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The G-20 and Food Security: What Is the Right Agenda?

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Food security issues have been on the G-20 agenda in one form or another since 2009, yet without a consistent focus. The group's first step was to add its support for the G-8's L'Aquila Declaration, which committed G-8 governments to spend $22 billion in development assistance for food security over three years. At the November 2010 G-20 summit in Seoul, food security was one of the nine pillars of the group's Development Action Plan, while a year later in Cannes, the focus fell on commodity-price volatility—an issue that was troubling transnational food processors, net-food importing countries, and consumers around the world. As an input, the G-20 asked a group of ten international agencies to produce a comprehensive report and set of policy recommendations for the consideration of agriculture ministers in the run-up to Cannes. The 2012 Mexican summit hosts put the focus on investment in small-scale agriculture.

This year's G-20 chair, Russia, is not planning a meeting of agriculture ministers, preferring to keep peripheral matters on the back burner in favor of a narrow focus on the group's core missions of economic growth and financial stability. With Australia hosting the group in 2014, though, the traditional prominence of agriculture in that country's economy and foreign policy could prompt a significant push next year. Either way, officials involved in the G-20 summit process generally view food security as an issue ripe for cooperation and well matched to the group's strengths.

All of which raises the question of the optimal role for the G-20 on this complex and multilevel policy sphere. Food security is first and foremost a national issue. Inasmuch as it is also a matter for international diplomacy, governments recently have reinvigorated the UN Committee on World Food Security (CFS) and given it a mandate as the premier coordinator of food security.[1]

The G-20 has indeed acknowledged both of these authorities (national sovereignty and the coordinating function of the CFS) in its statements and communiqués. What role, then, does that leave for the G-20?

As in the global economy more broadly, G-20 countries collectively carry a great deal of weight on food issues. The G-20 members are the dominant suppliers of food commodities for international markets and the dominant de facto regulators of those markets, with some help from the World Trade Organization (WTO). The G-20 members are home to roughly half the world's population who are food insecure, and the prevalence of industrial agriculture in G-20 countries also makes them significant contributors to agriculture-related greenhouse gas emissions. Consequently, G-20 nations could pursue an interesting and important agenda on food security that would benefit international markets and countries that depend upon them. There are numerous ways they could help: by reforming certain problematic domestic policies (for instance, the minimum-use biofuels mandates of the European Union [EU] and the United States); by accepting greater transparency and predictability in the level and use of grain stocks; by accepting disciplines on the use of export restrictions and working with net-food importing developing countries to restore their confidence in international trade; and by improving the regulation of speculation and increasing transparency on commodity-futures markets; by making significant progress toward shifting their agricultural production systems toward less-polluting models. The common thread for these issues is a connection to trade and the functioning of markets, which lie within the G-20's area of comparative advantage in the multilateral system.

The G-20 identified much of this agenda in 2011. Confusingly, however, in 2012 the group retreated to issues in which, relative to other venues, it has less to offer: knowledge sharing, investments in small-holder agriculture, and other measures intended to raise agricultural output rather than better manage distribution. The unique leverage of the G-20 is its ability to spur reforms that can have positive externalities for international markets and all the countries that depend on them. While the G-20 must avoid encroaching on other pertinent intergovernmental processes that give all countries a voice, it could make a significant contribution to building trust by reforming those aspects of the market that lie within the members' jurisdiction.[2]

This brief reviews the short history of G-20 engagement in food security against the backdrop of policy responses since the 2007–08 crisis of dramatic price spikes in international food commodity markets. The brief also offers recommendations for action in the G-20. The brief argues the G-20 could help make international markets more robust, more sensitive to the food security concerns of net-food importing countries, and less prone to harmful disruptions or spillovers through better coordination of national policies. These issues represent a significant opportunity for G-20 leaders to boost food security globally. They should take it.

Food Crises in the 21st Century

Price shocks in agricultural commodity markets are hardly a novel phenomenon. Supplies get disrupted for many reasons: floods, drought, a plague of locusts, an outbreak of wheat rust, or a war. Over the course of human history, most people's consumption has hovered so close to subsistence levels that a single lost harvest meant hunger, while two or more caused famine and death.

What is new in the last 50 years is the long-term decline in world food prices as agricultural production outpaced population growth. Aside from price shocks such as in 1972–73, this steady, decades-long decline in prices has persisted so long as to be taken for granted, at least in rich industrialized countries. Yet since 2007, food security analysts have pointed to at least three factors that cast doubt over continued structural surpluses and the resulting declines in real prices.

First, declining returns to productivity suggest that the kinds of gains that have been achieved since World War II are unlikely to continue. New technologies, particularly genetic engineering, are transforming the sector, but not—not yet, perhaps—increasing yields.

Second, climate change is affecting production, and its impact is widely expected to grow dramatically in the future. Agriculture not only bears the brunt of climate change but serves as a big contributor to the problem as well. And beyond climate change are many other—often linked—causes of ecosystem disruption: loss of biological and genetic diversity, diminishing freshwater supplies, and soil erosion.

Third, energy markets have become ever-more closely entwined with agricultural markets, altering the way they function. Biofuels not only put agricultural products to use as energy rather than food, they subject the products to energy market forces. New financial instruments such as commodity index funds that link mineral and agricultural commodities reinforce the connection. Energy markets dwarf agricultural commodity markets and have historically been much more volatile; therefore the tighter the link between the two, the greater the likelihood of agricultural commodity price volatility.

These are some of the reasons that some analysts argue the 2007–08 food price crisis was not a one-off event, but the culmination of a series of trends that have changed food systems permanently. The price spikes of 2010–11 and 2012 tend to confirm this view.

The dimensions of the 2007–08 crisis to which the G-20 brings the most additional value are the policy mechanisms that mediate between supply and demand—in the areas of trade, stocks, and commodity and currency exchanges. The lasting harm from the food price crisis was a deep loss of confidence in international markets, prompting many food-importing countries to shift to food security strategies that are more expensive and less effective. As both the biggest sellers and buyers on the market, G-20 members have the leverage to begin restoring that lost confidence. They also have a strong interest in doing so.

The G-20 is trying to define its role on these issues after a decade in which the food security agenda itself has undergone significant evolution, causing a shift in the prevailing understanding of the problem and thus what kinds of action are most constructive. The food security agenda through the 1980s and 1990s focused on extending international markets to all corners of the globe to link developing countries where domestic food supplies had been unreliable with relatively stable (and often cheaper) production available internationally. As a result, developing-country reliance on international markets for food grew steadily. Given that international markets were promoted as dependable sources of supply, it is easy to see why the 2007–08 price spike caused a crisis of confidence. To begin with, international trade makes up a small fraction of total production: just 7 percent in the case of rice, and about 17 percent of total wheat produced. Production in one area can make up for shortfalls in another—the way Brazil's bumper maize crop in 2012 helped counterbalance the US drought, which had sent prices spiking. But the system is not as broad or deep as is usually assumed. Production for international grain markets is heavily concentrated in a few large exporting countries. For instance, eight countries account for 84 percent of all wheat exports, while maize is still more concentrated by country of origin.

Two further points on the evolving food security agenda should be highlighted. First, although policymakers still emphasize calories available per capita as a key food security metric, appreciation for two other variables is growing: access (often translating as affordability) and utilization (the necessary accompaniments to a healthy diet, such as water and sanitation). While boosting productivity remains important in particular regions such as sub-Saharan Africa, more-than-adequate global food production nonetheless failed to eradicate hunger. The issue of access—especially in globalized markets where food, feed, and fuel are all in competition for the land, water and infrastructure—presents new and difficult challenges as well as opportunities.

Second, the food price crisis brought the politics of food security to the fore—with all the weight the word "security" suggests. Governments are not rational economic agents in the face of food shortages (real or perceived). They tend to panic, sometimes to the point of self-destructiveness, and in globalized markets their actions can harm other countries. Thus, policy recommendations must be suited to these political realities, forgoing textbook ideal economic outcomes for workable, second-best solutions while still supporting and strengthening markets.

What Role for the G-20?

Using the statistical measures linking G-20 nations to the problem of hunger, the case for a G-20 role seems obvious. Despite their wealth, these countries are home to roughly half of all those living in chronic hunger. When you include European countries represented at the G-20 by the EU, the group accounts for 65 percent of all agricultural land, 77 percent of global cereal production, and 80 percent of world trade in agricultural products.

But is the weight of these numbers reason enough for a G-20 food security agenda? Surely this forum cannot be expected to tackle every major world problem. G-20-watchers Barry Carin and David Shorr have proposed a set of filters for any item on the group's agenda. Their criteria focus on avoiding duplication and working from a clear and explicit "change theory" detailing how progress on an issue can be achieved.[3]

The agriculture agenda is promising on these grounds, though it still needs to be more sharply defined. There are also several limiting factors. First, food security is above all a matter for domestic policy, as the G-20 itself noted in 2011. Second, like many issues on the G-20 agenda, much of the multilateral food security agenda is dealt with in other venues. Importantly, and as the G-20 has formally acknowledged, the CFS has the mandate to co-ordinate food security initiatives from within the UN system. This mandate cannot succeed if the G-20 tries to subvert or bypass the CFS for its own purposes. In recent years, the G-20 has been somewhat careless in allowing its food security agenda to creep into both arenas.

Nonetheless, there is room for the G-20 to make an important difference. International markets are more closely linked to domestic food markets than ever before, as a result of several decades of trade and finance deregulation. G-20 countries overwhelmingly dominate these markets—as producers and consumers, as home to the companies that control both food processing and food and commodity trade, and as the source of public and private investment devoted to agriculture.

Instead, the group could get their own houses in order, reforming domestic policies that contribute to instability in international markets. This is particularly true of the mandates that have fed the massive expansion of the biofuels industry in the EU and the United States. It is also true of the export restrictions that have contributed directly to price spikes and volatility on international markets over the last five years. Russia, India, and Argentina, among others, have resorted to export bans or restrictions to the detriment of food importers from world markets. The G-20 is well-positioned to take up these reforms.

Beyond these domestic policy reforms, a focus on the market-related aspects of the food security agenda (questions of distribution and access) fits well with the G-20's core mission of financial stability in international markets. Leadership from even a few key G-20 nations could bring about structural reforms to international markets. Optimally, the forum could help provide political cover for the likely domestic political battles with the interests opposed to reform.

What Has the G-20 Done So Far?

The food price spikes of the 2007–08 crisis were the most dramatic in several decades, breaking world records and sparking riots in over 30 countries. The high and volatile prices in commodity markets were worsened by misguided government responses, such as export restrictions and panic buying by food importers in particular, as well as by opportunism on the part of traders, some of whom broke existing contracts or hoarded supplies. Prices started to fall in mid-2008, but governments remained worried, especially governments of net-food importing countries. Food security has remained high on the international agenda ever since, and high on the domestic agenda of most developing countries as well. For rich industrialized countries experiencing their first serious food price inflation in many years, the public discussion of food and agriculture has been recast, probably permanently. Although domestic farm politics remain complicated and prone to perverse incentives in the EU and the United States, there has been a notable political shift in the constituencies taking an interest in food policy, tracing especially to the rising costs of obesity, concerns over lax food safety oversight, and alarming environmental pollution and natural resource depletion associated with poor agricultural practices.

Given the circumstances, it was only natural that the G-20 should want to "do something" about food price volatility. Yet this impulse has not been channeled into a focused agenda based on the forum's comparative advantages. At their third summit in September 2009, the leaders offered support for the G-8's L'Aquila initiative, which committed G-8 governments to spend $22 billion in development assistance for food security over three years. They proposed housing the funds in a new World Bank program called the Global Agriculture and Food Security Program. A year later at the Seoul summit, leaders agreed to a Development Action Plan that included food security as one of nine pillars. The plan identified a series of food security goals in areas such as "land grabs," or large-scale leases or purchase of land with contracts that lacked adequate provisions in the interests of the host country and the communities directly affected. The G-20 governments committed themselves to the Principles for Responsible Agricultural Investment initiative, led by the World Bank with several UN agencies. Other priorities articulated in Seoul included strengthening resilience in the face of food price volatility, access of small-scale farmers to markets, and strengthening social protection programs to cushion the poor from the effects of rising food prices.

France proposed a still more far-reaching agenda during its tenure as G-20 chair the following year. It convened the G-20's first ministerial of agriculture ministers. Reinforcing the focus on food security as a development issue, the French also stressed the need to curb excessive price volatility in international agricultural commodity markets, proposing that G-20 governments consider establishing grain reserves as a possible remedy. The French agenda for food security also included improved regulation of commodity financial markets, increased transparency on stock levels in physical commodity markets, improved prevention and management of food crises, and consideration of how the poorest countries could protect their access to food imports using new financial insurance instruments.[4]

The G-20 commissioned three expert studies ahead of the June 2011 agriculture ministers' meeting. One, "Promoting Responsible Investment in Agriculture," dealt with the land-grab issue. The report applauded the ongoing international efforts to define standards under the Principles for Responsible Agricultural Investment under the aegis of the CFS's Voluntary Guidelines on Land Tenure process. The report also underlined the need for a significant increase in private investment to meet growing food requirements. It called on the G-20 to support the CFS consultative process on land investments and to help set up related pilot projects.

The second background report, "Nutrition and Humanitarian Supplies," called on the G-20 to help strengthen social safety nets in developing countries, improve food security information and early warning systems, provide sustained funding for humanitarian assistance, and improve the functioning of emergency food reserves. The report also called for an end to export restrictions for food purchased for humanitarian purposes.

The third report was "Price Volatility in Food and Agriculture Markets: Policy Responses." It was drafted jointly by the World Bank, Food and Agriculture Organization, Organisation for Economic Co-operation and Development, International Fund for Agricultural Development, International Monetary Fund, United Nations Conference on Trade and Development, World Food Programme, World Trade Organization, and United Nations High-Level Task Force, and it made ten policy recommendations falling into three types of interventions:

- Smoothing measures, designed to calm markets.
- Coping measures, designed to mitigate the damage after excessive price volatility has occurred.
- Structural reforms to change rules and norms for markets to be less prone to volatility and to protect the world's poorest countries when volatility does occur.[5]

As smoothing measures, the report proposed increasing agricultural productivity (since more supply helps prevent volatility) and establishing an agricultural market information system (AMIS) to increase the transparency of stock levels and make the markets less prone to speculative price swings. The coping measures were recommendations on how to respond when volatility occurs. They consisted of exempting food aid from export restrictions; a feasibility study and pilot project for establishing emergency food reserves in regions prone to food shortages; increased use of risk-management tools (such as weather insurance and commodity exchanges); a mechanism enabling least-developed countries to finance food imports when prices spike; and tighter policy coordination among international organizations that deal with food price volatility.

The price volatility report also proposed three structural or regulatory reforms: coordinated regulation of commodity futures markets; a trade agenda to reduce agricultural subsidies in rich countries and provide net-food importing countries with more policy options to protect their food security (for example, more flexible import disciplines); and an end to the subsidies and minimum-use mandates on biofuels.

In the event, the G-20 agriculture ministers adopted few of the report's recommendations at their ministerial in Paris. Their misnamed "Action Plan" deferred the controversial issue of commodity market regulation to a subsequent meeting of finance ministers and toned down the biofuel recommendation to call for further study and more flexible minimum-use mandates.

The G-20 agriculture ministers did agree on two actions that were subsequently endorsed by the leaders at the November 2011 summit in Cannes: creating a new AMIS to increase transparency on available food stocks in G-20 member countries, and asking the World Food Programme (WFP) to simultaneously perform a feasibility study and a pilot project for the establishment of an emergency regional food reserve for humanitarian purposes. This project, Pre-Positioning for Predictable Access and Resilience (PREPARE), was designed for West Africa in discussion with the Economic Commission of West African States (ECOWAS). The G-20 leaders also decided to carry over the subject of commodity market regulation on their agenda for 2012. And they endorsed the (limited) recommendations on market transparency from the report they had commissioned from the International Organization of Securities Commissions.

In 2012, with Mexico as host government, the food security and agriculture agenda narrowed sharply to focus on investment in small-scale agriculture and in agricultural knowledge systems (meaning seeds and species research, agricultural technologies, and cultivation techniques). The move away from the market issues of 2011 was a disappointment because it shifted the G-20's attention from its areas of natural competence and authority back to areas where the G-20 has little comparative advantage.

Where Could the G-20 Agenda Go?

What might a focused but useful G-20 agenda look like? Six areas deserve consideration, building on the work that has been started. They are described in some detail below.

Agricultural Market Information System (AMIS)

AMIS covers four grains—wheat, maize, rice, and soybeans—that together make up the bulk of international cereal markets. Three of those—rice, wheat, and maize—account for the majority of total calories consumed by humans on the planet. The project was launched with minimal fanfare or attention. Even officials directly involved wondered whether the system would be useful. The private sector controls an important share of available stocks, fiercely guarding this information as a proprietary secret. Some governments with significant stocks, most notably China, are also quite secretive about their holdings. The culture of secrecy around some governments' stock levels, along with the preponderant market role of private traders who lie outside the purview of AMIS fed the skepticism that AMIS could make a difference.

Despite the skepticism, transparency is critically important to limit excessive price volatility. A perfect market requires perfect information: instant, accurate, and available to all. In our second-best world, even imperfect information on available stocks contributes to confidence and bolsters market prices against hoarding or other manipulation. AMIS also serves a practical function for the member states, giving them insight into each other's methodologies for managing and calculating stocks.

In a perplexing arrangement, AMIS was also made the multilateral home for the new Rapid Response Forum (RRF), mandated to "promote early discussion among decision-level officials about critical market conditions to encourage the coordination of policies and the development of common strategies"—in other words, a crisis committee for commodity market volatility. It is not clear why a mechanism for urgent intergovernmental consultations should come under the aegis of a technical information clearinghouse. On the contrary, the remit of the RRF is somewhat wider than AMIS and seems to warrant closer links to the G-20's high-level consultation processes. In any case, as the extent of the 2012 US drought became clear, there was a lot of pressure for the RRF to meet (particularly but only from France). The United States and some other G-20 members resisted, however, out of concern that the signal to markets from convening the RRF could cause the very volatility and speculation it was designed to prevent. It is also possible that the Obama administration's resistance was mainly a matter of dodging pressure to relax the Renewable Fuels Standard so that the biofuel industry continued to absorb almost half the national maize crop, despite the poor harvest.

While there were valid (and less valid) points on both sides of the argument, the failure of the RRF to meet is troubling. Markets were volatile and prices were high throughout June, July, and August 2012, affecting net-food importing countries. The speculation in the media over whether the RRF would meet or not, and the decision finally taken not to, leave traders uncertain as to just how big a crisis is needed before the G-20 will agree to meet. There remains no clarity on how the RRF will keep from being paralyzed and waiting until too late. A clear set of criteria for meetings and establishing the precedent that a meeting need not signal any particular outcome (so as to diffuse speculators' desire to exacerbate panic) would work better to calm markets than only meeting when all hell is about to break loose (or already has broken loose) on international markets.

Despite the confusion over the RRF's role, 2012 did show the value of AMIS. In contrast with earlier price spikes, no government imposed an export ban, which makes a significant difference in not exacerbating volatility. It appeared no G-20 member wanted to provoke a meeting of the RRF through its actions—the forum thus serving as a stick against domestic decisions harmful to the collective. Indeed, this is arguably precisely how the G-20 is supposed to work. More work needs to be done to clarify the role of the RRF (and possibly to move it out from under the aegis of AMIS), but AMIS has already proved its worth and has the potential to make a solid contribution to calming markets.

Emergency Reserves for Food Aid

The second issue on which the G-20 made some difference was in their 2011 request to the WFP for a feasibility study and pilot project to establish a grain reserve for humanitarian purposes. The WFP responded in record time to deliver the study and a proposal for a five-year pilot project to G-20 development ministers at their September 2011 meeting. Based on their experience and assessments of which regions (if not exactly which countries) were likely to need help in any given year, the WFP had already given a lot of thought to physical reserves in regions that consistently required food aid and had experimented with what it calls prepositioning supplies. The emergency reserve was a further, logical step in the commitment to anticipate where demand for help was likely to arise and take steps to be ready for the demand when it came. The WFP recognized there are patterns of need and saw the value of reducing costs and increasing efficiency by having food in place before an emergency strikes.

The WFP pilot proposed to provide physical reserves that would complement existing social safety nets in the recipient countries, not displace them. The food would be targeted at the most vulnerable populations through existing social protection programs. The system would either sell or lend food using a set of "clear, transparent and pre-determined" criteria.[6]

Despite a quick start and a thorough feasibility study, the politics of implementing the humanitarian assistance reserve have proved complicated. The region that offered to host the pilot project was West Africa, which is prone to production shortfalls as well as persistent high levels of food insecurity and a high incidence of poverty. The region is vulnerable to both endogenous (home-grown) and exogenous (imported) shocks. Prior to the pilot proposal, ECOWAS had already been in discussion as a region about coordinating national stocks to create a decentralized emergency reserve available to any country in the group, a project known by its French acronym as RESOGEST. In the event, the politics of supporting an outside project (i.e., the WFP pilot, which came to be known as PREPARE) were too difficult, and the idea was shelved. At this time, the region has donor support to put in place a reserve building on the discussions that began as RESOGEST instead.

Although PREPARE is not being implemented, the PREPARE feasibility study has likely played a positive role in the debate within the region. Funders were initially skeptical of creating a reserve, but now the EU and the United States, among others, have committed to support the project, though some details of how the project will work are still being hammered out. It is possible to speculate that impetus from PREPARE helped move the idea of an emergency regional reserve, first due to regional desire to seize back the initiative from an outside agency (the WFP) and second by building donor enthusiasm and confidence. Once again, the issue is an instructive case of the interplay between the G-20, more traditional elements of the UN system, and countries outside the G-20 that are affected. There are other regions where emergency food aid plays a significant and ongoing role, and an emergency humanitarian reserve would likely make a lot of sense. As the major food aid donors, the G-20 should consider where else to push this agenda of anticipating and preparing for emergencies.

Public Grain Reserves

The experts' 2011 report on price volatility discussed the idea of policies and rules to coordinate international grain reserves. France supported the idea and continues to express interest, while other G-20 members, such as Brazil and the United States, are resistant. Brazil fears a repeat of the 1980s, when the United States sold off its considerable public grain reserves and depressed international grain prices in the process. Most government food stocks around the world have been eliminated, particularly in exporting countries, on the grounds that they interfere with markets and crowd out private stocks. For its part, the private sector has no reason to keep large stocks for any period because of expense, spoilage, and the tendency of known stocks to depress prices (and to curb volatility, which, within limits, can be highly profitable to traders).

This leaves a quandary for coordinated reserves as a potential policy tool. Governments are conscious of the expenses involved in maintaining stocks but also leery from bitter experience about the danger of getting the level of stockholding wrong. Yet governments have basic obligations as a matter of human rights, not to mention a powerful political impetus, to ensure adequate food in the market to avoid shortages and protect citizens from hunger. A collective action dilemma arises because a country might want there to be stocks—because they can be crucial to help blunt the impact of severe volatility and to protect people's access to food—but hope another country will undertake the risk and expense.

Given the role of G-20 countries as the major suppliers to international commodity markets and home to the four trading firms controlling an estimated 75–90 percent of the grain trade, they have commercial reasons to consider public stock-holding, whether as coordinated national reserves or strategically located reserves dedicated to export market, as a possible policy measure. Maintaining a known minimum stocks-to-use ratio in the major supplier countries has, in the past, proven to be an effective curb on price spikes. A minimum stock level serves as a powerful confidence-building measure for nervous food importers and can encourage them to use international trade rather than to look at more expensive alternatives, such as investment in land purchases, to grow food abroad or attempt to be wholly self-sufficient with domestic production.

Trade

The multilateral agricultural trade agenda is at an impasse, particularly in the context of the global trade talks in the WTO, whose Doha Round has been bogged down for many years. For their part, G-20 leaders at Cannes in 2011 notably broke with their pattern of vague calls for completion of Doha and gave an unusually frank (if diplomatically phrased) acknowledgment of the talks' dim prospects. Earlier that year, G-20 agriculture ministers' statement on Doha focused on the problem of tariffs and restrictions that cause difficulty for humanitarian food aid:

> 40. We recognize that the first responsibility of each member state is to ensure the food security of its own population. We also recognize that food export barriers restricting humanitarian aid penalize the most needy. We agree to remove food export restrictions or extraordinary taxes for food purchased for noncommercial humanitarian purposes by WFP and agree not to impose them in the future. We will seek support within the United Nations agencies and will also recommend consideration of the adoption of a specific resolution by the WTO for the Ministerial Conference in December 2011.[7]

G-20 governments were unable, however, to get the WTO to adopt the exemption of humanitarian food purchases from export restrictions and taxes. The EU introduced a proposal along these lines with the support of some other G-20 governments.[8] Yet the proposal was blocked by non-G-20 members at the WTO—less because of the issue itself than concern about the precedent of the G-20 starting to function as a powerful bloc within the WTO, bringing proposals simply for other countries to ratify. Thus in the highly polarized context of the WTO, the G-20's contested legitimacy undermined the realization of a small but important policy objective. It is important to recognize this limitation on the G-20's scope for action. But it does not preclude the G-20 members from seeking an accord among themselves to establish disciplines in this area. As the major food aid donors are all G-20 members, the de facto result would be highly effective.

The G-20 might take a similar approach to the broader issue of disciplining the use of export restrictions and extraordinary taxes. Developing countries at the WTO are loath to give up their right to use this policy tool, but the G-20 are so dominant as suppliers of international markets that an initiative limited to the G-20 could itself be sufficient to stabilize international markets.

In a rare bright spot during the Doha negotiations, in 2008, WTO members appeared close to an agreement on limits on government support for agriculture in industrialized countries. Were the industrialized G-20 members to follow the recommendations made by many experts over the years to put stronger disciplines on how and how much they support domestic agriculture (and especially the resulting exports), it would send a strong signal that the G-20 is committed to markets in which countries that depend heavily on agriculture are protected from subsidized production and dumped prices. While the United States and the EU have changed the kinds of support they provide to producers (and through them to farm input companies, grain traders, and food processors), the continuing pattern is public support that eliminates risk for producers and encourages high levels of production, even on marginal land. This continues to be true with the various insurance programs proposed in draft versions of the much-delayed renewal of the US Farm Bill. G-20 willingness to review such programs for the sake of less-distorted international markets would be another significant contribution toward reducing volatility in international markets and encouraging investment in agriculture where it is most needed.

Although trade is central to the food price volatility agenda, the complicated politics of the WTO curtail the potential contribution of the G-20 as a group. On the other hand, the relative looseness of the G-20 process could be put to use—particularly the way it can fashion norms and commitments purely on behalf of its own members. The G-20's heterogeneous membership, compared with the old G-8 club, also provides a useful informal space for discussion between developed and developing countries (a historic and persistent fault line in multilateral trade talks that is a significant barrier to successful outcomes). Critically, the G-20 nonetheless lacks the voices of more vulnerable net-food importing countries. As such, the group's best contribution may be in the form of coordinated domestic reforms to reduce price distortions and make exports more predictable.

Commodity Market Regulation

One of the most controversial issues in analyzing the causes of the 2007–08 food price crisis was the role of the commodity exchanges. Many economists—perhaps most, initially—insisted futures markets could not change market fundamentals and that any distortions, such as amplifying day-to-day volatility in futures trading, would not translate into price shifts in real markets. Others disagreed. Many assessments conclude that it is difficult to get a full picture and know the truth; beyond the disagreements over appropriate methodology and variables, it is also almost impossible to obtain all the needed information.

Futures contracts are an integral part of the agricultural system and thus vital to pricing (and in a sense distributing) commodities. They are particularly prominent in the United States and, by extension, in the global markets in which the United States is a dominant supplier. Historically, futures contracts were primarily used by those buying and selling grain (farmers, trading companies, food processors) as a hedge against price fluctuations. A futures contract offered protection to both sides in a business where the product takes a long time to mature and where uncontrollable factors such as weather make actual supply unpredictable. As major exchanges have grown, they have functioned as places where information is pooled from across countries and continents.

Recent regulatory and policy changes such as the Commodity Futures Modernization Act of 2000 in the United States altered the way futures markets function, creating anomalies and new behaviors viewed with alarm by some traders and economists. Gaps between spot prices and futures prices for contracts due on the same day emerged, suggesting a failure of futures contracts' basic function of approximating where actual prices are headed. The costs of transactions rose significantly, too, pushing many smaller hedgers (individual farmers and smaller firms) out of the market. And of course, less hedging means higher risk, or finding alternative mechanisms to manage risk. The growth in speculation driven by index funds has squeezed the role of hedgers, with the end result that hedging activities have gone from roughly 70 percent of the market before 2000 to less than 40 percent today.

The argument is not so much about whether these changes have taken place—they have—but whether they have ramifications that need to be addressed. Assessing the evidence in 2011 for the G-20 agriculture ministers, the interagency working group report minimized the problem (though United Nations Conference on Trade and Development has produced analysis that calls for greater market regulation to be reimposed). The CFS High Level Panel of Experts' 2011 report on price volatility argued that even without the debate being resolved, the evidence indicated serious enough systemic risk that tighter regulation would be worth the possible costs for financial actors in the interest of the billions of people whose livelihoods and food security are affected by volatility in international markets.

The G-20 appears divided on whether commodity markets need stronger regulation. France, while it was host government, pushed for it while other countries (including the United States) argued it was best not to interfere. Meanwhile, the United States also enacted legislation in 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act, to fix some of the problems stemming from deregulation a decade earlier. Among other things, Dodd-Frank was intended to reregulate derivatives markets that include agricultural commodities. But implementation of Dodd-Frank has been difficult, with investors and agribusiness lobbying extensively against regulation. The regulatory agency involved, the Commodities Futures Trading Commission, has been unable to generate new rules in many areas, but it did reestablish position limits to cap traders' derivatives positions relative to the size of the commodities market.

While just a handful of G-20 member states are home to exchanges that matter internationally, it is exactly the kind of issue where the pressure of a peer group might prove more effective than either a domestic reform initiative or vague multilateral exhortations to do better. Commodity markets provide a powerful and useful way to manage risk in agriculture. Speculative capital is essential to the markets' liquidity (they need ready cash, not just promises to buy and sell in the future). But to serve a genuine hedging function, speculative investments should not be allowed to increase transaction costs to levels that squeeze physical traders out of the market. Nor should speculators be generating so much market "noise" that physical traders are unable to read price signals. The G-20 have proposed that poor net-food importing counties use commodities futures contracts to manage part of their food import risk. This puts an onus on the G-20 to better guarantee that the futures markets really deliver good risk management—not just for heavily capitalized investment firms but also for poor countries that need the food for food security.

Biofuels

When the US biofuel industry first began expanding significantly a decade ago, the use of maize to make ethanol was viewed as a potential solution for the US maize oversupply that depressed world market prices and farmers' incomes. By 2008, this optimism had given way in some quarters to panic. Mandated requirements for including different biofuels in total energy use created a huge and sudden demand for maize, because although not especially "green," corn ethanol was easy to incorporate into gasoline and fulfilled certain clean air regulations, making it easy to use. Biofuels started to absorb 20 percent, then 35 percent, then, by 2012, almost 50 percent of the US maize crop.

For a variety of reasons, the impact of biofuels on food markets is greater than their proportion of total grain production (one-third of the US maize crop equates to less than 4 percent of the global cereals crop). Since markets tend to factor in future expectations, the mandates that underwrite demand and evidence of the industry's capacity for rapid expansion prompt markets to anticipate high demand and send prices higher.

Even more important is the link biofuels forge between maize and oil prices. Oil is a highly volatile and increasingly expensive commodity. The mandates for minimum use create a certainty that maize will go to biofuels even as prices rise; this inelasticity of demand, as economists term it, exerts pressure on other competing demand for maize—that is, food and, particularly in the United States, livestock feed. These pressures work their way through the system, as the uses of various grains are adjusted in response to the maize/biofuel market. For instance, when wheat and soy substitute for maize in livestock feed, their markets are also subject to price pressures. The way this affects food security is that those buying wheat for food tend to be last in this line of buyers, which means poorer net-food importing countries in particular faced steep increases in their import costs. This is why in March 2008, the WFP estimated it would need a 40 percent increase in its budget just to afford the food aid it required in a normal year—and there was nothing normal, in 2008, about food prices and the associated demand for food aid.

There have been proposals to use the biofuels market as a shock absorber when supplies are short, rather than people living in poverty, as is now the case. The idea is to oblige biofuels processors to sign agreements to slow production and therefore reduce their demand when supplies are tight.[9] This would require enforceable contracts with some of the world's largest multinational firms and the blessing of the principal G-20 governments involved (the United States, Brazil, and the EU at a minimum). The behavior of the United States during the drought of 2012 suggests it does not have the political will to confront the interests behind the biofuels protections. But this could change; certainly expert opinion is almost universally against the biofuels policies now in place in the United States and the EU, which have begun to generate absurdities such as the export of maize ethanol to Brazil from the United States simultaneously with the export of Brazilian sugar ethanol to the United States. Maize ethanol and sugar ethanol are chemically identical products.[10]

The G-20 countries with biofuels policies that most affect international markets are the United States, the EU, and Brazil, but many other countries also have mandated minimum-use policies for biofuels. The environmental arguments in favor of biofuels for transportation are weak, while the effect of biofuels in exacerbating volatility is nowhere disputed (except possibly at the US Department of Agriculture). Again, concerted action by key countries would make a big difference to several billion people, none of whom have a vote in the countries where biofuels mandates are set. The Interagency Working Group report of 2011 tried, but governments failed to heed the message. The G-20 should try again.

Where Next?

The market-related aspects of the food security agenda—questions of distribution and access—are a good fit with the G-20's mandate to protect financial stability in international markets. Important structural reforms to international food commodity markets could be achieved through the actions of even just a few G-20 member states. The benefits would be felt widely, by countries with unnecessarily high levels of food insecurity, stemming in significant part from the poor performance of international markets. The G-20 provides a credible joint platform for action because its membership includes countries with significant influence and leverage on the problems. As a multilateral setting, the G-20 can also offer some political cover for member governments that face political fights at the domestic level.

There is a lot at stake. Roughly one billion people live in the shadow of food insecurity, with another billion or more so close to the edge that hunger is an ever-present threat. Better safety nets and increased production are important but insufficient, as we know even in rich industrialized countries. Market mechanisms and policy measures related to the distribution of food are critically important because they determine who will have access to the food that is grown. In a globalized economy, fuel and feed consumers have become pitted against household food needs, with troubling results.

The G-20 brings together a particularly powerful but diverse group of countries. Their histories of food security and hunger, their views on agriculture policy and trade, as well as their level of tolerance for an active role for the government in markets, vary widely. Dramatic deregulation of food markets is politically improbable, even were the economic arguments in favor of such an approach persuasive. The consequences of a system failure, however unlikely, are simply too great. The multilateral food security agenda has to assume that countries will protect their food security, sometimes to the detriment of other objectives, if they feel their food security threatened. Stabilizing food systems collectively will be cheaper and more effective than an attempt to do so separately. If G-20 governments can respond to these risks and keep the shared stakes in mind, the outcome would be a more food-secure world.

Endnotes

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