



# World Economy & Development *in brief*

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## Are We Approaching a Global Food Crisis? Between soaring food prices and food aid shortage

By the end of the 1990s, food prices had plummeted to historic lows. But after the turn of the millennium, prices began to increase. And since 2006, food prices have escalated dramatically, raising fears of a global food crisis. The price hike has affected virtually all major commodities. Prices of dairy and many cereals more than doubled in 2007, reaching all-time record highs. This rapid price increase will worsen the already dire situation for the world's poor and hungry, writes **Katarina Wahlberg**.

Most consumers in rich countries are affected only marginally by higher food prices. But in poor countries, many consumers spend most of their income on food. So, higher prices mean smaller portions, fewer meals and consuming foods with lower nutritional value. To afford essential food needs, many low and middle-income households must also cut spending on education and health.

### \* A “new era of hunger”

The World Food Programme (WFP) expects that rising food prices will increase hunger and malnutrition worldwide, including in countries and among population groups who normally escape severe hunger. This “new era of hunger” is even affecting the urban middle class in countries such as Indonesia, Yemen and Mexico.

The WFP, which channels more than half of all global food aid, depends on voluntary contributions mainly from

governments. But as governments often fail to provide sufficient aid, some hunger crises receive almost no funding. Now, as food prices soar, the WFP can afford even less food aid. The WFP's food costs grew by over 50% in the past five years and costs may increase by another 35% in 2008 and 2009. Without additional support from donor countries, the already under-funded UN Programme must take drastic measures such as cutting both food rations and the number of food aid recipients.

Since 2006, the UN's Central Emergency Response Fund (CERF), has worked to speed up humanitarian aid and provide financing for under-funded emergencies. But in spite of its modest \$500m budget, donor countries have not provided sufficient support. Just like the WFP, the CERF's response to hunger emergencies will be limited and delayed without substantially increased funding.

Analysts generally consider higher food prices beneficial to poor countries that

depend on export of agricultural goods. And, net exporters of food are benefiting from the current price hike. But in past decades, international trade liberalization has transformed most developing countries from net-exporters into net-importers of food.

**\* Why are higher commodity prices not benefiting the poor?**

Caving to pressure from the World Trade Organization, the International Monetary Fund and the World Bank, poor countries dismantled tariffs and other barriers to trade, enabling large agribusiness and subsidized goods from rich countries to undermine local agricultural production. To some degree, food aid – in the form of dumped subsidized goods produced in rich countries – also played a role in diminishing farming in poor countries. Roughly 70% of all developing countries are currently net importers of food. Among the least developed countries, this figure is even higher.

At a slower and more stable speed, higher food prices could encourage agricultural production in poor countries. But with an impending food crisis and no time and resources for a major transformation of the agricultural sector, import-dependent countries are instead attempting to boost imports by reducing import duties and tariffs, and providing subsidies to importers. Meanwhile, exporting countries are implementing export restrictions such as export quotas, export duties, minimum export prices, and even export bans of certain commodities.

**\* Why are food prices increasing?**

Food prices have soared because agricultural production has not kept up with the rising demand of cereals for food consumption, cattle feeding and biofuel production. For the first time in decades, worldwide scarcity of food is becoming a problem. Global cereal stocks are falling rapidly. Some predict that US wheat stocks will reach a 60-year low in 2008.

Population growth in poor countries is boosting the grain demand for food consumption. But cereal demand for the feeding of cattle is increasing even more rapidly as consumers in both rich countries and fast growing economies are eating more dairy and meat. The most important factor behind the sudden spike in food prices, however, is the rapidly growing demand for biofuels, particularly in the EU and the US. Of total corn production, 12% is used to make biofuel, and that share is growing fast. Concerns about global climate change and soaring energy prices have boosted demand for biofuels.

Until recently, few voices critical of biofuels were heard, but now an increasing number of policy makers and analysts strongly oppose converting food into fuel. In addition to directly threatening food security, there are alarming examples of how biofuel production causes environmental harm and speeds up global warming. US ethanol production uses large amounts of fuel, fertilizer, pesticides and water and most analysts consider its environmental impact quite negative. And in Indonesia, Malaysia and Brazil, companies have slashed thousands of hectares of rain forests to cultivate palm oil or sugarcane for biofuel production.

According to the Food and Agricultural Organization (FAO), world production of cereal, vegetables, fruit, meat and dairy increased in 2007. But, prices will remain high or grow even further in the coming years, as production is not growing fast enough to keep up with rising demand. Production is increasing mainly in the US, the EU, China and India. Not counting China and India, cereal production in poor countries decreased, due in part to climate change related emergencies such as droughts and floods.

In addition to a tight supply and demand situation, soaring petroleum prices contribute to higher food prices by raising costs of transportation, fertilizers, and fuel for farm machinery. Moreover, financial investors speculating in commodity prices aggravate prices and increase volatility in the market.

**\* What can governments do?**

Donor countries must act fast to avert the hunger crisis and increase funding to the WFP and the CERF. In the long term, these UN agencies need more reliable funding, for example through global taxes or assessed contributions from UN members.

Governments in poor countries must also take action to alleviate hunger. Already, some governments are increasing financial support to the poorest consumers. Others are introducing food-rationing systems, price controls and export bans. In the medium and long term, increased international aid can help these governments to invest in sustainable agriculture and rural development.

Converting food into fuel is neither good for the poor or for the environment. The

EU has recently banned import of biofuels that cause the environment more harm than good. But hunger analysts and environmental groups argue that the EU, the US and others must cut all subsidies for biofuel production.

Ensuring the right to food for everyone goes hand in hand with stopping global warming. Also, world leaders must reform the global system of agricultural production and trade, which currently favours large corporate agriculture and export-oriented crops while discriminating against small-scale farmers and agriculture oriented to local needs.

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**Further reading:**

\* Food and Agricultural Organization: *Crop Prospects and Food Situation*, 36 pp, FAO: Rome, February 2008

\* Katarina Wahlberg, *Food Aid for the Hungry?* 15 pp, Global Policy Form: New York, January 2008

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