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G20 Briefing Paper

HOW THE G20 CAN HELP PREVENT A NEW FOOD CRISIS

March 2011

Global food prices are currently soaring, reaching the highest ever levels on record during January 2011 and surpassing the heights of the 2007/8 food crisis. Official UN FAO figures already put the number of hungry at 925 million.ⁱ Perhaps another one billion people suffer from 'hidden hunger', in which important micro-nutrients, such as vitamins and minerals, are missing from their diet.ⁱⁱ Higher food prices could add millions to the number who go to bed hungry each night or are forced to buy cheaper, less nutritious alternatives. In much of the developing world, where the poor spend 50-60 percent of their budgets on food, rises in the cost of basic foods push even greater numbers of people into poverty. The World Bank has recently estimated that since June 2010 high prices have pushed another 44 million people into extreme poverty in low-and-middle income countries and they are warning that food prices are at 'dangerous levels'.^{iii iv}

Right now, a range of factors are driving global food price rises: droughts, storms and volatile weather are leading to crop losses. Hoarding and stockpiling of food by anxious governments is leading to global uncertainty. Structural changes in commodities markets, food and energy speculation, and trends on both sides of the food supply/demand equation are driving prices up. In this context, *half* of all global grain production is now diverted towards animal feed, industrial use, and biofuels for cars and trucks.^v

So far, the UN Food and Agricultural Organisation (FAO) is saying we are not in a 'crisis', however, the FAO is also quick to add that the spike could lead "if prolonged...to a food crisis...^{vi}. With the current price shocks hovering on crisis levels, any additional trigger could spiral into a wider global crisis. And there are potential further weather related shocks looming heavy on the horizon, with the impact of the La Niña weather phenomenon being felt and signs of drought in China affecting wheat production.

Faced with this grim reality, it is imperative that world leaders take dramatic action to invest in fighting hunger and tackling food price volatility. Recognising the urgency of addressing this unresolved problem, France has accorded food security and food price volatility a prominent place on the G20 agenda in 2011. If breakthroughs are not made by the G20 this year, with collaborative mechanisms to address root causes and impacts, we could face years of food insecurity and further price volatility.

ActionAid and its French associate, Peuples Solidaires, expect G20 leaders to take bold and ambitious steps. Rising and increasingly volatile food prices are widely acknowledged as being a major factor fuelling the food crisis and weakening access to fundamental social and economic rights, such as the right to food. G20 member states hold a special responsibility to take coordinated action: they possess the majority of global food reserves and resources, they host the largest commodity exchanges in the world and their agricultural policies play a prominent role in food price formation.

Part One: A positive G20 agenda for supporting women and smallholder farmers

Ensuring the G20 supports a long term end to food price volatility is vital for the world – rich and poor. The G20 must also ensure a focus on areas which can cause the greatest harm to vulnerable people in low and middle income countries, and to solutions which can make a difference in ensuring their right to food. Not taking action could have profound impacts on fuelling hunger, poverty, social and political stability.

ActionAid is calling for progress from the G20 in two key areas which will specifically support the most vulnerable and impoverished to mitigate the worst impacts of rising prices on themselves, their communities and their countries. Firstly, they must invest in supporting smallholder and women farmers to produce more, by investing in small-scale agriculture. Secondly, they must commit to establishing and maintaining strategic food reserves, with procurement from smallholders. The reserves must be managed with a clear priority on safeguarding food security, unrestricted by trade regulations designed to fight *over*-production, and, secondarily, as a tool for managing price stability.

1a) Increase investment in smallholder agriculture, with a focus on supporting women farmers and the most vulnerable.

Low-income food-importing countries are particularly hit by increases in food prices. Most of these countries' ability to produce food is underdeveloped due to the low investment in agriculture for the past 30 years, and the dismantling of public support and regulation of the sector. To reduce the dependency of developing countries on volatile international markets, it is crucial to invest again in public support to agriculture. This support must focus on smallholder farmers, the majority of whom are women, in order to tackle hunger and poverty. Women make up the majority of poor rural smallholder farmers worldwide. Smallholder farmers produce as much as 90 percent of the food grown in Africa and 50 percent of the world's food but many are still not producing enough to feed themselves and their families^{vii}. Moreover, the US government recently predicted that without major investments in agriculture and rural infrastructure, hunger is likely to stagnate at the current unacceptably high levels for the next decade, declining only 1 percent globally by 2020^{viii}.

After the last sharp price spike in 2008, the G8, along with a number of other donor countries, promised to invest \$22 billion over three years to help vulnerable countries boost food production, in the L'Aquila Food Security Initiative (AFSI). The G8's pledge of \$22 billion for food security, with an emphasis on country-owned programs benefitting key groups like women and smallholder farmers, was a landmark. The G20 endorsed the pledge at its Pittsburgh summit in September 2009. Two years later, progress in fulfilling the pledge continues to be unclear, with very little new money appearing on the table. The commitments should be fulfilled with fresh funds by the original deadline of July 2012. G20 leaders should also accept the challenge articulated by the French presidency to take full and effective ownership of the Aquila Food Security Initiative (AFSI), by so doing, the G20 would commit to increasing coordination and investment towards women and smallholder agriculture.

ActionAid believes the Global Agriculture and Food Security Program (GAFSP) could be a promising vehicle through which donors can deliver agricultural development assistance, given the adoption of the Rome Principles for Sustainable Global Food Security^{ix} into its governance structure and planning, and that its funds support country-led agricultural development strategies. However, despite receiving the G20's rhetorical support in Toronto, GAFSP is suffering a serious shortfall in funding. Some G20 countries have already come onboard including, Australia, South Korea, and Spain; the other G20 countries should follow with commitments to GAFSP. In Africa, the fund specifically supports countries that have advanced through the Comprehensive Africa Agriculture Development Programme (CAADP) process. Yet many countries are woefully short of much needed funds for their CAADP plans, in spite of increasing their investments in agriculture and need additional support from richer nations to support their progress.

→ The G20 should

- Explicitly adopt the G8 L'Aquila Food Security Initiative (AFSI) originally announced by the G8 Summit in 2009. The G20 has endorsed it, but not committed to action. A key first step is for the G20 to take up the challenge being posed to them by the French government to expand on the AFSI commitments to mobilise \$US22 billion in new assistance for agriculture and commit to increasing coordination and investment behind smallholders and women farmers.
- Coordinate their assistance behind country-led agriculture plans by providing support via bilateral programmes which support country plans or via a multilateral fund, such as the GAFSP, to ensure that no credible national plan goes unimplemented for want of funds. G20 countries that have not yet contributed to GAFSP should make pledges to the Fund.
- G20 governments should seek additional resources to strengthen the capacity of smallholder farmers who provide the bulk of food consumed in developing countries and thus are the best defence against future food crises. G20 leaders should therefore endorse the levying of a tax on food commodities traded by speculators, with proceeds going to multilateral initiatives for supporting countries agricultural plans, such as GAFSP.

→ The G20 should ensure that their investments specifically support women and smallholders by:

- Ensuring that future investment in agriculture prioritises support to smallholder farmers and sustainable agriculture, and takes into account the particular needs of women farmers.
- Increasing the share of their agricultural assistance that supports women farmers and improves the gender impact of their food security policies and spending through the use of tools such as gender budgeting and collection, and monitoring of sex-disaggregated data
- Expressing support for progressive agrarian reforms involving land tenure for smallholder farmers, in particular women.
- Committing to fulfillment of Article 14 of the UN Convention on the Elimination of All Forms of Discrimination against Women (CEDAW) on women's rights to ownership of, access to, and control over land



Thonyde Jean, Haïti, Dec 2008
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1b) Support national and regional food reserves

Managed correctly, local, national and regional food reserves can be a key tool in both safeguarding food security and maintaining price stability by strengthening the ability of governments to limit excessive price volatility on both farmers and consumers.

Reserves can be used to smooth out volatile agricultural commodity markets by purchasing when there is a surplus on the market and releasing this during lean times, at moderate prices. Effectively managed public regional and national reserves can help to ensure that food is available in

humanitarian emergencies or during climatic catastrophe. In so doing, they can provide food to the hungry and vulnerable when most needed, at moderate prices or if necessary for free. Food reserves have an important impact on food markets behaviours. They can support the easing of food price spikes by giving an injection into the market when supply is low, limiting the potential impacts of speculation during such periods.

Moreover, if reserves target public procurement from smallholder and women farmers, they can help to support small scale agriculture. If domestic purchases for reserves can be bought when prices are low and there is more in the market (i.e. during harvest times) then it can help to push prices up in support of producers while stabilising prices paid to farmers, helping them to predict their markets and future agricultural investments. Reserves at both the regional and the national level can support each other and further enhance price stabilisation through collaboration.

The G20 has recognised the importance of food reserves, but has taken no concrete actions to ensure they are used well. G20 governments should commit to maintaining set levels of reserves, establish and contribute to regional and global reserves, and encourage other governments to do the same. Management of food reserves should be participatory and have as its primary aim food security.

→ **The G20 should:**

- Commit to set up and to support strategic food reserves. Priority support should be given to provide additional aid and technical assistance to governments of low income countries, who are vulnerable to price increases – in particular to ‘Low-Income Food-Deficit Countries’. Strategic local and regional food reserves must be aimed at minimising food price volatility and targeting the most exposed population groups, specifically women and children that have limited access to food and little control over its availability when needed. They must be managed in collaboration with CSOs, including farmers’ and women’s rights organisations.
- Commit to the principle that reserves should make regular purchases from local farmers, where possible, helping to ensure access to fair prices and market conditions for smallholder and women farmers.
- The G20 should request that the FAO create and oversee an committee to advise and support governments’ reserve efforts, gather and share information on all countries’ reserves, and use that information to effectively coordinate reserves globally and regionally.
- The G20 should explicitly support the right and responsibility of developing country governments to prioritise national production and adequate supplies for food security over outdated trade regulations meant to avert over-production.



Farmer Ana Marccos Tuaia, 42, with her lettuce crop in Samora Machel, 37km north of Maputo, in the Marracuene district, May 2008.

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Part two: Other actions for the G20 to fix the global food system and tackle volatility

Since the 2007/08 global food crisis, the international community has done little to fix a broken global food system which allows for 924 million people to have their right to food denied and for rampant global food volatility to threaten food security. There are a number of actions which the G20 must also support this year to halt food volatility and prevent future food crises.

2a) Take coordinated action on export bans

Recent export bans by major exporters like Ukraine and Russia have alarmed global markets and sparked a surge in global prices, especially on wheat and other grains. Some predictions are pointing to other likely weather patterns in key exporting countries which could spark off subsequent export bans, hoarding, and market-related panics.^x According to these commentators, it was because some governments panicked and imposed export bans that the 2008 shock turned into a full-fledged crisis. These commentators take comfort from the fact that the 2010/11 increases have led to relatively few export restrictions.

Sovereign governments must retain the right to enforce trade restrictions to safeguard domestic food supplies during food emergencies. But major food exporters also must recognise the harmful impact their policies may have on import-dependent countries. It is vital that the G20 takes action on export bans as a key driver of food price volatility.

→ The G20 should:

- Agree on guidelines to minimise harm if countries employ trade measures, such as export bans. The G20 leaders should agree on a set of guidelines that would ensure that food aid and essential exports destined for countries vulnerable to high and volatile global food prices – for instance, ‘Low-Income Food-Deficit Countries’- are exempted from such restrictions. The United Nations Committee on World Food Security (CFS) should be asked to monitor implementation of the agreement.

2b) Coordinate market reforms and regulation governing commodity speculation

During the last ten years, commodity markets have seen sharp increases in activity by financial speculators and institutional investors, including hedge funds, investment banks, and pension funds. Between 2003 and 2008, following radical deregulation of derivatives by the U.S. government in 2000, the amounts invested in commodity index funds – vehicles used by institutional investors to bet on derivatives – jumped from \$13 billion to \$317 billion.

An explosion of speculative activity on commodity futures markets may also be amplifying price movements; although evidence is mixed on how big a role speculation plays. However, speculation on food commodity markets is believed to have played a ‘significant role’ in increasing food prices and price volatility during the 2007/8 food price crisis, by many and a special session of commodities experts at FAO in October 2010 concluded that speculation was one of the ‘main factors’ behind the recent escalation in prices.^{xi xii xiii} A massive expansion of investment in under-regulated commodities derivatives through commodity indexes by non-traditional investors – such as hedge funds, pension funds, sovereign wealth funds and investment banks – ‘accelerated and amplified price movements’ in food commodity markets between 2002 and 2008, according to UNCTAD.^{xiv}

Recent financial reform legislation in the U.S. took steps to increase transparency on all derivatives trading, including “over-the-counter” (OTC) trades. It also gave the US Commodity Futures Trading Commission (CFTC) greater supervision over OTC trading, including the ability to set position limits

on traders, and required that more trades be moved to formal exchanges. It will be important to ensure that the European Union, which recently launched a process to revamp its own rules on derivatives and commodity markets, matches at least the U.S. regulations.

→ G20 member states should commit to adopt regulations consistent with each other that strengthen markets' regulation in order to fight food price volatility and discourage traders from changing their base of operations in order to evade stricter rules. The G20 should consider mechanisms to tame speculation such as:

- Regulating food commodity derivatives and impose 'position' limits -- the quantity, or proportion of the total market in any one commodity – controlled by any individual investor or group at a given time in all markets
- Limiting the volume of trades or size of investment by large institutional investors, especially the "index funds" (pension funds, endowments, etc.).
- Standardising and guaranteeing all transactions by mutual agreement including: "over the counter" (OTC) trading through their registration and supervision by market regulatory authorities.

2c) Stop agrofueelling price spikes: Food not Fuel!

The expansion of agrofuel investments, production and targets has been seen by many commentators to be a significant driver of recent food price volatility. European targets for agrofuels expansion could push prices of grains and food oils 15 percent higher by 2017, according to the OECD. The diversion of U.S. maize production from food and feed to fuel has put stress on food reserves and threatened global food price stability.

In Europe, if current targets are not revised, by 2020, agrofuels will provide 9.5 percent of total energy in transport. 92 percent of these fuels will come from food crops (such as oil seeds, palm oil, sugar cane, sugar beet, wheat), much of which will be imported from the global south. This will require an expansion of cultivated land globally, converting forests, grasslands and peat lands into crop fields, and divert productive agricultural resources from producing food for people to producing fuel for cars and other vehicles. In the U.S, agrofuel targets and subsidies have provided incentives for maize producers to convert 40% of production from food and feed to fuel. This year, the U.S. announced the lowest projections for stocks of maize and soy in decades, causing prices to spike even higher. Meanwhile women, who are responsible for the bulk of food production in developing countries are seeing their right to land and food increasingly challenged. Agrofuel expansion and "land grabs" have exacerbated this problem.

ActionAid and Peoples Solidaires call on G20 leaders to jointly commit to ensuring that their agrofuels plans do not threaten global food security. Agrofuel policies (including blending targets, financial incentives and land zoning) must not threaten food reserves or contribute to food price volatility. National and international food and energy policies need to be brought into a balance that will protect peoples' right to food in G20 countries and in those countries where most of the world's poor, excluded and hungry live.

→ **The G20 should:**

- Reduce or eliminate government incentives for agrofuel production. G20 leaders should commit to freeze any further expansion of industrial agrofuel production and consumption and cut the current and projected targets and subsidies for industrial agrofuels.

2d) Ensure strong links with CFS work on volatility

The Committee on World Food Security (CFS) is the United Nations body that aims at coordinating all stakeholders involved in ensuring world food security. It is thus recognised by international civil society – which participates in its debates and decisions - as the legitimate and relevant forum to discuss coordinated food and agriculture policies. The CFS decided in October 2010 to commission its High Level Panel of Experts to put forward proposals for appropriate and coherent policies, actions,

tools and institutions to effectively manage the risks linked to price volatility in agriculture. Those proposals will be examined in October 2011.

→ The G20 should express clear support for the CFS as the primary focal point for global policy coordination on issues related to food. The G20 should ensure that its decisions and actions are consistent with the work carried out by the CFS.

2e) Stop land-grabbing from impacting smallholder and women farmers

An estimated 50 million hectares of fertile land – an area double the size of the UK, or more than two thirds of the size of France – has been acquired overseas over the last few years by companies, investors, sovereign wealth funds and sometimes governments, very often to the detriment of poor people and local economies. Those large-scale land acquisitions aim at producing food or biofuels, mainly for export. In certain cases, those acquisitions are simply driven by speculation that the price of land will increase in the future. Such transactions often do not comply with the domestic legislation of the host state and/or International Law, and result in numerous human rights violations of the evicted communities. As a result, local farmers and populations lose their land, and large-scale agriculture for food export replaces food production for local consumption and markets.

In the “food security” pillar of the Multi-Year Action Plan on Development adopted in Seoul in November 2010, the G20 “encourage[s] all countries and companies to uphold the principles of Responsible Agricultural Investment (RAI). We request UNCTAD, the World Bank, IFAD, FAO and other appropriate international organizations to develop options for promoting responsible investment in agriculture”. However, the RAI, elaborated by the World Bank, has been widely criticized by civil society organizations because it is not an adequate instrument to regulate private investment and was formulated without the participation of communities affected by agricultural investments. The FAO Committee on World Food Security (CFS) decided in October 2010 not to endorse the RAI, but to rather start an inclusive process to consider them.

Action Aid and Peoples Solidaires consider that any international legal framework on land lease and acquisition should prioritize access to land and resources for local communities, should be legally binding and include a number of safeguards to ensure that negotiations leading to land acquisitions and leases do not hamper the realization of the right to food; fulfil women’s right to ownership of, access to and control over land; honour the rights of land-users, whether they access land through ownership, rental, employment, sharecropping, or custom (including collective ownership and pastoralism); involve the free and informed consent of the affected communities including those most marginalized; are not detrimental to the environment; are transparent; and involve impact assessment studies.

→ The G20 should:

- Express clear support to the CFS work on land-grabbing through the development of the Voluntary Guidelines on Responsible Governance of Land and Natural Resources Tenure and to an effective implementation of Article 14 of CEDAW on women’s rights to ownership of, access to and control over land, and abstain from referring to the RAI as they stand.
- Support a moratorium on large-scale land acquisitions (lease and purchase) by private companies and States, until adequate national and international legally-binding frameworks have not been adopted.
- Commit to adopt regulations at national or regional level making private companies accountable for their operations abroad, including for human rights violations resulting from land grabbing.

- ENDS -

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