Chapter 16

Strategies for Solving the Food Inflation Problem

There are two ways to solve the challenges associated with expected food demand/inflation. One is going back to an increase in protectionism, stimulating noncompetitive areas to produce in an “economically artificial environment” and returning to the policies of “self-sufficiency” of war times. The other is moving toward growth, global trade and inclusion. Here, a 10-point agenda (see Table 16.1) is offered to governments and international organizations as a solution to solve the upcoming food demand and inflation problem, which could be the right avenue to follow in providing long-term results, peace, fair income distribution and inclusion. They will be addressed in sequence.

Promote horizontal expansion in production into new areas, with environmental sustainability. This expansion can be done in several countries (South America uses only 25% of its capacity), in all continents, in millions of hectares that today are poorly used. In Brazil, several studies by recognized institutions confirm the existence of more than 100 million hectares that can be utilized for food and biofuels production, without touching fragile systems and mostly growing over degraded pastures. These production and land expansions, if stimulated with sustainable contracts, will bring inclusion in farming, new entrepreneurs, job creations in less developed nations, fair income distribution and economic development, even having a positive impact in democracy. Land costs are getting higher since several pension funds are looking for security and thus buying land. Recently, a fund of US$ 800 million in Arabian countries was dedicated to land buying and food security, having South American and African countries as targets (Financial Times). There have been several efforts by China and other countries in building such supply chains abroad. This is a perfect match of investments to achieve development.

Increase productivity or create vertical expansions (more production in areas that are already being utilized). Several hectares in South America, in Africa, in Asia, and even in developed nations could produce more yields if more and better technologies were
used and associated investments were made. If one compares the amount of corn a US farmer can generate in tons per acre, it is two or even three times higher than the average production of Brazil and other countries. With irrigation, some farms on the tropics can generate three crops per year. Major research and investments should be dedicated to these improvements.

Reduce food import taxes and other import barriers and protections. Food prices in some countries are artificially inflated due to import taxes and other kinds of protection that damage international trade, markets and growth. As an example, beef in the European Union costs four or five times higher than the same quality beef in an Argentinian or Brazilian store of the same European retailer. The argument mostly used is that lowering protection will damage local agriculture of less developed countries. It must be assumed now that the new level of commodity prices may allow local agriculture to be competitive. Several other internal taxes on food can also be reduced by local governments, reducing consumer prices. Additionally, the more than US$330 billion spent annually by OECD members in agricultural subsidies is putting more pressure on prices while undermining more cost-efficient food production in naturally competitive countries.

Invest in international logistics in order to reduce food costs. Some grain-producing countries suffer from extremely poor logistics. Governments should invest and society should work harder to reform institutions in order to facilitate public–private partnerships to privatize ports, roads and other food distribution and logistics equipment to increase the flow volumes and reduce energy consumption.
Reduce transaction costs. Major international food chains are poorly coordinated and have several redundancies, poor use of assets, corruption, opportunism and other inefficiencies, which are largely responsible for losses. This increases the costs and maintenance of nonvalue-adding companies, agents, etc., thereby impacting food prices. Institutional reforms, as proposed by Douglass North, are the solution here. Also, more efficient cooperatives, producer pools, and other collective actions should gain strength to reduce redundancies and increase producer organization and bargaining power.

Use the best sources for biofuels, in a totally sustainable way. The example of Brazil could be better analyzed, where ethanol has been produced for more than 35 years, on 3.5 million hectares of cane, using only 1% of the country’s arable land and supplying 52% of fuel transport consumption, with no impact on food production. The growth of food production and biofuels together in the state of São Paulo (the major area of sugarcane growth) in the last 10 years shows that it is possible to combine both food and biofuel crops production. Crops for biofuels that have better yields and do not compete with food chains should be prioritized in the global development of biofuels. The energy balance of sugar cane ethanol is 4.5 times better than that of ethanol produced from sugar beet or wheat, and almost seven times better than ethanol produced from corn.

Invest in a new generation of fertilizers. It is important to produce fertilizers from alternative sources, plants that can absorb more energy of the sun, more recycling of by-products as sources of fertilizers would mitigate the huge risk and cost of fertilizers in the future. Fertilizers are among the most important and expensive inputs for agriculture, and in the present times when the yield must be improved, its importance grows even bigger.

Work more toward sustainable supply contracts for farmers, with integrated sustainable investments and projects. It is of fundamental importance that margins and incomes should be better distributed in food chains, reaching farmers all over the world. Price stimulus is the best economic incentive for growth in production with technology. It is well known and studied how concentration in several food industries and retailing retains margins that could be better distributed to farmers thus increasing economic development and bringing a very positive externality to several regions.

Stimulate research and investments in innovation from all possible sources. This should be pursued mostly in genetics, in order to find new solutions for food and biofuels production and consumption. In trying to solve the sustainability equation, seeds are a problem today, due to shortages. Public investments in agricultural research and development have decreased considerably in the past couple of decades, resulting in a yield-growth slowdown, disabling production and the ability to keep up with rising consumption. Since trust in biotechnology is increasing in society, bringing a new era of acceptance, research should receive more attention.

Slowly work to change consumption habits in both food and fuel. We must realize that supporting nine billion people in the planet in a sustainable manner will present several challenges. Hence, behavior of people should gradually be changed toward
Strategies for Solving the Food Inflation Problem

sustainability. Food is overconsumed in several parts of the world, bringing with it obesity — a major health concern. Another area of inefficient consumption is fuel. Investments need to be made in resourceful public transportation. This is a major challenge in many countries. For example, Barcelona has implemented a well-planned public biking system, which is an excellent example of a working solution. Table 16.1 summarizes the causes and the proposed solutions.

Discussion question (Chapters 15 and 16)

Do you know of any other additional points that could be termed as causes and solutions to the food demand model? How would you rank these causes and solutions according to their importance?