CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE

Transcript

SOARING FOOD PRICES: CAUSES, CONSEQUENCES AND REMEDIES

WEDNESDAY, APRIL 6, 2011
12:00 P.M.
WASHINGTON, D.C.

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Transcript by Federal News Service
Washington, D.C.

URI DADUSH: Good morning. Ladies and gentlemen, good afternoon, and thank you for joining us today at this event on food prices: "Soaring Food Prices: Causes, Consequences, and Remedies.

We have a very distinguished, very expert panel to conduct this conversation today. And let me move from the right to the left. So at the very right is Will Martin, who is research manager at the Development Research Group in the World Bank on agriculture, and you have his C.V. so I'm not going to go into a lot of detail on each of the presentations.

[00:02:17]

Then to his left is Joseph Glauber, Joe Glauber, who is the chief economist for the U.S. Department of Agriculture and takes the lead on the agricultural negotiations in the Doha process – has done for some years –

JOSEPH GLAUBER: Formerly.

MR. DADUSH: – without much success, I might add. (Laughter.)

KIMBERLY ANN ELLIOTT: It's all your fault, Joe. (Chuckles.)

[00:02:48]

MR. DADUSH: Many reputations have been ruined by the Doha process, including mine, by the way.

And then in the – in the middle of the group is Hafez Ghanem, who is the assistant director general for economic, social development at the Food and Agriculture Organization. He is effectively the chief economist of the organization, and he's also leading a task force on advising the G-20 on what to do about food prices.

And to my immediate right, last but not least, is Kim Elliott, who is known to many of you. She's a senior fellow at the Center for Global Development across the street and an expert on trade and poverty issues.

So let me start the conversation. The first part of this event will be a conversation with the panel, and then we will open it up to everybody. And let me begin – perhaps ask Kim my first question.

[00:04:08]

Being a little bit devil's advocate, Kim, why are we having this event in the first place? I mean, after all, you know, food portions seem to be as big as they've ever been –

MS. ELLIOTT: (Chuckles.)

MR. DADUSH: – in the Washington area. It doesn't look like, you know, a muffin at Starbucks costs a lot more than a year ago. Why are high food prices an issue in the first place?

[00:04:36]

MS. ELLIOTT: Well, at the Center for Global Development, because we're not looking at what people are eating in Washington; we're looking at what people are eating or not eating in the poor countries in the world. And there of course food is a much higher proportion of people's household budgets. And a sharp price rise can have a very significant impact on the household budget; on consumption, especially for children and pregnant women; then an impact on nutrition, which can affect their lives – their entire lives; and of course can also in severe cases send families that have just perhaps climbed out of poverty back into poverty.

And Will probably knows the numbers better than I do, but I think the latest that I've seen are as many as 44 million people in developing countries have been pushed back into severe poverty as a result of these food price spikes. So I think that's a reason to be here and to be concerned, and I'm glad all of you are.

Thank you.

MR. DADUSH: Thank you, Kim.

Food prices are up about 20 percent on – the time that the financial crisis began. And a – the international food prices are now as high if not higher as they were during the peak in 2008. So I'd like to ask Hafez and Joe, in particular, a very simple question, almost a naïve question: What is going on? Is the – is the world short of food today?

[00:06:13]

HAFEZ GHANEM: No, the world is not short of food today, but what has been going on actually – and it has been going on over a period of two or three decades, which is that we had very low food prices for a long time, so we have been investing less and less in agriculture. If you look at the growth rates of yields for the major food crops – for wheat, soybeans, corn and rice – yield have been growing at a much slower rate than they did – before the '60s and '70s years, were growing at more than 3 percent a year. Now they're growing at around 1 percent a year. That is a time when consumption, the demand for those food crops in the – especially in the emerging countries – I mean, the developing countries in general is growing much faster.

So overall demand is growing at around 2 percent while yields are growing at 1 percent, so we're getting a – much tighter markets. And as a result of a tighter market, the fundamentals are that the prices rise.

Now, that is – the prices rise, but what are seeing right now is a rather big shock because of what happened over the summer in Russia, because of the – of the climatic conditions and so on. And we've always had those shocks, but what is – what we can observe is that with a tighter market and with very inelastic demand, supply shocks have a bigger impact on prices than before.

[00:07:52]

And so that is what we are witnessing. It is not that today that there is any yet – I don't think that today we are in a crisis situation yet in the sense that food availabilities are not there, but the market is getting tighter, and that is what's pushing prices up. Now, if you project to the future and to – up to the year 2050, when the world's population would increase by around 3 billion people, all of them in developing countries, and where the – so which implies that the demand for food would be 70 percent higher than what it is today. Then it becomes more problematic, and the need for doing something about it now is more obvious and more evident.

[00:08:41]

MR. DADUSH: Joe, we were discussing before the session – you were saying that crops this year are going to be very abundant –

MR. GLAUBER: Yeah, well –

MR. DADUSH: – in the United States. So what's going on? Why – yeah.

MR. GLAUBER: I would echo a lot with what Hafez said. I mean, we've seen stock levels come down largely because of the obvious: that demand is outstripping supply and has been for several years. The good news, I think, for current compared to, say, 2008 is that the wheat market, they're – you know, we're – we had a serious drought in Russia, problems elsewhere, but it's still the third-largest crop on record. And if you compare, for example, ending stocks this year, you know, we're probably 50 percent higher than ending stocks were in 2007, 2008. So I think the wheat market is in far better shape but still a tight situation.

[00:09:38]

And so we're – you know, we – any sort of supply disturbance, because there's not – the stock levels are so small, and as Hafez said, the demand for commodities is fairly inelastic and, I think, becoming increasing inelastic. We're seeing large price spikes. I think the real big issues right now are on the feed side; that is – the corn market in particular is historically tight, and the soybean market has – and oilseed market in general has tightened up as well.

MR. DADUSH: Will, I know that you put a lot of emphasis on government policies in explaining some of what's going on – some of the volatility that's going on and also simply the level of food prices that we have. Do you want to elaborate a little bit here about what is – to what extent governments are playing a role in this problem?

WILL MARTIN: Sure. Yeah, and I think Kim, Hafez and Joe have really made some important points on the supply side, the production shocks we've had. I think on the demand side there's a big increase in demand coming from biofuels over the last seven, eight years. That's been a big new source of demand. And while the world adjusts to that, there's an implication for stock levels. Stock levels are lower, and that makes the world price more volatile.

[00:11:01]

I think the other thing that's happened is that typically when we see a shock to prices, wherever it comes from, governments quite understandably try to insulate their citizenry from those price – those prices shocks. And we find that that reduces the impact of any given rise in world prices, but at the same time it feeds into increasing the size of the world price increase. And if everybody insulates – and most countries do – if everybody insulates and tries to completely insulate against a 10 percent increase in world prices, the consequence is that you get another 10 percent increase in world prices. It's a – it's an ineffective policy in – as a – as a world community, ineffective policy for dealing with this problem.

It's a little like everyone in the grandstands standing up to get a better view. Nobody's view is actually improved, but unilaterally you – it's a collective-action problem. You can't deal with it unilaterally. To think back to the grandstand example, if I decide not to stand up, then I get a much worse view, or a country that doesn't insulate in this situation faces bigger shocks that can really hit very hard at poor and vulnerable people.

[00:12:27]

MR. GLAUBER: And the shorter people, even worse views. (Laughter.)

MR. DADUSH: Sorry, I didn't catch that. What did he say?

MR. GLAUBER: I said the shorter people, even worse views. So, you know, I think the poorer countries obviously are the ones who suffer even more.

MR. DADUSH: I see. Right.

Well, let me ask actually Joe and Will – you have mentioned the role of essentially export restrictions, right, trying to insulate, trying to keep the food at home at a time when you are concerned about food availability. That's clearly contributing to the global problem. You've also mentioned the problem of biofuels, which I want to come back to a little later.

[00:13:10]

But what about agricultural policies? Both of you – general agricultural policies, the fact that, particularly in the advanced countries, agriculture is subsidized. You would think that subsidization of agriculture would actually increase the production of food, but agriculture is also protected, and prices – there are all sort of mechanisms that try to stabilize the prices of agricultural products in the advanced countries. How would you evaluate the effect of agricultural policies, particularly in the advanced countries, on the food price problem?

MR. GLAUBER: Let me start. And Will certainly has written a lot extensively on this, but I mean, I would make the point – and certainly don't look to me to be necessarily defender of these policies, but since so many of these policies oftentimes are price-based – certainly in the case of the U.S. they are – they've become relatively ineffective. I mean, they're just – you know, most of our price-based programs, which were highly problematic in the, you know, 2000, 2001, that period when we had very low prices and we were spending a lot of money insulating producers from those prices. Of course, we haven't paid out any money.

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And in general, I think if you look at Europe, you look at other – and even the U.S. – to the degree that we have a lot of policies that are decoupled from production, then I think there's still – money's being spent, but they have less direct impact. Now, if prices were to fall again, those programs presumably would kick in, but I don't think they've been much of an issue for this particular that we're in. And –

MR. DADUSH: What about, though, Joe – and I will come to Will as well, but what about protection of – agriculture protection, food production in the advanced countries? Doesn't this – you know, high tariffs, tariff quotas, quotas, et cetera, doesn't this discourage investment in agriculture in the developing countries?

MR. GLAUBER: No, I believe it does. You have seen actions to reduce, you know, tariffs. Applied rates will fall and countries will bring those down far below bindings to insulate a bit to allow, you know, prices or commodities to come in.

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I think it's less the case where you're seeing people raise tariffs these days. If there's a trend, it's largely to bring them down in poorer countries. But you're right. When those – you know, when lower prices come and they put those back up, it can discourage investment one way or the other.

And, again, it – as Will has said earlier, policies like that can help insulate a domestic economy, but unfortunately the flip side is it tends to export that variability, as it were, onto the world market.

MR. MARTIN: Uri, you made the point about export bans, export restrictions, and that's a very, very important point because they reduce the confidence of importing countries that they can rely on world markets.

But when we start to think about the problem of volatility and the effects of trade policy, we also need to think about the import side. If an importing country lowers its tariff as the world price goes up in order to stabilize the domestic price, that shifts out the demand and helps to push up world prices further –

[00:16:54]

MR. DADUSH: Right.

MR. MARTIN: – in exactly the same way that an export restriction does.

So, I think we just – you know, when we think insulation, it's insulation of both sides of the market, the exporters and the importers, we need to worry about.

Now, that said, some forms of trade intervention are worse than others. A ban – you never know what a ban is going to do. Quite often, it actually ends up impoverishing poor farmers in the country that imposes it. We have many countries in Africa who used that and ended up with very, very depressed prices – the problems of very, very depressed prices.

So, what Kim Anderson and I did in a recent paper was to look at all the countries where we can get data for wheat and rice, and what we found was that in 2008, about 45 percent of the increase in world prices that we saw for rice could actually be explained simply by the responses of importers and of exporters, price-insulating responses.

And so, it's a very large – it's almost half of the increase in the world price that we saw came from that particular problem, so something I think we really need to think about. I hope that this period of repeated volatility will actually lead to some interest in taking some collective action approaches to dealing with these problems.

MR. DADUSH: Good. Hafez?

[00:18:14]

MR. GHANEM: Yeah, I would just want to add on what Will was saying. Actually, I think it is an excellent paper, but I also think that you guys are a bit conservative. From where I'm sitting, I think that the main explanation is not just 50 percent. The main explanation for the increase in rice prices in 2008 was bad policies.

If you look at it – I mean, without doing the econometrics, just look at the facts. The rice production in 2008 was good. Stock levels were good, strong, big. Demand is stable. I mean, you know, demand. There was – yes, wheat and corn prices rose, and there were some cross-elasticities of demand.

That might explain maybe, in my mind, 10, 15 percent of the increase. But it's very difficult to explain why rice prices doubled in 2008. And the only explanation for this doubling is what Will was saying. It's bad policies both on the exporter side as well as on the importer side – the exporters putting export restrictions on the importers and a lot of panic buying and trying to build stocks at the peak of the crisis.

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Since I have the microphone, I mean, I think –

MR. DADUSH: You don't have the microphone. (Laughter.)

MS. ELLIOTT: You have "a" microphone.

MR. GLAUBER: Actually, I think the issue of government policy is really extremely important, not just governments have been dealing with the crisis with the short run shocks in a very bad way – I mean, we had – we did a review of all of the policies that were taken by all of the developing countries that we know of in 2007 and 2008, and 90 percent of the policies were either ineffective or actually aggravated the situation.

That is in the short run. But there are also bad policies on the long run. I mean, you need to – we need to understand why aren't there – why isn't there enough investment in agriculture? Why are the yields in Africa one-third of the yields in Asia and one-tenth of the yields in North America?

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And usually people are always complaining about the donors. Yes, the donors maybe are not doing enough, but the countries themselves, it is the national governments in the developing countries who have no – who have not been looking at agriculture and food security, in general, as a priority. They have been focusing on urban issues and urban problems for obvious political reasons. And now we're paying the price for that.

MR. DADUSH: Good.

Kim, let me ask you – first, let me confess that my wife drives a big SUV. (Laughter.) Not me, but my wife. And –

MS. ELLIOTT: At least get a hybrid.

MR. DADUSH: Well, she drives a big SUV. And, I mean, isn't it crazy that here we are, we have you saying tens of millions of people that are going hungry, not able to buy the food at these high prices; at the same time we're taking some huge part of the corn crop in the United States, Joe – 30, 40 percent, Joe, of the corn crop of the United States and we're making gasoline out of it so my wife drives an SUV. Tell me about that.

[00:21:58]

MS. ELLIOTT: I was actually going to try and jump in at some point on this because I think, you know, being – Joe I don't think can be as harsh, I will say, as I will be. And since I'm the only American, I just want to say that Europe also has some bad biofuel policies, but I think American ethanol policies using corn to put out to gas stations is about the craziest thing I've heard of in a while.

I think it's – it seems to be the main here – Joe can comment on this – one of the main if not the main driver of the corn price. We've had weather on the wheat side, but really the only thing going on is both the mandate, a subsidy and a tariff protecting the production of corn-based ethanol in this country.

It doesn't say much of anything when it comes to emissions that contribute to global warming. It's costing us billions of dollars in these taxpayer subsidies, which, by the way, are basically just a windfall, given that there's a mandate that so much must be blended in to U.S. gasoline now.

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To make things worse – and I think this was, in some reports anyway, the recent jump early in the year in the corn price when the EPA decided to life the limit on how much ethanol can be blended in to just regular gasoline, from 10 to 15 percent.

So it's just – it's – in my view it's economically inefficient. It's environmentally ineffective, and it's contributing to these global food price rises that are contributing to inequality in the world.

So, I think it's just a truly horrendous policy on just about every ground you can think of.

MR. DADUSH: Joe, let me ask you, why is it essential for the United States to take 40 percent of its corn crop and to put to gasoline?

MR. GLAUBER: Well, I mean, this has been a – you know, this has been a policy that has evolved certainly over the last seven or eight years. I mean, of course, ethanol itself really dates back to the policies there, dates back to the energy crisis in the late '70s.

[00:24:03]

If you look at ethanol, you know, we've seen this really rapid growth over the last five, six years. I mean, it really went from about a billion gallons – currently production, if you look at the weekly numbers and the monthly numbers and annualize them, we're running 13.5, 14 billion gallons.

So, you know, the capacity has really been built over the last five years. And if you – particularly if you look back to 2007, 2008, 2009, corn use to ethanol was increasing by 750 million bushels, 800 million bushes, a billion one year, I think. And so, very rapid growth.

What we've seen over the last year is much smaller growth levels, and projecting out over the next few years, essentially the constraints are the – as I say, we're currently in the 13.5 (billion), 14 billion gallon range. The renewable fuels standard caps the amount of corn-based ethanol that can be applied towards those standards at 15 billion gallons.

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So, the point is, is I think the ethanol – that the growth that we've seen is slowing, and in fact, because of the so-called blend wall – how much of the ethanol can go into the actual fuel supply – is roughly – I think most people feel we've pretty much at that level right now.

And Kim mentioned the fact that EPA has now allowed a move from 10 percent blends to 15 percent blends. The fact is – and still for cars that were made in 2001 or later, and the fact is there's still a lot of the fleet that's older than that, and I think 25 or 30 percent of the miles driven. And so, I don't see gas stations changing over. I just – I don't think that's going to – I think the constraint that is there because of the blend wall is roughly in that 14 billion gallon range.

That said, I think what – and so, my only point I want to make out of all of that is the rapid increase that we saw, now I think it's fairly gradual. It is a big component of the corn market, but it's not a hugely growing component, as it was five years ago or four years ago.

That said, because of the Band-Aids, because of the subsidies, and because of high energy prices, it's not very responsive to corn prices. So, you know, when you're talking about 35, 40 percent of the total demand for corn, and particularly in a low-inventory situation, if you have that big of the market not really responding to price, then obviously the price effects you're seeing are going to be larger.

And so, you know, that's one issue. But, you know, as proponents of ethanol will point out, you know, there is a byproduct that comes out of that. About a third of the corn comes back in a feed form of distiller's dry grains.

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So, again, on the feed side, the availabilities are there, at least for the time being, but the prices are quite high and stocks at historically low levels, at least as compared as a function of use. And, you know, I think this has created a lot of stress on the livestock industries.

MR. MARTIN: Yeah. I think the mandates are very problematic because they make – as Joe indicated, they make the market very, very inelastic, a market that's already suffering from being inelastic in supply and demand, and hence volatile in terms of prices.

One thing that could potentially help a lot would be to have some sort of circuit breaker that said once prices go above a certain level – I think Hafez has called this a cool option – that the grain or some of the grain is actually released for use in food markets.

MR. GHANEM: Yeah.

MR. MARTIN: That could really help.

MR. DADUSH: Hafez – I'll come back to you, Joe. Let me ask Hafez, so, is this why the now oil prices and food prices are so highly correlated? You know, this correlation is very dangerous for a lot of poor people, right? I mean, if the fuel and food moved in a different pattern, yeah, you know, poor people wouldn't have to worry so much.

[00:28:19]

But if both food and fuel go up together at the same time – and food and fuel are a huge part of the budget of poor people in different parts of the world – that's really a problem. Is this what's going on? Is biofuel the most important reason for this?

MR. GHANEM: That correlation between fuel and food prices has been there and has been strong for many, many years, even before biofuels. And if you look at any long-time series later, you'll see a strong, positive correlation between oil prices and food prices, for the reason because oil is an important input, energy is an important input in agricultural production, in fertilizers, and is also important for the transport costs.

And if you remember the last major – before 2000 and 2008, the major global food crisis was in 1974, when also oil was peaking. So that link has always been there. What we have seen in recent years is that this correlation has become stronger.

So I won't go so far as saying that this sort of correlation is only because of biofuels, but we have this correlation because of the production side. But now the biofuel production is also creating a demand-side correlation, if you wish.

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So, we see, over the last few years, that there is a much stronger correlation. And that means, yes, as we've seen before, that poor people get hit with a double whammy. Every time oil prices go up, food prices go up too, and their budgets are very stretched.

MR. DADUSH: Good.

Joe, do you want to –

MR. GLAUBER: Yeah, just two points.

One thing I think that shouldn't be overlooked is, regardless of what you feel about biofuel policies, the net result of it is a capacity has been built out there that is some 14 (billion), 15 billion gallon production capacity.

And a lot of analyses that have been done suggest that removing the subsidy, renewing – excuse me, removing the blender – the mandates, you're still going to have ethanol being produced because, one, oil prices – certainly at the sort of oil prices we've been seeing.

And so, I don't think that that's an easy remedy to say, oh, well, just remove those – well, in fact, if you look at the mandates right now, we're probably producing about a billion-and-a-half gallons more than what's mandated. And so, the mandates certainly aren't binding. So you could have a waiver and it still wouldn't have much effect.

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But the other point I would say is I think that in 2008, the correlation with energy – or oil prices and corn prices were probably a lot stronger, largely because the industry was expanding, and I think that you could – you know, almost every day when you'd see that increase in oil price, you know, there would be, you know, a very strong uptick in terms of the corn price as well.

That has slowed. Or I think the correlation is less so currently, largely because of this – or the fact that I mentioned we were close to this blend wall, but when you – you know, we're producing pretty much, what, you know, 13.5 (billion), 14 billion gallons.

I think, even with increased oil prices, because you can't put this ethanol anywhere else – and we have exported a little bit of it, but it – I just don't think that that correlation is quite as strong as it was.

MR. DADUSH: OK, good.

MR. MARTIN: So we really don't need the import duty on ethanol or the subsidies or the mandate.

MS. ELLIOTT: We might get a budget deal if we got rid of the subsidy. (Laughter.)

MR. GLAUBER: You're jumping to conclusions on my part there, Will.

[00:32:24]

I'm just saying, look, these things are, you know – all I'm saying is that it certainly would add more volatility to profits. And I suspect you wouldn't see quite the – you know, if oil prices were to fall, for example, dramatically, then in the absence of these other policies, then, yes, you'd see the ethanol production cut back. But I think with high oil prices, I think you would continue to see strong production.

MR. DADUSH: Let me start moving to the consequences of all this.

It seems to me, then, that different countries have very different regimes, very different trade regimes, very different domestic regimes in various ways. This rise in international prices, how has it been reflected around the world? Is it actually reflected in domestic prices?

I mean, I haven't noticed but, you know, I'm not a very good indicator. I haven't noticed big increases in prices in the United States. Maybe some people have. But how does it play out in different countries?

And also, since in different parts of the world different crops are used as staples – some parts of the world use rice, some parts use cassava, some parts use corn, wheat, et cetera – the impact is very different in different parts of the world.

So, who would like to take that, maybe Kim? Do you want to comment on how it's playing out?

[00:34:01]

MS. ELLIOTT: Well, let me just maybe say one thing on some good news out of this. You know, it's been mentioned how sharp the rise in rice prices was in 2007, 2008. And I think the silver lining – and one reason that the current crisis isn't as severe is about half of the billion people that are about to be hungry and malnourished are in Asia, and we have not seen rice prices spiking this time around the way we did before.

They have gone up some but much, much more modestly, and they are still well above where they were in the early 2000s. But we haven't seen the spikes, and so I think that's sort of a huge reason that the impact has not been as severe this time around.

And then maybe Will can comment on – I mean, his paper I think shows that – you know, the world prices, what we're seeing there, is not being passed through fully, and in a lot of countries not very much at all because so many countries do intervene in their food and agricultural markets.

[00:35:05]

MR. DADUSH: Good.

Will?

MR. MARTIN: Yeah, I think one important point here is the poor are excruciatingly vulnerable to increases in food prices. The poorest households spend so much of their income – 75, 80 percent – on staple foods.

You might think that most of the poor people are in rural areas, they're farmers, they benefit from higher prices, but in fact, most poor farmers in poor countries are actually net buyers of food. So, we have this terrible vulnerability problem.

We've had an increase in prices since last June. The prices really took off. They haven't gone up nearly as much, though, as they did in the last 2005, 2008 ramp up in prices. But they've started from a higher level, so food prices have ended up roughly where they were at the peak of 2008.

So, at the world level, this is really, really troubling. Now, individual country levels – as Kim said, rice is not – rice is the one with really perhaps the largest impacts. It hasn't gone up as much.

We've also had some very fortuitous things that have happened in some of the countries that are pretty insulated from world markets. You know, sorghum and maize prices in many African countries have actually come down. You know, in the Uganda, Malawi, Sudan, Mali, prices have come down of the key staples there.

[00:36:25]

So, in the work that we're doing with the Hassan Zaman from the Bank's PREM Network – Marius (ph) Irvanik (ph), who's here, and I have been working – we estimated that about 44 million people fell into extreme poverty, taking into account all of these impacts – the rising prices since June last year, the partial pass-through of those prices in many cases, and even reductions in some staples in some critical markets. But we still come up with that number, the 44 million people –

(Cross talk.)

MR. DADUSH: I'll come back to Hafez, but let me just clarify: When you say 44 million people went into poverty, how do you define that? Before this event they had incomes above $1.25 a day?

MR. MARTIN: $1.25 a day.

MR. DADUSH: Now they have incomes below $1.25. That's – they just crossed the threshold.

[00:37:19]

MR. MARTIN: That's right. And, actually, 68 million people crossed the threshold in one direction, moving into poverty, and 24 million people – people who are net sellers of food – actually managed to rise above –

MR. DADUSH: Oh, so they could use – the farmers – some farmers became richer –

MR. MARTIN: Yeah.

(Cross talk.)

MR. DADUSH: – less poor.

MR. MARTIN: Yes.

MR. DADUSH: I see. That's how you get the 44 million.

Hafez?

[00:37:41]

MR. GHANEM: Yeah, I would just make two points.

First, if you look at 2007, 2008, what we have seen is that some countries, the big countries of China, India, have been able largely to insulate their consumers from the world markets throughout most of the crisis, and you find very small price increases in those countries.

If you look at the smaller countries – the best example would be West African countries that are importing rice, they initially tried policies to insulate their consumers. So, you find the lag in the price increase, but then they quit and prices eventually increase to the full extent of the increase in the world price.

So there is – so, usually – I think I go back to the point that Joe was making about the height, that the smaller countries are more vulnerable and are less able to protect their consumers than the bigger – than the bigger ones.

[00:38:50]

The second point I want to make is that there is a big difference between what we are going through today and what we went through in 2007, 2008. I think both Kim and Will made the point that rice, which is a major – is the major source of calories for poor people around the world, has not increased much, and that is important.

Will also made the point that in many African countries, this year's output of – especially of corn, of maize, is very good. And so, there has been some good results on the domestic markets.

Overall, if you look at the price index, the food price index that we produce, the composition – although it is at the same level as 2008, even a little bit higher, but its composition, the composition of the increase is very different, where the big increases in prices are in sugar and oils, and then obviously corn and wheat, but to a lesser extent, whereas in 2007, 2008, the price increases were led by the cereals.

MR. GLAUBER: Yeah.

[00:40:06]

MR. GHANEM: This time around it is not led by the cereals. And therefore, the effect on the poor is quite different and less severe. I mean, last time around we had the same prices and we estimated – you guys –

(inaudible) – more than 100 million people went into poverty. We estimated 75 million people went into hunger – additional people became hungry, but now we have a lower number.

MR. DADUSH: So we have less people –

MR. GHANEM: Yes.

MR. DADUSH: – less people who went into poverty than in 2008, but we still have 44 million people that did.

Yes?

MR. GLAUBER: Let me just make one comment and just – I think the other thing to realize as far as developed countries are concerned, the impacts are quite small. We talk about these indices that IMF and FAO put out as food indices. For the U.S. they aren't food indices, they're raw commodity price indices.

[00:40:56]

I mean, if you look at the foreign value of food as part of the retail component of food, it's less than 20 percent. And in fact, energy alone is a big component in addition. So there's a lot of processing, marketing, transportation before it gets to the supermarket.

So, you know, we're seeing this enormous increase in prices for corn and soybeans and other products over the last several months. In fact, the inflation rate, as measured by BLS, I think was 2.8 percent for food at home this last – last month compared to a year ago.

For the year, we're currently projecting, for food at home, at 3.5 to 4.5 percent, which is to say that we're expecting food inflation here in the U.S. even to be going up. But you're not talking about – I mean, I think China currently is running around 11 percent. There's been food inflation for the last few months.

And there too they have a lot of process involved with their own food. You go to a less-developed country that's depending – highly dependent on imported wheat, for example. They obviously are seeing bigger increases, unless there are some government programs that end up reducing those costs.

[00:42:14]

MR. DADUSH: Well, I can see this as good news and bad news. It's good news of course that you don't feel it in the advanced countries, but it's bad news in the sense that the advanced countries are clearly very much a part of the problem through their biofuel policies and some of their trade policies.

But politically they're not feeling any need for change, and the big effect is on the most vulnerable in the developing countries. That strikes me as a very divisive situation.

MR. MARTIN: Not really. I think there is one thing that is good. Coming out of the Uruguay round, where there was a strong focus on reducing price insulation – we got rules, we got a ban on variable import levies – I mean, and that was a really egregious situation where some of the richest countries in the world insulated their import markets from changes in world prices, so they couldn't – they wouldn't perform any role in absorbing shocks to world markets.

[00:43:06]

So I think that was progress. We also got penalties, essentially, on the use of administered price support, rigid price supports essentially. That was counted against two of the pillars of the agriculture disciplines.

So, I think those things have come through with a lot more decoupling. There have been advances, especially in the industrial countries, in reform that do actually help, and that helps, importantly, in the wheat market where industrial countries count close to 30 percent of world consumption.

It doesn't help at all in the rice market where only 3 percent of world consumption is in the industrial countries. But that was the right direction for reform, I think.

MR. DADUSH: Let me ask this: What about the political implications and the – you know, in individual countries of all this? And some people have argued that the higher food prices and higher fuel prices, particularly in part due to the reduction of subsidies, were one of the reasons of the turmoil in the Middle East, in Tunisia and Egypt.

And, Hafez, since I recall you are from Egypt –

MR. GHANEM: You recalled. (Laughter.)

MR. DADUSH: – do you want to comment? Was this – has this been a major issue in the Middle East situation?

[00:44:35]

MR. GHANEM: Well, I cannot speak about the Middle East at large. I know the Egyptian situation much better.

Obviously economic – I mean, you cannot say that the economic factors did not play a role. Obviously economic factors are important, and especially the situation with youth unemployment I think is particularly important.

However, at least my reading of it is that the revolution in Egypt was basically for political demands, not economic demands. And if you look at what were the three major demands of the Egyptians, none of them is economic. It is liberty and freedom, justice and dignity.

So, the key demands and the key slogans of the revolution were more political then economic. The leaders of the revolution – the young leaders of the revolution, the Facebook group there, they're all from rather economically privileged groups. And they brought – I mean, they led others around.

[00:45:57]

So, I am not sure. I do not think – I think that obviously economic factors do play a role in those things, but I don't think that they have been the key.

MR. DADUSH: Let me ask anybody else on the panel – Kim, if you like – do you see any political repercussions in the countries that you follow, or indeed as far as the international relations are concerned, from these higher food prices?

MS. ELLIOTT: Well, I don't know. Again, I think I would probably tend to agree, from what I've seen with Hafez in terms of probably the stories about that playing a role in the Middle East have been overplayed.

I think one potential – again, trying to bring some optimism to this – a silver lining of having these two, you know, back to back price spikes in three years could be that it helps to undergird and to reinforce the commitments that have been made to invest more in agriculture and to try and deal with this problem in a more comprehensive and systematic way.

Always one of the problems when you have a crisis like we had in '07, '08 – and you have meetings and everybody gets together and says, yes, we're going to do more to help; this is not going to happen again, and quite frequently then we see those commitments sort of slowly being eroded and going by the wayside.

[00:47:17]

And of course that's even more likely in the current situation with the budget situation, not just in the U.S. but elsewhere. So I think one potential political implication could be that this really underscores the need to address the weaknesses in agriculture and food security and to really – and to maintain the commitment to addressing them. So –

MR. DADUSH: It certainly doesn't seem to have put any wind in the sails of the Doha process, as near as I can tell.

MS. ELLIOTT: It has not.

MR. DADUSH: Has it –

MS. ELLIOTT: It's not a miracle.

MR. DADUSH: No.

MR. MARTIN: And the Doha process is really not focused on this set of issues, by and large. I mean, there's really little focus on reducing insulation. There is a focus on getting rid of export –

MS. ELLIOTT: Subsidy.

MR. MARTIN: Yeah, export subsidies, which I think would be helpful but isn't the problem of the moment.

[00:48:07]

But, yeah, I think in the long term it's terribly important to invest more in R&D. There's a lot of uncertainty about the implications for yield growth. There are some indications of declining yields.

Some researchers, though, suggest that maybe total factor productivity is not declining, but we really – there are long lags in getting the benefits of R&D. We really need to invest in that. Historically the returns have been phenomenally high. It's fantastic for reducing poverty while bringing down food prices, or helping poor families.

So, that's really the long-term solution. The short term, really countries want to focus a lot on identifying who is going to be most hard hit and using safety net type policies rather than economy-wide policies that try to insulate the whole community from oil price changes.

MR. DADUSH: Good.

Hafez?

[00:49:04]

MR. GHANEM: Yeah, I mean, I agree 150 percent with all of Kim and Will on that point. But I wanted to add something. I mean investing in agriculture is extremely important, but also for the long run, and especially in R&D. You're absolutely right, Will.

But I think also getting our trade policies and getting the international markets to function properly is also extremely important for the long run. And not just in terms of providing the right incentives for farmers around the world, but also in providing food security, I mean, for different regions in the world.

When we do our long-term projections in FAO and we say, well, if you invest enough, we have enough resources to feed everybody in the world in 2050. We're talking about the global level. There are certain regions of the world who will not be able to feed themselves in 2050, regions with huge populations, South Asia as an example, the Middle East and North Africa as another example.

[00:50:04]

And unless the world market is functioning properly, those regions will not be able to assure the food security in the long run. And that's why the issues that you were raising on export restrictions, on export subsidies, on import tariffs and so on become extremely important. And we do need an agreement in the Doha round as a first step towards truly free and open trade that can help ensure food security.

MR. DADUSH: Let me take you back from 2050 for a moment and focus on the next year and the next five years. What is the view of the panel on food prices over the next year and over the next five years? Do you see the current situation continuing? Do you see the prices going up, coming down? Anybody want to take it? Joe, you –

MR. GLAUBER: Yeah, sure.

MR. DADUSH: – you do this for the U.S. government, so tell us, yeah.

[00:51:12]

MR. GLAUBER: Well, I think there's no question that this next year we're looking at very, very tight markets, I think. As I mentioned earlier, the seed grain market, you know, the corn market, the other feeds, are at historically tight levels.

And I think all of the – all of the fundamentals that we see in the market right now are expected to continue next year or so, even with – and certainly the intentions that we just saw in our reports last week were U.S. producers are planning to plant more corn.

That will help, but it's still going to take a lot of production to sort of rebuild stock levels. And I don't think that's going to happen over one year or two years. I think that's going to happen over, you know, the next few years.

Over the longer run – and I might add, the oilseed market, which we haven't talked much about, is also very, very tight, and that's – you know, China – 60 percent of all the soybeans that are exported in the world go to China. It's been very strong – 4 percent growth per annum for years.

And that stretches long before China became a big importer of soybeans. I mean, it's just – it's been a very big growth market. And it has tended to outstrip supply, even with big – it looks like a record crop in Brazil this year for soybeans – we're still in a tight situation.

[00:52:34]

Over the next five years, as I mentioned, I think the demand for biofuels is not going to be growing, at least in the U.S., like what we saw over the last five years. And I think, you know, our modest assumptions on yield growth for corn at some 1 percent per year, you will see a rebuilding again, barring weather shocks.

And I think that's – you know, getting back to some of the first questions that you asked, the problem with – you know, if I look at the current market, if you saw, well, what's the – if you were to finger, well, what's the cause?

Well, the cause, you know, is we did have a big drop in corn production last year, a 6-percent drop, and with these – in a situation where there's very few stocks to buffer those effects, and you have a very highly inelastic demand, you see the big price impacts.

And I think until we get those productivity gains – and that, again, over the long run, barring any weather shortfall, we should see some rebuilding in stocks for the next five years. I think Hafez's issue about going to 2050 is a very different story.

[00:53:42]

MR. DADUSH: Yes, I'll come to Kim.

Hafez, did you want to say anything else on the projections?

MR. GHANEM: No, I agree. I mean, we have the same projections. If you're looking at the next year, obviously we are still – we will still be in a very tight market. We expect the prices to be very volatile.

And if – and we're still not out of the woods in terms of the possibility of getting us into a serious crisis if there is another weather shock. If we have a big drop in output in one of the major exporting countries, we can very well find ourselves in a serious crisis situation, or at least much higher prices.

Over the medium term we expect that the prices will come down from their current spike, but that they will remain higher than before, that because of the fundamentals that we discussed when we started about the demand and supply, there will still be more demand.

[00:54:49]

MR. DADUSH: Kim?

MS. ELLIOTT: Yeah, I just wanted to add one other point that we haven't talked too much about, but that's climate change, and that most of the models project – there's a lot of uncertainty about specifics but that more severity in weather, more severe events in weather are likely to be one consequence of climate change, but suggests that we're going to be dealing with more and potentially more severe volatility from weather events due to climate change.

And so I just wanted to reinforce the point that Will made about trying to both build, strengthen and expand safety nets as a better mechanism for dealing with that volatility than most of the policies – trade policies, generalized subsidies, generalized tax cuts that help the rich as well as the poor are very inefficient, very costly responses to these kind of shocks.

And so, if we're going to be seeing more of them, we really need to think about how do we do safety nets better, have them keyed to, you know, maybe increasing the shocks on a more or less automatic basis. How do you fund those things?

And we have a lot of experience now with, I think – they need to be targeted, again, so that they're cost effective. And we have a lot of experience now with the cash transfers. We have biometric and other technology – the phone, banking – ways of delivering these things that are both safer in terms of being corrupted and also, you know, less costly to actually do.

[00:56:17]

So I think that's a set of issues that needs – it's very much in my mind – it gets talked about sort of separately coming out of the financial and global economic crisis, but I think also keyed to – for the poorest countries, again, food being a really important part of both their budgets and a potentially increasing source of shocks that we need to think about making sure those safety nets are tied to food prices.

MR. DADUSH: Last week we had – I'll come back to you – last week we had an event on oil prices and Middle East turmoil. One of the conclusions of that event was that, you know, the Middle East turmoil isn't just a three-month thing.

This is going to be a generator – a source of uncertainty, hopefully big change in the region, I hope, but also a big source of uncertainty for many years to come. And this, in turn, may spell volatility of oil prices. If we have volatility of oil prices, we're also going to have volatility of food prices, correct? Yeah.

[00:57:26]

I want to – I want to now close the panel, the actual formal discussion, by asking the panelists, if they were to point to one or two things that they would like to see in terms of policy change. One is preferable. If you need to go to two – don't go to three.

One or two things that you would like policymakers to do to actually, you know, alleviate this problem because what I'm hearing from the panel is this problem is going to be with us for some years to come. It's not just now. It's going to be with us. What are the things that – one or two things that policymakers can do?

Will, did you want to say anything before that?

MR. MARTIN: I just wanted to say the period out to 2050 –

MR. DADUSH: Yeah.

MR. MARTIN: – that we talked about is a really, really interesting period because the first – this is the first time since Thomas Malthus that it's looked as though the world population is actually going to peak somewhere rather than to just continue rising exponentially.

But there's going to be still a big increase in population, and we're going to get a lot of urbanization, which is going to pull people out of working in agriculture, and we're going to get, we hope, some upgrading of diets in poor countries, and that combination is going to mean relatively rapidly rising demand for food, which means that a critical thing, especially with the hazards of climate change out there, is improving R&D.

[00:59:08]

I think that's the policy – long-term focusing on that issue, and we're starting to get a focus on investing in agriculture, although what I worry is that we may actually end up using it on, you know, things that are perhaps branded as smart subsidies but maybe not terribly smart, that with R&D, the historical record suggests we get about $10 back for every dollar invested. There are not many investments that are as good as that anywhere.

And especially that's an investment that kind of actually will be distributionally very favorable by lowering the costs of living to poor consumers and raising the incomes of poor farmers.

So, I guess it's my earlier point but also gets onto the one thing that I think we should focus on most of all, is making sure that we get really good research and development – focus on research and development for agricultural commodities going forward. That's the most important thing long term.

[01:00:11]

MR. DADUSH: Good. Thank you.

Joe?

MR. GLAUBER: Well, I would certainly second that. And I would agree with, you know, I think, improving trade rules. I think that's –

MR. DADUSH: Trade rules?

MR. GLAUBER: Trade rules, yeah.

MR. DADUSH: Yeah.

MR. GLAUBER: I think that may have failed in my tenure as a trade negotiator, but it wasn't for the lack of trying. (Laughter.) I think all of us see the benefits of, you know, lower – you know, strict disciplines on domestic support and hopefully elimination ultimately of that, lowering of tariffs, et cetera.

MR. GLAUBER: Good, so R&D, trade rules.

[01:00:52]

MR. MARTIN: Well, the one thing that I think is most important right now is for the developing country governments to seriously reallocate resources to agriculture. R&D is part of it, but in Africa we need a lot of investment in irrigation, we need a lot of investment in storage to avoid post-harvest losses. We need a lot of investment in roads to link farmers to markets.

So it is really this reprioritization of agriculture by the developing countries, and I think it's important for – because we need more supply but it's also important because most of the poor people – and as Will pointed out maybe an hour ago also – most of the hungry people actually in the world live in rural areas, and their livelihood depends on agriculture.

So, by increasing their productivity, you're also increasing – improving their income. So, you're improving availability of food as well as access to it by the poor.

MR. DADUSH: Thank you. Kim?

[01:01:59]

MS. ELLIOTT: Well, let me just endorse all three of those, which I completely agree with, and maybe just add one that hasn't been mentioned but that kind of goes with the conditional cash transfers in terms of adding resilience to dealing with the shocks, which is reforming food aid, particularly in the United States where it's still mostly in kind, shipped on U.S. ships, and hugely inefficient, and bought on spot markets so that a dollar goes less far in a crisis than any other time.

And just along with that, then also reforming the way the World Food Programme buys food, which is also mostly on spot markets. And they could do – they could use some of the financial instruments that help to mitigate that risk and have their dollar stretch much further.

MR. DADUSH: Very good.

I'll turn it over to you. Any comments, questions you want to ask? And please introduce yourselves, recognize yourselves, your affiliation as you ask your question. I'll start with the lady up front here.

Q: I'm Fran Smith with the Competitive Enterprise Institute. And recently the Government Accountability Office came out with a study that showed that getting rid of everything but the mandate in support for ethanol would really not do anything to the farmers and the producers, et cetera, et cetera. They would be fine because the mandate would be still in place.

[01:03:32]

So – yet any attempts to get rid of the volumetric tax credit seems to get hit with politicians saying, no way are we going to do that. Right now there's a major effort by food aid groups, by a coalition of left and right policy groups, by the food industry – I think about 60, 70 of them or more – groups like Oxfam, et cetera, my group, others – have endorsed a repeal of the ethanol tax credit.

And my question is, do you see – those of you who observe the U.S. scene – see any indications that that would be a possibility with the budget being so important, with the farm bill coming up? Do you see any hopes for success of that?

MR. GLAUBER: Well, I think almost every, you know, news item on the budget has talked about, you know, potential cuts. The VEETC has been part of that. People have been – and even the ethanol industry has – I mean, a lot are considering ways of either eliminating the VEETC or at least tying it to some oil price or something like that that wouldn't be paying out in certain cases.

So, I think the reality of what happens to the VEETC long run I think is – I think that's a very different debate than you might have had two years or three years ago. I think people see that as ultimately going away.

[01:05:24]

The question is, what does it become? Does it get put into budget savings? Does it get put into other expenditures? And I think that will be the – and how rapidly that happens. And I think certainly the ethanol industry would argue that that needs to take place over a little bit of transition time, but I think that generally –

You know, this industry has been built and it – you know, five years ago it didn't – we were very small, or we saw a very small industry. And it's been essentially built and has operated, you know, at pretty much full capacity since then. I think that, long run, I think people see that as going away.

And of course it has been extended year to year. This isn't a program that's been on, you know, for 10 years. This is always a year-to-year debate, and I think you see a lot more voices now calling for elimination or at least some changes to it.

[01:06:21]

MS. ELLIOTT: Could I add one cautionary note –

MR. DADUSH: Yes.

MS. ELLIOTT: – that I hope your coalition is keeping an eye out for and looking for. Some of the proposals have been to shift some or all of that subsidy into infrastructure, which then loosens this cap that Joe talked about in terms of what's possible to do in terms of blending, in terms of using the gasoline.

So that would be the absolute worst thing that could happen is to get rid of the current subsidy but then put it into something that builds up the infrastructure and locks us even more into using corn-based ethanol, which I think that would be the very worst outcome you could get. So, hopefully that's not where we're going.

[01:06:58]

MR. DADUSH: Yes, the gentleman here at the front.

Q: Raphael Della Ratta, Partnership for Global Security. I wanted to get the panel's views on another kind of shock that wasn't addressed in the discussion to this point, and that's agricultural bioterrorism. And what – of the various organizations you all represent, how are you pursuing the kind of safety nets that would be needed to both prevent, respond and address those kinds of shocks to the global population?

MR. DADUSH: Agricultural bioterrorism?

Q: Yes, sir.

MR. DADUSH: Do we know anything? Yeah. (Laughter.)

MR. GLAUBER: Don't take my raising my hand as I know anything about this. (Chuckles.)

It clearly is an issue that we – you know, USDA and Homeland Security, et cetera, you know, have been – those efforts have been underway for a long time but certainly post-9/11 that's been seen as a potential threat.

[01:08:00]

There are, you know, a lot of – if you look at the regulatory agencies at USDA, like the Animal, Plant Health Inspection Service, others, you know, a component of their budget deals with these issues. And, you know, I think that that is seen – you know, thrown into this mix.

Yes, of course in tight situations it would exacerbate it even more, but I think it's consistently being viewed as a threat and has been – a lot of attention has been given to it.

MR. DADUSH: Yes, the gentleman there in the middle. Yes, please.

Q: Hi. Bill Grant from Development Alternatives. I'd like to come back to the question of the people being pushed into poverty and the people coming out of poverty. I mean, obviously as prices go up, producers get better prices.

And I would like to know, on the calculation of the 24 million that you calculate came out, what was that comprised of? How much of it was producers directly versus the supporting services and other actors that would benefit from, you know, the improved production prices that, you know, would have been driving increased investment by those producers?

[01:09:21]

MR. MARTIN: Sure. Great question. What we've done in this current round of work is just to focus on the individual situation of the households, what they buy and what they sell. So it's very much a direct impact.

In the 2008 piece, we took into account those indirect linkages that work through – their main effect on poor households tends to work through the impacts on wages – wages of unskilled labor, because that's one of the other things that very poor households sell, as well as food.

And so, we got a slightly – that reduced the – you know, the number thrown into poverty down to 100 million because we took that factor into account. This time, the run up has been so rapid between June and

December last year, we figure there are some delays in the process of that transmission. Martin Ravallion found some years ago in Bangladesh it took a year or two for the wage impacts to get through.

So, we've only done – to answer your question very succinctly – just the net buyer, net seller status. We haven't taken long-term – we have taken into account the fact that over some time farmers will increase their output.

[01:10:42]

We have done that in other work, and it doesn't seem to reverse the picture. Still, very high food prices seem to raise poverty – not as much in the long term but they do seem to raise them generally in the long term in poor countries.

MR. DADUSH: Right there at the back, whoever is waving that pad there. Yeah. Reward entrepreneurship.

Q: Now you're talking, Uri.

MR. DADUSH: Yes.

Q: Thank you.

Robert Sherratta. I'm president of International Investor. I appreciate the discussion. It's been informative, but the one omission that I wish we could hear more about would be the role of the financial futures.

[01:11:20]

Someone made the remark about 2008 and said that there was no significant change in terms of production. And then he went on to say that perhaps policies – agricultural policies – were the cause of this.

That wasn't the case. I mean, that was really about in 2008. We saw long futures overwhelm short futures on some of these commodities by three to one on average, and it went to nine to one in some cases.

The commercial banks – remember, this is just before the crisis really unfolded. The commercial banks and investment banks were doing 70 percent of their financial business by lending to hedge funds and other funds who are active participants in this. There is where your largest cause was of these price run ups.

[01:12:09]

Now, we quickly jump several years hence. We've got some new regulations in place, but by and large, we haven't seen any fundamental change. In fact, let me just outline a couple of things very quickly why you're going to see this problem continue, and maybe even become more exacerbated.

Futures markets are actually expanding around the world again, and the banks and other institutions are finding their way back in. It's just too profitable a business for them to run away from.

Secondly, you've got organizations like World Bank, IFC actually promoting some of the very private equity funds that are also participating in this, making both direct and indirect futures-related purchases of land, livestock, and of course many of these food stocks. So, we're going to see a continuation of this.

[01:13:03]

And finally, last but not least, it's encouraging to hear that we might see some production increases of as much as 1 percent in some of these food stocks, but I heard no mention of an average population gain of 3 percent.

So that's a losing proposition no matter how we look at this issue in the future. We're going to see population continue to overwhelm production gains. Thank you.

MR. DADUSH: Thank you. Will, why is the World Bank promoting financial speculation that hurts poor people? (Laughter.)

MR. MARTIN: I thought you were going to ask whether I'd stopped beating my wife. (Laughter.)

[01:13:47]

But a really interesting set of questions there. I think on the financial futures, I think really there's a lot of work out there now on that. And Scott Irwin has a really interesting paper, "Applied Economic Perspectives and Policy."

I think amongst economists the consensus is much, much more nuanced. I mean, most of the increase in investment, which is not coming from the World Bank, you know, is in long futures where people are looking for an exposure to the market.

That can only – that sort of investment can only raise spot prices if it raises stocks. And it started in the early 2000s. If it had successfully raised stocks, I think it would have been a savior for us in 2008. Unfortunately it didn't raise stocks, and we had perilously low stocks.

And we also had – you know, there were other sort of question marks on the model of futures markets causing these price increases, when it was rice that really caught on fire in 2008, and there's just no financial futures activity – no futures market on which to speculate.

[01:15:02]

So, the World Bank, in promoting private funds, investing in land – I think the land question is a very interesting one. We have a very, very detailed report on rising global interest in farmland that's recently come out, a project headed by Klaus Deininger. I think there are a lot of very interesting things, say, that focus – a key focus – our key focus is on making sure that the rights of poor people are protected in that kind of – in that kind of process.

MR. DADUSH: Good. Hafez, do you want to add here?

MR. GHANEM: Yeah, I mean, there is no doubt that we need better regulation of futures markets and that there hasn't been a lot of deregulation over the last 20 years or so and we need a better regulation of that.

[01:15:57]

Having said that, you also do not want to throw away the baby with the bathwater. Futures markets play an important role in terms of helping with dealing with risk and in terms of price discovery and the provision of liquidity. So we want to balance that, the right amount of regulation rather than just saying all futures markets are bad, speculation is bad.

And I also want to support the point that Will made on – if you look at the price spikes that we have gone through, they have all started with changes in market fundamentals. The increase in wheat prices that we saw this summer started first with the drought in Russia, then a Russian export ban.

It might have been – it probably has been magnified by speculation on what will all happen next. However, the futures markets did not create the problem.

MR. DADUSH: Yeah. Joe, do you want to add anything on the futures?

MR. GLAUBER: Yeah, I would certainly agree with both of these guys that – you know, you look at cash and futures. If they move fairly close – we haven't seen the big divergence that you might expect in a speculative – something caused by speculation.

[01:17:27]

I think if you look – I would agree wholeheartedly with Hafez. I think if you look at the fundamentals, I think our own projections, you know, which are updated monthly, would show when we've seen shocks to supply. Immediately our analysts reflect that in their projections.

So I think – and in fact, when the markets broke in mid-summer, 2008, you could point to a lot of factors like a much better-looking corn crop than what we had thought the month previous to that, the fact that we had a world record wheat crop that came on board that year.

I mean, there's a lot of fundamentals in that market and – and the irony – or I guess Will mentioned rice. There is a rice market. I think if we only had more speculation in that market, more speculative interest, it might be a more functional market. I mean –

MR. DADUSH: From the perspective here in the United States, futures markets play an important role in these – in somehow ensuring the security of the market, in your view.

MR. GLAUBER: Right, and I would also say – I mean, I would echo what Hafez has said about – there's certainly concern about it and I don't – you know, we have legislation that is being implemented at the moment, but, you know, the last thing you want to do is choke off speculation in these markets because, you know, they're a very big part of the market.

[01:18:54]

MR. GLAUBER: OK, our panel really likes futures markets – (laughter) – in case that was not clear.

The lady there with the – in the middle, yeah. Over there, yeah.

Q: Hi, I'm Robin Maximil (ph) with the Economics Bureau at the U.S. State Department. And I wanted to thank everybody for an excellent discussion. I just wanted to add a couple of comments I hope are a little bit more good news.

As Joe said or implied, in the U.S. government we are committed to helping with the problem of food security. And so we're doing a lot more than growing wheat and corn. We're also – part of the donors' process that's trying to really concentrate on the long term issues of investing in agriculture and addressing nutrition.

[01:19:56]

And so we're continuing with that Feed the Future program, which is part of the Global Hunger and Food Security Initiative as much as we can, full steam ahead. And the good news there is that there's a real consensus, I think, around the world in governments, NGOs, developing countries, developed countries on what needs to be done to address the issues. And people are really working together on that.

[01:20:20]

I also want to mention that the Food and Agriculture Organization is holding a series of regional conferences around the world – and it started in Bangkok, and right before the earthquake in Japan – where they're getting governments and other stakeholders together to talk about how to best manage high prices.

And I went to the Bangkok conference, and it was really excellent. And I understand the others that have followed it are doing a good job, too. Governments are coming and really talking about these same issues, avoiding the pernicious export bans and other types of measures that – policies that really exacerbate price hikes, looking at targeted safety nets, looking at the long-term issues. So I really want to commend the FAO for that, and mention that.

[01:21:16]

And finally, the third point I wanted to make is that I think one of the impacts we're seeing in terms of impacts on the poor, really, is for those countries that are dependent on wheat exports or flour for their staples. And that, again, shows the impact of – one big contributor to that is the export bans that have been put in place by a couple of big producers of wheat. So I think that we're seeing a lot of learning from 2007, 2008. And it's a good thing.

MR. DADUSH: Thank you. The lady here at the front? Yes.

[01:22:00]

Q: Yeah, Janet Ranganathan, the World Resources Institute. I wanted to just propose maybe two more variables that might be affecting price, and get your reactions to whether you think they may become significant, as well as throw in a potential solution that hasn't been discussed.

So on the threat side, one is just the general, broad issue of global ecosystem degradation, thinking about the Millennium Ecosystem Assessment. And those ecosystem services ultimately underpin agriculture, and which actually agriculture is mostly degraded. Whether, in fact, there is a time lag between some of those impacts and the impacts on food production, are we reaching some kind of ecological thresholds?

And then, the second one is the issue of RAD and carbon sequestration, reduced emissions, deforestation and degradation, which potentially, if successful, could be seen as another potential risk to food prices in that it keeps agriculture out of the forests.

On the solution side, we haven't seen or heard anything about the issue of food wastage. Some of the research I've seen from the U.K. and others suggest it may be as high as 30 or even 50 percent, with the problem being mainly about post-harvest in developing countries, and post-purchase in developed nations. Seems to me that that's kind of a win-win-win from the GHG, the water, the land, the energy, and just money wasted down the tubes. So any thoughts on that? Thank you.

[01:23:23]

MR. DADUSH: Well, those are three big topics. Hafez?

MR. GHANEM: Yeah. I think that the point on dealing with wastage is extremely important. I mean, according to our estimates in developing countries, post-harvest losses are around 40 percent, which is huge. It is huge. And the kinds of investments that you need in order to avoid or reduce those post-harvest losses are not colossal. I mean, you need just good warehousing facilities at the village levels and better transport facilities to avoid those post-harvest losses.

So I think you're absolutely right. The issue is not just to produce more, but to – we need to make sure that what is produced is not wasted. And that is a very important part of any solution.

I wanted also to just comment on how are we going to get the increase in food production. According to our work and the kinds of modeling and projections that we do, all of the increase, 90 percent of the increase in food production, comes from better technologies from better use of existing land – what we call sustainable intensification, and not through expansion of arable land.

[01:25:03]

And again, there is a lot of evidence that we still have a big – a lot – that we still have huge possibilities in this area. If we can deal with what we call the yield gaps, which is the difference between the existing yields, actual yields that we observe in countries, in developing countries, and potential yields with better use of even existing technologies, not to mention new and better technologies.

Now, the issue of sustainability certification is important. And I stress on the word "sustainable" because the solution is not just to throw chemicals on it, but there are many different ways of increasing yields, or protecting and respecting the environment with existing technologies, with our – with the knowledge that we have even today.

[01:26:10]

MR. DADUSH: Good. Yes, I think it's – yes?

Q: David Orden from the International Food Policy Research Institute. Well, first of all, I wanted to join others in thanking the panel for a really excellent and wide-ranging discussion. At first, I was skeptical about a casual conversation, but an awful lot of really good points were made, and a lot of good points were made in the comments from the audience as well, and the discussion of those.

So I somewhat hesitantly at this late date want to put one more thing on the table for just a little bit of discussion because I think, you know, a panel like this, it's worth keeping an eye on it: And that's sort of the macroeconomic dimension.

[01:26:45]

And that has two dimensions to it. First of all, Joe and Will, at least you would be familiar with Phil Abbott's work at Purdue University, the award-winning report he wrote for the Farm Foundation which laid some of the cause of the rising prices in 2007 and '08 on a weak dollar, weak U.S. dollar. We saw that dollar-denominated prices were going up. That was an – that, and trade barriers, were the two main factors he identified exactly.

So there is that aspect of what kind of inflationary environment we might be in in the future, which could affect commodity prices across the board. And then, there' s the other side of that, which is, what about commodity prices, in fact, as a stimulus of inflation? We haven't had the kind of vicious cycle that we had in the '70s now of that – (inaudible) – inflation occurring, and then a stagflation taking place.

[01:27:35]

We are also very early, I think, actually, in the world economy working its way out of the events that have happened since 2007. So there's a lot of macroeconomic dynamics yet to come, and I think they're going to have an interplay with the commodity markets that really hasn't been discussed quite enough here today.

MR. DADUSH: Thank you. So contribution of the low dollar, or high dollar or low dollar, to prices, and also the effect of prices on the inflationary environment. Any views? Yeah.

MR. GHANEM: Well, I'm not sure I'm able to fully answer the question, but just – provide two pieces of information. In our econometric report at FAO trying to understand the price volatility, exchange-rate volatility comes in as a very important and significant variable. So you're absolutely right that there is, if you use exchange rate as a proxy for macroeconomic volatility, there is certainly this relationship between what's happening on the macroeconomy and what's happening to commodity prices.

[01:28:51]

The other piece of information, and the other point I want to make, is that actually if you look at what we call the food price index of FAO right now, it is at the highest level ever since we started collecting this data, which was in 1990. But that is true if you look at it in nominal terms as well as in real terms. We deflated using the MUV, the manufactures' unit value index, and so we do get – so we're not just talking about nominal spikes here. We're also talking about real spikes.

For many countries, especially for developing countries – I think it's probably not true for OECD countries – where the food is a big part of the CPI basket, then we get that vicious circle where at least measured inflation also increases tremendously as a result of the food-price increases.

MR. DADUSH: And there's very little evidence to date of the higher food prices and the higher fuel prices feeding into what's called core inflation. So you know, the underlying rate of inflation in the economy and the underlying rate of wage increases so far has not reflected the price hike in fuel and food.

[01:30:26]

MR. MARTIN: Although I think in some developing countries, the situation is – (inaudible, cross talk).

MR. DADUSH: Yes. Yeah. Absolutely: distinguishing between the developing and the advanced countries, as Hafez said, because of the much bigger share in the index that these commodities represent in the developing countries.

Yes, the gentleman there.

Q: Hi. My name is Dan Easton (sp). I'm a student at Johns Hopkins. My question is about food supply. This panel has mentioned that there is enough food supply to feed the whole world. And I've heard that other places before as well. I'm just wondering about a little more detail into that statistic because I haven't seen it before.

I was just wondering, one, does that take into account the food waste? Are we seeing that the food waste that was brought up earlier is incorporated into the food supply? And I ask that just because it may be cheap to save that food, but I don't know how easy it is to actually change habits. And two, what level of food consumption are we talking about? Are we talking about, there's enough calories if everyone eats rice, corn and wheat? Or are we talking about eating like an American, with the very diet we have in terms of fruit, vegetables, large calorie intake and meat consumption? Thank you.

[01:31:40]

MR. GHANEM: That's a very good question, actually.

MR. DADUSH: That means he knows the answer. (Laughter.)

MR. GHANEM: I don't. (Chuckles.) That is not true; I don't know the answers. (Chuckles.)

[01:31:57]

Because when we say that the food supply this year, that food supply is not a major issue, what we're really saying is that when you look at production this year, plus the starting stocks, starting inventories, they're enough to cover demand – observed demand.

Now, is that – we, as economists, we know that we look at demand as effective demand, which is very different from what is needed. So it – so you are absolutely right to raise this issue because with today's food supplies, we have around slightly more than 900 million people who are consuming less calories than what they need to lead a healthy life, and nearly 2 billion people who are malnourished, who are consuming enough calories but not getting enough of the minerals and vitamins and so on that are needed to be healthy, especially for the children.

[01:33:18]

So I think it is a very important issue. Now, we have a double problem. So we have in many countries where the problem is undernourishment, and we have other countries where the problem is overnourishment. So we have countries where people's weight relative to their height is too low, and other places where weight relative to height is too high.

So that is why I'm saying it's a good question. It raises many other questions and many issues. What we see even in many developing countries today is that we have two groups of people. I mean, you look at India for example, you have parts of the population that are suffering from all the modern food-related diseases like diabetes, obesity and so on, while a large number of the population is undernourished. So those are all – so that is an issue of – an issue of distributionals and access to the right food and consumption habits that needs to be looked at.

MR. MARTIN: And that means that when we're working on these issues, we need to focus on those access issues typically, rather than the availability. I mean, availability comes into play only to the extent that if it – if there's a lack of availability or slow productivity growth, and it raises food prices, then some people will actually find themselves unable to access that food. You know, their real incomes will fall to the point where they can't access the food they need.

[01:35:05]

But thinking about people's access to the food and the quality of the food they get is central rather than just the total quantity available.

MR. DADUSH: We have time for one more question, I think, if there is one. I can see a hand right there at the back.

Q: Jessica Mathews at the Carnegie Endowment. I was a little – left a little bit hanging by the answers on the financial futures markets. It seemed as though, kind of, the median answer was, yes, we need better regulation, but don't throw out the baby with the bath water.

But I wonder whether somebody might try to bring a little more specificity to the "yes" part of that, the better regulation, but I also wonder whether what's happened to cotton prices sheds any light, or if any of you can shed any light on whether there is a connection between the gigantic increases in cotton prices over the past year or eight months, whether there's any indication that it comes from speculation or from acreage competition with the ethanol market, or what it comes from, or whether it sheds any light on whether we just have such a globalized marketplace now that any shortage leads to these hugely magnified increases.

[01:36:37]

MR. DADUSH: Joe?

MR. GLAUBER: Well, let me – cotton is a good example because certainly, in 2008, a lot of – we had a big runup in cotton prices of February of 2008, and then a big crash before we saw the general fall in commodity prices elsewhere. And at that time, I think that there was a lot of scrutiny given to the role that speculators may have played in that market. It was a very short period of time where we saw this big movement.

And in fact, I think it's generally well-known that one of the major cotton companies at the time went under because of loss, and the loss they suffered because of the rapid change in positions.

[01:37:24]

2011, I think, is a very different story. We have – effectively, the U.S. cotton crop was entirely placed before harvest. I mean, it was – we've had very, very strong demand. I think the last four, five – I think something like five of the last six years, consumption has outstripped demand globally. We've seen a rapid drawdown of cotton stocks, you know, the one exception being – well, even in 2009, in the recession.

And cotton, unlike other agricultural commodities, is very much tied to the global economy. I mean, you can – you know, when you get a loss in income, you stop buying apparel and things like that, whereas with food you still have to eat. You may change what you eat, but you have to – you have to eat.

Cotton did see a drop in consumption that year, but then it rebounded dramatically the next year. And you know, as a consequence, we've had very low cotton stocks, yet still a booming textile industry largely overseas, largely in China that, you know, is making apparel that's being shipped all over the world. And I think there you really have seen just a tight market and strong fundamentals.

[01:38:45]

Back in 2008, cash prices didn't move with futures. Now, they were lockstep with futures. And I think that cotton really did – I think the world, frankly, came very close to running out of cotton in a situation that was very much akin to what we saw in some of the harder – the spring weeks in the U.S. in 2008 where there was just very little stocks available by the end of the 2007-2008 marketing year.

And I think that what we're seeing right now is, I think, most of the world is expecting a very big rebound in cotton production – which is, the nice thing about high prices is that it does tend to encourage producers around the world to grow cotton. And so I think that we're seeing some lessening – we'll see a lessening, I think, over the next year. But there's just no question that this is about as tight a market as anyone can remember in cotton.

[01:39:42]

MR. DADUSH: Very good. I'm sorry. I have to end it there, but let me just by way of very brief summary say that the panel, I think, concurs that this problem is with us, of high and volatile food prices, for some years to come. Volatility could even get worse under a number of scenarios.

And I think the other message to take home is that while there are some very important traditional remedies to the situation that were being put forward by the panel – the importance of R&D, the importance of investment in agriculture – it is striking how much governments can do in this area if they wanted to.

[01:40:33]

We talked about trade policy, the liberalization and the changes in trade policy that are needed. We talked about changes in biofuel policies, and we talked about the potential for conditional cash transfers as a way of mitigating the effects of high food prices on the poor. So this is an area where policy really can do a lot if the political will exists.

[01:41:04]

With that, I want to thank on your behalf the panel. I think they have done a tremendous job. And I expected that, frankly, given the weight and experience that is with us today. Thank you. (Applause.) Thank you for coming.

(END)