

The non-response of the G8 to the food crisis

Juan Delgado and Indhira Santos

In the recent G8 summit, the leaders of the rich world have put forward their common position to address high food prices. Trade liberalisation, increased aid and the status of biofuels make it to the top of the agenda. While the right issues are identified, the G8 leaders' statement on food security lacks a clear plan in the first two policy areas -trade and aid- and remains vague in the field of biofuels.

G8 leaders support trade as a way to guarantee food security and rightly press for the completion of the Doha Round but they fail to make explicit the distributional consequences of freer trade. We do need free trade. It is estimated that developing countries would collectively gain 0.8 percent of GDP, while the gain will be 0.6 percent of GDP for developed countries. This figure might look modest, but it is close to the unfulfilled 0.7 percent development aid commitment made six years ago.

However, we also have to be aware that, while free trade is a benefit for the world as whole, poor food-importing countries may be worse off. Agricultural trade liberalisation would push prices up on average, owing mainly to the removal of subsidies in developed economies, which depress the price of products traded internationally. Large net exporters like Brazil would gain via higher exports and revenues. Rich countries would gain via lower subsidies to agriculture. But net food importers such as Mozambique and Bangladesh would lose out. This rise in price as a consequence of liberalisation would add to the existing upward pressure on prices, exacerbating the problem for food-importing developing countries.

G8 leaders also highlighted the importance of development aid in dealing with both the short- and the long-run implications of the sluggish response of supply to changes in demand. International aid should be directed towards two goals: providing subsidies and food aid to the poorest countries to cope with the current emergency and long-term support to increase productivity in developing countries.

Let us take the examples of Mozambique and Bangladesh. The ongoing price surge has dramatically increased the cost of food imports for those economies. Relative to 2005, Bangladeshis and Mozambicans pay today USD 1.2 billion and USD 0.4 billion more respectively for the food they buy abroad compared to their food export revenues. This shock amounts to two percent of GDP for Bangladesh and 6 percent for Mozambique. In the recent FAO high level summit on food prices,

governments committed to an additional USD 1.2 billion in aid for all developing countries to cope with the crisis. Merely compensating Bangladesh for the recent rise in food prices would absorb all of this amount. Hence, this additional assistance is not nearly enough.

In the medium to long term there is scope for increasing productivity even without technological leaps, especially in regions lagging behind such as sub-Saharan Africa. If demand for, and production of, cereals continue to grow at the same rate as they did between 2005 and 2007, then by 2015 there will be a production shortfall of 10 percent. This potential gap, if not matched by higher productivity or more acreage, would be accompanied by even higher prices. Therefore, the focus of the G8 leaders in increasing productivity in developing countries sets the right priorities.

The position of G8 leaders regarding biofuels is less clear-cut. They present second-generation biofuels, which are not based on food crops, as a way of breaking the link between biofuels and food prices. Biofuels affect food prices not only via higher demand for food crops but also indirectly via competition for land use and other resources. Even in the case of second-generation biofuels, this indirect effect would remain. The G8 is also silent about the controversy on biofuels targets.

The right issues are thus on the table. What it is still lacking, after one year of continuously increasing prices, is comprehensive action.