WTO	<i>World Trade Organisation</i>

Foreword

My motivation for investigating the “global food crisis” in my master’s thesis was partly due to my medical background. I am therefore very interested in issues regarding health and nutrition. The other reason was a personal experience with scarcity of food. During a one-year stay in Cuba, I was confronted for the first time in my life with food insecurity. It was not a problem of access to food, but rather a problem of availability. Although I had enough purchasing power at my disposal, I was sometimes not able to buy food simply because there was no food in the shelf.

I am very grateful for the great support of Prof. Dr. Anne van Aaken and Prof. Dr. Heinz Hauser. I would also like to thank all discussion partners for the very insightful and interesting conversations, namely Iljas Baker, FAO Consultant and Visiting Professor at Mahidol University in Bangkok, Elisabeth Bürgi-Bonanomi from the World Trade Institute, Andra Ries and Liliane Ortega of the Swiss Agency for Development and Cooperation (SDC), Prof. Dr. Harold Furr, Visiting Professor at Mahidol University in Bangkok, Prof. Dr. Barbara Becker of the ETH North South Centre, Miges Baumann of Brot für Alle, Tina Goethe of Swissaid, Samuel Kost of Max Havelaar, and Reto Brennwald of Swiss Television SF, presenter at the Open Forum Davos 2009.

I. Introduction

The attention of the world is currently focused on the global economic crisis, and the recent global food price crisis seems to be dropping off the radar. The security of our bank deposits and the duration of the current economic recession seem to be more of concern in Europe and North America, where no more than ten percent of incomes is generally spent on food. However, for the majority of the global population, the reality is a different one. In fact, millions of people are still exposed to food insecurity due to the skyrocketing of food and fuel prices in 2007 and early 2008: there has been an increase in the average world price for maize of 300 percent, the price of wheat has increased by 127 percent, and the price of rice has gone up by 170 percent between 2005 and mid-2008. As a result, 100 million people in developing countries have been reduced to poverty due to a reduced accessibility to food.¹ In other words, the real problem of the hungry was their poverty, which had reached a level where they could not afford basic needs anymore. Nevertheless, it would be wrong to assume that this recent crisis is only due to the developments of a few months, because poverty has long been an enduring issue in many developing countries. Moreover, the poor suffered the greatest setback from increasing food prices, to which they are extremely vulnerable because food constitutes the largest part of their consumption expenditure. Thus, hunger is not only a symptom of the current price crisis, but also, and even more importantly, an expression of a deeper global imbalance. The world's poor, particularly the urban populations, have been priced out of the market, what the United Nations (UN) calls a "new face of hunger".² They took to the streets in protests calling for national and global attention and demanding that their governments quickly and adequately address their condition, since they rely exclusively on international markets for their food. Their rural counterparts, however, have been silently suffering for decades outside the media spotlight, although they have suffered from similarly harsh deprivation.

In the recent situation, high food prices have not only undermined the most basic human right, namely the right to adequate food, but they have also threatened to destroy all of the development work of the last years. In particular, they impede the achievement of the first Millennium Development Goal (MDG1), which aims to eradicate hunger by 2015, and those MDGs that relate to child mortality, maternal health, and basic education.³

In the context of this thesis, I will aim to answer a two-fold research question:

- (i) In the first, analytical part, I will try to shed empirical light on the recent global food crisis. To begin with, is there a food crisis at all? If so, what are its manifestations and what are the underlying causes?
- (ii) In the second, normative part, I will first prepare a critical assessment of short-term policy responses that have been devised and implemented so far. Based on this assessment, I will offer long-term policy recommendations.

¹ Zoellick, R. 2008. online

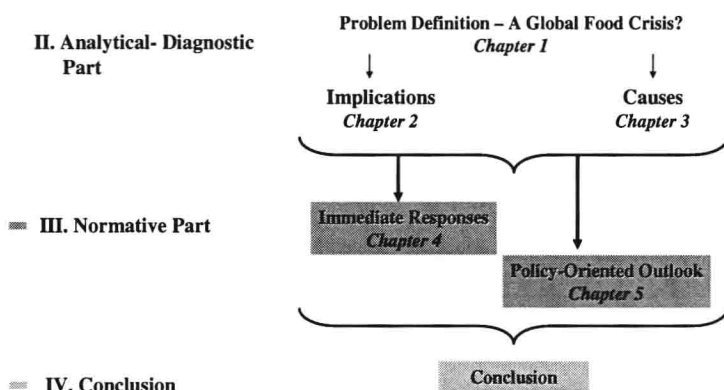
² UN in Borger, J. 2008. online

³ World Bank. 2008a. p. 3

This present thesis will discuss the global food crisis from a bird's eye view. A deeper analysis looking at country-specific issues is beyond the scope of this paper, although such an in-depth approach would likely shed further light on the topic at hand. The former approach was chosen for the purposes of the present investigation because the price crisis is a global issue that can only be administered comprehensively at the international level. In other words, the price crisis can only be resolved in the long-term by a global policy response, whereas individual and uncoordinated country-specific measures would be insufficient. Therefore, our investigation is not so much focused on the manifestations of and responses to the crisis in a particular state or region, but rather on a broad general understanding of its eruption and policy answers from a development perspective. The topic is developed on the basis of a literature analysis, particularly taking into account current research results and recent events. In addition, the analysis is based on discussions with experts and on the results of workshops and discussion panels.

Therefore, the remainder of this paper is structured as follows: The analytical-diagnostic part begins with an examination of the nature and scope of the global food crisis. The goal is to determine whether there was any crisis at all. Based on this section, chapter 2 will focus on the manifestations of the global food price crisis. The aim is to show its impacts on different levels in order to lay the groundwork for the discussion of measures to redress them. A detailed reconstruction of the broad causes of the crisis is provided in chapter 3. Thereafter, the discussion moves from the first analytical study to the normative part; chapter 4 assesses short-term policy responses to the crisis at the global and particularly at the general national levels that have been implemented so far. Our analysis establishes that most of the immediate answers do not cure the underlying causes, and are often inadequate. Based on this insight, chapter 5 will offer long-term policy recommendations dealing with very fundamental failures in the global food system that differ substantially from the already implemented responses. A summary of the discussion and an outlook is provided in chapter 5 by way of conclusion.

Figure 1: Organisation of the Paper



Source: Own Design

II. Analytical-Diagnostic Part

1 Nature and Scope of the Global Food Crisis

This chapter assesses the nature and scope of the global food crisis. Therefore, the actual concept of a “crisis” is discussed firstly, and in a second step it is examined whether there is such a phenomenon as a global food crisis by analyzing the recent and historical evolution of global food prices. The findings will then be presented in section 1.2.3.

1.1 *What is a Crisis?*

“Let us take today’s global food crisis as an early warning”⁴, “the global food price crisis is far from over”,⁵ “‘new deal’ to help ward off a food crisis”⁶ – these are just a few examples of headlines filling the news at the beginning of 2008. But what does the term “crisis” really mean and what are the general characteristics of a crisis? „Crisis“ is a multifaceted and quite general term that is often used carelessly and thus requires further clarification and definition in order to evaluate whether a crisis is underway or not. The word “crisis” originally comes from Greek and literally means “decision”, and can also describe a “decisive moment” or a “turning point”.⁷ I will use the term to refer to a specific moment and short-term event with extreme conditions, resulting for instance from a socio-economic shock.

1.2 *Is there such a thing as a Global Food Crisis?*

Based on this definition of a crisis and in the light of the current and past context, the following section aims to answer the question of whether there really has been a global food crisis recently.

1.2.1 **Recent Developments and Future Expectations of the Global Food Prices**

Against the background of strong global economic growth in 2004–07, global prices of basic food commodities rose steadily since 2006, increasing sharply throughout 2007 and in particular until mid-2008, as figure 2 shows. The International Monetary Fund’s (IMF) index of internationally traded food commodities prices increased by 130 percent in nominal terms from January 2002 to June 2008, and by 56 percent within only 18 months from January 2007 to June 2008.⁸ Remarkably, prices of all major food and feed commodities increased sharply.⁹ The prices of grains in particular increased most steeply from 2005 until mid-2008: The price of maize increased by 300 percent, wheat prices rose by 127 percent, and rice prices increased by 170 percent.¹⁰ The prices of dairy products, meat, fat, and oils also increased significantly, and the prices of other food such as sugar, citrus, bananas, shrimps, and meat rose by around 48 percent during the same period.

⁴ Sheeran, J. 2008. online

⁵ Reuters. 2009. cit. in Flex-news. 2009. online

⁶ BBC. 2008. online

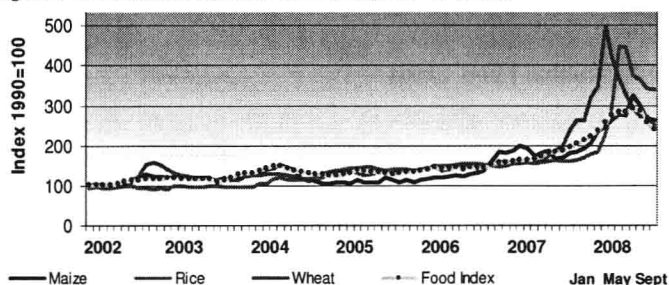
⁷ Crisis

⁸ Mitchell, D. 2008. p. 2

⁹ FAO. 2008b. p. 41

¹⁰ Mitchell. 2008. p. 3

Figure 2: Global Food Prices in the Short-term (2002 – mid-2008)



Source: UN. 2008a. Slide 2.

Since the price peak in June 2008, global market prices for most agricultural commodities have fallen considerably and swiftly, even if they still remain above their longer-term trend levels.¹¹ Furthermore, the Organisation for Economic Co-operation and Development (OECD) expects two specific price developments for the future. Firstly, prices are likely to stay at higher average levels over the medium term than in the past decade, and secondly, price volatility will be even higher in the future than in the past.¹²

1.2.2 Food Price Particularities – A Historical Analysis

The historical patterns of price changes are significant for identifying trends and particularities of food prices. When considering the evolution of annual average world food prices from 1960 to 2007 in figure 3,¹³ two features can be observed: Firstly, the development of prices and the world food commodity markets was marked by a high degree of price volatility during the past 30 years. Food prices are very sensitive to short-term shocks to both demand and supply for two reasons: On the one hand, the inelastic nature of supply and demand creates exaggerated changes in price due to the slow response to changes in price, both on the supply side and on the side of demand for food. On the other hand, the psychological aspect involved in shaping the demand for basic food needs means that the prices in this sector are more volatile than in other markets. For instance, if a hurricane lasting a few days is expected to arrive, people tend to hoard and buy enough food for one month. The second observation is the structural decline in real prices resulting from increased productivity, subsidies and agglomeration of wealth. Against this background, the experienced recent food prices were indeed high, but still slightly lower than during the food crisis in the 1970s. However, should food prices remain more or less where they are today, that would constitute a significant shift away from the low food prices of the past.¹⁴ To put it in a nutshell, the price spike of mid-2008 was neither the only nor even the most major one in the last 40 years.¹⁵

¹¹ Von Baun. 2008a. p. 3; FAO. 2009a. online

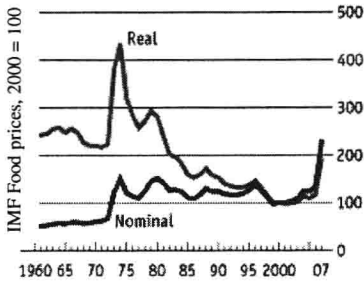
¹² OECD-FAO. 2008. p. 4

¹³ Figure 18 of the Annex illustrates more details on developments for wheat, coarse grains, rice and oilseeds.

¹⁴ Buntrock. 2007. online

¹⁵ OECD. 2008a. p. 3

Figure 3: Long-term Development of Global Food Prices (1969 – 2007)



Source: IMF & US Bureau of Economic Analysis cit. in Buntrock. 2007. online

1.2.3 Interim Conclusion

This chapter discussed whether there was such a thing as a global food crisis. Based on the definition of a crisis cited above, and in the recent context of global price development as well as in the light of past developments, the answer is that there was no global food crisis. The preceding analysis shows in particular the importance of isolating two issues and making the following distinctions: Firstly, the world was affected by a food price crisis resulting from soaring commodity prices throughout 2007 until mid-2008. This temporary price increase grievously affected many impoverished people in developing countries¹⁶ who are especially vulnerable to price shocks due to proportionally large expenses on food staples and due to the lack of effective safety measures. Consequently, the crisis comes from the price, rather than from the system. Secondly, there have been fundamental structural problems in the global food system for decades that have been casually referred as a crisis. Yet, as I understand it, the term “crisis” creates some tensions and contradictions, since it refers to a short-term situation, which is why I will use the expression “fundamental problem” or “failure in the global food system”. These failures in the system have to a large degree contributed to, and been reinforced by, the recent price crisis, and thus constitute the major reasons why the recent crisis is so severe and difficult to overcome. The price crisis has torn apart the weak food system – which has already produced millions of poor – and put entire populations at risk of poverty, with millions of people who were already living in borderline conditions falling prey to systemic failure. To sum up, what we are confronted with is not a global food crisis, but structural failures that led to a price crisis in the global food system.

¹⁶ For analytical and policy purposes, this thesis will classify countries according to their per capita gross domestic product (GDP). The term “developing countries” refers to both low- and middle-income countries with a GDP per capita of less than US\$11,456, while “developed countries” are those with a higher GDP per capita (World Bank. 2009a.).

2 Manifestations of the Global Food Price Crisis

In order to come up with effective remedies against the crisis, policymakers are required to comprehend its effects and the degree to which the country and its people are exposed to risks or opportunities presented by the higher food and fuel prices.¹⁷ The manifestations of the crisis are most strongly felt in the poorest countries, especially Sub-Saharan Africa and Southeast Asia. As the price of imported foodstuffs soared, coupled with diminishing food stocks, global food and nutrition security was jeopardized, creating a host of humanitarian, socio-economic, developmental, environmental, political, and security-related challenges.¹⁸ Therefore, the present chapter addresses the most striking impacts at different levels. It will first analyze the impacts on the global and regional levels, followed by an examination of the national level; and thirdly address the impacts as felt at the level of households and individuals. The matter of who stands to gain and who to lose in the price crisis will be addressed in the last paragraph.

2.1 *Impact at the Global and Regional Level*

The global food price crisis is associated with a 3-5 percent increase of global poverty, equivalent to a total of 100 million more impoverished people.¹⁹ Furthermore, the World Bank (WB) estimates that by the end of 2008, up to 967 million people will be under-nourished, 44 million people more than in 2007, largely due to the rise in global food prices. In fact, hunger and under-nutrition are the biggest threats to public health because every day, 25,000 people starve – including more than 10,000 children.²⁰ The most precarious aspect of this development is that the poverty reduction gains of the last five to ten years are undermined, and consequently, the first MDG target – eradicating extreme poverty and hunger by 2015 – is becoming increasingly difficult to achieve.²¹ The number of “new poor” is certainly alarming, but is only part of the story. The impact on those who were already poor at the beginning of the crisis may be less visible; however, their case may be even more dramatic as they descend still deeper into poverty, with long-term consequences.

At the regional level, the situation of food insecurity is of most concern in Asia and sub-Saharan Africa. In 2007, a record number of 47 countries faced food crises requiring emergency assistance: 27 of these countries were in Africa, ten in Asia, and the remaining ten in other parts of the world.²² Africa and Asia together already accounted for 750 million, or 89 percent, of the world's hungry in 2003-05, and the recent price rise has pushed an additional 41 million people in Asia and 24 million in Sub-Saharan Africa beneath the hunger threshold, as figure 4 depicts.²³

¹⁷ Benson, Minot, Pender, Robles & Von Braun. 2008. p. 2

¹⁸ UN HLTf. 2008. p. 1

¹⁹ World Bank. 2008a. p. 3

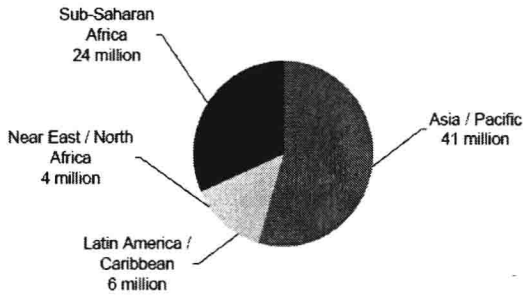
²⁰ UN HLTf. 2008. p. 14

²¹ Ivancic & Martin. cit. in World Bank. 2008b. p. 4

²² FAO. 2008c. p. 19

²³ FAO. 2008d. p. 6

Figure 4: Impact of High Food Prices on Numbers of Undernourished by Region (2003-05 – 2007)



Source: FAO. 2008d. p. 7

2.2 Impact at the Country Level

The impacts of soaring food and fuel prices are felt globally, but differ strongly across countries. Certainly, developing countries are more vulnerable than wealthy nations, and the least-developed²⁴ (LDCs) and low-income-food-deficit countries²⁵ (LIFDCs) are the most seriously affected ones, with macroeconomic stability, long-term growth, and political stability endangered to a high degree.²⁶ Factors such as cereal imports as a share of total imports, the capacity to finance imports via export earnings, or the price elasticity of imports determine the degree of the impact.²⁷ In the following, macroeconomic and political impacts are briefly examined.

2.2.1 Impact at the Macroeconomic Level

A) Price Transmission and Inflation

At the country level, the actual impact of global food prices on domestic economies depends, inter alia, on the extent to which the food price changes are transmitted to local markets. Price transmission varies greatly across countries, owing to various factors such as exchange rates, domestic infrastructure, trade policies, and price stabilization policies, to name just a few.²⁸ Aker of the Centre of Global Development supports this argument and also mentions integration with global markets, national and regional agricultural production, relative demand for imported and local goods, and the elasticity of demand as criteria.²⁹ Furthermore, soaring global food prices contribute to overall inflation, but to very different degrees across countries.³⁰ Consequently, if food prices increase, everything is likely to become more expensive, but wages often adapt only slowly, if at all.

²⁴ LDCs represent a separate group that is characterized by low income (GDP per capita lower than US\$750), weak human assets, and economic vulnerability (UNCTAD. 2002)

²⁵ LIFDCs are poor and their imports of basic foodstuffs outweigh exports (FAO. 2008o.)

²⁶ FAO. 2008e. pp. 17-19

²⁷ FAO. 2003. p. 7

²⁸ World Bank. 2008b. p. 2

²⁹ Aker. 2008. p. 3

³⁰ World Bank. 2008b. p. 2

For instance, assuming that the economies are open and well integrated into the world market, increased prices for internationally traded agricultural commodities (e.g., wheat) cause a relatively high pass-through in developing countries where the food baskets include in large part unprocessed goods.³¹ In contrast, this does not apply to untradeable commodities (e.g., cassava) where the global price increase is unlikely to be directly transmitted. Another example is the variance in the degree of price transmission in India and China and in low-income African countries, where in the latter countries, the transmission is much higher (compare [cf.] figures 19 and 20 in the annex).³² Consequently, international commodity prices and local retail food prices cannot be directly linked, and they do not automatically change in the same direction and to the same extent.³³ Moreover, global prices and the domestic prices in poorer nations are increasingly converging because those nations are rarely in a position to shield themselves from global price shocks. Nevertheless, the point is that many countries have experienced sharp increases in domestic prices, even though they may have been less dramatic than price changes on the world market. In fact, the impact of high food prices is expected to be larger in those countries that rely more on commodities whose prices have experienced the largest increases.³⁴

B) Balance of Payments

High food prices have an impact on a nation's balance of payment; in particular, they trigger changes in terms of trade, as shown in figure 21 in the annex. While 65 out of 196 countries are net food³⁵ exporters and benefit from higher food prices due to better export earnings, the majority are net food importers and stand to lose from this development, since they now have to spend more foreign currency on their food.³⁶ LDCs and LIFDCs are most affected due to their limited resources of foreign currency and high vulnerability to food insecurity.³⁷ There has thus been a substantial increase in the global cost of imported foodstuffs, with the total global import bill estimated at around US\$745 billion (bn) in 2007, which is 21 percent more than the previous year and the highest level on record.³⁸ The Food and Agriculture Organization of the United Nations (FAO) states that in some poor countries, augmented food import bills, along with decreased purchasing capacity might lead to substantial widening of the current account deficit, which in turn could affect other macro-economic variables, for instance the exchange rate, the reserve position of the national bank, or increased indebtedness.³⁹

³¹ OECD-FAO. 2008. pp. 37-38, World Bank. 2008b. p. 2

³² Von Braun. 2008e. p. 2

³³ OECD-FAO. 2008. p. 37

³⁴ World Bank. 2008b. p. 2

³⁵ "Food" includes meat, dairy products, grains, fruits, and vegetables. It does not include cash crops and feeds.

³⁶ Ng & Aksoy. 2008. p. 6

³⁷ FAO. 2008e. p. 17

³⁸ Diouf. 2007. p. 3

³⁹ FAO. 2008e. p. 17