

COUNCIL *on* FOREIGN RELATIONS

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INSIGHTS FROM A CFR WORKSHOP

Anticipating and Avoiding Global Food Price Crises

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*In January 2016, the Council on Foreign Relations (CFR) held a workshop on food crises, international trade, and political stability. The workshop was cosponsored by CFR's Maurice R. Greenberg Center for Geoeconomic Studies and the International Institutions and Global Governance program, and chaired by CFR Senior Fellow Michael Levi. It was made possible by the support of the Robina Foundation. The views described here are those of workshop participants only and are not CFR or Robina Foundation positions. **The Council on Foreign Relations takes no institutional positions on issues and is not affiliated with the U.S. government.** In addition, the suggested policy prescriptions are the views of individual participants and do not necessarily represent a consensus of the attending members.*

INTRODUCTION

Global food prices have spiked several times in recent years, most notably in 2007–2008 and again in 2010–2011. A sharp increase in food prices, especially in staple grains such as corn, wheat, and rice, can have dramatic consequences for low-income families around the world, and can spark or exacerbate civil strife and conflict in politically precarious regions. Worse, countries that try to shield their people from the effects of a sudden food price increase, whether through trade restrictions such as export bans or some form of food price controls, often end up aggravating the global food crisis.

The Council on Foreign Relations hosted a workshop to examine volatility in food prices and its consequences. The workshop gathered a score of experts, including current and former policymakers, economists, political scientists, nongovernmental organization leaders, traders, and corporate leaders. The goals were to explore the causes behind recent food price increases and the potential for future volatility, examine the broader geopolitical fallout from such events, and identify ways policymakers can help avoid them and blunt their impact.

FOOD PRICES HAVE SPIKED BEFORE AND WILL SPIKE AGAIN

Volatile food prices have been a frequent feature of the global economy. Sharply rising prices are a searing memory of both the Great Depression and the economic malaise of the 1970s. Even today, despite a globalized trade in agricultural products and vast improvements in agricultural practices and yields that should dampen volatility, everyday items such as corn or rice can suddenly become prohibitively expensive for low-income families. In the mid-1970s, global food prices rose sharply. Then, relative calm reigned in agricultural markets for about thirty years, until another series of spikes in 2007–2008 and 2010–2011. Though absolute price rises in the most recent episodes were muted compared to the 1970s, price volatility was extreme.

Figure 1. Food Price Volatility Has Increased

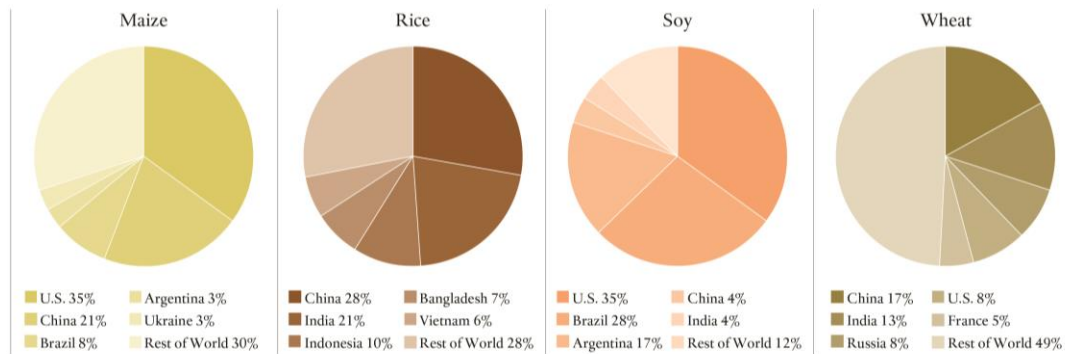


Source: UN Food and Agriculture Organization Food Price Index.

In a show of hands, most workshop participants agreed that price volatility will remain a feature of agricultural markets. The rollercoaster of recent years, in other words, is a more likely template for the future than the placid 1980s and 1990s. Asked if they expect to see a 2008-style food price rise in the next five years, a clear majority said the odds were greater than even. In the next ten years, all workshop participants said, they expected to see another food price event similar to 2008.

Importantly, participants noted, although agricultural production and trade has steadily globalized—about a fifth of all calories consumed in the world now cross an international border—production of most staple crops is concentrated in a handful of countries. That concentration makes the global food supply more vulnerable to adverse events or decisions in any of these major countries.

Figure 2. Food Production Is Highly Concentrated



Source: UN Food and Agriculture Organization FAOSTAT.

Workshop participants noted that although technological improvements have steadily driven higher farm yields in countries such as the United States in recent decades, those advances are not being replicated in many areas with substantial agricultural promise, including swathes of Latin America and virtually all of sub-Saharan Africa. Many participants agreed that improving crop productivity and resilience in those regions will be vital to meeting the world's future food needs at stable prices. Several participants argued that the risk of future price instability is compounded by increased production in countries, such as China, that are relatively opaque, generating additional surprises and therefore volatility. And in the coming decades, shocks such as drought and floods that have historically led to food price volatility will likely intensify as the effects of climate change increase.

A RECIPE FOR HUNGER AND INSTABILITY

Sudden increases in food prices to relatively high levels are bad for people in poor countries, where many families spend half or more of their income on food. These increases cause financial distress and create the specter of hunger, particularly in Africa and developing Asia. A sudden jump in the price of food can also spark popular protests, riots, or even civil conflict. “Volatility in prices causes instability,” argued one participant, echoing a popular public view. Indeed, one expert in attendance noted that forty-three countries—an unusually high number—faced unrest during the 2007–2008 crisis. Most participants, however, argued that the links were more subtle.

Three kinds of countries are especially vulnerable to political instability linked to food prices, one participant said, summarizing recent research. Poor countries clearly suffer: during the 2010–2011 crisis, twenty-eight of the twenty-nine food riots around the world occurred in African and Asian countries where poverty is rife. Net food importing countries, even if they are not poor, are also vulnerable, because they have no real alternatives to higher expenditures on imported food and, unlike net food exporting countries, have few policy options to mitigate the pain. Importers, for example, cannot slap a temporary ban on food exports to shield the population, as countries such

as China have done during recent crises. Democracies or semi-democracies also tend to fare worse during price spikes, research suggests, because such governments tend to be more tolerant of protests and other potentially destabilizing public displays of anger and are less prone to market intervention to blunt the impact of higher prices.

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But even countries that do intervene to shield the population can suffer ill effects. Autocrats can increase consumer subsidies on food to forestall popular unrest, but often only at the cost of soaring expenditures on subsidies. Egypt, participants noted, was spending a remarkably high 8 percent of its gross domestic product on food and fuel subsidies by 2011, the year of the Tahrir Square uprisings. And China, which limited grain exports during the price crises of 2008 and 2011, was able to soften the impact on its own population only by increasing the magnitude of the price increase for those countries that did not meddle with food trade.

DID DROUGHT CAUSE THE ARAB SPRING?

Consensus is still elusive on the exact relationship between food and political crises. Many participants noted that food crises, along with drought, rising prices, and rural depopulation, helped set the stage for the unrest in Syria in 2011. Others countered that Syria's drought began in 2006, and the Syrian civil war, like other uprisings during the Arab Spring, was ultimately unleashed by a combination of factors other than food, including poor governance and economic stagnation. Participants generally agreed that food price spikes are at least a threat multiplier to potentially fragile states.

When a food crisis coincides with political instability, the food crisis can be made even worse, complicating efforts by international aid groups to deliver food. During periods of heightened crisis and conflict, aid organizations have a harder time gaining access to areas that are hardest hit by food shortages or price spikes. Civil unrest can itself lead to higher food prices. Some areas of South Sudan, for example, have seen food prices leap four-fold due to the civil war.

Longer term, though, some participants noted that instability caused by food price increases can help convince recalcitrant governments to make necessary reforms. Reforms could include increased investment in agricultural productivity or better food storage and distribution. Food-driven crises “can actually help focus the mind,” one participant said.

STOCKPILES ARE NOT THE ANSWER

The suite of policy options available to mitigate food price volatility is limited and imperfect, participants agreed. Oft-cited remedies, such as food stockpiles, seldom deliver as promised, and trying to reform international trade in agriculture has largely proven a fool's errand.

Governments have long turned to food storage and food stocks to try to shield their populations against disruptions and price spikes. Even today, stockpiling remains the preferred option for many governments, from Ethiopia to India. However, participants largely agreed that food stockpiles, whether at a local, national, or regional level, seldom serve their ostensible purpose of

smoothing out food price volatility or ensuring adequate supplies during shortages. Governments often stockpile for the wrong reasons—some countries, such as India, accumulate huge stocks of grain by maintaining artificially high prices for domestic producers—and they lack the technical ability to manage food stocks. The absence of market triggers to let governments know when and how they should release food from their stockpiles further complicates their mission. Lack of

Outside of near-impossible conditions, no participants viewed food stockpiles as a remedy for volatility.

public data about the size and distribution of food stocks, for example in China, makes it even harder for them to fulfill their theoretical role as a market buffer at a time of want. “Stocks policies do not have a good track record,” noted one participant.

When asked whether countries should maintain food stockpiles, participants agreed they would have value if they were perfectly managed and fully transparent, but all agreed that these best-case conditions would never be met. When asked for a show of hands, not a single participant viewed stockpiles as a remedy for food price volatility.

Bread and Circuses

Export bans, and other limits on trade and agricultural products meant to keep food close to home, are another set of prominent policy tools for times of soaring food prices. During the recent price crises, exporting countries such as China, India, Indonesia, and Pakistan curtailed food exports, especially rice. While that helped shield their domestic populations from the worst of the price hikes, it pushed even more pain onto poor consumers in Africa and the Middle East.

Workshop participants agreed, however, that universally prohibiting export bans is problematic. In some cases—for example, alleviating hunger in countries such as India—bans can be morally justifiable. Moreover, the domestic politics of forgoing any options for mitigating hunger are treacherous. And in any event, under current international trade rules, which only loosely regulate agriculture, food export bans are almost always permitted. Participants unanimously said that, if they could, they would prohibit export bans or equivalent trade policies that only end up aggravating the effects of the original food shock.

Where There Is No Will, There Is No Way

Participants were all keenly aware that, for decades, agriculture has been largely left out of international trade negotiations. One participant noted that there is currently almost no appetite for restrictions on export bans in World Trade Organization negotiations; the only proposal that garners some support is greater transparency about countries’ plans to implement bans on food exports. Even smaller international forums, such as the Group of Twenty (G20), fail to offer a way out of the impasse; proposals to regulate commodities trading, biofuels subsidies, or limit export bans all floundered at the 2011 G20 summit in France, one participant noted.

Some participants went further, pointing to what they called the fraying of the international order, as demonstrated by the rise of ultranationalist parties and politicians in Asia, Europe, and the United States. The groups’ increasingly strident antiglobalization and anti-free trade message could counteract

many current multilateral efforts to find a solution to food price volatility and make the problem even worse. “International institutions, frankly, could be irrelevant,” another participant said.

SMALL ANSWERS TO A BIG PROBLEM

Workshop participants identified small steps that countries and multilateral organizations could take to help ameliorate food price spikes and their impact.

Because technological improvements have driven the bulk of productivity gains in recent years, especially in rich, developed countries, accelerating research and development and technology transfer to other producing countries could offer big dividends, some participants suggested. Work could focus not just on increasing yields but also on improving farmers’ adaptability to changing climate and market conditions. Democratizing the biotechnology revolution, by making drought- and pest-resistant crop varieties available to a wider variety of farmers, could also expand the geographical diversity of global agricultural production and make crops more resilient in up-and-coming areas of production.

Additionally, leadership by the biggest food-exporting countries, especially the United States, matters. During recent price spikes, for example, the United States maintained unfettered exports of agricultural products to help minimize market distortions. Formal commitments by big exporters to maintain open exports of food could help limit food price crises in the future. Some participants also suggested ways to limit biofuels’ impact on food prices. One idea was to enshrine the current 10 percent limit on corn ethanol in the U.S. gasoline supply to minimize future diversions of the U.S. corn crop. Another was a buy-back mechanism, whereby higher food prices would trigger government buybacks of some grain intended for biofuel feedstock.

Participants also called for improved forecasting of looming food-security crises and, where possible, related political instability. Tools currently exist, within national governments and inside organizations such as the United Nations, to foresee local problems with food production. But the increasing globalization of the food supply chain could complicate price forecasting unless these systems are better integrated globally. Further, participants called for increased research into the relationship between food price spikes and political instability. World markets for government bonds provide one important signal now, one participant noted, but they are far from perfect predictors of instability. Governments also adapt their responses quickly based on events in neighboring countries, which improves their resilience but makes predicting outcomes even harder.

Workshop participants suggested ways to minimize the potential harms from export restrictions, given that many countries will continue to use them. One suggestion was an international agreement requiring prior notification from food exporters before they implement an export ban or equivalent restrictions. Another option discussed was to seek agreement that any export bans should exempt the poorest countries. Other participants said policymakers should take a page from the Paris climate negotiations. Just as in the fight to curb greenhouse gas emissions, splits between developed and developing countries have long been the stumbling block to international agreement on rationalizing food stockpiling and export bans. Building an agreement based on national pledges, as was done at the Paris climate talks, could help unlock new cooperation.