



By

Sean Callahan, Executive Vice President, Overseas Operations

Of

CATHOLIC RELIEF SERVICES

Response to the Chairman's Question

Before

THE HOUSE AGRICULTURE COMMITTEE

**SUBCOMMITTEE ON SPECIALTY CROPS, RURAL DEVELOPMENT,
AND FOREIGN AGRICULTURE**

Mike McIntyre, North Carolina, Chairman

on

July 16, 2008

CRS Expectations about the Global Food Crisis Next Year

Summary: Encouraging signs indicate that the rapid, upward trend in food prices is abating. However, major multilateral organizations and think tanks point out that this is a long-term crisis.

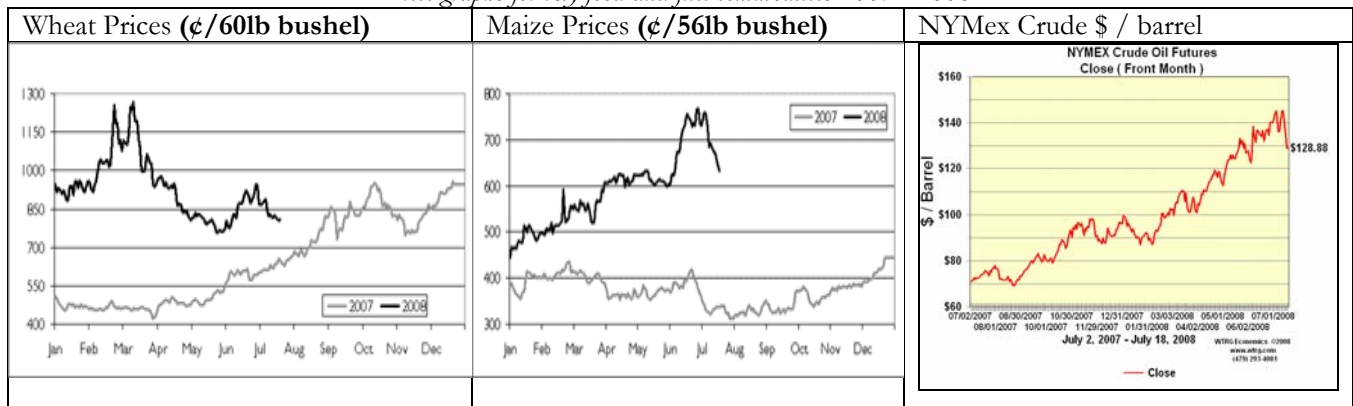
- Vulnerable countries and volatile markets need to be monitored closely, and the US response needs to be expanded geographically and even modified to better address the needs on the ground. The real danger in this situation is the prospect of high fuel and food prices putting extreme pressure on societies already vulnerable to political or environmental shocks.
- Countries hardest hit will be food and fuel importing nations with low per capita incomes. Slowing food price increases, or even a leveling off, will not be enough to overcome the extreme vulnerability throughout much of the developing world.
- Congress should continue leadership that it has shown in the Trade Title of the 2008 Farm Bill and the FY2008-2009 Supplemental Appropriations bill.
- CRS has outlined additional steps in this prospective review for consideration by the House Agriculture Committee. In particular, CRS urges Congress to conduct both oversight hearings and overseas fact-finding trips.

Expected Short-term Trends: The current global food crisis stems from increased costs in the commodity, fuel, and credit markets. A critical factor in this ongoing crisis is the ability of countries to buffer the most negative economic effects as they arise. While OECD countries are tightening their belts, developing economies have less room for maneuver, and the most vulnerable countries have virtually no flexibility to handle severe economic stress and hunger.

The course of the global food crisis over the next 6-12 months will depend upon the political will of all nations to employ real remedies for the causes of food insecurity. Evidence of economic resilience in major economies, greater global political stability, downward pressure on oil prices, and resolution of international financial turbulence would all help maintain food price stability. Given this long list of contributing factors, food prices do appear to be stabilizing at significantly higher levels than in 2006. See charts below.

Although strong wheat production has led to falling prices, maize sells at double the previous levels and rice prices remain historically high. Poor harvests, climate change, low grain stocks, and increased demand for animal protein and bio-fuels all contribute to the continuation of high commodity prices. Record prices for energy and fertilizer, both key inputs to global agriculture prices also exacerbate the food price crisis. Current threats to oil production from hurricanes, insecurity in Nigeria, and uncertainty about Iranian policy hold prices at record levels.

Price graphs for key food and fuel commodities 2007 - 2008



Scenario's over the next 6-12 months: In Africa, secondary shocks are developing in the Horn for Africa with poor harvests resulting from drought. Zimbabwe's ongoing political instability reinforces the food crisis. In the Caribbean, Haiti is undergoing a series of problems caused by both drought and political unrest. In South Asia, the success of Pakistan's political transition remains in doubt, causing particular uncertainty about food security in the most economically-vulnerable areas. In all of these

cases, the double-jeopardy effects of high food and fuel costs, plus additional political shocks make poor populations extremely vulnerable.

The Multilateral Assistance Outlook: The World Bank has launched a special request for Ethiopia at \$200 Million, but even if successful, this approach cannot be easily replicated for all the other countries. In an alternative approach the World Bank is calling for a “Global vulnerability fund” to provide a new channel for investment in crisis areas, but there is little new money to fund this idea. Agencies such as World Food Program are looking to the Middle East for new funds and the Saudi Government has given \$500 million to date. Other UN Agencies are also undergoing planning efforts, but how these will be manifested and at what funding levels remain unclear. Unfortunately, many other donors are only seeking to reshuffle existing development aid rather than adding new resources to keep pace with rising food insecurity.

Recommendations: What we see in our field programs across the developing world is that the current food aid structure lacks certain provisions to maximize the already generous resources provided by the American people. The following list of recommendations for the Sub-Committee provides steps to address both short and long-term aspects of the crisis.

- *Feeding the poorest of the poor* -- Establish a global social safety net program to be administered by FFP with approximately \$50 million per year of Title II resources. The multi-year unconditional social safety net programs would target people most vulnerable to food insecurity. In addition to the current food aid programming objectives, these safety net resources would be used to preserve the human dignity of the most vulnerable and expand outreach to the most vulnerable, those who suffer from the most severe forms of chronic hunger. These same people are currently victims of geography, as they are outside of the Food for Peace’s regular programs.
- *Providing PVOs more resources to complement Title II food aid* -- Establish a cash pipeline for FFP (outside of PL 480, Section 202e) to use in both emergency and development programs (this would be either through funding authorized by the Foreign Affairs Committee, the Agriculture Committee or both). The funds would be made available from outside current PL 480 legislation but would be used by Food for Peace to supplement food aid resources. Such cash resources would tackle hunger more broadly than the current resources allow, by employing voucher programs and agriculture development activities, which require more appropriated funding than allowed under Title II.
- *The widespread suffering in the current crisis points to a complex of food security factors:*
 - (1) availability of food (including food aid) and
 - (2) access to and affordability for vulnerable populations (targeted food vouchers), as well as
 - (3) boosting agricultural production (through input vouchers).Such effective interventions apply across the range of countries suffering from this crisis. Providing more commodity food aid is clearly not enough. Food for Peace needs to build a more flexible and comprehensive response to world hunger.
- *Creating a Mechanism for Government to Government Technical Assistance on Agricultural Policy* -- Amend the Farm Bill to provide Government to Government technical assistance on agricultural policy by creating a mechanism for USDA representatives (and US Land Grant partners when appropriate) to provide short and long-term technical assistance to developing country governments suffering from the food crisis. Areas of assistance could include specific areas as follows:
 - Creating or strengthening government social safety net programs, using experts from US Government WIC, food stamp and school feeding programs.
 - Land tenure structures to allow owners of farms large and small to enjoy free-title to their land and enter into the formal agricultural economy.
 - Strengthening farm credit systems through technical expertise from the US Farm Credit Administration to establish or strengthen legal environments for agricultural credit as well as assistance to improve the ability of nations to carry out agricultural credit programs that reach farmers and agribusinesses of all income levels.

- Research and extension technical assistance through the USDA Agricultural Research Service, the cooperative State research, Education, and Extension Service as well as US Land Grant partners to help countries build or strengthen national research and extension structures.
- *Monitoring Title II Safe box Programs* – Provide oversight to Food for Peace as it carries out expanded development food aid programs as a result of new provisions called for in the current Farm Bill. Currently, Food for Peace operates development food aid programs in about 18 countries, while the World Food Program and the World Bank estimate that countries hit especially hard by this long-term price crisis number over 30. Both need to coordinate on how to achieve food aid effectiveness. The Agriculture committee can provide crucial oversight to this process.
- *Supporting House efforts to increase investment in agricultural production, agro-enterprise, market infrastructure* -- In addition to the suggestions for expanded authority and funding for Food for Peace, members should support expanded appropriations for USAID/EGAT to increase funding for interventions that will expand global food availability and decrease the vulnerability of the poorest producers and most vulnerable urban populations.

The matrix below offers a birds-eye view of possible trends and responses in the next year,

Scenarios	Outcomes	Interventions
The current situation is one of high fuel and food prices, leading to increased vulnerability, especially in net importing countries with large low income populations.	<ul style="list-style-type: none"> • Declining urban poor purchasing power • Food reductions in rural areas • Reduced ability of Governments to support vulnerable communities • Reduced demand for fuel and oil based products 	<ul style="list-style-type: none"> • Food transfers to most vulnerable urban groups • Input support to farmers • Link production to markets • Use local procurement methods to meet urban and rural needs • Improve market information systems
Hopeful: In 6 months time lowering fuel prices and increasing global production will led to falling fuel and food prices.	<ul style="list-style-type: none"> • Stabilizing commodity prices • Fuel costs fall to below \$100 / barrel levels • Food prices begin to fall 	<ul style="list-style-type: none"> • Food transfers to most vulnerable urban groups • Input support to farmers • Monitor markets
Less Hopeful: In 6 months time with continued high fuel and food prices, many Governments will be unable to continue subsidies to fuel and food or support to vulnerable populations.	<ul style="list-style-type: none"> • Continued pressure on food prices, combined with hungry periods, requires increased levels of intervention in affected countries 	<ul style="list-style-type: none"> • Food transfers via food vouchers for urban and rural poor to access food • Rural farmers to access inputs to boost production • Voucher based local procurement to buy initial increase in production to avoid production losses