

ADDRESSING THE GLOBAL FOOD CRISIS:
Key trade, investment and commodity policies in ensuring
sustainable food security and alleviating poverty



United Nations Conference on Trade and Development

Addressing the global food crisis

**Key trade, investment and commodity policies in
ensuring sustainable food security and
alleviating poverty**



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Executive summary

The recent global food crisis can be seen as a wake-up call which can be turned into an opportunity by developing countries and the international community to revitalize global agriculture production and trade and do more to rectify the systemic imbalances in global agricultural production and trade that have contributed over the years to today's problems. The crisis has highlighted inherent tensions that exist with regard to the agricultural food sector. Responses to the crisis will have to include both short-term and longer-term measures, reflecting the fact that the crisis has both short-term and underlying structural causes and implications. Of course, the immediate and urgent priority is to ensure that adequate food is delivered to the people in need. This task is being well addressed by the humanitarian and emergency agencies. It does not stop there, however – responses to the more fundamental and deep-seated factors are equally important. From a trade and development perspective, and within the framework of a comprehensive approach to the crisis by the United Nations system, UNCTAD recommends a number of policy measures and concrete actions in respect of trade, investment and agriculture development at the national, regional and international levels.

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Introduction

1. The current global food crisis has emerged from the recent unprecedented increases in the price of food, especially of staples, coupled with shortages and diminishing food stocks, which have reduced access to food for many people (particularly the poor) in a large number of developing countries. There has also been a substantial increase in the food import bills of developing countries. This has created a host of humanitarian, socio-economic, developmental, political and security challenges. But beyond its immediate humanitarian dimensions, it is also a crisis of global development policy. This is in itself a tragedy, especially at a time when the new generation of globalization has brought great benefits for many.

2. While the consequences of the crisis are most pressing in low-income, net food-importing countries – particularly least developed countries (LDCs), where on average between 50 to 80 per cent of personal income is spent on food¹ – it is also significant even in the larger developing economies such as India and China, as well as in some Latin American countries. Even developed countries are not immune to the negative consequences of the crisis: rising food prices have added to inflationary or poverty tensions already being felt as a result of rising energy prices and crashes in financial and housing markets. Most immediate are the urgent hunger needs in over 37 developing countries, as identified by the Food and Agriculture Organization of the United Nations (FAO), 20 of which are LDCs. The food crisis can provide an opportunity in the sense that higher food prices should be beneficial for many farmers in developing countries. This positive effect may, however, be limited because these farmers are often not adequately linked to markets or are subject to other constraints preventing them from obtaining a sufficient return from their produce.

¹ *Source:* Food and Agriculture Organization of the United Nations.

3. The global food crisis undermines one of the most fundamental human rights – the right to be free from hunger and malnutrition, recognized under the International Covenant on Economic, Social and Cultural Rights and the Universal Declaration on the Eradication of Hunger and Malnutrition.² It also crucially hampers the achievement of development goals, as reduced availability or affordability of food compromises health, education, maternal well-being and many other social indicators, as well as the capacity to earn a living. It can thus reverse efforts to accelerate achievement of the Millennium Development Goals (MDGs), of which it is significant that Goal 1 seeks to “To eradicate extreme poverty and hunger” and thus links poverty and hunger. Consequently, the high food prices, shortages, reduced food consumption and worsened nutrition associated with the crisis has far-reaching and multi-faceted repercussions for all countries. It is incumbent upon the international community to respond decisively and comprehensively to this crisis so as to promote food security for all, in line with the FAO definition that: “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”.³

4. Moreover, there may well be powerful gender effects in developing countries from the current crisis. A food shortage is likely to impact most heavily on women and girls, who are often the last fed in poor households. Hunger or poor nutrition in women and girls will undermine broader efforts to promote gender equality and its related benefits in terms of education health, and long-term economic productivity – thus reversing efforts to attain another Millennium Development Goal, namely Goal 3 on promoting gender equality and empowering women.

5. The present paper examines some important causes and challenges of the global food crisis from a developmental perspective.

² Adopted on 16 November 1974 by the World Food Conference, endorsed in General Assembly resolution 3348 (XXIX) of 17 December 1974.

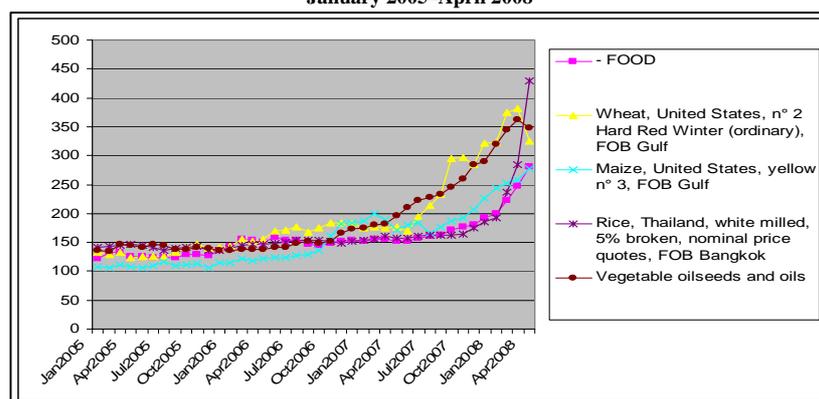
³ See FAO, *Trade Reforms and Food Security: Conceptualizing the Linkages*, 2003, para. 2.2.

Possible responses to this crisis are discussed pertaining to trade, investment and agricultural policies and measures at the national, regional and international levels. UNCTAD's potential contribution in addressing the crisis is highlighted in this context.

I. Nature and underlying causes of the food crisis

6. The current global food crisis consists of a depletion of food stocks and massive price increases, especially for staples. Wheat, rice and soybean prices have increased by over 40 per cent, (60 per cent in the case of rice) since early 2007 (see graph below). Such price increases have substantially increased the import bills of most developing countries. For example, the cereal import bill of low-income food-deficit countries increased in 2007–2008 (as compared to 2002–2003) from \$6.5 billion to \$14.6 billion in Africa, from \$7.0 billion to \$15.4 billion in Asia and from \$0.3 billion to \$0.7 billion in Latin America and Caribbean.⁴ Thus, in five years, the cereal imports of these countries more than doubled in value.⁵ The food price rises, translated into higher import food bills, have placed a heavy burden on these countries, as the relative proportions of food imports to GDP are generally higher for developing countries as compared to other countries (see tables in annex).

Monthly prices of selected food products and product categories, index numbers 2000 = 100, January 2005–April 2008



Source: UNCTAD Commodity Price Bulletin.

⁴ The “\$” sign refers to United States dollars throughout this paper.

⁵ UNCTAD, “The changing face of commodities in the twenty-first century” (TD/438).

7. The food crisis should not be seen as having been caused merely by such relatively recent triggering or contributing factors as the rise in oil prices, the fall of the dollar, climatic conditions, speculation, export restraints by some countries or biofuel production. It is also the consequence of deep-rooted long-term trends arising from changing demographic and consumption patterns and years of systemic failures of development strategy on many fronts. These failures have occurred not only at the level of national development policies but also, importantly, at the international level. Since the global food crisis emanates from a cumulative interplay among a range of long-term and short-term phenomena, it is likely to continue indefinitely, notwithstanding the deployment of short-term measures, unless the underlying structural factors are appropriately and comprehensively addressed.

8. Policymakers and the international community should focus on the complex interlinkages among the problems in this area. Appropriate national and international measures are thus necessary to enable developing countries to access food supplies and attain food security, as well as benefit from higher prices.

A. Supply-and-demand imbalance

9. The nature of the crisis can be characterized as a supply-and-demand imbalance due to a “production crisis” coupled with increasing secular demand and purchasing power in recent years on the one hand, and a “price crisis” on the other rising from the malfunctioning and manipulation of markets. Specifically, these include the potent combination of effects arising from low food stocks, climate change and the recent droughts in key supplier countries, and growing demand for some food products, linked with population and income growth, urbanization, and changing diets in urban centres. Demographic pressures have indeed been increasing while harvests have been declining. In the case of India, for instance, it is estimated that per capita

production of cereals and pulses has declined by 17 kilograms and 3 kilograms, respectively, over the past decade.⁶

B. Speculation and export restraints in the food commodity market

10. The flow of speculative capital into the commodity sector (including food) in an increasingly interrelated global market is another factor. It appears increasingly likely that the global food price surge is linked to recent volatility and turmoil in global finance, mortgage and housing markets that were sparked by last year's collapse in the US sub-prime market. Speculators looking for assets with rising prices have reoriented their portfolios to buy food commodity assets (commodity indices, futures and options contracts). Indeed, the amount of money that funds invested in the commodity indices is estimated to come to some \$170 billion (as of end of March 2008)⁷, and in the first quarter of 2008, the volume of globally traded grain futures and options increased by 32 per cent compared with the same period in 2007. While there is no precise information on or analysis of the impact of speculative funds on food prices, the price rises in respect of some key staples are attributable to a substantial extent to speculation by different actors in the food commodity markets feeding the price rise spiral.

11. Moreover, some countries have started to directly or indirectly limit food exports through food stockpiling and the banning or taxing of food exports. Such actions are intended to temporarily address the needs of local markets; however, they have in some cases further distorted national, regional and global food markets and reduced global food supply (also affecting the operational efficiency of futures markets).⁸

⁶ See Ramesh Chand, Demand for foodgrains, *Economic & Political Weekly*, 29 December 2007.

⁷ *World Commodity and Food Crisis: Trends and Expectations*, YapiKredi Bank, Yelda Yucel, Senior economist, May 2008.

⁸ See IFPRI, p. 6.

C. Energy costs, biofuels and food security

12. High energy prices have made agricultural production and food processing and distribution more expensive by raising the cost of inputs such as fertilizer,⁹ seeds, pesticides, farm machinery use and irrigation, as well as of transport and manufacturing processes. Whereas the share of energy in the cost of crop production is around 4 per cent in most developed countries, for instance, it is between 8 and 20 per cent in some larger developing countries such as Brazil, China and India.¹⁰ As a result, higher energy prices lead to substantial increases in the cost of food production in developing countries.

13. The biofuel industry has also created a new link between markets and prices for energy and agricultural commodities. The continuing rise in energy prices has led to increased demand for and, hence, price rises for biofuels. This has, directly, increased demand and raised prices for crops used as feedstocks in biofuel production and, indirectly, may also have raised prices of other crops competing with these feedstock crops for land and other resources – as well as leading to price rises for other food products purchased as substitutes and land price increases. Biofuel demand has thus been a strong factor underpinning the upward shift in global agricultural commodity prices.¹¹ However, the extent of this linkage is not yet fully clear and varies according to the biofuel crop in question, how much it is traded, possibilities for substitution and whether land utilized to produce biofuel feedstocks would otherwise have been used for growing food. For instance, only 1.4 per cent of wheat is used for biofuel production in the European Union, and only about 0.6 per cent globally.¹² The price of rice has increased dramatically by 165 per cent during the year April 2007 to April 2008, even though rice is not used for biofuel production and there is no

⁹ World fertilizer prices surged by more than 200 per cent in 2007, according to the International Center for Soil Fertility and Agricultural Development (IFDC).

¹⁰ “High food prices: the what, who, and how of proposed policy actions”, International Food Policy Research Institute (IFPRI), Sustainable solutions for ending hunger and poverty, Policy Review, May 2008.

¹¹ OECD-FAO, *Agricultural Outlook 2008–2017*, 2008.

¹² The impact of biofuels on commodity prices, April 2008, DEFRA, Economic Group, p. 15.

evidence in rice-growing countries that rice cropland has been shifted to produce biofuel feedstocks – but it is not clear to what extent there has been a demand substitution effect as a result of price rises for other cereals. Accordingly, further research and detailed case-by-case analysis are needed of the linkages among energy prices, different kinds of biofuels grown under varying conditions, subsidies and trade-related measures, direct and indirect effects on availability and prices of different agricultural commodities and implications for food security (with adequate treatment of sustainability concerns).

14. The impact of biofuels on food security and food price rises does appear linked in a large measure to policy measures that have exacerbated market pressures. In most countries, the biofuel market functions on the basis of mandatory blending targets. For example, the United States introduced in its 2007 Energy Bill ambitious utilization levels of biofuels for transport which go far beyond those included in previous legislation, namely 9 billion gallons in 2008 rising to 36 billion gallons in 2022. The use of maize for ethanol production is expected to almost double between 2005/06 and 2007/08. In 2009, it is forecast that almost 38 per cent of total United States domestic maize use, equivalent to 100 million tons, will be devoted to biofuel production.¹³ The EU, India, Brazil and China have also set their own targets to increase biofuels. For instance, the European Union has declared that by 2010, 5.75 per cent of all gasoline sold to motorists in Europe must stem from biofuel production. New legislation under discussion raises the blending rate to 10 per cent by 2020. The European Union is responsible for some 90 per cent of global biodiesel production and the main feedstock used is rapeseed. EU production of biodiesel is estimated to have used 4.1 million tonnes in 2004 or the equivalent of some 20 per cent of total EU-25 oilseed production.¹⁴ In addition to putting in place ambitious

¹³ Ibid.

¹⁴ Ibid., p. 16. The recent raise in palm oil production has been associated with the boom in biodiesel production, however at present only 1 per cent of palm oil is used for biodiesel. Some indirect impact may have taken place, since more rapeseed is used for biodiesel, but overall, the use of vegetable oils for biodiesel remains small compared to other uses, especially for food production.

blending targets, both the United States and the European Union apply tariffs and technical regulations which restrict the importation of biofuels. These instruments, combined with the long-standing subsidies for agricultural production, contribute to diversion of land and of crops produced from food production or consumption to production of biofuels.

D. Constraints on agricultural production in developing countries

15. There are less obvious structural long-term causes of the global food crisis that are just as significant and that have indeed led to have such a serious impact on food availability. These structural factors mainly affect the supply side – in particular, the difficulties many developing countries face in increasing agricultural production and productivity to meet food domestic consumption and for international trade. The causes of this production crisis have profound implications for food security (and poverty reduction) in terms of production, consumption and trade in developing countries. To a large extent, these problems stem from the inherent tensions that exist because the agriculture and food sectors are seen as being unlike any other economic sector. Such tensions raise important policy issues which will have to be addressed in a balanced manner so that factors that have contributed to the current crisis can be addressed for the benefit of all affected.

16. The fundamental factor underlying the supply shortage is that, particularly in the last two decades, agricultural productivity has been relatively low in developing countries and even decreasing in many LDCs – a symptom of long-term neglect of the agricultural sector. On average, annual agricultural productivity in LDCs (as measured by total factor production (land and labour)) between 1961 and 2003 showed a decline of 0.1 per cent, as against only about 0.6 per cent for developing countries.¹⁵ In LDCs and African countries, these low agriculture

¹⁵ Shenggen Fan, 2008, “How to promote agricultural growth in LDCs through productive investment?”
Background paper, LDCR 2008.

growth rates have had important adverse implications for economic growth and poverty reduction. Even in rapidly growing large developing countries such as India, however, many farmers continue to lead lives of mere subsistence.

17. Agricultural productivity, and thus output, is low for a number of reasons, including reduced arable land availability and low crop yield productivity. In many populous developing countries and LDCs, available arable land is dwindling, often due to urbanization of agricultural land. Average farm size is diminishing, and more and more farmers work on ecologically fragile land. Due to population growth and loss of farmland, average farm size in, for example, in China and Bangladesh has fallen from about 1.5 hectares in the 1970s to barely 0.5 hectares at present; in Ethiopia and Malawi, it declined from 1.2 hectares to 0.8 in the 1990s.¹⁶ Lack of access to water and electricity in poor countries has added to the tardy supply response. Access to irrigation has become a major problem in some countries, as well as lack of investment in agriculture development, including R&D, thereby further reducing the potential of agricultural production and land/crop yield. In most regions that have already reached high levels of production and trade, yields have been growing very slowly. In developing countries between the 1960s and 1980s, yields of the main cereal crops increased by 3 to 6 per cent per year. Now, however, such annual growth has dropped to 1–2 per cent.¹⁷ In addition, climate change has accelerated this trend and will continue to do so. For example, low and declining agricultural and food production and productivity has been aggravated (and even threatened with extinction) in the case of low-lying small island States by sea level rise owing to climate change.

18. Low agricultural productivity has been reinforced by a systemic failure of development strategy – the lack of public and private investment in the rural and agricultural commodity sector, which is a prerequisite and important catalyst for agricultural development and food production in developing countries. The paradox has been that the

¹⁶ The new face of hunger, *The Economist*, 17 April 2008.

¹⁷ *Ibid.*

economic sector that is most sensitive politically, economically, and socially has received minimal support domestically and internationally. In many developing countries, the agriculture sector receives limited support in terms of the government budget and domestic investment, even though it is often among the largest contributors to gross domestic product (GDP) and employment. By contrast, a country such as Viet Nam, which has treated agriculture as a development priority, has become an agricultural powerhouse.

19. One important factor behind this lack of investment has also been structural adjustment programmes that have encouraged fiscal austerity and abandoned or weakened the role of key institutional support measures, including marketing boards, State-supported extension services, subsidies for agricultural inputs (such as seeds, pesticides, herbicides, and fertilizers) and stabilization funds for both agricultural commodities (such as coffee, tea, cocoa, cotton or tobacco) and food staples such as wheat or maize, without viable alternatives being put in place – a concern raised in UNCTAD reports.¹⁸ The effect of the general lack of investment in agriculture has therefore been worsened by the unsurprising failure of the market to deliver public-good type benefits that were previously provided by local or national marketing boards and other intermediary agencies. The adverse effects on farmers' costs have been compounded by underinvestment in the infrastructure (communications, irrigation, transportation) needed to distribute agricultural products, and the strengthening of intellectual property rights over plant varieties and new seed technologies. Furthermore, with respect to food crops, matters may sometimes have been made worse as rural producers have switched from growing crops that were once staple diets for local populations to higher-value cash crops aimed at developed country markets (cut flowers, exotic fruit and vegetables, soy feed for livestock, tobacco, etc.). On the other hand, in some East African countries, finance generated from cash crops and organic production has been invested in local food production. Trends in relative production price levels between staples and cash crops, as well as the

¹⁸ For details see UNCTAD's *Trade and Development Report 1998*.

difficulties and costs of compliance with phytosanitary regulations for exported cash crops, may now enhance incentives for growing staple crops for domestic markets, leading to some shift in production patterns.

20. Stimulating and sustaining agricultural and food production also depend on public revenue, given the volatility associated with the latter. However, aid and official development assistance (ODA) to developing countries for agriculture has been decreasing. Between 1980 and 2002, multilateral institutions slashed ODA spending on agriculture from \$3.4 billion to \$0.5 billion (a decrease of 85 per cent). Bilateral donors cut spending from \$2.8 billion to \$1.7 billion (a decline of 39 per cent).¹⁹ Furthermore, aid for science, technology and innovation, which is critical for enhancing agricultural productivity, represents only a fraction of total aid. Aid for agricultural research remains woefully inadequate to support productivity improvements and agricultural extension in most developing countries and LDCs. For example, only three per cent of science, technology and innovation-related aid is for agricultural research in LDCs, and only two per cent and one per cent, respectively, are earmarked for agricultural education and training and agricultural extension.²⁰ As a result, it is crucial to ensure additionality and predictability in aid flows into the productive sectors, including agriculture, as part of aid for development.

21. On the other hand, food aid in kind has sometimes had an adverse impact on developing country agriculture. In the case of cereals, for instance, in-kind food aid peaked in 1999–2000, when there were large surpluses and low prices for cereals. This depressed prices for developing country farmers around the world, as food aid that is provided in kind at low prices can have the effect of depressing food prices domestically and in turn act as a disincentive to local production of similar food crops.

22. In addition, foreign direct investment (FDI) in agricultural production per se has been very limited to date – as illustrated by the

¹⁹ Official development assistance to agriculture, Department for International Development, November 2004.

²⁰ *The Least Developed Countries Report 2007*, UNCTAD.

fact that only \$300 billion of FDI stock, or less than three per cent, in 2005 was held in agriculture and food industries (see table below). In fact, foreign investment tends to be concentrated in processing and marketing. However, private domestic and foreign investment in cash crops has been significant. In general, the investment deficit has grown as the agricultural and food industries have become more capital-intensive.

FDI in agriculture, forestry and fishing^a and food and beverages^b
(billion of dollars and %)

Region	FDI flows				FDI stock			
	Inflows		Outflows		Inward stock		Outward stock	
	1989-1991	2003-2005	1989-1991	2003-2005	1990	2005	1990	2005
World	7.8 (4.3%)	18.0 (2.4%)	12.9 (5.9%)	22.9 (3.0%)	81.4 (4.6%)	290.9 (2.9%)	81.6 (4.5%)	307.4 (2.9%)
Developed economies	4.8 (3.3%)	9.8 (1.9%)	12.7 (6.0%)	22.5 (3.2%)	67.4 (4.7%)	230.7 (3.1%)	80.8 (4.5%)	303.0 (3.2%)
Developing economies	3.0 (8.4%)	7.3 (3.4%)	0.3 (4.8%)	0.3 (0.6%)	14.1 (4.2%)	48.6 (2.1%)	0.8 (3.6%)	4.1 (0.4%)
SEE and CIS countries	..	0.9 (3.2%)	..	0.05	..	11.6 (5.9%)	..	0.3 (16%)

Source: UNCTAD, *World Investment Report 2007*, pp. 225-228

^a Include hunting.

^b Include tobacco.

Note: Figures in parenthesis show the share of these industries in total FDI to all industries.

23. One of the most critical obstacles to agriculture development in developing countries has been posed by the long-standing agricultural export subsidies and domestic support policies in developed countries. Quantitative analysis and case study evidence by FAO and UNCTAD indicates that agricultural subsidies in developed countries have been associated with rapidly increasing food imports in developing countries, alongside the decline in agricultural production. Developing countries that liberalized their agricultural sectors too quickly or too far have reeled under the pressure of dumping of cut-rate subsidized food exports from developed countries. This has undermined production for domestic markets and for exports, restricting farmers' capacities to generate the supply response that the current crisis calls for. In fact, many developing countries, especially LDCs, which are traditionally food exporters, have become net food importers over the past 20 years. Recent data for 2006

show that, on average, 20 per cent of LDC food consumption is imported, and in some countries the share is much higher (for example, 67 per cent in Lesotho, 82 per cent in the Gambia, 32 per cent in Mauritania and 31 per cent in Malawi).

E. Multilateral trade rules

24. Multilateral trade rules have an important role in influencing food security. Under the WTO Trade Organization (WTO), these rules have thus far permitted subsidies for agriculture (which are mostly forbidden in the industrial sector). They have also allowed for indirect export subsidies through export credits, State trading enterprises and food aid. The latter is often found to be driven by supply rather than demand, putting pressure on domestic producers in the poorest countries. Also, some developing countries (mostly those under structural adjustment programmes) have low bound agricultural tariff rates (maximum allowed ceiling level), limiting their opportunities to protect and increase their own production (see table below). This partly explains why, faced with subsidized and “dumped” imports, developing country producers have been left defenceless and agricultural production in these countries has suffered setbacks from which it has been unable to recover quickly.

Bound and MFN applied rates			
		Bound	Applied
		(%)	(%)
Agriculture	Developed countries	38	34
	Developing countries	61	25

Source: UNCTAD calculations based on TRAINS and WTO data.

25. The lesson seems to be that strategic calibration of agriculture tariffs could be important for encouraging domestic production of food crops. Accordingly, many developing countries that maintain higher bound tariffs rates have an opportunity to adjust domestic prices to a certain extent when world prices fluctuate by lowering applied tariffs, thus utilizing the flexibility of tariff instruments. The defensive interest in keeping the possibility of increasing or maintaining tariffs for products that are important for food security, livelihood security and

rural development has been acknowledged by WTO members in the form interim agreements within the Doha Round.

F. Fair competition

26. Oligopolistic (on the seller side) or oligopsonistic (on the buyer side) market structures, mergers and strategic alliances in the agro-food sector have contributed to the higher prices for agricultural inputs, as well as to the fact that developing country farmers receive a relatively small fraction of retail prices for their products, thereby dampening profit incentives that would have enhanced food production by developing countries. It has been estimated, for instance, that two corporations hold 65 per cent and 44 per cent, respectively, of world seed markets for maize and soya; six corporations control 75–80 per cent of the global pesticides market; five corporations control over 80 per cent of the global trade in bananas, with a tendency towards vertical integration along the supply chain in this sector, as in several others in the agro-food industry; and the 30 largest food retailing corporations account for one-third of world grocery sales.²¹ These figures relate to the global market, but concentration is sometimes relatively higher for different agricultural or food inputs or food products in developing countries. Such concentration has facilitated a range of anti-competitive practices in these markets with regard to farmers, food processors and consumers, including abuse of dominance, abuse of economic dependence, cartels and collusive tendering.²² International cartels affecting agro-food markets in developing countries, for instance, have covered vitamins (incorporated into food and animal feed), lysine

²¹ See Actionaid International, *op. cit.*

²² See UNCTAD, *Market entry conditions affecting competitiveness and exports of goods and services of developing countries: large distribution networks, taking into account the special needs of LDCs*, (TD/B/COM.1/EM.23/2) and the report of the expert meeting on the same topic (TD/B/COM.1/66); Actionaid International, *Power hungry – six reasons to regulate global food corporations*, 2005; and Traidcraft, *Rebalancing the supply chain: buyer power, commodities and competition policy*, 2008.

(added to animal feed), citric acid (added to food and to animal feed) and corn fructose (a sweetener used in the food and drink industries).²³

27. Concentration has also facilitated the exercise of buyer power to a degree that has adversely affected the viability of farming.²⁴ On the one hand, food processors, bulk commodity traders or supermarkets trading directly with developing country producers have exercised strong downwards pressure on prices offered to developing country farmers for their produce, while imposing stringent conditions. On the other hand, large supermarket companies (which are now also dynamically expanding in developing countries) have been exerting buyer power over intermediaries supplying them with goods to depress prices and impose a wide range of unfair conditions – with a domino effect up the supply chain, eventually passing both price pressures and risks on to developing country farmers. However, any cost gains as a result of such unfair buying practices have not necessarily been transmitted to consumers – on the contrary, buyer power can reduce competition at the retail level, facilitating such practices as discrimination.²⁵ The current food crisis has indeed raised concerns in Europe about the operation of food supply chains (with a particular focus on supermarkets), as there is evidence that price rises are out of line with raw material costs.²⁶

²³ It has been estimated that, as a result of the vitamins cartel, the total overcharges paid by four developing countries over the 1989–1999 period exceeded \$100 million and those paid by six other developing countries exceeded \$50 million. See WTO, Working Group on the Interaction between Trade and Competition Policy - Study on Issues Relating to a Possible Multilateral Framework on Competition Policy, WT/WGTCP/W/228. However, only one developing country, Brazil, took enforcement action against this cartel, and no other such cartels have been challenged by any developing country.

²⁴ See UNCTAD and Actionaid, *op. cit.*, and South Centre and Traidcraft, *Rebalancing the supply chain: buyer power, commodities and competition policy*.

²⁵ See OECD, *Buying Power of Multiproduct Retailers*, 1998.

²⁶ See “Belgium plans probe as public takes *frite* over the price of chips”, *Financial Times*, 22 May 2008.

II. Addressing critical policy issues, promoting food security and UNCTAD's contribution

28. Reflecting the severity and the global nature of the food crisis, the United Nations Secretary-General Mr. Ban Ki-moon took immediate action and formed a high-level task force on the global food crisis to mobilize the United Nations in addressing the issue (see box below). This system-wide approach will complement other international and national efforts to discuss the root causes of the crisis and promote sustainable approaches to its resolution.

29. In the Accra Accord,²⁷ adopted on 25 April 2008, UNCTAD member States took cognizance of the global food crisis and requested UNCTAD to contribute to alleviating the crisis within its areas of work on commodities, trade and investment. They highlighted the need to address the implications of volatile energy and food prices, and ensure a proper balance between food security and energy concerns. Concerns were expressed by some developing countries about market failures, the efficient functioning of markets and the need to improve dialogue between food-importing and food-exporting countries in order to reduce and stabilize world food prices. They also welcomed the decision of the Secretary-General of the United Nations to immediately establish a high-powered task force to address the current food crisis, its impact on poverty and long-term food security challenges.

²⁷ TD/L.414 (paras. 51, 79 and 83).

United Nations High Level Task Force on the Global Food Crisis:

Terms of reference

“The objective of the High Level Task Force is to ensure comprehensive and coordinated understanding and action in responding to both immediate and longer-term food challenges.

The principal functions of the High Level Task Force will include:

- Advising the Secretary-General on the appropriate responses to the global food challenges;
- Discussing and endorsing a coherent and coordinated overall Comprehensive Framework for Action, including a range of strategies for immediate and longer-term action;
- Developing broad consensus, including with governments and key external actors, on the Framework and the proposed way forward;
- Ensuring the coordinated implementation of the Framework and its related activities;
- Promoting coherent and coordinated messaging and information sharing.”

30. It is clear that short- and long-term responses are required to alleviate the food crisis now and prevent its reoccurrence in the future. It is important, however, to note that there can be special tensions that exist between these different forms of response. UNCTAD’s development-oriented trade and investment perspective can help guide the partnership that is needed between Governments and the market, to address the tension that is inevitable in the complex task of providing emergency food relief without destroying local communities’ ability to secure a long-term sustainable development path. On the basis of thorough, balanced analysis, UNCTAD can undertake inter-governmental deliberations and consensus-building on appropriate policies and measures, policy advice and concrete projects, thereby helping to promote better universal access to food through measures that

strengthen positively the interaction between trade, investment, environment, commodities and agricultural policies and strategies. Ensuring food security is as much a matter of trade and development as it is a matter of agricultural productivity.

31. Measures can be considered in responding to the critical policy issues behind the causal factors aggravating the food crisis. These would have to be taken as part of the Comprehensive Framework for Action under the aegis of the United Nations High-Level Task Force on the Global Food Crisis, and close cooperation with FAO, United Nations country teams, and other organizations. An integrated and comprehensive approach is needed in addressing underlying systemic factors.

A. Import policies for food

The policy issue

32. Humanitarian and emergency measures are being undertaken by FAO, the World Food Programme (WFP) and others, with support from the international community, to help affected countries ensure a steady supply of essential food to populations in need, especially the poor. The international community needs to continue to support such emergency supplies of food.

33. Additional measures to ensure affordable access to, and delivery of, food supplies can also be considered and implemented through support to Governments in food import policies and practices. Developing countries that experience shortages (and steep price hikes) of staple foods (such as rice or wheat) which are consumed widely (but not grown locally or in sufficient quantities) and which must be imported at high prices, can consider actions to reduce transaction costs of importing food by sourcing them directly from producing countries.

UNCTAD's contribution

34. UNCTAD can assist developing countries, especially net food importers, which encounter difficulties in importing food items on

competitive terms to feed their population. In 1988, UNCTAD initiated a technical cooperation project entitled “Import Management and Policies for Food Commodities”, which ran until 1992. The project’s broad objectives were to assist food-importing developing countries, in particular LDCs, in improving their State food import policies in the context of national food plans and in reducing the foreign exchange costs of food imports, including by diversifying sources of supply. That project was closely associated with a related UNCTAD project on import procurement of food commodities, also implemented during the same period.

35. In support of United Nation efforts to help affected countries respond to the current global food crisis, UNCTAD is developing a new project to assist developing countries with the formulation and implementation of import policies for food commodities. The aim of the project will be two-fold. First, it will endeavour to strengthen developing countries’ capacity for commercial food purchases, such as directly from food sources. Second, it will help net food-importing developing countries work out improved procedures for directly reducing transaction costs, including those related to import financing. Net food-importing developing countries will be the main beneficiaries of the project activities, for which UNCTAD is seeking funding from donors.

36. In addition, some developing country that are net food importers may consider the elaboration of long-term food procurement agreements or arrangements with net food exporters or food-exporting enterprises so as to secure favourable prices (to assure affordability) and quantity (to assure secure level of supply). Such arrangements could be undertaken both between and within countries. However, in many developing countries, knowledge and expertise in food procurement strategies are often absent or weak. This deficit was aggravated when many developing countries dismantled their marketing and agricultural boards, losing important knowledge and expertise in domestic food production and procurement strategies. Food procurement arrangements can be complex and difficult to negotiate and implement. UNCTAD can

provide advisory assistance and capacity-building support to developing countries that would like to develop such food procurement arrangements at the national, regional and international levels.

B. Balancing the inherent tension between urgent and sustainable access to food

The policy issue

37. A sustainable approach to food security in both net food-importing and -exporting developing countries is necessary for building endogenous agricultural food production capacity to meet current and future domestic food needs and also export. In support of this development strategy, it is important to adopt an enlightened approach to short-term emergency relief that does not hinder the longer-term structural approach to building food security.

38. Food aid is an essential tool for providing emergency relief to hungry and/or starving populations, but it comes with its own complexities. Most of the discussion between food aid donor and receiving countries has been about how best to guarantee that the aid goes to those really in need; how to ensure that it neither harms domestic production – especially the livelihoods of poor farmers – in countries receiving it nor distorts trade, in particular by jeopardizing exports from competing suppliers; that it is not used to capture new markets; that it responds genuinely to demand; does not amount to the disposal of surpluses in donor countries; and does not allow countries to get around their export subsidy commitments. An appropriate approach needs to be followed in ensuring that both the urgent and the sustainable access to food are made mutually compatible.

39. Food aid policies need to be calibrated and food aid distributed in a manner that does not undermine or discourage local production of food. This is a difficult policy conundrum that is not easily addressed – it requires in-depth analysis of structural factors, agricultural productivity potential and the resources and institutions required to sustain longer-term development of agriculture while at the same time

responding to urgent humanitarian needs. Moreover, there is an attempt to discipline food aid as part of the reforms of the agriculture sector in the Doha Round negotiations. As indicated previously, export credits for agriculture products provided by developed countries have also adversely affected the capacity of developing country producers to compete fairly in their own markets as well as international market. In this regard as well, there are attempts to strengthen multilateral disciplines.

UNCTAD's contribution

40. UNCTAD can provide advisory and capacity-building support to developing countries in balancing the inherent tension between urgent and long-term food security considerations. Through its policy development work on agricultural commodities, for example, UNCTAD has assisted commodity-dependent developing countries in designing commodity policies and strategies to boost agricultural production, including of food crops, for domestic consumption and exports. In recent years, UNCTAD's work has emphasized commodity policies that can help promote the Millennium Development Goals and reduce extreme poverty. Drawing on this experience and expertise, UNCTAD can assist developing countries and major providers of food aid on emergency food aid management practices that respond to emergency food shortage needs without discouraging domestic food production or broader agricultural and commodity sector development.

C. Agricultural-cum-food commodity policies and development

The policy issue

41. The food crisis has underscored the need to review and substantially strengthen support for agriculture-cum-food sector development in developing countries. In the medium to longer term, higher prices for food should bring gains for agricultural development and trade, enhancing incentives to increase production, raising incomes of food-exporting countries and boosting rural development in

particular. However, for developing countries to seize such opportunities, appropriate national and international measures would need to be adopted to enable developing country farmers to obtain a sufficient return from their produce. A central component of any commodity sector revival in commodity-dependent developing countries must be overall agricultural commodity sector development policies, strategies and plans, with a local dimension of increasing production and competitiveness and an international dimension of securing better terms of trade for commodity exports and imports. National and sectoral commodity sector development policies are either lacking in many countries or insufficiently funded for implementation. There is a need to conduct national (and regional) assessments of the agricultural food commodity profile in countries and take steps to strengthen such production and productivity. Also, often at the domestic level in Governments in many countries, there is a separation of functions between the agricultural ministry, which focuses on domestic agriculture development, and the trade ministry, which deals with trade in agriculture issues. A strengthening of the interlinkages between agricultural development and trade at the national level in the current process of globalization is needed in order to deal more effectively with the agriculture portfolio. It would be appropriate to take a fresh look at producer–consumer cooperation schemes to address common concerns relating to food security and prices.

42. Sustainable agriculture, including for staples, is increasingly important for developing countries. Sustainable forms of agriculture are often not only more productive but also essential for adapting agriculture to climate change and for climate change mitigation. Moreover, organically grown food is in great demand on the processed food market. Also, as agro-chemicals are prohibited in organic agriculture, this production system is less vulnerable to oil price shocks. It promotes reliance on local resources and local traditional knowledge, reducing vulnerability to external shocks in several ways.²⁸

²⁸ The International Assessment of Agricultural Knowledge, Science and Technology for Development (IAASTD), an intergovernmental process, supported by over 400 experts under

UNCTAD's contribution

43. Over the years, UNCTAD has analysed agricultural production and trade generally and specifically in LDCs. It has emphasized the need for enhanced development of the agriculture sector in developing countries to meet food needs, alleviate poverty and enable countries to use their natural comparative and competitive advantages in agriculture to trade and diversify. UNCTAD can thus help with identification and implementation of commodity policies that focus on ensuring a better balance between both food production and non-food (cash crop) production for exports and for local consumption. It can also identify obstacles to increased food security and viable actions to overcome such obstacles, at national, regional and international levels from an integrated perspective that makes good use of national resources and combines the domestic market element and the international markets.

44. In this regard, UNCTAD will help in the design of national agriculture commodity development policies based on a proactive long-term strategy for developing the agricultural commodity sector. This will involve enhancing institutional capacity, building backward and forward linkages, improving small-scale producers' participation in value chains and developing legal and regulatory frameworks, as well as promoting sustainable agricultural practices and protecting the effective use of resources. The national strategies, where relevant, would be coordinated with regional development efforts to ensure synergies. At the international level, given UNCTAD's long-standing experience in the area of producer-consumer cooperation, it might also help to assess the feasibility of using such schemes to enhance global food security.

the co-sponsorship of FAO, GEF, UNDP, UNEP, UNESCO, the World Bank and WHO, released its summary report on 14 April 2008. It stated forcefully that "the way the world grows its food will have to change radically to better serve the poor and hungry if the world is to cope with growing population and climate change while avoiding social breakdown and environmental collapse". The authors found that (i) progress in agriculture had generated very unequal benefits and had come at a high social and environmental cost; and (ii) food producers should try using "natural processes" such as crop rotation and use of organic fertilizers. The authors call for more attention to small-scale farmers and utilization of sustainable agricultural practices, specifically mentioning organic farming as an option several times.

D. Trade rules and trade and trade-related policy issues

The policy issue

45. Food and agriculture are considered special commodities that cannot be treated in the same way as other goods in terms of trade rules. From the inception of the multilateral trading system, agriculture has been treated in a special way not subject to the entirety of trade disciplines. The Doha Round of multilateral negotiations has on its agenda the reduction or elimination of agricultural tariffs, trade-distorting domestic subsidies and elimination of export subsidies.

46. Several trade issues are relevant to food security. One is that the long-standing agricultural export subsidies and trade-distorting domestic support measures in developed countries have hurt agricultural development in many developing countries and may have retarded the latter countries' supply response. The current high prices and strong demand for food could, by reducing the incentive for developed country Governments to provide such subsidies or other supports, facilitate their substantial reduction or phasing-out under the Doha Round negotiations.²⁹ The financial resources thus freed up could be reallocated to the advancement of agriculture in developing countries.

47. Another trade issue pertains to the use of agricultural tariffs in developing countries as policy instruments to promote agricultural development. In the Doha negotiations, WTO Members have acknowledged the need for and importance of policy flexibility with regard to agricultural tariffs for food security, livelihood security and rural development in developing countries. This is manifested in the proposed Special Product provision (SP) to allow developing countries not to reduce bound tariffs or to reduce to a lesser extent on products important for food security, livelihood security and rural development. At the same time, this gives them flexibility to reduce applied tariffs on food as required to manage food supply and price situation in their

²⁹ At the same time, it is necessary that trade-distorting subsidies should, to the extent possible, be removed through an approach that does not disrupt production and export of food at affordable prices in the short run to food-importing developing countries.

countries. It is also manifested in the proposed Special Agricultural Safeguard mechanism for developing countries (SSM), which would allow them to temporarily increase tariffs beyond bound rates in the case of an import surge or unusual low prices. The current global food crisis has underlined the need for developing countries to have an effective SP and SSM in place.

48. A third issue pertains to restrictive trade measures – export taxes, quotas or bans on food exports – put in place by some countries. Article XI of GATT 1994³⁰ allows for the temporary application of export prohibitions or restrictions to prevent or relieve critical shortages of foodstuffs, while Article 12 of the Agreement on Agriculture³¹ stipulates that when export prohibitions or restrictions are put in place, due consideration should be given to the effects of such measures on the food security of importing countries. In addition, it establishes a transparency procedure. The article only applies to developed countries and developing countries which are net food exporters of the specific product under restriction. Export taxes are not specifically regulated under the WTO agreements, i.e. countries may only establish export taxes on a MFN-basis. However, some countries which have recently acceded to WTO have included in their Protocol of Accession a commitment to eliminating or reducing export taxes on specific products. Thus, those food-exporting countries which have used trade measures to limit food exports owing to the desire to reserve scarce staple food to meet food needs of the local populations can do so under existing WTO rules. Such actions have, however, exacerbated shortages in international food markets and aggravated the food crisis. There is a need for food-exporting and food-importing countries to consider food cooperation arrangements that will cater to the needs of both parties, especially in situations of food shortages and/or price rises. Regional cooperation in this area needs to be fostered, and North–South and South–South trading arrangements and diversification of sources need to be promoted.

³⁰ General Elimination of Quantitative Restrictions.

³¹ Disciplines on Exports Prohibition and Restrictions.

49. A fourth issue is that food-importing developing countries are facing severe financing problems and balance-of-payment challenges in meeting their increased food import bills. In this connection, there is a need to examine ways and means of effectively implementing the Marrakesh Ministerial Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Developing Countries, aimed at avoiding shortages of basic foodstuffs on account of the shrinking of supply and increased prices in the short term that would arise from liberalization and reform of agriculture trade.

50. Regarding trade policy, the tariff regime is an important tool for fostering agricultural development and industrialization as well as raising government revenue. Tariffs in developing countries have, however, been declining as a result of multilateral or regional/bilateral agreements, structural adjustment programmes or autonomous measures. Nonetheless, such policies remain a major policy tool for many developing countries. In view of the food crisis, the developing countries affected could review and rationalize their tariffs and associated export taxes to ensure availability of imported food staples at affordable prices and to promote agriculture production (for example, by reducing tariffs on agricultural inputs such as seeds, fertilizers or tractors). Consequently, the bound level of tariffs for agricultural products should be at a level that provides a sufficient margin for modulating applied tariff rates to deal, for example, with dumped food that discourages local production.

51. As regards competition problems in the agro-food sector, it is clear that much needs to be done both at the national level in developing countries and in terms of strengthened international cooperation. Prospects for such action may be enhanced by a reported willingness in Europe to monitor and possibly take enforcement action in respect of competition issues in the food supply chain.³² While such concerns would relate to the adverse effects of food prices on consumers in these

³² See "Belgium plans probe as public takes *frite* over the price of chips", *Financial Times*, 22 May 2008.

countries, the opportunity would arise to address in a holistic manner all issues along the international food and agro-industry chain, including questions relating to market concentration, anti-competitive practices, buyer power, intellectual property rights over seeds and other farming inputs, distribution of profits added along the supply chain and long-term incentives for farmers in developing countries. To enhance incentives for agricultural production in developing countries while safeguarding the welfare of consumers in all countries, it is crucial to reduce the gap between the profits which developing country farmers obtain for their produce and the prices which consumers (including Governments undertaking bulk buying of essential food items) pay for such produce – and competition policy would have a key role to play in this respect.

UNCTAD's contribution

52. Since the launch of WTO's Doha Round of multilateral negotiations in 2001, UNCTAD has been assessing the negotiations in terms of their various facets and the related developmental impact, fostering intergovernmental deliberations on such impact in order to work out a consensus on measures necessary to enhance development, and providing related policy advice and assistance to countries on the negotiations. In the negotiations on agriculture, for example, and at the request of concerned countries, UNCTAD assists African countries, LDCs, the ACP Group of States as well as small economies in identifying and promoting their development concerns, including in terms of food security and tariff flexibility for support of local food production capacities and trade, in the detailed negotiations, such as on liberalization modalities. UNCTAD will continue to foster intergovernmental dialogue and assist developing countries in the Doha trade negotiations to contribute to the achievement of a pro-development outcome that will help promote sustainable access to food in the short and long run.

53. Regarding the implementation of the Marrakech Ministerial Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing

Developing Countries, UNCTAD and FAO jointly formulated a proposal in 2003 regarding the creation of an international borrowing mechanism for food (Food Import Financing Facility) to ease the liquidity constraints of LDCs and net food-importing developing countries, to strengthen food-import financing, and to facilitate emergency food imports. In the current situation of global food crisis, this proposal could be reviewed and seriously considered.³³

54. In parallel, global cooperation is needed to avoid an accumulation of restrictive actions taken by individual countries that could further exacerbate the food crisis and trigger a stronger economic downturn. There needs to be greater coordination among exporting and importing countries, and UNCTAD can contribute to such global cooperation by promoting intergovernmental dialogue among concerned countries.

55. Regarding trade policy in general, UNCTAD can assist individual developing countries and their regional groupings in reviewing and updating trade policies, including tariffs and related measures, and putting in place policies and measures that focus on agricultural and food sector development. Indeed, in many developing countries, a specific trade policy is absent even though there is a body of trade regulations and measures. Consequently, there is a need to examine the elaboration of an endogenous trade policy that would integrate coherently different measures and instruments to promote agricultural development and industrialization. UNCTAD can assist countries in developing such trade policies with a development dimension that includes a focus on poverty reduction and gender equality which must have food security as a central element.

³³ In the search for effective mechanisms to implement the provisions of the Marrakech Decision, FAO and UNCTAD elaborated the modalities of a Multilateral Export Credit Facility to help LDCs and net food-importing developing countries finance basic foodstuffs. More details on experiences in financing food imports and the proposed facility can be found in the paper "Financing normal levels of commercial imports of basic foodstuffs in the context of the Marrakesh Decision on least-developed and net food-importing developing countries", Commodity Policy and Projections Service, Commodities and Trade Division, FAO, 2003.

56. With its long-standing experience in the area of competition law and policy and its mandate in this area arising from the United Nations Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices³⁴ and strengthened by the Accra Consensus, UNCTAD would be uniquely placed to promote action in dealing with anti-competitive practises in the agro-food sector. It is assisting developing countries and their regional groupings in developing competition policies and promoting consumer welfare. On the basis of its research and intergovernmental consensus-building, it can help countries factor food security concerns into the formulation, reform, or implementation of their competition laws and policies, as well as promote international cooperation in this area.

E. Investment and enterprise development policies and agriculture development

The policy issue

57. Given that demand for food is continuing to rise and that supply continues to be limited or increase only gradually, the current food crisis will not be overcome without additional investment in agriculture production. Now that the price rise and continued demand growth has made investment in agriculture profitable, Governments would need to put in place the necessary enabling policies at the national regional and international level so that both domestic and foreign investment can be better mobilized to significantly boost food grains and other food production and value chain development in developing countries.

58. Increased FDI and involvement of transnational corporations could help alleviate the current crisis and provide a useful response to it, in the appropriate policy environment. In this direction, such cooperation between transnational corporations and host countries should ensure that the resultant production of agricultural products and food crops is made available to the local (producing-country) market; that land is used in a sustainable manner; that appropriate technology

³⁴ General Assembly resolution 35/63 of 5 December 1980.

(e.g. avoiding over-grazing for example) is used and transferred to local producers; and that payment to local producers reflects market price signals (as well as efforts to avoid labour exploitation and ensure social protection).

59. As far as such public–private sector cooperation for agricultural development is concerned, the enabling policy environment for facilitation of investment and business in the agro-industry cluster would need to include making rules more transparent and simpler for both local and foreign enterprises with regard, inter alia, to land tenure and use (while securing land rights for communities and individuals), establishing and operating companies, obtaining business licenses and complying with environmental regulations. Special emphasis could be placed on small-scale operators in order to promote maximum participation and benefit for local rural populations. Assistance could also be provided to developing countries in enhancing productive capacities in the agricultural sector through enterprise development targeting agricultural production and related activities.

UNCTAD's contribution

60. UNCTAD has been working in the area of investment in terms of the policies and institutions required to mobilize domestic investment for the productive sectors and attract FDI for the same purpose. It has also been assisting developing countries with enterprise development policies and strategies. In this way, UNCTAD can help encourage investment in agriculture and food production by promoting policies and measures that will attract private investment. It can also help in providing information on how FDI policies and best practices could better attract FDI in agricultural production, and ensure that such FDI contributes to agricultural development through its impact on capital, technology and employment, and through the development of business linkages between foreign and domestic enterprises.

61. Through its intergovernmental work, UNCTAD can promote consensus and build cooperative mechanisms through which the private sector, including transnational corporations, can play an important role

in alleviating the food crisis in countries in which they are operating. UNCTAD can draw on its knowledge and expertise in investment and the impact of vertical integration and the market structure in commodities, to assist developing country Governments in ensuring that cooperation with private investors in the food and agricultural sector at all stages of the supply chain is beneficial to development.

F. Technology policies and agriculture development

The policy issue

62. Developing country farmers face many challenges in improving agriculture production and productivity. These include challenges caused by depleted soil, water scarcity and traditional agricultural practices. Some of them can be addressed, in part, through adaptation of modern farming technologies. Low soil fertility can be solved through the application of fertilizer, either chemical or organic. Chronic water shortages can be addressed through large-scale irrigation projects, but these are prohibitively expensive for many countries and can ruin villages and ecosystems. So advanced agricultural technologies, combined with clever, small-scale technologies, can help make parched land bloom. However, lack of awareness of and easy access to information on already established and proven technologies is an obstacle to their adoption in developing countries. Also, the capacity for the assessment and/or modification of particular technologies to suit local conditions in developing countries is often a major constraint in the technology transfer process.

UNCTAD's contribution

63. Through its work in the field of science and technology for development, UNCTAD can facilitate informed decision-making and the active involvement of beneficiaries in the choice of technological interventions directed at addressing the global food crisis. A small number of major international companies have developed new techniques, processes and products that can be readily adapted to improve agricultural products of value to smallholder farmers, yet these

private companies currently have limited commercial incentives to develop such products. In the developing countries, public-sector R&D institutions have limited access to new technologies and are under-resourced, but have in-depth knowledge of local crop varieties and the needs of smallholder farmers. UNCTAD's work on the transfer of technology can facilitate developing countries' access to proprietary agricultural scientific and technological resources, especially by focusing on the transfer and adaptation of products that will benefit smallholder farmers in the developing world in a sustainable manner.

64. UNCTAD has helped promote science and technology for addressing food security, in its capacity as the Secretariat of the Commission on Science and Technology for Development. In the course of such efforts, it has focused on the role of science and technology in integrated land management, the potential of biotechnology for increasing and improving food production capacity and promoting sustainability, research collaboration and networks that are needed to link expatriate scientists from developing countries to their home institutions and to reduce brain drain, and the Centres of Excellence network for training on agricultural genetic engineering and ICT applications in agriculture. Most recently, a proposal has been put forward to organize a World Summit on Agricultural Technologies, to be held jointly with UNCTAD and the Commission on Science and Technology for Development, with a view to raising awareness of the need to adapt agricultural technologies to deal with the food crisis.

G. South–South cooperation policies for agriculture development and trade

The policy issue

65. South–South cooperation can offer an important catalyst for addressing the food crisis at bilateral, regional and interregional levels among developing countries and for building food security. Such cooperation can include better trade financing terms, early warning systems on food shortages and possible sources of food supplies; regional marketing and trading of food between neighbouring food-

surplus and food-deficit countries; and exchange of best practices, technologies and technicians on agricultural production. It can be undertaken within the framework of subregional or regional organizations of developing countries through dedicated agriculture and food sector development programmes and trade programmes. South–South cooperation offers an avenue through which food-surplus countries and food-deficit countries could collaborate on mutually beneficial terms and conditions, meeting the food needs of all concerned while ensuring sustainable use of natural resources and generating benefits for local communities.

66. Triangular South–South cooperation could also be developed to address food security needs. Assistance can be provided to developing countries in taking advantage of the opportunities offered by emerging investment from the South to finance agriculture development. In this respect, for example, sovereign funds amassed by energy-exporting countries could be encouraged to finance investment in agricultural development in developing countries with a potential for food production for domestic and foreign consumption (including in countries hosting the sovereign funds). A third party (for instance a firm with the appropriate know-how and technology) would be responsible for actual production.³⁵ This could be provided through Government-to-Government cooperation and public–private partnerships. Attention has to be paid to the conditions of such triangular cooperation so that all parties involved benefit fully and fairly.

³⁵ For example, at UNCTAD XII, there was a suggestion to develop a prototype with Oman providing financial support for captive agricultural development in Ghana to meet Oman’s food needs as well as those of Ghana by using its ample land and water resources and combining it with appropriate technologies and institutional capacity-building from another developing country such as Brazil or India with some proven experience in these areas. Saudi Arabia has also indicated an interest in developing similar initiatives in Sudan. Also, a populous country such as India with rising demand for food has expressed an interest in procuring food from food-surplus countries or investing (financially, technically and also through the provision of technology) in countries with the necessary land and water resources to develop agricultural production of food to meet India’s needs. China also plans to encourage its firms to invest in developing countries in food production for the Chinese market.

67. Another avenue would be to provide a special window for commodity sector development in developing countries, especially in agriculture and food production, within long-standing development cooperation programmes; where such programmes already exist, they could be substantially strengthened. These include the ACP–EU Cotonou Partnership Agreement with special provisions on agricultural development, the Japan–Africa development cooperation through TICAD (Tokyo International Conference in African Development), or the United States’ African Growth and Opportunity Act.

UNCTAD’s contribution

68. UNCTAD has been involved in promoting economic and trade cooperation among developing countries since its inception in 1964. It has acquired in-depth expertise and experience on South–South trade and cooperation in goods, services and commodities and in building capacities of supporting trade institutions. Consequently, it can assist subregional and regional groupings of developing countries in Latin America and the Caribbean, Asia and the Pacific, and Africa in discussing and promoting policies and strategies that are supportive of agricultural development and trade. UNCTAD assists developing countries, upon their request, in assessing North–South–South trade agreements and developing policies and strategies that best promote the development of developing countries.

69. It can help developing countries in assessing specifically and putting in place policies and measures to promote agriculture development and trade, especially in food crops. Through its support for interregional trade-promoting instruments such as the Global System of Trade Preferences among Developing Countries (GSTP), UNCTAD assists member States in fully utilizing the agreements including in terms of trade in food items and in negotiating further concessions under the current ongoing third round of negotiations. UNCTAD can provide a forum for developing countries to meet and discuss South–South joint measures to deal with the food crisis and to develop long-term measures aimed at building up supply and trading capacities in agriculture and food production.

70. Through its support to G-NEXID (Global Network of Exim Banks and Development Finance Institutions), UNCTAD may also promote alternative approaches to attract South–South investment and finance at good terms in the food sector. G-NEXID is a new partnership launched in March 2006 by export–import banks and development finance institutions, with the support of UNCTAD. It aims to promote South–South trade and development finance, investment relations, creativity and research, and networking opportunities.³⁶

H. Financial support policies for agricultural development

The policy issue

71. Developing countries facing food crisis need assistance in accessing and making use of available financing mechanisms for agricultural development. Financial support for food and agricultural sector development is essential, as underscored by the food crisis, and can take various forms.

72. The WTO Agreement on Agriculture provides some avenues for Members to improve their agricultural productivity by certain support measures. These have not been adequately utilized by developing countries where they could be of use, owing primarily to a lack of financial resources. From the perspective of food-importing developing countries that are developing local production of food crops, consideration could thus be given to enabling these countries to make use of “green box” subsidies³⁷ (allowed under Annex II of the Agreement on Agriculture) such as investment in infrastructure (building roads in rural areas or food storage systems for example), training of farmers to improve productivity, agricultural research, domestic food aid, and building of food reserves. Also, food-importing developing countries can be supported in making full use of development box subsidies for low-income and resource-poor farmers

³⁶ The network currently has 23 members from Africa, Asia, Latin America and Eastern Europe. For details, see its website at www.gnexit.org.

³⁷ Defined as non-trade distorting or at most causing minimal distortion.

(allowed under Article 6.2 of the Agreement on Agriculture) for payment of agricultural inputs (fertilizers, quality seeds, fuel, irrigation etc). Such actions by food-importing developing countries, with financial support from donor countries, can help increase agricultural production, promote access to food and fight poverty. The experience of some developing countries has shown that government support to farmers in purchasing agricultural inputs has helped promote food production, enabling them to supply the domestic market and even export. Also in the Doha Round negotiations on agriculture, an extension of measures under the green box subsidies for developing countries is currently under consideration and deserves support.

73. Public and private investment is a prerequisite and an important catalyst for agricultural development and food production in developing countries as well as sorely needed productivity improvements. Public investment in agriculture has been indispensable in fostering the Green Revolution in the developing world in the 1970s, especially in Asia and Latin America. Over the years, however, even in these countries, the institutional, technical, input and infrastructure support to farmers has dwindled or been withdrawn. In Africa, the Green Revolution could not be launched due to the factors mentioned above.

74. The neglect of agriculture has to change and more attention should be paid to financing agriculture for food security. A two-pronged channel can be considered, with the rapid and comprehensive elimination of all trade-distorting subsidies and support measures in advanced countries, on the one side (as discussed previously), and aid for low-income net food-importing countries, on the other. Increased ODA for agricultural development in developing countries is urgently needed to back the development and implementation of agricultural policies; to back institutions including agricultural development banks that provide rural financing for food production; to develop agricultural R&D, especially through support to local agricultural R&D institutions in enhancing their research and disseminating the findings;³⁸ to promote

³⁸ Another aspect of the first wave of the Green Revolution and the continuing wave in countries such as Brazil (EMBRAPA) and Argentina, for example, is the technological

availability of real-time information on food supplies, including commodities; and to build infrastructure, especially transport and logistics networks for storing and transporting food. This aid would also help countries cope with short- and medium-term adjustment costs associated with the increase in their food import bill. Such aid must come in the form of grants. Aid to help countries in the medium to long term should seek to develop their productive sectors (agricultural sectors where feasible). Moreover, such aid would ideally come in the form of grants, but may also come in the form of concessional loans – provided it is really targeted at generating a future stream of income from agriculture.

UNCTAD's contribution

75. With regard to Doha agenda negotiations and agricultural subsidies, UNCTAD can assist in conducting and deepening analyses on the different modes of subsidization, including green box subsidies and their impact on agricultural production and trade and how to address them, inter alia from the perspective of enabling developing countries to make use of them. UNCTAD also supports developing countries in multilateral and regional trade negotiations in assessing and formulating agricultural trade policies that are consistent with and supportive of their specific development needs, including food security. In addition, UNCTAD can help developing countries identify appropriate agricultural sectors and related support measures, and link them to their overall trade policy and development strategies.

76. In respect of aid for agriculture and commodity sector development, UNCTAD can facilitate aid coordination towards this sector by working with donors and other development partners with a view to promoting joint activities for food security programmes and agriculture commodity development programmes similar to those

revolution and agricultural R&D. Extension and technical advisory service, provided by government-supported agencies, has not been in evidence in most developing countries. The use of biotechnologies, apart from high-yielding pest-resistance varieties and including genetically modified organisms (GMOs), has created its own access, cost-benefit and impact dilemmas for developing countries.

highlighted in this document. For instance, UNCTAD is one of the implementing partners of the European Commission's All ACP Agricultural Commodity Programme. Moreover, Aid for Trade programmes for commodity sector development can also be developed and implemented by UNCTAD in consultation with beneficiary countries to meet these objectives.

77. Furthermore, in preparation for UNCTAD XII, several high-level events to relaunch the commodity agenda were organized, such as the Global Initiative on Commodities and a round table on the changing phase of commodities in the twenty-first century. These resulted in calls for collaboration and suggestions on best practices and practical ideas to make commodities, including agricultural commodities, become a more vibrant and dynamic source of economic growth, development and welfare enhancement of especially resource-poor farmers and commodity-dependent developing countries. Key factors that were addressed included enhanced productive capacity, value chain addition, access to finance, and infrastructure support. UNCTAD will participate in developing and implementing some of these actions with other stakeholders.

I. Commodity markets development

The policy issues

78. There is a need to strengthen access of smallholders and other food chain actors to financial and risk management instruments. Finance will enable smallholders to have better access to production inputs and to increase farm-level investments, boost productivity, and enhance their assets to build resilience. Farm-level investments include irrigation, farm mechanization, investments in produce management, storage and transport (to reduce post-harvest losses), etc. The other actors in the food chains need investments and working capital to enhance overall supply chain efficiency and make food available to consumers or for export. Because agricultural financial services remain underdeveloped, there is a need to develop new products for food production and marketing aimed at facilitating investments while reducing risks, such as

leasing, insurance and guarantees, commodity-based financial products, etc. Governments should accordingly ensure that such financial services are available and are provided in conformity with good practice principles by professional financial institutions.

79. While there is no precise information on or analysis of the impact of speculative funds on food prices, low levels of food stocks and distorted policies are fostering speculation by many actors. In this respect, there is a need to align financial policies and commodity markets with the principles of an efficient marketing system, good market conduct and surveillance in order to reduce the risk of over-speculation in food commodity markets.

80. Commodity exchanges have also come under scrutiny in terms of their impact on food security. It is useful to examine their contribution more closely. A commodity exchange is a market in which multiple buyers and sellers trade commodity-linked contracts on the basis of rules and procedures laid down by the exchange. In developed countries, such exchanges typically act as a platform for trade in futures and options contracts, or standardized contracts for future delivery. In the developing world, a commodity exchange may act in a broader range of ways to stimulate trade in the commodity sector. This may be through the use of instruments other than futures, such as the *cash* or *'spot'* trade for immediate delivery, forward contracts on the basis of warehouse receipts, trade transactions registration, etc. Commodity exchanges offering spot trade for instance may act as a conduit for linking participants in the physical markets – whether producers, processors with trading partners. By concentrating trade in one place, the exchange reduces transaction costs, as buyers and sellers benefit from savings in time and resources that would otherwise have been incurred in the search for a suitable counterparty. Moreover, government entities can buy and sell more easily and more transparently, thereby enhancing the country's food security.

UNCTAD's contribution

81. UNCTAD has been working on commodity financing instruments and risk management tools over many years, with a view to enhancing financial support for agricultural development and assisting poor farmers in accessing financial instrument so as to help them produce and sell their produce on fair terms. It can make available its expertise, accumulated knowledge and information to countries in considering avenues to enhance financial flows towards agricultural development in food crops and to facilitate trade (domestically and internationally) in these products.

82. UNCTAD could also undertake an in-depth analysis on how to address adverse effects of financial market speculation in food markets, including by regulating speculative investment, and could contribute to any coordinated international initiatives implemented for such purposes.

83. Moreover, UNCTAD has been assisting developing countries in assessing the impact of and setting up commodity exchanges. It can use its expertise in this area to provide advice on how commodity exchanges can be used positively to facilitate commodity trade and development, including in the food sector, and how farmers can actually benefit from such facilities. UNCTAD can also help ensure that risk management instruments and exchanges are designed in alignment with the principles that reduce the risk of overspeculation in food commodity markets. These have to do with compulsory delivery in food commodity contracts, surveillance and regulatory measures such as food reserves to prevent speculative attacks, monitoring of speculative capital, setting of limits on trading positions, and adjustment of margin deposit requirements, among others.

84. Regarding commodity information, UNCTAD has developed the InfoComm website. In particular, the InfoComm on market information in the commodities area seeks to promote market transparency, to further understanding of commodity structures and to improve access to the analysis vital to the formulation of pertinent policies for commodity production, marketing, processing and financing. It gives farmers direct

access to information on prices of different commodities with a view to facilitating trade therein. This website could be expanded to encompass more food crops.

J. Biofuel policies and food security

The policy issue

85. The relationships between biofuels and food security are complex and need careful assessment. What is probably needed in the short term is for the United States and the European Union to consider introducing some flexibility into their biofuel blending targets so as to contribute to reducing food price increases fuelled by investor expectations about the future of the industry. The United States and EU can also consider increasing the role of diversification in the sourcing of biofuels in their strategies. Allowing more trade in biofuels will not only reduce price pressures on the feedstocks currently used (corn and oil seed crops), but will also reduce the costs of achieving the targets. In addition, it will create opportunities for developing countries to produce and export biofuels to countries that need them. In the longer term, greater investment efforts aimed at enhancing productive capacity in developing countries, particularly of small farmers, ensure a better balance between production of biofuels and food crops, and help promote and develop second-generation biofuels that can help to limit the direct competition between food and fuel that is associated with most first-generation biofuels.

86. At the same time, the use of biofuels in many developing countries, if carried out under careful strategies, can be a means of promoting both national food and energy security. It can help diversify sources of energy for development and reduce energy bills, releasing funds which could be channelled to ensuring food security. Biofuels can also be instrumental in attracting new investments and technologies to the agricultural sector, as well as providing poor farmers with an alternative source of income.

UNCTAD's contribution

87. As part of its win–win approach to trade and sustainable development efforts, UNCTAD has been implementing a Biofuels Initiative since 2005 as well as other biofuel activities (such as the African Biofuels and Renewable Energy) under its commodities-related activities. Through its Biofuels Initiative, UNCTAD assists developing countries in working out suitable biofuel policies and strategies through careful assessment of the viability of including biofuels in their energy mix, the potential beneficial impact of biofuels on reducing imports of fossil fuels, on climate change mitigation and income earnings, and the trade-offs with food security and other domestic development priorities. UNCTAD has implemented biofuels assessment studies for several developing countries that have requested it. UNCTAD can thus provide analytical and technical advice to countries in clarifying the food security and biofuels debate, especially in terms of which kinds of biofuels are being discussed, which feedstocks are used, what technology is used, and whether or not land and water and other resources are diverted away from food production. In addition, UNCTAD can support multilaterally concerted mechanisms to ensure that the benefits of expanding global biofuel production are consistent with the parallel goals of food security, environmental protection, especially with regard to climate, and poverty reduction.

III. Conclusion: the food crisis as a wake-up call

88. The recent food crisis can be seen as a wake-up call that can be turned into an opportunity by developing countries to respond to, and for the international community to do more to rectify the systemic imbalances in global agricultural production and trade that have contributed over the years to today's problem. The crisis has highlighted inherent tensions that exist because the food sector is seen as being unlike any other. Ultimately, it is a development failure that is at the heart of the crisis, and if this failure is not rectified, the crisis will be permanent. This will inter alia require addressing the fundamental distortions and policy failures in the agricultural sector, so as to build a foundation for sustainable food security and development. However, this will mean going far beyond pure emergency assistance and will have to involve the provision of strategic support to farmers that will provide them with the incentive to seize the opportunities from higher food prices and increase production. This will also involve a fundamental rethinking of agricultural policies and of development policies in general, so as to turn the food crisis into an opportunity.

89. The responses will have to include both short-term and longer-term responses, reflecting the fact that the crisis has both short-term and structural causes and implications. Of course, the immediate and urgent priority is to ensure that adequate food is delivered to the areas of need, and this task is being well addressed by the humanitarian and emergency agencies, including FAO and WFP. Yet the task does not stop there. The more fundamental and deep-seated factors described above have to be addressed. As underlined in the Accra Accord (paragraph 115) of UNCTAD XII, developing countries need to "pursue development strategies that are compatible with their specific conditions within the framework of an enabling State". Such a role for the enabling State to deploy proactive policies to foster the productive sector would be particularly important in such a vital area as the agriculture and food sector in developing countries in general and commodity-dependent countries and LDCs in particular. The Accord stressed the importance of

regional and international governance and coherence as well in international trade issues which is also applicable to approaches to dealing with the global foods crisis.

90. In the light of the above, UNCTAD recommends the following measures from a trade and development perspective, simultaneously addressing both the delivery of sufficient food to countries in need and fostering a sustainable resolution of the crisis:

- (a) Strengthen food procurement systems and mechanisms, at national, regional and potentially global level, to reduce transaction costs, including those related to importing food and financing purchases from abroad;
- (b) Promote appropriate financial tools and regulations to develop the food sector and minimize overspeculation in commodity markets and futures trading;
- (c) Ensure that emergency food assistance is provided in a manner that does not undermine local food production by generating market disincentives;
- (d) Assist developing countries in formulating comprehensive commodity sector strategies, including for food commodities, which include coherent trade and tariff policies and are mainstreamed into broader national/regional development policies and plans;
- (e) Enhance developing countries' production and post-harvest capacities in the food and agriculture sector, including through the promotion of (i) national commodity policies; (ii) investments and financing in agricultural production and infrastructure (transport networks, cold chains and food storage, etc.); and (iii) the strengthening of food and agricultural production and distribution systems and support institutions;
- (f) Ensure an expeditious outcome to the Doha Round negotiations with development-oriented provisions in respect of agriculture

that would facilitate the build-up and strengthening of the agricultural sector in developing countries;

- (g) Promote sustainable agriculture which would improve food security and also help to alleviate poverty among small-scale farmers, while reducing reliance on oil-based inputs and contributing to climate change mitigation and adaptation;
- (h) Enhance South–South cooperation, including trade cooperation, and triangular South–South cooperation through specific instruments for addressing food security needs and promoting agricultural development;
- (i) Increase public and private investment and ODA to agricultural development, R&D and improvements in technology and organic farming;
- (j) Improve decision-making on the choice of technological interventions directed at addressing the global food crisis through better and more extensive information and the active involvement of beneficiaries;
- (k) Develop and implement competition policies that will help stimulate domestic production while safeguarding consumer welfare, inter alia by ensuring that developing countries, including their small-scale producers, are integrated into global agriculture and food commodity value chains in a fair and equitable manner;
- (l) Conduct careful assessments of the economic and environmental viability of producing and processing alternative biofuel feedstocks, subsidies and trade-related measures in this area and the possible interaction with food security;
- (m) Ensure that the trends in food production, trade and consumption are made more equitable and beneficial for women and girls.

Annex

**Table 1. Food trade as a share of national income, main country groups,
2000–2007**

	Net imports as % of GDP			Gross imports as % of GDP			Gross exports as % of GDP		
	2000	2006	2007	2000	2006	2007	2000	2006	2007
World	0.1	0.0	0.0	1.1	1.3	1.4	1.0	1.2	1.4
Developed economies	0.1	0.1	0.0	0.9	1.2	1.3	0.9	1.1	1.3
Developed America	-0.2	-0.1	-0.3	0.4	0.5	0.6	0.6	0.6	0.9
Developed Asia	0.9	0.9	1.1	0.9	1.0	1.2	0.1	0.1	0.1
Developed Europe	0.1	0.2	0.2	1.6	1.9	2.0	1.4	1.7	1.8
Developed Oceania	-3.1	-2.3	-2.1	0.7	0.7	0.8	3.8	3.0	3.0
Developing economies	0.0	-0.2	-0.2	1.7	1.5	1.7	1.7	1.8	1.8
Developing economies:	1.4	1.2	1.6	2.7	2.5	2.9	1.4	1.3	1.3
Africa									
Northern Africa	2.3	1.9	2.3	3.4	3.1	3.5	1.1	1.2	1.2
Southern Africa	-0.5	-0.1	0.1	1.2	1.3	1.5	1.7	1.5	1.4
Eastern Africa	0.2	0.7	1.5	2.9	3.7	4.3	2.7	3.0	2.7
Western Africa	1.4	1.6	1.9	2.7	2.8	3.1	1.3	1.2	1.2
Middle Africa	3.6	2.0	2.0	4.1	2.1	2.2	0.5	0.2	0.1
Developing economies:	-0.9	-1.6	-1.9	1.2	1.2	1.3	2.1	2.8	3.1
America									
South America	-1.7	-2.9	-3.2	0.8	0.7	0.7	2.5	3.6	4.0
Central America (incl. Mexico)	0.2	0.3	0.7	1.7	1.9	2.3	1.5	1.6	1.6
Caribbean	2.1	2.2	2.7	3.6	2.9	3.3	1.5	0.7	0.6

	Net imports as % of GDP			Gross imports as % of GDP			Gross exports as % of GDP		
	2000	2006	2007	2000	2006	2007	2000	2006	2007
Developing economies:	0.2	0.1	0.2	1.6	1.4	1.5	1.4	1.3	1.3
Asia									
Southern Asia	0.2	-0.1	0.1	1.1	0.9	1.0	1.0	1.0	0.9
Eastern Asia	0.4	0.4	0.5	1.2	1.2	1.2	0.9	0.8	0.7
Western Asia	1.7	0.9	1.1	2.5	1.9	2.1	0.8	1.0	1.0
South-Eastern Asia	-1.7	-1.9	-1.8	2.5	2.4	2.6	4.2	4.3	4.5
Developing economies:	1.7	1.1	1.6	5.1	4.7	5.7	3.4	3.6	4.1
Oceania									
Economies in transition	1.2	0.9	0.7	2.4	1.9	1.8	1.1	1.0	1.1
Economies in transition in Asia	0.9	0.8	0.8	2.8	2.1	2.1	1.9	1.4	1.3
Economies in transition in Europe	1.3	0.9	0.6	2.3	1.9	1.7	1.0	1.0	1.1
Sub-Saharan Africa excl. South Africa	1.3	1.5	1.9	3.2	3.0	3.3	1.9	1.5	1.4
Least developed countries	2.1	1.8	2.1	3.7	3.4	3.6	1.6	1.6	1.5
Landlocked countries	0.3	0.3	0.5	3.0	2.7	2.9	2.7	2.4	2.4
Small island developing states	2.1	1.6	2.4	5.7	5.2	5.8	3.6	3.5	3.3
Heavily indebted poor countries	0.9	1.7	2.3	3.9	4.1	4.7	3.0	2.4	2.4
G7	0.2	0.3	0.2	0.8	0.9	1.0	0.6	0.7	0.9

Source: COMTRADE, UNCTAD Commodity Price Bulletin, FAO Price Statistics and UNCTAD secretariat estimates.

Table 2. Cereal import bill of low-income food-deficit countries (LIFDCs) by region and type
(in billions of \$)

	2000–2003	2007–2008 (forecast)
Africa	6.5	14.6
Asia	7.0	15.4
Latin America and Caribbean	0.3	0.7
LIFDC	14.0	31.2
Wheat	7.8	19.1
Coarse grains	3.3	5.2
Rice	3.0	7.0

Source: UNCTAD, "The changing face of commodities in the twenty-first century" (TD/438).



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Corrigendum

Page 10

In paragraph 16, line 6, *replace*

between 1961 and 2003 showed a decline of 0.1 per cent, as against only about 0.6 per cent for developing countries

with

between 1961 and 2006 showed an average annual increase of only 0.19 per cent, as against 1.27 per cent for other developing countries.
