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A Viable U.S. Response to the Food and Energy Crises: Finding Sustainable and Balanced Solutions

By R. Dennis Olson

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From the natural gas for manufacturing synthetic fertilizers to the intensive energy for food processing and commodity shipping, rising food prices have recently exposed the unwise dependency of our industrial food system on fossil fuel inputs. The inevitable rise in oil prices—caused by growing global competition for dwindling oil reserves—is now upon us. And the folly of linking the price of our food to the price of oil, especially in a radically deregulated environment, threatens people's access to food—not just in poor countries around the world, but also here at home.

In the United States, growing ethanol demand temporarily fueled higher prices for corn. In response, farmers planted more acreage into corn to keep up with demand. This in turn reduced the acreage planted to other crops like soybeans and wheat, thus restricting their supply and raising their prices as well. In the U.S., the impact of these higher crop prices is over-hyped by the meatpacking industry and industrial food processors, but it may be having some affect on food costs. However, now that commodity prices have fallen again, will the food processors and retailers pass those savings on to consumers? If not, then a stronger argument can be made that highly concentrated agriculture and food markets, as well as unregulated speculation, are more important factors in higher food prices than previously thought.

On the other hand, in the developing world the drive to produce biofuels for export is encouraging an expansion of plantation monocropping of sugar, soybeans and palm oil that threatens rainforests and other sensitive lands. Biofuels are also competing with local food crops for arable land. The expansion of biofuel crops in the developing world to satisfy the energy demand of the industrial world threatens to undermine food security in several regions.

Despite the promise of the Green Revolution to curtail hunger, the current food crisis is a stark reminder of the everyday reality for many people around the world. Hunger did not simply appear on the world stage in 2007; it has been with us all along. The United Nations Food and Agriculture Organization recently estimated that rising food prices have plunged an additional 75 million people below the hunger threshold, bringing the estimated number of undernourished people worldwide to 923 million in 2007; that's up from 842 million in the early 1990s.[1]

While the recent increase in demand for biofuels has been a catalyst for exposing the underlying fault lines of our deregulated industrial food system, it is important to acknowledge that increased biofuel production is only one of several factors that have combined to create what is now commonly referred to as the "food crisis"; arguably, it is not the most important one. If we are to develop sound and effective solutions to the food crisis, other factors must be acknowledged and addressed.

For example, the push to expand agricultural markets and deregulate trade through agreements like the North American Free Trade Agreement (NAFTA) and the Central American Free Trade Agreement (CAFTA), as well as at the World Trade Organization (WTO), has supported "just in time" delivery of agricultural commodities. The unprecedented success of deregulation advocates in dismantling publicly owned grain reserves, along with other associated inventory management mechanisms, has resulted in dangerously low stocks that make our food system vulnerable to inevitable market shocks, whether caused by natural or human-made disasters.

Until recently, the deregulation of the 1996 Farm Bill had unleashed overproduction that drove down the price of feed crops like corn and soybeans to 20-25 percent below the cost of production. According to a 2007 Tufts University study, this below-cost feed provided a $35 billion indirect subsidy to industrial animal factories, giving such facilities an unfair advantage over independent livestock producers who must pay the full cost of production for their feed when they grow it on their own land, whether it be pasture, grains or oilseed crops.[2] Unable to compete with animal factories on cost, independent farmers liquidated their on-farm livestock herds, plowed up their pastures, and planted even more corn and soybeans, which drove prices down even further. This dramatic expansion of industrial meat production has in effect shifted livestock from independent, diversified family farms to concentrated industrial-scale animal factories that depend on industrial monoculture feed crops—primarily corn and soybeans. This indirect subsidy has been a major driver of unprecedented corporate concentration in livestock markets, helping to create an industrial-scale meatpacking industry that exploits farmers, workers, animals, communities and the environment. The system of industrial meat production has now gone global, and ever longer supply chains are increasing the risk to people's health from food contamination.

For decades, regulators have allowed transnational agribusinesses to keep increasing amounts of crucial market information secret under "business confidentiality" clauses, opaque forward contracts and strategic corporate alliances. The lack of prudent regulation has eroded price transparency and suppressed price discovery. Agribusinesses use these tactics to restrict or deny market access to independent farmers and smaller companies, and to manipulate prices unfairly. This level of corporate concentration and control has become so high that even the Bush administration—not known for its enthusiasm for antitrust enforcement—has recently challenged a pending takeover of National Beef, one of the top five U.S. beef packers, by JBS Brazil, the largest beef packer in the world.[3] The USDA estimates that the top four beef packing companies currently slaughter 80 percent of U.S. cattle. If the JBS Brazil merger goes through, the top three beef packers would slaughter *91 percent*.[4]

More recently, growing speculation by non-commercial investors in agricultural commodity futures markets has increased price volatility far beyond traditional factors, such as supply, demand and market responses to weather events. Futures contracts are an agreement to buy or sell a commodity at an agreed upon price for delivery at a future date. For many grain elevators that traditionally spread their risk through buying futures contracts, this extreme volatility has made the futures market too risky to use. As elevators lose their ability to hedge risk, they can no longer risk buying farmers' crops in advance through forward contracts. This disrupts farmers' cash flow and limits their farm management options, thereby threatening productive capacity. Transparent and daily reporting of forward contracts, as well as of cash sales, enables the price discovery necessary for a fair market for all participants. But the futures market has now been severely impaired by an unprecedented volume of purely speculative money—a direct result of a series of deregulatory measures passed by Congress.

For example, Michael Masters, a seasoned futures trader, recently testified to the U.S. Congress that "today, Index speculators are pouring billions of dollars into the commodities futures markets, speculating that commodity prices will increase.... Assets allocated to commodity index trading strategies have risen from $13 billion at the end of 2003 to $260 billion as of March 2008, and the prices of the 25 commodities that compose these indices have risen by an average of 183% in those five years!"[5] Clearly, increased speculation in commodity futures markets has played a major role in raising food prices.

The resulting market volatility in both the food and energy sectors has its origins in the deregulation of commodity derivatives trading, particularly in energy, that resulted in the deceptive accounting and trading practices of Enron and other energy companies in the 1990s. Those scandals exposed how unscrupulous speculators were allowed to manipulate electricity markets at the expense of consumers, pension holders and stockholders. Energy trading deregulation provides us important lessons for developing an effective response to the food crisis. The difference is that if we fail to get it right this time, the damage could be even worse, because it is now our food supply that is vulnerable to the still existing "Enron Loophole" in the commodity futures trading rules.

Another important factor in price rises has been the agricultural trade deregulation of the last several decades, which has sacrificed the food self-sufficiency of all countries to varying degrees. Import dependency presents the greatest danger to the food security for developing countries. Advocates of industrial agriculture and trade deregulation have pressured developing countries to displace domestic food production with imports. As then-U.S. Agriculture Secretary John Block put it in 1986, "The idea that developing countries should feed themselves is an anachronism from a bygone era. They could better ensure their food security by relying on U.S. agricultural products, which are available in most cases at lower cost."[6]

The fallacy of this stubborn, dogmatic thinking has now become painfully obvious. Many net food-importing countries have been growing non-food cash crops for sale to the industrial world instead of bolstering their capacity to cultivate their own domestic staple food supplies. Dozens of countries face food riots because of the higher cost of imported food, while the intentional undermining of indigenous food production threatens to plunge tens of millions more people into hunger, malnutrition and starvation. Given the magnitude of this new threat to our food supply, it is imperative that people work together in good faith, both at home and abroad, to glean the lessons learned from the abysmal failure of market deregulation, while developing sound short- and long-term solutions to the food crisis.

We must challenge those who say developing countries should sacrifice their food self-sufficiency in favor of the dubious promise of prosperity through biofuel exports designed to meet the insatiable energy demands of developed countries like the United States, as well as growing demand from newly emerging economies like China and India. Building and expanding a global biofuel market is especially dangerous when developed countries have yet to demonstrate a serious commitment to reducing their own energy consumption through conservation, alternative energy promotion and lowering the transportation system's reliance on unsustainable fossil fuels.

In our attempt to develop a united response to the food crisis, civil society and policymakers must categorically reject the call for an expansion of the same failed policies that have brought us to this point in the first place. We must challenge those who claim that solutions to the food and energy crises can be sought only within the narrow and inadequate parameters of the unsustainable expansion and intensification of industrial agriculture, and even deeper agricultural trade deregulation.

There is some good news. Earlier this year, more than 400 researchers in the International Assessment of Agricultural Knowledge, Science and Technology for Development (IAASTD) issued policy recommendations for addressing the food crisis and climate change. On April 12, 57 of 60 participating governments approved the IAASTD "Summary for Decision-Makers." The recommendations focused on an investment in small-scale agriculture, and expansion of low-input farming that makes greater use of traditional knowledge. The IAASTD concludes that the world must radically change the way it grows and markets food to better serve the poor and hungry, to cope with a growing population and worsening climate change, and to avoid social breakdown and environmental collapse.[7]

The lessons from the IAASTD report are not limited to feeding the poor and helping developing countries achieve more food self-sufficiency. They also are applicable in developed countries like the United States, where inequality continues to grow, hunger is increasing at an alarming rate, and new approaches to ensure more sustainable agricultural production and fairer food distribution are urgently needed.

Last July, over 50 people representing dozens of U.S. organizations and many varied constituencies met to forge a progressive response to the growing food crisis. This meeting resulted in the formation of the U.S. Food Crisis Working Group, which has developed a Call to Action that outlines specific first steps toward addressing the food crisis in an effective manner. The Call to Action was released on October 16—World Food Day—and offers viable alternatives to the failed policies of the past. Find out about specific actions you can take to help, including signing the Call to Action, at: www.usfoodcrisisgroup.org.

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Notes

[1]FAO Newsroom, “Hunger on the rise: Soaring prices add 75 million people to global hunger rolls,” 2008, http://www.fao.org/newsroom/en/news/2008/1000923/ (accessed October 17, 2008).

[2]Elanor Stamer and Timothy Wise, *Feeding at the Trough: Industrial Livestock Firms Save $35 Billion from Low Feed Prices*, (Medford, MA: Global Development and Environment Institute, Tufts University, 2007).

[3]U.S. Department of Justice, *Justice Department Files Lawsuit to Stop JBS S.A. from Acquiring National Beef Packing Co.--Deal Would Combine Two of Top Four U.S. Beef Packers Resulting in Higher Beef Prices for Consumers*, Press Release, Washington, D.C., 2008, http://www.usdoj.gov/opa/pr/2008/October/08-at-936.html (accessed October 24, 2008).

[4]R-CALF USA Factsheet, *Myths Versus Facts Surrounding Proposed JBS Mergers*, 2008, http://www.ellinghuysen.com/news/articles/75287.shtml (accessed October 24, 2008).

[5]Senate Committee on Homeland Security and Governmental Affairs, *Testimony of Michael W. Masters, Managing Member/Portfolio Manager, Masters Capital Management, LLC*, May 20, 2008, http://hsgac.senate.gov/public/_files/052008Masters.pdf (accessed October 17, 2008).

[6]Waldon Bello, "Destroying African Agriculture," *Foreign Policy in Focus*, June 3, 2008, http://www.fpif.org/fpiftxt/5271 (accessed October 17, 2008).

[7]International Assessment of Agricultural Knowledge Science and Technology for Development, *Executive Summary of the Synthesis Report*, 2008, http://www.agassessment.org/docs/SR_Exec_Sum_280508_English.pdf (accessed October 24, 2008).