

Understanding the International Food Crisis

Office of International Justice and Peace

United States Conference of Catholic Bishops

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Background: Experts point out that the recent food price increases are unique in two ways. The increases over the last few years have been more rapid than in the past. The FAO calculates that overall prices rose by 40% last year while the World Bank maintains that prices rose by 83% over the last three years. In addition, in the past most serious spikes in food prices have been restricted to one or a few related crops and were often due to isolated drought, or floods that affected specific crops. The most recent increases apply to almost all major food and feed commodities and point to a much broader array of causes detailed below.¹

The most startling rises occurred in the price of wheat which has tripled since 2000 and is at its highest level ever. Corn prices have doubled during the same period of time and the price of rice reached an unprecedented level in March of this year, having tripled over the last 18 months. These price increases have also affected dairy, meat and poultry products, as well as vegetable oils and other cereals and legumes.

Causes: A variety of factors have contributed to increasing food prices and the resulting food crisis.

- **Increased Demand**--There have been significant increases in demand for food. Upwards of 50% of this increase in demand comes from **India and China**. In addition to population growth, as middle classes around the world grow larger and become more affluent, food consumption patterns change towards diets richer in meat and dairy products which demand a lot of grain inputs.²
- **Low Inventories**--Current world food inventories have become relatively low: the US Department of Agriculture has reported that global grain reserves are at their lowest level since 1960.
- **Slow Supply Increases**—Production has continued to increase, but developed world investment in third world agriculture has been small and stagnant for many years. As a result, the areas of the world that could most easily increase production and productivity have not been able to do so. Supply increases are normally slow to react to increases in demand. It will take years before production can rise to relieve the high prices.
- **Input Price Increases**—Rising oil prices and other input price increases contribute to higher production and transport costs, and so to higher food prices.
- **Production of Biofuels**—Some observers suggest that biofuels account for 30% of the price increases in grain costs.³ Biofuel production consumed 28% of American corn production in 2007, and according to the Energy Independence and Security Act of 2007 production of corn ethanol is mandated to increase more than 4-fold by 2020. Yet, the expansion of biofuel production has cut oil consumption by only 1%. The steep food price rise has forced many actors and experts in the biofuel field to review the usage of food for fuel. It takes 400-500 pounds of corn to fill the 25

¹ Andrew Martin, 'Fuel choices, food crises and finger-pointing'. New York times, 15 April 2008.

² Op. cit. Evans, Alex, 'Rising Food Prices'.

³ Op. cit. Von Braun, Joachim. 'Rising Food Prices – What Should be Done?'

gallon tank of an SUV. The calories in that same quantity of food would feed a person for a year.⁴ It is important to point out, however, that ethanol is produced from feed corn that makes up 55% of the total U.S. corn production, whereas corn for direct human consumption constitutes only 10% of the U.S. corn crop. The Holy See's permanent observer to the FAO recalled the duty of nations in working to ensure and place in effect the right to nutrition, "which makes it unimaginable the thought of diminishing the quantity of agricultural products placed on the food market or maintaining an emergency reserve that could benefit others and be justifiable means, but that do not fulfill the fundamental right to food."⁵

- **Climate Impacts**--Droughts in Australia and other parts of the world have reduced production levels, limiting the world's supply of food.
- **Export Restrictions**--A number of countries such as Kazakhstan, India, Argentina and China have restricted food exports to ensure that they can feed their own people. This reduces supplies available to net food importers.
- **Commodity Speculation**--Speculative investors have bought large amounts of commodities in search of speculative profits. American farmers point to this factor as one that is out of their control.
- **Market Impacts**--Agriculture subsidies in the U.S. and the European Union have made it difficult for agriculture sectors in developing nations to be competitive and therefore expand local food production capacity. Similarly, the recent drop in the value of the dollar has made U.S. exports more competitive, crowding out exports from other countries and further weakening the agriculture sectors in developing nations.
- **Limited Research**—After the advances of the "Green Revolution," investments in research into technologies that improve production rates of staples for the world's poorest people and that improve production rates on marginal lands have been reduced. In particular, technologies are needed to improve production in Africa.
- **Long-term 'Scarcity Issues'**--In the long term, Alex Evans points to four 'scarcity issues' that will keep prices high.
 - Energy inputs to food production, transport and processing have risen sharply, as well as the cost of agricultural inputs such as fertilizers, pesticides and animal feed.
 - Water has become more scarce as demand has tripled over the last 50 years, while the number of people living in water scarce areas will increase from 500 million to 4 billion by 2050.⁶
 - More land will need to be brought into production and more of this will be marginal and costlier to use.
 - Climate change, if unchecked, could reduce significantly food production in places like Africa, India and China.

Although food prices may drop over the short term, climate change, rising population, increasing affluence and resource scarcity point to the strong possibility that these increases are structural and will

⁴ /Quote from Benjamin Senauer, Professor Applied Economics, University of Minnesota. Cited from the Baltimore Sun of 30 April 2008.

⁵ FIDES, 28 April 2008

⁶ Ibid.

remain with us for the long term.

Impact: In the U.S., food price increases are a significant challenge. The consumer food inflation rate is running at 5.3% for the third consecutive month. Notable increases in commodity prices include:

- White bread up 16.3%
- Milk up 13.3%
- Eggs up 34.8%
- Bananas up 17%⁷

As compared to January 2007, an additional 1.3 million people were receiving food stamps in January 2008 (totaling 27,689,880).⁸

A recent Catholic Charities USA spring 2008 Agency Snapshot revealed the following:

- 68% of agencies surveyed reported an increase in food services provided
- 20% of agencies surveyed reported that they were forced to turn away clients from food service.

Additional anecdotal information from Catholic Charities USA can be found in the background materials that follow this overview.

FAO has announced that 36 countries are in crisis and will need external assistance because of food price increases. Twenty-one of these countries are in Africa. The World Bank estimates that the crisis could throw 100 million back into poverty. OXFAM calculates that the poor spend between 50 and 80 percent of their income on food. CRS received over 30 reports from field offices sighting large-scale impacts of high food prices on program participants as well as the general population. In Haiti, Food for Peace cut Title II tonnage by 12% translating into the elimination of 5% of beneficiaries. In India, 35% of tonnage was cut resulting in a program decrease of approximately 100,000 beneficiaries in 2009. In Ethiopia, CRS is noticing more hunger in urban locations and the Missionaries of Charity have had an increase of 20% of the truly destitute come to their doors. Thus, rising food prices are affecting the poor the hardest, in particular, the urban poor and those who are landless in rural areas. Already urban poor have rioted in seventeen countries in protest to the high cost of food that prices them out of the market. This threatens the food security and nutritional status of the most vulnerable in society, women and their children.

Price increases are affecting humanitarian efforts to help the poor. The WFP had called for an additional \$500 million to maintain current program levels. WFP purchasing costs have risen by 50 percent in the last 5 years. The U.S. Government has reported that its food aid costs have risen by 40 percent from last year. As a result, in April 2008 the government called up \$200 million from the Bill Emerson Trust Fund to increase its allocation to foreign food assistance. The Conference and CRS recently asked the U.S. government to increase its funding to Title II food aid programs by \$600 million up from the \$350 million that the administration has requested in the emergency supplemental. Two hundred million of the increase requested by the Conference is to cover increased costs of the food and will not increase the overall tonnage of food for assistance to the poor.

⁷ [USA Today](#), 4/22/08

⁸ USDA

On May 1, 2008 the President announced that he was requesting \$770 million dollars in additional food aid be added to the FY 2009 budget that is under consideration by both houses in Congress. This was a surprise move that would increase the original request to almost \$2.7 billion.

Policy Proposals: There are five broad policy recommendations:

1) Provide Prompt and Effective Emergency Funding for Food Programs

- The emergency supplemental budget for 2008 should include additional funding for international food aid.
 - *USCCB and CRS had originally requested an additional **\$600 million in funding for Title II (which was later increased to \$900 million as prices continued to rise)** to address the impact of price increases on US food aid programs. This increased request does not address the needs of the newly hungry, but just brings tonnage up to FY07 levels.
 - * The President's recent proposal of \$770 million for 2009 in additional emergency foreign food aid and agriculture assistance is a good start. On May 7 the Senate proposed \$1.245 billion be approved in the FY 2008 emergency supplemental. **USCCB and CRS support the Senate proposal for \$1.245 billion for Title II programs in the FY 08 Supplemental, but also call for a significant increase in non-food aid resource to be appropriated as well.**
 - * Approving the stipulation that up to 25% of Title II funds be set aside for local purchase would help stimulate, under the right conditions, food production in the developing world, could improve the timeliness of the arrival of emergency food to areas that need it now and would reduce overall costs.
- Emergency funding should be provided to help low-income people in the United States who are adversely affected by rising food prices.
 - *The economic stimulus package signed by the President in February did not include desperately needed resources for those who are unemployed or poor in the United States that would have helped them adjust to the increase in food prices. A **second stimulus package** is needed that would include an **Unemployment Insurance extension and Emergency Food Stamp Benefit increases**. Adequate funding is also needed in the 2008 emergency supplemental budget and the 2009 budget for the Supplemental Nutrition Program for Women, Infants and Children (WIC), the Commodity Food Supplemental Nutrition Program (CFSNP) and other federally funded youth and adult nutrition programs.
 - *The **emergency supplemental budget for 2008** should include \$100 million in additional funding for **The Emergency Food Assistance Program-TEFAP** program to help food pantries in the United States address the growing need.

2) Adjust U.S. Agriculture Policy

- The projected increase of at least \$9 billion in new ten-year domestic nutrition funding (for the Food Stamp Program and The Emergency Food Assistance Program-TEFAP) in the Farm Bill is a critical step toward providing food security for poor people in the United States. This initiative and future funding for these programs should be given strong support.
- Food aid provisions should be supported that (1) establish a "safebox" in the Senate-passed version of the trade section that sets aside without a waiver \$600 million of PL 480 Title II resources for

development to aid those suffering from chronic hunger; (2) allow needed flexibility in using cash or commodities in fighting hunger abroad; (3) increase levels now and in the future to permit response to the newly hungry.

- The U.S. Government should continue to review its farm subsidies program to eliminate practices that do not comply with international trade obligations and that disadvantage poor farmers in other countries. (Last year Catholic Bishops and their lay colleagues from Mali, Senegal and Burkina Faso came to Washington to plead for African farmers who are adversely affected by trade distorting U.S. farm supports. Haiti, once a country that grew all of its rice, is now the third largest importer of US rice.)
- The ongoing Doha Round of negotiations on liberalizing world trade are blocked in part over farm subsidies. Current high food prices in the U.S. mean that subsidy payments will be lower than in past years. The U.S. Government can take advantage of this opportunity by officially lowering subsidies. This action would make it easier for the U.S. and other countries to conclude the Doha round with a successful final agreement.

3) Make Food a Priority in Policies Regarding Biofuels

- The U.S. Government should review the economics and the ethics of subsidies for food for fuel in a way that places priority on the right of the poor in the United States and in the developing world to adequate access to nutritious food, and the promotion of sustainable agriculture practices that protect farmland, natural resources and wildlife for future generations.

4) Increase Development Assistance, Especially for Agriculture

- In the longer term the U.S. Government should greatly increase its support to developing countries to assist them to increase their investments in agricultural research, extension, rural infrastructure and market access for poor small farmers.

5) Continue to Focus on Prudent Responses to Climate Change, Especially Mitigation and Adaptation for the Poor in the U.S. and Around the World

- Experts suggest that human impacts on the global environment could lead to climate changes that significantly impact global agriculture and, therefore, access to food. Prudence dictates that policies be developed to address global climate change, as reflected in the U.S. bishops' statement *Global Climate Change: A Plea for Dialogue, Prudence and the Common Good*. Particular attention should be paid to the effects of climate change, and policies designed to reduce it, on people who are poor in this country and abroad.

6) Regulate Speculation of Food Commodities

- The United States Government, in particular the Commodity Futures Trading Commission, should seek to protect the basic needs of poor people and vulnerable and small farmers in the United States and in the developing world by regulating speculation of food commodities to recognize that food is different than other commodities because access to food is a basic human right.