

**FOOD AND ENERGY CRISIS:
TIME TO RETHINK DEVELOPMENT POLICY**

**REFLECTIONS FROM THE HIGH LEVEL NORTH - SOUTH
DIALOGUE ON FOOD AND ENERGY SECURITY**

GENEVA, 17 JUNE 2008

South Centre

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The South Centre enjoys support from the governments of its member countries and of other countries of the South and is in regular working contact with the Group of 77 and the Non-Aligned Movement. Its studies and publications benefit from technical and intellectual capacities existing within South governments and institutions and among individuals of the South. Through working group sessions and consultations involving experts from different parts of the South and from the North, common challenges faced by the South are studied, and experience and knowledge are shared.

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ACRONYMS

ACMECS	Ayeyawady - Chao Phraya - Mekong Economic Cooperation Strategy
AoA	WTO Agreement on Agriculture
ECOSOC	Economic and Social Council
EPA	Economic Partnership Agreement (between the European Union and African, Caribbean and Pacific States)
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FLEX	EU Instrument for financing short-term fluctuations in export earnings
FTA	free-trade agreements
ICONE	Instituto de Estudos do Comercio e Negociações Internacionais
IDA	International Development Association
IISD	International Institute for Sustainable Development
IMF	International Monetary Fund
IAC	InterAcademy Council

LDCs	Least-Developed Countries
LIFDCs	Low-Income, Food-Deficit Countries
MDGs	Millennium Development Goals
NFIDCs	Net Food-Importing Developing Countries
OREC	Organisation of Rice Exporting Countries
OPEC	Organization of the Petroleum Exporting Countries
R&D	research and development
SIP	South Intellectual Platform
UN	United Nations
US	United States
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization

PREFACE

Global food prices have been rising steadily since 2002 and during 2007 and 2008 only, food prices rose by 52 per cent. Spiralling food prices have led, in the past few months, to global hot spots of unrest in many developing countries.

The then UN Special Rapporteur on the right to food, Jean Ziegler, reported in March 2008 that despite real growth in some countries of the South, overall there has been little progress in reducing the number of victims of hunger and malnutrition. Hunger has increased every year since 1996, reaching an estimated 854 million people in spite of commitments made at the 2000 Millennium Summit and the 2002 World Food Summit to halve it. Every five seconds, a child under 10 dies from hunger and malnutrition-related disease. The situation, he said, is alarming.

With every crisis, there is an opportunity. This is why the causes of the current crisis must be properly analysed and understood. The South must seize this opportunity to rethink concepts such as self-reliance, self-sufficiency and food sovereignty and to reflect on aspects of the global environment which have led countries to prioritise the production of food over export crops, and imports over local production, and which have affected national ownership and control over main resources for food production.

One of the South Centre's objectives is to foster convergent views and approaches among countries of the South with respect to global economic, political and strategic issues relating to development, sovereignty and security. The South Centre mandate calls for mobilisation of expertise to examine challenges relating to these issues.

Aiming to raise awareness about linkages between food security, energy security and climate change, and to promote discussions on

possible solutions to current challenges, the South Centre and the Permanent Mission of Indonesia in Geneva organised, on 17 June 2008, a High Level North–South Dialogue on Food Security and Energy Security,¹ as part of the emerging South Intellectual Platform (SIP). This event brought together a wide range of governmental and non-governmental actors. Presentations addressed the evolution of energy and food prices, government policy responses, underlying causes of the current crisis, and possible multilateral responses.

This publication summarises the discussion of the High Level North-South Dialogue on Food Security and Energy Security and contains reflections regarding the key messages that emerged from it. It aims at developing a Southern Perspective in this debate.

One key policy issue to be tackled as we move ahead is that of agricultural production in the context of high food prices. Should policy-makers pour their investments into medium and large-scale corporate farmers, or should governments support small farmer-centered, sustainable agricultural production? In the interest of broad-based equitable development, we hope that there will be political leadership behind the latter, and that small farmers, particularly women, will be given access to production inputs such as land, water, credit, post-harvest facilities, and access to markets. This crisis should therefore be the starting point for the South to reclaim our ability to produce food, protect the livelihoods of vulnerable populations and ensure fair prices to farmers so that their living standards are improved.

*Yash Tandon
Executive Director
South Centre*

¹ For further information on the dialogue please see:
www.southcentre.org/index.php?option=com_content&task=view&id=630&Itemid=77.

I. KEY MESSAGES RAISED IN THE DIALOGUE

This section summarises some of the key messages emerging from the dialogue.

I.1 Prices of Food and Energy Commodities have been Increasing for Several Years and the High Price Trend is Likely to Continue for Several Years

The world is facing its worst food crisis since the 1970s. Food prices have been increasing significantly since 2002, with steep increases in the past three years. Food prices are not expected to drop back to pre-crisis levels for at least 10 years. Energy prices are expected to remain high until the end of 2009 at least.

I.2 The Current Situation of Sharp Food Price Rises is Unprecedented

Although humankind has experienced situations of rapidly-rising food prices before, the current situation is unprecedented because prices have gone up for nearly all food commodities and because of the simultaneous record prices in energy commodities. In contrast with previous situations of high food prices, there is this time a stronger causal link between food prices and energy prices.

I.3 Rising Global Food and Energy Prices have Severe Implications for Social Progress, Economic Growth and International Security

Dramatic hikes in global food prices are a source of concern for both developed and developing countries. They are inflating domestic prices of basic staples, increasing the number of people suffering from poverty, malnutrition and hunger. This situation has triggered riots in dozens of countries, threatening political and social stability, and it is seriously jeopardising the attainment of Millennium Development Goals (MDGs).

Short-term measures to muffle the immediate effects of the dramatic upward surge in prices on vulnerable populations is also having a direct budgetary impact on countries' ability to implement social and developmental policies.

I.4 The Impact of the Crisis Varies for Different Countries and Actors

Developing countries are more vulnerable in the current situation, compared to developed countries, because of a notable difference in productivity, scale and financial resources.

Amongst developing countries, the impact of the crisis varies depending on their production and trade patterns. In this sense, higher food and energy prices impact hardest on, and pose greater policy challenges for, dual importers of food and energy and countries with limited available resources, that is, Low-Income, Food-Deficit Countries (LIFDCs) and Least-Developed Countries (LDCs).

Within any one country, poorer population subgroups are more vulnerable in the current context, because of the high proportion of their total expenditures which is required for food costs, directly impacting on their real incomes.

I.5 Structural Factors are Key to Understanding the Crisis

The food crisis can be understood in terms of supply and demand side analysis where supply has not been able to keep pace with growing demand. Some of the key factors in understanding the crisis are structural factors that have built up over the years.

On the supply side, decreased production capacity in developing countries is the most important factor in understanding the current situation. This decreased production capacity is the result of years of inappropriate support policies and declining investment in the agricultural sector, particularly support to small farmers. Deregulation of agricultural markets and trade liberalisation, encouraged by international financial institutions, affected the incentives for farmers to remain engaged in agricultural production, eroding production capacity, increasing import dependence and increasing the incidence of import surges and dumping in many developing countries. Decreasing stocks have also been cited as a factor contributing to the crisis on the supply side.

On the demand side, factors contributing to the current crisis have given rise to many conflicting views. Opinions differ with regard to the importance of the increased use of food commodities for biofuel production and greater demand from emerging countries, such as India and China.

I.6 Other Factors have also Contributed to the Crisis

Weather and natural disasters affecting crop yields, financial speculation, rising costs of inputs and distribution logistics (due to increased energy prices) were also identified as contributory factors in the current crisis.

I.7 An Opportunity for Increased Policy Space in the South and More Self-Directed Policy Leadership

The energy and food crisis experienced globally is intertwined with several challenges developing countries now face, such as hunger and access to food, social and economic development, energy use and climate change. Hence, the current crisis provides an opportunity to put food issues and food security back on the global agenda, whilst taking into account a broader policy framework.

The current crisis has been characterised as a “wake-up call”, which requires rethinking of past agricultural policies in developing countries, the need for a strengthened role of the state in promoting productivity, long-term sustainability of agriculture production and protection of the most vulnerable producers and consumers.

Since the causes of the crisis are interlinked and there are several external factors which are beyond the control of an individual country, solutions require a multidimensional and multi-pronged approach. There is an evident need to react globally and in a coherent and effective manner to challenges posed by the crisis. In this respect, the High-Level Task Force on the Global Food Security Crisis (created under the auspices of the United Nations) has a key role to play in terms of mobilising and coordinating efforts of the international community.

Solving the crisis will require a dual approach:

- (a) Short-term measures to provide assistance to affected countries through emergency aid, additional finance and inputs for production
- (b) Medium and long-term solutions, which include increasing the capacity of developing countries to cope with market distortions, climate change and issues relating to agricultural productivity.

II. DEVELOPING A SOUTHERN PERSPECTIVE ON KEY ISSUES RAISED DURING THE CONFERENCE

The following sections provide a reflection on key issues discussed during the High Level North–South Dialogue on Food Security and Energy Security. Although they touch upon issues raised during the dialogue, they include additional analysis, with a view to deepening our understanding of these issues.

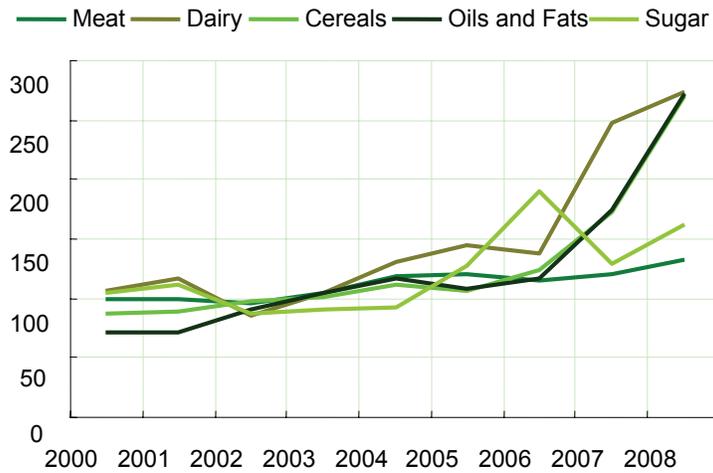
II.1 Recent Price Developments in Food and Energy Commodities

After thirty years of falling global food prices in real terms, food prices have steadily increased since the year 2002. This trend began to increase in 2006 and prices rose even more sharply in 2008, as shown in Figure 1.

Humankind has experienced situations of steep food price increases before. However, the current situation is unprecedented because prices have gone up for nearly all food commodities² and because of the simultaneous record prices of energy commodities.

² Konandreas, P. Soaring world food prices: causes and some important trade policy responses. Paper prepared for Round Table 3 of UNCTAD XII (The Changing Face of Commodities in the Twenty-first Century), Accra, Ghana, 23 April 2008.

Figure 1 World Commodity Prices, 2000-2008

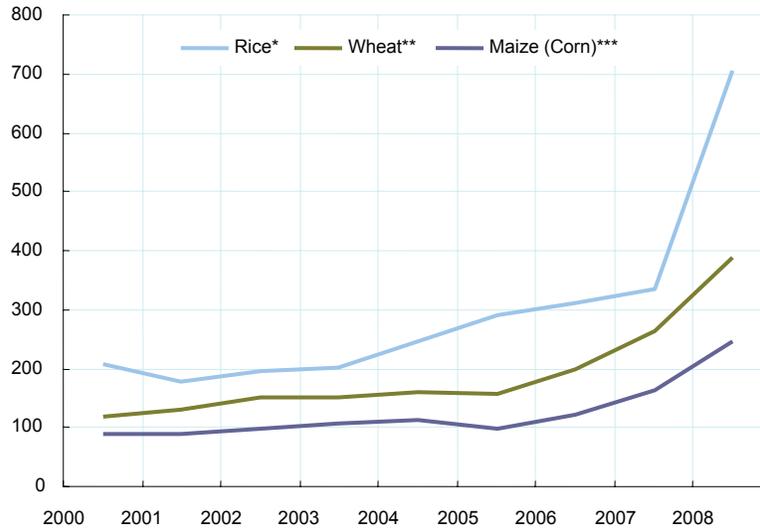


Source: FAO, 2008³

Price hikes in cereals and oil crops have been particularly severe. Grain prices directly affect food security. Their upward trend is shown by product in Figure 2. Several linkages between prices can be noted: for instance the price of meat and dairy products have gone up in parallel with grain prices, as grains are used as animal feed.

³ FAO. *Crop prospects and Food Situation*. April 2008.

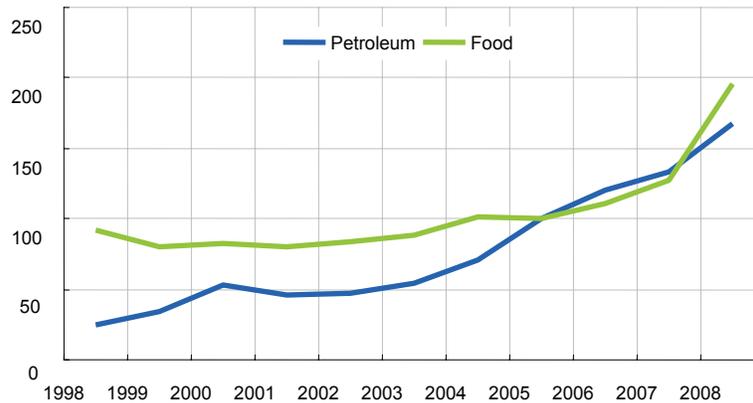
Figure 2 The Average Cereal Prices (US\$/Ton)



Source: FAO, 2008b⁴

Food prices are more closely linked than ever before to energy prices, as illustrated in Figure 3. This is because rising fossil fuel prices have made a number of agricultural feedstocks economically viable sources of energy supply. This has increased the demand for such food crops and it accounts for their price hikes. Nearly all commercially manufactured biofuels use feedstocks and agricultural crops such as sugarcane, sugar beet, maize, cassava, wheat, barley, rapeseed, soybeans, and palm oil.

⁴ FAO. International Commodity Prices. Available at: <http://www.fao.org/es/esc/prices/PricesServlet.jsp?lang=en&ccode>. Retrieved on 6 August 2008.

Figure 3 Indices of Fuel and Food Prices, 1998-2008

Source: IMF, 2008⁵

Higher energy prices exert an upward pressure on input prices (that is, fertilizers, pesticides, diesel and so on). This led to a tripling in fertilizer prices over the period 2005-2007.⁶ The increase in input prices translates into a reduced use of such inputs and results in reduced output and hence higher output prices.⁷

Higher fuel prices have also increased the cost of transporting commodities. Transport costs have doubled over the period 2005-2007,⁸ significantly affecting economic activity globally and increasing the costs of delivery of food aid.

⁵ IMF. Indices of Primary Commodity Prices, 1998-2008. *International Monetary Fund*, 5 June 2008. Available at: <http://www.imf.org/external/np/res/commmod/table1a.pdf>.

⁶ IFAD, FAO, World Food Programme. "High food prices: impact and recommendations". Paper prepared for the meeting of the Chief Executives Board for Coordination, 28-29 April 2008. Bern, Switzerland.

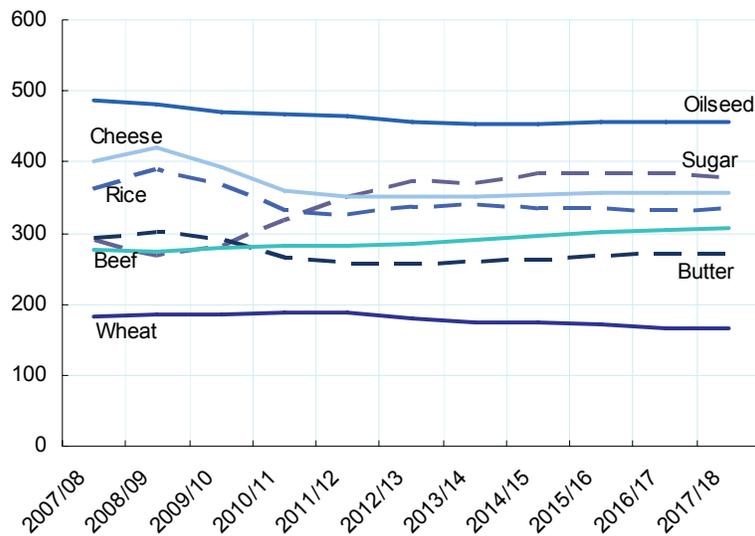
⁷ Konandreas, Panos and Schmidhuber, Josep. Global Biofuel Production Trends and Possible Implications for Swaziland. Paper presented to the Swazi National Sugar Conference 2007, 25 July 2007. Mbabane, Swaziland. FAO, July 2007.

⁸ IFAD, FAO, World Food Programme. Op. cit.

The rapid rise in petroleum prices has led to price increases for electricity, natural gas and petroleum due to global inflationary pressures and existing linkages among energy markets. Oil is the main component of petroleum, and oil is used for electricity generation, particularly in developing countries.

Food prices are not expected to drop back to pre-crisis levels for at least 10 years. Projections suggest falls from the current record levels but that food inflation will continue for the long term.⁹ This trend is shown in Figure 4. Energy prices are also expected to remain high through 2009.

Figure 4. Projected commodity prices 2007-2017 (US\$/mt)



Source: OECD/FAO, 2008¹⁰

⁹ The rising cost of food: food prices to stay high for 10 years. *Financial Times*, 21 May 2008. Available at: http://www.ft.com/cms/s/0/45ae85dc-274e-11dd-b7cb-000077b07658.html?nclick_check=1.

¹⁰ OECD/FAO. *OECD-FAO Agricultural Outlook 2008-2017*, Paris, 2008.

II.2 Differentiated Impacts and Differentiated Challenges

The rising trend in food prices, coupled with higher energy prices and the fact that there are large populations of urban poor, have increased hunger and triggered riots in dozens of countries. The extent of the current crisis prompted the UN Secretary-General, Ban-Ki Moon, to issue a warning concerning the deepening global food crisis,¹¹ which he said, could have grave implications for international security, economic growth and social progress. At the Twelfth United Nations Conference on Trade and Development (UNCTAD) held in Ghana in April 2008, the UN Secretary-General stated that the surge in prices of basic foodstuffs could cancel out progress made towards meeting the UN's MDG to halve world poverty by 2015.

In the current crisis, developing countries are more vulnerable than developed countries because of a notable difference in productivity, scale and financial means to cope with increasing import bills and support to agriculture. Agricultural sectors in developed countries are equipped with advanced technologies, large financial resources and support systems to provide secure incomes to their farmers and to manage quick shifts in the market and in environmental conditions. In contrast, many developing countries are not able (a) to provide services, infrastructure and support to their small farmers or (b) to deal effectively with volatility in agricultural markets, due to a lack of institutional and financial means.

The reason for this is that since the 1980s most developing countries have followed recommendations from the international financial institutions, which have overemphasised fiscal discipline. These recommendations entailed encouraging the production of export crops over food crops for domestic consumption and led to a dismantling of institutional frameworks such as state trading enterprises, subsidies and services to support agriculture and producers.

¹¹ Topping, A. Food crisis threatens security, says UN Chief. *Guardian*, Manchester, UK, 21 April 2008. Available at: <http://www.guardian.co.uk/environment/2008/apr/21/food.unitednations>.

Hence, the agricultural sectors are often uncompetitive and suffer from low productivity in developing countries. In these cases, unskilled rural labour cannot be easily and quickly absorbed by other sectors, and this implies a higher cost of adjustment when markets are liberalised.

The impact of the crisis is experienced differently in different developing countries. This impact will depend on countries' production and trade patterns and on the income and consumption profile of different groups within countries.

The challenges confronting countries are different for exporting and importing developing countries. As the examples below show, policy priorities and solutions implemented differ significantly.

Box 1
The Thai and Senegalese Experiences¹²

Thailand is a middle-income, net food exporting country. One of the major challenges for Thailand in the current context consists of neutralising higher costs inputs (seed, fertilizers, pesticides), thus making them affordable to producers. Increasing the income of small farmers, increasing efficiency in production, and market development are major policy objectives.

Regional cooperation schemes (such as OREC¹³ and ACMECS¹⁴) have contributed to stability for producers and consumers. Through these initiatives, Thailand has been able to share food storage systems and market information.

¹² Information based on a presentation by a government representative from Thailand and a government representative from Senegal during the High Level North-South Dialogue on Food and Energy Security, held in Geneva on 17 June 2008. Available at:

http://www.southcentre.org/index.php?option=com_content&task=view&id=630&Itemid=77.

¹³ Organisation of Rice Exporting Countries.

¹⁴ Ayeyawady - Chao Phraya - Mekong Economic Cooperation Strategy.

Senegal is a LDC which relies heavily on imports of food and energy. In 2007, 42 per cent of total export revenues were spent in financing oil imports. In the short term, the main goal of the Senegalese Government was to keep local prices affordable to consumers. As a result, it dedicated more than four per cent of GDP to help reduce the effect of oil and food price increases on consumers and sensitive economic sectors, for instance through the introduction of price controls through the suspension of tariffs and import taxes. Because of this situation, large portions of the already-limited export revenues became inaccessible for investment and development expenditure.

Senegal is seeking to achieve self-sufficiency in rice production in the long term. A plan to increase production of rice in the northern part of the country, with the aid of irrigation systems, is already being implemented. Senegal is embarking on this initiative in collaboration with India and other development partners. In this context, foreign investment is seen as a key factor for coping with the food crisis.

Amongst developing countries, the crisis poses greater policy challenges for countries which are importers of both food and energy and those that have limited available resources such as LIFDCs and LDCs. Net Food-Importing Developing Countries (NFIDCs) are also greatly affected.

Box 2

What are NFIDCs, LIFDCs and LDCs?

- NFIDCs Category created during the WTO Uruguay Round to characterise countries which may experience negative effects from agricultural trade liberalisation, in terms of the availability of adequate supplies of basic foodstuffs from external sources on reasonable terms and conditions, including short-term difficulties in financing normal levels of commercial imports of basic foodstuffs.

Botswana, Cote d'Ivoire, Gabon, Kenya, Mauritius, Namibia, Mongolia, Pakistan, Sri Lanka, Egypt, Jordan, Morocco, Tunisia, Venezuela, Cuba, Dominica, the Dominican Republic, Honduras, Jamaica, Peru, St. Lucia, Saint Kitts and Nevis and Saint Vincent and the Grenadines are NFIDCs.

- LIFDCs Category created by FAO to characterise countries which should be given priority in the allocation of food aid. The LIFDC group of countries includes food deficit countries with per capita annual income below the level used by the World Bank to determine eligibility for IDA assistance (that is, US\$ 1,575 in 2004).

Angola, Benin, Burkina Faso, Burundi, Cameroon, Cape Verde, the Central African Republic, Armenia, Albania, Ecuador, Afghanistan, Kiribati, Azerbaijan, Belarus, Haiti, Djibouti, Papua New Guinea, Bangladesh, Bosnia Herzegovina, Honduras, Egypt, Tonga, Bhutan, Nicaragua, Iraq, Tuvalu, Cambodia, Somalia, China, Sudan, Georgia and India are some of the countries included in the list of LIFDCs.¹⁵

- LDCs Category created by the United Nations to characterise countries facing greater challenges in achieving development and poverty eradication. In order to be considered an LDC, a country must satisfy the following three criteria: (a) a low-income criterion, (b) a human resource weakness criterion, based on indicators of nutrition, health, education and adult literacy, and (c) an economic vulnerability criterion, based on indicators of: instability of agricultural production, instability of exports of goods and services, economic importance of non-traditional activities, merchandise export concentration, economic smallness and percentage of population displaced by natural disasters.

Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Cape Verde, Central African Republic,

¹⁵ The complete list of LIFDCs is available at:
<http://www.fao.org/countryprofiles/lfidc.asp>

Chad, Congo (Democratic Republic of the), Djibouti, Equatorial Guinea, Ethiopia, Gambia, Guinea, Guinea Bissau, Haiti, Laos, Lesotho, Madagascar, Malawi, Maldives, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Samoa, Sao Tome and Principe, Senegal, Sierra Leone, Solomon Islands, Sudan, Tanzania, Togo, Uganda, Vanuatu, Yemen and Zambia are some of the countries included in the list of LDCs.¹⁶

The effect of the energy and food crisis experienced globally represents a challenge for economic management in these countries. They face *inflation*, as well as *financial constraints* due to increased import bills, which add pressure to their foreign exchange reserves and widen their balance of payments. For example, the total cost of food imports for LIFDCs was 24 per cent higher in 2007 than in 2006, rising to US\$ 107 billion. These countries saw their annual food import bills double in 2007, compared to their level in 2000.

If prices remain high over the coming years, it would add to the already increasing budgetary pressures many developing country governments are facing. This is due to the fact that, as part of free-trade agreements (FTAs), for example, the Economic Partnership Agreements (EPAs) between Europe and the African, Caribbean and Pacific (AC)) countries, some governments are eliminating the majority of their border taxes and import duties, thus reducing governmental revenue collection.

Current financial constraints are also derived from specific measures undertaken to stem the domestic food increase and dampen its impact on vulnerable groups in the short term. Many governments have implemented measures to avoid passing on price increases to consumers. This has been the case in Cameroon, which has provided food subsidies. Nigeria and Kenya have subsidized fertilizers in an effort to increase food production. Argentina, Venezuela, China and Thailand have implemented price controls, fixing prices below market levels.

¹⁶ The complete list of LDCs is available at: <http://www.un.org/special-rep/ohrlls/ldc/list.htm>.

Many analysts believe that these measures are not sustainable. They believe that cash and food transfers should be replaced, in the medium term, by policies aimed at developing the capacity of producers to take advantage of the current shift in market conditions, for example, through improved access to credit and improved processing and storage capabilities.

High energy and food prices can also reduce purchasing power at the household level, thus reducing the ability of consumers to buy food and posing a *threat to food security* in developing countries.

Box 3
FAO Definition of Food Security.

Food security exists when all people, at all times, have physical, social and economic access to sufficient, safe and nutritious food, which meets their dietary needs and food preferences for an active and healthy life. This concept is applied at the family level, with individuals within households as the focus of concern.¹⁷

The overall effect on household incomes will depend on whether such households are net producers or consumers of the products whose prices are on the rise, and also whether or not, given the existing infrastructural and institutional frameworks, higher prices are passed on and lead to a net benefit for poor producers.

Higher food prices provide an opportunity to fuel development in Southern countries. However, this is by no means a given since they do not automatically improve farmers' incomes in the developing world. Whether farmers' incomes increase will depend, in the case of

¹⁷ FAO. *Trade Reforms and Food Security: Conceptualizing the Linkages*. Rome, 2003.

households which are net producers, on the distribution of prices along the value chain at the national level. In Pakistan, for instance, wheat farmers have not benefited from the higher prices on international markets as their intermediaries have not passed the price increases on to them.¹⁸ Even for those farmers who are selling their products at better prices, the final impact on their income is not necessarily positive because of the rise in their production costs.

In addition, the vast majority of poor rural and urban households in developing countries are net food buyers. These households are more vulnerable to rising food prices because food represents a high proportion of their total expenditure. Poorer population subgroups include those living in rural areas, children, mothers with no education and the poorest households.¹⁹ High prices for food and global inflation eat into their expenditures and real incomes and can be expected to increase the misery of those living below the poverty line and drive others into poverty.²⁰ Taking this into account, the energy and food crisis experienced globally can have a significant effect on poverty, income distribution and socio-economic development.

Lack of access to food can represent a ***threat to political stability and security***. According to Arif Husain, Senior Food Security Analyst at the World Food Programme, “[T]he human instinct is to survive, and people are going to do no matter what to survive. If you are hungry, you get angry more quickly.”²¹ Unrest linked to high food prices has already occurred in a number of countries, including Cameroon, Kenya and Nigeria. In Pakistan, troops have been deployed to avoid the seizure of food from fields and warehouses.

¹⁸ Constantin, Anne-Laure. A time of High Prices: an Opportunity for the Rural Poor? Institute for Agriculture and Trade Policy (IATP). Minneapolis, Minnesota, April 2008.

¹⁹ UN. *The Millennium Development Goals Report*. New York, 2007.

²⁰ Asian Development Bank (ADB). Special Report on Food Prices and Inflation in Developing Asia: Is Poverty Reduction coming to an end? Manila, April 2008.

²¹ Lacey, M. in Across the Globe, Empty Bellies Bring Rising Anger, *New York Times*, New York, 18 April 2008.

II.3 Underlying Causes

Recent international conferences, declarations and studies have examined the causes of and possible solutions to the current crisis. Examples of such conferences include: the FAO High-Level Conference on World Food Security: the challenges of Climate Change and Bioenergy,²² the Economic and Social Council (ECOSOC) Special Meeting on Food Security²³ and the Special Session of the Human Rights Council on the Negative Impact on the Realization of the Right to Food of the Worsening of the World Food Crisis.²⁴

Throughout these discussions, views converged to pinpoint the reduction of production capacity in developing countries, climate change and natural disasters and increased energy prices as important underlying causes of the current crisis. Divergences were evident, however, with respect to the importance of other factors in triggering the crisis, such as the use of agricultural commodities for biofuel production and increased demand from emerging economies.

Structural Factors

Some of the key factors which have contributed to the crisis have been built up over the years. They include, on the supply side, decreased production capacity in developing countries and, on the demand side, increased requirements for food commodities for biofuel production, and greater demands from emerging countries.

Reduction of production capacity in developing countries

Many agriculture-based developing countries have seen their domestic production per capita of food staples stagnate and decline, their self-

²² Held 3-5 June 2008 in Rome.

²³ Held 20-22 May 2008 at the United Nations Headquarters in New York.

²⁴ Held 23 May in Geneva.

sufficiency rates decline and their food import dependence increase since the 1970s. According to the FAO, between 1970 and 2001, food imports by developing countries: (a) increased rapidly during the 1970s, (b) grew more slowly during the 1980s, and (c) accelerated again through the 1990s. This pattern holds true both for the volume of food imports and for the ratio of food imports to availability for consumption per capita. The expansion of food imports meant that the food trade surplus of developing countries of US\$ 1 billion was transformed into a deficit of more than US\$ 11 billion during this period. According to FAO projections, by the year 2030 the net food trade deficit of developing countries is expected to swell to more than US\$ 50 billion in constant 1997-1999 US dollars.²⁵

During the past three decades, many developing countries have moved from being net food exporters to net food importers. For instance, the African sub-continent used to be a net exporter of basic food staples but in less than 40 years is now relying on imports and food aid. At the time of decolonisation in the 1960s, Africa was not just self-sufficient in food but was actually a net food exporter, its exports averaging 1.3 million tons a year between 1966 and 1970. Since independence, agricultural output per capita has remained stagnant, and in many places it has declined. By the late 1970s Africa imported 4.4 million tonnes of staple foods a year, a figure that had risen to 10 million tonnes by the mid 1980s. Today, the continent imports 25 per cent of its food, with almost every country being a net food importer.²⁶

²⁵ FAO. *The State of Agricultural Commodity Markets 2004*. Rome, 2004.

²⁶ Bello, Walden. Destroying African Agriculture. *Foreign Policy in Focus*, 4 June 2008.

Box 4

A Case Study: The Philippines

From being a net exporter in the 1970s and 1980s, the Philippines became a net agricultural importing country in the period 1991 to 1998. The Philippines registered an agricultural trade deficit which increased from US\$ 0.257 billion in 1991-1994 to US\$ 3.347 billion in 1995-1998. As of 1995, its average net food trade deficit was US\$ 0.222 billion. According to Dr. Romeo Teruel, research director of the University of St. La Salle, this changing situation can be attributed to decreasing agricultural activity and declining agricultural productivity.²⁷

Philippine agricultural productivity has declined continuously since the early 1970s. In the case of rice, a correlation can be established between decreasing farm yields and a decline in spending on agricultural research and technology development and extension work.²⁸ Stagnating agricultural production and a growing dependence on importation of vital food crops, such as rice, have led to the instability of supplies. This has been further aggravated by the current context of soaring prices. Between February and March 2008, the price of rice in the Philippines increased by 50 per cent.

It is important to note that in the Philippines, as is the case for many countries in Asia, rice is considered to be a strategic commodity:

- It represents people's access to food and its shortage can lead to riots

²⁷ Ombion Karl G. Food Riots, Anarchy Feared Amid Rice Crisis. April 2008. Available at:

http://www.worldproutassembly.org/archives/2008/04/food_riots_anar.html.

²⁸ Harden, Blaine. Philippines Caught in Rice Squeeze: Complicated Blend of Economic Factors Requires Government Action, Experts Warn. Washington Post Foreign Service, 12 April 2008. Available at:

http://www.washingtonpost.com/wp-dyn/content/article/2008/04/11/AR2008041104162_pf.html.

- It contributes to the prevention of urban flooding and biodiversity conservation.
- It is an important source of employment and source of rural income, particularly for unskilled labour.

In order to prevent possible food shortages and to guarantee the supply of rice for 2008, the Philippine government signed a government-to-government purchase agreement for 1.5 million metric tons of rice from Vietnam in March 2008.²⁹

Years of inappropriate support policies and declining investment in the agricultural sector are the main contributory factors to this decreased production capacity. These factors were induced by the deregulation of agricultural markets and trade liberalisation, encouraged by the international financial institutions. The policy prescriptions of the Bretton Woods institutions during the 1980s and 1990s led to:

- Reduced governmental incentives to support agricultural production, such as extension services to farmers (from access to information about market opportunities and prices, to pest and disease control and research and development)
- Elimination of institutional mechanisms (for instance marketing boards), creating a vacuum that the private sector was not able to fill in most developing countries
- Reorienting resources to export-oriented production of cash crops, to the detriment of production of staple crops that were important for local consumption.

As production capacities weakened and markets have been forced to open, import dependence, import surges, dumping, exposure to price

²⁹ *Vietnam Business Investment*. Philippines to buy 1.5-mln-ton rice from Vietnam. Wednesday, 26 March 2008. Available at: <http://www.vnbusinessnews.com/2008/03/philippines-to-buy-15-mln-ton-rice-from.html>.

and supply risks, aid dependence, agriculture abandonment and migration to urban areas have increased in most developing countries.

Removal of tariffs in the context of low commodity prices have made it cheaper to import than to produce. Case studies attempting to investigate the impact of trade liberalisation on 23 developing countries³⁰ have showed that food import rates have increased by a factor of two or three in most of these countries. The results demonstrate how these countries have even paid more per import unit than before the WTO Agreement on Agriculture (AoA) and that the impact of increased imports has been negative in terms of displacing domestic food production and increasing unemployment rates.

Persistent agricultural trade distortions, that is, unfair competition from rich countries which subsidise their food production and exports, have been a major problem for developing countries. Subsidies provided by developed countries can:

- Reduce the export-earning potential of competitive producers by displacing them as sources of imports
- Depress prices, by promoting increased production and supplies in the world market, and
- Displace domestic food production and increase unemployment rates.

Increased liberalisation of trade and investment has also led to important changes in the global food system, such as the growing concentration of a few multinational corporations at all stages of the agri-food value chains. Sixty per cent of the global trade in food commodities is now accounted for by multinational corporations.³¹ Corporations are able to set prices, including farm-gate prices, when they buy and sell commodities and in order to retain a larger share of the total value of the final product. The lack of capacity of farmers and

³⁰ FAO. Subsidies, food imports and tariffs: key issues for developing countries, *FAO Newsroom Focus*, September 2003.

³¹ Asfaha, Samuel. *Commodity Dependence and Development: Suggestions to tackle commodity problems*. South Centre-Action Aid Report. Geneva, 2008.

producers to influence farm-gate prices and to obtain remunerative prices has discouraged investments for enhancing agricultural productivity and in many cases, it has even made farming financially nonviable for the small players.

Increased use of agricultural commodities for biofuel production

The increased use of agricultural commodities for biofuel production is often cited as a key contributory factor in the current crisis, given its potential direct impact on prices and its effect of reducing the availability of access to food. Agricultural commodities, such as wheat, soy, sugar, maize, oilseed and palm oil, are increasingly being used for the industrial production of biofuels.

The extent to which biofuels have increased prices is subject to differing opinions. According to International Monetary Fund (IMF) estimates, the additional demand for biofuels accounts for 70 per cent and 40 per cent of the maize and soy price increases between 2002 and February 2008. On the other hand, the US government has claimed that biofuels – mainly ethanol produced from crops such as corn, palm and soy – have been responsible for only a three per cent rise in food prices.³²

Production of biofuels tripled during the period 1975-2005³³ and has increased sharply since 2004. Increased biofuel production since 2004 has coincided with the enforcement of mandates to increase biofuel production and consumption in some developed countries. In 2002, the US Farm Bill introduced several incentives for biofuel production and set targets for production and consumption to be achieved by 2012. The December 2007 US Energy Independence and Security Act requires American fuel producers to use at least 36 billion

³² Main points of the UN Food Summit Declaration [Cited: 6 June 2008]. Available at: <http://www.planetark.com/dailynewsstory.cfm?newsid=48653&newsdate=06-June-2008>.

³³ Centre for Trade and Development (CENTAD). Balancing Fuel and Food prices: Searching for a Biofuel Option! Trade Policy Brief 2. New Delhi, June 2008.

gallons of biofuel in 2022, implying a fivefold increase over current levels.³⁴

The measures introduced have caused a significant shift in the use of agricultural resources from food production to biofuels:

- The emerging US biodiesel market is estimated to have grown 200 per cent from 2004 to 2005, and biodiesel production was estimated to increase fourfold from 2004 to more than 1 billion gallons by the end of 2006.³⁵
- The increase in global corn production from 2004 to 2007 went toward biofuels in the US.³⁶

Since 1997, the European Union (EU) has also set targets for biofuel production and consumption. Through its Directive 2003/30/EC of 2001, it set a target to replace one fourth of liquid fuel with biofuel by 2030 and it put in place several programmes for developing and increasing investment in new technologies.³⁷ According to the Biofuel Barometer for 2007,³⁸ these efforts raised the consumption of biofuels used by the transport sector by almost 80 per cent during the period 2005-2006. In 2003, the EU established targets with respect to the proportion of biofuel in petrol and diesel consumption (two per cent in 2005 and 5.75 per cent in 2010) and introduced several incentives such as tax reductions or exemptions.

³⁴ President Bush Signs H.R. 6, the Energy Independence and Security Act of 2007. Press Release, United States Department of Energy, Washington, D.C, 19 December 2007. Available at:

<http://www.whitehouse.gov/news/releases/2007/12/20071219-6.html>.

³⁵ University of Nottingham. Environmental guide to low carbon technologies. 2008. Available at:

http://www.nottingham.ac.uk/etc/EnvGuide_LCT/biofuels.php.

³⁶ Ehrlich, David. World Bank says food prices hit by biofuels. Cleantech Group, April 2008. Available at: <http://media.cleantech.com/2694/world-bank-says-food-prices-hit-by-biofuels>.

³⁷ Biofuels Research Advisory Council. Biofuels in the European Union. A vision for 2030 and beyond. March 2006. Available at:

http://ec.europa.eu/research/energy/pdf/draft_vision_report_en.pdf.

³⁸ Biofuels Research Advisory Council. Op. cit.

Increased demand from emerging countries

One frequently cited view is that the increased demand for food and energy from emerging economies has played a key role in driving up food prices. However, the extent to which this increased demand has raised prices is being debated upon.

Although in recent years the economic growth and changing consumption patterns in emerging countries, especially in Asia, has resulted in increased food and energy demand, it is not as important as most commentators think. The structure of demand has been changing over the last 15-20 years, shifting consumption away from starchy foods toward more meat and dairy products, hence intensifying the demand for food grains.

However, it is important to note that in China and India the growth in demand for rice and wheat during the period 2000-2007 was slower than the increase in demand between 1995 and 2000, when international prices were stable.³⁹ This suggests that the importance of increased demand as a trigger for the sudden spike which began in 2006 has been over-exaggerated.

Analysts claim that rising prices of fertilizers, increased fuel and transport costs and weather vagaries are more significant triggers of the current crisis. They point out, for instance, that the US consumption of chicken and beef exceeds India's by multiples of several hundreds.⁴⁰

In addition, increased demand and the changing structure of demand can be seen as a positive indicator of economic development, as income, population and urbanization grows in these emerging developing countries.

³⁹ Naim, Moises. Missing Links: The Global Food Fight. *Foreign Policy*. July/August 2008. Available at: http://www.foreignpolicy.com/story/cms.php?story_id=4347.

⁴⁰ Indian outrage brings home "Americans'?" role in rising food prices. Indo Asian News Service, 21 May 2008. Available at: www.ians.in.

Stocks at very low levels

Stocks, particularly grain stocks, have been gradually reduced since the mid-1990s. A number of changes in the policy environment since the Uruguay Round Agreements have been instrumental in reducing stocks in major exporting countries. These include the size of reserves held by public institutions, the high cost of storing perishable products, the development of other less costly instruments of risk management, an increase in the number of countries which, until recently, were willing to pursue aggressive export policies, and improvements in information and transportation technologies.⁴¹

Historically, there has been a strong link between stocks at low levels and sharp increases in world prices. Stocks act as a margin of security. As they decline and the supply-demand situation tightens, global food supplies become more vulnerable to international crises or major natural disasters such as a droughts or floods, inducing greater market volatility.

Grain stocks have been at critically low levels since 2006. By the end of 2008, seasonal cereal stocks (rice, coarse grains and wheat) were at their lowest levels in 25 years. This situation is due to the fact that the total utilisation of cereals has exceeded production every year since 2000, leading to a steady decline in stocks. Major exporting countries have faced production shortfalls as the domestic demand for biofuels has increased.

Factors Specific to the Current Context

Other important factors, specific to the current context, have also contributed to triggering the crisis. These include weather and natural disasters affecting crop yields, financial speculation and energy prices.

⁴¹ FAO. Soaring food prices: facts, perspectives, impacts and actions required. Paper prepared by the FAO secretariat for the High-Level Conference on World Food Security: the challenges of climate change and bioenergy. Rome, 3-5 June 2008.

Divergent perspectives persist with regard to the use of export restrictions in the current context.

Weather and natural disasters

Agricultural production is highly vulnerable to climatic conditions. Weather vagaries can devastate crops, climate change can increase crop susceptibility to pests and viruses⁴² and natural disasters can damage infrastructure necessary for the production of and access to food.

In 2005 and 2006, unfavourable weather conditions induced falling crop yields. This adversely affected the global food supply. Drought and climate change have affected agricultural production in major exporting countries. The aggregate grain harvest was significantly lower in 2006-2007 due to drought conditions which devastated harvests in Australia and Europe. Inclement weather conditions also affected maize plantings in the United States Midwest in March 2008.⁴³

As a result of adverse weather conditions, developing countries faced exceptional shortfalls in food production and severe localised food insecurity. In many instances, they required external assistance in order to be able to cope with food emergency situations.

Table 1
Countries affected by weather related phenomena in 2007-2008

Africa	Asia	Latin America
Lesotho (drought)	Korea, DPR (floods)	Bolivia (floods)
Somalia (adverse weather)	Bangladesh (cyclone)	Dominican Republic (floods)
Zimbabwe (drought and floods)	Tajikistan (floods/landslides)	Ecuador (floods)

⁴² Stancich, Riki. Special Report: climate change and food prices. 9 April 2008. Available at: <http://www.climatechangecorp.com/content.asp?contentid=5252>.

⁴³ FAO. *Crop prospects and Food Situation*. Rome, April 2008.

Mauritania (drought)	Timor-Leste (drought and floods)	Haiti (floods)
Ghana (drought and floods)		Nicaragua (floods)
Kenya (adverse weather, insufficient rainfall)		
Ethiopia (insufficient rainfall)		

Source: FAO. *Crop prospects and Food Situation*. Rome, April 2008

Projections state that the situation may worsen in the years to come.⁴⁴ In many developing countries, climate change has the potential to induce increased flooding, less precipitation, drought, salinisation and desertification of agricultural land, and reduced crop yields. According to economist William Cline, a Senior Fellow at the Institute for International Economics and the Centre for Global Development in Washington, global warming is likely to cause a 16 per cent decline in global agricultural gross domestic production by 2020, inducing a fall in output of 20 per cent in developing countries and of six per cent in industrialised nations.⁴⁵ These prospects threaten not only to decrease national food sufficiency but also to increase the import and aid dependence of developing countries in the future.

Increased energy prices

As explained in section II.1, high energy prices have contributed to the crisis by inducing an increase in:

- (a) The demand for agricultural feedstock for use as alternative sources of energy
- (b) Transportation costs

⁴⁴ Fischer, G., Shah, M. and H. van Velthuizen, *Climate Change and Agricultural Vulnerability*, The World Summit on Sustainable Development, Johannesburg, South Africa, 26 August-4 September 2002.

⁴⁵ Stancich, Riki. Op. cit.

- (c) Prices of agricultural inputs, such as fertilizers and pesticides.

Commentators have attributed the price increases of the most recent period to a confluence of factors including: rising consumption, difficulties of supply to keep up with demand growth (due to a decline in petroleum reserves, downward revisions in supply for non-Organization of the Petroleum Exporting Countries (OPEC) members, low surplus capacity in non-OPEC countries and disruptions of supply in OPEC countries), supply uncertainties in several oil exporting regions, geopolitical tensions and oil price speculation.

Increased speculative investment

The global economic environment is currently characterised by instability in the financial markets, global inflationary pressures and recession in major economies. The US was affected by a financial shock in August 2007 derived from the subprime market crisis, which had spillover effects in Western Europe. Real effective exchange rates for the US have declined sharply since mid-2007, inducing reduced confidence and interest rate cuts and weakening US growth prospects.⁴⁶ According to the IMF,⁴⁷ global growth is projected to slow to 3.7 per cent in 2008, and fears of global recession remain.

In this context, there is a high level of liquidity in the international financial markets. Investors seeking to reduce risk exposure and motivated by rising commodity prices are increasing their financial operations in agricultural-based derivatives markets. This trend has added to the upward pressure and volatility of commodity prices.

Export restrictions

Some countries have imposed export restrictions to make food available and contain domestic food price inflation. According to some analysts,

⁴⁶ IMF. World Economic Outlook 2008. April 2008.

⁴⁷ IMF. Op. cit.

this type of measure might have further exacerbated upward price trends, by removing commodities from international markets and decreasing supply available for trade. Others believe that it is legitimate to ensure the internal availability of food supplies before exporting to other countries.⁴⁸

II.4 Divergent and Convergent Perspectives on Solutions to the Problem

Although there is broad agreement in terms of the causes of the problem, divergences are evident with respect to possible solutions. The disagreements include the following issues: (a) the usefulness of biofuels to ensure energy security and to minimise climate change effects, (b) whether a “green revolution” is the appropriate response in order to increase productivity in the South, and (c) the place of trade liberalisation as a solution.

Divergent Perspectives on Solutions to the Problem

Biofuel production

Biofuels are being promoted as an alternative source of energy to provide greater energy security, to lower greenhouse gas emissions, to cope with increased prices of fossil fuels and to increase rural incomes. According to some studies conducted by FAO⁴⁹ and the International Institute for Sustainable Development (IISD),⁵⁰ the contribution of biofuels to the policy objectives it aims to achieve is questionable:

⁴⁸ Ali, Adil. India’s export ban on food grains: A measure to ensure availability of food for its poorest citizens. The Oakland Institute. Available at: <http://www.oaklandinstitute.org/?q=node/view/482>.

⁴⁹ Konandreas, Panos and Schmidhuber, Josef. Op. cit.

⁵⁰ Steenblik, Ronald. Biofuels – at what cost? Government support for ethanol and biodiesel in selected OECD countries. IISD, September 2007.

*Biofuels are still far from being a source of energy that could provide a real alternative to the global dependence on fossil fuels. At present, the contribution of biofuels to total global energy is very small. In 2006, they provided only 1.3 per cent of road transportation needs and less than 0.3 per cent of total energy supplies.*⁵¹

*Biofuels are not necessarily conducive to environmental benefits. For instance, they would contribute to the reduction of greenhouse emissions if the amount of energy put into their production were lower than the amount of energy released when they were burned in a vehicle. This would depend on the type of feedstocks used. Studies suggest that biofuel derived from sugar cane originating in tropical countries would be more beneficial than biofuels produced from maize in the US or grain in the EU.*⁵⁴

In addition, biofuels could contribute to deforestation, soil degradation and erosion and water depletion if they are not produced in a sustainable manner. This would be determined by land use and management systems and technology.

Biofuels do not necessarily entail reducing the costs of energy, as their costs will depend on the price of feedstocks used for their production and on prices of energy.

Some developing countries can efficiently produce biofuels. Several believe that exploiting these advantages could represent an opportunity to address energy needs, contribute to climate change challenges, and support rural development and poverty reduction.

Box 5
Brazil's Perspective on Biofuel Policies

Brazil has 30 years' experience in the production of biofuels made from sugar cane. Biofuel development policies were initially aimed at reducing Brazil's dependence on Middle Eastern petroleum during

⁵¹ Konandreas, Panos and Schmihuber, Josef. Op. cit.

the 1970s oil crisis.

Despite the use of subsidies in the initial stage of promotion of biofuels, cumulative knowledge over the past 30 years of production of cane-based ethanol has resulted in sharp declines in production costs. Today, the Brazilian biofuel industry is highly competitive and profitable.

The Brazilian government sees biofuels as a solution to:

- Challenges of energy security since the development of the biofuel sector allowed the cutting of oil imports by US\$ 50 billion⁵² from 1975-2002 levels. There was a significant reduction in petroleum needs for road transportation.
- Challenges relating to livelihood security because biofuel production provided higher standards of living for communities and rural populations. It is estimated that the Brazilian ethanol programme provided nearly one million jobs in 2007.⁵³

Several studies indicate that (a) since Brazil is engaged in the development of a second generation of biofuels⁵⁴ based on improved technologies, biofuel production is not affecting food security,⁵⁵ and (b) biofuel production in Brazil has not disturbed sensitive land areas nor depleted pastures.⁵⁶ There are, however, differing opinions on these issues.

⁵² Lovins, Amory. *Winning the oil endgame*. The Rocky Mountain Institute, 2007.

⁵³ Lovins, Amory. Op. cit.

⁵⁴ Biofuels which do not use food crops in the production process. Such biofuels are made of waste biomass, such as stalks of wheat/corn or wood.

⁵⁵ Jank, Marcos. The agro-energy revolution: Brazil's Head Start. ICONE, 2006. Available at: <http://www.iconebrasil.org.br/en/?actA=7&areaID=8&secaoID=64?=artigoID=1202>.

⁵⁶ Omestad, Thomas. The View From Brazil: Biofuels Are Not a Problem. US News and world report, 3 June 2008. Available at: <http://www.usnews.com/articles/news/world/2008/06/03/the-view-from-brazil-biofuels-are-not-a-problem/comments/>.

For developing countries with a comparative advantage in the production of biofuels, increased subsidies and tariff protection provided for biofuels in developed countries constitutes an unfair double standard since developed countries are asking developing countries to liberalise in many other sectors in multilateral and bilateral trade agreements. Biofuel trade is highly distorted; FAO has estimated that subsidies and protective tariff regimes amount to US\$ 11-12 billion.⁵⁷ This support shifts production away from efficient developing countries to inefficient developed countries, and nullifies the potential benefits of biofuel production and trade such as job creation, agricultural growth and rural development.

A “green revolution” to increase productivity in the South?

Box 6
What is the “Green Revolution”?⁵⁸

The term “green revolution” describes technological breakthroughs achieved at the beginning of the twentieth century to increase yields in order to cope with the food needs of growing populations. Improved varieties were developed:

- To be more responsive to plant nutrients
- To be grown at any time of the year
- To be more resistant to pests and diseases
- To mature quicker
- To flourish under intensive farming conditions
- To retain desirable cooking and consumption traits.

Although these scientific advances originally developed high-yield varieties of rice and wheat, they were also applied at a later stage to sorghum, millet, maize, cassava and beans.

⁵⁷ CENTAD. Op. cit.

⁵⁸ International Food and Policy Research Institute (IFPRI). *Green Revolution: Curse or blessing?* Washington, 2002.

The term “green revolution” was first used in 1968 by William Gaud, former director of the United States Agency for International Development (USAID), to describe the growth in agriculture achieved during the late 1960s in Asia and Latin America as a result of the spread of new agricultural technologies.

Some believe that the solution to the current crisis lies in increased productivity and that another green revolution is the way to achieve it. They support their point of view by highlighting that, in Asia, between 1970 and 1995, the green revolution led to:

- A doubling of cereal production
- A 30 per cent increase in calorie availability
- Higher yields and profitability, reduced prices, increased farmers’ incomes and increased employment

Significant gains were achieved in Latin America also.

However, the green revolution was criticised by many analysts because it did not lead to agricultural growth in Africa and because past experience in Asia fell short in terms of delivering equity and achieving a sustainable use of natural resources.

The transition from traditional agriculture to “green revolution agriculture” required the purchase of inputs (such as seed and fertilizers), access to credit, and technological know-how. In this sense, a body of literature supports the view that the green revolution was not scale-neutral, because larger farm holders had access to these inputs while small holders did not, thus increasing rural income inequalities. Benefits also accrued to suppliers of machinery and inputs, such as seed and chemical companies. These companies had and still have the monopoly over hybrid seeds and plant varieties through patents and plant breeders’ rights.⁵⁹

⁵⁹ Munoz Tellez, Viviana. Lessons from the Food Crisis: Patchwork will not mend our vulnerable system. *South Bulletin*, Issue 17. South Centre, Geneva, 16 June 2008.

The green revolution was also criticised in terms of its effects on environmental degradation, as (a) the increased use of fertilizers and pesticides resulted in the loss of soil fertility, (b) increased irrigation led to salinisation, waterlogging and the lowering of water levels, and (c) the promotion of monocultures of high-yielding crops reduced biodiversity.⁶⁰

Today, increasing yields to provide food for the hungry remains the central justification by supporters of the green revolution. In this context, it is important to note the results of a study by the InterAcademy Council (IAC). This study was conducted under the mandate of the UN Secretary-General in 2002 to develop a strategic plan to help Africa substantially increase its agricultural productivity and improve its food security. It concluded that:⁶¹

- Respecting and using traditional ecological knowledge, that is, using local plants and seed, would be more conducive to food security than the high-tech varieties and high-cost approaches of the green revolution of the 1970s.
- Boosting agricultural productivity and sustainability would require considering the heterogeneity of the farming systems and diverse ecological systems in Africa, through multiple initiatives such as intercropping or permaculture (as opposed to monocultures).

Trade liberalisation as a solution to the food crisis?

Not all aspects of the high food price issue is touched upon by the current trade rules that we have. For example, the regulation of transnational agribusiness and global competition and financial speculation are outside the purview of the trade rules. However, WTO rules and trade negotiations (a) could affect the capacity of governments to respond in food emergency situations, and (b) might affect, in the

⁶⁰ Mushita, Andrew and Thompson, Carol B. *Biopiracy or biodiversity: Global exchange as enclosure*. Africa World Press Inc. Asmara, 2007.

⁶¹ Thompson, Carol. Africa: Green Revolution or Rainbow Evolution? *Foreign Policy in Focus*, 17 July 2007. Available at: <http://www.fpif.org/fpiftxt/4398>.

longer term, policies and instruments which could promote agricultural development.

WTO rules and trade negotiations could affect the capacity of governments to respond in food emergency situations. For instance, if adopted, a proposal submitted in April 2008 on export restrictions could amend current rules to require, in future, examination and prior approval of export restriction measures before they can be implemented. The current rules are limited to transparency requirements. This could restrict the capacity of governments to allocate more of what is domestically produced to the domestic market in food emergency situations.

WTO rules and trade negotiations could also affect, in the longer term, policies and instruments which might be useful in the promotion of agricultural development. For example, in the context of ongoing WTO negotiations, the elimination of export taxes has been proposed. Export taxes can be a source of government revenue for addressing distributional issues and finance infrastructure in rural areas.

It has been suggested that the Doha Round could contribute to solving the food crisis because its negotiating mandates include the reduction of tariffs, which could increase access to food at the global level. Being able to purchase food is said to be as important as countries' ability to produce their own food. However, in countries classified by FAO as having "widespread lack of access", the majority of the population is considered to be unable to procure food for themselves due to their low-income levels.⁶² In addition, in rural areas where agriculture and staple food production are important occupations for the majority of the poor and a source of purchasing power, there is no guarantee that increased imports will lead to increased food security.

Hence, in the current context of a lack of means, policies and institutions to support agriculture and the decreased agricultural production capacity in many developing countries,⁶³ additional tariff

⁶² FAO. *Crop prospects and Food Situation*. April 2008.

⁶³ As explained in section III.3.

liberalisation could lead to growing import dependence and increased poverty.

It has been suggested that the Doha Round could contribute to solving the food crisis because its negotiating mandate includes the reduction of export subsidies and domestic supports in developed countries. This type of support penalizes developing countries, as they face increased competition under unfair conditions in world agricultural markets. For example, the import of subsidised tomato paste from Europe into Senegal or Burkina Faso reduced local production by half. In Ghana, subsidised US poultry has also dramatically reduced local production. As explained in section II.4, certain developing countries producing biofuels are also concerned about the increased biofuel subsidization in the US and the EU.

However, the contribution of the Doha Round to the elimination and reduction of trade distorting practices in the North has yet to be seen. According to the latest agriculture modalities (dated July 2008),⁶⁴ a successful conclusion of the Doha Round will allow subsidies to continue at relatively high levels.

Within the realm of the WTO disciplines, the Marrakech decision in favour of NFIDCs and LDCs could have an important role in the current context. This WTO instrument was designed to respond to situations of eventual high food prices. Analytical work carried out by FAO and UNCTAD to implement this decision envisaged the creation of financial facilities for food imports and market-based instruments such as credit guarantees. However, so far this decision has not been effectively implemented.

It is believed that the implementation of Aid for Trade programmes would also contribute to solving the crisis as they could help developing countries to integrate into international markets through trade. However, the impact of such programmes in boosting agricultural productivity is not clearly established.

⁶⁴ WTO. TN/AG/W/4/Rev.3, dated 10 July 2008. Available at: http://www.wto.org/english/tratop_e/agric_e/agchairtxt_july08_e.doc.

In July 2008, WTO members could not agree on the way forward with respect to deciding on modalities for finalising the Doha Round. It is thus possible that the conclusion of the Doha Round might be delayed for at least a year, given the political situation of some key actors (elections in the US in 2008 and in India in 2009). Even in the scenario of a conclusion to the Doha Round in the medium to long term, the positive contribution of trade liberalisation towards solving the current crisis is doubtful.

Convergent Perspectives on Solutions to the Problem

In spite of these divergences, there is broad agreement that the current crisis provides an opportunity to put food issues and security back on the global agenda, considering them in a broader development framework and linking them to variables such as food trade, energy security and climate change.

The current crisis has been characterised by several experts and journalists as a “wake-up call”, which requires a rethinking of past agricultural policies in developing countries and the need for a strengthened role of the state in promoting productivity, long-term sustainability of agriculture production, and protection of the most vulnerable producers and consumers.

In this context, the neglect of the agricultural sector should be addressed by means of increased and sustained investment efforts. These efforts must reflect the importance of this sector in developing countries

- (a) In order to generate income, improve the living standards of the population and keep food at affordable prices, and
- (b) Given the fact that 70 per cent of the poor live in rural areas and depend on agriculture for their livelihood, and the impact of growth in the agriculture sector on poverty reduction.

Addressing the crisis will require a dual approach. Short-term measures should: (a) reduce the effects of increased prices on income and inequality, for instance through safety nets, social protection and aid

(cash transfers, subsidy programmes for price support,) and (b) provide access to inputs (such as seed and fertilizers), in order to build a basis for future production.

Medium and long-term measures should have the objectives of sustaining efforts to build production capacity and increasing the capacity of developing countries to cope with market distortions and climate change. Such measures include:

- Investment for research and development (R&D) and infrastructure (transport and communication) in developing countries
- Increasing production and security for smallholders, supporting their production of higher value-added products and guaranteeing remunerative and stable prices
- Providing access to credit and finance for producers
- Developing food stock capacities. It would be interesting to further explore and analyse Asian South-South cooperation initiatives, particularly regarding regional food stocks which are not traded but are kept for emergency purposes.

Box 7
An Agenda for African Agriculture

In order to guarantee agricultural growth and development in sub-Saharan Africa, the following policy measures are recommended:

- Raise agricultural productivity as a political priority, through measures aimed at lowering the cost of fertilizers and increasing yields, and actively put in place strategies to increase food production in order to meet food security and rural employment needs
- The integration of national and regional markets, by (a) establishing regional strategies for agriculture integration, (b) using tariffs as a tool to develop national and regional markets, and (b) implementing agriculture liberalisation in a manner that is conducive to ensuring that greater competition from imports does

not occur before national production has been strengthened sufficiently and regional markets have been integrated

- Diversifying production, by (a) identifying key products and key markets for higher value products, (b) simplifying conditions for accessing mechanisms to stabilise prices (e.g., FLEX), (c) improved access to credit and (d) reconversion of industries affected by preference erosion

The Need for Coordinated Global, Private and Civil Society Action

Developing countries face complex dilemmas (relating to hunger and access to food, social and economic development, energy use and climate change) in designing adequate policies for overcoming the challenges posed by the current situation of high food and energy prices. The extent of the current crisis calls for urgent coordinated action among the public global sector, the private sector and civil society.

Governments have an important role with respect to identifying concrete measures to respond to the problem, catering to local realities and strategies. Past experience shows that countries which sustained their political commitment to increase production over the medium and long term progressed positively towards this goal and improved their agricultural sector performance. Ensuring coherence between the policy frameworks relating to agricultural development and trade liberalisation and national development strategies will also be important in this respect. Northern governments should also eliminate domestic farm subsidies which are direct or indirect export subsidies, as these have contributed significantly to the crisis in terms of reducing developing countries' production capacities.

International organisations play an important role, providing technical assistance, implementing commodity sector development strategies and facilitating policy discussions among governments in order to foster common solutions.

Donors play a key role in the current context. It is urgent that food aid pledges be honoured. FAO and the World Food Programme have estimated that the funds required to handle emergencies and short-term problems caused by the high food prices amount to USD\$ 755 million for emergency aid and USD\$ 1.7 billion to provide seeds to small producers and to boost output.⁶⁵

Increased financial assistance remains a key challenge within the current context, particularly for medium and longer-term policy actions. As is known, external agricultural aid in developing countries has been declining. The amount of aid fell from US\$ 9 billion per year in the early 1980s to less than US\$ 5 billion by the end of the 1990s.⁶⁶

Within this context, the UN Task Force on the Global Food Crisis can play a key role in mobilising these funds and in coordinating a global strategy.

Civil society has an important role to play with respect to documenting the impact of the current crisis at the local and national levels. It can identify actors that have been particularly affected in this context, with a view: (a) to pinpointing requirements which need to be addressed urgently and priorities for developing social protection programmes, and (b) to ensuring that resources reach the most vulnerable actors. Civil society can also contribute to the empowerment of local communities to influence national policy choices and to setting accountability mechanisms for holding governments and development institutions accountable for the delivery of results.

⁶⁵ AFP. UN chief urges global leadership to combat food crisis. 12 May 2008. Available at:

<http://afp.google.com/article/ALeqM5g1DgKyCY7pR2h6amgMA1Fs5562Bg>.

⁶⁶ FAO. *Invest in Agriculture for Food Security. The Whole World Will Profit*. Rome, 2006.

II.5 Conclusions

The world is facing its worst food crisis since the 1970s. Food prices have been rising since 2002 but have sharply increased since 2006. However, the current situation is unprecedented because prices have gone up for nearly all food commodities as a result of the simultaneous record price hikes for energy commodities and because of an increased link between energy and food prices.

The rising trend of food prices, coupled with higher energy prices, is a source of global concern as it has grave implications for international security, economic growth and social progress.

Among developing countries, the crisis poses greater policy challenges for those countries which are importers of both food and energy and those which have limited available resources such as LIFDCs and LDCs. NFIDCs are also greatly affected.

The effect of the energy and food crisis experienced globally represents a challenge for economic management in these countries. They face inflation, as well as financial constraints due to increased import bills. High energy and food prices can also reduce purchasing power at the household level, thus reducing the ability of consumers to buy food and posing a threat to food security in developing countries. Lack of access to food can represent a threat to political stability and security. Unrest linked to high food prices has already occurred in a number of countries.

When examining the underlying causes and the possible solutions, there seems to be broad agreement with respect to the reduction of production capacity in developing countries, and to climate change and natural disasters, increased energy prices, financial speculation and declining stocks as important underlying causes of the current crisis.

Divergences of opinion are evident, however, with respect to the importance of other factors in triggering the crisis, such as the use of

agricultural commodities for biofuel production and the increased demand from emerging economies.

Divergences are even more evident with respect to possible solutions to the current challenges. For instance, divergences are evident with regard to: (a) the use of biofuel production to ensure energy security and to minimise the effects of climate change, (b) another “green revolution” as a means of increasing productivity in the South, and (c) the place of trade liberalisation as a solution. In spite of these divergences, there is broad agreement that the current crisis provides an opportunity to put food issues and security back on the global agenda, considering them in a broader development framework and linking them to variables such as the politics of food trade, energy security and climate change.

The current crisis has been characterised by several experts and journalists as a “wake-up call”, which requires rethinking past agricultural policies in developing countries. There is need for a strengthened role of the state in promoting productivity, long-term sustainability of agricultural production and protection of the most vulnerable producers and consumers.

This strengthened role of the state could translate into a more proactive stance with respect to:

- Investments to promote small farmers’ production and sustainable agriculture
- Using tariffs and trade policies to protect small farmers and domestic producers from imports and to strengthen domestic and regional productive capacities
- Increasing stocks at the national level, and engaging in South-South cooperation strategies in relation to the management of stocks
- Putting in place national and regional policies (subsidies, state trading enterprises, cooperatives) to ensure food security and the stabilisation of prices.

Addressing the neglect of the agricultural sector will require increased and sustained investment efforts. A dual approach is needed. Short-term measures should: (a) reduce the effects of increased prices on income and inequality, for instance through safety nets, social protection and aid (cash transfers, subsidy programmes and price supports), and (b) provide access to inputs (such as seeds and fertilizers), in order to build a basis for future production.

Medium and long-term measures should have the objectives of sustaining efforts to build production capacities and increasing the capacity of developing countries to cope with market distortions and climate change.

The extent of the current crisis calls for urgent coordinated action among governments, international organisations, development institutions, donors and civil society in order to put in place adequate policies for overcoming the challenges posed by the current situation and to respond effectively to the complex dilemmas faced by developing countries.

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