



# **CROSS-SECTORAL POLICY DIALOGUE ON FOOD PRICE INCREASES AND VOLATILITY: THREATS AND OPPORTUNITIES**

**SUB-REGIONAL SEMINAR: SOUTHERN CONE**

**REPORT**

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## **CROSS-SECTORAL POLICY DIALOGUE ON FOOD PRICE INCREASES AND VOLATILITY: THREATS AND OPPORTUNITIES**

### **1. INTRODUCTION**

#### **1.1. Background**

The increase in food prices during the second half of 2010 turned on the warning lights again for the international community. The major food price indices used by international organizations increased between June and December 2010 by about 30% (nominal terms), closing the year at levels similar to those reached during the peak in the first half of 2008. The FAO food price index reached its highest historical value in March 2011 and only began to stabilize in May.

In this context, in early 2011 FAO decided to organize a series of global workshops to facilitate the exchange of policy experiences to deal with the complex issue of food price volatility. Three seminars were held in the region: one in the Southern Cone (Chile, for net food exporters), another in Central America (El Salvador, for net food importers) and a third in the Caribbean (Trinidad and Tobago, for net food importers).

The seminars in the Southern Cone and Central America were developed in a joint effort between FAO, the Economic Commission for Latin America and the Caribbean (ECLAC) and the Inter-American Institute for Cooperation on Agriculture (IICA), taking advantage of the existing regional cooperation between the three institutions.

This report deals with the Southern Cone seminar which was held on June 7-8 2011 at ECLAC's headquarters in Santiago, Chile.

#### **1.2. Objective**

To facilitate the exchange of experiences related to policy measures (agricultural, commercial, financial and social) adopted in the last five years to deal with the threats and opportunities arising from food price increases and volatility.

#### **1.3. Participants**

These included high-level representatives from Agriculture, Finance, Trade and Development/Social Welfare Ministries; heads of sectorial policy units and representatives of the public financial system and Central Banks; agricultural producers' organizations; the Foreign Affairs Ministries of MERCOSUR members and international agencies (WFP, IDB, IFAD, World Bank, European Union).

#### **1.4. Objectives**

The seminar aimed to achieve the following results:

- Inform the participants about the main threats and opportunities resulting from the increase in food prices.
- Share best experiences in the use of different policies to mitigate the negative effects and take advantage of opportunities resulting from the price increases.
- Highlight policies needed to strengthen domestic food systems in the medium and long term in the face of increasingly volatile food prices.

- Identify opportunities for horizontal cooperation between countries and with International Agencies for the design and implementation of policies related to food price volatility.
- Evaluate policies that facilitate greater integration of the regional agri-food system.
- Inform the international agencies about the problems and needs of the participating countries, prepare informative reports and define a work agenda based on the exchange of experiences.

## **2. PERSPECTIVES**

The seminar was opened by Mr. Antonio Prado, Deputy Executive Secretary of ECLAC, who discussed ECLAC's concerns about the increase in international food prices, which impacts poor families, drives up inflation, makes the exchange rate more volatile and affects countries that are net food importers. However, this trend is positive for net exporting countries since it generates income and incentives for growth. The challenge is for countries in the region to take advantage of the current high prices to diversify their economies.

Ms. Alejandra Sarquis, IICA's representative in Chile and Executive Secretary of the Southern Agri-Food Council (CAS)<sup>1</sup>, discussed the role of countries of the region in maintaining the global supply of certain foods and contributing to reducing imbalances. Ms. Sarquis also mentioned a recent declaration by the CAS Agriculture Ministers (CAS/Council. Declaration III [XX-2011]), which states that the current volatility of food and commodities prices, measured in real terms, is not significantly higher than the historical average. The statement also points out that food insecurity is a reflection of the structural poverty which engulfs much of the world's population and rejects the idea of dealing with this problem by establishing mechanisms that limit international commodities prices and discourage agricultural production in those countries in which, as in the case of CAS members, there are comparative and competitive advantages to feeding the rest of the world.

After putting the seminar in a global context, Mr. Alan Bojanic, the Officer in Charge of the Regional Office of FAO for Latin America and the Caribbean, discussed the need for an integrated approach to policy responses due to the growing interconnection of markets (financial, energy, agriculture and others), which are very different from one another. He also noted that the current situation is different from 2008 as new instruments have been developed to deal with price increases and volatility. Finally, after noting the opportunities for exporters, he expressed FAO's concerns about the impact of price increases on the poorest families as well as on food security in those countries that are net food importers.

## **3. PRICE AND PRODUCTION TRENDS**

### **3.1. Global and regional trends**

This new episode of price increases has put the issue of price volatility and its causes on the table with much more force than during the 2007-2008 cycle. There are various reasons for this:

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<sup>1</sup> The Southern Agri-Food Council is the regional coordination and consultative forum of the Agriculture Ministers of Argentina, Bolivia, Brazil, Chile, Paraguay and Uruguay.

- Many countries have diversified their energy sources using biofuels due to the increase in the oil price.
- Financial speculation in the commodities market: this is related to the evolution of the international financial market but is also associated with the lax monetary policy in the United States, which has led to a loss in the value of the international reserve currency. Since the euro has not been able to occupy this space, demand for gold, silver and other minerals as well as agricultural commodities has risen.
- Increase in the world demand for food (especially Asia).
- Impact of climate change and natural disasters on the food supply.
- Public policies: trade policies and underinvestment in the agricultural sector.
- Mechanisms for transferring international price variations to domestic markets, which depend on the country's exchange rate, level of self-sufficiency, market failures and policies.
- The decline in grain and oilseed stocks (that existed in the EU, for example) prevents prices from deflating and means that any climate phenomena have an exaggerated impact on prices.

These occur in a context of structural problems, including agricultural underinvestment (public/private), which has resulted in the dismantling of organizations that support the agricultural sector.

These trends have had various impacts:

- **Macroeconomic:** inflation, balance of trade, depreciation and fiscal deficit.
- **Consumers:** increase in poverty levels, widespread food insecurity. Child malnutrition and changing consumption preferences at a household level will have consequences in the short and long term.
- **Producers:** the degree of benefit or harm will depend on factors such as the type of production, the farm size, the cost of inputs, the level of self-sufficiency, and failures in the markets for inputs and outputs at the local, regional and national level.

Price volatility also has other effects:

- Discourages investment in agriculture by the private sector due to the high investment risk
- Reduces the effectiveness of price signals in allocating resources
- Generates political instability which determines the decisions associated with long-term economic growth

In this scenario, various challenges can be identified:

- The interrelationship of markets and their potential knock-on effects ("domino effects")
- The overreaction of markets to bad news, hence the importance of market information systems
- Variability in the returns on agricultural investments
- Growing demand for food products (by 2050 the world population should reach 9 billion)

- Climate change
- Increasing scarcity of water and land

An important issue that should be analysed is the long-term trend of agricultural prices: what is the effect of technological advances on food production costs? The discussion of price increases should be put in a broader context (long term cycles), which allows an understanding of the structural trends that determine the development of world agriculture.

### 3.2. The G-20 debate

Currently, there is a discussion within the G-20 about food price increases and volatility based on information provided by international organizations that have come together for the first time to make a joint proposal (International Organization of Securities Commissions; G-20 Working Group on Development; FAO<sup>2</sup>; WFP<sup>3</sup>; IFAD<sup>4</sup>; WTO<sup>5</sup>; UNCTAD<sup>6</sup>; IMF<sup>7</sup>; World Bank; IFPRI<sup>8</sup>; OECD<sup>9</sup> and HLTF<sup>10</sup>).

This proposal includes a series of recommendations: a) improve production and agricultural productivity; b) improve the transparency of information about physical markets for agricultural products; c) improve the functioning of financial markets; d) continue progress on trade issues; e) support for research on biofuels; f) evaluate the feasibility of emergency food reserves to aid the most vulnerable; g) develop tools for the management and mitigation of food price risk.

These recommendations were discussed at a meeting of agriculture ministers on June 22-23 in Paris. They will also be discussed at a financing and development meeting to be held in September in Washington DC, and at the G-20 Heads of State Summit on November 2-4 in Cannes.

## 4. POLICY RESPONSES

### 4.1. Macroeconomic

The seminar participants also discussed the relationship between prices for commodities and the real exchange rate, which in turn conditions the relationship and coordination between short and long term policies, both important aspects of economic analysis in which the Real Exchange Rate (RER) plays a key role.

The RER ensures sustainable growth and the survival of sectors in which there are large productivity and technological gaps, partly compensating for the lack of innovation and technology policies. Without access to the international market there is no possibility of increasing returns or *upgrading*. The RER is a key driver of development because it links the national economy with global markets.

There are many theories about the link between natural resources and development (*staples theory*, *vent for surplus*, Dutch disease, structuralism), but none of them recommend specializing in natural resources; on the other hand, they coincide regarding the potential impact of natural resource

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<sup>2</sup> United Nations Food and Agriculture Organization

<sup>3</sup> World Food Programme

<sup>4</sup> International Fund for Agricultural Development

<sup>5</sup> World Trade Organization

<sup>6</sup> United Nations Conference on Trade and Development

<sup>7</sup> International Monetary Fund

<sup>8</sup> International Food Policy Research Institute

<sup>9</sup> Organization for Economic Cooperation and Development

<sup>10</sup> United Nations High Level Task Force of the Global Food Security Crisis

dependency on development. For example, New Zealand, Australia, Finland and other countries have a pattern of natural resource usage that is similar to Latin America and the Caribbean, but they have developed policy frameworks conducive to proper use of revenues generated by the production of their natural resources to promote diversification of productive processes.

The region faces the challenge of promoting greater export diversification through the use of technology. But the real exchange rate is key to closing the competitiveness gap and allowing countries to compete in foreign markets.

In the short term, the main policy challenges for the region are how to control the inflow of capital, evaluate the macroeconomic impacts of long-term problems and reform microeconomic or sectorial policies (learning processes, *supply side*, and diversification of the productive structure).

Exchange rate policies and technological innovation should be complementary. Without a competitive real exchange rate, it is not possible for countries to take advantage of economies of scale and technological improvements. Moreover, without an innovation and technology policy, countries run the risk of prolonging indicators of inequality over time (spurious competitiveness), which can only be corrected by the reallocation of production in sectors of higher productivity. The competitiveness gap is not as wide in the areas of highest productivity as in the average and low productivity sectors where employment is concentrated.

The discussion regarding this issue raised the following questions:

- How can countries avoid the emergence of Dutch disease and in particular the trend towards the appreciation of the real exchange rate?
- What instruments can be used to channel the revenues from natural resource exports into investments rather than consumption?
- Can internal policies (macroeconomic and productive policies) mitigate the lack of international coordination (in particular with regard to commodities speculation) and the destabilizing impacts of financial liquidity cycles?
- What role can multilateral institutions play in promoting stability and development?

#### **4.2. Trade**

Data from *Global Trade Alert* indicates that since 2008 there has been an increase of protectionist measures around the world. In industrialized countries, these are mainly domestic policies such as subsidies and preferences for national goods in public procurement processes. But developing countries have taken measures that directly impact trade (tariffs, non-automatic licensing, and minimum customs duties amongst others). In all countries there has also been an increase in antidumping measures.

In the Southern Cone some countries stand out including Argentina (tariff hikes in the context of MERCOSUR's common tariff, antidumping rules, non-automatic import licenses, minimum customs values (MCV), informal barriers to imports, subsidies and export restrictions), Brazil (similar measures with the exception of MCV and export restrictions) and Venezuela. In Brazil, there has also been managed trade (in coordination with the private sector) in the case of powdered milk.

In Latin America, 16.7% of intraregional agricultural trade is subject to restrictions, while 5.3% of intra-Southern Cone agricultural imports are affected by protectionist measures.

By analysing the results of these measures, three main conclusions can be drawn: a) agricultural protectionism also affects other sectors of the economy; b) intraregional trade should be maintained in times of crisis, and; c) in a crisis scenario, the application of protectionist measures increases the contraction of trade, making it difficult for intraregional trade to provide a safety valve in case of external shocks.

#### **4.3. Production**

Another of the issues discussed in the seminar was the trend of declining rates of growth in world agricultural yields, which has been seen in crops like soybeans, corn, wheat and rice, particularly since the end of the 1980s.

In this scenario the region must increase its productive capacity. This was the position of some countries in the region (Argentina) at the recent G-20 meeting. For this reason, investment in biotechnology (resistance to drought, pests, salinity) is needed, as well as new technological practices such as Good Agricultural Practices (GAP), direct seeding, precision agriculture and mechanization. These enable a more efficient use of inputs such as fertilizers and energy, which have lately become more expensive, and help make agriculture more profitable while developing production models that are more environmentally friendly. Countries in the region must also replace maize with other crops and forest biomass to produce biofuels.

Risk management is another key tool to protect agriculture in the region. In this regard, the idea discussed at the last CAS meeting of a regional agricultural insurance policy to lower the cost of premiums is worth considering.

The final issue concerns the labour market. A recent study by the Regional Office of FAO for Latin America and the Caribbean noted multiple problems, such as higher levels of outsourcing, lack of respect for minimum wages, illegal labour and other breaches of labour law, which encourage the migration of people from the countryside to cities.

#### **4.4. Social**

One of the most important recent trends has been the development of public programmes that have been successful in the fight against rural poverty. The most significant experiences in this regard are:

- **Argentina:** Efforts have been made since 2003 to promote greater social equality. Given the failure of the trickle-down theory, the challenge is how to link productive improvement with income distribution; in other words, the country must distribute its income better to keep growing.

The government's first objective is economic growth, which averaged 6.5% annually between 2003 and 2010, allowing growth in reserves (more than \$50 billion in 2010) and a reduction in external debt (equivalent to 36.5% of GDP in 2010).

A second objective is inclusive development. Various measures have been taken towards this goal: a) employment policies (promotion of wage negotiations and parity); b) retirement (2009 flexible retirement act and a planned moratorium on access to retirement benefits has brought more than 2 million people to the system so that in 2010 86% of Argentines of retirement age received pensions); c) Universal Child Allowance (US\$94 average per child for 3.7 million children, conditional on school attendance and healthcare). These measures have had a great social and political impact. For example, before the new child allowance, 62% of children were not covered by social welfare.

The third objective is strengthening the institutional framework. This includes the creation of the Agriculture Ministry (MINAGRI) in 2009, which is separate from the Economy Ministry, and the Family Agriculture Secretariat. MINAGRI is designing a new national agricultural policy and drafting the *Agricultural and Agri-Food Strategic Plan 2010-2016*, in conjunction with all productive sectors, universities, provincial governments and other actors. Other relevant measures include the creation of the National Family Agriculture Forum, the strengthening of INTA and SENASA and support for the Special Family Agriculture Partnership (REAF).

The Ministry of Agriculture assumes that provincial and municipal governments should be responsible for implementing rural development policies including: a) helping communities move up the value chain in dairy, fruit, wine, honey, spices, and livestock production; b) improving public infrastructure (irrigation, electrification, rural roads, technical schools, health centres and water supply); c) small-scale inclusive productive systems (manual milking, artisanal winemaking etc.).

Other initiatives include: a) implementation of the National Family Agriculture Registry (RENAF); b) collective marketing programs; c) adaption of food safety norms to the reality of family farming; d) support for family farming business initiatives; e) financing instruments (revolving funds); f) emergency agricultural funds to compensate for weather and market contingencies; g) programs to strengthen rural-urban fringe production systems. With regards to this last point, the PRO HUERTA program is funded by the Ministry of Social Development and implemented by INTA (including 624,000 family, school and community gardens and 125,000 farms).

- **Bolivia:** The government is implementing the Mother-Child Bonus which gives pregnant women and mothers 2,080 bolivars (US\$300) for each child less than two years of age. This measure aims to reduce mother-infant mortality rates.

The food crisis in Bolivia is a structural problem associated with the system of land tenure, the labour market and the productive system. Previous economic models are considered consumerist and predatory but a new model is needed to deal with the impact of climate change and social changes. This requires an integrated response that considers market policies and regulation (price bands, domestic demand, diversification of exports, storage, R&D, investments). Given the crisis of the global food system, however, global responses are needed beyond the efforts of one country.

- **Brazil:** The government is implementing a strategy that seeks to reduce poverty through a multi-sectorial approach. It includes four main focus areas:
  - ***Income assurance and social protection policies:*** a) minimum wages (between 2002 and 2010 the real minimum wage rose by 53.7%); b) social security benefits (increasing the amount of benefits provided by the National Social Security System (RGPS), driven mainly by growth of pensions; c) the extended allowance benefit (a non-contributory minimum wage for elderly and disabled persons without the means to support themselves); d) the family welfare program *Bolsa Familia*.
  - ***Bolsa Familia programme:*** This is a new program through which families receive a subsidy depending on their level of income. Families with per capita income below 70 reais (US\$44) are considered extremely poor and have the right to the basic benefit of 70 reais and other benefits. However, if per capita income is between 70 and 140 reais, the family is considered poor and can access only some benefits. There are currently 14

million families in this program. A study by the Sao Paulo Institute of Applied Economics (IPEA) determined that this program has had an important impact and was responsible for a 12% reduction in inequality as measured by the Gini coefficient between 2011 and 2008.

- ***Institutionalization of food and nutritional security***: This has been accomplished through Law No. 11,346 of 2006, which created the National Food Security and Nutrition System (SISAN). This law created a council with around 2,000 members elected from across the country who meet to establish the guidelines of the Food Security and Nutrition National Policy (PNSAN). PNSAN is multi-sectorial in nature and encompasses various ministerial programmes such as:
  - *Promotion of universal access to food supplies*: Bolsa Familia; National School Nutrition Programme; Network of Public Food and Nutrition Facilities; National Worker's Food Programme and the Food Distribution Programme for Specific Groups.
  - *Development of food production, processing and distribution systems*: minimum prices and inventories; National Programme to Strengthen Family Agriculture (PRONAF); Food Purchase Programme for Family Agriculture (PAA); Agrarian Reform; Conservation and Agro-Biodiversity Management Programme, and the Fishermen and Fish Farmers' Support Programme.
  - *Promotion of universal access to water*: construction of tanks (cisterns) to store rainwater for human consumption and food production.
  - *Support for indigenous peoples and traditional communities*: food distribution, land regularization.
  - *Support for food and nutritional education programmes* run by the Ministry of Social Development, Health and Education.
  - *Strengthening food and nutrition programmes* at the primary healthcare level in coordination with the Ministry of Health.
- ***Ministry of Social Development and the Fight against Hunger*** in the area of food and nutritional security, this includes promoting multiple production, marketing and consumption initiatives.
- ***Plan Brasil sin Miseria (Brazil without Misery)***: This plan launched by the new government is the second version of the *Fome Zero plan*. The government's priority is the eradication of extreme poverty in 4 years, which includes lifting 16.2 million people out of poverty. It includes three areas of action: a) minimum income (*Bolsa Familia*); b) productive inclusion (qualifications and training amongst others), and c) access to public services (such as health, education and water).

This plan has been implemented through programmes to provide technical assistance, promotion and seeds, water for all, acquisition of food for family farming and public procurement (school nutrition). In addition, the government wants to involve supermarkets and the private sector in general.

Beyond these four priority areas, the government has designed a sectorial agricultural strategy aimed at supporting small-scale farmers, which represent 84.4% of the total farms in

the country (5.2 million). This strategy includes three public policy areas: a) the expansion of technical assistance programmes through the ATER agencies; b) the extension of financial assistance and risk management programmes (climate and prices), and; c) the development of value-added policies (agro-industry, biofuels, direct purchasing and marketing amongst others).

These initiatives are promoted through the National Programme for the Enhancement of Family Agriculture (PRONAF), established in 1995 to promote public policies to support rural development.

- **Chile:** The government has implemented various programmes aimed at fighting poverty including the *Chile Solidario* programme, the Puente programme and nutrition programmes executed by JUNAEB in rural and urban schools.

From the agricultural viewpoint, the government's main instrument is INDAP, which works with a very diverse sector comprising 262,000 farms, of which 58% are subsistence or so-called "multi-purpose" farms. These farms, averaging just 3 hectares in size, have difficulty marketing their produce and tend to be run by older farmers (53 years average) with low levels of education (average 6 years of basic education), limited access to financial services, low levels of management and limited access to information.

INDAP's strategy includes various instruments: a) technical assistance programmes for small-scale farmers (productive partnerships between agribusiness and producers, SAT, CEGE); b) land assistance programs for subsistence producers (PRODESAL, executed by municipalities which serves 53,000 producers with a goal of raising this to 88,000 in 4 years); c) Indigenous Land Development Programme (PDTI, with around 20,000 families); d) Investment Development Programmes (PDI, subsidies for investment in storage facilities, fences, infrastructure etc.); e) intra and extra predial irrigation programmes in coordination with water rights regularization programmes; f) soil recovery programmes; g) credit (short and long-term loans); h) Financial Assistance Programme to enter private banking; i) revolving irrigation fund; and j) agricultural insurance.

INDAP's main challenges include: a) providing a wide range of timely and efficient services; b) consolidate productive partnerships between industry and small producers; c) improving coverage and quality of land assistance programmes (BÍOBÍO, PDTI) with the aim of defeating rural poverty and reducing migration to cities; d) promoting efficient water usage through the financing of intra and extra-predial projects; e) defining a spending policy that helps new producers and; f) promoting mitigation and adaptation measures in small-scale agriculture to mitigate the impact of climate change.

Also discussed in the seminar was the experience of the Chile Food Network, an NGO that has established agreements with companies to pick up whatever food is not consumed prior to it being thrown out. This is an important issue because, according to FAO estimates, approximately 30% of food is thrown out without being consumed. The creation of food banks is also needed to help those who have problems in obtaining sufficient food.

- **Ecuador:** The government is working to increase food production, which means reforming sectorial institutions. This effort is based on constitutional reforms (creation of a popular economy, creation of the concept of Food Sovereignty) and in the implementation of

programs focused on family farming. In this context, the government is working on revitalizing local markets and establishing a programme of public procurement and inclusive businesses (PRONERI), which seeks to eliminate middlemen and improve the conditions of sale for products of small-scale agriculture.

Another key issue is the marketing of food products including export promotion and domestic consumption, which requires more transparent markets and a change in consumption habits. Finally, there is the issue of employment: a policy is needed that ensures employment conditions for producers and workers alike.

- **Mexico:** The Mexican government is developing a national rural development programme in the framework of the National Development Plan 2007-2012, which aims to ensure the timely and sufficient supply of food to the population and ensure a fair income for agricultural producers.

The Mexican Council for Sustainable Rural Development (CMDRS) has coordinated efforts between the Powers of the Union, the three levels of government and rural society, resulting in the coordinated implementation of public policy including actions and resources. The plan involved an investment of 73.4 billion pesos (approximately US\$6.1 billion) in the 2010 budget and was executed through several programmes (acquisition of productive assets, PROCAMPO, PROGAN, rural financing, technical assistance, food safety and stabilization of income among others). Currently, SAGARPA and producers' organisations are reviewing the Rules of Operation that will govern the programmes in the field in 2012.

- **Paraguay:** The government is working to increase the supply and availability of food for the local population. This means looking at these issues not only from the perspective of the world market (exports), but also from the domestic market, establishing links between economic and social policies. There is interest in developing tools to manage uncertainties (stabilization funds, insurance) and concerns about trade restrictions at the intra-regional level.

Other areas of interest include technology development, especially in relation to small farmers, forestry and climate change, as well as the implementation of integrated social protection systems that incorporate nutrition.

- **Peru:** In 2011, the government promised to reduce poverty by 20 percentage points and chronic malnutrition in children less than 5 years of age in rural areas by 9 percentage points. A national agreement was signed in 2002 that includes 30 policies with a horizon of 20 years based on the MDG targets. The government also approved the National Strategy for Food Security, the Rural Development Strategy and the National Plan of Action for Children, among others.

Within this framework, 12 national policies were approved and 19 strategic programmes implemented within the Budget by Results framework. The reform implies a reduction in the number of programmes from 82 to 26, seeking greater efficiency and cost reduction. It also increased the budget from 3.9 billion soles (US\$1 billion) in 2006 to 7.6 billion soles in 2011.

In 2005, the Conditional Rural Subsidy Program (JUNTOS) was created, which benefits 471,000 families in 646 poor districts of 14 departments in Peru. The national strategy CRECER was created, which gives priority to the fight against poverty and the reduction of chronic malnutrition in 1,119 districts nationwide. This strategy is based on a public-private joint venture which considers three main areas of intervention: human capital development; the promotion of opportunities and economic capacities; and the establishment of a social

protection network. This strategy works at national, regional and community levels and seeks to implement an integrated approach, which includes services, cash subsidies, organization, access to infrastructure and equipment (water storage, improved cooking facilities and others), higher incomes and improvement in the availability of food. In 2006, a reform was passed which seeks to encourage investment and reduce poverty and exclusion.

Another important programme is the National Food Assistance Program, which runs programmes to ensure food supplies and raise the nutritional level of the population in situations of extreme poverty aimed primarily at vulnerable groups at high nutritional risk. This programme is aimed at 4.2 million children under the age of 3 years as well as pre-school and school-age children, pregnant women, mothers, people with TBC and homeless families. This strategy has been successful by reducing total poverty from 48.7% in 2005 to 31.3% in 2010, and reducing child malnutrition from 28.5% in 2007 to 23.2% in 2010.

Peru's challenges include: a) improving the distribution of the benefits of growth; b) continuing to prioritize the issue of poverty and child malnutrition as a national policy; c) designing different strategies for rural and urban areas; d) improving the targeting and monitoring of social programmes as well as promoting social monitoring to achieve transparent management of resources; and e) maintaining the coordination of local and regional governments and programs to achieve an integrated approach.

Recent experience offers an important lesson: the participation of all stakeholders is key, which requires political commitment and will at the highest level.

- **Uruguay:** The strategic guidelines of the Livestock, Agriculture and Fisheries Ministry (MGAP) include six main areas: a) development of public policies (food safety, R&D, climate change, risk management, market information); b) development and integration of export chains (differentiation of products and processes to supply international markets; building new capacities in traditional agricultural areas and knowledge-intensive sectors and strengthening public-private partnerships); c) promotion of rural development for social integration; d) creation of an institutional framework to improve the coordination between sectorial agencies and with other government agencies; e) formation of a national land management system; and f) legal and regulatory reforms for the registration of biological products and discrimination of inputs based on their environmental impact.

In this context, the government created an Innovation Commission in 2005 and a Productive Development Commission in 2009, which include representatives of the various ministries involved in both areas.

The financial crisis that hit the country in 2002 left large parts of the population vulnerable, which highlighted the issue of food prices. The impact of price increases on the poor led to the creation of the Food Security Monitoring Agency and the Food Security Commission. In addition, the government created a network of social protection schemes; a Family Agriculture Board as part of MGAP; and established a legal definition of family farming. This has allowed the country to be more prepared for the latest food price crisis.

In 2007, rural development hearings were held, which included the participation of civil society and authorities. The problem of unemployment has been resolved (currently 6%), which is allowing progress on the issue of employment quality.

Although not everything is resolved in Uruguay, after the many reforms in the last three years the government has been able to realize its promise of creating a more "productive

country". Today there are 1 million hectares of soybeans, 1 million hectares of forest, and 600,000 hectares of wheat that did not exist before while the production of meat and milk has also increased.

## 5. INTERNATIONAL INITIATIVES

- **World Food Programme (WFP):** In Latin America and the Caribbean, the food problem is a problem of access and not availability. Long term measures are needed to lower prices and increase production, but the poorest segment of the population must also be protected and short term measures are also needed. A national social protection network, which has been created in many countries, is key in this regard. Hunger must be defeated, which means institutional continuity. Some social protection networks do not yet include food and nutrition or they lack institutionalization. These measures should be taken now and the WFP is committed to this.
- **ECLAC/FAO/IICA:** These institutions are working together in many areas, especially in the analysis and formulation of policies. In the current scenario, they are monitoring the food price increases, providing technical assistance to governments and promoting the exchange of experiences.
- **Special Family Agriculture Partnership (REAF):** The objective of this initiative is to strengthen public policies for family agriculture in MERCOSUR and facilitate trade in the products produced by family farms. Its achievements include the creation of a registry of small producers, information about these producers in all countries of the region, the Regional Public Procurement Programme, the Regional Gender Equality Programme and the Regional Course for Training Rural Youth. Family farming should be part of the solution and not the problem. This requires a joint effort which has been helped significantly by the new institutional framework. REAF has made progress in many areas and emphasizes the creation of the Family Agriculture Fund (FAF) planned for 2010-2015.

## 6. CONCLUSIONS

### 6.1. Conclusions

- It is increasingly clear that South America's Southern Cone is a key source of essential foods needed to face future global nutritional challenges, which puts this region in the centre of the global food debate.
- The food crisis is a problem of availability and access. To solve this problem it is important to continue working on the creation of social protection networks as many countries in the region have done successfully. However, good nutrition has not been well established as an explicit objective of these networks and specific institutional policies are needed to address this problem.

Despite this challenge, the existence of programs with productive development goals specifically designed for the poorest farmers (public procurement and grants to finance technical assistance, microcredit, access to water supplies, farming equipment for communities, environmental improvements, and value-added production, among others) is an important new development that shows the progress that has been made from previous stages.

- The slowdown in the growth of crop yields is a disturbing trend considering future global food challenges. For this reason, developing productive improvements and technological innovations that help to increase the domestic and global food supply should be a top priority. This implies greater investment in R&D programmes, precision agriculture, plant protection and animal health, trade, irrigation, direct sowing, food safety, quality, credit, technical assistance and storage infrastructure among other critical areas.

However, this should be done in a sustainable manner since the Southern Cone is a biodiversity reserve and faces many environmental challenges, including better management of water resources, the mitigation of greenhouse gases and climate change adaptation. This requires a great technological effort, especially by small family farmers who tend to lag behind in this regard in many countries. The global food supply must be increased, but not at any price.

- Post-harvest technologies to reduce food losses should be improved. For example, the introduction of silo bag technology in Argentina has allowed better management of crops and, at the same time, better management of producers' marketing strategies. The experience of food banks that collect food not consumed by companies prior to its disposal also seems promising.
- All of the above requires stronger public institutions to support production and environmental regulation. Among other areas, this means improving marketing systems and strengthening research and technology transfer programmes as well as better information management, risk management and adaptation to climate change. It also requires long-term policies to encourage investment in infrastructure.
- These improvements must be made in coordination with macroeconomic policies that favour the development of agriculture and productive activity in general (fishing, forestry, etc.), which includes a competitive and stable real exchange rate among other factors. There are also important structural problems, such as access to land and land purchases by external actors as well as the functioning of the labour market.
- These efforts must be framed within a context of global negotiations; the successful completion of the WTO Doha Round is essential as well as the creation of emergency global food reserves, global food production monitoring systems and R&D programmes linked to climate change.

## **6.2. Action plan**

Considering the key points raised during the seminar, managing the impact of food price increases and volatility requires the implementation of an action plan based on ten main recommendations:

1. Continuing progress on outstanding trade issues: at the global level this includes successful completion of the Doha Round, and at the regional level it includes the resolution of intra-regional trade disputes.
2. Creating a monitoring centre to anticipate swings in food prices as well as making the functioning of domestic markets more transparent. For this purpose, the following actions were proposed: a) the creation of regional price indices for baskets of relevant agricultural products to complement FAO's global food price index; b) pricing studies throughout the food chain to generate new statistics and introduce monitoring instruments; c) the development of technical standards and marketing regulations; d) the promotion of new

types of production linkages including programs for suppliers and inclusive business between agribusinesses and producers; e) public procurement systems for small-scale farming; f) incentives for the development of urban and peri-urban agriculture, which link directly to producers and consumers, among others.

This initiative should be coordinated with equivalent initiatives being analysed on a global scale by the G-20, especially those related to the creation of an Agricultural Markets Information System (AMIS), which seeks to coordinate efforts of the main world food producers in terms of greater transparency and dissemination of information about agricultural markets, especially prices.

3. Strengthening the development of social protection networks based on the valuable experiences already obtained in the region (e.g. Argentina, Bolivia, Brazil, Chile, Ecuador, Mexico, Paraguay, Peru and Uruguay). Evaluating the creation of food stocks for the most vulnerable segment of the population and deepening the development of small-scale agricultural production programs, particularly directed towards subsistence producers.
4. Improving R&D and technical assistance instruments to develop technological innovations and accelerate their dissemination throughout the region, especially among small producers. Also, strengthening research in biofuels and energy efficiency programs and developing new research programs that allow a rethinking of production models (post-harvest losses, valorisation of by-products, adaptation to climate change and agrarian infrastructure among others).

This initiative should be coordinated with equivalent initiatives being analysed by the G-20 to support actions by the *Consultative Group on International Agricultural Research* (CGIAR) and the *Global Forum on Agricultural Research* (GFAR).

5. Promoting the development of financial instruments to support producers and develop tools for the management and mitigation of price volatility (price stabilisation).

This initiative should be coordinated with equivalent proposals being analysed on a global scale by the G-20, such as the development of a "toolbox" of policies and instruments for the management of agricultural price risk and volatility in collaboration with national, regional and international organizations. The G-20 has proposed that developing economies especially, due to their vulnerability to food price volatility, should be able to choose between different policy options those policies that best suit their needs when it comes to mitigating the negative effects of sudden swings in international food prices.

6. Regulating the functioning of international financial markets in order to reduce speculation in the agricultural commodities market.
7. Encouraging a change in the consumption habits of the local population, on the one hand to promote the consumption of healthier products and, on the other, to promote the consumption of products originating in the region (e.g. quinoa and other crops).
8. Creating food banks to receive food not used by large and medium-sized companies in urban and rural areas.
9. Studying the creation of two new mechanisms that take advantage of synergies between countries of the Southern Cone: a) a price-setting mechanism e.g. for soybean prices given that the region is the world's largest producer; b) a system of weather insurance at the regional level in order to reduce premiums.
10. Monitoring the functioning of labour markets to ensure compliance and the improvement of labour legislation.