Why Did Global Food Prices Rise?For a quarter of a century, global food prices had been falling, driven by the increased productivity and output of the farm sector worldwide. In 2007, this ame to an abrupt end as global food prices soared. By September 2007, the world price of wheat rose to more than $400 a ton—the highest ever recorded and up from $200 a ton in May. The price of corn (maize) surged to $175 a ton, some 60 percent above its average for 2006. An index of food prices, whichThe Economist magazine has kept since 1845 and is adjusted for inflation, hit its highest level ever in December 2007! One explanation for rising food prices has been increased demand. The increased demand has been driven by greater food consumption in rapidly developing nations, most notably China and India. Rising consumption of meat, in particular,has driven up demand for grains; it takes eight kilograms of cereals to produce one kilogram of beef, so as demand for meat rises, consumption of grains by cattle surges. Farmers now feed 200 million to 250 million more tons of grain to their animals than they did 20 years ago, driving up grain prices.Then there is the issue of biofuel subsidies. Both the United States and the European Union have adopted policies to increase production of ethanol and biodiesel to slow global warming (both products are argued to produce fewer CO2 emissions, although how effective they are at doing this is actively debated). In 2000, about 15 million tons of American corn was turned into ethanol; in 2007 the figure reached 85 million tons. To promote increased production, governments have given subsidies to farmers. In the United States, subsidies amount to between $0.29 and $0.36 per liter of ethanol. In Europe, the subsidies are as high as $1 a liter. Not surprisingly, the subsidies have created an incentive for farmers to plant more crops that can be turned into biofuels (primarily corn and soybeans). This has diverted land away from production of corn and soy for food and reduced the supply of land devoted to growing crops that don’t receive biofuel subsidies, such as wheat. This highly subsidized source of demand seems to be having a dramatic effect on demand for corn and soybeans. In 2007, for example, the U.S. increase in demand for corn-based ethanol accounted for more than half of the global increase in demand for corn. Complicating the situation are the high tariffs that shut producers of alternative products that can be turned into biofuels, most notably sugar cane, out of the American and EU markets. Brazil, the world’s most efficient producer of sugar cane, confronts import tariffs of at least 25 percent by value in the United States and 50 percent in the EU, raising the price of imported sugar cane and making it uncompetitive with subsidized corn and soybeans. This is unfortunate because sugar cane is widely seen as a more environmentally friendly raw material for biofuels than either corn or soy. Sugar cane uses less fertilizer than corn or soy and produces a higher yield per hectare, in terms of its energy content. Ethanol is also produced from what used to be considered a waste product—the fiber removed from the cane during processing. If policy makers have their way, however, the situation may get even worse. Plans in both the United States and EU call for an increase in the production of biofuels, but neither political entity has agreed to reduce tariff barriers on sugar cane, nor remove the trade-distorting subsidies given to those who produce corn and soy for biofuels. Brazil is not sitting on the sidelines; in 2007 it asked the World Trade Organization to probe U.S. subsidies to corn farmers for ethanol production.

2. One estimate suggests that if food prices rise by one-third, they will reduce living standards in rich countries by about 3 percent, but in very poor ones by about 20 percent. According to the International Food Policy Research Institute, unless there is a change in policies, cereal prices will rise by 10 to 20 percent by 2015, and the expansion of biofuel production could reduce calorie intake by 2 to 8 percent by 2020 in many of the world’s poorest nations. Should rich countries do anything about this? If so, what?3. The argument for giving subsidies to ethanol producers rests upon the assumption that ethanol results in lower CO2 emissions than gasoline and therefore benefits the environment. If we accept that global warming is a serious problem, should we not be encouraging governments to increase such subsidies? What are the arguments for and against doing so? On balance, what do you think is the best policy?