



Why are food prices rising?

Anyone who shops knows the cost of food is on the rise. Our grocery bills rise because the prices of key staple crops such as corn, soybeans, wheat and rice – which form the basis of our diet – are on an upward trend that shows no sign of abating.

The problem began in earnest four years ago, when prices suddenly rose to a sharp peak in 2008, then fell slightly only to rise again to yet higher levels in 2011. In 2008, more than 100 million people joined the ranks of the hungry (30 million of them in Africa), largely due to a tripling in rice prices in a matter of weeks. The total number of chronically undernourished people topped one billion for the first time in history.¹

When food suddenly costs more, those who can least afford it get hit hardest. On average, Canadians spend 10 to 15 percent of their income on food. However, people living in poverty spend 50 percent and the poorest as much as 75 percent of their income on food. When prices mushroom, these people must do without, and it is women who most frequently eat last and least.²

Why is this happening?

The first underlying cause is the rise in oil prices, because food grown on large-scale corporate farms is mechanically harvested and processed, then transported over large distances, and thus requires lots of fuel. In addition, industrial farming relies heavily on fertilizers and pesticides made from oil.³ Oil prices are rising because easily accessible petroleum is now scarce, and we rely increasingly on oil that must be extracted from rock or sand in a costly process.

A second major cause is also linked to fuel. To feed our growing demand, crops that once were used for food are now used to make what is known as “biofuel,” primarily ethanol and biodiesel. A full 40 percent of the corn crop in the United States, and a similar percentage in Canada, now ends up in cars instead of

¹ FAO (2009), “The State of Food Insecurity in the World”

² Poor countries that depend on food imports also suffer disproportionately. Their food import bills more than doubled between 2006 and 2008. FAO (2008), “Crop Prospect and Food Situation”.

³ Oil prices are rising because easy-to-access oil is now growing scarce, and extracting oil from new sources – like Alberta’s oilsands – is extremely expensive.

stomachs.⁴ Wheat and canola are also diverted to manufacture biodiesel. As soy farmers switch to corn to take advantage of the ethanol boom, the price of soybeans rises as well.

A third cause is climate change. Droughts, floods and storms have played havoc with harvests over the past few years, and climate scientists predict the problem is only going to get worse. Wheat prices began to spike in August 2010 after a severe drought hit Russia and the Ukraine, and wildfires struck Australia, all of which are major wheat producers.

A fourth possible cause, around which the experts do not agree, came as a result of the financial crisis that swept the world beginning in 2008. Large-scale investors, anxiously seeking havens for their money, turned to commodities futures markets⁵ because the rising price of food seemed to make it a safe bet. Many economists believe the influx of billions of dollars from pension funds and hedge funds into commodity index funds drove food prices higher.⁶ Commodity markets are now a component of most institutional investors' portfolios.

The fifth key factor is the way some governments responded to rising food prices. More than 30 food-exporting countries imposed export bans in 2008, fearing food shortages at home and the political instability that might follow. Such bans reduce supply to the world market and drive the price for importing countries even higher. Russia did this most recently when wheat prices rose sharply in 2010.

Will prices rise even higher?

There are worrying signs that prices will continue to climb unless government intervene. First, the demand for food around the world continues to rise with economic and population growth. The new middle classes of emerging countries like China and India are joining North America and Europe's habits of bloated consumption and waste of food. The World Bank predicts that on current trends overall food production may have to rise by as much as 70 percent in the next 30 years to keep pace with demand.⁷

At the same time, climate change and other environmental degradation are making it harder to produce more food. The gains achieved by the Green Revolution (hybrid seeds, irrigation, fertilizer and pesticide use) since the 1970s seem to have petered out. For all grains and oilseeds, global consumption outstripped production for seven of the eight years between 2001 and 2008.

Related water scarcity places further limits on food production. Saudi Arabia's wheat crop has fallen by more than two thirds since 2007 due to the exhaustion of underground aquifers. Land too is becoming scarce: the share of the world's arable land devoted to agriculture has peaked and is now shrinking.⁸ The

⁴ The numbers for Canada are not confirmed, because in 2009 when the biofuels boom began Statistics Canada stopped accounting for the industrial use of food crops and instead combined food and industrial uses in one statistic.

⁵ The exchanges where grain traders buy and sell future options on shipments of crops such as corn, wheat, and soybeans

⁶ Global investment in such funds rocketed from \$13 billion in 2003 to \$317 billion in 2008. F. Kaufman (2010) "The Food Bubble: How Wall Street starved millions and got away with it," *Harper's Magazine*, July 23, 2010.

⁷ FAO (2009) "How to Feed the World in 2050"

⁸ World Bank data bank, "Arable Land (Hectares per Person)" <http://is.gd/P5cylT>

rising price of food and the financial crisis have also led to a mad corporate scramble to buy up agricultural lands in poor countries; some 80 million hectares have been bought since 2000, the vast majority after 2007.⁹

What can be done about it?

First of all, Oxfam believes that all donor countries should invest much more of their aid in support of small-scale, resilient and sustainable agriculture, which is less dependent on fossil fuels and has the greatest potential to raise food production. The share of foreign aid devoted to agriculture fell steadily from 1990 until 2009, and still constitutes less than seven percent of all aid. In 2009, CIDA spent 17 percent of its aid on agriculture.

The lion's share of public investment goes to large industrial farms in wealthy countries – more than \$250 billion a year in Canada, the US, Europe and Japan,¹⁰ equivalent to 79 times the value of their aid to agriculture in poor countries.¹¹

Meanwhile, the world's 500 million small farmers – who support one third of humanity – work largely without public support for markets, land, finance, infrastructure or technology.¹² In 2003, African governments promised to invest 10 percent of their budgets in agriculture by 2008, but only eight have done so.¹³

Canada is responding to this need. In 2008, Canada markedly increased aid to agriculture, which now constitutes 17 percent of CIDA's spending, and declared its intention to focus aid on smallholders, especially women. Canada is also much more modest in its domestic farm subsidies, having spent \$1.25 billion in 2009, about twice the amount of aid to agriculture.¹⁴

Second, all major food exporters should commit to refrain from restricting exports in times of shortages, because these may undermine the right to food and long-term development prospects. The Canadian government has spoken strongly against export restrictions.

Third, Canada, the United States and Europe should stop throwing biofuel on the fire: requirements for minimum ethanol content in gasoline or biodiesel in diesel must end; and subsidies or tax-breaks to the biofuel industry must be oriented toward technologies that do not use food for fuel.

Both provincial and federal governments in Canada provide subsidies to the biofuels industry that add up to billions annually. Canada requires that all gasoline contain at least five percent ethanol; a 2 percent biodiesel content in diesel is to come into effect this summer.

⁹ International Land Coalition, "Commercial Pressure on Land, Monitoring Land Transactions." Sixty percent of them have been in Africa.

¹⁰ OECD Producer Support Estimates – 2009

¹¹ OECD ODA for agriculture in 2006 was \$3.2bn.

¹² International Fund for Agricultural Development (IFAD), "Food prices: smallholder farmers can be part of the solution" <http://www.ifad.org/operations/food/farmer.htm>

¹³ To date, Burkina Faso, Ethiopia, Ghana, Guinea, Malawi, Mali, Niger and Senegal have reached the target.

¹⁴ OECD Producer Support Estimates – 2009; Report to Parliament on The Government of Canada's Official Development Assistance 2009-2010

Fourth, countries with major financial centres (United States, UK, Germany, and Canada) should agree to improve transparency in commodity markets and establish regulations that rein in excessive speculation, such as price limits and position limits, so that commodity futures markets can play their proper role without being hijacked by hot money.¹⁵ Pension funds should voluntarily limit the amount of money they invest in commodity markets. Canada has to date opposed any new regulation of commodity markets.

Finally, governments should better prepare to address food emergencies by sharing information on the actual and forecasted status of food stocks, by providing safety nets to people who cannot produce or buy enough food, and by scaling up community-based, national and regional food reserves. Canada has spoken in favour of greater transparency, but is wary of food reserves fearing they may be used to manipulate international market prices.

Governments have an opportunity to do something about this dire situation this year. The food crisis is high on the agenda for the 2011 G20 summit, which France will chair and will be held in November, providing a good focus for citizens to exert pressure.

¹⁵ A price limit is the maximum amount by which prices on an exchange are permitted to rise or fall in one day before trading is suspended; the daily limit is measured from the previous day's settlement price. Position limits in futures and options trading refer to the maximum number of contracts that an individual or a group of individuals working together may hold.