



ADDRESSING THE GLOBAL FOOD CRISIS:

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



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ADVANCE UNEDITED VERSION

A note by the UNCTAD Secretariat

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 in 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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A. INTRODUCTION

1. The current global food crisis emerges from the recent unprecedented increases in the price of food, especially of staples, coupled with shortages and diminishing food stocks, 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-related challenges. 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 50-80 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 countries in Latin America. 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 Food and Agriculture Organization (FAO), 20 of which are LDCs.

2. 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, of which it is significant that Goal 1 seeks to "To eradicate extreme poverty and hunger" and thus links poverty and hunger. The high food prices, shortages, reduced food consumption and worsened nutrition associated with the crisis thus 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 definition of the FAO 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

3. Moreover, there are likely to 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 Goals, namely Goal 3 on promoting gender equality and empowering women.

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

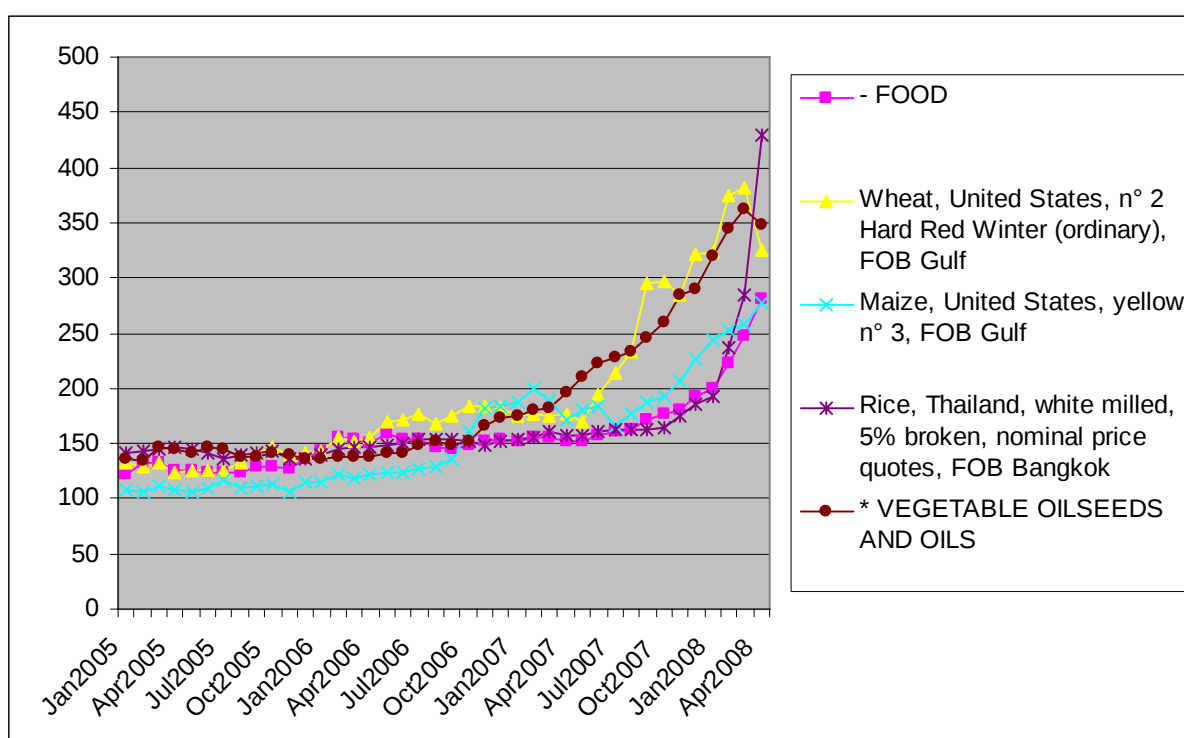
¹ FAO.

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

³ See FAO, Trade reforms and food security - conceptualizing the linkages, 2003, paragraph 2.2.

B. NATURE AND UNDERLYING CAUSES OF THE FOOD CRISIS

5. The current global food crisis emerges in the depletion of food stocks and increase in prices, especially of staples. Wheat, rice and soybeans prices have increased by over 40 per cent, 60 per cent and 40 per cent respectively since early 2007 (see Graph below). The prices increases had repercussions on the import bill of developing countries. For example, the cereal import bill of low-income food deficit countries increased in 2007-2008 (as compared to 2002-2003) from US\$6.5 billion to US\$14.6 billion in Africa, from US\$7.0 billion to US\$15.4 billion in Asia and from US\$0.3 billion to US\$0.7 billion in Latin America and Caribbean. Thus in five years the cereal imports of these countries more than doubled in value.⁴ Food price rises, translated into higher food bills, place a heavy burden on these countries, including for their balance of trade. Food imports account for a large share of the GDP for developing countries as compared to other countries (see Annex table).



Source: UNCTAD Commodity Price Bulletin

6. The food crisis should not be seen as a short-term phenomenon. It has not been caused alone by the rise in oil prices, climatic conditions, speculation, nor biofuels production. It is also the consequence of changing demographic and consumers' patterns and years of systemic failures of development strategy on many fronts. These failures have occurred at the level of national development policy, but importantly also at the international and multilateral level, and have been compounded by recent oil price rise and other factors. Thus the global food crisis is likely to continue for some period of time notwithstanding the deployment of short term measures, unless the underlying structural factors are adequately and comprehensively addressed and policy attention is focused also on the more complex and inter-linked series of problems that are more challenging to address.

a) Supply and Demand imbalance

7. 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 the last few years on the one hand, and a "price crisis" on the other rising from the malfunctioning and manipulation of

⁴ See UNCTAD, "The changing face of commodities in the twenty-first century" (TD/438).

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 the increasing 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.

8. Moreover, high energy prices have made agricultural production more expensive by raising the cost of inputs such as fertilizers⁵, seeds, pesticides, irrigation and transport. Whereas the share of energy in the cost of crop production is around 4 per cent in most developing countries, it is between 8 and 20 per cent in some larger countries such as Brazil, China and India.⁶

b) Speculation in the food commodity market

9. The flow of speculative capital into the commodity sector including food in an increasingly inter-related nature of global markets, 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 was sparked by the collapse last year in the United States' sub-prime market. Speculators looking for assets with rising prices may well have sensed the strains in the world food markets, and re-oriented 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 amount to about \$170 billion⁷ 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.

10. Moreover, countries imposing food export controls (thus worsening global food supply) are indirectly harming the operational efficiency of the futures market.⁸ Some countries started imposing food export controls by food stockpiling and banning or taxing food exports. Such actions are intended to temporarily address needs of the local markets, however they have in some cases further distorted national, regional and global food markets.

c) Biofuels and food security

11. The impact of biofuels on food security and food price rises has also been raised. This impact appears linked in a large measure to policy measures that have exacerbated market pressures. The biofuels market functions in most countries on the basis of mandatory blending targets. The United States, for example, has 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 biofuels production.⁹ The EU, India, Brazil and China have also set their own targets to increase biofuels. The EU for instance has declared that by 2010, 5.75 per cent of all gasoline sold to motorists in Europe must stem from biofuels production. New legislation under discussion raises the blending rate to 10 per cent by 2020. The EU is responsible for around 90 per cent of global biodiesel production and the main

⁵ World fertilizer prices surged by more than 200 percent in 2007, according to the International Center for Soil Fertility and Agricultural Development (IFDC).

⁶ 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.

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

⁸ See IFPRI, Ibid at 6.

⁹ DEFRA, Ibid, .at 15.

feedstock used is rapeseed. EU production of biodiesel is estimated to have used 4.1 million tonnes in 2004 or the equivalent to around 20 per cent of the EU-25 total oilseed production.¹⁰

12. In addition to putting in place ambitious blending targets, both the United States and the EU apply tariffs and technical regulations to imported biofuels. Those instruments, combined with the long-standing subsidies for agricultural production, lead to diversion of land and food crop production for food consumption to biofuels use, and thus result in food shortages and in turn in food price hikes.

13. However, the extent to which the demand for cereals in the EU to produce biofuels has contributed to the recent food price increases is not clear. For example, about only 1.4 per cent of wheat is used for biofuels production in the EU and about 0.6 per cent globally.¹¹ Also, the price of rice has increased dramatically by 165 per cent during the year April 2007 to April 2008. However, rice is not used for biofuel production and there is no evidence in rice growing countries that rice cropland has been shifted to produce biofuel feedstocks. Accordingly, the links between biofuels and food security needs further consideration.

d) Constraints on agricultural production in developing countries

14. 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 of many developing countries face in increasing agricultural production and producing sufficient food for 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. In large part, 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.

15. 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 1961-2003 showed a decline of 0.1 per cent, and that of developing countries was only about 0.6 per cent.¹² In LDCs and African countries, these low agriculture growth rates have had important adverse implications for their 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.

16. 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, the 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. In some countries, due to population growth and the loss of farmland, the average farm size such as in China and Bangladesh has fallen from about 1.5 hectares in the 1970s to barely 0.5 hectares now; in Ethiopia and Malawi, it fell from 1.2 hectares to 0.8 in the 1990s.¹³ Lack of access to water and electricity in poor countries and has added to the tardy supply response. Access to irrigation has become a major

¹⁰ The recent raise in palm oil production has been associated with the boom in biodiesel production, however at present only 1% 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 (see DEFRA, *Ibid* at 16).

¹¹ The Impact of Biofuels on Commodity Prices, April 2008, DEFRA, Economic Group, at 15.

¹² Shenggen Fan, 2008, "How to promote agricultural growth in LDCs through productive investment?" Background paper, LDCR 2008.

¹³ The new face of hunger, *The Economist*, 17th 2008.

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 3-6 per cent a year. Now such annual growth has dropped to 1-2 per cent.¹⁴ Climate change also has and will continue to accelerate this trend. 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.

17. 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 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 often is among the largest contributors to the GDP and employment.

18. One important factor behind this lack of investment has also been *structural adjustment programmes* that encouraged fiscal austerity and abandoned or weakened the role of marketing boards and commodity 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.¹⁵ 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.

19. The adverse effects upon farmers' costs has been compounded by under-investment in the infrastructure (communications, irrigation, transportation) needed to distribute agricultural products, the removal of state subsidies for agricultural inputs (such as seeds, pesticides, herbicides and fertilisers) which used to be provided in some developing countries, and the strengthening of intellectual property rights over plant varieties and new seed technologies. Furthermore, with respect to food crops, matters have been made worse as rural producers in many agricultural exporting countries switched from growing crops that were once staple diets for local populations into higher-value cash crops aimed at developed country markets (cut flowers, exotic fruit and vegetables, soy feed for livestock, tobacco, etc.) which means that there can now also be food shortages in agricultural exporting areas.

20. Stimulating and sustaining agricultural and food production depends also on public revenue, given the volatility associated with it. However, *aid and ODA* to developing countries for agriculture has been decreasing. Between 1980 and 2002, multilateral institutions cut ODA spending on agriculture from US\$ 3.4 billion to US\$ 0.5 billion (a decrease of 85%). Bilateral donors reduced spending from US\$ 2.8 billion to US\$ 1.7 billion (a decline of 39%).¹⁶ Further, aid for science, technology and innovation which is critical for enhancing agriculture productivity is only a small proportion of total aid. Aid for agricultural research remains woefully inadequate to support the productivity improvements and agricultural extension in most developing countries and LDCs. For example, only 3 per cent of science, technology and innovation-related aid is for agricultural research in LDCs, and only 2 per cent and 1 per cent, respectively, for agricultural education and training and agricultural extension.¹⁷ Thus additionality and predictability in aid flows into the productive sectors including agriculture as part of aid for development is crucial, as is the targeting such sectors of aid for trade.

¹⁴ Ibid.

¹⁵ For details see UNCTAD's Trade and Development Report 1998.

¹⁶ Official development assistance to agriculture, Department for International Development, November 2004.

¹⁷ UNCTAD Least developed Countries Report 2007.

21. On the other hand, food aid in kind has sometimes had an adverse impact upon 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 fact that only US\$300 billion of FDI stock, or less than 3 per cent, in 2005 was held in agriculture and food industries (see table below). Foreign investment in fact 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 been exacerbated 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 the 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 had liberalised their agricultural sectors too quickly or too far, reeled under the pressure of dumping of low-price, subsidised food exports from developed countries. This undermined production for domestic markets and for exports, and now has the consequence of having retarded 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 the LDCs food consumption is imported, and in some countries the share is much higher (in Lesotho 67%, Gambia 82%, Mauritania 32%, Malawi 31%, for example).

e) Multilateral trade rules

24. Multilateral trade rules have an important role in influencing food security. These rules under the World Trade Organization (WTO) have thus far permitted subsidies for agriculture (which are mostly forbidden in the industrial sector). They also allowed for indirect export subsidies through export credits, state trading enterprises and food aid. The latter is often found to be supply rather than demand driven, 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) which limit the opportunity for these countries to protect and increase their own production (see table below). This partly explains why, faced with subsidized and

"dumped" imports, developing countries producers were left defenceless and agricultural production in these countries suffered setbacks from which it has not been easy to recover quickly.

Table: Bound and MFN applies rates (per cent)			
Agriculture		Bound	Applied
	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. Thus, many developing countries that do maintain higher bound tariffs rates do have the opportunity to adjust to a certain extent domestic prices when world prices are fluctuating by lowering the applied tariffs, thus utilizing the flexibility of tariff instruments. The defensive interest to keep the possibility to increase or maintain tariffs for products that are important for food security, livelihood security and rural development has been acknowledged by WTO members in interim agreements in the Doha Round of trade negotiations at the WTO.

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 - thus, profit incentives which would have enhanced food production by developing countries have been dampened. 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.¹⁸ 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 *vis-à-vis* farmers, food processors and consumers, including abuse of dominance, abuse of economic dependence, cartels and collusive tendering.¹⁹ International cartels affecting agri-food markets in developing countries, for instance, have covered vitamins (incorporated into food and animal feed), lysine (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).²⁰

27. Concentration has also facilitated the exercise of buyer power, to a degree which has adversely affected the viability of farming.²¹ On the one hand, food processors, bulk commodity traders or supermarkets trading directly with developing country producers have exercised a strong downwards pressure upon prices offered to developing country farmers for their produce, while imposing stringent

¹⁸ See Actionaid International, op.cit.

¹⁹ 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 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.

²⁰ 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 US\$100 million and, by six other developing countries exceeded US\$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. But only one developing country, Brazil, took enforcement action against this cartel and no other such cartels have been challenged by any developing country.

²¹ See UNCTAD and Actionaid, op. cit. and South Centre and Traidcraft, Rebalancing The Supply Chain: Buyer Power, Commodities And Competition Policy. .

conditions relating. On the other hand, buyer power has been exerted by large supermarket companies (which are now also expanding strongly in developing countries) over intermediaries supplying them with goods to depress prices and to impose a wide range of unfair conditions- with a domino effect up the supply chain, eventually transmitting both price pressures and risks onto 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.²² The current food crisis has indeed raised concerns in Europe about the operation of food supply chains (with a particular focus upon supermarkets), as there is evidence that price rises are out of line with raw material costs.²³

C. 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 United Nations System-wide approach will complement other international and national efforts to discuss the roots causes and promote sustainable approaches to resolving the crisis.

United Nations High-Level Task Force on the Global Food Crisis: Terms of reference
<i>"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.</i> <i>The principal functions of the High Level Task Force will include:</i> <i>• Advising the Secretary-General on the appropriate responses to the global food challenges;</i> <i>• Discussing and endorsing a coherent and coordinated overall Comprehensive Framework for Action, including a range of strategies for immediate and longer-term action;</i> <i>• Developing broad consensus, including with governments and key external actors, on the Framework and the proposed way forward;</i> <i>• Ensuring the coordinated implementation of the Framework and its related activities;</i> <i>• Promoting coherent and coordinated messaging and information sharing."</i>

29. In the Accra Accord of UNCTAD XII,²⁴ adopted on 25 April 2008, UNCTAD member States took cognisance 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 the food-importing and food-exporting countries 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.

30. It is clear that short and long-term responses are required to assuage the food crisis now and prevents its reoccurrences in the future. But it is important to note that there can be special tensions

²² See OECD, *Buying Power of Multiproduct Retailers*, 1998.

²³ See "Belgium plans probe as public takes *frite* over the price of chips" *Financial Times*, 22 May 2008.

²⁴ TD/L.414 (paragraphs 51, 79 and 83).

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 and sustainable development path. **UNCTAD can undertake, on the basis of thorough and balanced analysis, intergovernmental deliberations and consensus building on appropriate policies and measures, policy advice and concrete projects, thus 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 causes 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 the 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 the FAO, World Food Programme (WFP) and others, with support from the international community, to help affected countries ensure a steady supply of essential food to those population 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 supply of, food supplies can also be considered and implemented through support to Governments in food import policies and practices. Developing countries that experience shortage (and steep price hikes) of staple food (like rice or wheat) that 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 co-operation project "Import Management and Policies for Food Commodities". The project was implemented 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 to reduce 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. To contribute to United Nation's efforts in helping affected countries respond to the current global food crisis, UNCTAD is developing a new project to provide assistance to developing countries in the formulation and implementation of import(s) policies for food commodities. The aim of the project will be two-fold. First it will aim to strengthen developing countries' capacity for commercial food purchases, such as directly from food sources. Second it will help net food-importing developing countries to develop 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. UNCTAD is seeking funding from donors for this project.

36. In addition, some developing country net importers of food 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, often in many developing countries, knowledge and expertise in food procurement strategies is absent or weak. This deficit was worsened when many developing countries dismantled their marketing and agricultural boards, whereby they lost 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 in 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 for an enlightened approach to short term emergency relief that is not a hindrance to 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 act as a disincentive to local production of food. This is a difficult policy conundrum that is not easily addressed – it requires in-depth analysis of the structural factors, the 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 WTO Doha negotiations. As indicated previously, export credits for agriculture products provided by developed countries have also adversely affected the capacity of developing countries producers to compete fairly in their own markets as well as international market. In this regard too, 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 the urgent and the 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 to promote the Millennium Development Goals and reduce extreme poverty. Drawing upon 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 acting as a disincentive to domestic food production and broader agricultural and commodity sector development.

c) *Agricultural-cum-food commodity policies and development*

The policy issue

41. The food crisis has underlined the necessity of reviewing and substantially strengthening support for agriculture-cum-food sector development in developing countries. 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 lacking in many countries or their implementation suffers from inadequate funding. There is need to conduct nation (and regional) wide assessment of the agricultural food commodity profile in countries and develop actions to strengthen such production and productivity. Also, often at domestic level in Governments in many countries, there is separation of functions between the agricultural ministry to focus on domestic agriculture development, and the trade ministry to deal with trade in agriculture issues. A strengthening of the inter-linkages between agriculture 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.

UNCTAD's contribution

42. UNCTAD has over the years conducted analyses on 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 thus can help with identification and implementation of commodity policies that focus on ensuring a better balance between the production of both food production and non-food (cash crop) production for exports and for local consumption. It can also identify the constraints to increased food security and the viable actions to overcome those constraints, 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.

43. In this regard, UNCTAD will help in the design of *national agriculture commodity development policies* based on a long-term proactive strategy for developing the agricultural commodity sector. This will involve the enhancement of institutional capacity, enhancing small scale producers participation in value chains, building backward and forward linkages, as well as the development of legal and regulatory frameworks. The national strategies, where relevant, would be coordinated with regional development efforts to ensure synergies.

d) *Trade rules and trade and trade-related policy issues*

The policy issue

44. 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 was treated in a special way not subject to the entirety of trade disciplines. Since the Uruguay round and the creation of WTO, agriculture has been integrated into the multilateral trading system and the current round of Doha negotiations seeks to cut further agriculture tariffs and undertake sweeping trade reforms involving reduction and elimination of trade distorting domestic subsidies and elimination of export subsidies.

45. Within the WTO and through the current Doha round of negotiations, there are several trade rules issues. One is that the long-standing agricultural export subsidies and trade-distorting domestic support measures in developed countries have hurt agriculture development in many developing countries and may have retarded the latter countries' supply response. The current high prices and

strong demand which obviates the need for incentives, and production or price subsidies to developed countries farms to increase decrease or cap production, provides a timely opportunity to substantially reduce or phase out such agricultural support and subsidies through the Doha Round.²⁵ The freed-up financial resources from the removal of such as subsidies or agriculture reforms dividend could also be allocated for the advancement of agriculture in developing countries.

46. Another multilateral trade issue pertains to agricultural tariffs in developing countries that can serve as policy instruments to promote agricultural development. WTO members in the Doha negotiations have acknowledged the need and importance of policy flexibility in 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 to not 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 countries. It is also manifested in the proposed Special Agricultural Safeguard mechanism for developing countries (SSM) that 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.

47. A third issue in the WTO pertains to restrictive trade measures - export taxes, quotas or bans on food exports - put in place by some countries. Article XI of GATT 1994²⁶, allows export prohibitions or restrictions temporarily applied to prevent or relieve critical shortages of foodstuffs, and Article 12 of the Agreement on Agriculture²⁷ mandates 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-exporter of the specific product under restriction. Export taxes are not specifically regulated under the WTO agreements, i.e. countries can establish export taxes under the only obligations to do so on a MFN-basis. However, some countries which have recently acceded to the WTO have included in their Protocol of Accession the commitment of eliminating or reducing export taxes on specific products.

48. Thus food exporting countries which have used trade measures to limit food exports owing to the need to reserve scarce staple food to meet food needs of local populations, can do under existing WTO rules. Such actions have, however, exacerbated the tightness of food markets and aggravated the food crisis. There is need for food exporting countries 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 arrangement and diversification of sources need be promoted.

49. A fourth issue is that food-importing developing countries are facing severe problem of finance and balance of payment challenges in meeting their increased import food bills. In this context, there is a need to examine ways and means to effectively implement 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 shortage of basic foodstuffs on account of the shrinking of supply and increased price in the short term that would arise from liberalization and reform of agriculture trade.

50. Regarding trade policy generally, the tariff regime is an important tool for fostering agricultural development and industrialization, as well as raising government revenue. Tariffs in developing

²⁵ 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.

²⁶ General Elimination of Quantitative Restrictions.

²⁷ Disciplines on Exports Prohibition and Restrictions.

countries however have been declining through multilateral agreements, regional and bilateral agreements, from structural adjustment programmes, and through autonomous reform efforts. The scope for tariff policies in fostering development is thus somewhat constrained. It nonetheless remains a major policy tool for many developing countries. In view of the food crisis and in affected developing countries, tariff policy and associated export taxes could be reviewed and rationalized to ensure availability of imported food staples and at affordable prices. The (bound) level of tariffs for agricultural and food products needs to be at a level that provides sufficient margin for changing applied tariff rates to deal, for example, with dumped food that discourages local production. Tariff policies can also be calibrated to promote agriculture production. For example, tariffs on agricultural inputs (seeds, fertilizers, transport equipment like tractors) could be lowered and eliminated.

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.²⁸ While such concerns would relate to the adverse effects of food prices upon consumers in these 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 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 the WTO Doha round of negotiations in 2001, UNCTAD has been assessing the negotiations in terms of its various facets and the related developmental impact, fostering intergovernmental deliberations on such impact to evolve 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 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 help contribute to the achievement of a pro-development outcome that will help to promote sustainable access to food in the short and long-run.

53. Regarding the implementation of the Marrakesh 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 had 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 the emergency import of food. In the current situation of global food crisis, this proposal could be reviewed and seriously considered.²⁹

²⁸ See "Belgium plans probe as public takes *frite* over the price of chips", Financial Times, 22 May 2008.

²⁹ In the search of effective mechanisms to implement the provisions of the Marrakesh Decision, FAO and UNCTAD elaborated the modalities of a Multilateral Export Credit Facility to help LDCs and net food importing developing countries to 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.

54. In parallel, global co-operation 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 through promoting intergovernmental dialogue among concerned countries.

55. Regarding trade policy generally, 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. There is thus need to examine the elaboration of an endogenous trade policy that would integrated coherently different measures and instrument to promote agricultural development and industrialization. UNCTAD can assist countries in developing such trade policies with a development dimension that includes, *inter alia*, a focus on poverty reduction and gender equality which must have as a central element food security.

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 Practices³⁰ 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. UNCTAD 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 to factor in 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 the demand for food is continuing to rise and supply continues to be limited or to 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 makes investment in agriculture profitable, Governments would need to put in place necessary policies 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 in developing countries.

58. Increased FDI and involvement of transnational corporations could help soften the current crisis and provide a useful response to it, in the appropriate policy environment. In this direction, such cooperation between transnational corporations and hosts countries should assure that the resulted production of agricultural products and food crops be made available to the local (producing-country) market; that land be used be within a sustainable manner; that appropriate technology (e.g. avoiding over-grazing for example) is used and that such technology is transferred to local producers; and that payment to local producers reflecting the market price signals (i.e. avoid labour exploitation and ensure social protection). For such public-private sector cooperation for agriculture development, 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 to foreign and local enterprises when, *inter alia*, land use, creating and operating companies, obtaining business licenses and complying with environmental regulations, with special emphasis 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.

³⁰ G.A. resolution 35/63 of 5 December 1980.

UNCTAD's contribution

59. UNCTAD has been working in the area of investment in terms of 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 in enterprise development policies and strategies. UNCTAD thus can contribute to encouraging investment into agricultural and food production by 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. UNCTAD can through its intergovernmental work promote consensus and build cooperative mechanisms through which transnational corporations can play an important role in alleviating the food crisis in countries in which they are operating. UNCTAD can draw upon its knowledge and expertise in investment and the impact of vertical integration and the market structure in commodities, to assist developing-country governments to ensure that cooperation with transnational corporations in the agricultural sector is beneficial to the development of both the investing and host countries.

f) Technology policies and agriculture development

The policy issue:

60. 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 to make parched land bloom. However, lack of awareness of and easy access to information on already established and proven technologies is a constraint 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

61. Through its work 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 farmer, yet these private companies currently have limited commercial incentives to develop such products. In the developing countries the public sector R&D institutions have limited access to new technologies and are under-resourced, but have strong knowledge of local crop varieties and the needs of smallholder farmers. UNCTAD's work on the transfer of technology can address facilitating developing country access to proprietary agricultural scientific and technological resources, especially focusing on the transfer and adaptation of products that will benefit smallholder farmers in the developing world.

62. UNCTAD has contributed to promoting science and technology for addressing food security, in its capacity as the Secretariat of the Commission on Science and Technology for Development. These include 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 application in agriculture. Most recently, a

proposal has been put forward to organise a World Summit on Agricultural Technologies, to be held jointly with UNCTAD and the Commission on Science and Technology for Development, to raise awareness about 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:

63. South-South cooperation can offer an important catalyst for addressing the food crisis at bilateral, regional and interregional levels among developing countries and in 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 food surplus and deficit neighbouring countries; and exchange of best practices, technologies and technicians on agricultural production. It can be undertaken within the framework of sub-regional or regional organizations of developing countries through dedicated agriculture and food sector development programmes and trade programmes. South-South cooperation offers an ideal avenue through which constructive discussions could take place between food surplus countries and food deficit countries on meeting the food needs of the latter without undermining those of the former.

64. South-South triangular 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 that respect, for example, sovereign funds amassed by energy exporting countries could be encouraged to finance investment in agriculture development in developing countries with 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 the actual production³¹. This can 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.

65. 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, or where such programmes exist then they could be substantially strengthened. These include the ACP-EU Cotonou Partnership Agreement with special provisions for agriculture 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

66. 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. UNCTAD can thus assist sub-regional and regional groupings of developing countries in Latin America and the Caribbean, Asia and the Pacific, and Africa in discussing and

³¹ For example at UNCTAD XII, there was a suggestion to develop a prototype with Oman providing financial support for captive agriculture development in Ghana to meet Oman's food needs as well as that of Ghana through using its ample land and water resources and combining it with appropriate technologies and institutional capacity building from another developing countries like Brazil or India who have some proven experience in these areas. Saudi Arabia has also indicated interest in developing similar initiatives in Sudan. Also a populous country like India with rising demand for food has expressed interest in procuring food from food surplus countries or to invest (financially, technically and also providing technology) in countries with necessary land and water resources to develop agriculture 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.

promoting policies and strategies support of agriculture 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.

67. 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 countries to fully utilize 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 to build up supply and trading capacities in agriculture and food production.

68. UNCTAD may also through its support to the G-NEXID (Global Network of Exim Banks and Development Finance Institutions), promote alternative approaches to attract South-South investment and finance at good terms in the food sector. The 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 promote trade and development finance, investment relations, creativity and research, and networking opportunities.³²

h) Financial support policies for agricultural development

The policy issue

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

70. The WTO Agreement on Agriculture provides some avenues for members to improve their agriculture productivity by certain support measures. These have not been adequately utilized by developing countries where this would have been necessary owing primarily to 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 subsidies³³ (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 towards low-income and resource poor farmers (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 to 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 helped to promote food production, enabling them to supply the domestic market and even export. Also in the WTO Doha negotiations on agriculture, an extension of measures under the green box subsidies for developing countries is currently under consideration and deserves support.

71. Public and private investment is a prerequisite and an important catalyst for agricultural development and food production in developing countries as well as productivity improvements which are sorely needed. Public investment in agriculture has been indispensable for 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 related support

³² The Network currently has 23 members from Africa, Asia, Latin America and Eastern Europe. For details, see the networks website at www.gnexid.org.

³³ Defined as not trade distorting or at most cause minimal distortion.

to farmers has dwindled or has been withdrawn. In Africa, the green revolution could not be launched to due factors mentioned above.

72. 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. A 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. Increase in ODA for agriculture development in developing countries is urgently needed to support the development and implementation of agricultural policies, supporting institutions including agricultural development banks that provide rural financing for food production, building agricultural R&D especially through support to local agricultural R&D institutions in enhancing their research and disseminating them,³⁴ promoting availability of real-time information on food supplies including commodities, and building infrastructure especially transport and logistics networks for 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. This type of 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). This aid would also ideally come in form of grants, but it 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

73. In 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 including 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 and supportive of their specific development needs, including food security. UNCTAD can also help developing countries to identify appropriate agricultural sectors and related supports measures and link them to their overall trade policy and development strategies.

74. 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 as those being highlighted in this document. UNCTAD is, for instance, one of the implementing partners of the Economic Commission "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.

75. Moreover, in preparation for UNCTAD XII, several high level events to re-launch the commodity agenda were organized, such as the Global Initiative on Commodities and the summit level meeting on African trade and development as well as a round table on the changing phase of commodities in the 21st century. These resulted in calls for joint-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

³⁴ Another aspect of the first wave of the green revolution and the continuing wave in countries like Brazil (EMBRAPA) and Argentina for example, is the technological revolution and agriculture 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 the GMO, has created its own access, cost-benefit and impact dilemmas for developing countries.

support. UNCTAD will participate in developing and implementing some of these actions with other stakeholders.

76. 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 improve the understanding of commodity structures and improve access to the analysis vital to the formulation of pertinent policies for commodity production, marketing, processing and financing. It makes available directly to farmers information on prices of different commodities to facilitate trade in them. This website can be expanded to encompass more food crops.

i) Commodity markets development

The policy issues

77. As indicated previously, while there is no precise information on or analysis of the impact of speculative funds on food prices, low level of food stocks and distorted policies are fostering speculations by many actors. In this light, there is a need for alignment of financial policies and commodity markets with the principles of an efficient marketing system, good market conduct and surveillance to reduce the risk of over speculation in food commodity markets.

78. Commodity exchanges have also come under review in terms of their impact on food security. It is useful to examine more closely their contribution. 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 which will enhance the country's food security.

UNCTAD's contribution

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

80. 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 food sector, and how farmers can actually benefit from such facility. UNCTAD can also help ensure that risk management instruments and exchanges are designed in alignment with the principles that reduce the risk of over speculation 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 speculative capital, setting limits on trading positions, and adjusting the margin deposit requirements among others.

j) Biofuels policies and food security

The policy issue:

81. 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 EU to consider introducing some flexibility in their biofuels 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 the price pressures on the feedstocks currently used (corn and oil seed crops), but will also reduce the costs of achieving the targets. It will also 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 of food crops, and to 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.

82. At the same time, the use of biofuels in many developing countries, if carried out under careful strategies, can be an indirect means of promoting food security. It can help to reduce the energy bill with a consequent increase of public funds for other pressing needs such as ensuring food security. Biofuels can provide an alternative source of income to poor farmers and be instrumental to attracting new investments and technologies into the agricultural sector.

UNCTAD's contribution:

83. As part of its win-win approach to trade and sustainable development efforts, UNCTAD has been implementing a Biofuels Initiative since 2005 and other biofuels activities under its commodities work. Through this initiative, UNCTAD assists developing countries to consider the biofuels 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 thus can provide analytical and technical advice to countries in clarifying the food security and biofuels debate, especially in terms of which kind of biofuels is being discussed, which feedstocks is used, what technology is used, and whether or not it diverts land and water and other resources away from food production. UNCTAD can also support multilaterally concerted mechanisms to ensure that the benefits of expanding global biofuels production are in harmony with the parallel goals of food security, environmental protection especially the climate, and poverty reduction.

D. CONCLUSION - THE FOOD CRISIS IS A WAKE-UP CALL!

84. The recent food crisis can be seen as a wake-up call which 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.

85. The responses to the crisis will have to include both short-term and longer-term responses, reflecting the fact that the crisis has both short-term and structure 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 the FAO and

WFP. The task does not stop there, however. 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.

86. In the light of the above, UNCTAD recommends the following measures from a trade and development perspective, simultaneously addressing both the delivery of enough 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 speculation 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 causing 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 (a) national commodity policies; (b) investments and financing in agriculture production and infrastructure (transport networks, cold chains and food storage etc); and (c) the strengthening of food and agricultural production and distribution systems and support institutions.
- f) Ensure an expeditious outcome to the WTO Doha 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) Enhance South-South cooperation, including trade cooperation, and South-South triangular cooperation through specific instruments for addressing food security needs and promoting agriculture development.
- h) Increase public and private investment and ODA to agriculture development, agricultural R&D, and agricultural-related improvements in technology.
- i) 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.
- j) Develop and implement competition policies to ensure that developing countries, including their small scale producers, can be integrated into the global agriculture and food commodity value chain in a way that is more equitable, and that will help to stimulate domestic production while safeguarding consumer welfare.
- k) Conduct careful assessment of the economic viability of producing and processing alternative biofuel feedstocks, the potential beneficial impact on climate change, and the trade-offs with food security.
- l) 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: Africa	1.4	1.2	1.6	2.7	2.5	2.9	1.4	1.3	1.3
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: America	-0.9	-1.6	-1.9	1.2	1.2	1.3	2.1	2.8	3.1
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
Developing economies: Asia	0.2	0.1	0.2	1.6	1.4	1.5	1.4	1.3	1.3
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: Oceania	1.7	1.1	1.6	5.1	4.7	5.7	3.4	3.6	4.1
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



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