



Paul Jeffrey/EAA

# UNDERSTANDING THE FOOD CRISIS

## TAKING ACTION

The food crisis that developed in the first half of 2008 alerts us that we need to do everything we can to bring about a world where everyone has access to sufficient food to live life in dignity and fullness. It is vital that we look at the underlying causes of the crisis to understand why it is happening, how to fix it, and how to stop it happening again. As one might expect, there is no single cause, no quick fix solution. However unjust trade is one of the underlying factors that have allowed this disastrous situation to happen.

### EAA'S TRADE FOR PEOPLE CAMPAIGN AND THE RIGHT TO FOOD

The EAA's *Trade for People* campaign began in 2002 and has been focusing on the linkages between trade, food and hunger since 2006. Research was carried out in 2007 on the impact of trade liberalization on the right to food of rice farming communities in Indonesia, Honduras and Ghana. These case studies are important, because 90% of the world's rice is produced by smallholder farmers in poor countries.

The research found that as a result of liberalization all the countries had experienced import surges, highly changeable prices and selling of imported rice at less than the cost of production (dumping). Farming communities lost income, many farmers quit farming, and their access to food was less secure than it had been in previous decades. Food is one of the last things that people will cut back on – we will sacrifice many other things in order to have enough to eat – but at the “hungry times” (before the next harvest, when stocks from the last

harvest are running low) people cut back on both the number of meals they eat and the nutritional content of the meals. In each country there were attempts to change the liberalization policies through governmental processes, but these were opposed by the International Monetary Fund (IMF) and World Bank.

The findings of the research are published in the report *Trade policies and hunger: The impact of trade liberalization on the Right to Food of rice farming communities in Ghana, Honduras and Indonesia*. The report, in English, French and Spanish, is available online at: [www.e-alliance.ch/trade\\_policiesandhunger.jsp](http://www.e-alliance.ch/trade_policiesandhunger.jsp)

The issues highlighted in this research are also causal factors of the current food crisis.

### CAUSES OF THE CURRENT CRISIS

There have been exceptional price surges globally in agricultural commodities for the past two years, but underlying causes – and the impact on poor countries -- go back for decades.

In the short term, the reasons for the current crisis include:

**Bad weather and crop failure:** bad weather in 2006 in some of the major cereal producing areas of the world led to a 7% decline in production in 2006/7.

**Agro-fuels:** sudden enthusiasm for agro-fuels/bio-fuels among countries anxious to be seen to be taking action on climate change led to a rapid switch in the use of land from food to fuel.

**Commodity speculation:** speculation in agricultural commodities has increased in recent years. This is partly because problems in other markets have caused investors to look for somewhere else to put their money. However in addition the exceptional volatility in the past two years, culminating in the price rises of the current food crisis, has in itself increased speculation because wherever prices are changing rapidly speculators see potential for making short-term profit. This carries the risk that speculation and volatility reinforce each other. In 2006 alone the volume of trading in agricultural commodities increased by more than a quarter.

**Oil prices:** oil prices have been rising sharply as a result of geopolitical uncertainty. This increases the cost of using any machinery, of making inorganic fertilizers and pesticides, and of transporting food to market.

In the longer term, factors that make the food crisis possible include both factors that contribute to prices rises and factors that have removed people's safety margins and made them vulnerable:

**Increasing consumption:** we are consuming more food, not just because of population growth, but also because average food consumption is increasing. In particular we are eating higher proportions of meat, dairy products and processed food that are less efficient at converting resources to calories than fruit and vegetables. Ironically development successes are part of this change as nutrition improves in India, China and elsewhere, but consumption also continues to increase in rich countries where people already consume far more than is nutritionally necessary. In recent years production of cereal grains has not matched demand, but when it is understood that currently a person in the US consumes 5 times as much grain as a person in India, it is clear that this is a symptom of global inequality in access to food not a global shortage of food itself.

**Climate change:** the short term bad weather is a symptom of longer term climate change and the likelihood of more frequent extremes of weather, such as droughts, floods, freezes and hurricanes. This will severely damage crop yields. There is also increasing scarcity of usable land and water.

**Neglect of agriculture:** for decades the orthodoxy was that agriculture was a dead-end compared to the priority of industrial development. As a result levels of development aid and investment for agriculture have been low. What support there was encouraged cash crops rather than food for local consumption. This orthodoxy has recently changed but it will take a long time to reverse.

**Free trade and other liberalization policies:** as discussed above, countries in the global South have been required



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to stop supporting their own agricultural production and remove barriers to trade. Once opened up to global trade, imports from stronger economies, often sold at less than the cost of production, have dominated their markets, putting local farmers out of business. Those who remain in farming have been encouraged to grow export crops. As a result, countries that used to have far higher levels of self-sufficiency in food have seen their own production of food crops decline, and their dependency on the global market increase.

And then... when a drought on the other side of the world leads to a spike in global prices, when you have become dependent on a rich country for imports of maize but suddenly that country is offering incentives for turning maize into ethanol and no longer has any surplus to export to you, when hedge funds jump in and out of dealing in agricultural commodities for reasons that have absolutely nothing to do with actual farming or eating... the impact is devastating. What do you do? What capacity do you have to react?

You haven't invested in agricultural infrastructure for decades, you've been told not to keep reserves of grain in case this "distorts the market", you've signed trade agreements that prevent you from adapting your trade policies to the new situation... you have no options. Hunger is real. Survival is a question.

## WHY AREN'T THE HIGH PRICES GOOD FOR FARMERS?

The EAA's *Trade policies and hunger* explains the damage that low global food prices have done to farmers in developing countries. Why then, are high global prices not good for farmers? Indeed, in "fair trade" circumstances, farmers in both the North and the South need high prices that cover their costs and pay them a living wage.

But overall, farmers need production and market stability in order to maintain a sound business. Because of the decades of

damage done by artificially low prices and liberalization, many smallholder farmers in the global North as well as the global South have had to abandon farming completely. Most of those still farming are only just getting by and don't have any savings with which to invest in increasing production, particularly when the costs of fuel, fertilizer and seeds are increasing steeply. The increasing costs of these inputs mean that any earnings from higher food prices may be negated. Thus, most farmers do not benefit from high prices in the short term because they cannot expand their production rapidly enough given their current financial situation and the rising input prices.

Smallholder farmers actually need a reasonable level of stability in their production costs and the prices they can expect to get for their produce. They cannot react when local prices soar and plummet due to unpredictable fluctuations in the world market, and they cannot compete when import surges come to their local market. And if the high prices mean that farming is perceived as a profitable operation in the long-term, then other investors with more capital will be able to react far faster usually through industrial-style large-scale agriculture. Without land rights, some farmers may lose their land or operation under pressure from larger investors.

Smallholder farmers are also trapped at the bottom of a chain of intermediaries, merchants and transnational corporations all of whom take a cut from the value of the product. The smallholders receive a trivial share of the final profit. The EAA's research highlighted that low prices of food imports are not necessarily passed on to consumers, as often the benefit of the lower prices is kept as profit by the importing companies. Similarly, the profit from the current high prices is in places being kept by the intermediaries and not passed on to the farmers.

Finally, farmers are consumers, too, and high consumer prices hurt their livelihoods as well.

The current short-term surge in prices only benefits large-scale industrial-style farming that is closely connected to markets and with the resources to respond quickly.

A longer term increase in food prices to a sustained level, without the current volatility, could be of gradual benefit to smallholder farmers. But only if governments provide both support to them, such as investment in infrastructure, and also put in place effective social safety nets to protect the most vulnerable consumers.

### **MORE FORCED TRADE LIBERALIZATION OR LESS?**

At the recent summit in Rome on the food crisis, world leaders included reaching a rapid conclusion to the 'Doha negotiations' at the World Trade Organization (WTO) as one of their priorities in responding to the food crisis. In fact these negotiations, as they are currently envisaged, may make things worse rather than better. The Doha Round is likely to increase vulnerability to the food crisis by making food prices more volatile, increasing developing countries' dependence on imports, and strengthening the power of multinational agribusiness in food and agricultural markets. Developing countries are likely to lose further policy space in their agriculture sector, which would in turn limit their ability to deal with the current crisis and to strengthen the livelihoods of small producers.

The current proposals at the WTO do not have the needs and interests of developing countries at their heart as they were supposed to. The whole focus has moved away from development, and even those provisions in the rules that were intended to enable developing countries to support the food security of their people are being whittled away. Rather than a rushed end to these highly contentious and complex negotiations, what is needed is a genuine effort to make trade serve the needs of all people including the poorest and most vulnerable. Many of the solutions to the current food crisis lie outside the scope of the WTO, in issues such as climate, energy sources and financial speculation. However a truly just approach to trade could support a different model of agriculture that can sustainably meet the needs of a growing population.

### **WHAT CAN I DO?**

Use the report Trade policies and hunger to help advocate for a more sustainable model of agriculture and a just trading system that would give priority to people who live in poverty – those who have been most strongly impacted by the food



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crisis, including the 854 million people currently living with constant hunger.

**Send a copy of the report to:**

- your government – both the trade and agriculture ministries
- human rights organizations and commissions
- representatives of the World Bank and the IMF in your country
- embassies of the US, the countries of the European Union and other rich country governments in your country

See if you can actually meet with government representatives to present the report and discuss these issues.

**When meeting with or writing to government representatives and others, highlight the problems revealed in the report which are also factors in the food crisis, as discussed above:**

- vulnerability of smallholder farmers when exposed to the volatility and unpredictability of prices in the global market fuelled by liberalization;
- lack of success of liberalization in benefiting either producers or consumers because profits are captured by corporations and middlemen;
- importance of designing trade policies to promote the welfare of the most vulnerable people including their right to food;
- importance of allowing flexibility and space in trade rules to enable governments to develop and alter trade policies in relation to changing reality on the ground.

**Call on your government to:**

- determine trade policy within a coherent development policy.
- protect sustainable local production that is complemented, not replaced, by exports.
- give women equitable access to productive resources, including land and credit.
- protect poor and vulnerable farmers from cheap imports that destroy their livelihoods.



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to small producers

**Call on the World Bank, the IMF and rich country governments to:**

- stop conditionality (i.e. attaching free trade conditions to aid, loans and debt relief).
- allow poor countries to determine their own economic and development policies.
- ensure that independent human rights assessments, including their impact on the right to food, are made prior to trade negotiations.
- establish effective international commodity agreements that set base stable prices for products.
- regulate transnational corporations (TNCs), especially agribusiness, on a common international basis

In your own life, consider your own habits in what you buy and eat. Are you one of the lucky ones? Do you know whether the people who produced the food you eat got a decent price for their crops? Could you eat more locally produced or fairly traded food that supports the livelihood of smallholder farmers?

Churches and other groups around the world will be joining in a Trade Week of Action from 12-19 October 2008, which includes World Food Day on 16 October. This is a great opportunity to highlight the links between trade and hunger and the underlying causes of the food crisis.

Go to <http://www.tradeweek.org> for more documents to help you understand the food crisis and to find out more about the Trade Week of Action.

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