

**Latin America: Beyond the Food Crisis**  
**An Institute of the Americas Roundtable Discussion**  
**Sponsored by *Corporación Andina de Fomento (CAF)***  
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**Summary report**

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The Institute of the Americas organized a roundtable discussion on rising food prices and the food situation in Latin America, sponsored by *Corporación Andina de Fomento (CAF)*. The one-day roundtable, held on August 20, 2008 at the Institute's headquarters in La Jolla, California generated useful ideas on approaches, policies and programs to deal with the situation created by food price increases and shortages.

The roundtable included an overview of the factors leading to the rise in agricultural commodity and food prices, its main effects, and responses by Latin American and Caribbean (LAC) governments and the international community, including multilateral banks and development organizations. The meeting was attended by experts from the academic community, international organizations, the private sector, and private non-governmental organizations. Participation (a list appears at the end) was by-invitation and participants contributed in their personal capacities. This summary does not pretend to present all views expressed, nor do the participants necessarily agree with this document, which is a product of the Institute of the Americas.

## **Summary**

### **Overview**

The factors leading to increases in commodity prices can be explained using a “three-tier” approach (the effect is compounded by the simultaneity of these elements). The *financial tier*: the weak dollar, low interest rates in the US and other G7 countries, excess liquidity, and the search for financial yields; the *physical tier*: supply and demand; and the *panic tier*: the collective behavior that compounds the other two through speculative and defensive behavior.

Most of the discussion focused on supply and demand. Increased demand for feedstock — especially corn and oilseeds — to produce biofuels, and increases in income and thus diet diversification in emerging economies, especially in Asia, are the demand side factors. Decrease in yields growth during the last two decades and adverse climatic variability were considered the principal supply-side factors.

While it is very difficult to accurately determine the role that each factor plays in rising agricultural commodity prices, multiple studies have found that a significant proportion of the price increase is attributable to the depreciation of the US dollar, increased demand for corn and oilseeds for use as biofuels feedstock, and the rising cost of fuel and fertilizers; with prices not rising as sharply in countries that have benefited from strong commodity prices, while the contrary holds true for those that did not benefit or must purchase with a lower-value currency.

The need for clear and distinct short-term, medium-term and long-term interventions was stressed as the basis for a solid policy agenda, emphasizing that different countries require different policies. Short-term intervention should be targeted at ensuring access to food by the most needy and vulnerable segments of the population, while medium to longer-term concern should be aimed at ensuring sustained growth in crop yields and agricultural productivity.

**Short-term** interventions intended to meet the need of the most vulnerable populations include emergency food assistance, nutrition interventions, enhanced and more accessible safety nets, boosting smallholder farmer food production, adjustments to trade and tax policies, and management of macro-economic implications.

**Longer-term** interventions oriented to building resiliency and contributing to global food and nutrition security include the expansion of social protection, sustaining smallholder farmer food production growth, improved access to international food markets, developing international consensus on biofuels, and strengthening global information and monitoring systems.

### **Conceptual framework for integrating policy responses**

- **Food Security:** Availability of food (production, distribution, exchange), access to food (affordability, allocation, preference), utilization of food (nutritional and cultural value, food safety) and stability of food supply;
- **Food system activities:** Food production, processing and packing, distribution and consumption;
- **Beneficiaries:** producers, consumers and institutions that intermediate between producers and consumers; and
- **Definition of expectations:** short-term and medium-to-long term.

The need to look at the opportunity side of the crisis was highlighted, noting that not all countries will be negatively nor equally affected; and, that a crisis:

- Presents possibilities for small-scale agriculture, especially for local markets;
- Brings attention to the importance of agriculture at the national level and to the need for supporting agricultural policy and investment; and,
- Increases awareness about the need to complete the unfinished agenda to reduce poverty and inequality.

Policies to aid poor and small farmers should be economically reasonable and aimed at stimulating income (increased production at reasonable costs). A basic challenge in many LDCs is to exploit higher agricultural prices in such a way as to transform agriculture into an engine of growth and poverty reduction. This requires not only analysis of the changing net returns to agricultural activities but also a revisiting of the roles of the public sector, private sector and civil society organizations, including local farmers' organizations.

## Government responses to date

The most widely used or proposed measures by Latin American countries include:

- Reduction of import taxes and trade barriers;
- Food distribution programs;
- Price controls;
- Conditional cash transfers;
- Subsidies to inputs and input distribution;
- Financing of production;
- Public-private agreements.

These measures are mostly intended to strengthen food availability and access; however, that might not be accomplished in all cases and price controls may have a negative effect on food supply. Scientific research, technical assistance, and technical information programs have been proposed in many countries, but most proposals are not yet in place.

Other measures used by only a few countries include:

- Trade barriers (export restrictions);
- Bilateral trade (government-government) and inter-governmental (regional) cooperation agreements;
- Reduction of consumer and production taxes;
- Government purchases from small farmers;
- Strengthening of institutional framework to enhance competition and protect consumers;
- Strengthening commercial relations and value chains (to improve access);
- Public information and promotional campaigns (to improve utilization and access);
- Strengthening productive infrastructure (longer-term);
- Strengthening agricultural insurance (longer-term) and salary adjustments (to enhance access).

Observations:

- Most countries in the region are net food and oil importers;
- Poverty is high and even higher among indigenous populations in the most vulnerable countries (net food and oil importers);
- Income spent on food and malnutrition are both high in the most vulnerable countries;
- Inflation in most LAC - in recent years, and clearly during the last twelve months - has been driven by increases in food prices. Inflation in tradable goods has been higher than inflation in non-tradable goods in most countries;
- Agriculture is quite vulnerable to natural disasters, especially in Central America, the Caribbean and the Andean region;
- Agricultural productivity in the region is, in general, low, with important differences, both between countries and among crops; and
- The region is rich in biodiversity, particularly agro-biodiversity.

## **The role of the international community, including multilateral, regional and other development organizations**

Responses by the international community and multilateral organizations were assessed. The discussion centered on two of the main drivers for the increase in food prices: biofuels and macroeconomic policy, identifying the implications for policymaking.

The international community and multilaterals in particular have been very good at bringing attention to the issue of rising food prices, pretty good at mobilizing resources, and quite good at advocating social protection of the poor. But they have fallen short on immediate and effective policy prescriptions because the causes of the crisis are complex, not fully understood, and not open to easy solutions. Additionally, the multilaterals lack leverage to change some of the major causes. Therefore, solutions will be marginal, while major policy changes are required along the following lines:

- Biofuels and monetary policy in the USA are key drivers in rising food prices;
- Biofuel subsidies create a negative externality by raising the opportunity cost of food and feed;
- Using foodstuffs for biofuels can be questioned on moral grounds, but multilateral organizations have little or no leverage to change policies in U.S. and the EU or in reducing non-renewable energy prices;
- Changing biofuels policy by eliminating production subsidies or taxing biofuels made from foodstuffs might be necessary if food prices remain high;
- Energy conservation measures and subsidies for research on alternative energy sources should be on the policy agenda;
- Acceleration in price increases cannot be explained only by structural changes in demand and supply. Macroeconomic factors to note:
  - Sharp increases in commodity prices in general, and agricultural commodities in particular, have coincided with decisions by the US Federal Reserve to lower interest rates to deal with the subprime crisis.
  - Prices of agricultural commodities - both relative and nominal, and other things remaining equal - are likely to come down as expectations incorporate a global slowdown and a more restrictive monetary policy is enacted by the US Federal Reserve.

Note: A possible positive effect of macroeconomic policies in the U.S. is to stimulate the further development and use of energy-efficient technologies.
- An array of policy options exists to insulate internal prices from changes in international prices. For instance, allowing the exchange rate to appreciate, restrictive monetary and fiscal policies or price interventions. The issue is which measures and how much.
- Multilaterals face two options when advising developing LAC countries:
  - a) Allow increases to pass-through while reducing inflation at all costs;
  - b) Prevent the full pass-through of increases and adjust to initial inflationary shocks.
- Countries should receive loans for balance of payments and budgetary support to allow for a smooth adjustment and funding of social protection/safety nets.

## **Conclusions**

### **Government intervention in dealing with rising food prices is justified**

Government intervention to deal with the increase in food prices was acknowledged to be justified on several grounds: to protect the most vulnerable population whose access to food is restricted because of limitations in purchasing power; to avoid speculation, hoarding and other non-competitive actions along the food chain, which can restrict the availability of food to consumers; to provide public goods and services to producers to ensure a sustainable increase in food production; and in general, to improve the functioning of food markets.

### **A framework integrating short-term and medium-to-longer term concerns should be followed**

The need for an integrated and coherent policy approach was stressed. The agenda to guide interventions should be both meaningful in terms of what driving factors can be affected (i.e. conducive to policy fixes) and feasible in terms of what can be accomplished, especially in the shorter term. The importance of social policies was highlighted, in particular to deal with issues of access to food by the most vulnerable sector of society. Such a framework should provide:

- A clear distinction between short term-emergency type interventions and longer-term actions;
- A clear identification of who are the beneficiaries;
- A clear identification of the underlying factors to be addressed, recognizing that some driving factors of increasing food prices do not lend themselves to policy-making at the national level; and
- Interventions not only within the realm of agricultural policy but related areas as well:
  - Inflation as perhaps the most relevant macro-economic concern;
  - Increased investment in agriculture —particularly investment in R&D to overcome a trend in declining productivity growth;
  - Policymaking to deal with the potential effects of climate change on agriculture as well as mainstreaming of adaptation to climate change within the agricultural sector;
  - Social policies to ensure access to food (e.g. conditional cash or food transfers);
  - Nutrition and information policies to encourage consumption of local and traditional food that might have been substituted in the past because changes in relative prices or in consumer tastes and preferences made them less attractive to consumers;
  - Policies to diversify the food supply, taking advantage of the high agro-biodiversity of the region and the advances in biotechnology and other modern technologies.

### **The region has the capacity to take advantage of the current situation**

While heterogeneity of countries in the region should be recognized, both in terms of the opportunities as well as the challenges they face, net food importing countries in general will be hurt by the increase in agricultural commodity prices. However, net food exporting countries can benefit. There are, however, marked differences in the ability of governments to act. Thus, local-level comparative advantages should be not only considered but fostered, such as working with farmer's organizations rather than through governments.

Capacity, both public and private in most LACs are assets to be used in taking advantage of the opportunities posed by current situation. LAC is remarkably ahead of other developing regions in

terms of institutional capacity, and partnerships should be encouraged with the private sector and civil society organizations, including local farmers' organizations, to support current institutional and technical public sector capabilities. It was also stressed that LAC is the developing region where the opportunity side of the crisis has been more fully addressed. However, attention was called to the need for strategic mapping of policy options and the need to avoid gross generalizations.

### **There is a need for more discussion of the merits and drawback of policies**

There is a need for more discussion and exchanges of information on what countries have done in response to the increase in food prices to improve knowledge sharing about optimal policies in different contexts, especially since current policies might now prove ineffective. The attractiveness of policies has to be assessed in terms of opportunity costs, the possibility of rent-seeking and capture by special interest groups, and the capabilities of national and local implementing agencies, public and private, to effectively deliver the proposed actions. Improved worker productivity and management know-how would be a rewarding long-term investment.

Technical cooperation through international organizations is increasingly important, not only in helping countries articulate agendas and processes to respond to the crisis, but also in promoting the exchange of information on what countries are doing, progress achieved, and shortcomings to overcome. The case of the response to the Avian Influenza in LAC was cited as an example of the role these organizations can play in leveraging resources and knowledge for an appropriate response to crisis situation.

Funding of safety nets was supported - even if returns on this type of investment are not fully understood - as well as maintaining the capacity of the World Food Program and other vehicles to respond to crises caused by sharp increases and high volatility in food prices. The same intervention approach as in a humanitarian crisis should be followed.

### **Relevance of the United Nations proposed Comprehensive Framework for Actions (CFA)**

The CFA was acknowledged as a valuable and timely response from the UN System, recognizing its value as a coherent and well-organized document that provided a good overview of the range of initiatives that can be considered by governments in setting agendas to deal with rising food prices. However, it was pointed out that the real test for the CFA is how it is going to be adopted at the national level and used to establish agendas and define priorities.

### **Process, information and analysis**

Participation by and voicing of the concerns of excluded populations—including small farmers and their organizations— was deemed of great importance to the process of setting agendas, as is the need for better diagnostics and analysis.

### **Trade, property right and adequate targeting**

**Trade:** Is of absolute importance to overcome the current situation of high food prices. More, not less trade is needed, and there was concern over short-term, trade-restricting measures (e.g. export bans, price control) that can exacerbate the negative effects on prices. The need for more progress in the trade agenda (e.g. Doha) was also mentioned.

**Property rights:** Governments must insure land tenure for producers as an incentive to good farming practices (i.e. sustainability) and to promote the planting of cereal grains and permanent crops for food production. Secure land tenure reduces urban migration and allows

for production of high-value crops that are easily marketed to increase small-holder family income, or basic foodstuffs that combat rural poverty and hunger.

**Adequate targeting:** A poor country's response to rising food prices is limited by several factors. First, implementing food or income subsidies to counteract the effect of the price increase has a high cost even if the effort is limited to the very poor. Second, the cost of developing the administrative framework that can provide subsidies to the individuals that need it, while avoiding subsidies to others, can also be expensive. Third, the budgetary cost of attempting to offset even a relatively small proportion of the effect of the food price increase can require a very large outlay, with high opportunity cost in terms of other expenditures that are no longer possible. Fourth, energy and commodity food prices are determined in international markets, and domestic prices of these commodities are largely driven by events exogenous to the country.

Food subsidy programs, therefore, must be strictly targeted to those who are most vulnerable. Infants and young children are the most important groups, as long-term cognitive, physical and emotional development and subsequent productivity can be severely impaired by malnutrition.

Programs that benefit everyone, which are often politically attractive such as generalized price reductions, should be avoided as these have very high cost and are, more often than not nearly irreversible. Similar concerns were expressed about the fiscal implications and sustainability of generalized subsidies to deal with high energy prices.

Heterodox measures may be "smart" economics if food commodities price increases are due in part to global inflationary pressures and they are subject to wide fluctuations in short periods of times. However, these measures should be temporary and applied with moderation. Some unconventional measures are better than others.

### **The role of local governments is important**

Local government, especially in rural areas, can play a significant role in responding to the crisis, given that they are closer to the most vulnerable sectors of the population. They can also be strategic partners for national agencies in the implementation of initiatives. Moreover, several countries have carried-out decentralization programs during the last decade, which have increased the resources available for local governments. Nonetheless, it was recognized that — with some exceptions— decentralization has been incomplete in many cases and that local governments usually have weak technical capacities, both to set priorities and agendas and to implement them.

### **The private sector can be a strategic partner in responding to the crisis**

The role of the private sector is important, especially in helping to reverse the long-term trends of declining investment in agriculture. The private sector can contribute to articulate new policies and investments needed to ensure global food security in the form of traditional investments to improve performance throughout the different activities within the food system, and by increases in production, processing and distribution. The private sector can also contribute in mobilizing and leveraging resources for the investments needed to deal with other greatly important needs threatening food security, such as water availability, land degradation and climate change.

Public-private partnerships and social corporate responsibility were identified as mechanisms through which the private sector can respond to the increase in food prices. For example,

collaborating with government agencies to control price volatility and programs to purchase food products from local small-scale farmers.

**Biofuels have played a role in rising agricultural commodity prices, yet not all biofuels have had the same impact on food prices. The bottom-line issue is high oil prices, and there might be a need to change biofuel policy in the USA and Europe.**

In addition to the traditional supply-side effect via production costs, higher oil prices now also have a direct effect on the demand for those commodities used in the production of biofuels, as well as potential indirect effect on other agricultural commodities whose production might be displaced to plant feedstock to produce biofuels. The demand-side link between energy and agricultural markets created by biofuels will continue as long as petroleum prices remain high. Therefore, the opportunity cost of the energy use of agricultural commodities puts a floor on food prices, especially those related to feedstock for biofuels.

The relevant questions are whether or not energy prices will remain high, how high, and for how long. Consequently, discussion about the food crisis cannot be separated from discussion about the energy crisis. High petroleum prices make biofuel production economically viable, even without incentives. Therefore, the discussion about biofuels should be framed in the wider context of alternative renewable and cleaner energy sources. Moreover, biofuel production from sugarcane has not had significant impacts on food prices, and sugarcane ethanol is superior to corn ethanol in terms of energy efficiency. However, concern was raised over what will happen to the sugar market in the event that a world market for ethanol is created or taxes in the USA and EU to ethanol from sugarcane are reduced.

Many emphasized the need for a shift in policies away from biofuel made from feedstocks in favor of policies that promote energy efficiency and the development of renewable and cleaner energy sources. These can include first-generation biofuels made from energy efficient feedstock that do not compete directly with food production, as well as second-generation biofuels such as cellulosic ethanol.

Food prices, it was generally accepted, will stabilize but at a higher level, notwithstanding policies to address the energy component of the crisis. This points to the importance of strong, agricultural sector policies to increase production, as well as social policies aimed at reducing poverty.

## **Recommendations**

### **Short –term policies**

#### **Macro-level**

- Multilateral organizations should give access to counter-cyclical lending to countries facing negative terms of trade or shock due to higher commodity prices. Lending should be available for balance of payments and budgetary support, including funding of safety-net programs and supply-side interventions in agriculture.
- LAC governments should address inflationary pressures in ways that do not compromise the credibility of central banks and minimize the costs in terms of foregone output.
- Multilateral organizations as well as governments should facilitate the creation of risk-management and risk-mitigation instruments to stimulate the formal financial sector to lend in rural areas.

#### **Aimed at consumers (access to food)**

- Identify and disseminate creative ways to improve information on prices to reduce transaction costs by poor consumers.
- In addition to school feeding programs - largely carried out by governments - look for creative ways to use civil society and programs that attract children and youth as a means of providing nutrition (breakfast or snacks) along with training on nutrition or food production.
- Prioritize the 6-24 month age group in nutrition interventions.
- Promote the expansion of food banks through civil society/private sector organizations.

#### **Aimed at producers (increase supply/production)**

- Avoid monopolies in export/import and domestic markets. Use policies to favor entry into value chains.
- Redress under-investment in R&D for smallholder farmers, including on farming systems used for subsistence food production.
- Improve diagnostics of the impact of the food crisis on different segments of the poor population, identifying gainers and losers, and differentiated policy entry points that can be used to help losers.

### **Medium-to-long term policies**

#### **Macro-level - LAC governments should:**

- Implement fiscal and institutional reforms to create capacity to carry out agricultural support (R&D, extension, targeted subsidies, etc.) and safety-net programs.
- Phase-out distorting trade policies and subsidies implemented during the commodity price hikes and replace them with more efficient measures.
- Eliminate subsidies to corn-based ethanol and oilseeds-based biodiesel and provide incentives for energy conservation and research in, and adoption of, alternative renewable energy technologies.

#### **Aimed at producers (increase supply/production)**

- Establish priorities and goals toward increasing agricultural production through a participative process that includes domestic and international actors. Define what is

needed in terms of allocation of resources to produce fuel, feed and food and agree upon mechanisms to achieve these goals.

- Increase focus on small producers. Help them have better access to technology and information and create mechanisms to integrate production chains by better access to markets, credit and funding, education and technology. It is essential to promote new and different ways to organize small farmers in order to promote more efficient production of food.
- Develop systems that incorporate appropriate incentives for large producers to produce what is needed according to medium and long term planning.
- Promote schemes that pay for food production enhancing ecosystem services such as maintaining agro-biodiversity or water resources.
- Increase the amount of investments in R&D.

### **Other recommendations needing further discussion**

- Eliminate tariffs on agricultural inputs.
- Compensate investors in corn-based ethanol production and oilseeds-based biodiesel, if biofuels are banned or subsidies removed.
- Set-up a fund to promote food security, funded by oil export revenues (either a global fund or an agreement by oil exporters to do so individually).
- Short-term policies aimed at (poor) consumers should include need-based food transfers (WFP-type), extension/upgrading of social protection programs, and possibly establishment of food-grain stocks.

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