



A Latin American Perspective about Food Security and Global Food Crisis*

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ABSTRACT

In discussions about the procurement of Food Security inside the Global Food Crisis (GFC), the implications for multilateral and regional institutions from a Latin American (LA) perspective, have received little scholarly attention. It is beyond the scope of this *LATN Policy Brief* to address causal links between food security and international trade. Instead, this paper examines the impacts of the GFC and policy responses in LA in food security levels. It is argued that policy measures in LA have displayed several lessons learned by regional and national institutions which should be taken into account on the multilateral ground. In this respect, a new role of the WTO should emerge, as a negotiating forum for what trade remedies can be employed in times of crisis, procuring food security and sustainable development.

INTRODUCTION

In an international context marked by food-energy & financial crisis, not only food insecurity is likely to become even greater -as the economic crisis drives up unemployment-, but also it is not surprising that agriculture has been identified as an area of concern in the current public debate on the causes and effects of climatic change, affecting sustainable development. In addition, Pascal Lamy mentioned that trade policies could play a key role in fighting global warming, with shifts on agricultural subsidies and tariffs. The Latin America and the Caribbean region in general is a net food exporter, although Caribbean countries are net food importers. For such developing countries that depend on food imports, the current economic downturn has meant fewer available resources to finance food imports. In that way, the LA region has an interesting diversity of interests about market access and so as the visions about important changes to the existing WTO rules in areas such as agriculture, or changes in the thrust of the Doha talks.

The 2008-09 global food prices crisis shown the incredible vulnerability of our food system, but it has also been described as an opportunity. Clearly, the phenomenon responds both to structural and long-run causes, and to some facts and behaviours in the short run that include financial elements that are independent from the food sector. The reduction in

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prices seen during the end of 2008 would confirm the hypothesis that the cooling down of the world economy will lead to a reduction in foods' prices with respect to the peaks reached in mid-2008 and to considerable volatility as a result of financial funds' movements. In the long run, as the world economy stabilizes, structural tendencies will probably push prices up again as a response to an expansion in the world demand that grows at a greater pace than supply. The new international context—with high price volatility and substantial changes in the geographical location of an international demand that has a growing tendency in the long run—offers challenges and opportunities for Latin American countries, both from the productive point of view and from the point of view of the strategies and policies affecting the agricultural sector, preserving the most important objective: food availability.

Policy Responses to the GFC in LA

The rapid expansion of the GFC made it difficult for LA countries to introduce macroeconomic adjustments. In this context, governments recognized the importance of investing in agriculture; the need to increase food production and provide assistance to small-scale producers to increase their productivity; and the need to invest in and improve existing systems of social protection and food security in order to mitigate the effects of the most vulnerable sectors affected by the price crisis. Since there is no clear consensus on what to do, how to do it or who should do what at international or regional level, it is not surprising that, at the country level, this lack of clarity has resulted in a variety of policies and interventions.

The LA countries have adopted a great variety of policy responses. The commonly used policy instruments for short term responses to the food crisis are of two types: those that aim at containing the rise in domestic prices, and those that aim at providing access to cheap food for the poor. It is also considered the macroeconomic impacts. For food importers, these include balance of payments problems resulting from higher food import bills and increased inflationary pressure because food is such a large element in the consumer's basket of goods. Food exporters enjoying higher earnings from higher food prices on world markets may need to consider how best to manage increased export earnings in order to ensure that they are channeled into productive investments to stimulate long run growth. In many cases, governments have used existing policy measures already in place.

On one hand, many countries, especially least developed countries, have intervened to safeguard poor consumers' access to food through a variety of emergency and safety net measures. These have included distribution of basic food staples (grains, bread and milk), cash to buy food (or food for work) to the most vulnerable groups – the poorest in urban and rural areas, schoolchildren or the sick in hospitals. Consumer price subsidies, especially for the main food staples, have been widely used. At the same time, some governments have also reduced consumption taxes. For example, price controls, through sales from public stocks at pre-set prices or simply freezing retail prices by decree, have also been used.

AFAO survey of 77 countries shows that 55 percent of them have used price controls or consumer subsidies in an attempt to reduce the transmission of price increases to consumers (see Figure 1). While such measures can be effective in controlling prices in the short run, they are expensive in terms of scarce budgetary resources and can

distort food markets. Price controls can lead to rationing and suppress incentives to producers. Income transfers are less distortionary than subsidies on food and can be targeted on the poor and vulnerable, whereas non-selective blanket subsidies and price controls benefit the rich and poor equally. This also applies to other safety nets such as food and nutrition programs.

On the other hand, many countries have introduced trade policy measures to curtail price increases and ensure adequate supplies on domestic markets. These include tariff reductions to facilitate imports, export bans and taxes to divert supplies onto domestic markets. In the short term, these trade measures are feasible, cheap and easy to implement. However, they may have adverse effects on incentives to expand food supplies through increased domestic production and on world markets by further restricting supplies and pushing up prices even more. While imposing export taxes raises some additional government revenue, a number of exporting countries have reported that export controls and, hence, low output prices coupled with high input prices actually led to decreased planting of cereals. Reducing import tariffs also incurs a loss of tariff revenue, which may make an important contribution to overall budgetary resources for development. *Latin America and the Caribbean showed the lowest level of policy intervention, with roughly 20 and 30 percent of their countries.*

Finally, reducing producer taxes, especially on grain production, has been a widely used policy to boost production in both low- and middle-income countries. Production subsidies, especially on grain production, have been used to reinforce incentives. Subsidies on inputs such as fertilizer and seeds have also been common. While such subsidies and the distribution of productive inputs (e.g. seeds and fertilizers) can provide a short or medium-term stimulus to production, these schemes can be costly and may lead to suboptimal use of these inputs, especially if they are maintained over a long period. In spite of a perceived need to secure adequate food supplies, some countries continue to control producer prices, setting the price lower than the free market price, or procure grains from domestic suppliers at low prices for stockholding. Moreover, the release of grain stocks at low prices puts downward pressure on prices, discouraging increases in domestic production.

Not necessarily all the actions generated were in direct response to the food price crisis, since some were planned previously. As a matter of fact, each country combines a mix of policies in which expected positive impacts predominate and others where the opposite is expected. Only the social compensation dimension is in a strong position in all countries to act more or less immediately against the crisis. Efforts on short-term policies have been much stronger than on long term policies. This contrast involves, among other factors, with the size of the crisis and the ease or cost of implementing these interventions. In order to make an approach to the policy options utilized to confront the GFC linked to their potential effectiveness, the next section displays the "coping and curing" process.

Implications for regional and multilateral institutions

Since LA countries tend to use rapid responses, it is important to establish a better set of options to deal with future shocks, in other words, medium-term responses with positive impacts on the regional level, for example, inside Mercosur as well as inside the

Andean Community. Food price rises are an example of the large-scale covariate risks that are increasingly common in the global economy. They reinforce the need to establish strong targeting systems and programmatic frameworks that can quickly and effectively protect the most vulnerable households against shocks and to develop structures to provide basic nutrition, health and education services, such as, effective nutrition strategies, ensuring basic health care, social pensions for the elderly poor, and so on.

These days, there is recognition that different actors must assume different responsibilities, and that the scope of certain measures is necessarily national while others measures have to be international and require a degree of international inter-institutional coordination. It is interesting to ask how the current interventions of the LA countries perform in relation to these packages of short and long-term measures. There are three key results: one, the dynamism with which the countries have adopted interventions is heterogeneous, with Peru as the most active country and Colombia the least. Two, only the social compensation dimension is in a strong position in all countries to act more or less immediately against the crisis. Three, the efforts on short-term policies have been much stronger than on long-term policies. This contrast involves, among other factors, with the size of the crisis and the ease or cost of implementing these interventions, with implementation difficulties at the regional level. *Mercosur and CAN failed at the implementation of common policy responses, but these institutions did provide an important forum for their members to litigate their disputes, voice their grievances, manage their conflicts, and accord with future steps at long term in order to transmit confidence to the markets with anti-speculation regulations, public food storage, strengthening of import finance; invest in social protection; scale up investments which result in sustainable growth of agriculture; and specially procure the negotiations to complete the Doha Trade Round.*

Public discourse on the link between rising food prices and the Doha Round has sometimes been based on a mistaken belief that a conclusion to the negotiations is needed to lower prices by requiring countries to cut tariffs. However all countries currently have the right to lower the tariffs they actually apply—including to zero—at any time. WTO membership only obligates countries not to raise tariffs beyond levels agreed to in previous rounds of negotiations (these are called “bound” rates). In practice, many developing countries have already cut tariffs in the context of rising food prices to bring immediate relief to their consumers, including the poor. There is a large gap between bound and applied tariff rates, particularly in agriculture, and it is more common for developing countries to maintain such gaps. A major reason they have sought to maintain higher bound rates while sometimes applying low tariffs in practice is their need to deal with the volatility of agricultural prices, discussed above. When global food prices are high, as now, governments have the ability to lower tariffs. When global food prices fall, governments can rise tariffs back up to the bound level to shield their farmers from sharp drops in income. This flexibility is particularly desirable going forward, when two factors may increase price volatility. First, scientists predict more extreme and variable weather as a result of climate change (as a matter of fact, agriculture is an area of concern in the debate about the causes and effects of climate change and global warming) affecting sustainable development), which could lead to more frequent supply shortfalls. The other factor is the increasing role played by futures markets for agricultural commodities. Like other financial markets, they are driven as much or more

by speculation, expectations, and herd behavior than by underlying fundamentals and so tend to be much more volatile than actual supply and demand.

There are a number of issues still under negotiation in the Doha Round that will affect the ability of governments to reduce poverty and increase food security in order to manage food price changes in the future. The domestic and export subsidies provided by the United States, the European Union, and some other wealthy countries to their farmers have the effect of inducing greater supply than market prices would warrant and allowing excess production to be sold on world markets at prices below production costs. This has reduced global food prices over recent decades, which was seen as positive by some net food importing countries. However it has hurt farmers in developing countries who cannot compete with subsidized exports in global markets. Agricultural subsidies and in-kind food aid by wealthy countries have discouraged production and investment in developing country agriculture. The resulting shortfall has emerged starkly as global food demand has risen. Thus, while reducing these agricultural subsidies and constraining in-kind food aid will increase prices modestly in the short run, it is a necessary correction to global agricultural market distortions and an essential part of the Doha deal if developing countries are to build up their own agricultural sectors and increase food supply in the medium and long term.

Earlier in the Doha Round a framework agreement was reached to allow developing countries to shield some agricultural products, designated special products, from tariff reductions in order to address the livelihood security, food security, and rural development concerns. Developing countries also seek a special safeguard mechanism that would permit them to raise tariffs in response to agricultural price drops or import surges. While the special products exceptions would provide some policy space for developing countries to address medium term food security and livelihood concerns and long term rural development strategies, a safeguard mechanism would still be needed to address short term volatility in food markets. Food prices have always been volatile and volatility is likely to increase due to climate change and increased use of commodities as investments and hedges. Small producers in developing countries are in no position to bear the risk of sharp price and supply swings. The special safeguard mechanism must be easy to use, allow developing countries to respond swiftly to market disruptions, and be available for relatively small disruptions.

Conclusions and final remarks

Despite the optimism among many camps that the global food crisis presents an opportunity to reshape the international trade system in line with food security and poverty alleviation, the analysis presented here suggests such an outcome must face several challenges.

The policy tools needed to address the current food crisis cover a broad range. They include immediate assistance for the poor and hungry and dramatically increased investment in developing country agriculture by the international financial institutions, wealthy country development agencies, and developing country governments. Financial regulators should turn their attention to financial markets in agricultural commodities, which show signs of the speculation, and overshooting that have resulted in ongoing crises in global finance and some housing markets. As painful and destructive as those crises have been, they pale by comparison with

the threat of serious market failure in the case of food.

Trade policy also has a role to play, especially in fighting global warming. Many developing countries aspire to link their agricultural producers to larger regional and global markets as they gain the capacity to compete against more efficient producers under conditions of volatility. However, trade liberalization that removes flexibility from the hands of developing country governments prematurely or leads them to rely on global food markets and not invest in their own agricultural sectors has proven to be shortsighted. In the case of the Doha Round, a quick conclusion would not influence the current spike in food prices. Instead, an agreement should be carefully constructed to ensure that in the future, developing countries will retain the policy flexibility necessary to develop and provide appropriate incentives to their domestic agricultural sectors, to increase food security, and to shield the poor from market failures that can affect their very survival.

Even though there is consensus on what factors are causing the GFC, there is less agreement on how to confront it: specifically, how to obtain a balance of short- and long-term interventions on the one hand, and, on the other hand, how to achieve in practice another balance between cautious macroeconomic measures, effective compensatory social policies, and a lasting supply-side stimulus without disastrous distortions. The analysis of the section II suggested that in the LA countries the magnitude of the crisis and the trade and distributive effect are very significant, although less than in Central America and the Caribbean. In this context, considering a temporary crisis as a permanent shock could be a less costly error than considering a structural change as transitory. To the extent that the crisis offers an opportunity for continuing the structural reforms needed to improve agricultural productivity, and guaranteeing timely and adequate compensation for the most vulnerable.

In the context of GFC, improvements can be made to these programs such as: extending them to areas or beneficiaries who do not currently receive benefits; index benefits to the food price increase or to the total loss of purchasing power; establish automatic alarm formulas (on certain thresholds in key indicators which are easy to track). How complicated or simple it is to implement these responses and how effectively the government can transmit the temporary nature of the intervention will determine the effectiveness of this intervention.

The effect of other strategies, such as establishment of state agencies for promotion of agricultural production, is difficult to predict because they are not known in great detail. A fundamental point here has to do with the fact that even the countries that seem to have taken (or not taken) measures against the crisis had been planning or initiating these reforms prior to the crisis. This means that, in contrast to the previous reflection, it is not easy to use major long-term interventions to respond to possible short-term changes. It also means that the design of these interventions must introduce certain elements of flexibility and/or consider different contexts to be tackled by the intervention over time. No intervention

can be totally guaranteed against all eventualities, but different scenarios need to be considered for intervention in the future.

The exclusive use of compensatory social measures will only address one dimension of the problem, but not its productive or macroeconomic side. A combination of responsible and cautious macro-policies, on the one hand, and measures that effectively support agricultural diversification and competitiveness, on the other hand, must accompany efforts to expand a social protection system that is really effective in dealing with this and future crises. The crisis should be treated as an opportunity that requires continuing implementation of wide-ranging social and productive reforms, rather than as a passing shock which requires exclusively short-term measures.

The main challenge to the WTO arising from the current crisis is the widespread perception that free trade is fine only for times of economic upswing. As the effect of the crisis deepens and protectionism grows, the will to maintain negotiations to further liberalize trade is diminishing. A more realistic point of view was expressed at the recent WTO Public Forum (28-30 September) where it was convened that the Organization needs to develop the areas where it has been seen to be good at this year: monitoring, not just Aid for Trade and protection, but the Trade Policy Review, the Committee on Regional Trade Agreements, etc.; and the areas which have been 'neglected because of diversion to the Round', like the work of the Committees (rules on Technical Barriers to Trade and Sanitary and Phytosanitary Measures); and on the other, start thinking about new 'trade and...' issues, including climate change, subsidies (both emissions permits and bailouts were mentioned).

It is pointless to talk about reforming WTO structure since the problem is not the way decisions are made, but that there is no agreement. The fact that the Green Room has adapted to new large powers and to including representatives of smaller countries shows the advantage of flexibility, in contrast to the need to make formal decisions on structure of IMF and WB. In this respect, Lamy had said in opening session that consensus was a way of ensuring adaptation to new powers. In this context, the main antidote to these trends is for the WTO to become a negotiating forum for what trade remedies can be employed in times of crisis, preserving as much as possible the trade liberalization achieved while providing the necessary space to those calls for exceptions. In this way, the WTO can learn some important lessons from these regional initiatives such as Mercosur, particularly on how to become an institution able to negotiate not just trade liberalization, but also instances of trade protection, their terms and timing, and to manage the bargaining implicit in this crisis-driven environment, in order to ensure food availability so as to promote sustainable development.

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