



## **High food prices: threat or opportunity?** **By Marcos Jank**

The recent spike in global food and commodity prices has caused fears in Brazil and countries around the world over the risk of inflationary pressures, the threat of shortages and the exacerbation of global hunger. Food prices continue to rise in the wake of consumer revolts and political riots, as seen recently in the Middle East - a region that has been a consistent net food importer. Soaring food prices are especially worrying, because history is filled with conflicts over lack of resources such as agricultural commodities, energy and minerals.

However, it is important to consider that food insecurity in the 20th Century can also be tied to low income and not merely food scarcity. The advent of genetically modified products, the introduction of modern inputs, mechanization, biotechnology, improvements in crop management, transportation, storage and productive chain integration, as well as market globalization, have enabled food production to grow in line with the global population. This has resulted in a higher level of urbanization and per capita income growth in emerging economies.

Over the past four decades, Brazil has become the third largest exporter of agribusiness products in the world and a model of success for tropical nations. Brazil has increasingly diversified its platform, based on efficient systems of food, beverage, fiber, feed and bio-energy production. The country's agricultural sector, which currently exports US\$76 billion per year, generates 16 million jobs in the field while developing and making use of advanced technologies to establish itself as a global benchmark in several productive chains.

In spite of this, in recent years there have been recurring supply shocks in critical agricultural regions of the world because of floods, excessive rainfall, droughts and disease outbreaks. Global grain stocks, for example, are at a 30-year low and specialists predict a decade of structural deficits in world supply.

Initial responses to high agricultural prices have been hasty analyses and inadequate policy recommendations. A case in point is a letter released by the President of France, Nicolas Sarkozy, proposing the ubiquitous combination of forming buffer stocks and price controls by central governments. Not surprisingly, a proposal involving controlling supply instead of increasing it comes from a country which is notorious for creating distortions in global agricultural markets.

In fact, this form of classic protectionism, inherent in the European Union's Common Agricultural Policy, is deeply rooted in French history. To access the market, one is faced with exorbitant tariffs and import quotas applied exclusively to the most important commodities, along with sliding scale tariffs and all manner of non-tariff barriers that prevent higher value-added imports from competing. Both production and exports are affected by highly distortive subsidies that further restrict global competition.

These are the aspects that need attention in order to expand global food supplies and reduce agricultural commodity prices. The solution is not further government intervention, but rather a concerted effort to reduce distortions by lowering tariffs,



quotas, subsidies and other protections which prevent the full expression of comparative advantage.

It is also time to reflect upon the immense responsibility this new global crisis represents for Brazilian agriculture. Brazil is well-positioned to experience large growth in its agricultural productive chains in a manner that is profitable and sustainable. However, this sector has been hindered by an overvalued currency, infrastructure bottlenecks, sanitary defense deficiencies and latent tensions between agricultural development and environment conservation. Not to mention unacceptable agrarian conflicts and investment restrictions that slow the expansion of Brazilian agriculture.

Regarding the Forest Code, for example, Brazil risks losing immense productive areas that would be turned into forests while we continue to allow the deforestation of large tracts of forest with low agricultural value. This can happen because for 500 years, Brazil did not introduce simple zoning regulations to pinpoint which locations should be destined for agriculture and which should remain forests.

It's time to bring together a true public-private task force to address the inadequate global supply chain. Instead of taxing, incentives should be provided. Instead of regulating or attempting to control supply and demand, productivity should be expanded. The high levels of efficiency obtained within rural properties should be allowed to reach the streets, highways, waterways and ports. Equating agricultural development to environmental conservation, modernizing labor legislation in the field, encouraging domestic and foreign direct investment, increasing rationality and bolstering institutions - these are the important challenges for Brazil's new government. Achieving these goals has repercussions for Brazil and the world, since global agricultural production will have to increase by 70% to meet demand by 2050.

Confucius once said that humans, despite their artistic pretensions, sophistication and many accomplishments, owe their existence to a six-inch layer of topsoil and the fact that it rains. And he was right. However, despite the rain and minerals in the soil, modern, globalized, urban, consumerist and hyperconnected civilization only exists because humans developed agricultural technologies that brought about huge improvements in efficiency and significantly lowered the real price of food. This is the right moment and the right country to commit to this cause.

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