

# Background

No. 2151  
June 26, 2008



Published by The Heritage Foundation

## Addressing the Global Food Crisis

*Brett D. Schaefer, Ben Lieberman, and Brian M. Riedl*

Prices for corn, wheat, soybeans, rice, and other food staples have risen sharply over the past year. This has strained the ability of poor people in developing countries to feed their families and fomented widespread anger. Since mid-2007, the rising prices have led to protests and riots in Burkina Faso, Cameroon, Egypt, Haiti, Somalia, and a number of other countries. Regrettably, some countries including Indonesia and Kazakhstan have exacerbated the problem by restricting exports of rice and wheat, respectively. Although consumers in developed countries are better able to adjust to higher prices because of their higher incomes, they too have felt the pinch of higher food prices.

A number of factors have contributed to these price increases. Ethanol and other biofuel mandates have created a competition between food and fuel, which in turn has helped to drive up food prices. Agricultural subsidies and other policies in developed and developing countries distort the market, creating shortages or surges and undermining global economic growth. Increases in the price of oil and natural gas—key inputs for fertilizer, chemicals, and fuel, which are necessary for planting, growing, harvesting, and transporting crops to market—have also driven up prices. Export bans reduce domestic prices, creating disincentives for production while reducing global supply and contributing to price increases in other countries. In addition, adverse weather in key agricultural producer countries has reduced harvests and therefore global stocks of corn, wheat, and soybeans.<sup>1</sup>

### Talking Points

- Global food prices for beans, corn, rice, wheat, and other staples have increased 45 percent since the end of 2006, straining the ability of poor people in developing countries to feed their families and fomenting widespread unrest.
- The underlying causes of the crisis are complex. Key contributing factors include ethanol and other biofuel mandates, trade barriers in both developed and developing countries, high energy costs, poor food assistance policies, and opposition to genetically modified foods.
- Opposition to genetically modified foods in key export markets in Europe has discouraged cultivation of more productive crop variants in Africa and has led countries to refuse U.S. food assistance in the past.
- The U.S. and other countries should remove the market distortions that are contributing to the current crisis by eliminating ethanol and other biofuel mandates, eliminating agricultural tariffs and trade barriers, and overhauling food assistance policy.

This paper, in its entirety, can be found at:  
[www.heritage.org/Research/TradeandForeignAid/bg2151.cfm](http://www.heritage.org/Research/TradeandForeignAid/bg2151.cfm)

Produced by The Margaret Thatcher Center for Freedom

Published by The Heritage Foundation  
214 Massachusetts Avenue, NE  
Washington, DC 20002-4999  
(202) 546-4400 • [heritage.org](http://heritage.org)

Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

Several intergovernmental meetings have been held recently or will be held in the coming weeks to discuss coordinated efforts to address the food crisis. A Rome summit hosted by the United Nations Food and Agriculture Organization in early June, involving over 180 countries and more than 40 heads of state, resulted in a pledge to pursue “‘urgent and coordinated action’ to address the problems associated with higher food prices, to raise food production, to lower trade barriers and to increase research in agriculture.”<sup>2</sup> However, the document ducked the controversial issues of biofuels and biotechnology, and it remains to be seen whether nations will follow through on pledges to reduce trade barriers on agricultural goods. A ministerial meeting of the World Trade Organization is tentatively scheduled for July to discuss the Doha Round, and Japan has placed the food crisis on the agenda for the G-8 summit in July.

These meetings are welcome, provided they look beyond alleviating the current crisis and also address long-term solutions to avoid future crises. Only a few immediate actions can address the current crisis:

- **Eliminating** artificial demand created by ethanol and other biofuel mandates,
- **Removing** tariffs that increase retail costs for consumers, and
- **Providing** food assistance to people facing starvation.

The test for policymakers is whether they can adopt needed but politically difficult steps that would reduce the likelihood of a future crisis. Such steps include:

- **Eliminating** trade barriers that pander to domestic producers,
- **Curbing** subsidies for favored constituencies,

- **Lifting** restrictions on energy exploration,
- **Ending** unscientific restrictions on genetically modified foods, and
- **Curtailling** other price distortions that influence food production.

### Factors Contributing to the Food Crisis

Recent news coverage has detailed the rapid increases in the prices of food staples over the past year. Global prices for beans, corn, rice, wheat, and other staples have increased 45 percent since the end of 2006.<sup>3</sup> As the U.S. Agency for International Development (USAID) has noted:

In the past year, global food prices have increased an average of 43 percent, according to the International Monetary Fund. On April 14, the World Bank estimated that the doubling of food prices during the past three years could potentially push 100 million people throughout the world into extreme poverty.

...At the household level, increasing food prices have the greatest effect on poor and food-insecure populations, who spend 50 to 60 percent or more of their income on food, according to the International Food Policy Research Institute. Overall, increased food prices particularly affect the poorest people within developing countries.<sup>4</sup>

Although everyone feels the pain of higher food prices, the consequences are particularly acute for the poor in developing countries, who spend a large portion of their earnings on staple foods. Unsurprisingly, the sharp increases in food prices have led to protests and public demonstrations in some countries and to riots and violence in Burkina Faso, Cameroon, Egypt, Haiti, Somalia, and other coun-

1. Charles E. Hanrahan, “Rising Food Prices and Global Food Needs: The U.S. Response,” Congressional Research Service Report for Congress, May 8, 2008, at [http://assets.opencrs.com/rpts/RL34478\\_20080508.pdf](http://assets.opencrs.com/rpts/RL34478_20080508.pdf) (June 13, 2008).
2. Andrew Martin, “U.N. Food Meeting Ends with a Call for ‘Urgent’ Action,” *The New York Times*, June 6, 2008, p. A13, at <http://www.nytimes.com/2008/06/06/world/06food.html> (June 19, 2008).
3. Marc Lacey, “Across Globe, Empty Bellies Bring Rising Anger,” *The New York Times*, April 18, 2008, at <http://www.nytimes.com/2008/04/18/world/americas/18food.html> (June 13, 2008).
4. U.S. Agency for International Development, “USAID Responds to Global Food Crisis,” updated May 30, 2008, at [http://www.usaid.gov/our\\_work/humanitarian\\_assistance/foodcrisis](http://www.usaid.gov/our_work/humanitarian_assistance/foodcrisis) (June 13, 2008).

tries. Food riots contributed to the ouster of the Haitian prime minister in April 2008.

There have been a number of calls for the U.S. and other developed nations to address the food crisis. Although the U.S. and other nations can alleviate the immediate consequences of the crisis by providing food assistance, the underlying causes of the crisis are more complex and will require substantial political will to correct. Among the key contributing factors are ethanol and other biofuel mandates, trade barriers in both developed and developing countries, high energy costs, poor food assistance policies, and opposition to genetically modified foods.

**Ethanol and Other Biofuel Mandates.** In recent years, the use of crops for energy needs rather than for food has expanded significantly. Government mandates have caused this change, which has been justified by several rationales, including claims that biofuels are a hedge against rising oil prices, reduce reliance on oil imports from unstable and unfriendly regimes, and reduce emissions that are blamed for global warming. These mandates were added to the preferential tax treatment and protectionist tariffs that the biofuels sector already enjoyed. Surprisingly little thought was given to how these mandates would affect food prices.

The U.S. currently requires that 9 billion gallons of renewable fuels, mostly corn ethanol, be mixed into the gasoline supply. More than one-quarter of the nation's corn supply is used for this purpose. This mandate will increase to 11 billion gallons in 2009 and reach 36 billion by 2036, of which 15 billion must come from corn. The European Union will require that 10 percent of its transportation fuels be biofuels by 2020. This mandate will be met mostly with biodiesel made from palm oil, rapeseed, and soybeans.

These mandates divert a significant and increasing amount of the food supply to energy use, reducing available food stocks and driving up prices. Corn prices have more than doubled since the mandates were imposed in 2006, and wheat and soybean

prices have also increased, partly because acreage has been diverted to corn production.

Experts debate how much these mandates have raised food prices. For instance, U.S. Secretary of Agriculture Ed Schaefer argued in Rome that ethanol accounted for only 2 percent to 3 percent of the increase in food prices, while the International Food Policy Research Institute, a Washington-based research group financed by governments, calculates that ethanol policies account for 30 percent of the price increase.<sup>5</sup> One thing, however, is certain: Ethanol and other biofuel mandates have indisputably contributed to and exacerbated other pressures on food supplies and demand. As the mandates increase in the coming years, the impact on food prices will only intensify.

**Trade Barriers in Developed Countries.** Although developed countries generally maintain low trade barriers, their highest trade barriers tend to apply to agricultural products and other goods that developing countries export. They also tend to subsidize disproportionately the goods that compete with developing countries' products.

These subsidies and mandates distort markets and impede efficient allocation of resources, thus reducing global economic growth. Subsidies and trade barriers in developed countries interfere with price signals that guide decisions over what to grow and purchase. When governments subsidize specific crops, they encourage farmers to grow crops that might otherwise be commercially unviable. This increases production of the subsidized crops and reduces production of other crops, thereby artificially affecting prices. Similarly, import tariffs and other barriers reduce demand for crops grown in other countries by increasing their price.

The combined effect of these policies is to reduce global economic growth by billions of dollars annually. According to the World Bank:

Recent estimates show that the global costs of trade tariffs and subsidies would reach about \$100 billion to \$300 billion a year by 2015. About two-thirds of the costs are

5. "Only a Few Green Shoots," *The Economist*, June 7, 2008, at [http://www.economist.com/world/international/displaystory.cfm?story\\_id=11502285](http://www.economist.com/world/international/displaystory.cfm?story_id=11502285) (June 19, 2008).

estimated to come from agricultural tariffs and subsidies.<sup>6</sup>

Such policies have a double impact. They erect barriers that impede farmers in developing countries from exporting their products to markets in developed countries, and they raise the prices for consumers in developed countries without transferring any of the price increase to poor farmers. This reduces incentives for agricultural production in poor countries, reduces incomes for farmers in those countries, and impedes the ability of people in poor countries to weather situations like the current food crisis.

### Trade Barriers in Developing Countries.

Developing countries also impose trade barriers and domestic regulations that raise costs or create disincentives for agricultural production. Many of the countries experiencing protests and riots over food prices impose relatively high tariffs on food and petroleum products.

In effect, these tariffs are taxes that increase the prices of the taxed products. Government actions

that artificially raise food prices are the last things that consumers need during a food crisis. A number of countries also impose significant restrictions on farmers that reduce incentives to produce, such as mandates to sell to the government rather than on the open market.

Some countries have recognized that trade barriers cause great harm and have eliminated or reduced tariffs on key staples. For example, since cereal prices began rising in early 2007, India has removed a 36 percent tariff on wheat flour, and Indonesia has eliminated its tariffs on wheat and soybeans. Burkina Faso suspended its import tariffs on four food staples after food riots in February. Turkey has cut its tariff on wheat from 130 percent to 8 percent and eliminated its 100 percent tariff on barley. Mongolia has eliminated its value-added tax on wheat and flour imports.<sup>7</sup> The World Bank reports that more than 20 nations have reduced import duties and taxes in response to rising prices.

Other countries, however, have decided to restrict or ban exports of key food staples to ensure domestic supplies and reduce prices for domestic consumers. World Bank President Robert Zoellick noted in a recent op-ed that 28 countries have imposed export bans.<sup>8</sup> Cambodia, Egypt, China, India, Indonesia, and Vietnam have banned or imposed export taxes on rice exports. Pakistan, Russia, and Kazakhstan have banned or imposed export taxes on wheat.<sup>9</sup>

Such actions aggravate the global crisis by constraining global supply and raising costs to consumers around the world. They also risk spurring other countries to impose similar pro-

### Applied Tariff (Most Favored Nation)

	All Agricultural Products	Dairy Products	Fruits, Vegetables, Plants	Cereals and Prepara- tions	Petroleum
Burkina Faso (2006)	14.3%	16.3%	17.0%	13.4%	7.2%
Cameroon (2005)	22.1	25.0	26.2	22.0	10.0
Egypt (2005)	66.6	9.8	13.8	22.8	5.2
Haiti (2006)	5.7	2.5	8.5	5.2	0.9
United States (2006)	5.3	25.0	5.0	3.8	2.1

Source: World Trade Organization, *World Tariff Profiles 2006* (Geneva: World Trade Organization, 2007), at [http://www.wto.org/english/res\\_e/booksp\\_e/tariff\\_profiles06\\_e.pdf](http://www.wto.org/english/res_e/booksp_e/tariff_profiles06_e.pdf) (June 13, 2008).

Table 1 • B 2151  [heritage.org](http://heritage.org)

- World Bank, *World Development Report 2008: Agriculture for Development*, 2007, p. 103, at [http://siteresources.worldbank.org/INTWDR2008/Resources/WDR\\_00\\_book.pdf](http://siteresources.worldbank.org/INTWDR2008/Resources/WDR_00_book.pdf) (June 17, 2008).
- Bloomberg, "Food Prices Trump Trade Talks," *Business Day*, April 14, 2008, at <http://business.theage.com.au/food-prices-trump-trade-talks-20080414-25z7.html> (June 13, 2008).
- Robert Zoellick, "A 10-Point Plan for the Food Crisis," *The Financial Times*, May 30, 2008, at <http://go.worldbank.org/WMF7MZVM0> (June 13, 2008).
- Bloomberg, "Food Prices Trump Trade Talks," and United Press International, "Indonesia, Kazakhstan Ban Grain Exports," April 15, 2008, at [http://www.upi.com/NewsTrack/Business/2008/04/15/indonesia\\_kazakhstan\\_ban\\_grain\\_exports/4187](http://www.upi.com/NewsTrack/Business/2008/04/15/indonesia_kazakhstan_ban_grain_exports/4187) (June 13, 2008).



tectionist measures. Moreover, although these actions may provide short-term relief domestically, they set the stage for long-term harm by creating disincentives for domestic production by artificially reducing prices by increasing domestic supply.

**High Energy Costs.** Energy price increases have affected the whole economy, and the agricultural sector is no exception. The costs of natural gas and petroleum affect the entire food production chain, and both have increased substantially over the past few years. Natural gas is a key input for fertilizer production, and fertilizer costs have increased markedly. Petroleum is critical as a fuel for harvesting and transporting crops to market.

Rising oil and gas prices are partially driven by instability in energy-producing countries. The primary driver is increasing demand from rapidly growing countries, including China and India. Regardless of cause, energy costs directly affect the price of food.

**Poor Food Assistance Policies.** The U.S. is the world's largest provider of food assistance, accounting for over half of all global food aid. In fiscal year (FY) 2007, USAID provided over \$1.6 billion in food assistance. It has provided nearly \$1.5 billion already in FY 2008, and President George W. Bush has sought nearly \$1 billion in additional food aid for FY 2008.<sup>10</sup>

Without question, this food assistance has helped to reduce hunger and has saved the lives of millions, but providing food assistance is not enough. The U.S. has an obligation to ensure that its assistance does not contribute to the next food crisis.

Current law requires that most U.S. food assistance be grown in America and shipped on U.S. vessels. This policy of purchasing food in the U.S. and

shipping it thousands of miles to a crisis location is inefficient, costly, and shortsighted. The cost of ocean shipping alone accounts for an estimated 20 percent to 30 percent of the total U.S. food aid budget, and delivering the food to those in need can take more than four months. As Nobel Laureate Norman Borlaug and former USAID Administrator Andrew Natsios have noted:

In a famine, people can die waiting for the food to arrive. Purchasing food locally simplifies the process, cuts down the time delay in delivery, reduces the logistical risks, and saves transport costs. These savings can be used to buy more food.<sup>11</sup>

Requiring USAID to purchase U.S. food is shortsighted because it provides no incentives for destination markets or neighboring countries to develop local agricultural markets. On the contrary, providing free food or selling food at below-market prices can undermine local markets and pauperize farmers in the recipient country and sometimes in surrounding countries. According to the Food and Agriculture Organization, "The empirical evidence shows that food prices almost invariably fall in local markets immediately after a food aid distribution."<sup>12</sup>

Africa is the primary recipient of food assistance. African farmers are often reluctant to invest in new equipment or expand production because of uncertainty. For instance, Borlaug and Natsios point out that some regions of Ethiopia experienced drought in 2003, while other regions produced bumper crops of corn and other cereals, but the inability of the two regions to connect economically led to hunger in one and price collapses for locally produced grains in the other. Using U.S. food assistance to purchase foreign surpluses

10. U.S. Agency for International Development, "Global Food Insecurity and Price Increase," *Situation Report #1*, Fiscal Year 2008, May 1, 2008, at [http://www.usaid.gov/our\\_work/humanitarian\\_assistance/foodcrisis/documents/050108\\_foodcrisis\\_sr1.pdf](http://www.usaid.gov/our_work/humanitarian_assistance/foodcrisis/documents/050108_foodcrisis_sr1.pdf) (June 13, 2008).

11. Norman Borlaug and Andrew Natsios, "Africa Does Not Have to Starve," *The Wall Street Journal*, May 2, 2008, p. A13, at <http://online.wsj.com/article/SB120968518398861073.html> (June 13, 2008).

12. Food aid drives down local food prices by increasing supply or reducing demand in several ways: When food aid is sold on local markets, it increases supply. Households that receive food aid reduce their purchases of locally produced food or sell their own crops. Recipients may sell food aid to meet other needs. U.N. Food and Agriculture Organization, *The State of Food and Agriculture*, 2006, pp. 31–46, at <ftp://ftp.fao.org/docrep/fao/009/a0800e/a0800e03.pdf> (June 13, 2008).

where appropriate would help to stabilize markets and encourage production. According to Borlaug and Natsios:

If USAID could have purchased and helped distribute some of this excess [in Ethiopia], up to 500,000 small farmers would have benefited, as well as the millions at risk of starvation. But its only option was to import surplus food grain from the U.S.<sup>13</sup>

The World Food Program already practices this policy by using European funding to buy food in African countries, and Canada recently announced that it would also remove such restrictions on its food assistance.

**Unfounded Opposition to Genetically Modified Foods.** In the mid-20th century, introduction of disease-resistant, high-yield crop varieties into developing countries, combined with increased irrigation and use of fertilizer, dramatically increased agricultural production. This phenomenon is generally known as the Green Revolution and has been credited with saving more than 1 billion people from starvation. Although the Green Revolution led to doubled and tripled crop yields in many parts of the world, Africa has generally not benefited. It has also been the region most frequently beset by hunger and famine in recent decades.

Fears about genetically modified foods, stoked by environmental extremists, have led the European Union to erect barriers to imports of genetically modified crops. Kofi Annan, former U.N. Secretary-General and head of the Alliance for a Green Revolution in Africa, has echoed this opposition: “We in the alliance will not incorporate GMOs (genetically modified organisms) in our programmes. We shall work with farmers using traditional seeds known to them.”<sup>14</sup>

Opposition to genetically modified foods has scant scientific basis. As noted by scientist Henry I. Miller of the Hoover Institution:

Gene-splicing has been grossly overregulated and underused because of antagonism from national regulators (especially in Europe, Japan and developing countries) and U.N. agencies. In spite of a two-decades-old consensus that gene-splicing is an extension, or refinement, of less precise methods for genetic improvement, and that it is at least as safe as other techniques, it has been subjected to discrimination and obstruction.<sup>15</sup>

Even though genetically modified crops could prove a substantial economic and environmental boon by spreading benefits similar to the Green Revolution to Africa, opposition to genetically modified foods in key export markets in Europe has led African countries to resist domestic cultivation of productive crop variants that are more resistant to disease, pests, and drought. For instance, despite an estimated 14 million people facing starvation in southern Africa in 2002, some countries refused U.S. food assistance, citing concerns that accepting genetically engineered food would lead to discrimination against their agricultural exports in European markets. In October 2002, Zambia refused to distribute U.S. grain because it often is modified through biotechnology. Resistance to genetically modified crops has also led researchers to downgrade efforts to develop genetically modified indigenous crops specifically for African climates and pests.

### What the U.S. and Other Countries Should Do

Quantifying the impact of these often contradictory policies on global food prices is difficult. Unpredictable elements such as poor weather, economic growth driving increased food consumption, and changes in eating habits further complicate the picture.

However, government policies unquestionably impede the ability of global markets to allocate food

13. Borlaug and Natsios, “Africa Does Not Have to Starve.”

14. Douglas Southgate, “Africa Needs Its Own Green Revolution,” *Critical Opinion*, July 25, 2007, at <http://www.criticalopinion.org/articles/77> (June 13, 2008).

15. Colin A. Carter and Henry I. Miller, “Innovating out of Food Shortages,” *Orange County Register*, April 23, 2008, at <http://www.ocregister.com/articles/food-countries-prices-2023927-corn-price> (June 13, 2008).

efficiently and thus contribute to hunger and famine. In times of stress, many governments reflexively and unwisely impose additional restrictions, regulations, and subsidies that only increase the likelihood of future crises. Instead, governments can and should seek to eliminate these counterproductive policies.

**Addressing the Current Crisis.** The Bush Administration and Congress, in conjunction with other countries, should end government measures that are distorting the market and contributing to the current crisis. Specifically, they should immediately:

- **Eliminate ethanol and other biofuel mandates and remove tariffs on ethanol and other biofuel imports.** Ethanol and other biofuel mandates adopted in the U.S. and many European countries have artificially increased demand for food crops and contributed to the current food crisis. Eliminating these mandates would immediately expand the amount of food available for consumption.

Eliminating import tariffs on ethanol would also reduce the amount of food used to manufacture ethanol and other biofuels. For example, the U.S. levies a tariff of 2.5 percent plus 54 cents on each gallon of imported ethanol. This tariff protects domestic production of corn ethanol by preventing imports of less expensive ethanol, largely sugar ethanol from Brazil. As World Bank President Zoellick has noted, “Cutting tariffs on ethanol imported into the US and European Union markets would encourage the output of more efficient sugarcane biofuels that do not compete directly with food production and expand opportunities for poorer countries, including in Africa.”<sup>16</sup>

- **Eliminate agricultural tariffs and trade barriers.** Developing countries impose trade barriers and domestic regulations that raise costs of agricultural products and create disincentives for production. Many of the countries experiencing protests and riots over food prices

impose relatively high tariffs on food and petroleum products.

Developed countries generally maintain low trade barriers, but they tend to apply their highest trade barriers to the goods exported from developing countries, such as agricultural products. For instance, the U.S. currently imposes an average tariff of 5.3 percent on all agricultural products, a 25 percent tariff on dairy products, a 5 percent tariff on fruits and vegetables, and a 3.8 percent tariff on cereals. These trade barriers distort markets and reduce global economic growth.

The World Bank estimates that free trade in agricultural products would greatly contribute to global economic growth and be of particular benefit to developing countries. According to the World Bank, the global costs of agricultural tariffs and subsidies will reach an estimated \$66 billion to \$200 billion per year by 2015.<sup>17</sup> The U.S. should point out that these trade barriers are contributing to the current food crisis, propose immediately eliminating them during the upcoming World Trade Organization meeting, and demonstrate its commitment by pledging to eliminate U.S. agricultural tariffs unilaterally.

- **Overhaul food assistance policy to encourage agricultural development in developing countries.** President Bush has sought an additional \$1 billion in emergency food aid for 2008. Specifically, he instructed the Secretary of Agriculture to provide an additional \$200 million in international emergency assistance and requested that Congress approve an additional \$770 million in food aid in 2008.<sup>18</sup> While this aid may help to alleviate the consequences of the current food crisis, it will not address the underlying causes of the crisis. In fact, providing food aid often undermines agricultural markets in developing countries.

The U.S. should minimize the pernicious, albeit unintended, consequences of food aid by removing requirements that U.S. food aid must be

16. Zoellick, “A 10-Point Plan for the Food Crisis.”

17. World Bank, *World Development Report 2008*, p. 103.

18. U.S. Agency for International Development, “USAID Responds to Global Food Crisis.”

grown in the U.S. and transported on U.S. ships. Purchasing food closer to the points of delivery would be more efficient and effective; it also would lower transportation costs, reduce delivery time, stimulate local markets, and benefit local producers. President Bush also proposed amending the farm bill to allow 25 percent of USAID's food aid budget to be used in this fashion, but he was rebuffed by Congress.

These steps, while they might be politically difficult to adopt, would be relatively easy to implement in the United States and are squarely within the control of the U.S. government. Simply removing the regulatory requirements and tariffs would provide immediate relief.

**Preventing Future Crises.** Other measures are more complex, and their effects would not be felt immediately, but they would contribute to preventing future crises. Specifically, the U.S. should:

- **Loosen restrictions on exploiting domestic oil and natural gas reserves.** Petroleum will continue to be the dominant transportation fuel for the foreseeable future, and gas is a key factor in agricultural inputs like fertilizer. The U.S. should make full use of its petroleum and gas reserves, both onshore and offshore.<sup>19</sup>
- **Eliminate U.S. agricultural subsidies and price supports.** U.S. farm subsidies serve no constructive purpose. More than 90 percent of these subsidies are directed at only five crops—wheat, corn, soybeans, rice, and cotton—while producers of fruits, vegetables, and other products thrive without subsidies. Additionally, the subsidies are distributed overwhelmingly to wealthier commercial farmers and agribusinesses rather than to low-income farmers.

Commodity subsidies promote overproduction and thus reduce domestic crop prices.<sup>20</sup> However, price supports, conservation programs, and mandates raise prices. Overall, U.S. farm policies have the net effect of raising prices, costing American consumers an estimated \$12 billion annually, and that is not even counting price increases from ethanol mandates.<sup>21</sup> Thus, restoring U.S. agriculture to a free market would benefit U.S. taxpayers and consumers and help to remove price distortions that contribute to non-market-based volatility and global food surges and shortages.

- **Promote the global elimination of agricultural subsidies.** Other developed countries provide substantial agricultural subsidies to their farmers. In 2006, the European Union was by far the largest provider of agricultural subsidies at \$138 billion. Japan was second at \$41 billion. The U.S. was a distant third at \$29 billion, followed by South Korea at \$25 billion.<sup>22</sup> Globally, agricultural subsidies totaled \$268 billion in 2006.

Eliminating U.S. agricultural subsidies would immediately benefit U.S. consumers and taxpayers but would only proportionally reduce the global price distortions of subsidies. Only eliminating agricultural subsidies more broadly will achieve the full benefits. Elimination or reduction of these subsidies must be a central outcome of a successful Doha Round of World Trade Organization negotiations.

- **Encourage the development and use of genetically modified crops by eliminating trade barriers to such crops and products.** Plant varieties developed through selective breeding or genetic modification have been an immeasurable boon. Crops genetically modified to resist dis-

19. World Trade Organization, "World Tariff Profiles," at [http://www.wto.org/english/res\\_e/booksp\\_e/tariff\\_profiles06\\_e.pdf](http://www.wto.org/english/res_e/booksp_e/tariff_profiles06_e.pdf) (June 13, 2008).

20. Export subsidies also reduce the international prices of American crops, although retaliatory tariffs by other nations negate much of their effect. Price support policies, conservation policies, and ethanol mandates increase prices.

21. Organisation for Economic Co-operation and Development, *Agricultural Policies in OECD Countries: At a Glance* (Paris: OECD Publishing, 2006), p. 69, Table 2.12. The 2003–2005 average annual transfer from consumers was \$12.285 billion.

22. AFX News, "OECD Says Agricultural Subsidies Fell Slightly in 2006," *Forbes.com*, October 23, 2007, at <http://www.forbes.com/markets/feeds/afx/2007/10/23/afx4249139.html> (June 13, 2008).



ease, pests, and droughts are more productive and more environmentally sound because they require less irrigation, pesticide, and fertilizer. Opposition to genetically modified crops has had dire consequences by discouraging domestic cultivation of more productive crop variants in Africa and retarding research on genetically modified indigenous crops that are designed specifically for African climates and pests.

## Conclusion

There is no immediate solution to the current food crisis, but some actions that would be of immediate benefit include eliminating the artificial demand created by ethanol and other biofuel mandates, removing trade barriers on agricultural products, and providing food assistance more efficiently and effectively to those who are facing starvation. The U.S. should immediately change its own policies in these areas and encourage other countries to take similar steps.

The U.S. should also work both domestically and with other countries to undertake long-term actions to minimize the likelihood of another similar food crisis. Of particular importance will be eliminating agricultural trade barriers and subsidies worldwide in the Doha Round, loosening restrictions on exploiting oil and gas reserves in the U.S., and encouraging the development of genetically modified crops that are better suited to Africa and other regions that are prone to famine.

—Brett D. Schaefer is Jay Kingham Fellow in International Regulatory Affairs in the Margaret Thatcher Center for Freedom, a division of the Kathryn and Shelby Cullom Davis Institute for International Studies, at The Heritage Foundation. Ben Lieberman is Senior Policy Analyst in Energy and the Environment and Brian M. Riedl is Grover M. Hermann Fellow in Federal Budgetary Affairs in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation.