

Biofuels and Food Security:

The international “pro-food” perspective

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General Themes

- Short-term risks, longer-term opportunities
- Policy choices critical and open to change
- Impact on food prices for the very poor
- Questions on greenhouse gas emission impact

Basic Background Considerations

- 850 – 950 million hungry people in the world – very slow progress (75% of these are rural)
- Poor households spend A LOT on food (50-75% of income) – basic cereals
- Markets are linked, biofuel demand a significant contributor to higher prices
- Most small farmers are net food buyers and most farmers are small
- Lower food prices good historically for reducing poverty (disposable income and higher rural wages)
- Higher ag incomes key to poverty reduction

- Net impact: Higher prices → more hunger and higher poverty rates, depending on the country context
- New link between oil and food prices worrisome
- Biofuels offer opportunities for developing country farmers, if allowed to compete
- Subsidies distort allocation of resources and constrain options of developing country farmers

Agreement that biofuels are one of several key drivers of high food prices

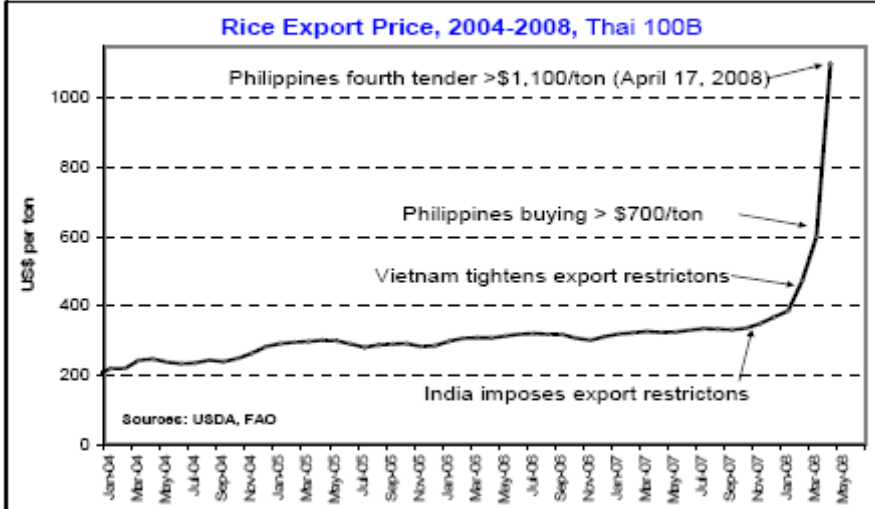
- economic growth and changes in diet
- declining investment in agriculture
- declining cereal stocks
- weather-related production shortfalls
- rising energy costs
- rapid growth in biofuels
- exchange rates and export restrictions

Three tiers of factors that led to price increases

- The *Financial* tier
- The *Phyiscal* tier (Supply and Demand)
- The *Panic* tier (policy reactions)

Which prices are we talking about?

Figure 2. Rice Prices and Recent Policy Responses
\$/Ton; January 2004 – April 2008

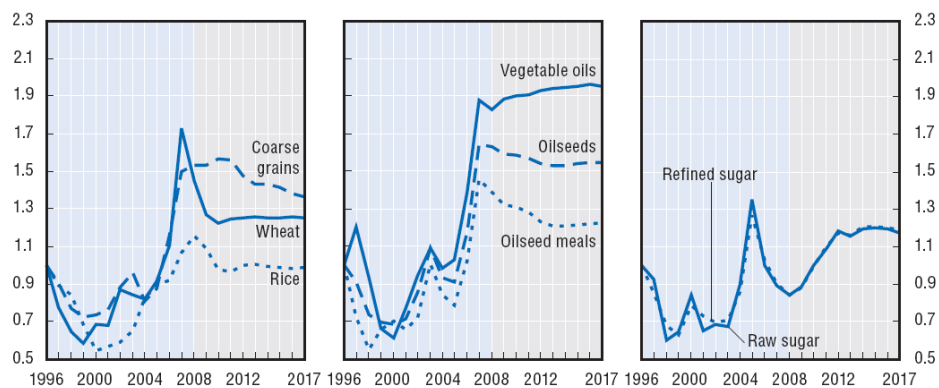


Source: Brahmhatt M and L Christiaensen (2008)
'Rising Food Prices in East Asia: Challenges and Policy Options'

Crop price projections to 2017

Figure 1.4. Outlook for world crop prices to 2017

Index of nominal prices, 1996 = 1



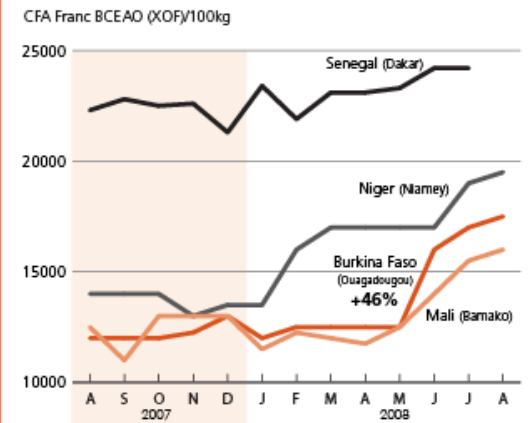
Source: OECD and FAO secretariats.

US Corn Prices over Past 12 Months



Locally produced W. African millet prices

Locally produced millet prices
in selected Western Africa markets



Significant impacts on agriculture & food security

	Share of crop to biofuels
Brazil	50% of sugarcane
USA	30% of corn
EU	60% of rapeseed
World	5% of cereals, 9% of vegetable oils, but <u>over half of the increase</u> during 2005-2007

Source: OECD and FAO

Biofuel impacts on prices?

Source	Estimate	Commodity	Time period
World Bank (April 2008)	75 %	global food index	January 2002 – February 2008
IFPRI (May 2008)	39 %	corn	2000 – 2007
	21-22 %	rice & wheat	2000 – 2007
OECD-FAO (May 2008)	42 %	coarse grains	2008 – 2017
	34 %	vegetable oils	2008 – 2017
	24 %	wheat	2008 – 2017
Collins (June 2008)	25-60 %	corn	2006 – 2008
	19-26 %	US retail food	2006 – 2008
Glauber (June 2008)	23-31 %	commodities	April 2007 – April 2008
	10 %	global food index	April 2007 – April 2008
	4-5 %	US retail food	January – April 2008
CEA (May 2008)	35 %	corn	March 2007 – March 2008
	3 %	global food index	March 2007 – March 2008

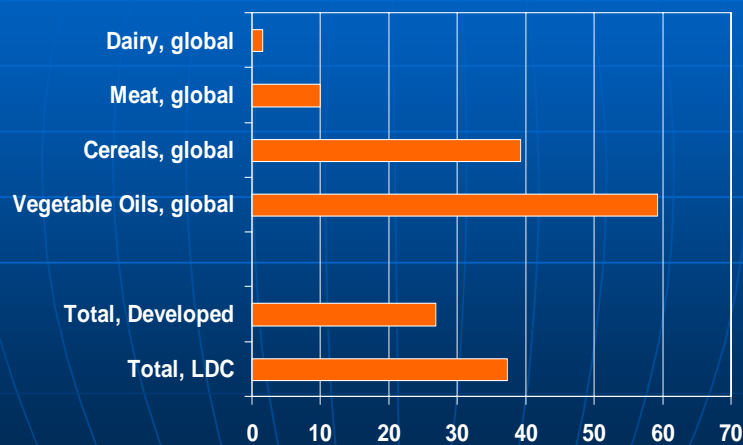
Impact of the price rise:

Access to food main poverty line determinant

- Cost of food in Liberia +25% in January 08 and poverty rate + 6% from 64% to 70%
- Sierra Leone poverty rate, +3% to 69%
- Honduras poverty rate +4% to 55%

Rising food import bills

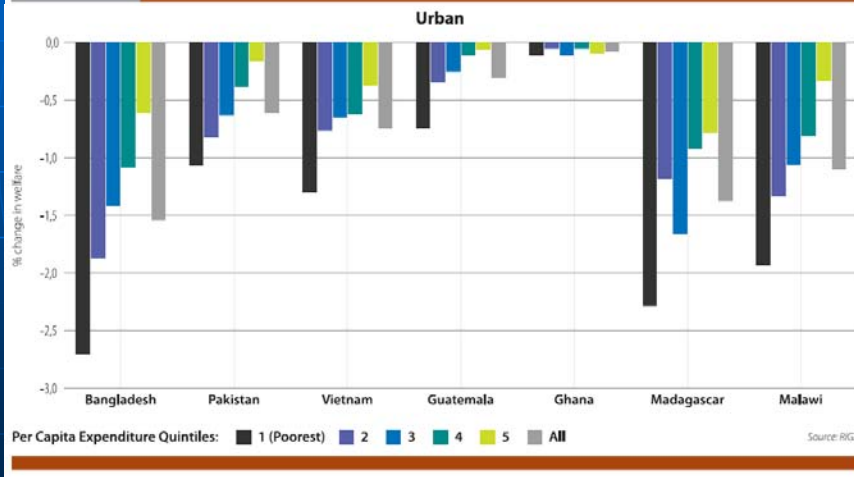
% increase, 2008 over 2007



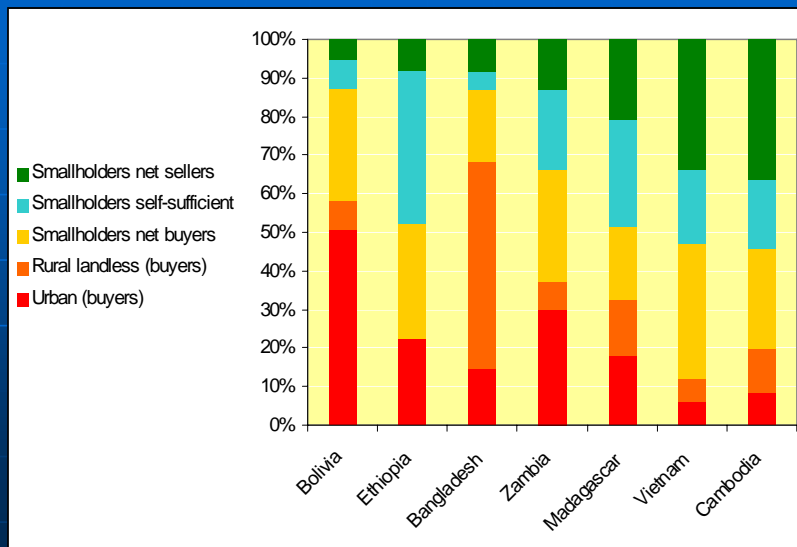
Source: FAO, 2008

Impacts on urban households

Figure 12 Percentage welfare gain/loss from a 10 percent increase in the price of the main staple, by income (expenditure) quintile

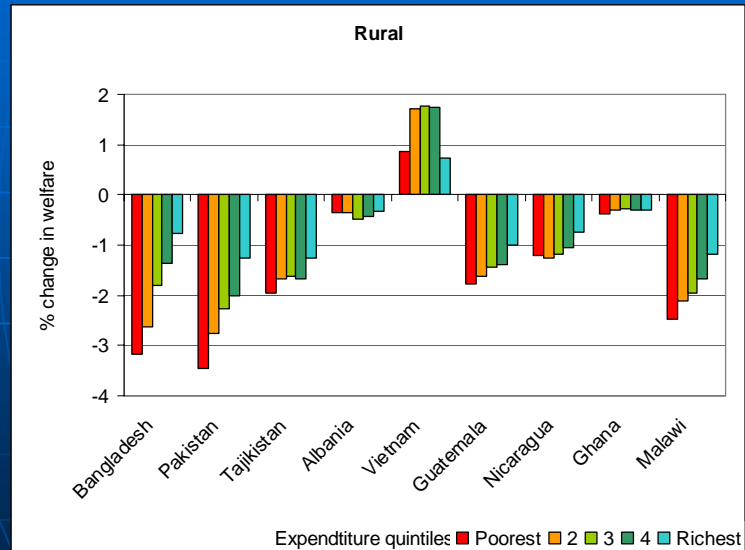


Impacts differ for net sellers and net buyers of staple foods



Source: World Bank 2007

The Poor are Hit the Hardest by an Increase in the Price of Food Staples



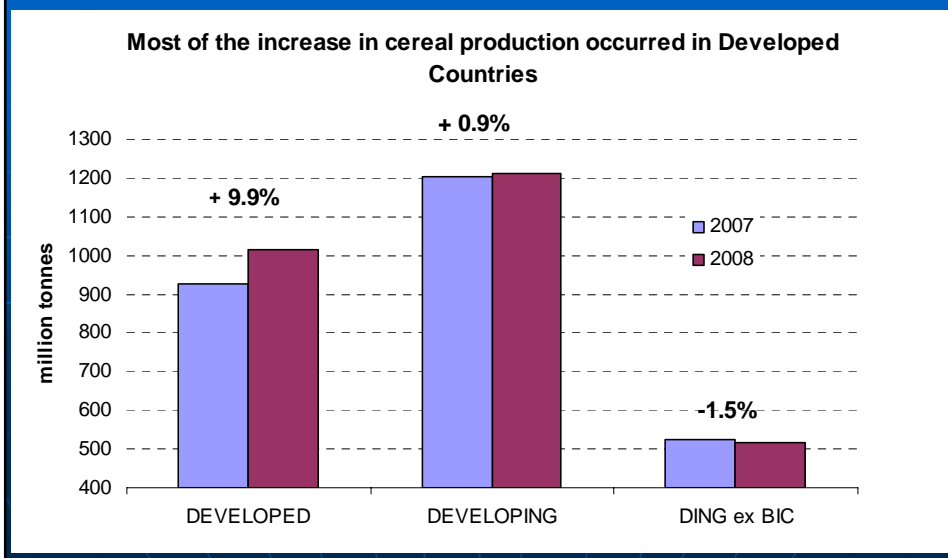
Significant impacts on agriculture & food security

- diverse impacts on net buyers and sellers at household and country levels
- employment opportunities depend on scale of production and technology
- rising resource values: opportunity and conflict
- short-term risk to the poor, but this could change in the longer term—with appropriate policy measures and agricultural sector response

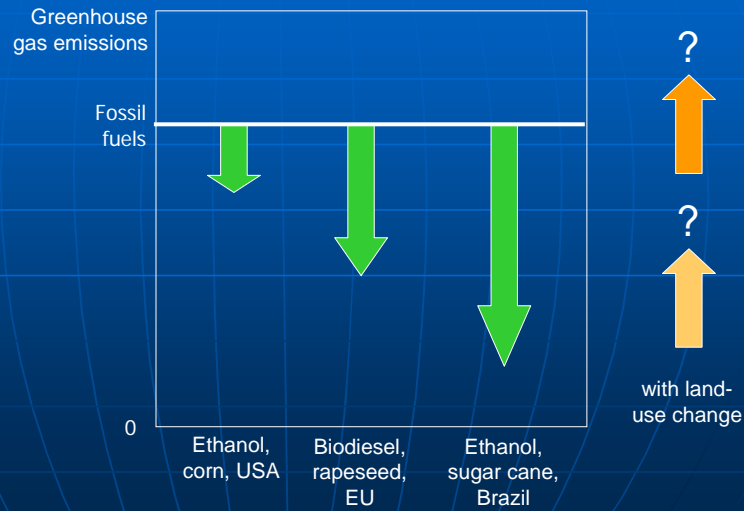
Significant impacts on agriculture & food security

- Farmers are responding to incentives
- Availability of food crops is increasing
- ...but over 920 million people still lack access to sufficient food

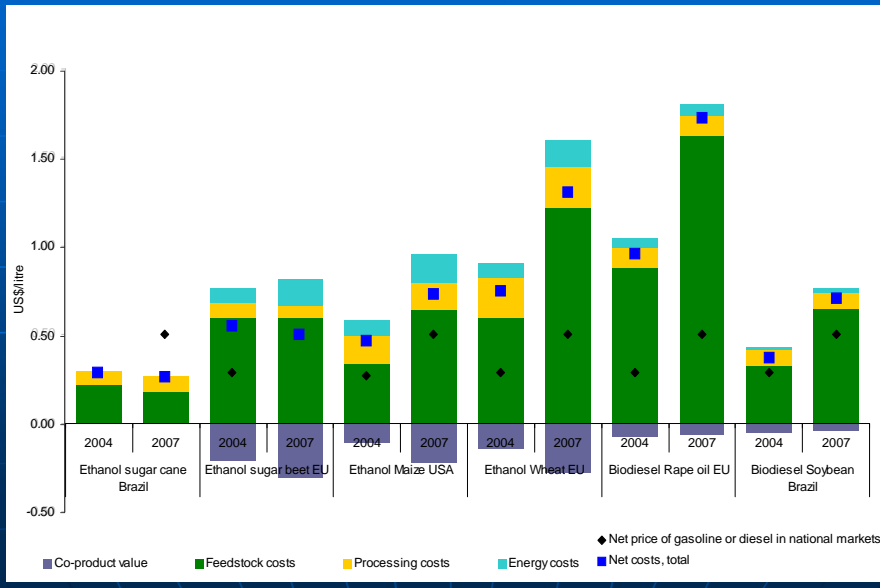
Supply Response to High Prices Mainly in Developed Countries



Diverse impacts on climate change



Production costs exceed net fossil fuel prices for most major biofuels



Policy action is urgently needed

- Protect the poor and food insecure
- Invest in agriculture and rural development
- Ensure environmental sustainability
- Review current biofuel policies



2008

THE STATE OF FOOD AND AGRICULTURE

BIOFUELS: prospects, risks and opportunities

Available on
FAO's website
at
<http://www.fao.org>
or
<http://www.fao.org/sof/sofa>

The image shows the cover of a report titled '2008 THE STATE OF FOOD AND AGRICULTURE'. The cover features a landscape with green fields and a blue sky. A large yellow flame-like shape is superimposed over the landscape. Three circular inset images are arranged in a vertical line, showing a car, a field, and a factory. At the bottom of the cover, there is a green banner with the text 'BIOFUELS: prospects, risks and opportunities'. The FAO logo is visible in the bottom right corner of the cover.