

## FOOD FOR THOUGHT: HOW THE G20 CAN HELP PREVENT A NEW FOOD CRISIS October 2011

Global food prices are currently extremely high, reaching the highest ever levels on record during February 2011 and surpassing the heights of the 2007-2008 food crisis. Higher food prices could add millions to the number who go to bed hungry each night or are forced to buy cheaper, less nutritious alternatives. In much of the developing world, where poor people spend 50-80 percent of their weekly income on food, increases in the cost of basic foods push ever greater numbers of people into poverty. The World Bank has estimated that since June 2010 high prices have pushed another 44 million people into extreme poverty in low- and middle- income countries, and that up to 34 million additional people are vulnerable to extreme poverty for the same reason.<sup>1,2</sup> While estimates of the number of hungry people have come down from over a billion in 2009, a key joint agency report estimated in June that there are currently about 900 million people hungry worldwide, or about 16 percent of humanity chronically under-nourished.<sup>3</sup>

Right now, a range of factors is driving global food price rises and volatility. Droughts, storms and volatile weather are leading to crop losses. Hoarding and stockpiling of food by anxious governments is leading to global uncertainty. Low stocks and structural changes in commodities markets, food and energy speculation, biofuels demand and trends on both sides of the food supply/demand equation are driving prices up. Over half of all global grain production is now diverted towards animal feed, industrial use, and biofuels for motor vehicles.<sup>4</sup>

So far, the UN Food and Agricultural Organisation (FAO) is saying we are not yet in a crisis however, the FAO is also quick to add that the spike could lead to a prolonged food crisis....<sup>5</sup> With current price shocks hovering at crisis levels, any additional trigger could spiral into a wider global crisis. And there are potential further weather related shocks looming heavily on the horizon such as the periodic La Niña weather phenomenon and recent severe localised flooding in Asia.<sup>6</sup>

Faced with this grim reality and with the threat of increased volatility,<sup>7</sup> it is imperative that G20 leaders take bold action to invest in fighting hunger and tackling food price volatility. Recognising the urgency of addressing this unresolved problem, France has given food security and food price volatility a prominent place on the G20 agenda in 2011. If breakthroughs are not made by the G20 this year, with collaborative mechanisms to address

<sup>1</sup> World Bank (2011) *Food price watch*, April, Washington: World Bank, see: [http://www.worldbank.org/foodcrisis/foodpricewatch/april\\_2011.html](http://www.worldbank.org/foodcrisis/foodpricewatch/april_2011.html)

<sup>2</sup> World Bank (2011) *Opening remarks on food prices/pre-G20*, Robert B Zoellick, President World Bank Group, Feb 15, 2011, see: <http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:22833625~pagePK:64257043~piPK:437376~theSitePK:4607,00.html>

<sup>3</sup> FAO/OECD (2011) *Price volatility in food and agricultural markets: policy responses*, see: [http://www.worldbank.org/foodcrisis/pdf/Interagency\\_Report\\_to\\_the\\_G20\\_on\\_Food\\_Price\\_Volatility.pdf](http://www.worldbank.org/foodcrisis/pdf/Interagency_Report_to_the_G20_on_Food_Price_Volatility.pdf)

<sup>4</sup> FAO (2011) *Food Outlook*, June 2011, see: <http://www.fao.org/docrep/014/al978e/al978e00.pdf>

<sup>5</sup> 'UN body warns of 'food price shock'', *Financial Times*, 5 January 2011, see: <http://www.ft.com/cms/s/0/524c0286-1906-11e0-9c12-00144feab49a.html#axzz1ArA9bvmf>

<sup>6</sup> FAO (2011) *Crops prospects and food situation*, October, see: <http://www.fao.org/docrep/014/al980e/al980e00.pdf>

<sup>7</sup> FAO (2011) *The state of food insecurity in the world*, see: <http://www.fao.org/docrep/014/i2330e/i2330e00.htm>

root causes and impacts, we could face years of increasing price volatility, high prices and rampant food insecurity.

ActionAid and its French associate, Peuples Solidaires, emphasize that rising and increasingly volatile food prices are widely acknowledged as being a major factor fuelling the food crisis and weakening access to fundamental social and economic rights, especially the right to food. G20 member states hold a special responsibility to take coordinated action: they possess the majority of global food stocks, reserves and resources, they host the largest commodity exchanges in the world and their agricultural policies play a dominant role in food price formation.

## **Part One: A positive G20 agenda for supporting poor farmers and limiting the impact of food price volatility in the developing world.**

Food price volatility is a grave threat to people around the world, and it cannot be brought under control without the G20. ActionAid is calling for bold action from the G20 in two key areas that will allow the people and governments of developing countries to strengthen their food security and limit food price volatility:

“ The G20 must ensure sufficient investment in smallholders and women farmers, the bedrock of rural communitiesqfood security and livelihoods.

“ The G20 should also commit to political and material support for robust food reserve systems that ensure food security, support smallholders, and help manage price stability.

### **Increase investment in smallholder agriculture**

Low-income food-importing countries are particularly hard hit by high and volatile food prices. Most of these countriesqfood production has been compromised by deregulation and low investment in agriculture for the past 30 years. Rebuilding agricultural capacity will reduce countriesq vulnerability to price volatility on global markets and increase their resilience not only to price fluctuations, but to crises caused by climate change, financial disruptions, trade imbalances, regional conflict and exchange rate movements.

Women make up the majority of poor rural smallholder farmers worldwide, and smallholders produce as much as 90 percent of the food grown in Africa and 50 percent of the entire worldq food, but many are still not producing enough to feed themselves and their families.<sup>8</sup> Moreover, the US government recently predicted that without major investments in agriculture and rural infrastructure, hunger is likely to increase by 6 percent in Sub Saharan Africa between now and 2021.<sup>9</sup>

In spite of food price rises in 2011 which have surpassed those of the crisis of 2007-2008, we are not yet in crisis, according to the World Bank, largely because harvests have been generally good, rice production has been at record highs, and African countries have been partly shielded from global food prices by increased investment in agriculture. Countries

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<sup>8</sup> ActionAid International, 2010, “Fertile Ground: How Governments and Donors can halve hunger by supporting small farmers”.

<sup>9</sup> USDA (2011) *Food Security Assessment 2011-2020*, Economic Research Service (USDA-ERS), see: <http://www.ers.usda.gov/Publications/GFA22/GFA22.pdf>

such as Rwanda and Malawi, which have recently increased government support to smallholder-based agriculture, are reporting stable local food prices and abundant supplies.<sup>10</sup> But low income countries need more support to raise and maintain investments in agriculture, especially sustainable food production by women and small-scale farmers.

After the last sharp price spike in 2008, the G8, along with a number of other donor countries, promised to invest \$22 billion over three years to help vulnerable countries boost food production, in the L'Aquila Food Security Initiative (AFSI). AFSI, which the G8 said would focus on country-owned programs benefitting key groups like women and smallholder farmers, was an unprecedented commitment. Two years later, the G8 Accountability Report shows that around two-thirds through the pledge only 22 percent have actually been spent, while some donors are not living up to their original pledges.<sup>11</sup> The commitments should be fulfilled with fresh funds by the original deadline of July 2012. The G20 should play a role: it endorsed the pledge at its Pittsburgh summit in September 2009. South Korea, Spain, and Australia have made pledges; now the rest of the G20 should accept the challenge articulated by the French presidency to take full and effective ownership of AFSI.

ActionAid believes the Global Agriculture and Food Security Program (GAFSP), which was designed for new donations under AFSI, could be a good vehicle for supporting the kind of country-led agricultural development strategies promised by AFSI. In Africa, the fund specifically supports countries that have advanced through the Comprehensive Africa Agriculture Development Programme (CAADP) process. Yet many countries are woefully short of much needed funds for their CAADP plans -- there is a funding gap of \$36.3 billion for 20 African countries that are at an advanced stage of the CAADP process -- and the GAFSP, despite receiving rhetorical support from the G20 Agriculture Ministers meeting in June, is suffering a serious shortfall in funding of almost half a billion dollars.

→ **The G20 should:**

- Explicitly **adopt the G8 L'Aquila Food Security Initiative (AFSI)** originally announced by the G8 Summit in 2009. The G20 has endorsed it, but has not committed to action. This will give added impetus to the G8 countries, and the rest of the G20, to fulfil the \$22 billion pledge to support country-owned programs that assist key groups such as women and smallholders.
- **Channel their AFSI support through funds like the GAFSP**, which ensure that contributions are new (not recycled development aid) and support country-owned agriculture plans. No credible national plan should go unimplemented for want of funds, and G20 countries that have not yet made a pledge to the GAFSP should do so.
- Seek **additional resources to strengthen the capacity of smallholder farmers** who provide the bulk of food consumed in developing countries. G20 leaders should consider strategies such as levying a tax on food commodity trading by speculators, with proceeds going to multilateral initiatives for supporting countries' agricultural plans, such as GAFSP.

→ **The G20 Development Working Group** has concluded its 2011 meetings; the results have not yet been announced, however, and meetings will resume in 2012. ActionAid believes it should encourage its members to ensure that future investment in agriculture prioritises support to smallholder farmers and sustainable agriculture, and takes into account the particular needs of women farmers by:

- **Supporting interventions which specifically focus on the unique needs of**

<sup>10</sup> FAO (2011) *Global food price monitor*, 6 October, see: [http://www.fao.org/giews/english/gfpm/GFPM\\_10\\_2011.pdf](http://www.fao.org/giews/english/gfpm/GFPM_10_2011.pdf)

<sup>11</sup> G8 (2011) *Deauville accountability report*, see: [http://www.g20-g8.com/g8-g20/root/bank\\_objects/Rapport\\_G8\\_GB.pdf](http://www.g20-g8.com/g8-g20/root/bank_objects/Rapport_G8_GB.pdf)

**women**, including: public credit and financial services; guaranteeing secure access, use and control over good quality agricultural land and other productive resources; and targeting women smallholders through plant breeding and agricultural research and extension services.

- **Setting specific and measurable targets for actions on women farmers** in policies and spending plans and ensuring that an increasing share of public budgets and agricultural aid supports women farmers.
- **Prioritizing investment in agro-ecology-based sustainable agriculture, rural extension and credit facilities**, particularly for women farmers. The research, including that of the CGIAR system, should support and build on initiatives by smallholder farming communities and civil society.
- Supporting national governments and regional bodies to **overhaul and expand extension systems** to reach more smallholders and support their climate-resilient sustainable agriculture initiatives.



Thonyde Jean, Haïti, Dec 2008  
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## **Support national and regional food reserves**

Managed correctly, local, national and regional food reserves can be a key tool in both safeguarding food security and maintaining price stability by strengthening the ability of governments to limit excessive price volatility on both farmers and consumers.

Reserves can be used to smooth out volatile agricultural commodity markets by purchasing grain or other foodstuffs when there is a surplus on the market and releasing it during lean times, at moderate prices. Transparent and effectively-managed public reserves, both regional and national, can help to ensure that food is available during humanitarian emergencies, price spikes or climate catastrophes. In so doing, they can provide access to food to the hungry and vulnerable when most needed, at moderate prices or if necessary for free. Food reserves also have an important impact on food market behaviour. Their mere existence can forestall or calm volatility, and they can temper food price spikes by giving an injection into the market when supplies are low, limiting the potential impacts of speculation during dangerous periods.

Moreover, if reserves include public procurement from smallholder and women farmers, they can also help to enhance and support small-scale agriculture. If domestic purchases for reserves are made when prices are low and there is more in the market (i.e. during harvest

times) then they can help to push prices up in support of producers, thus stabilising prices for farmers and helping them to predict their markets and future agricultural investments. Reserves at both the regional and the national level can reinforce each other and further enhance price stabilisation through collaboration.

The G20 has been very reluctant to recognize the value of food reserves, apparently out of concern that they distort markets and trade. Even in the case of emergency food reserves, the G20 Agriculture Ministers had to overcome opposition to endorse a pilot program of coordinated regional reserves in West Africa. Opposition to the use of strategic buffer reserves to moderate prices has been insurmountable so far. ActionAid believes that this concern is an example of the continuing influence of market fundamentalism: no threat to free markets, however remote (e.g. the purchase of basic foodstuffs by poor and vulnerable populations in times of stress), can be tolerated. The G20 must accept that the right to food supersedes such concerns, including obsolete WTO rules that were designed for times of surplus rather than shortage.

→ **The G20 should:**

- Call for **urgent studies** of the potential to use strategic buffer reserves to address the devastating impacts of market failures and price volatility at the regional, national, and local level.
- Commit to **support countries and regional bodies** . both politically and materially . in setting up adequate food reserve systems which prioritize food security and, where feasible, controlling price volatility.
- **Endorse the West Africa pilot project** on regionally coordinated reserves and encourage similar efforts in other regions, especially East Africa, where vulnerability to such crises has been amply demonstrated again this year.
- Agree that **WTO rules** on food markets and food reserves must be revised in light of historic shifts away from consistent surpluses.



Farmer Ana Marccos Tuaia, 42, with her lettuce crop in Samora Machel, 37km north of Maputo, in the Marracuene district, May 2008.

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## Part Two: Other actions for the G20 to fix the global food system and tackle volatility

### Stop biofuelling price spikes: Food not Fuel!

The expansion of biofuel investments, production and targets has been seen by many commentators to be a significant driver of recent food price volatility. European targets for agrofuels expansion could push prices of grains and food oils 15 percent higher by 2017, according to the OECD. The diversion of U.S. maize production from food and feed to fuel has put unprecedented stress on food stocks and threatened global food price stability.

In Europe, if current targets are not revised, agrofuels will provide 9.5 percent of total energy in transport by 2020. Some 92 percent of these fuels will come from food crops . such as oil seeds, palm oil, sugar cane, sugar beet, wheat. This will require a huge expansion of cultivated land worldwide, leading to the conversion of millions of hectares of invaluable forests, grasslands and peat lands into crop fields, as well as the diversion of agricultural resources from producing food for people to producing fuel for cars and other vehicles. In the U.S, agrofuel targets and subsidies have provided incentives for maize producers to convert a record 40% of production from food and feed to fuel. This year, the U.S. announced the lowest projections for stocks of maize and soy in decades, causing prices to spike even higher.

Meanwhile, hundreds of thousands of women and smallholders are seeing their right to land and food increasingly challenged. Agrofuel expansion and land grabs+ have exacerbated this problem.

ActionAid and Peoples Solidaires call on G20 leaders to jointly commit to ensuring that their agrofuels plans do not threaten global food security. Agrofuel policies (including blending targets, financial incentives and land zoning) must not threaten food reserves or contribute to food price volatility. National and international food and energy policies need to be brought into a balance that will protect peoples right to food in G20 countries and in those countries where most of the world's poor, excluded and hungry live.

#### → The G20 should:

- **Eliminate targets, mandates and financial incentives** (such as subsidies and tax exemptions) that encourage the expansion of unsustainable industrial agrofuels production.
- Ensure that all agrofuels, whether domestically produced or imported, meet **strict social and environmental sustainability criteria** that ensures that their production and consumption does not compromise food, land and workers rights and that they result in lower net greenhouse gas emissions than fossil fuels when considering the full life-cycle of the agrofuel production process.

### Coordinate market reforms and regulation governing commodity speculation

During the last ten years, commodity markets have seen sharp increases in activity by financial speculators and institutional investors, including hedge funds, investment banks, and pension funds. Between 2003 and 2008, following major deregulation of derivatives by the U.S. government in 2000, the amounts invested in commodity index funds . vehicles used by institutional investors to bet on derivatives . jumped from \$13 billion to \$317 billion.

An explosion of speculative activity on commodity futures markets may also be amplifying price movements, although evidence is mixed on how big a role speculation plays. However, speculation on food commodity markets is believed to have played a significant role in increasing food prices and price volatility during the 2007-2008 food price crisis, and a special session of commodities experts at FAO in October 2010 concluded that speculation was one of the main factors behind the recent escalation in prices.<sup>12,13,14</sup> A massive expansion of investment in under-regulated commodities derivatives by non-traditional investors such as hedge funds, pension funds, sovereign wealth funds and investment banks accelerated and amplified price movements in food commodity markets between 2002 and 2008, according to UNCTAD.<sup>15</sup>

Recent financial reform legislation in the US took steps to increase transparency on all derivatives trading, including over-the-counter (OTC) trades. It also gave the US Commodity Futures Trading Commission (CFTC) greater supervision over OTC trading, including the ability to set position limits on traders, and required that more trades be moved to formal exchanges. It will be important to ensure that the European Union, which recently launched a process to revamp its own rules on derivatives and commodity markets, matches at least the U.S. regulations.

→ G20 member states should commit to adopt regulations consistent with each other that strengthen market regulation and transparency in order to fight food price volatility and discourage traders from changing their base of operations in order to evade stricter rules. G20 countries should consider mechanisms to tame speculation such as:

- **Regulating food commodity derivatives** and imposing position limits -- the quantity, or proportion of the total market in any one commodity . controlled by any individual investor or group at a given time in all markets
- **Limiting the volume of trades or size** of investment by large institutional investors, especially index funds (pension funds, endowments, etc.).
- Standardising and guaranteeing all transactions by mutual agreement including over the counter (OTC) trading through their **registration and supervision by market regulatory authorities.**

## Stop land-grabbing

An estimated 227 million hectares of fertile land . an area the size of Western Europe . has been acquired in developing countries since 2001 by companies, investors, sovereign wealth funds and sometimes governments, almost always to the detriment of poor people and local economies. These large-scale land acquisitions aim at producing food or agofuels, mainly for export. In certain cases, those acquisitions are simply driven by speculation that the price of land will increase over time. The transactions are often non-transparent . even secret . and in violation of national laws (many of which are weakly understood and enforced), and result in numerous human rights violations, especially when people are relocated. As a result, local farmers and populations lose their land, and large-scale agriculture for food export replaces food production for local consumption and markets.

<sup>12</sup> UNCTAD (2009) *Trade and development report*, Geneva: UNCTAD, see: [http://www.unctad.org/en/docs/tdr2009\\_en.pdf](http://www.unctad.org/en/docs/tdr2009_en.pdf)

<sup>13</sup> De Schutter (2010) *Food Commodities speculation and food price crises*, see: [http://www.srfood.org/images/stories/pdf/otherdocuments/20102309\\_briefing\\_note\\_02\\_en\\_ok.pdf](http://www.srfood.org/images/stories/pdf/otherdocuments/20102309_briefing_note_02_en_ok.pdf)

<sup>14</sup> FAO-Extraordinary joint inter-sessional meeting of the Intergovernmental group (IGG) on grains and the intergovernmental group on rice, Rome, Italy, 24 September 2010

<sup>15</sup> UNCTAD (2009) *Trade and development report*, chapter II, Geneva: UNCTAD, see: [http://www.unctad.org/en/docs/tdr2009\\_en.pdf](http://www.unctad.org/en/docs/tdr2009_en.pdf)

In the food security pillar of the Multi-Year Action Plan on Development adopted in Seoul in November 2010, the G20 encourage[s] all countries and companies to uphold the principles of Responsible Agricultural Investment (RAI). However, the RAI, elaborated by the World Bank, has been widely criticized by civil society organizations because it is not an adequate instrument to regulate private investment and was formulated without the participation of communities affected by agricultural investments. The Committee on World Food Security (CFS) decided in October 2010 not to endorse the RAI, but rather to start an inclusive process to consider them and other proposals, such as guidelines formulated by the UN Special Rapporteur on the Right to Food.

ActionAid and Peoples Solidaires have endorsed the Dakar Appeal Against Land Grabs which was issued at the World Social Forum in February 2011. Consistent with it, we believe that any international legal framework on land acquisitions should prioritize access to land and resources for local communities, especially women, and should be legally binding and include safeguards to ensure that land acquisitions do not hamper the realization of the right to food. They should also require the free, prior and informed consent of affected communities. They should be transparent, require impact assessments, be ecologically sustainable, and honour the rights of land-users, whether they access land through ownership, lease, employment, sharecropping, or custom (including collective ownership and pastoralism).

→ **The G20 should:**

- Express clear support to the CFS work on land-grabbing through the development of the **Voluntary Guidelines** on the Responsible Governance of Tenure of Land, Fisheries and Forests and to an effective implementation of Article 14 of CEDAW on women's rights to ownership of, access to and control over land, and abstain from referring to the RAI as they stand.
- **Support a moratorium on large-scale land acquisitions** (purchases and leases) by private companies and states, until adequate national and international legally-binding frameworks have been adopted.
- Commit to adopt regulations at national or regional level making private companies **accountable for their operations abroad**, including for human rights violations resulting from land grabbing.