



MEDIA ADVISORY

August 2012

Food crises doomed to repeat until leaders find courage to fix problems

- *Futures prices for food staples rise by 50% as droughts hit harvests*
- *World is battling a record number of food-related emergencies and facing \$4.1bn funding shortfall*
- *Calls for end to 'crazy' biofuel mandates that mean 40% of US corn stocks are used for fuel*

HEADLINE ANALYSIS

Millions of the world's poorest people will face devastation from today's rocketing food prices because the global food system is fatally flawed and policy-makers can't find the courage to fix it. Policy-makers have taken cheap food for granted for nearly 30 years. Those days are gone.

Oxfam teams around the world say that developing countries are bracing themselves for the worst effects of rising corn, soy and wheat prices on their poorest people. One of the worst hot-spots is Yemen which is heavily dependent on food imports, including for 90% of its wheat, and where 10m people are hungry today and some 267,000 children at risk of death from malnourishment because people can't afford what food there is. Families are exhausting their options to cope, including instances of marrying off young daughters in order to have one less mouth to feed.

The world's is already witnessing a record number of food-related emergencies. The UN estimates that some \$7.83bn is needed to respond to food-related crises in the Sahel region of West Africa, Sudan, South Sudan, Somalia, the Democratic Republic of Congo, Afghanistan, Kenya, Zimbabwe and Yemen, but to date only \$3.73 billion has been pledged by donors, representing a shortfall of \$4.1bn.¹ With the international response slowed by the global economic crisis, rising global food prices could pile more pressure on an overstretched humanitarian system.

Other fragile populations around the world, living on or near the poverty line, will be dragged under by price spikes and volatility. Nearly a billion people are already too poor to feed themselves, so any long-term food spike is guaranteed to trap millions more who are now just "getting by". Worrying too is the continuing drop in global corn stocks that are now at their lowest levels for six years².

There are important differences and similarities between the food crisis of 2008 and today. In 2008 oil prices were about 30% higher and the global price of rice also spiked (which is not the case today). There was also damaging commodity speculation in 2008 – which could yet be happening again now. In both years, US and EU biofuels mandates played a major role in artificially inflating prices. This year the crisis has been sparked by droughts in the US (the world's largest exporter of soy, wheat and corn) and elsewhere that are fully consistent with climate change projections.

Rational politics and a healthy global food system could cope both with the effects of these droughts and tackle climate change and other man-made causes of hunger and vulnerability. While we can already

¹ The Sahel region needs \$1,611m in emergency aid but is currently only 53% funded; Sudan \$1,052m, only 44% funded; South Sudan needs \$1,156m, only 50% funded; Somalia needs \$1,164m, only 50% funded; Yemen needs \$585m, only 44% funded; DRC needs \$791m, only 41% funded; Afghanistan needs \$448m, only 33% funded; Kenya needs \$795m, only 52% funded; Zimbabwe needs \$238m, only 49% funded. <http://fts.unocha.org/>

² <http://www.igc.int/downloads/gmrsummary/gmrsumme.pdf>

map where problems might occur in 2012, there are many variables and it is too early to say when and how exactly these price hikes will play out for everyone. A lot will depend on how fast and smart policy-makers – especially those in the G20 – react over the coming weeks and months. But their track-record is poor and does not inspire confidence.

History is repeating itself and will keep doing so until we tackle the fundamental weaknesses that keep a billion people hungry. We must stop the obscene waste of food including burning it as biodiesel in our trucks and cars. We need to tackle climate change and land-grabs and damaging speculation. We must build up our food stocks and kick-start good investment again in small-holder farmers and in resilient, sustainable agriculture.

PRODUCTION: WHAT'S GONE WRONG IN 2012?

The **United States** has been hit by its worst drought in 60 years. As of July, 88% of the US corn crop was growing in regions affected by drought. Drought is also affecting other crops and forms of agriculture: 44% of US cattle production and 40% of US soybean production are in severe drought areas too. US soy yields might still be able to recover if timely rains occur – though prospects seem dim.

Russia's grain harvests – mostly wheat – have been hit by dry weather this year, in addition to severe flooding in the south that caused major damage to unpicked and stored grain. Although harvests are expected to cover domestic demand, it is likely to have significantly less to export this year. Fears that Russia may institute an export ban are currently being denied.

Ukraine and **Kazakhstan** have also been hit by dry weather which will hit their harvests – principally maize in Ukraine (Ukraine was the world's third largest exporter in 2011) and wheat in Kazakhstan, though recent rains in Kazakhstan may help. **India** is experiencing monsoon rains – the main source of irrigation for 55 per cent of its farmlands – that are 19% below average, with harvests expected to be significantly down from recent years. Bumper stocks on the back of bumper harvests in 2010 and 2011 provide a cushion. Thus far the government does not envisage an export ban. **Australia**, a significant exporter of wheat, is experiencing "moisture stress" and its production is expected to decline this year.

WHY HAS IT GONE WRONG?

Climate change is a steadily worsening contributing factor, as predicted: This record-breaking US drought is fully consistent with scientific projections that climate change will mean increasingly arid conditions and drought in this region³. Those projections suggest persistent severe droughts across the central US in future decades. May was the 327th consecutive month in which the global temperature exceeded the 20th century average. The US experienced 14 billion-dollar disasters in 2011 – an historical record – including a blizzard, tornadoes, floods, a hurricane, a tropical storm, drought and heatwaves, and wildfires. In 2012 it has already experienced horrifying wildfires, a windstorm that hit Washington DC, heat waves in much of the country, and a massive drought, according to Christopher Field, a lead author of the IPCC report and director of global ecology at the Carnegie Institute for Science.

Biofuels have been a major factor in both the 2008 and 2012 crises: The US Renewable Fuel Standard mandates 15.2 billion gallons of biofuels for 2012, up to 13.4 billion gallons of which can come from corn-based ethanol. The legislation requires that up to 15 billion gallons of domestic corn ethanol be blended into the US fuel supply by 2022. In 2011 the fuel industry took 40 per cent of the US corn crop. It could be that this year a higher share of the US corn crop will be taken up by biofuels – which would keep corn prices very high. There is increasing political opposition in the US to the mandate.

The oil price is a relatively more benign influence this year: Generally, the world's poorest countries spend about 2.5 times more money importing oil than they do food. However oil prices spiked in 2008 to an all-time high of \$145 a barrel, inflating the cost of food transport and fertilisers and hitting the balance of payments for non oil-producing developing countries – meaning they had less money to buy food. Today however oil prices are lower, around \$100 a barrel. If oil prices did rise much higher it would worsen today's rising food prices as well as restricting output of other goods too.⁴

³ Michael Wehner, David R. Easterling, Jay H. Lawrimore, Richard R. Heim Jr., Russell S. Vose, and Benjamin D. Santer, Projections of Future Drought in the Continental United States and Mexico *Journal of Hydrometeorology*, December 2011, Vol. 12, No. 6 : pp. 1359-1377

⁴ Reflections on the Global Food Crisis: How Did It Happen? How Has It Hurt? And How Can We Prevent the Next One? <http://www.ifpri.org/sites/default/files/publications/rr165.pdf>

But the US exchange rate is more problematic this year: In 2008 the dollar was trading lower than today (in April 2008 it was \$1.55 against the euro, \$1.98 against the pound, while in July 2012 it was \$1.23 against the euro and \$1.56 against the pound).⁵ The higher the dollar value, the more it costs food-importing countries to buy their food – so in general it's worse for them in 2012 than in 2008.

Food reserves are expected to fall to dramatically low levels. Despite last year's record production levels for wheat, corn and rice, stock levels for corn and wheat this year are expected to reach such low levels that prices become very sensitive to disturbances in supply. In the US the corn stocks are expected to be historically tight and equal to only about three and a half weeks of supply.

Financial speculation on commodity markets. Most people now agree that we need to regulate commodity markets in order to improve transparency and stop excessive speculation. But we're still waiting, especially in the US and the EU. Studies show that the drought in the US may trigger a speculative bubble with prices rising well beyond the increase justified by the drought (and potentially crashing back down in the future)⁶. Beyond remedial moves to limit the amount of corn converted to ethanol, we need better regulation of commodity markets and financial speculators.

WHAT DOES THIS MEAN FOR PRICES IN GENERAL?

More than 80% of the exports of major grains come from five countries⁷ and are controlled by four major companies. This makes international markets very vulnerable. The United States is the world's largest exporter of corn, soybeans and wheat, and price spikes in the crop sector will ripple through markets globally. Global futures corn prices have increased by 45 per cent, soybeans 30 per cent⁸ and wheat 50 per cent since June, according to the World Bank.

These hikes will eventually lead to a rise in meat prices (corn and soy are the main constituents in animal feed). For countries that rely on food import such as Yemen – which imports 90% of its food – higher international food prices mean higher import bills also affecting balance of payments. For poor households who spend much of their income on food a rise in food prices may have devastating effects on household budgets leading to long term effects on health, education, and life chances.

Rice however remains plentiful, with prices falling by 9 per cent so far this year⁹. Consumers will likely see impacts within two months for beef, pork, poultry and dairy (especially milk). The full effects of the increase in corn prices for packaged and processed foods (cereal, corn flour, etc.) will likely take 10-12 months to hit retail food prices.

The drought is likely to hit retail prices for beef, pork, poultry, and dairy products, later this year and into 2013. But in the short term, drought conditions may lead to herd culling in response to higher feed costs, and short term increases in meat supply. This could decrease prices for some meat products in the short-term. But that trend would reverse over time after product supplies shrink.

Cargill CEO Greg Page has said "If all of that (demand rationing) is only on livestock or food consumers, it really makes the burden disproportionate. What we see are 3 or 4 percent declines in supply leading to 40 to 50 percent increases in prices."¹⁰

WHAT DOES THIS MEAN FOR DEVELOPING COUNTRIES?

Soy and corn are important animal feed stocks, so meat prices are likely to rise, as well as milk and eggs. Poor people in Mexico and Central America, where maize is a staple food, may be affected. Bread will go up in North Africa because wheat prices tend to follow maize prices.

Higher and volatile prices will affect consumers living in countries that rely heavily on international markets as well as those that have had a weak harvest. While food price increases clearly present a major threat to poor consumers, they may provide an opportunity for poor farmers. Most of the poorest people in developing countries make a living from agriculture, so higher prices could offer them a better livelihood. However, many are unable to take advantage of high food prices, especially when these

⁵ <http://www.x-rates.com/d/USD/EUR/hist2008.html>,

⁶ <http://necsi.edu/research/social/foodprices/updatejuly2012/>

⁷ <http://www.ifpri.org/node/8436>

⁸ www.reuters.com/article/2012/07/23/us-usa-economy-drought-idUSBRE86M1A220120723

⁹ <http://blogs.ft.com/beyond-brics/2012/07/27/food-crisis-how-do-the-brics-fare/#axzz22Mv5211v>

¹⁰ <http://in.reuters.com/article/2012/07/31/cargill-ethanol-idINL2E8IV9M020120731>

remain unpredictable, for instance because they have limited access to land and water and to agricultural investments, weak rural economic infrastructure such as irrigation channels, or face the persisting effects of disasters and conflicts.

China: meat (particularly pork) requires large soy imports so China could see a rise in meat prices but it has a substantial soy reserve and huge currency reserves, so can mitigate impact. Otherwise China is self-sufficient in rice and wheat. In **Latin America, Mexico, Central America** and the **Andes** are most likely to be affected by higher corn prices brought about by higher prices of US corn (mainly by transmission of prices, because they mostly grow a different kind of corn than the US – but reduced quantities and higher costs of US corn will “infect” all maize markets). **North Africa & Middle East:** countries in North Africa and the Middle East which are dependent on wheat imports, such as **Yemen** and **Egypt**, will be the most vulnerable to higher international prices. However a good reported harvest in Egypt should ease pressure on Egypt though it’s reported that **Morocco** has had a poor harvest. **Sub Saharan Africa** is a mixed picture – even within countries there are pockets that are heavily dependent on food imports (i.e. cities) whereas rural areas can be relatively isolated from international markets so no major impacts are predicted as yet. Countries in the inland **Sahel** region are generally less affected by these price increases because they tend not to import grains from international markets. In 2008, food prices deeply struck the coast but behaved more moderately in the Sahel.

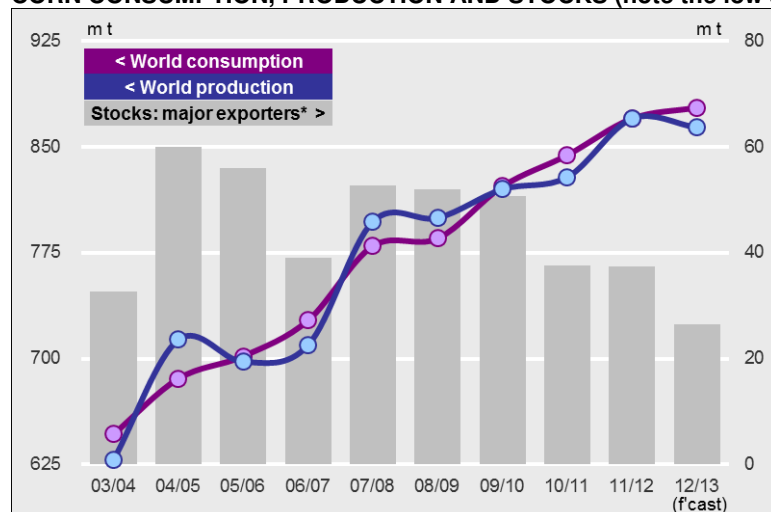
Experience shows that international price changes take months to pass through to West Africa. A good West Africa crop could 'protect' the region from international price increases; a poor harvest would imply that the region would be more exposed to international price risk. The main harvest will begin in a few weeks (i.e. end August). We know that the 'western basin' countries i.e. **Mauritania, Senegal, Gambia, Guinea-Bissau, Guinea, Sierra Leone** and **Liberia** are most exposed to international price rises.

Food aid may be affected. Firstly, the increase in prices will affect the amount of food that the World Food Programme can buy. Secondly, the US government (the largest contributor to food aid) is likely to be able to buy less food, either bilaterally or through the WFP. In 2010, more than 55 percent of the food aid products the US bought were derived from corn, wheat or soybeans. Increases in the price of these commodities will have an impact on the amount of food aid the US is able to purchase. Corn-soy blend is already an expensive food aid commodity and is considered to be a primary product for use to prevent (and sometimes treat) malnutrition. Increased corn prices can thus be expected to hit the US's ability to deliver more nutritious food products. It is too early to tell however what the exact impact will be.

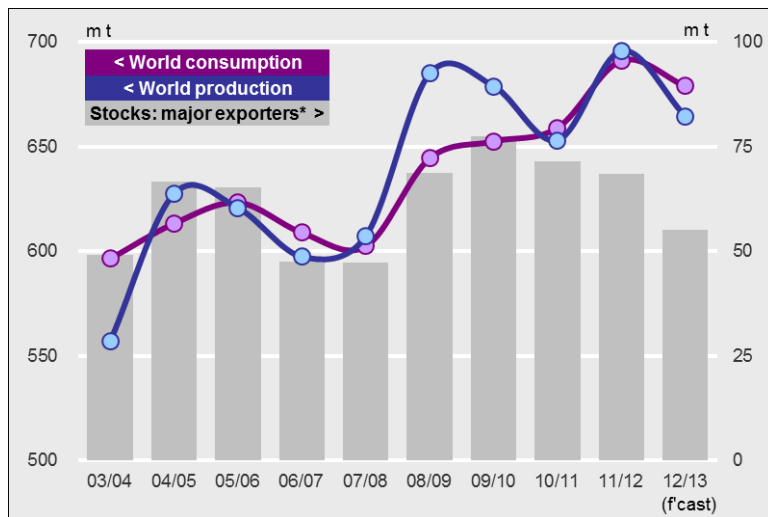
GRAPHICS

Graphs available to offer media for public use at <http://www.igc.int/en/Default.aspx>

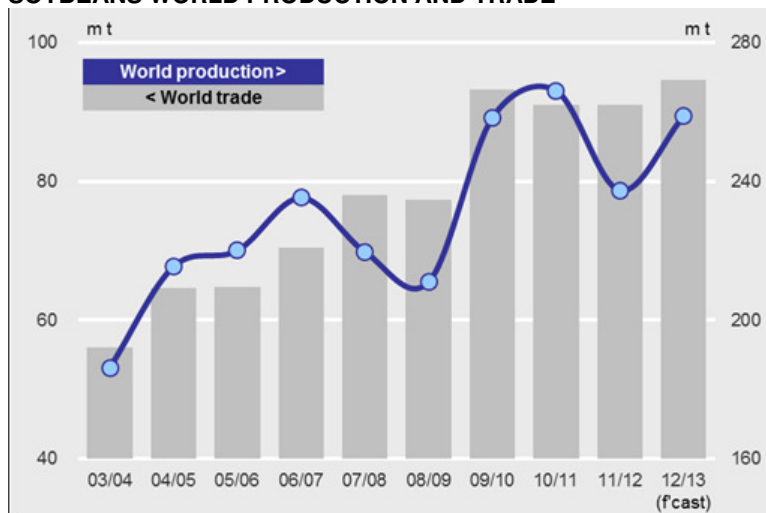
CORN CONSUMPTION, PRODUCTION AND STOCKS (note the low stocks)



WHEAT CONSUMPTION, PRODUCTION AND STOCKS (note the low stocks here too)



SOYBEANS WORLD PRODUCTION AND TRADE



“SNAPSHOTS” AND INTERVIEWS

► YEMEN

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COMMENTARY

The poorest country in the Middle East, half the population live on less than \$2 a day. Ten million people (44% of the country) do not have enough to eat. Five million need urgent aid. 267,000 children are at risk of death from malnutrition already. Even those people who are still able to buy food are struggling. They are selling assets, skipping meals and sleeping during the day to ward off hunger. Families are marrying off their young daughters in order to have one less mouth to feed.

Yemen no longer grows enough food for its people and is heavily reliant on food imports, including having to buy in 90% of its wheat. In 2011 its economy contracted by 50% and inflation reached 23%. Yemen is particularly vulnerable to global food price shocks which transmit quickly into the local food markets. Food accounts for half of all household spending. The country's oil reserves will run dry in the next few years. Fuel costs have now doubled in some rural areas, increasing transportation and irrigation costs.

A global food price crisis would have devastating consequences for a country that is already struggling. Oxfam has been providing small cash grants to poor and vulnerable men and women which allow them to repay their debts, buy food and other basics including medicine.

► SAHEL

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COMMENTARY

In the Sahel, cereal production is down 26% from last year. Reserves are dangerously low already. Food prices are up to 30-60% higher than the five year average (even 90% in northern Mali). Most people (60%) buy food in the marketplace and spend up to 80% of their money on food. So in a region that is in a long-term food crisis, any global hike could be terrible. To avoid the transmission of global food prices hikes in their countries Mali, Niger and Côte d'Ivoire have slashed or removed taxes on a range of imported basic foods. These measures reduced the budget of countries and then the investment on social services. For Cote d'Ivoire the government will lose 7 billion CFA (around 10.671 million in Euros) in revenues by suspending the taxes on rice imports.

Senegal and Gambia are most dependent on food imports. Most counties generally buy maize from regional level first, and only import from elsewhere if the regional market is not enough. We might really see a possible impact of global food price rises on people's ability to access imports in October/November. Mauritania relies largely on wheat and from Sept the demand for cereal may jump by 20-25%. In West Africa wheat is largely consumed by urban people so any increase will them harder than people living in the countryside.

18.7m people need help in the region. In **Niger** 6.4m people are food insecure and there are already high food prices. In **Mauritania** 700k – more than a quarter of the population – are food insecure, including 290k at severe levels. In Mali 4.6m need food (perhaps as high as 5.2m now). In **Senegal, Chad and The Gambia**, there are 850k, 3.6m and 605k people at risk, respectively.

► BOLIVIA

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High and volatile global food prices are likely to have a significant impact in Bolivia. Bolivians have been consuming more imported meat, sugar and oil. At the same time, a million hectares of the best arable land (i.e. a third of the country's total) is now used for export-driven agro-industrial production, the most productive soil generally going to the highest bidder and not to ensure local food security. The large-scale food producers of Santa Cruz now supply 62% of Bolivia's rice, 43% of its wheat, 100% of its soy, 32% of its vegetables and 40% of its potato.

During the 1970s, small-scale local and indigenous *campesino* production accounted for 75% of Bolivia's food. Some studies now put that production at less than 20%, pushed out by industrial agriculture and imports. *Campesinos* not only produce food for the market but also for local consumption, and so they have lost vital income generation too. By slashing investment in *campesino* agriculture, Bolivian food prices have become more linked international prices making the country more vulnerable as a result. This is more alarming given that the average annual income is just \$1,687, of which 67% is spent on buying food at a price now set more by external rather than internal dynamics.

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Twenty years ago Guatemala was self-sufficient in food. Today because of chronic under-investment in local farming and rapid trade liberalization, especially under CAFTA (which eliminated nearly all duties on US cereals), Guatemala is now highly dependent on US corn, rice and soy and 100% dependent on US wheat. Nearly 80% of the land is owned by an elite 8% of the population, mainly commercial producers. Guatemala now has the second-highest measure of land inequality in the world. Land hoarding by big business is worsening, most recently by the sugar industry (which is now producing more ethanol), the African palm industry (which is now producing food oils but changing toward biodiesel).

Most homes in Guatemala spend 66% of their income to food. In December 2011 the price of a family's Basic Food Basket was 2,440 quetzal per month and the Vital Basic Basket including health and education expenses was Q4,452. From January 2012, the minimum salary was Q2,324. We know that most agricultural businesses do not pay the minimum wage, but most families are even now unable to even afford the minimum vital consumption.

The rise in the price of basic grains will mean an increase in the poverty levels, particularly in rural areas and particularly among women. In 2011 half the rural population was already living in poverty and 21% in extreme poverty, while at the urban level nearly 30% of people were poverty. 48% of children are affected by chronic malnutrition.

Aida Pesquera, Oxfam Guatemala director says: "For over five years, Oxfam has supported the campesino movement and women and civil society organizations in demanding the government to direct sufficient resources to support small producers and rural women. Guatemala is a country rich in natural resources and ethnic diversity. The role of women in food trade is key to food security. But public policies have not been directed toward achieving higher investment in the production and reserves of food, rural women and land, fundamental issues to eliminate hunger and inequalities. Redirecting government's resources to these issues would be an immediate and effective response to the food crisis."

The Rural Studies Collective says: "Since the food price hike of 2007-2008, we analyzed that this type of crisis would occur cyclically in the future. However, the Guatemalan government has not adopted the necessary public policies to face or at least mitigate this situation. To date, the Guatemalan government does not have an emergency supply plan, let alone a reserve plan to help regulate the prices of food. Neither does it have an adaptation to climate change plan. It is thus urgent for the Guatemalan government to establish a food reserve national system to respond to the food crisis and to prevent the chronic hunger and malnutrition situation of the Guatemalan people from worsening".

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In 2007 Mexico suffered a tortilla crisis which saw the price of the flat corn bread, the main source of calories for many poor Mexicans, rise by up to 25 per cent between 2005 and 2007. In June 2012, compared to 2007, its price increased by 52 per cent.

The crisis was attributed to increased dependency on food imports from the US (corn imports increased by almost 1500 per cent between 1994 to 2008) and the increase in international corn prices due to biofuel production. Speculation and hoarding of food by large agri-businesses dominating the Mexican market, such as MASECA, MINSA, Bachoco, Agriinsa, Cargill and ADM, worsened the situation.

In response the government introduced measures to fix the price of corn. However its failure to prepare for the threat of climate change or to rebalance its grossly unequal agricultural system – where the six poorest states where the majority of people living in extreme poverty reside receive only seven per cent of public expenditure – have left it vulnerable.

Now Mexico is facing double disaster.

The country is in the grip of a severe drought that has affected 40 per cent of the county – further increasing its dependency on food imports – and international prices are set to go through the roof. The loss of harvests and cattle to drought has exceeded 15,000 million pesos and more than 48 million Mexicans are affected by the scarcity of food and water. In just one state, Chihuahua, thousands of hectares of land could not be planted and as a result the price of a kilogram of beans has rose from 16 to 28 pesos at the beginning of 2012.

► BRAZIL

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Simon Ticehurst

In Brazil, data from National Secretariat on Civil Defense shows that 1,123 cities are facing a state of emergency – 8.3 million people from nine states on the Semi Arid region – due to the worst drought in the past 30 years. The NGO Articulação do Semiárido (ASA) estimates that the drought may last till 2013. Federal Government launched a plan of action, which includes \$1.4 billion to build cisterns, supply water with trucks, cash transfers, finance and credit aid. The Ministry of National Integration calculates that more than 900,000 family farmers will receive financial help (either cash or credit).

Companhia Nacional de Abastecimento (Conab, National Supply Company) estimates that the 2012 grain production will be smaller, in the case of soya for instance 9 million tons less than in 2011. Ceará state already faces a reduction on the grain production (more than 80%) and Bahia state has its milk production reduced by a third. There might also be losses in livestock, as grasslands are in drought and there is lack of food for animals. The National Council for Food and Nutrition Security (Consea) wrote a document last week forecasting a shortage in the local food production, with rising prices.