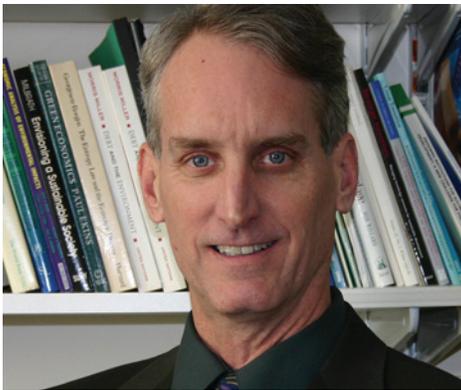




### **About Sophia Murphy**

Sophia Murphy's work is focused on agricultural trade rules, U.S. trade and agriculture policy, and the interests of developing countries in the multilateral trade system. She has worked with IATP's Trade and Global Governance team since 1997.



### **About Timothy A. Wise**

Timothy A. Wise is the Director of the Research and Policy Program at the Global Development and Environment Institute (GDAE) at Tufts University.

### **About IATP**

Institute for Agriculture and Trade Policy works locally and globally at the intersection of policy and practice to ensure fair and sustainable food, farm and trade systems. IATP is headquartered in Minneapolis, Minnesota and with an office in Washington D.C.

# A year of squandered opportunities to resolve the food crisis

**JANUARY 31, 2013** – A drought in the United States last year sparked the third price spike in international food commodity markets in the last five years, again pushing maize, wheat, and soybean prices to record highs. Why are we still seeing such volatility six years after prices shot up in 2007? Have global leaders taken action to address the causes of this new food crisis?

One year ago, we published “Resolving the Food Crisis,” a comprehensive assessment of the international community’s response to the global food price crisis of 2007-08. We argued that the food price crisis marked a watershed in our understanding of food security. Problems that had been simmering for years emerged front and center as public policy priorities, while newer policy initiatives, including biofuels and deregulated commodity exchanges, suddenly look like very bad ideas.

We found cause for hope in the international response: increased funding for agricultural development, renewed attention to small-scale producers and to women, growing awareness of climate change. Yet governments, especially the governments of the world’s most powerful countries, were addressing neither the proximate nor structural causes of the food crisis.

A year ago we warned that another price spike was likely, concluding, “We see neither the necessary urgency nor the willingness to change the policies that contributed to the recent crisis.” We noted global food security was “as fragile as ever.”

A year later, food security is still just as fragile. World leaders largely squandered their opportunities in 2012. It is time for clear and decisive action to address the real drivers of high and volatile food prices: biofuels expansion, unregulated financial speculation, low levels of public food reserves, weak investment in resilient agricultural systems, and a changing climate that makes production increasingly uncertain.

The global food price crisis severely undermined confidence in international markets, leading to defensive (and expensive) responses, including land grabs in some of the world's least food-secure countries. Governments must act to restore confidence in international food markets. This year's agenda offers plenty of opportunities to move in the right direction. In this article, we review the progress governments made in the last year in addressing the international drivers of the food crisis.

## Donor funding for agricultural development

In 2012 we saw a major step backward in the nature and levels of donor funding for Agricultural and Rural Development (ARD). The G-8 group of powerful nations adopted the "New Alliance for Food Security and Nutrition," an approach to aid that tilts heavily toward corporate interests and an unhealthy reliance on public-private partnerships.

In our 2012 report, we applauded the post-crisis commitment to public support for ARD by the World Bank and the G-8. The G-8's 2009 commitment in L'Aquila, Italy, of \$22 billion over three years reversed several decades of aid spending that neglected developing country agriculture. We also lauded the important shift to support "country-led" agricultural development plans, which put recipient governments in control of the kinds of aid programs donors would finance.

The three-year L'Aquila commitments were up for renewal in May. But instead of renewing their commitments, G-8 governments launched the "New Alliance for Food Security and Nutrition." Part of the global private-sector-led "New Vision for Agriculture" initiative, the New Alliance's scope is geographically narrow, with the explicit commitment to raise 50 million people out of poverty in Africa in ten years. More troubling, it relies on mobilizing funds from private companies, including Vodaphone, Monsanto and Yara, a global fertilizer company. These Alliance and will help govern the programs, private for-profit companies and government led development assistance. To qualify to "refine policies in order to improve investment conditionalities designed to open African

The G-8 also failed to build on one of its more Global Agriculture and Food Security Program has developed transparent decision-making development plans that prioritize small-sustainable practices in the pursuit of food now weak and may not be adequate to support has renewed its commitment. Keeping with the corporate orientation, GAFSP's so-called "private-sector window," with none of the laudable safeguards favoring country-led programs and smallholder agriculture, is now wide open for multinational corporate engagement.

*Governments  
must act  
to restore  
confidence in  
international  
food markets.*

companies are formal partners in the New blurring the essential distinction between and undermining the commitment to country-join the alliance, African governments must, opportunities." This is essentially a new set of markets still further to foreign firms.

successful and promising initiatives. The (GAFSP), through its public-sector funding, structures to support country-led agricultural scale farmers, women, and the promotion of security. Public-sector funding for GAFSP is approved projects, though the United States

## Reducing biofuels expansion

In the last year, governments made some progress in reforming public policies that encourage the continued conversion of land, food, and feed to fuel. But their actions did not slow the biofuel boom. Consumption mandates in Northern countries are now the primary policy instrument encouraging continued biofuel expansion. They remain in force and inflexible in the United States and the European Union, and they are spreading through the developing world.

At the end of 2011, the United States ended two important biofuel support programs: the tariff on imported ethanol and the blender tax credit that subsidized the use of ethanol from maize. These were positive reforms, but the Renewable Fuel Standard (RFS) mandates remain in place. Perversely, the expiration of the tariff on imported ethanol opened the possibility that the U.S. mandate to develop "advanced biofuels" beyond those produced from crops such as maize would be met by imported Brazilian ethanol made from sugar cane, with the United States exporting maize-based ethanol to Brazil to make up the resulting domestic shortfall in supply. Such absurd trading patterns would undermine the supposed environmental advantages of advanced biofuels.

Last year's drought in the United States, the worst since the 1930s, devastated the maize crop, triggering a price spike as food and feed consumers competed with ethanol producers for scarce supplies. Ethanol now consumes 40 percent of the U.S. maize crop, a demand that has pushed food prices significantly higher. Many have called for "flexible mandates" that reduce the competition for food in times of scarcity by using an automatic trigger to relax biofuels mandates when stocks-to-use ratios are too low or when prices spike. The RFS has no such flexibility, and the U.S. Environmental Protection Agency (EPA) denied a widely supported request to waive the RFS mandate for one year. Even more worrisome, the EPA opened the door to the expansion of the biofuel industry by proposing to raise the percentage of ethanol mixed into gasoline for cars from 10 percent to 15 percent. This would represent a potentially devastating expansion of demand for maize ethanol.

The European Union took the promising step of proposing to reduce from 10 percent to 5 percent the amount of transportation fuel that can be sourced from food and feed crops. As many noted, this is not a hard cap, it allows some continued expansion, and it contains many loopholes. Still, the EU at least recognized that biofuel expansion is pushing up food prices.

## **Curbing financial speculation on agricultural Commodities**

Even as evidence mounts that deregulated financial speculation on agricultural commodities is driving food price volatility, regulatory efforts hit major roadblocks in 2012. It was a year of heavy lobbying by the financial services industry, resulting in delays and weakening of approved reforms. But the recent EU approval of a Financial Transaction Tax in 11 countries is a bold and important step to raise needed revenues while imposing costs on financial speculation.

Structural reform of agricultural commodity financial markets has to come primarily from the United States and the European Union. In both places, proposed financial reforms include regulations to bring over-the-counter (OTC) trading onto regulated exchanges and to impose stricter "position limits" on the scale and scope of any one trader's holdings. U.S. efforts to get OTC swaps reported on regulated exchanges, part of the country's sweeping Dodd-Frank reforms, has been delayed at least until June 2013. And no action has been taken to require adequate collateral margins for OTC swaps, leaving margins one-quarter the levels required on regulated futures exchanges, an incentive to risky trading. Despite clear evidence that computer-generated "high-frequency trading" (HFT) disrupts price discovery in commodity markets, neither the Commodity Futures Trading Commission (CFTC) nor foreign regulators have yet implemented rules to curtail the practice. Worst of all, U.S. courts halted the CFTC rule on position limits in September after a suit by financial service firms. The CFTC is appealing the ruling.

In Europe, regulations are also delayed, with the Market in Financial Instruments Directive (MFID) unlikely to be implemented in EU member states before 2015. In December, the banks won a delay until 2019 in implementing stronger capital-reserve requirements against defaults.

Legislators and regulators' resolve is sure to be tested by continued heavy lobbying by the finance industry in 2013. If they can hold firm and implement some of the promising reforms they have already passed into law, this could be a year in which governments make major progress in re-regulating financial markets and reducing the financialization of agricultural markets.

## **Building food reserves**

Maize and wheat stocks were at dangerously low levels when drought hit the United States in June, foreshadowing a dramatically reduced harvest in one of the largest suppliers of international markets. Low levels of publicly held food reserves leave markets vulnerable to supply shocks, exacerbating price volatility. Buffer stocks are not easy to get right, but properly managed and accountably governed, reserves preclude excessive price volatility.

Unfortunately, in 2011 the G-20 dismissed the call for buffer stocks, unable to find agreement on the issue among the member governments. The 2012 international food price spike was less severe than the previous two in part because some developing countries had strengthened domestic food reserves in the meantime, and many had invested in increasing their agricultural output, with some success. China, India, and Indonesia are all very large food producers and consumers that maintain strategic food reserves. The reserves provide an insurance policy that protects domestic food availability and price stability while easing demand on international markets. In West Africa, efforts to create a regional emergency food reserve—the only concrete action on reserves agreed by G-20 agriculture ministers in 2011—continued in 2012. Progress is slow but real. Networks of local reserves are also emerging, across Africa in particular.

The G-20's new Agricultural Marketing Information System (AMIS), agreed to in 2011, took shape in 2012. The existence of AMIS is thought to have lessened the panic-buying that was evident during the 2007-08 food crisis—exporting governments were shy to impose new export taxes, calming the responses of food importers. Meanwhile, AMIS is providing some information about stock levels in different regions, reducing uncertainty and easing speculation. But the tool is of limited use, dependent on how open G-20 members are willing to be about their stock levels (an issue for some of the largest members) and unable to force transparency on the four private firms—Cargill, ADM, Bunge and Louis Dreyfus—that among them trade more than three-quarters of all grain in international markets.

The U.N. Committee on World Food Security (CFS) agreed in 2011 to do a review of public reserve programs. It has still not delivered on that commitment, and must do so. Private traders do not hold adequate reserves for food security purposes. Public reserves underwrite international trade and protect vulnerable net-food importing countries from the kinds of market failures that have produced three price spikes in five years.

## Halting land grabs

Large-scale land acquisitions by foreign investors in developing countries continues apace, though 2012 saw groundbreaking leadership from the United Nations to deal with the issue. The severity of the problem was highlighted in an April 2012 study and online database from the Land Matrix Partnership. The report documented the trends: African countries account for more than 70 percent of the land acquisitions, weak states are targeted for investment, there is rarely prior and informed consent by residents, small-scale producers are regularly displaced, little employment is generated, for many investments, and when production is for food it is rarely for the domestic market. The report was confirmed in a recent study by the U.S. National Academy of Sciences, which stressed that in effect even more water is being grabbed than

*The storms came like lions last year, reminding even those in the global North how vulnerable we all are to climate change.*

Leadership in 2012 came from the U.N. which moved quickly through difficult Voluntary Guidelines on the Responsible and Forests in the Context of National are non-binding yet provide a clear standard to protect the rights of their people to

to ensuring that foreign investors adopt agreed on an initial outline of principles on better govern large-scale land acquisitions. Oxfam launched a major new campaign to end land grabs, calling on the World Bank to support a moratorium on such deals until better rules are agreed. The World Bank did not accept the challenge, but national governments in recipient countries have started to look more seriously at their investment laws. Tanzania took unilateral action, restricting the allowable size of foreign land acquisitions.

Committee on World Food Security (CFS), multilateral negotiations to approve the Governance of Tenure of Land, Fisheries Food Security in May 2012. The guidelines are a standard for governments that are committed to domestic food-producing resources and responsible practices. In October, the CFS “Responsible Agricultural Investment” to

High and volatile commodities prices are expected to keep foreign investors and sovereign wealth funds in resource-poor countries in the market for land. Continued international monitoring is important, as are recipient-country actions to implement the Voluntary Guidelines and restrict large-scale foreign land acquisitions.

## Addressing climate change

The storms came like lions last year, reminding even those in the global North how vulnerable we all are to climate change. But the year ended with lamb-like bleating at the U.N. climate change negotiations in Doha, where governments again made little meaningful progress. Governments did agree on a second commitment period for the Kyoto Protocol, but the commitments are weak, major countries (including the United States and Canada) are not participating, and concerted international action on climate change remains elusive. The so-called “Doha Climate Gateway” is intended to set out a path for a new climate treaty to come into force, but the deadline has been extended to 2020. Decisions to incorporate agriculture into the negotiations stalled, and this year's debate looks likely to focus on which countries should mitigate emissions from agriculture, when the urgent issues are adaptation to current and anticipated climate change and funding for such adaptation, particularly for the global South.

In June in Rio de Janeiro, the U.N. Conference on Sustainable Development convened to reaffirm and advance the Rio commitments of the U.N. Conference on Environment and Development, held twenty years earlier. There was plenty of reaffirming but not much advancing. Delegates passed a strong resolution on “food security and nutrition and sustainable agriculture” that supports the right to food, emphasizes rural development and the importance of small-scale farmers and indigenous peoples and their need for secure land tenure and credit, and promotes sustainable agriculture. Delegates also succeeded in beating back an attempt by the United States to abandon the principle of equity enshrined in the concept of “common but differentiated responsibilities.”

## **Prospects for change in 2013**

There are opportunities this year for global leaders to address the real drivers of the food crisis, from biofuels reform to financial regulation, from expanding food reserves to slowing land grabs. But we still do not see the urgency these issues require.

It is telling that five years after huge price spikes awakened global leaders to the dangers of our unsustainable and unstable food systems that they still have not created viable mechanisms for the international community to address high and volatile prices in food markets. The G-20 stifled the discussion, ignoring clear recommendations from its own commissioned report and instead reduced the issue of price volatility to one of market information and transparency, via AMIS. AMIS includes a Rapid Response Forum, created so the G-20 could collectively address food price spikes, but it lacks clear criteria for when it should meet. Its members canceled a meeting set for October, despite months of high and volatile commodity prices, which called into question the G-20's will to address the problem.

If the problems are not going away, nor are the opportunities to address them. This year governments will renew the leadership of the World Trade Organization (WTO) and the U.N. Conference on Trade and Development. In December, trade ministers will meet in Bali for the WTO's bi-annual Ministerial Conference. With the WTO Doha agenda in disarray, there is an opportunity to redefine multilateral trade rules for agriculture that clearly protect and promote food security.

Also in 2013, the European Union and the United States will finalize new farm legislation. Their reforms could allow significant structural changes in international markets because of the scale of their production and its importance in international markets. Thus far, however, neither process looks promising. The G-8 is planning a follow-up to last year's Hunger Summit in London in June. Civil society organizations have launched a campaign on global hunger in anticipation of the summit. The G-20 will meet in Russia, one of the world's largest and least predictable wheat growers. No summit of agriculture ministers is scheduled.

The U.N.'s Committee on World Food Security remains a source of hope. The CFS is formally recognized as the international body responsible for coordinating responses to the food crisis. CFS action on land tenure and responsible agriculture investment opened the door for meaningful reform to regulate land grabs and promote the right to food. Its October meeting will address two of the critical issues we have identified: biofuels and investment in smallholder agriculture. But the CFS can lead only if powerful governments consent to such multilateral cooperation. It is long past time they did.