

Future of Global Food Trade

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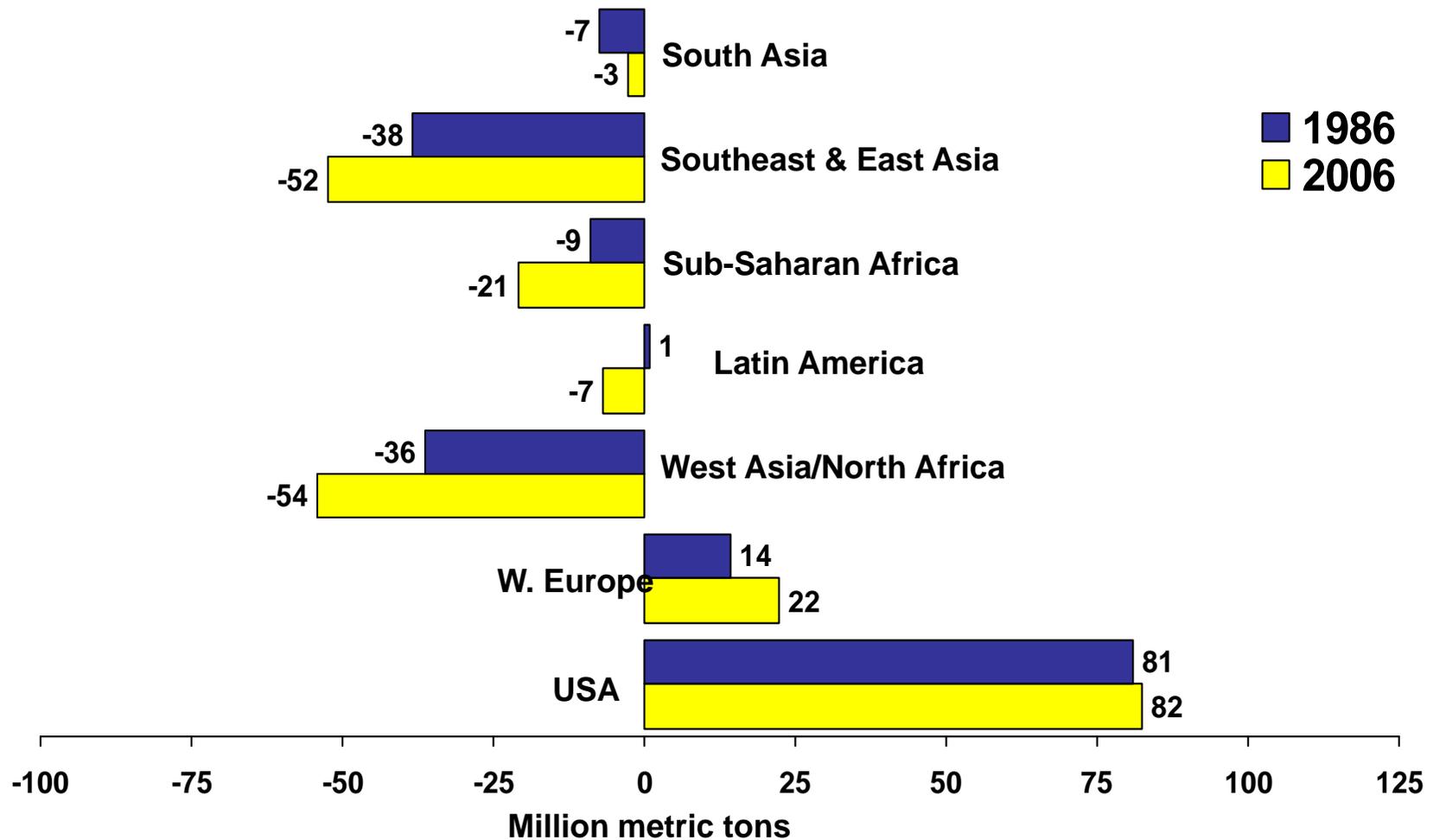
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The importance of world cereal trade

- About 300 million tons, or 12% of world cereal production, is traded internationally each year. This is enough to feed over 800 million people.
- Trade plays an important role in enabling cereal production to be grown in those parts of the world where it is most suited. This helps lower world food prices and reduces the total crop area needed for production. This in turn helps to save forest and slow land degradation in many food deficit developing countries.
- About half of total cereal trade is between the North and South. All the major regions of the developing world are net importers, hence trade plays a key role in shoring up their food security (Figure 1).
- This North-South trade pattern is not new and has built up over several decades (Figure 1), driven by country differences in natural resource endowments, extensive agricultural subsidies in the North, and escalating demands for food and livestock feed in the South because of growing populations and changing diets.

Figure 1: Net trade in cereals by region, 1984-06 and 2004-06



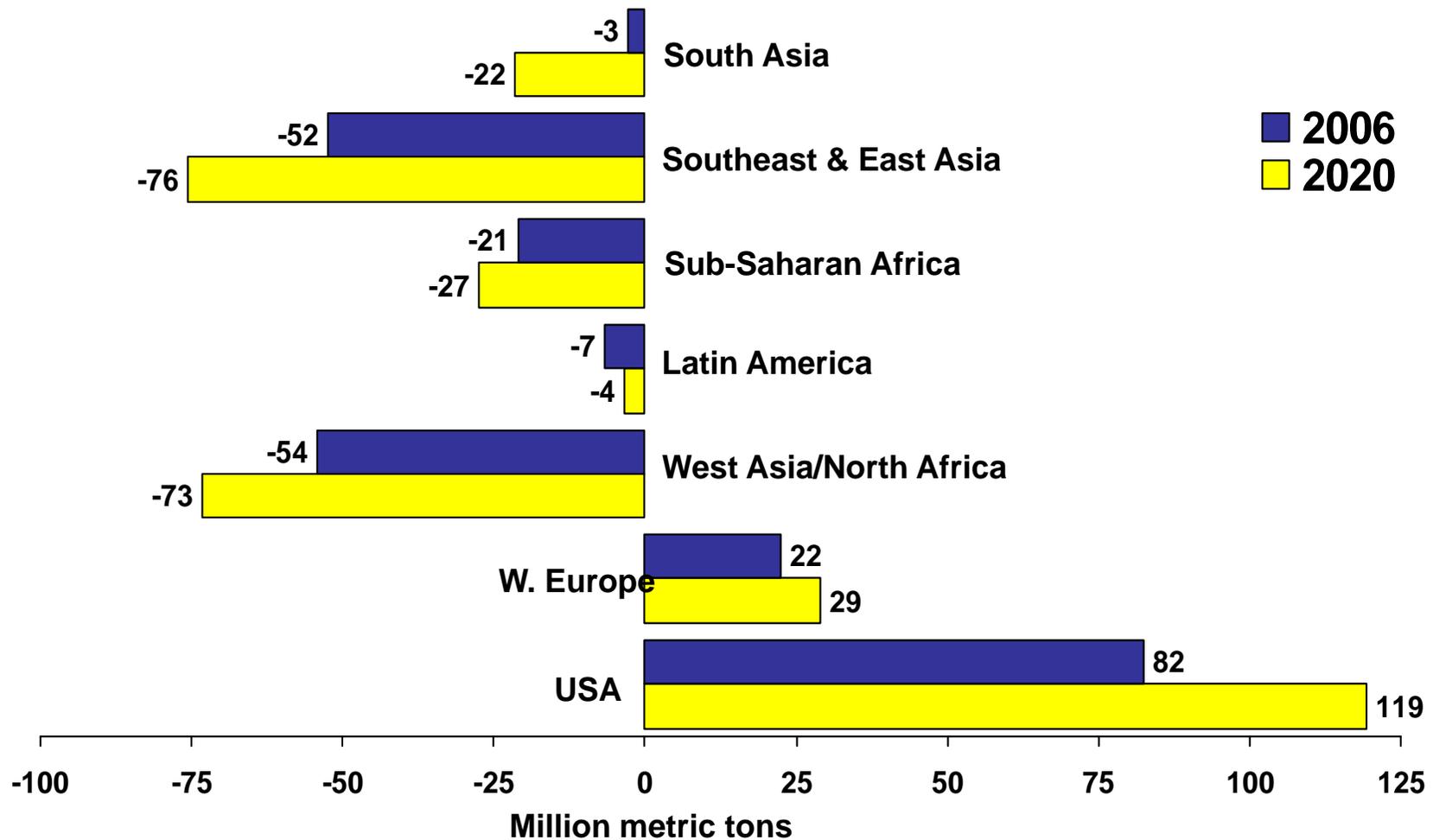
Source: FAOSTAT

Outlook

The outlook is for the South's cereal dependency on the North to continue to grow in the years ahead (Figure 2).

- Some of the factors driving the growth in cereal demand in the South will be the same as before (population growth and changing diets) but new drivers are a slow-down in cereal yield growth (the Green Revolution has now run its course), greater diversion of cropland to nonfood uses, increasing energy and fertilizer prices, and climate change (which is predicted to reduce agricultural productivity in many developing countries).
- But will the North continue to increase its cereal exports? If not then world cereal prices will trend up sharply and become more volatile; poverty and malnutrition will worsen in many poor, food deficit countries; and higher food prices will lead to crop area expansion which in turn will cause more deforestation and land degradation. Africa would be especially hard hit on both the humanitarian and environmental fronts.

Figure 2: Net trade in cereals by region, 2004-06 and 2020



Source: FAOSTAT and IFPRI's world food model

Why might cereal exports from the North prove insufficient?

The North has the biophysical capacity to grow a lot more cereals for export, but policy priorities are moving against exploiting that potential. These include:

- An aggressive expansion of bioenergy production which is diverting cropland and cereals to domestic non-food uses
- Ambitious climate change mitigation goals which will increase the demand for land uses that sequester more carbon and favour reductions in nitrogen fertilizer use.
- Restrictions placed on the use on biotechnology in Europe that limit the scope for significant new yield breakthroughs

Are there “win-win” solutions for achieving food security, energy and environmental goals?

- A win-win strategy requires new rounds of agricultural growth in developing countries, and greater South-South trade.
- This needs to happen while also adapting to climate change
- And be consistent with global goals for climate change mitigation.

How can this be achieved?

- Price increases will encourage new agricultural investments in the South. Agricultural exporting countries like Brazil are already expanding their crop area to export more, and China, South Korea and some Gulf States have already bought up or leased land in Africa to produce food for direct export to their home markets. Other forms of direct foreign investment will also increase, mostly with an export orientation, but not necessarily of food or to the South.
- More generally, food deficit developing countries will need to do more to increase domestic food production. In most cases, this will take significant new public investments in agricultural R&D and rural infrastructure to complement farmers' own on-farm investments, and supporting policy changes.
- It is a contemporary fallacy to think that price increases and the private sector can do the job on their own in most poor developing countries.

How can rich countries help?

- Provide more financial support for agricultural development in poor countries, especially Africa
- Support the development and international transfer of improved agricultural technologies to enhance productivity and sustainability
- Slow down on biofuels mandates until a) policies and investments are in place to permit the required expansion in food production in developing countries, and b) second generation cellulose rich feedstock become more commercially viable
- Contribute financially to the cost of protecting forest and for carbon sequestration in developing countries, either directly through grants or through market mediated approaches like carbon markets.
- Remove trade barriers and tariffs on agricultural commodities and biofuels to allow more efficient use of global agricultural resources