

## **What Role for Biofuels? (related article)**

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**The Food Crisis** (article for International Herald Tribune, April 29<sup>th</sup> 2008)

1. The current food crisis raises questions concerning the appropriate responses in the short-term, to take care of the immediate problems, and then in the long-term.
2. To understand both issues, it is useful to go back to the Food Crisis, no less alarming, that broke out after the failure of Indian, Chinese, Russian and other harvests simultaneously and dramatically in 1972. This crisis was clearly a result of supply factors though some commentators did think that accelerated growth in demand for meat in the developed countries may have played a minor role. The droughts reduced world grain production by 36 million tons in 1972 whereas the previous decade had seen an annual rise averaging at 34 million tons, resulting in a shortfall of nearly 70 million tons! Speculative hoarding of supplies added to the scarcities that resulted.
3. The result was the usual scramble for supplies by nations which used export restrictions to hold back supplies. Remember that the GATT, and now its successor the WTO, places no restrictions on export taxes; and export quotas are also permitted but only subject to submission of acceptable reasons (as a Food Crisis would provide, given the economic vulnerability of the poor and the political vulnerability of their governments).
4. The current crisis is less a result of droughts (except for Australia) and more a result of diversion of crops such as corn to biofuels production. The growth in demand from the developing countries such as China and India, with their dramatic growth rates, has also increased demand sharply. As before, hoarding has followed as has the proliferation of export restrictions.
5. The contrast with the 1972 crisis is obvious. That crisis was essentially a result of simultaneity of severe droughts worldwide. The present crisis reflects long-run factors which will likely not disappear. It needs to be addressed differently.
6. For the short-term, it is practically impossible to tell governments not to hold back supplies. On the other hand, for the importing countries, the IMF can provide short-term assistance for balance-of-payments support so imports can be financed at higher prices and the permanent loss of income from paying more for imports can be offset by enhanced aid flows from multilateral and bilateral agencies for the poor countries. This is precisely what we seem to be moving to.

7. For the long-term, the measures to moderate the prices of foodgrains will require attention to at least three policies where we will have to rethink matters: (i) a moderation of the planned reliance on biofuels and turning to nuclear energy instead; (ii) the acceptance of GM (genetically modified) foods which promise to continue the Green revolution in the modern age; and (iii) the shift in governmental investment priorities to agriculture.