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FOOD PRICES: media lines, Q&A, facts and case studies

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1. Introduction

Food prices are going up. Prices of rice, corn, and wheat have all reached record highs in the last few months (see facts below). There have been food riots in a number of developing countries (e.g. Mexico, Egypt, Tanzania, Yemen, Morocco, Niger, Senegal, Cameroon and Burkina Faso) and concern is increasing worldwide.

Price rises have been driven by a number of factors including bad weather – in part caused by climate change, increased demand from India and China and other advanced developing countries, population growth, increased demand for biofuels, failure to improve crop yields, and high oil and input prices (e.g. fertilizer) leading to increasing input costs for producers and traders. Speculation on commodity markets is also pushing up prices.

Food insecurity is also caused by structural problems – underinvestment in agriculture and infrastructure, the dominance in supply chains of big companies, and mismanagement of food and agricultural policies.

A large number of developing countries have taken action in response to the threat, including banning or restricting exports (e.g. Argentina, Kazakhstan, India, Thailand, Indonesia, Vietnam and Cambodia) and reducing tariffs on imported food products (e.g. India). At the same time, some governments in countries with large rural sectors see this as an opportunity to boost agricultural production and exports, and have started to increase subsidies to agriculture (e.g. Egypt, Indonesia).

There has been a lot in the media recently about this issue. The World Food Program and USAID have both put out urgent calls for action and more money and warned that their food aid may not be able to meet demand. The World Bank and the UN Food and Agriculture Organization have also spoken publicly about the crisis.

This story is relevant to much of what Oxfam does, including humanitarian relief, longer-term development and the Rights In Crisis and Economic Justice campaigns.

2. Main messages

This is a big threat to poor people in developing countries...

Oxfam is concerned that high food prices will cause an increase in food insecurity and widespread food crises in many developing countries. Poor people in developing

countries spend between 50-80% of their income on food and poor rural households tend to be net consumers of food. Any increase in food prices will reduce food consumption and increase hunger. Those already living on the edge are particularly vulnerable (e.g. landless, slum dwellers, itinerant farmworkers).

If consumption decreases, women and children will suffer most, as women tend to prioritise men's consumption over their own. Women will also struggle disproportionately with increased prices, as they are usually responsible for buying food to feed their families.

Families may be forced to sell productive assets, like livestock and even land, which may durably harm livelihoods and put farmers on a path of no return.

But it may also be an opportunity...

While food price increases clearly present a major threat to poor people in developing countries, they may also provide an opportunity for poor farmers and waged agricultural workers to benefit from higher prices. Most of the poorest people in developing countries make a living from agriculture, so higher prices offer the possibility of a better livelihood. However, strong efforts must be made to ensure that benefits reach small-scale producers in remote markets, not just large-scale commercial operations and agribusinesses. The current situation should be a spur for greater investment in agriculture and other policies to reduce rural poverty.

Urgent need for action now!

There is a need for urgent global action. National governments should ensure that the poorest consumers are protected from high and volatile food prices. The international community must support them and donors must commit additional financial resources to help meet poor populations' food needs. Investment in and support to small-scale, sustainable agriculture must increase.

3. Policy recommendations

National governments and international donors should:

Act now to reduce food insecurity, particularly considering the needs of women as care givers, foragers and preparers of food. Countries without adequate resources should call for international support.

Design a better global system of safety nets. Poor families faced with fluctuating prices need social protection schemes such as minimum income guarantees and cash for work programmes to help them survive shocks and meet basic needs. More money and support is needed from the international community.

Revamp humanitarian response strategies to include a broader range of interventions and better preventative actions.

Reform the food aid system to be faster, more flexible, cheaper. Instead of dumping surplus domestic production as 'in kind' food aid, donors should provide cash for governments and aid agencies to buy locally. This is usually more efficient and better for local agriculture.

Stop adding fuel to fire by pushing biofuels. Large-scale growth in biofuels demand has pushed up food prices and done little to reduce carbon emissions. Natural carbon sinks such as rainforests and grasslands are being destroyed to make way for new biofuel plantations and biofuel crops are displacing food production.

Countries driving biofuel demand (e.g. the EU and US) must monitor the impacts of their policies on global food security and provide financial support for affected countries. Mandatory targets should be reassessed in terms of likely impact on emissions and negative social and environmental side effects in developing countries, including higher food prices, land grabs and labour rights abuses.

Developing countries need to integrate their biofuel strategies with food security policies to address issues such as land allocation and crop use.

Increase donor and national government investment in small-scale agriculture in developing countries, especially in Sub-Saharan Africa. Most African governments have failed to meet their 2003 promise to allocate at least a tenth of their spending to agriculture and they are now reaping the consequences. Countries such as Malawi and Zambia have shown the way, moving from dependence on food aid to become cereal exporters in recent years. Greater international support is needed. All actors must ensure that women can access the opportunities that are created.

Ensure financial services such as insurance and credit are available to poor farmers. In Thailand, for example, small producers are going to the wall because banks will not lend them money to manage between harvests.

Allow space for national trade policies to manage food security and rural development and to support the poorest and most marginalised farmers to gain from current price rises.

Recognise that climate change is going to exacerbate these problems, requiring urgent mitigation and adaptation response

Eliminate rich countries' trade-distorting export agricultural subsidies. This will correct distortions in world markets and pave the way towards a long-term solution to unstable food prices. The potential negative implications for Net Food Importing Developing Countries can be addressed through safeguards and national policies.

4. Further Q&A

Q. Who gains and who loses from price increases?

A. This is a key question, and it is not yet completely clear what the net effect will be, though it is likely to be negative for the poorest people.

People who are poor and are net-purchasers of food (i.e. they spend more on food than they earn from selling it) will lose out from higher prices. This means lots of poor urban consumers, including slum-dwellers, but also many rural families who do not grow enough to feed themselves. Those who are already vulnerable or living on the edge will be hardest hit, for example landless workers or slum dwellers.

Small-scale producers and agricultural workers could potentially benefit from higher prices, but it is not guaranteed. In many countries, reform is needed to ensure that small-scale farmers and farm workers can access the gains.

Winners are likely to include larger-scale commercial farms, where there is capacity to store food and money to invest and buy higher-priced inputs. Also, packers, millers and others involved in the processing and trading of food should gain from higher prices, though they may also be negatively affected by increased (transport and other) costs resulting from higher oil prices. Speculators on commodity markets stand to gain as do large vertically integrated agribusinesses.

Q. What do you mean when you say this could be an opportunity?

A. There are gains to be made if governments in poor countries take the necessary policy steps and invest in agriculture. But they need to act fast and do more than they have in the past. When adequate investments are made, countries that are food aid recipients can become self sufficient and even turn into exporters (e.g. Zambia and Malawi in the past few years). Higher prices may also provide an incentive for small-scale farmers to modernize, become more financially savvy and increase their productivity. National governments should support them to do so.

Q. What is the main cause of the increases?

A. The causes are various and analysts disagree on the relative strengths but key drivers agreed to be increased demand from India and China, erratic weather (due in part to climate change), higher oil and energy prices and increased demand for biofuels.

Q. What is the link to climate change?

A. Increasingly erratic weather, due in part to climate change, has had a negative impact on food supplies – with crop failures in some key grain producing countries. Harvests are less predictable and small-scale and subsistence farmers are particularly vulnerable to shocks. Climate change is also expected to reduce agricultural productivity in tropical zones, putting further pressure on national food security in the poorest countries.

Q. And biofuels?

A. The switch to biofuels is correlated with food price rises over the past year, and, with consumption likely to grow, is expected to drive further food price inflation. Biofuels are also a potential driver of food price volatility. Consumption mandates, such as the EU's 10% target and US ethanol mandates, are expected to exacerbate volatility, as they make demand less responsive to price rises.

Q. How seriously should we take this threat?

A. This price increases have not resulted yet in the kind of humanitarian crisis that has been seen in the past in Sub-Saharan Africa. Care should be taken to avoid fuelling the kind of panic and speculation that can further exacerbate the situation. However, the threat is significant. The combination of low world food stocks and high prices means that humanitarian agencies will struggle to respond to unforeseen events. WFP and USAID are already losing ground; faced with a large drought or a humanitarian crisis like the Asian tsunami, there would be grave problems.

Q. What does this have to do with food aid?

A. High prices also affect the food aid system, which is counter-cyclical – in other words, when food prices are high, food aid declines - partly because it is used as a way to get rid of excess from northern markets. Current food aid levels are the lowest in the past five decades. While food aid is clearly extremely important the system needs improving. Even without high prices, food aid often arrives too late, often in the wrong form, and can undermine local market recovery. Cash is often preferable. The current situation could spur much needed reform, and is in this sense an opportunity.

Higher food prices will hurt marginalised populations across many different countries. This makes humanitarian interventions more difficult: it's much easier to deliver massive food aid to refugee camps or specific regions facing drought than to find and assist millions of families spread across the world. In this context, broader safety nets and monitoring programs will be much more important and appropriate.

Q. Why haven't governments acted sooner to prevent this?

A. The gravity of current situation has taken many people by surprise – not just developing country governments but aid agencies, northern governments and international institutions. A 'perfect storm' of factors led rapidly to an unprecedented situation, to which many actors were ill equipped to respond.

Most developing countries don't have the capacity to cope with the risks presented by the current situation or to take advantage of the potential opportunities. The 'privatisation' of agriculture marketing boards and food reserves imposed by World Bank and pressured by trade rules has left many developing countries with inadequate institutional mechanisms to address the food and agriculture challenges. Many have negotiated away the right to use trade policy to protect their citizens. Trade liberalisation has increased exposure to this crisis which, combined with a lack of strong institutions, is leaving poor countries very exposed.

The weaker developing countries are the most vulnerable to this crisis but the least equipped to respond.

Q. But aren't high prices good for farmers? Isn't that what you wanted?

A. Oxfam campaigns for reform of EU and US subsidies on the grounds that they suppress prices, increase volatility and reduce opportunities for farmers in developing countries. This is not incompatible with our current concern about the impact of higher prices on poor consumers.

The commodity price increases envisioned as part of the Doha round of trade talks was in the range of 5% over the course of a decade or so. The commodity price increases the world is currently experiencing is in the range of 20-100% over 2 years. Price increases are one thing, economic shocks are another.

We believe that price increases could be a good thing for poor farmers who are in a position to benefit. However, we worry that the size and rate of these increases is creating risks and dislocation in the short term. Furthermore, we are concerned that many small farmers and agricultural workers are not in a position to benefit from the price increases and that the benefits may accrue mainly to larger scale agriculture and those further up the supply chain (like millers, packers and processors).

Q. Is there a shortage of food in the world?

A. No, worldwide there is sufficient food to feed the entire population. The problem is that not everybody has sufficient means to access food year-round. Already 840m people suffer from hunger. This is further exacerbated by the current structural shifts.

Q. Will prices stay this high?

A. It seems likely that prices will remain high, even if the rate of increase levels off. This is because of the structural shifts that have taken place (e.g. changed consumption patterns, migration to the cities, volatile weather patterns).

Q. What is Oxfam doing?

A. Oxfam is factoring higher food prices into the work we do at many different levels. In our humanitarian response we are already employing a broad range of tools adapted to local conditions. This includes food distributions, cash or voucher handouts, buying food locally, destocking livestock in times of drought, and other interventions aimed at reducing people's vulnerability to market fluctuations (e.g. support to grain banks).

We are doing a lot of work on disaster risk reduction and disaster preparedness, aimed at forecasting crises before they occur and taking steps to reduce risk and vulnerability. This includes working with governments to put social protection schemes in place.

We are also campaigning on civilians' rights to protection and basic services in humanitarian crises. This includes holding governments and the international community to account to ensure that people have access to food, water and basic services, even during conflict or humanitarian emergencies.

Our campaigning and advocacy work on climate change, agriculture and trade rules, takes high food prices into account and includes recommendations aimed at preventing further negative impact – for example we are urging caution on expansion of biofuels mandates, calling upon governments to invest more in agriculture, and calling for more money to help poor countries adapt to climate change.

We will continue to monitor closely what is happening in food markets and the impact it is having on poor people. We will work with others, including our partners on the ground, academics, governments, multilateral institutions, and other NGOs, to devise the best responses to the challenges posed by the evolving situation.

5. Selected country case studies

Bangladesh: Government-run outlets selling subsidised rice and other basic commodities are being besieged as food prices continue to rise. Even middle class consumers are now joining the queues to buy rice under the government's Open Market Sale (OMS) scheme - established whenever a potential food crisis is perceived. Rice and other commodities in these outlets are almost 30% cheaper than the market rate. Mansur Ali, a senior clerk in a government office said: I am the lone earner in my family. My two children are very young and my wife is pregnant with the third. She needs extra nutrition, but I can't even buy food for the family. No one in my family has ever stood in an OMS queue. These are meant for the poor.” (Source: IRIN news agency. Oxfam media contact in the region: Surasak Ghalan, sghalan@oxfam.org.uk)

Kenya: Food prices have shot up in most parts of the North Rift region, sparking protests. The shortage has been attributed to the recent drought that hit most parts of the region and the effects of violence. The prices of maize and beans have both gone up dramatically. But farmers are not benefiting. Most have reduced their acreage because of the high price of fertilizer. “I used to plant nine acres of maize but now I will only have four acres of the crop, just to take care of my family throughout the year. It doesn't help when a 50kg bag of fertiliser goes for Sh3900 up from Sh1600 last year and a litre of diesel at Sh90 up from Sh75 last year,” said farmer Ezekiel Kosgei. (Source: The Nation, April 7. Oxfam media contact in the region: Brenda Kariuki, bkariuki@oxfam.org.uk)

Senegal: Rising commodity prices are compounding a poor agricultural season. Normally, Senegal produces 50% of its national consumption; additional cereal requirement must be sourced internationally. This year, there are many indications of an early onset of the lean season. There is strong evidence that people are using alternative food much earlier, food prices are increasing earlier, there are lower food stocks in markets, increased animal sales, pastoralists buying animal food earlier than usual and Mauritanian pastoralists looking for pasture in Senegal. Oxfam staff and partners report a concerning impact on livelihoods which includes reduction of the quantity and quality of meals (lower variety, less use of fish and condiments), children pulled out from school, increased tensions between different groups over natural resources (land and water), and an increase in banditry. The situation is aggravated by the fact that this is the third consecutive bad year in terms of food production and rainfall for the country. (Source: Oxfam. For more information: Ismaila Dieng, idieng@oxfam.org.uk)

Mauritania: Heavy dependence on food imports has overshadowed an average harvest. Mauritania imports 70% of its food requirement. The price of wheat has gone up from \$200 in 2006 to \$360 in September 2007. Decreasing value of the national currency and suspensions of government subsidies have multiplied the impact of rising prices on the population. The effect is not only on food but also on agricultural inputs - the price of fertilizers has increased over 200% since last year. (Source: Oxfam. For more information: Ismaila Dieng, idieng@oxfam.org.uk)

Colombia: The increased price of inputs has hurt Colombian farmers in the last two years. Oxfam helped set up the Zero Hunger strategy for the capital Bogotá, which aims to help poor urban consumers and poor rural producers at the same time. It has been a success. But the growing costs of fertilizers and other inputs threaten to reduce existing food supplies. Poor consumers will end up without access to good food, while small-scale producers may have to abandon their crops, and move to the city thereby swelling the ranks of urban poor. (Source: Oxfam. For more information: Renato Guimaraes, rquimaraes@oxfam.org.uk)

Indonesia: The impact of the increase of soybean prices in Indonesia illustrates the dangers of overly rapid or premature trade liberalization. Indonesia abolished import tariffs on soybean during the last round of world trade negotiations. As a result, the country became a net-importer of soybeans and other agricultural commodities and Indonesia's soybean farmers replanted cash crops such as corn. The country is now facing soybean scarcity due to reduced supply from the US, and increased demand for biofuels. The price of soybean reached almost IDR 7,500 per kilograms (from the normal price IDR 4,000 per kilograms) – the highest price in the last 10 years in Indonesia. Seven thousand tofu and tempe producers protested in Jakarta in January 2008. (Source: Oxfam. For more information: Aloysius Suratin, asuratin@oxfam.org.uk)

Thailand: Expensive animal feed is hurting small-scale dairy and livestock producers, while consumers are suffering from the rapid rise in food prices, especially for items such as pork, chicken, egg, rice and vegetable oil. Between 2005 and today, feed prices increased massively – maize prices rose from 6.3 baht/kg in 2005 to 9 baht in 2008; soybean meal rose from 10.30/kg baht in 2005 to 17 baht in 2008; and fish meal is 7 baht higher than in 2005. A representative of the Chicken Raising Promotion Association said that the small-scale producers are unable to compete with the large-scale producers and are going out of business. (Source: Oxfam. For more information: Yowalak Thiarachow, ythiarachow@oxfam.org.uk)

6. Some facts and figures

- In March 2008, the real price of rice hit a 19-year high and the real price of wheat rose to a 28-year high (World Bank)
- Global food prices, based on United Nations records, rose 35% in the year to the end of January, markedly accelerating an upturn that began, gently at first, in 2002. Since then, prices have risen 65%.
- The World Bank Group estimates that 33 countries face potential social unrest because of the acute hike in food and energy prices
- The UN World Food Programme estimates it needs a \$500m injection just to maintain its operations at their 2007 level
- USAID estimates it will be \$260m short by the end of the year.
- The US Department of Agriculture expects global rice stocks to hit 25-year lows of 70m tonnes this year, less than half the level of 2000
- The US Department of Agriculture has forecast US food inflation to rise as high as 5% this year, or about double the average rate of 2.5% seen over the last 15 years
- The price of coarse rice in Bangladesh has gone up by nearly 70% over the past 12 months. Purchasing power declined by around 4% due to higher inflation in 2007, propelled by 16% food inflation in December alone. (Bangladesh Institute of Development Studies)
- In Bangladesh about 40% of families at or just below the poverty line of \$1 a day are already spending around 70% of their income on food. (Bangladesh Institute of Development Studies)
- According to the UN Food and Agriculture Organisation (FAO), 16% of the arable land in use now is already degraded
- In April, the FAO predicted that world rice production would rise by almost 2 per cent this year, taking pressure off the tight supply situation in key producing countries.

This will reduce the likelihood of further price rises but short-term volatility will probably continue.

- Rising cereal prices could put 300 million people in India, Pakistan and Bangladesh at risk of starvation (Asian Development Bank)
- Since November 2007, price of bread in Kabul has risen from 11 us cents to 21 us cents, an increase of over 90%. From January 07 to January 08, the price of wheat nationwide increased by 67%. As a result, 1.4 million people in rural areas and 1.1 million in urban areas have been pushed into high risk food insecurity (Oxfam)
- The world's wheat stocks are at 30-year lows (Reuters)
- The Chinese ate just 20 kilograms of meat per capita in 1985. They now eat 50 kilograms a year. (Australia Central Bank)
- Increased demand for biofuels could mean an extra 600 million people going hungry by 2025. (Oxfam)
- The FAO estimated that the total cost of imported foodstuffs for Low Income Food Deficit Countries (LIFDCs) in 2007 would be some 25% higher than the previous year, surpassing \$107bn.
- Experts believe that climate change could reduce African agriculture productivity by as much as 20-30% (Centre for Global Development)

7. Further reading

Lots here, a website set up by Alex Evans, formerly of DFID, and now working with Oxfam on food prices: <http://www.globaldashboard.org/scarcity/food-prices-where-to-get-briefed/>

8. A selection of media reports

www.guardian.co.uk/environment/2008/feb/26/food.unitednations

www.ft.com/cms/s/0/451604c4-e30b-11dc-803f-0000779fd2ac.html

www.nationmedia.com/dailynation/nmgcontententry.asp?premiumid=0&category_id=3&newsid=120678

www.reuters.com/news/globalcoverage/agflation,

www.economist.com/world/international/displaystory.cfm?story_id=10925518

www.economist.com/world/international/displaystory.cfm?story_id=10925518

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For more information contact Amy Barry on 01865 472313 or abarry@oxfam.org.uk