

Food vs. Fuel: A Different Perspective

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Introduction

- The current debate on the “food crisis” has not fully taken into account the role of International Agricultural Policy and the consequences of past policy decisions.
- For more than 20 years the agricultural producers of the developed world have been able to produce more food than the market required and this had a negative impact on prices.
- Various governments have implemented programs to provide massive financial support to producers and to limit the agricultural output.

Introduction

- At the same time, International bodies have worked to remove or lower tariff barriers and encourage the adoption of “market forces” to fix the issues.
- This has created major unintended consequences in the developing world.
- Agricultural commodity prices must rise from historical levels in order to provide for food security in the developed and developing world.

The “Food Crisis” is not New

- OECD Member Countries have been working on Agricultural Reform since at least 1988.
- Principles established in 1988.
 - to allow market signals to influence the orientation of productionby way of a progressive and concerted reduction of agricultural support
 - considerationto social and other concerns
 - farm income support through direct income support and not price guarantees or other measures linked to production or factors of production

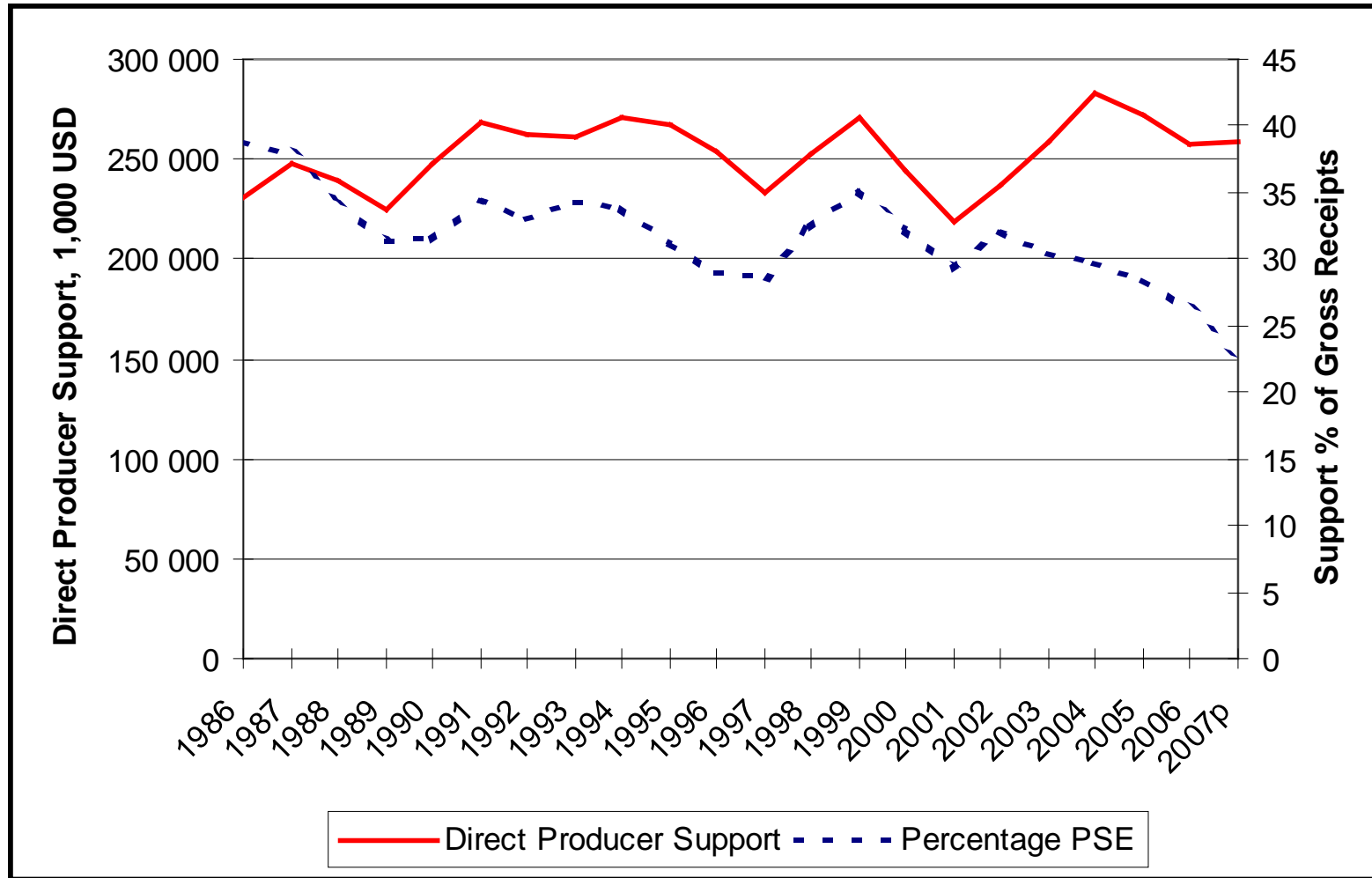
OECD & Ag Policy

- In 1998, the OECD Policy Principles were restated as.
 - greater influence of market signals
 - address the problem of additional trade barriers, emerging trade issues
 - strengthen world food security
 - facilitate responsiveness to market conditions
 - protect the environment, natural resources
 - encourage innovation, efficiency, and sustainability

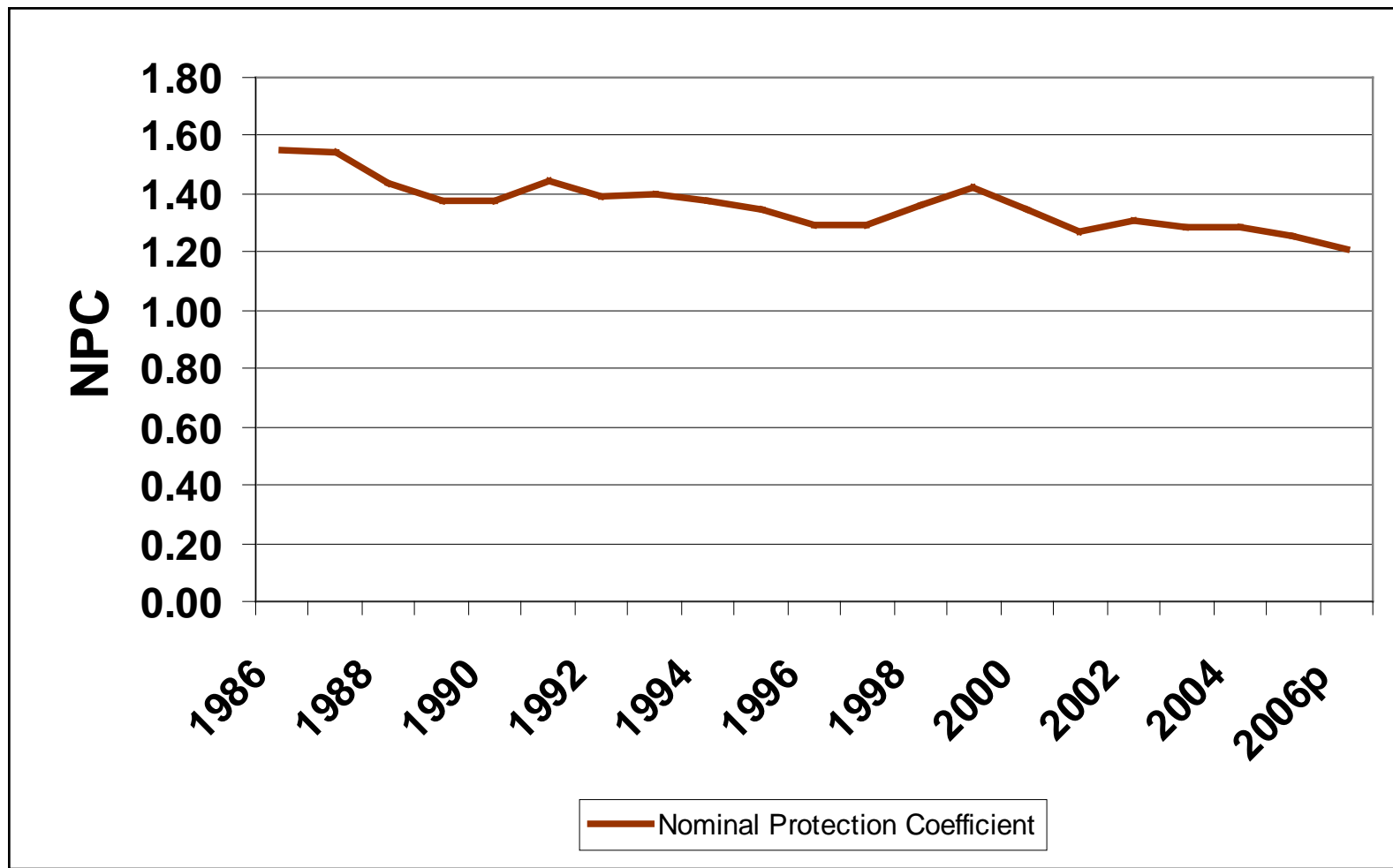
OECD & Ag Policy

- OECD Measures Reform Progress by multiple metrics including;
 - The level of support -as measured by the PSE
 - The level of protection -as measured by the NPC
 - The policy mix -as reflected in the composition of the PSE

Producer Support Expenditures



OECD Markets Remain Highly Protected



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NPC is the ratio of the price received by the Producer to the border price.

IEA Task 39 Workshop, September 2008



\$5,400,000,000,000

(S&T)²

Progress Towards Goals

- Only limited progress has been made over the past 20 years.
 - \$5.4 Trillion has been spent on producer support over the past 20 years by OECD countries.
 - The annual expenditures have been relatively constant with a small reduction in % PSE due to rising prices.
 - Some reduction in the degree of protection in the markets as measured by ratio of producer price over border price.

OECD Report Card

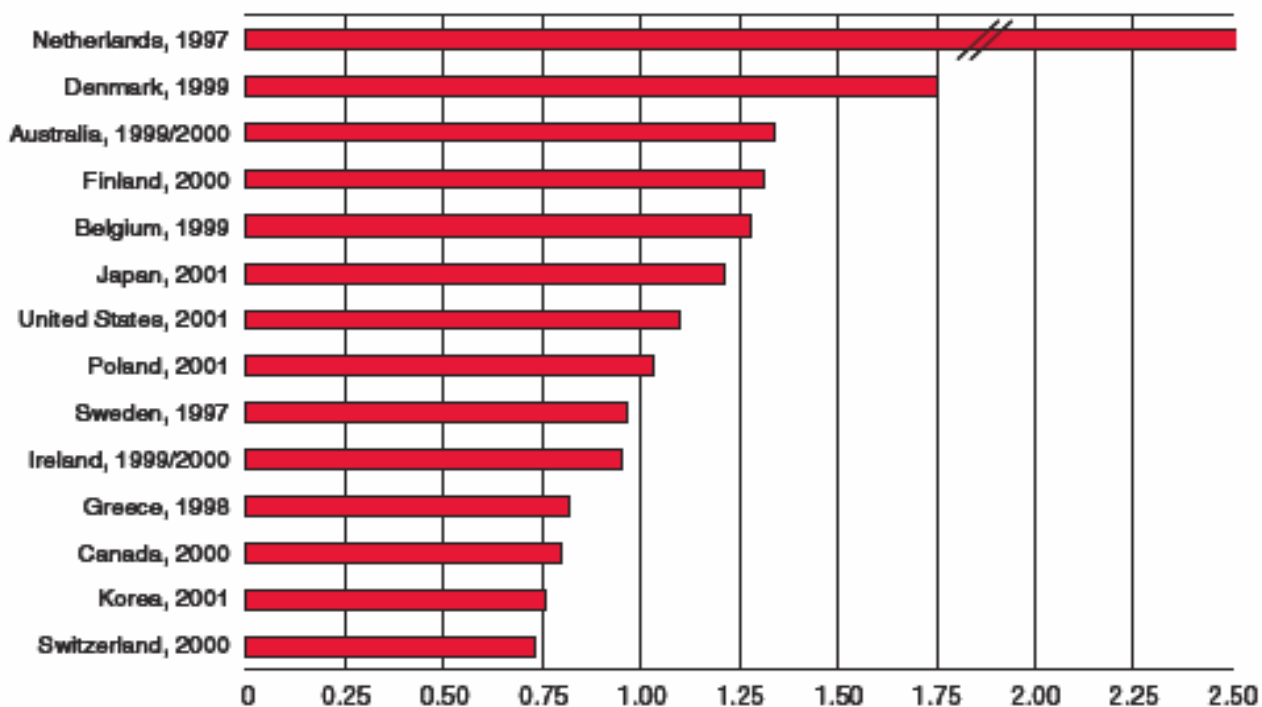
- The OECD conclusions on the reform process
 - Reform is extremely difficult, therefore gradual and slow, and is sometimes subject to reversal
 - It is easier to change delivery mechanisms than to change the level of support
 - Market price support (and attendant border protection) stubbornly continues to dominate support patterns

OECD Report Card

- OECD conclusions on why is reform so difficult?
 - Fierce resistance from vested interests who are well organised in OECD countries
 - Weak resistance from consumers and taxpayers
 - Farm votes weigh disproportionately in some countries
 - Institutions and politicians are wedded to sectoral policies
 - Poor understanding of the unintended and perverse effects of the existing policy set
 - Fears (and misconceptions) about likely impacts of change

Why Resistance?

Figure 1. Total income of farm households compared to total income of all households



Source: OECD (2003), *Farm household incomes: issues and policy responses*.

OECD Summary

- While OECD members recognize the need for Ag Reform, progress has been very slow.
- Agriculture in OECD countries has experienced low producer prices due market supply and demand fundamentals.
- OECD member Governments have made up the difference between market price and the price required to maintain food security through a wealth transfer of \$5.4 trillion over the past 20 years.
- There is a very wide difference in the level and means of support to agriculture in different OECD countries.

World Institutions & Ag Policy

- Historically government run agricultural banks in poor countries financed crop inputs, and participated in the diffusion of new ag technology.
- During the 1980's and 90's the IMF and the World Bank forced these institutions to dismantle these programs in order to access continued debt support.
- Over the past 15 years WTO has led a concerted effort towards more liberal agricultural trade. The Uruguay Round led to the reduction in import and export tariffs and reduced agriculture support.

Market Distortions

- The net result of these various attempts at policy reform has been a **widening** of the gap between developed and developing countries in terms of agricultural productivity and competitiveness.
- The current “food crisis” is starting to highlight some of the problems.
 - The World Bank recognized in 2007 the devastating impact of its ag policy and has now helping to re-establish public financing for ag inputs in the developing world.

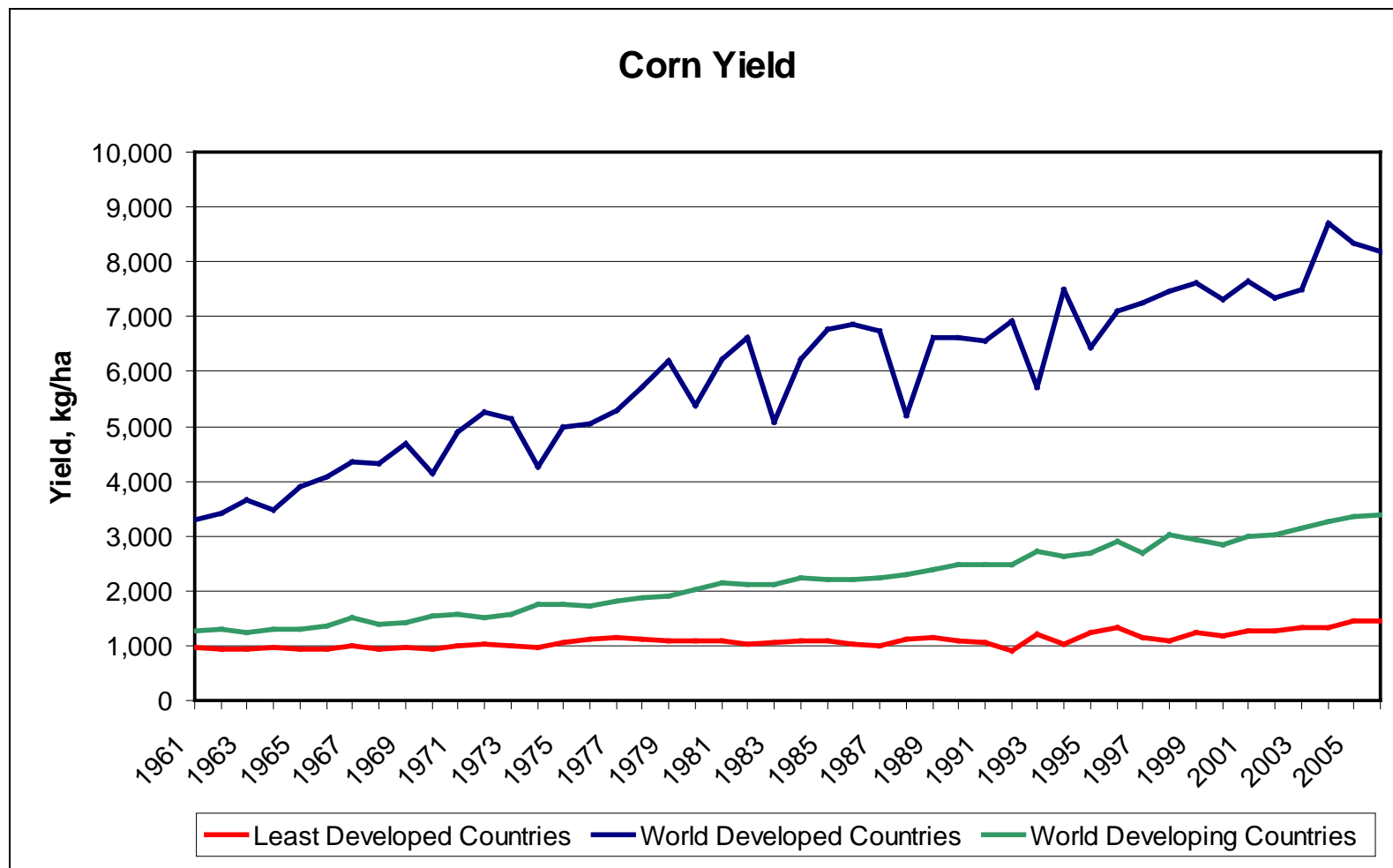
Agricultural Productivity

- If we are to realize the benefits of renewable fuels in reducing GHG emissions and providing increased energy security we must ensure that the world has sufficient food and that biofuels feedstocks are produced in sustainable fashion.
- The way to accomplish this goal is to address the productivity gap between the developed and developing world.
- This will produce other benefits as well.
 - Create employment opportunities in developing countries thus reversing the rural to urban flow of people.
 - Reduce poverty.
 - Provide increased food security in both the developed and developing worlds.

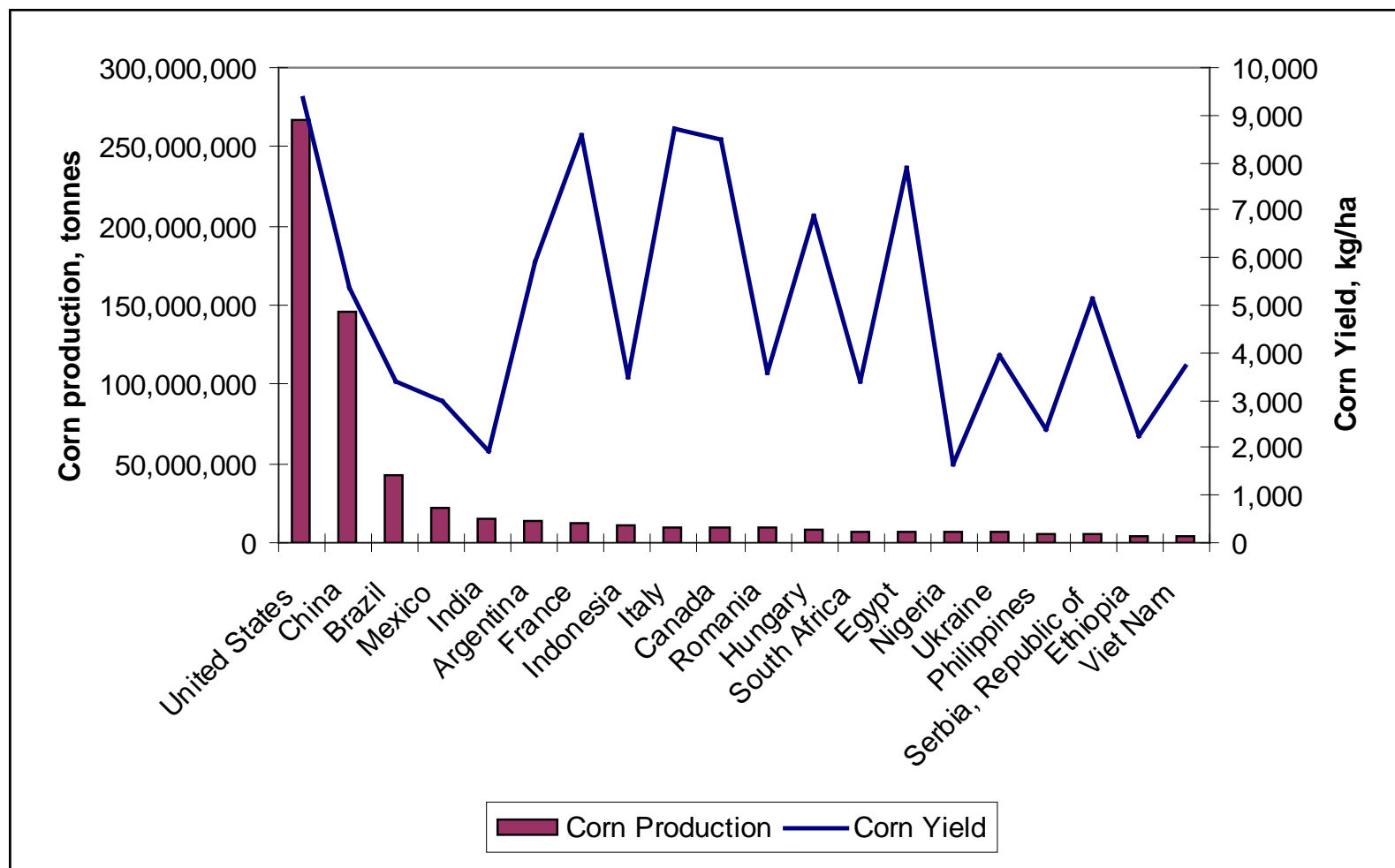
The Opportunity

- The current higher market prices for agricultural commodities presents the opportunity to address some of the market distortions with as little disruption as possible.
- Higher prices in the developing world provide producers there with the opportunity to be competitive and to increase production.
 - They will need assistance with inputs, finance, and technology transfer.
 - Increased output will require more fertilizer, better varieties and more local knowledge
- The opportunity will only exist as long as the demand is strong, which will require production for food and biofuels.

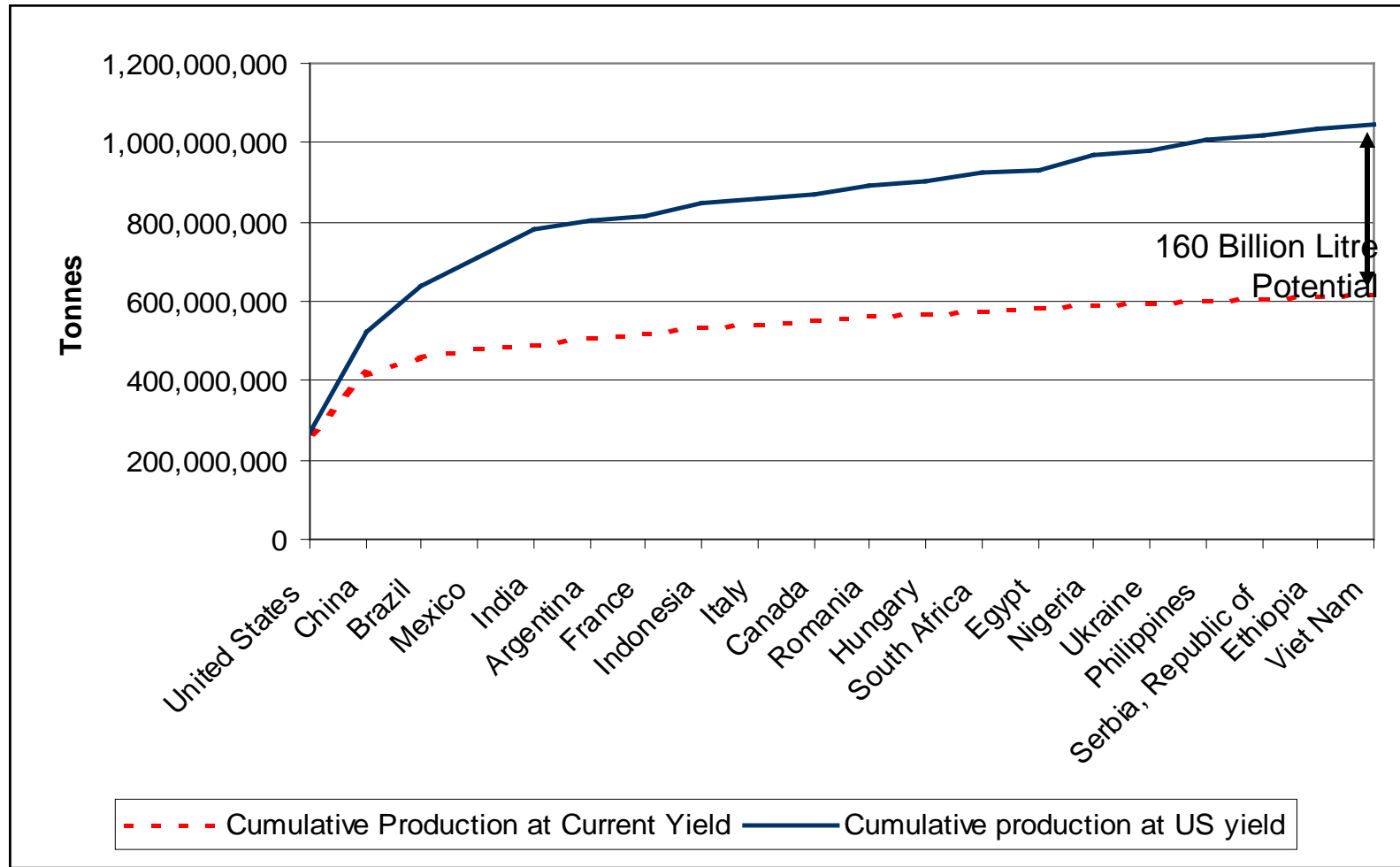
Agricultural Productivity



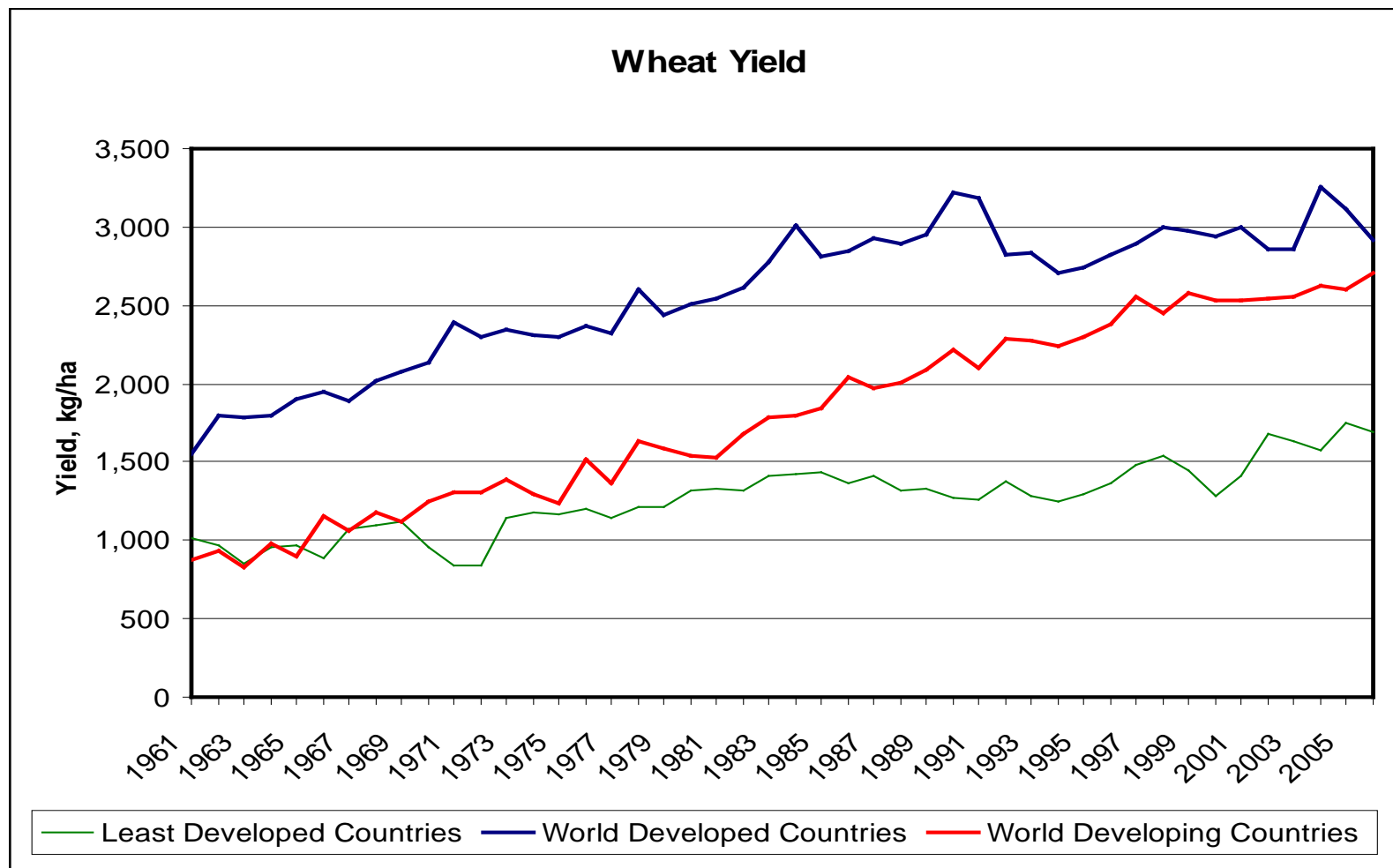
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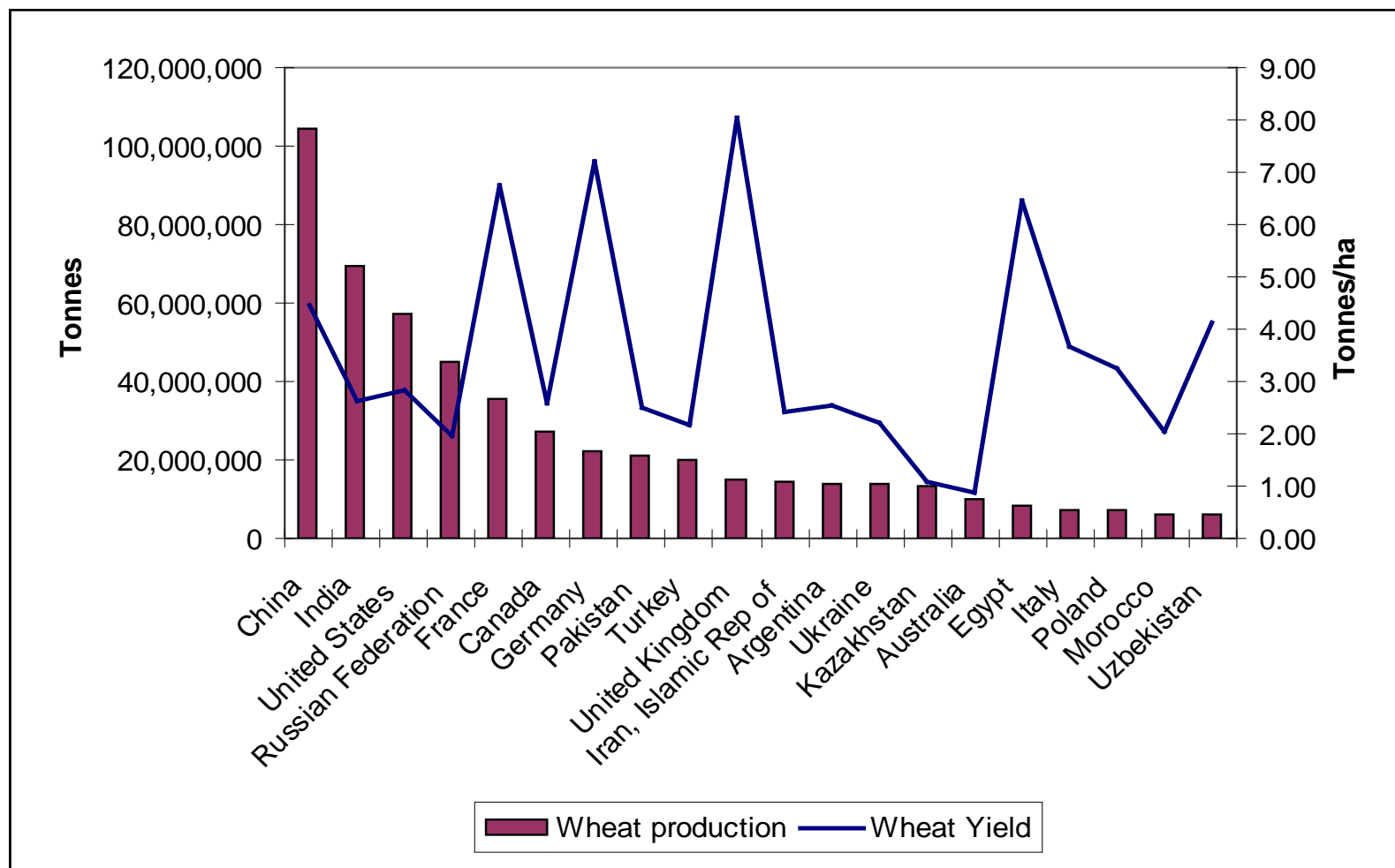
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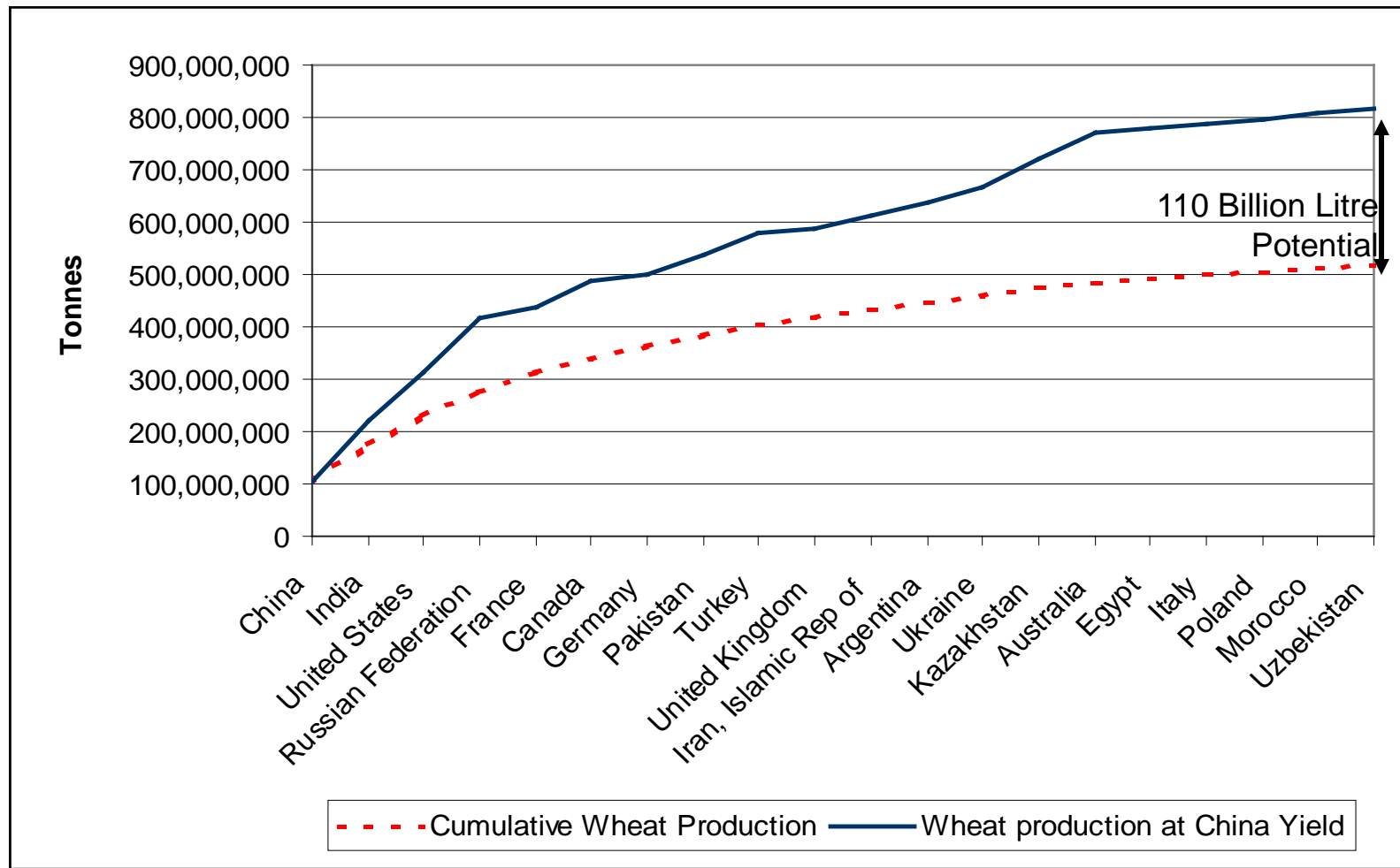
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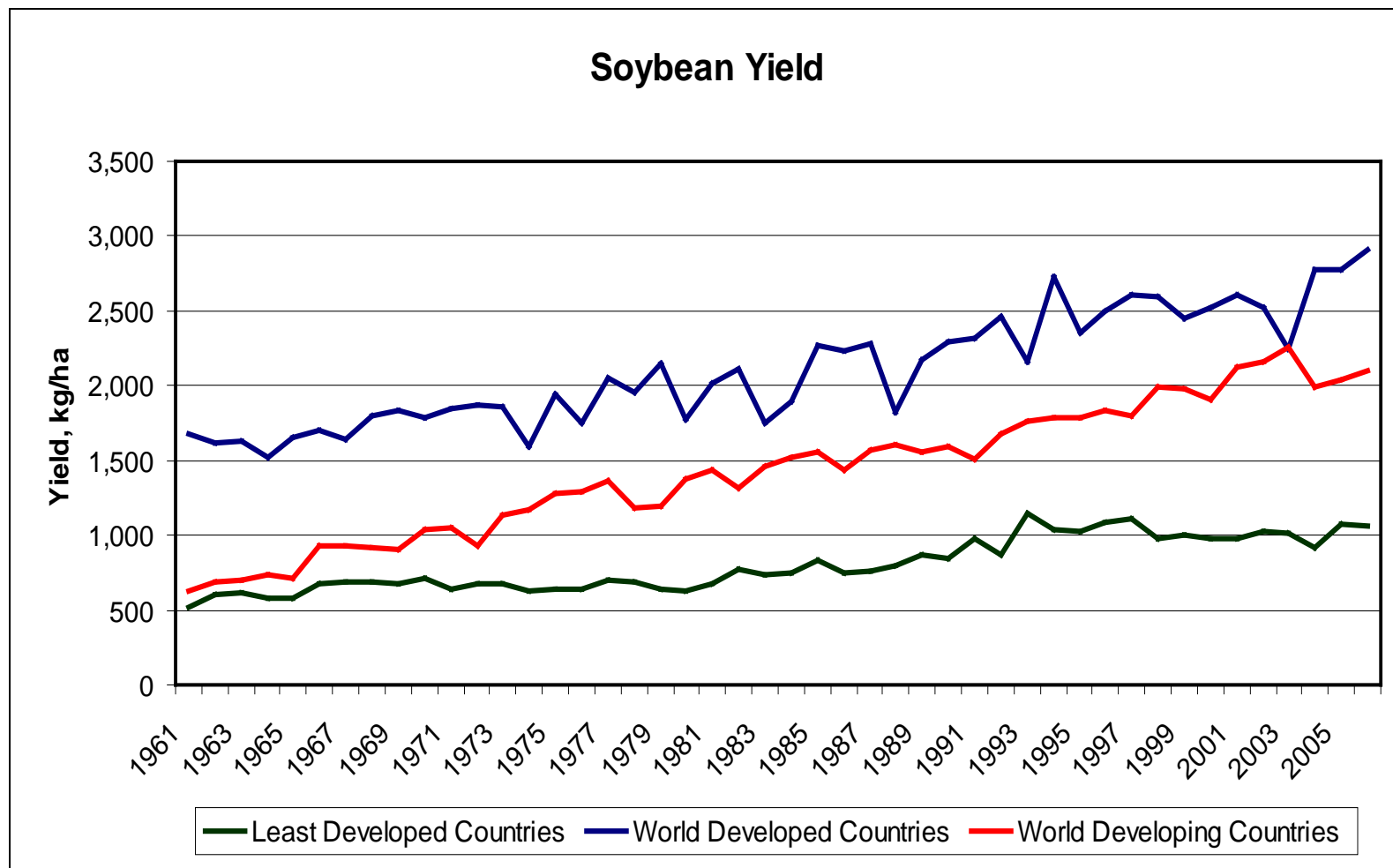
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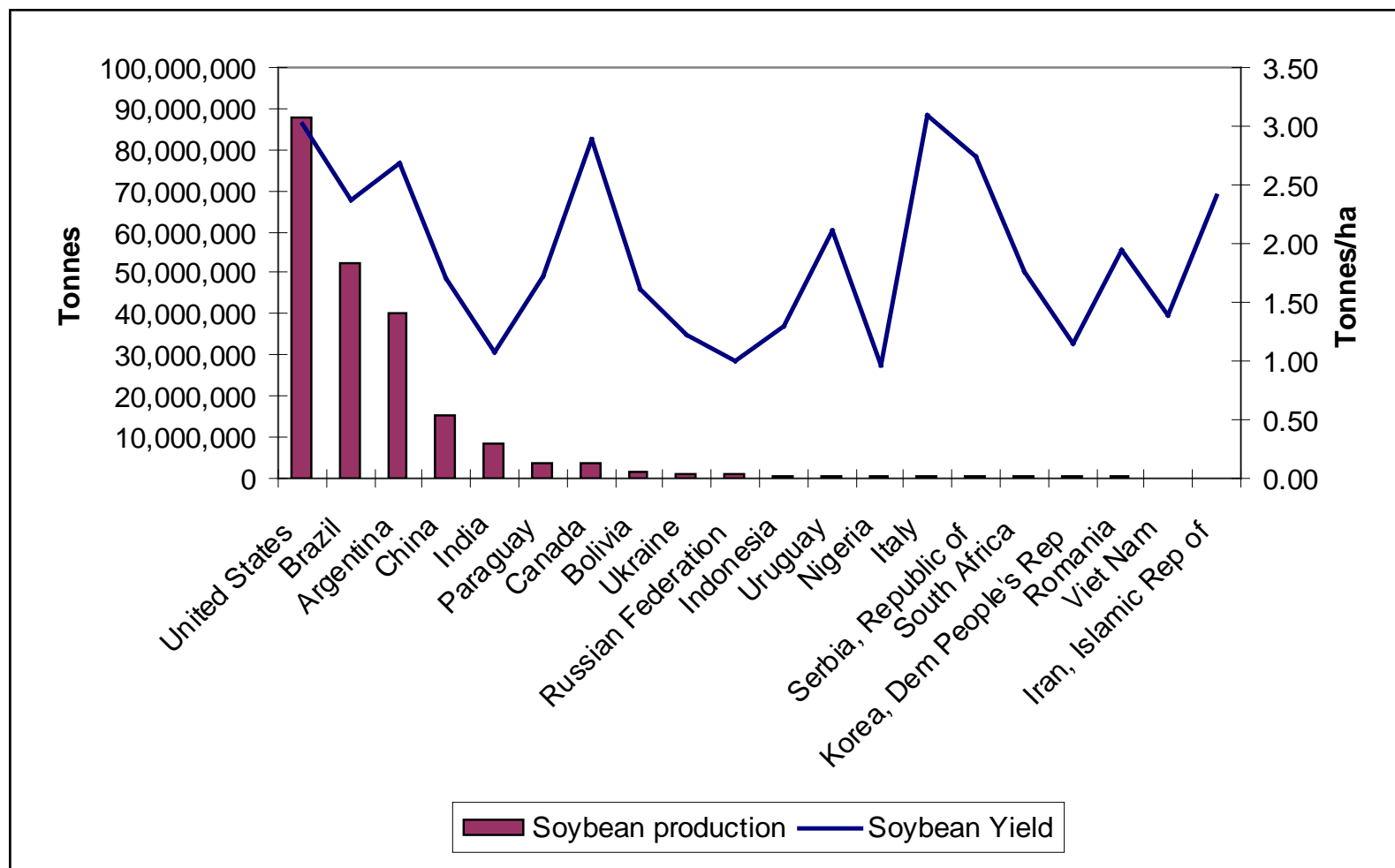
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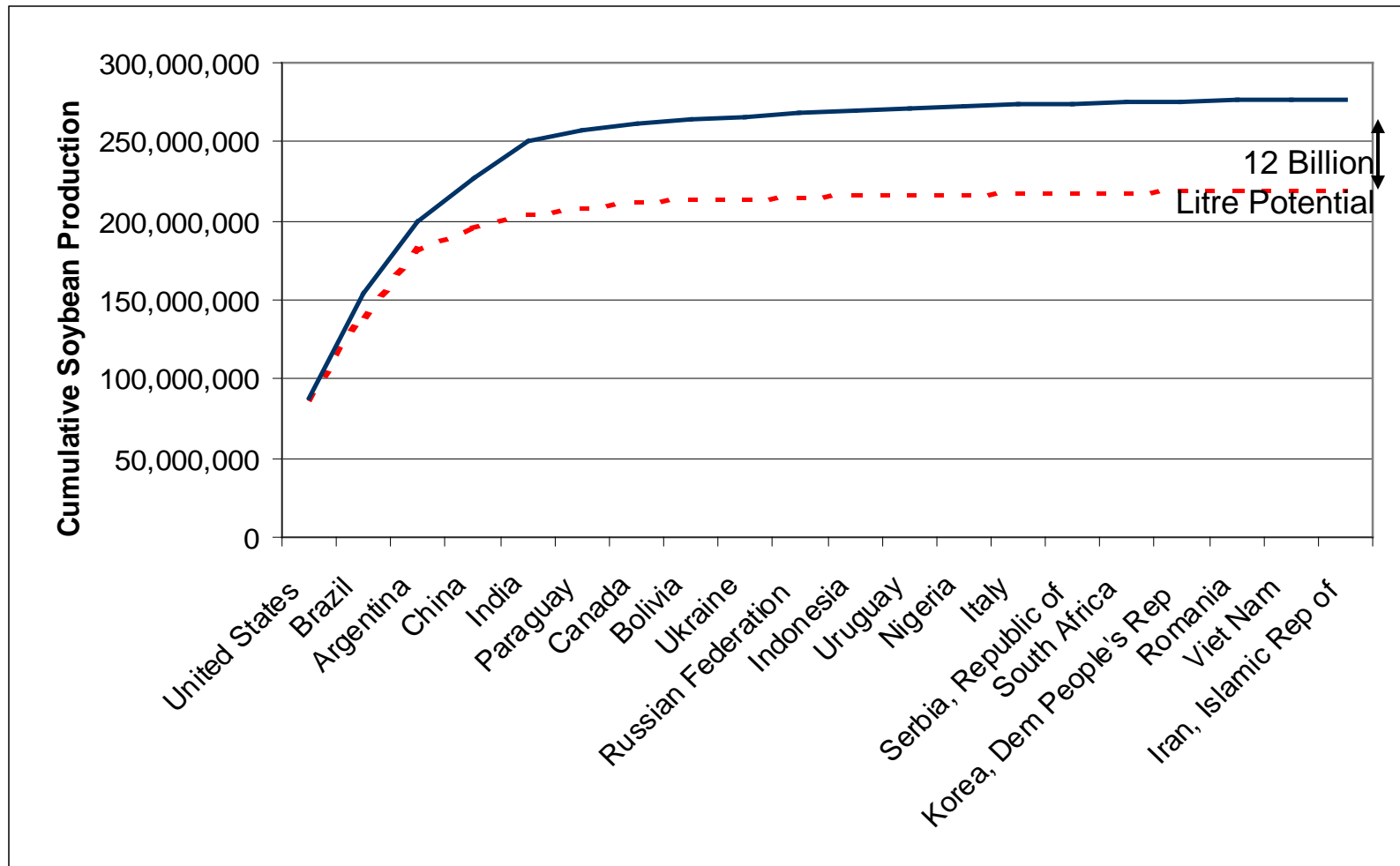
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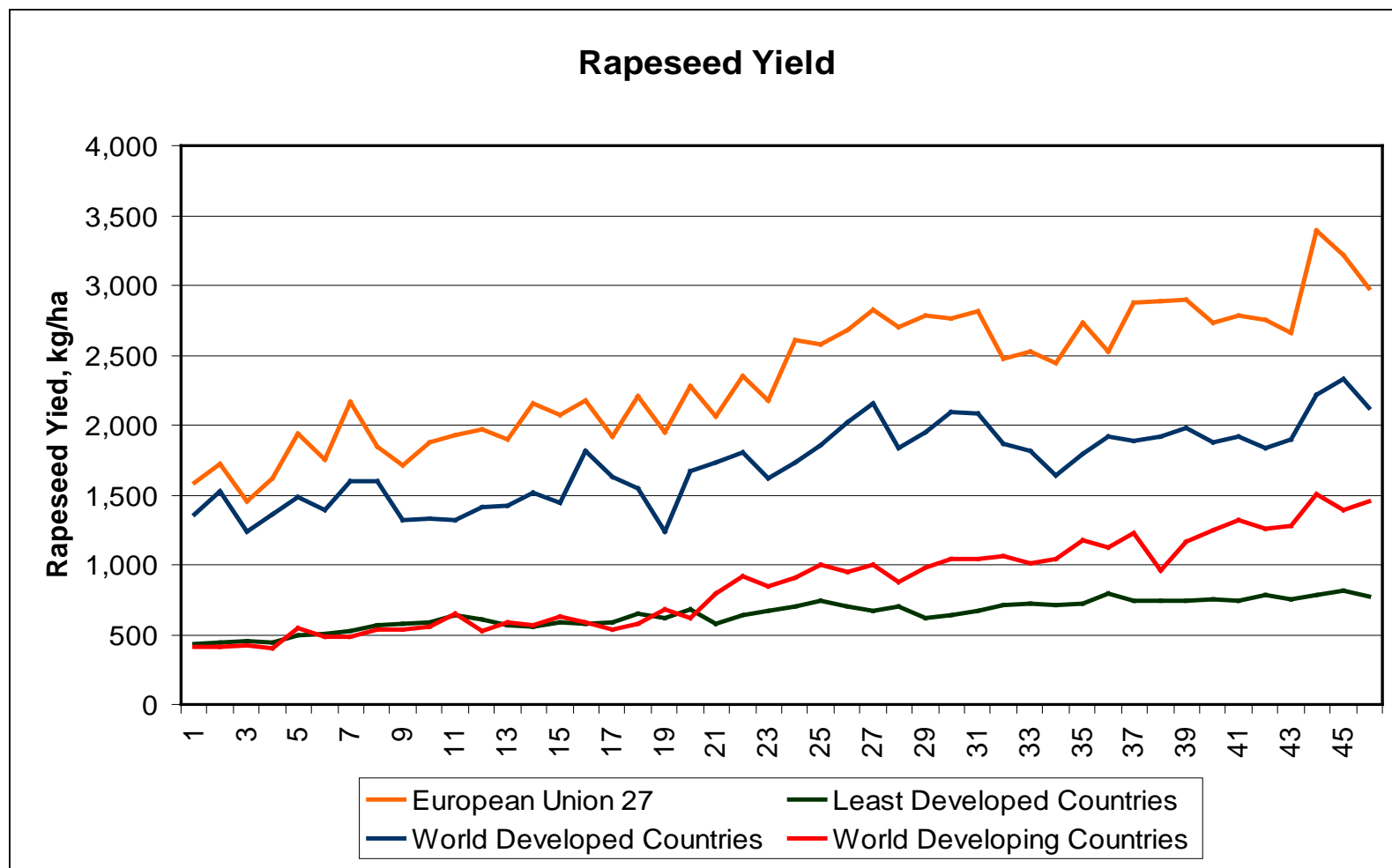
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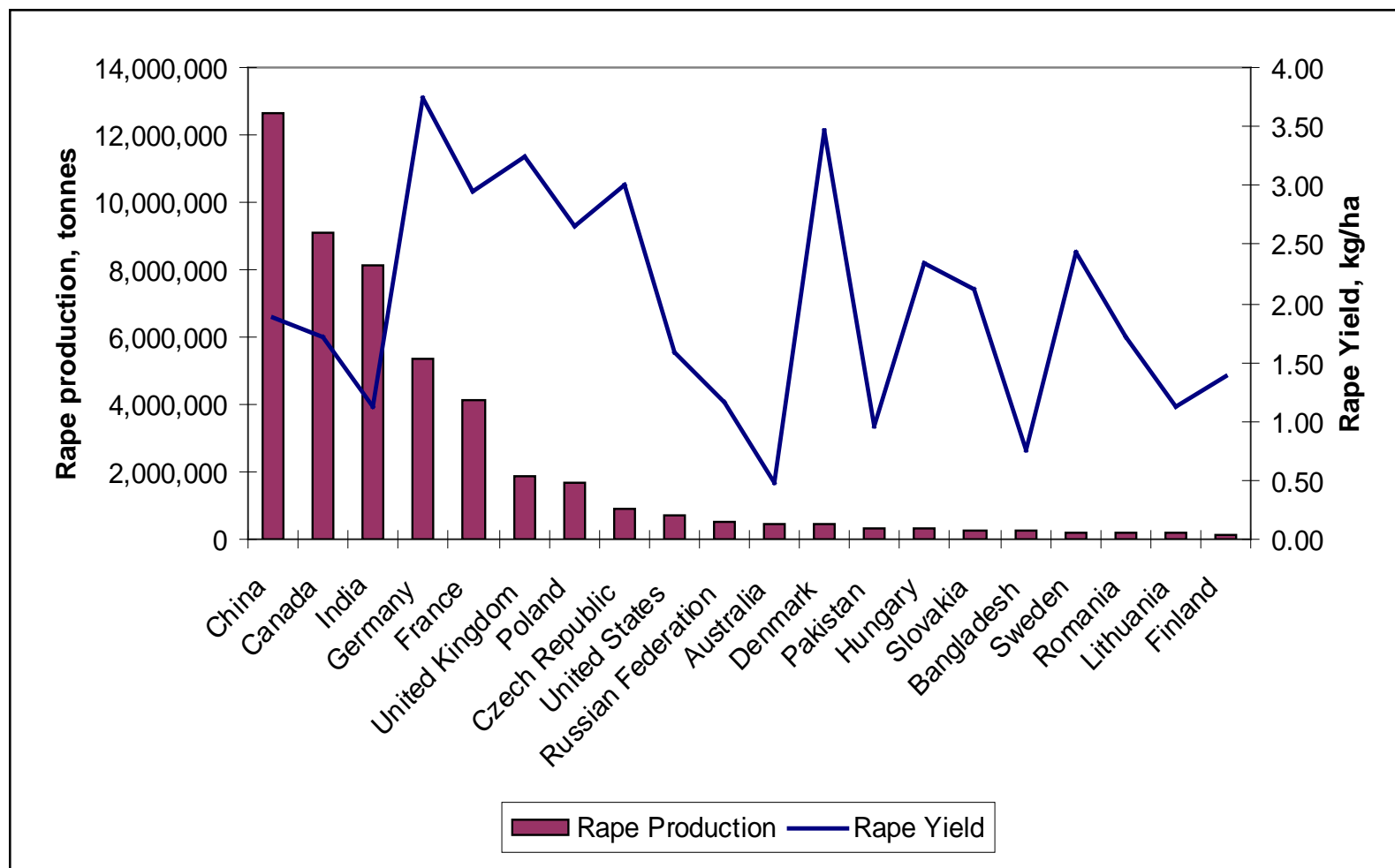
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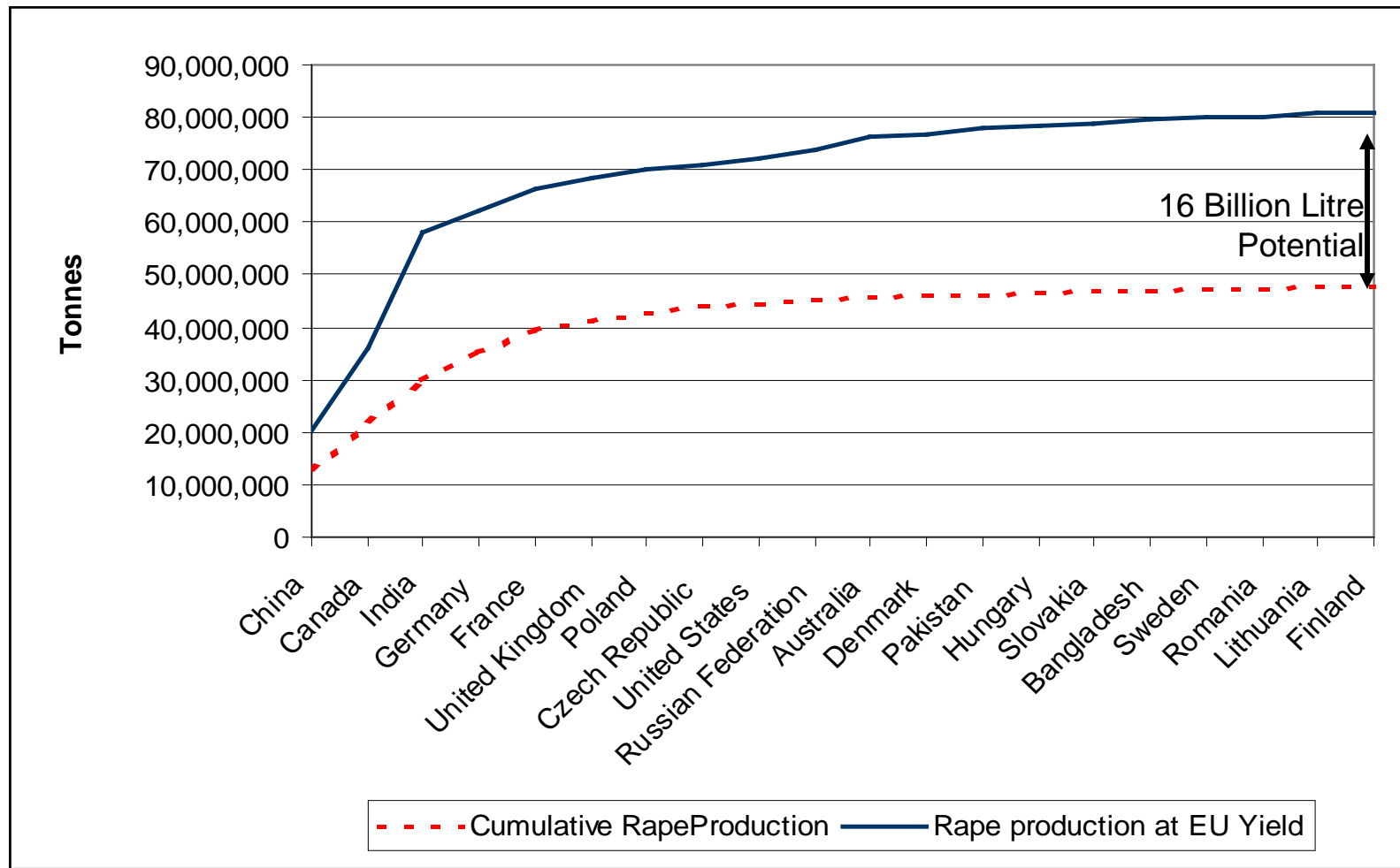
Agricultural Productivity



Agricultural Productivity



Agricultural Productivity



Conclusions

- The world agricultural market is far from a free market.
 - In the developed world it has relied on massive government financial support to maintain viable production economics.
 - A consequence of this support has been the flooding of subsidized food onto the world market.
 - The developing world has not been able to provide the same level of subsidy and thus productivity has declined creating a massive productivity gap.
 - Some institutions have rationalized their efforts by arguing that only the most efficient food producers should exist.

Conclusions

- There exists the potential to accelerate world ag reform due to the perception of a food crisis and the high prices being enjoyed by producers in the developed world.
 - This opportunity can only exist if demand for products stays high and prices remain above the cost of production. This requires a strong market for biofuels.

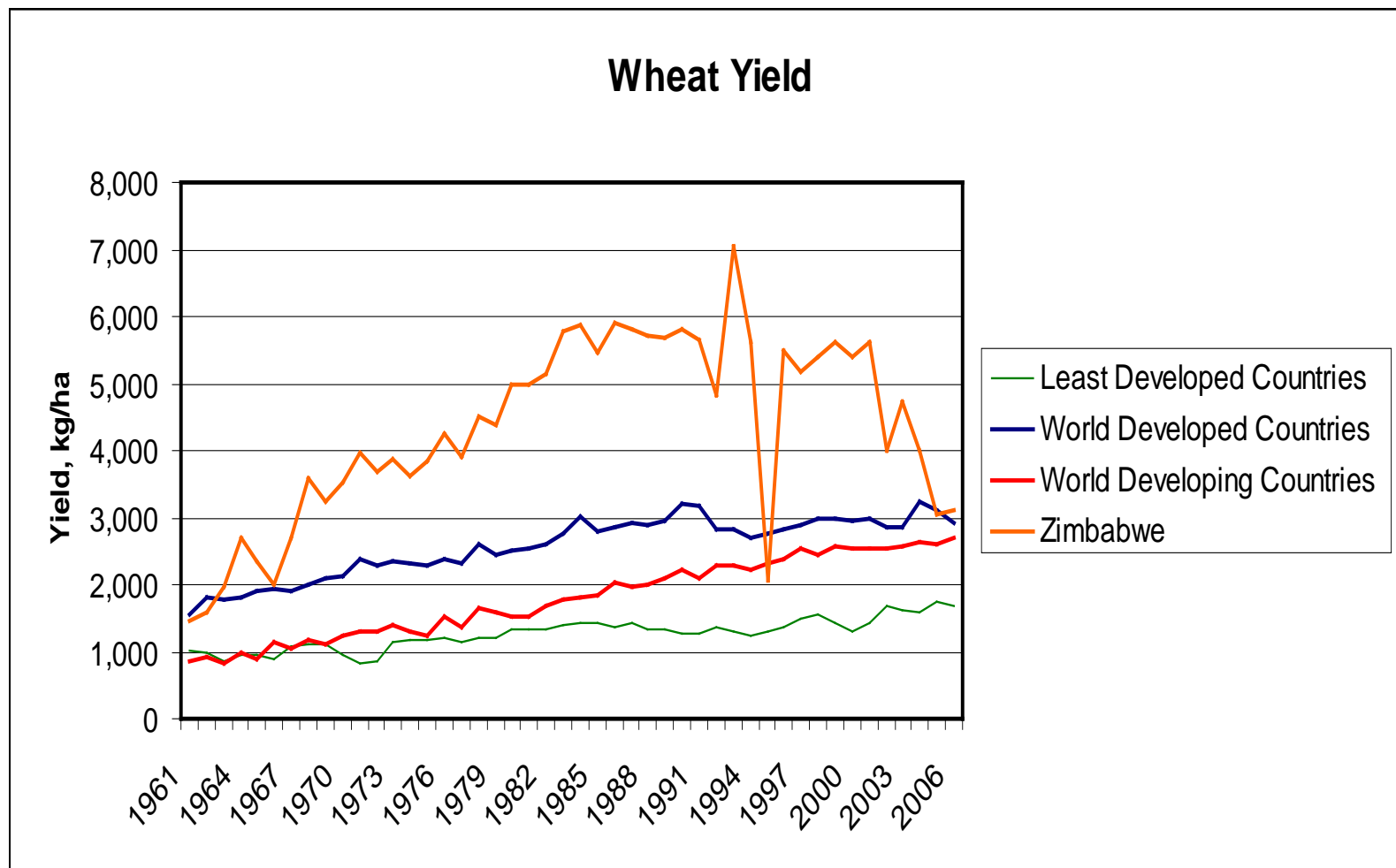
Conclusions

- Governments must
 - Provide aid to help the poor through the current transition period.
 - Accelerate efforts to close the productivity gap by providing finance for proper ag inputs and undertake an educational effort to increase technology uptake.
 - Undertake significant agricultural reform in the developed world so that the situation doesn't revert to prior conditions.

Agricultural Productivity

- It is not all about technology and a distorted market place.
- Local conditions can play a large role in productivity as seen in countries like Zimbabwe, Haiti and others.

Agricultural Productivity



Agricultural Productivity

