AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

S. HRG. 110–717

RESPONDING TO THE GLOBAL FOOD CRISIS

HEARING

BEFORE THE

COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE

ONE HUNDRED TENTH CONGRESS

SECOND SESSION

MAY 14, 2008

Printed for the use of the Committee on Foreign Relations

Available via the World Wide Web: http://www.gpoaccess.gov/congress/index.html

U.S. GOVERNMENT PRINTING OFFICE

47–118 PDF WASHINGTON : 2009

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

COMMITTEE ON FOREIGN RELATIONS

JOSEPH R. BIDEN, JR., Delaware, *Chairman*

CHRISTOPHER J. DODD, Connecticut
JOHN F. KERRY, Massachusetts
RUSSELL D. FEINGOLD, Wisconsin
BARBARA BOXER, California
BILL NELSON, Florida
BARACK OBAMA, Illinois
ROBERT MENENDEZ, New Jersey
BENJAMIN L. CARDIN, Maryland
ROBERT P. CASEY, JR., Pennsylvania
JIM WEBB, Virginia

RICHARD G. LUGAR, Indiana
CHUCK HAGEL, Nebraska
NORM COLEMAN, Minnesota
BOB CORKER, Tennessee
GEORGE V. VOINOVICH, Ohio
LISA MURKOWSKI, Alaska
JIM DEMINT, South Carolina
JOHNNY ISAKSON, Georgia
DAVID VITTER, Louisiana
JOHN BARRASSO, Wyoming

ANTONY J. BLINKEN, *Staff Director*
KENNETH A. MYERS, JR., *Republican Staff Director*

CONTENTS

	Page
Biden, Hon. Joseph R., Jr., U.S. Senator from Delaware, opening statement	1
Cardin, Hon. Benjamin L., U.S. Senator from Maryland	35
Casey, Hon. Robert P., Jr., U.S. Senator from Pennsylvania, statement	32
Corker, Hon. Bob, U.S. Senator from Tennessee, statement	21
Feingold, Hon. Russell D., U.S. Senator from Wisconsin, statement	23
Fore, Hon. Henrietta, Administrator, U.S. Agency for International Development and Director of U.S. Foreign Assistance, Washington, DC	6
Prepared statement	9
Responses to questions submitted by Senator Russell Feingold	78
Isakson, Hon. Johnny, U.S. Senator from Georgia, statement	34
Lazear, Hon. Edward P., Chairman, Council of Economic Advisers, Executive Office of the President, Washington, DC	11
Prepared statement	13
Lugar, Hon. Richard G., U.S. Senator from Indiana, statement	4
Lyons, James R., vice president for Policy and Communications, Oxfam America, Washington, DC	59
Prepared statement	64
McPherson, Hon. M. Peter, president, National Association of State Universities and Land Grant Colleges, Washington, DC	51
Prepared statement	53
Menendez, Hon. Robert, U.S. Senator from New Jersey, statement	27
Murkowski, Hon. Lisa, U.S. Senator from Alaska, statement	29
Nelson, Hon. Bill, U.S. Senator from Florida, statement	20
Sheeran, Hon. Josette, Executive Director, World Food Programme, United Nations, Rome, Italy	40
Prepared statement	43
Voinovich, Hon. George V., U.S. Senator from Ohio, statement	24

Additional Material Submitted for the Record

International Food Policy Research Institute, prepared statement by Joachim von Braun and Rajul Pandya-Lorch	80
Maritime Food Aid Coalition, prepared statement by Bryant E. Gardner	83

RESPONDING TO THE GLOBAL FOOD CRISIS

WEDNESDAY, MAY 14, 2008

U.S. SENATE,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The committee met, pursuant to notice, at 9:33 a.m., in room SD–419, Dirksen Senate Office Building, Hon. Joseph R. Biden, Jr. (chairman of the committee) presiding.

Present: Senators Biden, Feingold, Bill Nelson, Menendez, Cardin, Casey, Lugar, Hagel, Corker, Voinovich, Murkowski, Isakson, and Barrasso.

OPENING STATEMENT OF HON. JOSEPH R. BIDEN, JR., U.S. SENATOR FROM DELAWARE

The CHAIRMAN. Today the Committee on Foreign Relations will examine a topic that is making headlines around the world: The global food crisis. The famous Nobel laureate, the father of the Green Revolution, had a great quote I thought some time ago. He said: "Without food, man can live"—excuse me. "Without food, man can live at most but a few weeks. Without it, all other components of social justice are meaningless."

Today we meet here with millions of men and women around the world, and children as well, facing the fact of hunger and starvation. The price of indispensable staples—wheat, rice, and maize—has doubled in the last 3 years. People are worried, they're angry, and some are even rioting. From Haiti to Egypt, to Bangladesh, riots have broken out as people demand the right for affordable food.

For millions of people in the world who live on less than a dollar a day, higher food prices are the difference between a full stomach and hunger. For many it's the difference between life and death.

The effects of the global food crisis are also felt here in the United States of America. At home, the price of eggs has jumped 35 percent. It was interesting, if I can be anecdotal for a minute. My mother is 91 years old and lives with me and I take her shopping at the local supermarket. I got such an earful from my mother last time around, Dick, her pointing out at 91 she doesn't ever remember prices rising so quickly. And I kept telling her: Mom, it's OK; you will not starve.

But all kidding aside, it's amazing the impact food, even in the United States, is having on retired people, people of modest income and without any help. A gallon of milk costs 23 percent more. Even Sam's Club and Costco are limiting the amount of rice consumers can purchase at any one moment.

This crisis has caught policymakers unprepared. For 20 years, foreign assistance funding for agricultural development has been declining. This is not a criticism of the Bush administration. It was declining during the Clinton administration and the former Bush administration. Necessary investments in my view have not been made. Donor nations lack a coherent food security strategy and our response has been, I think, somewhat belated and disjointed.

The typhoon that devastated Burma, the earthquake that hit China, these natural disasters bring their own challenges. But the food crisis, which has been called a silent tsunami, didn't come without warning. Many of the factors have been obvious for years. This crisis is, to state what everybody and all our witnesses I'm sure agree, is unacceptable morally and it's unsustainable politically and economically.

Along with Senator Lugar, I recently convened a series of hearings on smart power to examine whether we have the right institutions and nonmilitary instruments to deal with the new threats and challenges. The global food crisis is just such a new challenge. Our response exposes our weaknesses, but it also points the way to needed reform.

Experts, many of whom we have here today, experts cite many factors for today's high food prices. Few seem to be new. Without proper planning, foresight, and coordination, this crisis might have been managed—with proper foresight. But we've not changed course as the price of food has nearly doubled in the last 3 years. Only now, with widespread hunger and civil unrest, has the drumbeat of concern reached a high enough pitch to awaken us to take action.

As all of the world's religions tell us, we have a moral obligation to feed the hungry. We once had the vision to do that. It was called the Green Revolution. It transformed agricultural practices in countries from Mexico to India. It allowed food production to keep pace with population growth and it saved a generation from famine and starvation. It was a model of what vision, planning, and resources can do.

But since then our global food policy has lacked vision, lacked planning, and I believe, lacked resources. Without concerted action from our government and the international community, I think we're in danger of erasing recent progress to eradicate hunger and poverty.

The World Bank estimates that potentially 100 million new people could slip back into extreme poverty because of high food prices. Today I am asking and I am inquiring of the witnesses for a new approach to food policy and the global food crisis. I believe it's imperative we rededicate resources and attention in four areas, the details of which I'm anxious to have fleshed out for us by many of our witnesses.

First, in my view we need to reinvest in agricultural development. Some have called for a new deal for global food policy. I support those calls. What the world needs is a second Green Revolution and that means funding for innovation, research, and new techniques.

Second, it seems to me we need to make sure institutions are organized effectively to address the food challenge. A report from the

Government Accounting Office to be released later this month concludes that the United States and other donors have not made food security—that is cutting hunger in half by 2015—a top priority. This report also shows that we lack an integrated strategy for dealing with agricultural development and food policy. Various U.S. agencies are pursuing isolated agricultural strategies that don't seem to share a common vision. Reform needs to happen quickly and immediately, the details of which again are important and hopefully we'll discuss them as well.

Third, we should ask the hard questions about existing food policy. Does our current biofuel policy, which I have supported, divert too much corn from fuel—from food to fuel? Does it make sense? How much is it diverting? What are the consequences of it? I hear estimates everywhere from 3 to 30 percent, and I think I'm anxious to hear what the witnesses have to say.

Should we provide more flexibility for our food aid program and allow USAID to locally purchase, as the administration has suggested, locally purchase food abroad to feed the hungry people, instead of requiring them to buy American and all the transportation costs associated with transporting that food?

Finally, the international community should consider a global compact on food that eliminates crippling food tariffs afflicting the poorest countries. For those countries trade is not a matter of competition. It's simply a matter of fairness.

Both panels today are well placed to help us with the inquiry and to address these three critical questions: Why is there a food crisis? Could we have avoided the crisis? And how do we need to respond in the immediate and in the future to this crisis?

Administrator Henrietta Fore and the Chairman of the Council of Economic Advisers is here today, a very distinguished panel, and they're going to start the hearing. They are at the forefront of U.S. Government efforts to respond to the food crisis.

I understand, Administrator, you're just back from Burma and facing the aftermath of that typhoon.

In our second panel we'll be joined by Executive Director Sheeran of the U.N. World Food Programme and Dr. Peter McPherson, former Administrator of USAID and president emeritus of Michigan State University; and James Lyon, vice president of Communications and Policy of Oxfam.

I would close with the following quote that my staff found for me from President Kennedy. He said: "Never before has man had such a capacity to control his own environment, to end thirst and hunger, to conquer poverty and disease, to banish illiteracy and massive human misery. We have the power to make this the best generation of mankind in the history of the world or to make it the last."

That was more than a generation ago. It seems to me it still holds today.

So I look forward to hearing the testimony this morning, and I will yield to Senator Lugar, who has a genuine expertise in this area after years of having been chairman of not only this committee but the Agriculture Committee, and a senior member on that committee as well.

Senator Lugar.

STATEMENT OF HON. RICHARD G. LUGAR, U.S. SENATOR FROM INDIANA

Senator LUGAR. And a family farmer.

The CHAIRMAN. I beg your pardon. And a family farmer.

Senator LUGAR. I join you, Mr. Chairman, in welcoming our distinguished witnesses to this hearing examining global food supply shortages and the United States response. I applaud the administration for its announcement on May 1 that it intends to increase food and development assistance by $770 million, in addition to a pending supplemental request for $350 million and the release of $200 million from the Bill Emerson Humanitarian Trust.

The U.S. Agency for International Development, the World Food Programme, and the Food and Agricultural Organization estimate that people in nearly 40 countries are now facing food shortages and potential social unrest because of the increase in food prices and the decrease in the global availability of some cereal grains.

The current crisis has developed from a complex web of factors. Expanding affluence in emerging economies, like China and India, has improved diets for hundreds of millions of people and led to increased global demand for food. Simultaneously the highest oil prices on record have driven up food costs all along the farm-to-market chain. The surge in oil prices has increased transportation, packaging, and fertilizer costs and provided the impetus for developing alternative fuels such as ethanol.

We've also experienced droughts in some food exporting countries, expanded trade barriers, a weakening of the U.S. dollar, increased commodity speculation, and market-distorting subsidies.

These factors have come together to make the current food problem particularly acute. But we should be clear that food shortages are likely to recur frequently if the United States and the global community fail to open up agricultural trade and invest in agricultural productivity in the developing world. Unfortunately, the United States and other international donors have deemphasized assistance for rural development and agricultural productivity. In 1980 agricultural projects accounted for 30 percent of the World Bank's lending. By 2007 they represented less than 13 percent. U.S. foreign assistance for agriculture has declined from an average of a little over $1 billion annually in the 1980s to an average of $328 million since 2000.

Globally, only 4 percent of official development assistance from all donors in 2007 was allocated for agriculture. This amounts to neglect of what should be considered one of the most vital sectors in the elimination of poverty. In fact, two new studies from the U.N. Department of Economic and Social Affairs show that funds spent on agriculture are more beneficial to economic growth than spending in other sectors.

The effects of the current food situation likely would have been ameliorated if more of the world's poor farmers had access to better technology, titled land, small loans, extension support, and accessible markets.

Beyond resources, we need a more constructive debate about biotechnology and agricultural trade. World leaders must understand that over the long term satisfying global demand for more and better food can be achieved only by increasing yields per acre. In the

1930s my father, Marvin Lugar, produced corn yields of approximately 40 to 50 bushels per acre. Today Lugar Farm yields about 150 bushels per acre on the same land in Marion County, IN.

The Green Revolution from 1965 to 1985 saw the introduction of high-yield seeds and improved agricultural techniques that resulted in near doubling of cereal grain production per acre over 20 years. But yields may have to be doubled or tripled again. Increasing acreage under production or ending the use of biofuels will not satisfy the growth in food demand and these steps come with serious environmental and national security costs.

We need a second Green Revolution that will benefit developed and developing countries alike.

In the context of global food shortages, Europe has to reexamine its opposition to genetically modified seeds that have the potential to dramatically increase yields. Global food shortages also should prompt reconsideration of the protectionist world agricultural trade system and the harmful farm subsidies of Europe and the United States.

Even as we increase yields, we must scale back agricultural subsidies and trade barriers that raise prices and undercut many farmers in the developing world. These policies are distorting agricultural trade and decisionmaking on a global scale and preventing many potentially productive farmers in the developing world from accessing markets.

In most cases agricultural subsidies and trade barriers have no rational basis other than the protection of politically powerful constituencies. The United States should seek commitments to double current levels of agricultural assistance and remove export barriers and import tariffs. We should also enhance our leadership on agricultural research by maintaining support for a U.S.-created network of global research centers.

Some critics have singled out corn ethanol as the primary culprit in the food crisis and they have called on Congress to scale back or even halt corn ethanol production. In effect, they ask us to choose between feeding the hungry or producing biofuels. But increased demand for corn-based biofuels is just one of numerous factors that have contributed to higher food prices. Compared to last year's 146-percent price increase for wheat, 70-percent increase for rice, neither of which is used for biofuels, the 46-percent increase in corn was relatively modest.

While we should understand the impact of biofuels on fuel supply, we must not lose sight of why our Government is attempting to stimulate biofuel use. Chairman Biden and I have held at least a dozen hearings in the last few years that have highlighted the extreme national security and environmental risk of our dependence on imported oil. The United States deliberately undertook a program to develop biofuels because it is one of the best immediate responses to our acute energy vulnerability and the problem of climate change.

Cutting ethanol production now would leave us even more vulnerable to the political whims of governments that control 80 percent of the world's oil reserves. The enrichment of these governments obstructs many of our major foreign policy objectives, includ-

ing our efforts to end the genocide in Darfur, to stop Iran's nuclear program, to combat terrorism, to bring peace to the Middle East.

Rather than cutting production of ethanol, we should replace the current ethanol subsidy system with an oil price floor that will provide assurances to long-term investors in all renewables, and we should eliminate the import tariff on ethanol to admit supplies from Brazil made from sugar cane.

If corn biofuel production is curtailed, we will see additional pressure on global oil prices and a withering of the nascent biofuel distribution infrastructure, and that infrastructure is essential if we are to hasten the commercialization of cellulosic technology, which promises abundant ethanol from nonfood sources like switchgrass and forest waste. Cellulosic technology has the potential to far outrun corn in the volume of ethanol produced and it can do so at a lower cost. Wide commercialization of cellulosic ethanol would radically improve the energy outlook for rural areas all over the world.

Finally, we should remember that the world's poor are suffering not just from high food prices, but from the staggering effects of $120-per-barrel oil. Developing countries are more dependent on imported oil, their industries are more energy intensive, and they use energy less efficiently. Fertilizer and fuel for agricultural machinery is dramatically more expensive.

Without a diversification of energy supplies that emphasizes environmentally friendly options, the national incomes of energy-poor nations will remain depressed, with negative consequences for stability, development, disease eradication, and nutrition, unfortunately.

I appreciate especially this opportunity to engage our witnesses today on these topics. They are well prepared to enhance our discussion.

I thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator.

The floor is yours, madam. Welcome again. Thank you for being here.

STATEMENT OF HON. HENRIETTA H. FORE, ADMINISTRATOR, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT AND DIRECTOR OF U.S. FOREIGN ASSISTANCE, WASHINGTON, DC

Ms. FORE. Thank you very much, Mr. Chairman.

The CHAIRMAN. I might add, I should have said and I had in my statement that I compliment the administration on its moving now very aggressively to deal with this problem.

Ms. FORE. Thank you, Mr. Chairman. Your outline of your points I think has a great deal of congruity with the plans that we've been thinking about, so I think we have a very good basis to build on for the future. So thank you.

Senator Lugar, yes, we believe we need to invest more in agriculture and in biotech and in production and productivity throughout the developing world. So I thank you both very much for your comments.

Today we are facing an extraordinary number of humanitarian crises that strike the hardest at the world's most destitute people. It is times like these where, working in close collaboration with

Congress, America's humanitarian global leadership performs at its highest level.

Yesterday I returned from Burma, where Admiral Keating, Commander of the United States Pacific Command, and I accompanied the initial C–130 relief flight, which brought basic humanitarian supplies such as bottled water, blankets, mosquito nets, for the Burmese people.

Clearly, we face major challenges ensuring that our assistance reaches those most in need. We are in a race against time, as hundreds of thousands of Burmese are in extremely dire circumstances.

The catastrophic cyclone in Burma, hitting that country's major rice-producing region in the middle of the rice harvest, is a reminder of the fragile food situation we face in many developing countries. We are in the midst of a global food crisis unlike other food crises that we have faced, one that is caused not simply by natural disasters, conflict, or any single event such as a drought. It is not localized, but pervasive and widespread, affecting the poor in developing countries around the world.

From January to December 2007, the International Food Price Index rose by 43 percent, compared with just 9 percent in 2006. While sharply higher prices have been welcome news for some farmers, they mean hardship for many and for the poorest, subsisting on $1 a day or less, food price increases mean deprivation and real hunger.

For the poorest 1 billion, living on just a dollar per day, very high food prices mean stark choices between taking a sick child to the clinic, paying school fees, or putting food on the table. Africa and Asia are suffering the most, but even in our own hemisphere Haiti is gravely affected.

Experts tell us that the situation underlying the crisis is not a temporary one and demand for grain is outstripping supply. Our response is therefore three-pronged. We integrate immediate, near term, and longer term components, all of which are needed to address the core causes of chronic hunger. We plan to increase our efforts in three key areas:

First, expand our humanitarian assistance, looking at the most critical needs globally; two, attack the underlying causes of food insecurity through a significant increase in staple food production; and third, address policy barriers and trade policies that are adversely impacting food prices.

We will save lives both through short-term, immediate food assistance and long-term help to increase agricultural production so that food, whether domestically produced or traded, is both more available and more affordable. We will respond to urgent needs, but also will help small farmers increase production of key food staples in targeted countries and regions.

Because the underlying condition of this situation is impacted primarily by the increase in price rather than the global supply of food, newly affected hungry people, especially those in urban areas, can be assisted through carefully targeted assistance. For example, targeted voucher programs can help the poorest access basic food staples without undermining commercial incentives for local food production and marketing.

As you know, the President moved quickly by requesting $770 million on May 2. Of that, $395 million will enable USAID's Food for Peace Office to meet its ongoing emergency needs by maintaining purchasing power and addressing new food needs in both rural and urban areas.

In addition, $225 million of international disaster assistance will support critical nutrition interventions: Increase access to farm inputs such as seed and fertilizer; improve abilities to monitor widespread vulnerability; and local procurement and distribution of commodities to stimulate production in surplus areas.

Our immediate efforts will help provide stability in the short term. This will provide the foundation to achieve medium and longer term goals that will help increase supply.

Years of high growth and low prices result in reduced attention to, and investment in, agriculture, rural infrastructure, and markets. The President's emergency request will therefore increase our own investment by $150 million for fiscal year 2009 in agricultural development assistance funding and work to leverage additional resources from the private sector.

We are seeking to increase our investment in agricultural research, harnessing science and technology to boost productivity growth and environmental sustainability, and we will continue to urge countries to end commercial trade and food aid restrictions on biotechnology-based crops. As we have seen in past food crises, distribution of food aid can be significantly complicated by barriers to biotechnology crops.

I urge members of this committee to take the leadership role in overcoming global barriers to the use of modern science to help solve the problem of chronic world hunger.

We are also reaching out to our G–8 partners, applauding their efforts and encouraging them to do still more. This June I will be part of our delegation to the United Nations Food and Agricultural Organization high-level conference on world food security, at which global leaders will gather to coordinate efforts to meet this challenge.

Partnership with the private sector and with nongovernmental organizations features prominently in these efforts. We will continue to invest in markets and work with countries and regional institutions to foster trade and the rapid movement of food from areas with excess supply to those where shortages are occurring.

Taking a whole of government approach, we will work closely with partner countries, the World Bank, the IMF, foundations, and other organizations to encourage wise policies that favor agricultural trade, avoiding export restrictions and other market interventions that exacerbate the supply-demand imbalance. We are advancing agreements on trade in the Doha Round and promoting national and regional commitments to invest in agriculture.

United States leadership is essential and failure is not an option. Though I've concentrated on the causes of the problem and its solution, we must never lose sight of the terrible cost—terrible human cost—of hunger. Even short-term hunger can unalterably affect a child by exposing him or her to disease, threatening normal cognitive development and lifelong productivity, and, tragically, even early death.

Yet the problem posed by high food prices is one we know how to solve. In doing so we can recommit to ending this scourge of chronic hunger.

Thank you very much and I'd be happy to answer any questions.

[The prepared statement of Ms. Fore follows:]

PREPARED STATEMENT OF HENRIETTA H. FORE, DIRECTOR OF U.S. FOREIGN ASSISTANCE AND ADMINISTRATOR OF U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT, WASHINGTON, DC

Thank you Chairman Biden, Ranking Member Lugar, and distinguished members of the committee. I appreciate the opportunity to be here today to address this important issue.

We are in the midst of a global food crisis unlike other food crises we have faced; one not caused by natural disasters, conflict or any single event such as drought. It is not localized—instead it is pervasive and widespread, affecting the poor in developing countries around the world.

I just returned last night from Burma, where Admiral Keating, Commander of the U.S. Pacific Command and I accompanied the initial C–130 relief flight, which brought basic humanitarian supplies such as mosquito nets, blankets, and bottled water to the Burmese people. The catastrophic cyclone in Burma, hitting that country's major rice producing region in the middle of the rice harvest, is a reminder of the fragile situation we face in many developing countries. As I stood watching our aid "From the American People" move one step closer to reaching those in desperate need, I realized once again the impact our efforts can have around the world.

The international food price index rose by 43 percent from March 2007 to March 2008, compared with just 9 percent in 2006. While sharply higher prices have been welcome news for some farmers, they mean hardship for many, and for the poorest subsisting on $1/day or less, food price increases mean deprivation and real hunger.

For the poorest 1 billion, living on just a dollar per day, very high food prices can mean stark choices between taking a sick child to the clinic, paying school fees, or putting food on the table. These are the people who already were spending half or more of their meager incomes on food. Their options are few—eating cheaper, less nutritious foods, skipping meals, or simply going without. Africa and Asia are suffering most, but even in our own hemisphere, Haiti is gravely affected. Children are especially vulnerable; the World Health Organization maintains that more than half of all early childhood deaths are linked to underlying malnutrition. While malnutrition is often due to disease and causes other than inadequate calories, insufficient food is an important factor.

The rapidly increasing cost of food is also weakening the ability of governments of both poor and middle-income countries to sustain growth, protect the vulnerable, or even to maintain order. The fear of food riots, even in some middle-income countries, presents a new dynamic that puts pressure on sound decisionmaking for long-term growth and stability. The same high prices also limit our own ability to respond to critical emergency needs around the world through our food-aid programs.

Experts tell us the situation underlying the crisis is not a temporary one; demand for grain is outstripping supply. A decades-long decline in real food prices due to new technology and more efficient markets and trade has been rapidly reversed, with far-reaching consequences. Current global stocks of grain make prices even more sensitive to shocks, whether from a drought in Australia or floods in our Midwest.

What has led to these sudden changes in food prices? Rapid worldwide economic growth, the associated dietary shifts to grain-intensive livestock products, and the expanded use of biofuels as a less significant factor, are all demand side factors that have boosted prices. On the supply side, droughts, a lack of investment in technology and markets, and competition for land and water have slowed production growth in some countries. Restrictive trade policy responses by major exporting countries have led to further price increases. Higher energy costs have raised the cost of production for farmers and have increased the costs of getting goods to the market. Thus, a range of fast onset and slower building factors have combined to fundamentally alter the food supply and demand balance, with the resulting high prices expected to persist for at least the next few years.

Our response is three-pronged, integrating immediate, near term, and longer term components, all of which are needed to address the underlying causes of chronic hunger. We plan to increase our efforts in three key areas: (1) Expand humanitarian assistance, looking at the most critical needs globally; (2) attack the underlying

causes of food insecurity through a significant increase in staple food production; and (3) address policy barriers and trade policies adversely impacting food prices.

Humanitarian food assistance is critical to stabilizing the worst aspects of the crisis, but it alone will not provide a durable solution. Our approach spans protection for the vulnerable growth in agricultural production consistent with market principles, access to markets and advancement of global policy solutions that foster trade and investment in agriculture.

Thus, we will save lives both through short-term immediate food assistance and long-term help to increase agricultural production, so that food, whether domestically produced or traded, is both more available and more affordable. We will respond to urgent needs, but also will help small farmers increase production of key food staples in targeted countries and regions.

We seek to take full advantage of new approaches toward meeting humanitarian needs and expanding development investment as we respond to this new kind of food crisis. Our response must be swift, innovative, and well-targeted, and directly address the structural threat of hunger.

There are millions of newly hungry people in rural and urban settings as a result of rising prices. Our immediate aid efforts will focus on humanitarian goals of protecting lives and livelihoods, especially for those in urban environments and for the rural landless. Additionally, these efforts will support political and economic stability necessary to transition to nonemergency social protection interventions and longer term efforts to increase food production.

Because the underlying condition of this situation is impacted primarily by the increase in price, rather than the global supply of food, newly affected hungry people, especially those in urban areas, can be assisted through carefully targeted assistance. For example, targeted voucher programs can help the poorest obtain basic food staples without undermining commercial incentives for local food production and marketing.

The scope of the current problem underscores the need to make our food aid programs as effective and as efficient as possible. This is one of the reasons why the administration continues to seek the ability through legislation to use up to 25 percent of P.L. 480 Title II funds for the local purchase of food aid commodities. Under the current system, U.S. procured commodities can take up to 6 months to reach the beneficiaries. In addition, less than half of every dollar spent actually goes to purchasing food in the United States. Local purchase authority will increase the timeliness and effectiveness of the U.S. response to overseas food aid, especially in urgent situations requiring a strategic response, and also helps create markets for local farmers.

Of the $770 million requested by President Bush on May 2, $395 million will enable USAID's Office of Food for Peace to meet its ongoing emergency needs by maintaining purchasing power and addressing new food needs in both rural and urban areas. An additional $225 million of International Disaster Assistance will provide support for programs such as critical nutritional interventions, increased access to farm inputs, improved ability to identify, monitor and respond to vulnerability, and local procurement and redistribution of commodities to meet urgent needs for vulnerable populations while stimulating production in surplus areas.

Our immediate efforts will help provide stability in the short term. This will provide the foundation to achieve medium and longer range goals that will help increase supply. The starting point is the recognition that growth in agriculture has for some time not been keeping pace with demand. In developing countries between the 1960s and 1980s, yields of the main cereal crops increased by 3–6 percent a year. Now annual growth is down to 1–2 percent below the increase in demand. Years of high growth and low prices resulted in reduced attention to, and investment in, agriculture, rural infrastructure, and markets. The President's emergency request will allow us to begin to reverse this by increasing our own investment by $150 million in FY 2009 in agriculture development assistance funding while working to leverage additional resources from the private sector.

We are seeking to increase our investment in agricultural research, harnessing science and technology and its application to boost productivity growth and environmental sustainability. We will continue to urge countries to end restrictions to acceptance of biotechnology-based crops, in either commercial trade or food aid. As we have seen during past food crises, distribution of food aid can be significantly complicated by barriers to biotechnology crops.

As Nobel Peace Prize laureate agronomist Norman Borlaug and others have argued, we must end the debate over the benefits of biotechnology-based crops. The United States is uniquely positioned both scientifically and politically to apply agricultural biotechnology as a tool in building global food security. As we have seen

with corn and cotton already, biotech crops that are resistant to pest and disease can boost productivity in developing countries.

We are developing and preparing to deploy new strains of wheat that are resistant to the emerging stem rust epidemic that Dr. Borlaug warns is making its way toward the breadbasket of South Asia. As part of our strategy for the medium term, we will continue investment in development of biotech food staples for use in Asia and Africa, where we have developed varieties of cassava, cowpea, potato, and other crops that lower costs and boost production. We also are making a major investment in development of drought tolerant rice and wheat for South Asia, to increase food security and provide a bulwark against the effects of climate change.

I urge the members of this committee to take a leadership role in helping overcome any global barriers to using modern science in an effort to help solve the problem of chronic world hunger.

We are reaching out to our G–8 partners, applauding their efforts and encouraging still more. This June I will help lead the U.N. Food and Agriculture Organization (FAO) High Level Conference of World Food Security at which global leaders will gather to coordinate efforts to meet this challenge. Partnership with the private sector and nongovernmental organizations features prominently in these efforts.

We will continue to invest in markets and work with countries and regional institutions to foster trade and rapid movement of food from areas with excess supply to those where shortages are occurring. We will step up efforts to promote more efficient flow of goods and services through value chains and regional trade corridors, especially in Africa where markets are still poorly developed. USAID support for commercial input markets for seeds and fertilizers, and output markets for commodities, will help to increase overall productivity, drive down costs, and make food more accessible.

Productivity interventions in agriculture are some of the most effective drivers of poverty reduction and food security. Maximizing the management of scarce water resources, drought resistance seeds, and affordable fertilizers will help address the root problems of the world's poorest people, 70 percent of whom live as small farmers.

Sound policy approaches are critical to sustaining long-term growth and affordable food supply. Taking a whole of government approach, we will work closely with other donors, partner countries, the World Bank, IMF, foundations and other organizations to encourage wise policies that favor agricultural trade, avoiding export restrictions and other market interventions that exacerbate the supply-demand imbalance. We are advancing agreements on trade in the Doha round, promoting best practices and sound analysis on production of biofuels, and promoting national and regional commitments to invest in agriculture.

I am confident we—the U.S. and other donors—can stem and reverse the supply-demand imbalance that exists in food staples. We know how to do it—we know what works and what does not; we know that we must rely much more on the private sector and on broad alliances than was the case in the first Green Revolution. We have new tools, and we need to use them: Markets, trade, and science will transform our approach.

Political leadership can help solve this crisis. Within the last 2 weeks alone we have seen major commitments from world leaders pledging to leave no stone unturned in the global effort to confront this issue head on.

Failure is not an option. Though I have concentrated on the causes of the problem and its solution, we must never lose sight of the terrible human cost of hunger. Even short-term hunger can unalterably affect a child by exposing him or her to disease, threatening normal cognitive development and lifelong productivity, or, tragically, even early death. Yet the problem posed by high food prices is one we can address—and in doing so we can recommit to ending the scourge of chronic hunger once and for all and ensure that the world is more food secure.

The CHAIRMAN. Thank you very much.

Mr. Lazear.

STATEMENT OF HON. EDWARD P. LAZEAR, CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS, EXECUTIVE OFFICE OF THE PRESIDENT, WASHINGTON, DC

Mr. LAZEAR. Thank you, Chairman Biden, Ranking Member Lugar, and members of the Senate Foreign Relations Committee. I appreciate the opportunity to be here to talk with you today about recent increases in global food prices.

Developing countries and lower income individuals are disproportionately affected by food price increases and the committee's focus on this issue is particularly timely. There are a few measures of food prices. We focus on two. The first is the International Monetary Fund's Global Food Index. This measure consists of virtually no processed foods, which may accurately reflect the consumption of individuals in developing countries.

For the average consumer in the United States, we analyze the CPI. This index places heavier weights on processed foods which Americans consume in large proportions.

Global food inflation was 43 percent during the 12 months ending in March 2008. While this rate is high, it is not unprecedented. Similar rates were seen in the mid-1970s and other periods that experienced high world food price inflation. But that makes the current situation no less difficult.

Although the IMF Global Food Index increased 43 percent, the U.S. food CPI increased only 4.5 percent. The reason for the smaller rate of inflation is that Americans tend to consume highly processed foods and food in restaurants. When consumers in the United States purchase food from supermarkets, convenience stores, or restaurants, a large fraction goes to cover labor associated with preparing, serving, and marketing the food that we eat.

This is much less true in developing countries.

The effect of food price inflation on individuals in poor countries is even more pronounced because the poor spend a larger fraction of their income on food. The typical American spends slightly less than 14 percent of total expenditures on food. In contrast, Africans spend 43 percent of their expenditures on food and those subsisting on less than $1 a day in sub-Saharan Africa may dedicate as much as 70 percent of their expenditures to food.

Americans also vary in the proportion of their incomes that they spend on food, but it is not too different across income groups.

Food inflation is important even in the United States and it is useful to understand its underlying causes. Grains and seeds have experienced the most rapid price increases over the last 12 months ending in March. Wheat prices have increased by 123 percent, soybean prices by 66 percent, corn by 37 percent, and rice prices have increased by 36 percent.

Increased demand in emerging markets is an important factor that contributes to food price increases. Rapid growth in emerging economies over the past several years has been accompanied by improving living standards, including better diets. Millions of people are becoming part of a growing middle class in these countries, with greater purchasing power. A consequence of this development is greater consumption of grains and meat, which use grain as feed.

Emerging market food consumption has increased by nearly 45 percent for the 2001 to 2007 period as compared with the 1991 to 2000 period. This factor cannot entirely explain the recent spike in food prices, however, since consumption in these emerging economies has been growing steadily over the past decade and grain price increases have only risen noticeably over the past 2 years.

We estimate that the increase in emerging market economies demand can account for about 18 percent of the rise in food prices over the past 12 months.

On the side of food supply, adverse weather has been a key factor in recent rises in food prices. Australia, China, and many Eastern European countries have experienced severe weather-related events that have lowered crop yield. Most analysts point to reduced harvests in these countries as the primary cause of large increases in wheat prices. A return to normal weather patterns should help to put some downward pressure on food prices. Unfortunately, the decline will be gradual since inventories of wheat have been depleted and rebuilding stocks of grain will keep prices high for a while.

The contribution of biofuel production to recent food price increases may be a topic of particular interest to the committee. The bottom line is that ethanol production is a significant contributor to increases in corn prices, but neither U.S. nor worldwide biofuel production can account for much of the rise in food prices.

Among the existing stock of biofuels, ethanol is by far the largest type, with corn-based ethanol accounting for a substantial portion of total ethanol.

We estimate that the increase in U.S. corn-based ethanol production accounts for approximately 7.5 percentage points of the 37-percentage-point increase in corn prices over the past 12 months. The increase in corn-based ethanol production in the rest of the world accounts for as much as an additional 5.5 percentage points.

Let me put this in context. Because corn represents only a small fraction of the IMF Global Food Index, we estimate that the increase in total corn-based ethanol production has pushed up global food prices by about 1.2 percentage points of the 43-percentage-point increase in global food prices, or about 3 percent over the past 12 months.

It appears that the renewable fuel standard has not yet become a contributing factor in increased ethanol production. At current corn and gasoline prices, ethanol production is profitable regardless of the mandate. Indeed, EIA's projection for ethanol production in 2008 suggests that we will supply 9.15 billion gallons of ethanol, including imports, which is above the 9 billion gallon mandate. The mandate may become a factor in the future.

Other policies, ethanol subsidies, and tariffs, may also be factors contributing to the increased production of ethanol in the United States.

In conclusion, it is possible that food prices may remain elevated over the next year, but we do not expect to see the rapid rates of global food price inflation that we saw this year. Some factors contributing to recent food price inflation, such as weather, should wane, but other factors, such as growing demand in emerging markets, will continue to put upward pressure on prices.

Furthermore, agricultural markets may respond to higher farm prices and margins by increasing supply, which should alleviate high food prices over the next few years.

I welcome your questions.

[The prepared statement of Mr. Lazear follows:]

PREPARED STATEMENT OF EDWARD P. LAZEAR, CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS, EXECUTIVE OFFICE OF THE PRESIDENT, WASHINGTON, DC

Thank you, Chairman Biden, Ranking Member Lugar, and members of the Senate Foreign Relations Committee. I appreciate the opportunity to be with you today to

discuss the economic factors that have contributed to recent increases in global food prices.

Developing countries and lower income individuals are disproportionately affected by food price increases, and the committee's focus on this issue is particularly timely. For policymakers to develop an appropriate response, it is essential to understand the underlying causes of food-price inflation. The causes are many, and few are within our ability to control, especially in the immediate future.

There are several measures of food prices. The international measure we have analyzed is the International Monetary Fund's (IMF) Global Food Index. This measure includes vegetable oils, meat, seafood, sugar, oranges, bananas, and cereals (which we often refer to as grains). This index consists of virtually no processed foods, which may accurately reflect a consumption bundle of some individuals in developing countries. For the average consumer in the United States, we analyzed the CPI, both the total index and its food subcomponent. This index places heavy weights on processed foods, which Americans consume in large proportions.

Global food inflation was 43 percent during the 12 months ending in March 2008.[1] While this rate is high, it is not unprecedented. Similar rates were seen in the mid-1970s and other periods have experienced high world food-price inflation. But that makes the current situation no less difficult.

Although the IMF Global Food Index increased 43 percent, the U.S. food CPI increased only 4.5 percent. The reason for the smaller rate of inflation is that Americans tend to consume highly processed foods. When consumers in the United States purchase foods from supermarkets, convenience stores, or restaurants, a large fraction goes to cover labor associated with preparing, serving, and marketing the food that we eat.[2] This is much less true in developing countries.

The effect of food price inflation on individuals in poor countries is even more pronounced because the poor spend a larger fraction of their income on food. The typical American spends slightly less than 14 percent of total expenditures on food.[3] In contrast, Africans spends 43 percent of their expenditures on food[4] and those subsisting on less than $1 per day in sub-Saharan Africa may dedicate as much as 70 percent of their expenditures to food.[5]

Americans also vary in the proportion of their income that they spend on food, but it is not too different across income groups. Even individuals with incomes between $5,000 and $10,000 spend only 17.1 percent of their expenditures on food. Richer Americans spend a smaller share, but those with incomes exceeding $70,000 still spend 11.3 percent of their expenditures on food.

Because of the high level of processing associated with food consumed in the United States, rising energy prices are affecting consumers in the United States more than rising food prices. For example, with food prices rising 4.5 percent, Americans would have had to pay nearly $300 more in 2007 to consume the same basket of food they did the previous year. With gasoline prices rising 26.5 percent, Americans would have had to pay nearly $600 more for the same quantity of gasoline during the same period.

Still, food inflation is important, even in the United States, and it is useful to understand its underlying causes. Grains and seeds have experienced the most rapid price increases over the last 12 months ending in March. Wheat prices have increased by 123 percent, soybean prices have increased by 66 percent, corn prices have increased by 37 percent, and rice prices have increased by 36 percent.[6]

Increased demand in emerging markets is an important factor that contributes to food price increases. Rapid economic growth in emerging economies over the past several years has been accompanied by improved living standards, including better diets. Millions of people are becoming part of a growing middle class in these countries with greater purchasing power. A consequence of this development is greater consumption of grains and meats, which use grain as feed. Emerging market food consumption has increased by nearly 45 percent for the 2001–07 period as compared

---

[1] Source: International Monetary Fund's International Financial Statistics database, food price index.

[2] Source: USDA, http://www.ers.usda.gov/Data/FarmToConsumer/Data/marketingbilltable1.htm.

[3] Source: U.S. Department of Labor, Bureau of Labor Statistics, Consumer Expenditure Survey, 2006. ftp://ftp.bls.gov/pub/special.requests/ce/share/2006/income.txt. Typical American refers to an individual at the median income level.

[4] Source: Federal Reserve Board Staff calculation, IMF, and World Bank.

[5] Source: The International Food Policy Research Institute 2020 Discussion Paper No. 43, "The World's Most Deprived."

[6] Source: U.S. Department of Agriculture, National Agricultural Statistics Service database.

to the 1991–2000 period.[7] Consumption in developed economies has increased only slightly, so a large share of the rise in demand can be attributed to increased consumption by emerging markets such as China. This factor cannot entirely explain the recent spike in food prices, however, since consumption in these emerging markets has been growing steadily over the past decade and grain-price increases have only risen noticeably over the past 2 years. We estimate that the increase in emerging market demand can account for about 18 percent of the rise in food prices over the past 12 months.

On the side of food supply, adverse weather has been a key factor in the recent rise in food prices. Australia, China, and many Eastern European countries have experienced severe weather-related events that have lowered crop yields. Australia, for example, experienced 40 percent lower harvests for its major crops, including wheat, barley, and canola this year. While difficult to quantify the impact on food prices, most analysts point to reduced harvests in these countries as the primary cause of the large increase in wheat prices. A return to normal weather patterns should help to put some downward pressure on food prices, particularly wheat, as crop yields return to historic levels. Unfortunately, the decline will be gradual since inventories of wheat have been depleted and rebuilding stocks of grain will keep prices high for awhile.

I recognize the contribution of biofuel production to recent food-price increases is a topic of particular interest to the committee. The bottom line is that ethanol production is a significant contributor to increases in corn prices, but neither U.S. nor worldwide biofuel production can account for much of the rise in food prices.

Among the existing stock of biofuels, ethanol is by far the largest type, with corn-based ethanol accounting for a substantial portion of total ethanol. Corn-based ethanol production has increased dramatically over the past year with approximately 25 percent of total U.S. corn production dedicated to ethanol production in 2007.[8] We estimate that the increase in U.S. corn-based ethanol production accounts for approximately 7.5 percentage points of the 37-percent increase in corn prices over the past 12 months.[9] The increase in corn-based ethanol production in the rest of the world this past year accounts for as much as an additional 5.5 percentage points. Combining the increases in ethanol production in the U.S. and the rest of the world, we estimate that the total global increase in corn-based ethanol production accounts for about 13 percentage points of the 37-percent increase in corn prices, or about one-third of the increase in corn prices over the past year.

Let me put this in context. Because corn only represents a small fraction of the IMF Global Food Index, we estimate that the increase in total corn-based ethanol production has pushed up global food prices by about 1.2 percentage points of the 43-percent increase in global food prices, or about 3 percent of the increase over the past 12 months. This estimate includes the indirect effects of the increase in corn-based ethanol production, through crop substitution and spillover effects into other food products. Looking back to 2005 and 2006, the effect of increased ethanol production on food prices during these 2 years taken together has been of similar magnitude.

Based on the Department of Energy's Energy Information Administration (EIA) actual and projected ethanol production levels, it appears that the Renewable Fuels Standard has not yet been a contributing factor in increased ethanol production. At current corn and gasoline prices, ethanol production is profitable regardless of the mandate. Indeed, EIA's projection for ethanol production in 2008 suggests that we will supply 9.15 billion gallons of ethanol (including imports), which is above the 9 billion gallon mandate. The mandate may become a factor in the future, if corn prices increase relative to gasoline prices and ethanol is no longer a cost competitive alternative to gasoline. Other policies—ethanol subsidies and tariffs—may also be factors contributing to increased production of ethanol in the U.S. We have not quantified the size of those policies' effects.

In conclusion, it is possible that food prices may remain elevated over the next year, but we do not expect to see the rapid rates of global food-price inflation that we saw this year. Some factors contributing to recent food-price inflation, such as weather, should wane, but other factors, such as growing demand in emerging markets, will continue to put upward pressure on food prices. Furthermore, agricultural

[7] Source: International Monetary Fund's Finance and Development Magazine, "Riding a Wave," March 2008, Volume 45(1).

[8] Source: U.S. Department of Agriculture, "USDA Agricultural Projections to 2017" Long-term Projections Report OCE–2008–1. February 2008.

[9] Since 2004, the increase in ethanol production in the United States has pushed up corn prices by about 20 percent.

markets may respond to higher farm prices and margins by increasing supply, which could alleviate high food prices over the next few years.

The CHAIRMAN. Thank you very much, Mr. Chairman.

We'll do 7-minute rounds if that's all right with my colleagues.

Mr. Chairman, let me start by asking you, to what degree is the food crisis due to the high price of oil and the declining dollar? Do you factor that at all?

Mr. LAZEAR. We do, yes. These estimates obviously are estimates and we try to do our best to incorporate a variety of factors. The rising energy prices are significant, obviously because they affect the costs of producing agricultural crops. We estimate that high energy prices can account for as much as 20 percent of the increase in food prices.

You mentioned the dollar. The dollar affects food prices in the United States, but does not affect food prices, for example, in Europe and other countries, where you don't have the same kind of effect and in some cases it goes in the opposite direction. But if we looked at the United States, we estimate that the depreciation of the dollar can account for as much as 13 percent of the rise.

The CHAIRMAN. What about the role of commodity markets? Are investors betting on scarcity? What's going on there?

Mr. LAZEAR. Investors can certainly have an effect on prices, particularly prices over time, so futures market prices relative to spot market prices. It's unlikely that investors and speculation is having a significant effect on the current high price of food and primarily the evidence on that is that if you look at inventories, inventories for most goods are down as opposed to up.

The logic is this. If investors were in there speculating, trying to buy up goods right now, they would be doing so in hopes that future prices would be even higher so they could buy low and sell high. If that were the case, what you'd expect to see is that inventories would rise. That doesn't negate the possibility that investors are in those markets, but it does suggest that they're not playing a major role, at least at this point, in affecting the spot prices that we see.

The CHAIRMAN. Talk to me for a minute. Take me back. There's been a constant decline on our part in the proportion of U.S. development assistance to agricultural programs. In the last 20 years that declined. It was as high as 20 percent. Now it's about 3 percent.

Obviously you've looked at this. What is the reason for that? Again, this spans administrations. It's not a Republican or a Democratic policy. It's spanned administrations. What is—to what degree is it responsible for—"responsible" may be too harsh a phrase. To what degree has it contributed? Or put it another way: If we had maintained this investment at a 20-percent rate in these developing countries, is it likely that the circumstance would be different? And what caused us to change our attitudes and should we begin to shift back to a significantly larger investment in developmental assistance in agriculture?

Ms. FORE. I think it's a very good question and I think it's very important for us as a nation to address it. I think that investing now would be enormously positive for the world at large. The world at large has underinvested in the last few years in agriculture, in

all aspects of agriculture, but now the time when we must step up and reinvest in agriculture and refocus on it, because there are humanitarian issues, there are production issues, such as Senator Lugar mentioned, and there are needed policy reforms.

In all three fronts the world can really take a large step forward in how we approach agriculture. When you compare productivity in the United States with the developing world, the farmer per-acre yields, the African farmer has not had the same capacities and as a result food production is not as high per acre, the productivity is not as high. So it's an enormous opportunity for the world to step forward and try to bring short-term, medium-term, and long-term solutions to this problem.

The CHAIRMAN. What I'm trying to get at, if I could articulate my question better than I did, Senator Lugar and I share a similar view about what is a—even if, Mr. Chairman, your assessment of the impact of focusing on biofuels was larger—your estimate is a total worldwide 3 percent of the cost, of the 43-percent rise, relates to it. But let's assume it was higher, and some argue it is.

There are very important tradeoffs. We're being asked to make big choices about energy, and not independence, but not such overwhelming dependence on, you know, tomorrow morning Chavez might wake up and decide he's just not going to ship any oil this way. I'm being a bit exaggerated.

So these are two competing, legitimate, substantial concerns. But it turns out I happen to be of your view, based on research that my staff has uncovered for me, that it is not a major factor, it's not the primary factor in the increase.

Going back to—if I can use that as a comparative note here, when you look at development, the AID decline, developmental aid for agriculture declined from roughly 20 percent of the AID budget to roughly 3 percent. Is that because of sort of benign neglect, just it was off the radar, or is it because we made other hard choices? Is the aid that's available to us now—did we shift? Is the consequence of the shift a consequence of changing priorities or competing interests that two administrations in a row or three administrations in a row thought would warrant this decrease? Or did it just happen and no one was keeping their eye on the ball?

That's the point I'm trying to get at here. So I call for rededicating ourselves to significantly increasing the money for investment in agriculture, us the United States, while promoting the rest of the world to do the same, but we can control our agenda. Are we going to run into arguments saying, well, wait, when you do that, even if you increase the absolute number of dollars available, you're going to be crowding out other very important things that have developed over the last 20 years that we need to be doing.

Talk to me about that. My time is up, but just talk to me about that.

Ms. FORE. Development assistance, as you know, is always a combination of factors. The areas that we feel are moving along fairly well in the world tend to get less attention in funding allocations and we move to the areas that seem to be most urgent.

But we look around the world and we try to attack the root causes of poverty, though there are many aspects to it. So funds for many good reasons have gone to other programs. Agriculture

and food security were seen to be relatively stable. But productivity rates have dropped. The growth of population in the world has increased and a number of factors have come into play, and over the years we have just not invested as much as we could have and as a result we find ourselves now with budgets that are imbalanced in terms of agriculture.

So it is a good time for us as a country to take our leadership position, in which we are a major factor in the world, we have enormous potential with private sector as well as public funds, and use this time to reinvest smartly, because we know we need to stretch the taxpayers' dollar, in areas that will be most effective.

The CHAIRMAN. Thank you very much.

My time is up. I'm sure one of my colleagues will raise the other two areas of great concern to me, and that is the emerging markets, 18 percent accounted for—your estimate—but they're going to continue to emerge, what are the projections; and also purchasing local food because transportation costs have gone up, I'm told, I think around 53 percent, something to that effect. It takes up 53 percent of every dollar in food aid is transportation costs. Don't hold me to that number. I should know it exactly. But I hope we talk about that before the panel leaves.

Senator Lugar.

Senator LUGAR. Thank you very much, Mr. Chairman. I just note that while we are discussing the world food crisis, the so-called Doha Round of the World Trade Organization has been stymied now for months, and some would say for years. The obstacles are largely agricultural issues, specifically enormous subsidies paid to European farmers because of the politics of France and Germany principally, and enormous subsidies paid to United States farmers.

We are on the threshold of voting for a farm bill that maintains subsidy programs, right in the face of this, even though we will violate the WTO agreements we already have in six different ways, and that can bring retaliation upon the rest of our economy.

Now, Senators and Members of the House remain oblivious of this and say, the heck with the rest of the world; we need to pay attention to domestic issues.

Furthermore, our European friends have rejected genetically modified seeds, a terrible decision, largely protectionist in the same way as subsidies. We've had a 1930s syndrome that overproduction was the problem, and if you were a farmer you wanted less production and higher prices.

Now, how to get over that is going to be very tough in our society, as well as in European society. But it is impeding free trade. So our analysts come along now and point out the real problem is trade barriers. Well, indeed. In agriculture, food, this is the most bollixed up part of the whole world trade system, despite all the other problems it has, with one country after another now putting up export barriers, trying to husband what's left. For poor farmers inside, governments are often limiting prices to the farmer so the subsidies can be paid to many people who are very poor in cities.

So that's hardly an incentive for production, even if you had genetically modified seed and if the United States was generous with research efforts in Africa and elsewhere. We've really got to get real about this, because we react to, rather than plan for crises.

Furthermore, I would just point out that the speculation in grain prices in the United States has been enormous. Farmers note that the normal way of establishing a price, if you want to sell forward, has sort of gone out the window. People by electronic means around the world 24 hours a day are speculating in price surges. So the price of wheat, corn, what have you, if you're a farmer may fluctuate 50 cents in a day per bushel, not on the basis of reality, but on the basis of hedge funds and with thoughts as to how money might be made from the trade.

You can't control all of that. These are factors in our life, but they have a huge implication. Just one more thought that comes from Martin Wolfe and the Financial Times yesterday, on a different subject. He points out that in fact the Chinese are eating better. Hard to quantify how many members of the Chinese population have moved from grain to meat, but a whole lot. By and large, they would say, why not. You in the United States have been eating well all these years.

As a matter of fact, the Government of India said: We resent the thought that you're talking about India's eating better. There's almost an implication we are the responsible parties for the world because finally we're beginning to catch up with some of you.

Wolfe points out that this is comparable to automobiles. We've got 480 cars per thousand population. The Chinese have 10 per thousand. In 2015, according to Wolfe, they will be the largest auto market and that means millions of additional cars using oil, and they will create a problem that makes whatever we have now virtually insoluble.

What he's saying is that you've got people in Dubai trying to buy farm land now in Pakistan, and with the full knowledge of the Pakistani Government, in the same way the Chinese are in Libya pinning down the last square foot of oil or natural gas, because other nations are not going to starve and they're not going to be without mobility.

Our real problems in terms of world peace really come from the fact that before people starve, they will fight.

Therefore, this is not just a humanitarian imperative. It really comes with the whole posture of the world.

Now, I share the chairman's thought. Norman Borlaug, who has testified before our committee and the Agriculture Committee many times, really had it right. He brought the Chinese and the Indians to a status of virtual sustainability for a while, until they began to eat better and enjoy really the standard of living to which we've become accustomed. But others have never had that opportunity.

Although Borlaug has been in Africa, he's been inhibited by the seed problems created by the Europeans, as well as all sorts of other financial dilemmas. That really has to be on our minds. In the same way we try to help other countries become more energy independent, we are going to have to move aggressively in terms of the support of farmers.

I just ask you, Administrator Fore, is there any comprehensive plan in the administration that goes beyond the emergencies of this particular crisis? Certainly we need to meet it and we need to meet it quickly. But if the trends I'm talking about are true, this is going

to be with us for one hearing after another, year after year, until some administration comes along with a recognition of what's happening in the world and formulates a plan.

Ms. FORE. Yes, Senator Lugar, you are right that this is a very complex series of issues that all interweave and interrelate with each other. It is going to take a multiyear, multidonor solution to this problem. So it is going to be a worldwide solution and it's going to take us many years, and thoughtful, wise investments across the board.

In the medium term, we know that we want to invest more in biotechnology. There have been significant improvements in pest resistant cotton and maize, in drought resistant seeds and rice and wheat, in cassava and potato and a number of other food staples. All of these will be important. And we will be looking at bottlenecks in transportation, which is often one of the problems. It's the distribution of food so that you don't have excess food supply in one area that is perishing before it is getting to market.

The operation of markets for both inputs, like food and—seeds and fertilizer, as well as outputs, the actual staples. Ways that we can encourage trading systems and policies so that there isn't the protectionism, so that the markets are operating freely. All of this will be part of the medium- and long-term solutions.

In our proposal we have the beginnings of this. It is a good first step, but this is going to take sustained commitment over many years by the members of this committee and by Congress.

Senator LUGAR. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Nelson.

STATEMENT OF HON. BILL NELSON, U.S. SENATOR FROM FLORIDA

Senator BILL NELSON. Mr. Chairman, Senator Casey was here before me and, with your permission and with his, I need to go to another committee, and may I just ask one question?

The CHAIRMAN. Surely.

Senator BILL NELSON. Ms. Fore, thank you for your public service. We've seen USAID cutting the funding for global agricultural research. So does USAID plan further cuts in the developing world and if it is are you prepared to reassess that decision? And talk just a little bit more about combining what you have done very effectively, health in Africa, with food of necessity, because they can't take the AIDS drugs unless—if they have an empty stomach, they can't stand the AIDS drugs. Are you applying that to Haiti as well, as you said, right here in our own hemisphere?

Ms. FORE. Yes. Thank you, Senator Nelson. You are right that funding for agriculture and for agricultural research has been too low. The 2008 budgets do not have enough. We are looking forward to the 2009 budgets, in which we requested more funding.

In this initiative that we have before you, this request, we have more funding for agricultural research. There are a number of very good institutes that we have been funding around the world and these are important to the solution.

As we look ahead to how we can solve this in the medium and the long term, your comments about the health programs that we

are currently running, as well as the education programs that we currently have throughout the developing world, are part of the solution, because getting good nutrition to mothers and to children, especially young children, is very important. It's important in their formative years.

When I was in Ethiopia I visited an urban gardener program in which families, particularly children who lead households of HIV–AIDS, have been growing vegetables that they sell in the markets. It provides an income, but it also provides better nutritional content to the family and a little bit of income so that you can buy books for school.

So there are ways that we can combine and integrate these programs. We have a number of programs in Haiti where we've just been reprogramming some of our assistance, about $6 million worth, that are food for work programs, so that young people can be helping with clearing canals and roads, all of which help move food to market. But they are working for food.

These kinds of programs will certainly help and they become solutions for the medium and the long term.

Senator BILL NELSON. Thank you, Mr. Chairman.

I need to continue to work with you on Haiti, because here, only several hundred miles from our shores, is the poorest nation in the Western Hemisphere, and it's a sad fact of life.

Ms. FORE. We are the largest bilateral donor to Haiti and it is our largest food aid development program. So we will really look forward to working with you, Senator Nelson.

The CHAIRMAN. Thank you, Senator.

I say to Senator Casey, you can either have 3 minutes left on his time or wait your turn. You can choose which you want to do, because it would be unfair to not go back and forth.

Senator.

STATEMENT OF HON. BOB CORKER, U.S. SENATOR FROM TENNESSEE

Senator CORKER. Mr. Chairman, thank you. I think this hearing is most timely.

Witnesses, thank you very much for your testimony. I know there's been some discussion about the farm bill and the fact is it's going to pass. It's going to pass, I think, by a veto-proof margin. So I think as we move ahead one of the major issues I hope we can peel away and focus on is the buy-local component. I know the farm bill has a $60 million pilot that allows us with aid, like you're discussing, to buy locally.

To me that's one of the biggest problems that we have. In fact, as you mentioned, high food prices affect negatively those people that are trying to buy food and are net importers. On the other hand, if you're a sustenance farmer in India and you're living off a dollar a day in essence high food prices help you generate income.

What we should be doing, instead of shipping in and distorting markets, is buying it locally and really building the local economy—we spend so much money on economic aid in these countries trying to help people with their economies. I think one of the most perverse things we do in this ag bill is not allow us to buy locally in these countries where we're simultaneously producing food, but

at the same time raising the standard of living of people there that are very poor.

I wonder if you want to add any additional comments to that or suggestions in that regard.

Ms. FORE. Thank you, Senator Corker. You are exactly right that local purchase of food would allow us to get a number of benefits. The first is that it allows people to grow their own food. It allows farmers to earn an income and a livelihood throughout the developing world, because if we can increase the production in the developing world that in turn will meet the needs locally for their people. So there is a benefit of incomes, of availability, affordability, and access to food.

The second is from a United States interest and efficiency point of view, our United States dollar will stretch further if we purchase locally food. It also means that we don't have the shipping costs, the transportation costs. So all of that is very important as a part of the tools that we have, and we would very much appreciate your strong consideration of our request for local purchase options in the P.L. 480 account.

Senator CORKER. It is my hope that as soon as this bill passes, together we will move ahead on provisions that alter that buy-local provision, so that we can do the right thing as it relates to these developing countries. I know that's going to have to be done separately. I know getting an ag bill passed is most cumbersome, as we've seen, but I hope we can work together to make that happen.

I want to focus for just a moment on Haiti. I know that Senator Nelson brought that up. I recently was there. You've mentioned how close it is to our country. I know that we've talked about this from a humanitarian standpoint and obviously this is a great country, a generous country, and certainly that is our primary motive in helping people with food.

But I'm also concerned about the instability that these food prices have created. I was just recently with President Preval. I know that he's trying to move ahead with economic growth. I'm worried about the fact if that does not occur, I'm afraid that the democratic transition will not continue in that country.

I wonder if you could comment on his efforts to reduce the cost of rice and what else may be occurring there as it relates to instability in Haiti itself.

Ms. FORE. Yes; certainly. We're very concerned. Food is so important that it does create many strains on a society and it is creating instability in many countries, and Haiti is certainly experiencing it. I mentioned, with Senator Nelson, our program—we've been reprogramming funds for Food for Work. In addition, there's $1 million to work with the Government of Haiti to try to back their plan for the reduction of prices for food staples. It's a very important part.

You have to have good plans and policies and good coordination for this to work. In addition, we've been looking at ways that we can send initial food assistance that would be for humanitarian purposes out of the warehouses that we have in Texas, perhaps $15 to $20 million worth. All of this is a good start, but we will need to utilize our developing assistance programs in food aid that are currently going on in Haiti to try to increase them. We have a

strong increase in our 2009 budgets. It's been one of the areas that we increased the most, so we will look at this as a multiyear problem and encourage its increase and its effectiveness within Haiti.

Senator CORKER. Mr. Chairman, thank you, and thank both of you for your testimony.

The CHAIRMAN. Senator Feingold.

STATEMENT OF HON. RUSSELL D. FEINGOLD, U.S. SENATOR FROM WISCONSIN

Senator FEINGOLD. Thank you very much for holding the hearing, and to our witnesses.

Before I turn to the very serious global food situation, I'd like to briefly mention something important to Wisconsin's hard-working farmers. Many articles and editorials are citing the increased revenues that farmers have recently been receiving for their crops and their production costs. I hope we can all agree that America's small- and medium-sized farms aren't to blame for the current problems.

That said, these food insecurity problems are very real, and they are having a disproportionate impact across the Continent of Africa. In 1999 I commissioned a study by the GAO, which found that while undernourishment had been falling around the world for more than 30 years, nearly 40 percent of Africans still suffered from chronic food insecurity. This is unacceptable. The strength of African governments—and more worryingly their citizens—is being sapped every day by hunger, which in turn can contribute to instability, violence, and crime of significant proportions.

In order to meet our own national security needs, and live up to our highest principles, we need to collaborate with others to fight starvation, help strengthen global food security systems and still ensure that we are adequately supporting American family farms.

I'd like to now turn to just a few questions that relate to the comments I just made. Mr. Lazear, I understand that the U.S. President's Initiative to End Hunger in Africa, launched in 2002, is the principal U.S. strategy to achieve its target of halving hunger in Africa. Could you tell me how much the President has requested to fund this initiative over the past 5 years and the impact that these funds have had in Africa?

Mr. LAZEAR. I think on questions involving foreign aid I'm going to defer to my colleague; Ms. Fore, if you wouldn't mind picking that up. I'm certainly happy to talk to you about any of the economic issues, especially the one that you mentioned earlier about the Wisconsin farmers. So I'd be happy to speak about that. But on issues involving the aid programs themselves, I am not the expert on that.

Senator FEINGOLD. Ms. Fore, why don't you try to answer it.

Ms. FORE. Yes, it has been—the President's Initiative to End Hunger in Africa has been very effective. We believe, as we have been talking about during this hearing, that we still haven't invested enough in Africa. Your comments about the great need and the urgency are very important. For some of the people in Africa, 70 percent of their income is spent on procuring food for their families. It's a very high percentage, and for many of these people they are living on less than $1 a day. For those that are truly poor,

those who are living on less than 50 cents a day, three-quarters of them are in Africa.

So this is a challenge that we all need to recognize and try to address globally, not just the United States alone.

We have a number of approaches that are short term, that are medium term and long term, that help farmers to grow products and that are, I think, going to help immensely. If we can double production, if we can move on some of the policy issues, and if we can increase humanitarian assistance, all three of those will work together.

The President's Initiative to End Hunger in Africa is funded at approximately $200 million a year.

Senator FEINGOLD. OK. In your opinion, Ms. Fore, what challenges have actually thwarted progress toward implementation of the World Food summit's food security Plan of Action, and is achieving the target of halving the number of undernourished people worldwide by 2015 still possible?

Ms. FORE. Well, we are all concerned about whether we can reach that. Now, we will have to move on all fronts if we as a world are going to meet these targets for halving world hunger. It is going to be an enormous undertaking. But if we can unite internationally behind good policies, if we allow markets to work, both markets for fertilizer and seed, markets for the selling of staples, good post-harvest techniques, the way to store food, so that we can get them to the markets, as well as incentives to encourage local farmers to grow food, I think we will have a chance.

But we will have to use all possible tools at hand to be able to do this.

Senator FEINGOLD. In that regard, we have seen rapid growth in markets for local and regional food in the United States as a way of improving sustainability, and reducing transportation costs and increasing returns for farmers and their communities among other benefits. Are there similar benefits from encouraging local and regional food systems in the countries where USAID provides aid and, if so, how do we or should we support them?

Ms. FORE. Yes, very large benefits. As you well know from your home State, the private sector is the most important part in all of this. They are the ones who are increasing the production of food staples in the world. They are the ones who are financing the processing of food, the transportation, as well as the markets.

They are going to be the most important factor in this. There is great possibility, enormous challenge and opportunity for them to help in this. It should be a big public-private partnership that is going to solve this problem.

Senator FEINGOLD. Thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much.

Senator Voinovich.

STATEMENT OF HON. GEORGE V. VOINOVICH, U.S. SENATOR FROM OHIO

Senator VOINOVICH. Thank you, Mr. Chairman.

As a member of this committee, there are so many areas on which we're supposed to be experts. I just caught the tail end of

the Senator from Indiana's comments, and I would suggest that you sit down with Senator Lugar and members of the relevant executive branch agencies and listen to what he spoke about today. I think the tendency of policymakers, when we confront a problem, is to shotgun it and not put together a comprehensive plan.

Food insecurity is going to be with us a long time and the sooner we recognize that and craft a comprehensive plan to address the problem, the better off we're going to be and the better off the world is going to be.

I think that we have to recognize that rising food prices are affecting many sectors of the United States. There are some folks out there today who want to blame the food price increases on ethanol production. I have commented to my colleagues that we might not fully understand how food prices are determined. So I have asked the Government Accountability Office to look into this crisis and the following specific questions: What are major factors, both nationally and globally, that contribute to the rise in food prices; to what extent do Federal ethanol incentives and the diversion of food to fuel contribute to this crisis; what effect will persistently high food prices have on the American economy; and which groups in the United States are most affected by high food prices?

I've been involved with hunger issues in this country since I was mayor of the city of Cleveland in the early 1980s. We have a gigantic warehouse and a refrigerator now. Many people today are running out of their food stamps and are hungry. So first we need to focus on the domestic need, and then on the international situation.

I met with a group of Ohio pork producers today, and they said, "You've got to pass the Colombia Free Trade Agreement. If it weren't for our export market, we'd be dying right now." In the first quarter of this year, producers have seen a 278-percent increase in the export of pork to China. That's another factor in rising food prices—this increasing demand.

In addition, there is a lot of technology out there being used. My wife Janet and I were in Israel in January. We traveled there for the dedication of the George and Janet Voinovich Technology Center in the Negev. A strong partnership exists between Ohio and Israel in terms of sharing technology.

Consider the degree of food security that Israel has achieved and compare that with other countries that have the same kind of terrain and so forth. Israel has unbelievable technology there that I think would be useful to the rest of the world. Unfortunately, Mr. Chairman, part of Israel's problem is that it cannot disseminate this technology to countries that could benefit because of the anti-Israel bias that prevails in many of those countries.

But that's where I'd start. They've done it. They've done it.

So I would like to know how much thought has gone into addressing the global food crisis on a comprehensive basis rather than taking a fragmented approach, and then believing that somehow it's all going to work out?

Ms. FORE. Thank you, Senator Voinovich, and I'm very glad to hear about your new innovation and technology center.

I think that the approach that we are recommending, that is in the President's recommendation and request, calls for integrating many aspects of development and encouraging both short-term

humanitarian assistance and medium- and long-term approaches to try to get at the root causes for food insecurity around the world. Many of these issues are going to lie in the technology sector. Some will lie in the private sector. Others will lie in how to train and build capacity in countries, something as simple as ridge line rows that are horizontal so that runoff and the loss of water are not occurring.

So it's information as well as technology and help. But we, as the United States, as the U.S. Agency for International Development and with other government agencies, are now focusing on a whole of government approach, something that will be more effective than our efforts have been in the past few years, when we were under-investing in agriculture.

But we will certainly take Senator Lugar's thoughts and comments and look forward to working with everyone on the committee for ways that we can approach this. This is a beginning. This is a time when we need to band together. It will have to be a multiyear effort and it will have to be a multidonor effort if we are to successfully meet the challenges for food security.

Senator VOINOVICH. Well, I would underscore that I would get Senator-Professor Lugar involved in this. He's an expert in the agriculture issues. He's probably one of the best minds that our government has in the area of foreign policy and he understands how important it is.

We also ought to consider where we allocate our resources. There are three efforts under way right now to recommend how the State Department should integrate them. We had a wonderful hearing here with Dr. Joseph Nye and former Deputy Secretary of State Richard Armitage about the issues of smart power, hard power, and soft power. They urged that we need to review how we allocate resources amongst our national security agencies. We're pouring an unbelievable amount of money into the Defense Department today and we are operating in a whole new environment. What we do to address hunger and AIDS and other issues is so much more important to the well-being of our public diplomacy in the long run than anything else we can do.

It seems that the left hand isn't talking to the right. I think we should begin reviewing how we allocate our resources and ask whether we could redirect some money from the Department of Defense budget to the food crisis and other humanitarian issues we face today.

One of the best legacies this administration might be able to leave in this particular area is to do the homework necessary to lay out all of the aspects of this comprehensively and then say to the American people, and to us, "here's how we get the job done and here's what we're going to have to do to change the way we're doing things if we expect to be successful with it." We just can't keep doing things the way we have in the past.

Ms. FORE. Yes, Senator Voinovich, I take your point. I know your keen interest in management and, as you know, Secretary Rice and I have requested additional funds for hiring more Foreign Service officers, who at USAID could help on agriculture and in a number of other areas, health and education, as we were talking about

before. All these areas interrelate in trying to solve this very complex food security crisis.

Senator VOINOVICH. Thank you.

Thank you.

The CHAIRMAN. Thank you very much.

Senator Menendez.

STATEMENT OF HON. ROBERT MENENDEZ, U.S. SENATOR FROM NEW JERSEY

Senator MENENDEZ. Thank you, Mr. Chairman.

Madam Administrator, good to see you. Mr. Lazear, good to see you.

Let me just start off with saying that as we talk about meeting the global food crisis, of course first and foremost it is a humanitarian issue because it is the very essence of people's existence. But I also would urge us to be thinking about it in terms of security issues. I want to echo some of the comments made by Senator Nelson and Senator Corker as it relates to Haiti. Large numbers of Haitians clearly in search of essential food have been going in large numbers into the Dominican Republic, a country in and of itself which is pretty poor. And that has caused the Dominican Republic to engage in its border and repatriate people, only to find them back on the streets of Santiago, the old capital of the Dominican Republic, where crime has increased significantly.

So it is one example right here in our own hemisphere of the consequences of a lack of food, first and foremost in a humanitarian context, but also how it relates that people will go to where their necessities drive them. So this is also a potential source of conflict and we need to think about it that way as well.

In that respect, I see on page 3 of your testimony that you said that "attacking the underlying causes of food insecurity through a significant increase in staple food production." Are you talking about that in the world; are you talking about that domestically? Because the OECD has said that since the 1980s we have been diminishing our efforts in terms of agricultural development assistance and there are some who have called for giving that a greater priority within the overall USAID assistance. What are you referring to when you say increasing staple food production? Home; abroad?

Ms. FORE. Since we are the United States Agency for International Development, that reference was to abroad in the developing world, so that farmers can grow more food that can be available and affordable at home, in their home countries.

Senator MENENDEZ. And how specifically does the agency intend to pursue that?

Ms. FORE. We have a number of proposals, which include looking at increasing production. So we would like to focus, let's say for Africa, on doubling production in the coming years. If we can double the production of food staples—this would be wheat, rice, cassava, maize—these are important in the diet of Africans and, as you know, Africa as well as Asia, but particularly Africa, is our most challenged continent. So the increased focus on how to get higher production and productivity out of local farms is one important area to focus on.

The second is looking at transportation bottlenecks, so that you can transport goods to market faster and not have post-harvest losses, that vegetables and fruits are not spoiling on the way to markets because they are unable to make it across the border or they are unable to make it into a town, and when they get there, that there are operating markets. Markets that can help bring food products to those who need them more effectively as well as markets that provide seeds and fertilizer, can all help solve this food insecurity problem.

Senator MENENDEZ. But what do you look at within the context of your budget? In the percentage term, what are you looking at in terms of increasing your effort in this regard?

Ms. FORE. In this request we have $150 million for Development Assistance, and in the International Disaster Assistance account we are requesting $225 million, it is not long term; it's for medium term. So we can use every dollar well. It will be focused on these kinds of markets. It will also be focused on how we can increase food production in rural areas because, as you know, part of the problem that is before us is rural farmers leaving their farms and heading into the towns for food. But that creates a different problem for us, so it would be better if we can get more help to the rural farmers, so that they can grow, transport, and sell to those who are already in the towns.

Senator MENENDEZ. Let me ask you a different question. You mentioned—and I'm glad to see it—in your remarks that talking about immediate food aid, especially for those in urban environments and for the rural landless, you say in your testimony, the World Food Programme has described the new face of hunger, which is increasingly urban. In these urban areas it is not that food is unavailable; it is that it is priced outside of the scope of their ability to acquire it.

How does our response need to change to bring stability to urban areas? That's one question.

The other question is, whether it is yourself or Mr. Lazear who might talk about this: The world rice market is in crisis, with export prices soaring to $1,100 per ton in April 2008, up from $375 per ton at the end of 2007. That's a huge increase. If we don't take action soon, prices may double again. According to the research of the Center for Global Development, the release of rice stocks being held by Japan and China can bring prices down now, possibly cutting them in half by the end of June. But this can only happen if our government lifts its objections to the reexport of rice previously imported from the United States.

I see the specter of rice that could be used to help the world's hungry be used for feed and livestock in Japan and China, versus being used to feed human beings. So what's our view of that? What's our view of how we deal with the new face of hunger in the world that is more urban, in which there is commodities available, but the price doesn't allow it to be purchased?

Mr. LAZEAR. Why don't I start on that. In terms of the price, when prices are high it has to be because of one of two factors, either supply or demand. There is nothing else. The demand side is not something that we want to discourage because when demand is high it's high because people are becoming wealthier, they're

moving into the middle class, and as a result are able to afford more food, and that's a good thing from a humanitarian point of view, not a bad thing. So that's not something that we view as a problem, although obviously it does put pressure on prices for those individuals who are least able to afford it, at least in the short run.

Over the longer haul, the way to alleviate these problems is to make sure that we have the incentives that are appropriate to enhance supply. You mentioned one in your comments about restrictions on movement of grain across international borders. That's a significant problem. We think that some of the policies, not only our policies—of course, we are very open as compared with other countries, at least in terms of our agricultural practices. But some of the countries that are in the most serious situation right now in terms of high urban prices are ones that are very restrictive in terms of their willingness to allow crops to come into their countries.

So one of the things that I would argue would be most important is to try to push forward in the Doha Round, try to succeed in that. We've been working at it. As you know, it's a very tough go. But getting countries to open up their borders to the kinds of shipments that we're talking about, so that the people living in the cities who are now suffering from very high prices, as you mentioned, will be able to see prices go down as supplies come in.

Ms. FORE. I will just add to that, Mr. Chairman. Exactly right in terms of the policies that will make food more affordable urban centers; but we've also been looking at voucher programs, so that you can give a voucher to someone in an urban area who is hungry, and they can go to the local markets and use it to buy food. Thus you're encouraging private businesses to operate, and you want to create as many incentives for the private markets to work, both in urban and in rural areas.

Senator MENENDEZ. Mr. Chairman, one final comment. I appreciate that the world has a rising middle class. That's great. But if you are starving and if you are on the verge of maybe dying as a result of it, that is no solace. So I hope that when we look, for example, at the rice issue with China and Japan that we just don't take the position that in the context of insisting on making sure there is rising demand, that we don't meet the humanitarian need at least in the short term. That's when I get worried about our economic theories versus the theories of how we deal with human beings.

Mr. LAZEAR. I wouldn't disagree with that.

Ms. FORE. And we have a very large request for humanitarian assistance.

The CHAIRMAN. Thank you.

Senator Murkowski.

STATEMENT OF HON. LISA MURKOWSKI, U.S. SENATOR FROM ALASKA

Senator MURKOWSKI. Thank you, Mr. Chairman.

And I thank both of the witnesses for a great deal of very solid information this morning. I think what we have heard from my colleagues here—I would echo what Senator Voinovich has said about your statement, Senator Lugar, and a recognition that it's not

always just about the amount of money, but if we don't have real and meaningful reforms, not only in this country in terms of policies, but with the other countries that we're dealing with on the food aid, we're not moving ahead. I appreciate a great deal the comments that you have made.

As I listen to some of what we have heard here this morning, I'm struck with the similarities of what I hear when I'm down in the Energy Committee just on the third floor here in the Dirksen Building. We're talking about the ever-increasing price of energy, how it's affecting not only people in this country but people worldwide. We're trying to dissect the problem. Is it supply; is it demand; is it speculation on the market?

We're talking about the same principles here: A growing economy in China that is allowing for a level of consumption, whether it's with energy or whether it's with food, seeing it in India as well; those issues that affect the supply side, whether it's the adverse weather conditions; the policies that we put in place here as they relate to corn ethanol or biofuels and how that impacts the availability.

As we debate these issues in the Energy Committee, we have come up with no silver bullet. We have come up with no quick fix. I feel we're talking about the same here today, that there is no quick fix to how you deal with the food crisis, not just in this country but throughout the world, that it is a global crisis, that it will be with us for years to come. What we have to figure out is how we move forward in a manner that will yield positive results and more immediate results.

The frustration is very, very genuine, and I think it goes back to what Senator Lugar said. There have to be serious and substantial reforms before we're going to see long-term relief there.

I want to ask a question that ties into what we're seeing within the energy sector globally. Over about the past decade now we've seen a very significant rise in the state-owned oil companies, to the point that they now control over 70 percent of the global oil reserves. I think it might have been the chairman here who mentioned that we now are seeing foreign governments, particularly those in Asia, that are encouraging their companies to invest in farm land overseas in other countries to grow food for the people back home. We're seeing China looking to Australia to purchase land and farming ventures there. The South Koreans are looking at land in Mongolia.

Is this a growing trend that we should be concerned about or is this just the inevitable? And I throw that out to either one of you.

Mr. LAZEAR. Well, let me just make a couple of comments. First, with respect to the food issue and how it relates to energy, I think that's a very important point, because one of the things that we sometimes forget when we look at one in isolation is, first of all, they are interrelated, as the chairman asked me earlier when we talked about how large was the effect of energy price rises on food price rises, and it's quite significant. It's a big factor. So that's one area in which they're obviously interconnected.

The second point I would make is that there is a bit more hope on the food side, I would say, than on the energy side in terms of things happening in the relatively short run. The reason for that

is that at least on the food side we know that part of it is caused by temporary adverse weather conditions that hopefully will not be repeated. So we can at least anticipate that if things revert to normal we'll see less upward pressure on food prices.

In the energy sector, I think things are somewhat different, because obviously weather is not a factor there. It's other things, more associated with trends in global demand, that cause some more difficulties there.

In terms of land purchases in other countries and supplying food to the people, generally I think our view is that we like to see markets work in the least distorted fashion. If that means that some countries are relatively better at growing food and other countries are relatively better at doing other things, we would like to see the market help to make that possible, because that means that food will be the cheapest around the world if that happens.

So I guess my answer to you would be that what we would encourage is that we don't impede transactions either in services or in purchases of goods or possibly even land as it relates to the movement, flows of factors and efficiency-enhancing kinds of market approaches across countries.

Senator MURKOWSKI. Let me ask then about those countries that have implemented export bans on various commodities. You've indicated that you believe that this is a significant problem. What are we seeing in terms of smuggling of commodities out of countries to gain a higher price elsewhere, and how is this affecting border security issues?

Mr. LAZEAR. We don't have data on smuggling, but I think you're pointing to a very important issue, because what you're really focusing in on is that when the government creates distortions and incentives to subvert the system by going around the system, what you end up having is a much more inefficient way of allocating resources to the uses that are willing to pay the most. That's what you see with smuggling. So that's obviously an adverse outcome of this.

We've been encouraging countries to eliminate their export restrictions. We think that's bad for other countries and also for the country in question, because what it does is it creates distortions even within that country in terms of promoting sectors that temporarily benefit from those export restrictions, but in the long run may not be the best for the people even of that country. So I think you've targeted a very important issue there and one that we're certainly quite sympathetic to in terms of the way you approached it.

Senator MURKOWSKI. Ms. Fore, did you have anything you wanted to add?

Ms. FORE. May I? There's one other area that Senator Lugar will know from family farming, which is that in the developed world there's often access to finance if you are a farmer, and finance then allows you to buy equipment, irrigation systems, seeds, fertilizers, all of the things you need to run efficient and high productivity farms. So we have been looking at financing mechanisms for entrepreneurs, for farmers throughout the developing world. I think good financing mechanisms will be key to being able to own and farm land throughout the developing world.

Senator MURKOWSKI. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much.

The distinguished Senator from Maryland's going to yield to the Senator from Pennsylvania. So, Senator Casey.

STATEMENT OF HON. ROBERT P. CASEY, JR., U.S. SENATOR FROM PENNSYLVANIA

Senator CASEY. Mr. Chairman, thank you very much.

I do want to note for the record that Senator Cardin did something that doesn't happen very often. He allowed us to jump the line. And for that reason, any time that Senator Nelson had, I will yield back to Senator Cardin. [Laughter.]

I have to go to preside, so I'm going to be very brief. But I do want to note that we appreciate the fact that the chairman called this hearing on this issue and for his work on this issue, as well as—of course—the ranking member, Senator Lugar, who's done so much work in this area for many years. We want to commend both of them for that.

I want to get right to my point. To say this is a crisis across the world is a dramatic understatement. We've got, by the estimate of the United Nations, 37 countries that face some kind of severe food insecurity, that means almost one-fifth of the world's countries are facing that horrific nightmare. So it's really about a humanitarian crisis.

There's a moral gravity to this problem which I think we all recognize. But also, increasingly we all understand that this is about security or insecurity in these countries that could be breeding grounds for terrorism or at least the increase of terrorism. So it's as serious as it gets. We don't need to say that any more directly than that.

But I wanted to ask about something very basic, four words: "Food on the ground." I think both of our witnesses know that a lot of Members of Congress have been concerned about the amount of extra money, the added money that the President is requesting for this year's supplemental; a reportedly $350 million. I'm very happy about that. We know that $200 million came from the trust. We're happy about that.

But I and others, months ago now, sent a letter to the appropriators saying: We need $200 million more on top of the $350 million. I'm putting the other $200 million aside because I don't think we should count that in this discussion. So discussing only the $350 million the President's proposed, we're proposing at least another $200 million, and that's where the conflict is.

I'm happy that the President's come up with $770 million and I was all set to compliment him. I was getting calls from reporters the other day. In fact, I did one interview where I commended the President on it, and then I realized, or our staff realized—that's why I hire smart staff—that it's for fiscal year 2009, which means spending authority would not come into play until October 1 of this year. Food on the ground wouldn't be realistic until who knows, November, December, January.

So my question is, Why won't the administration, not just in the context of the crisis, but also is in juxtaposition for what it's asking for on Iraq and Afghanistan? This money is a scintilla of what we

spend in a week or a month in Iraq. By some estimates we spend as much as $400 million a day in Iraq, and we're asking for $200 million right now so that people can get food hopefully in June, July, and August, instead of waiting until November, December, January.

Tell me why the administration won't agree to the $200 million more?

Ms. FORE. Well, you know that the supplemental request for $350 million was prepared last fall and that was before we saw many of the price increases. But this request will help with the price increases as well as other aspects of the crisis. When one is preparing these budgets, one never knows what lies ahead, and it's a good first step. Then as the year begins to unfold, as the supplemental is considered by Congress—we have more information now than we had last fall. So the supplemental request will help with food on the ground—four very important words.

The other area that could help a great deal would be local purchase authority. If we could have local purchase authority in our P.L. 480 account, it would allow us to purchase food in the local markets and it would then mean that we would not have as much time or cost, the American dollar would be stretched further, and the shipping time from the United States to countries would also be reduced. Thus food on the ground by this summer would be more likely.

So those are two ways that one can help.

Senator CASEY. Well, I want to press the question again. Will the administration agree to $200 million on top of $350 million? That's the only question I have. And if they won't, if they won't even begin to—they've had this in front of them now for many, many weeks. For the life of me, I can't understand that.

It was bad enough a month ago, before what we saw in China in the last couple of days, before what we've seen in Myanmar. Crisis after crisis is unfolding, and we're asking for just $200 million more. I don't get a sense from you that you're going to make any kind of an announcement today, a reversal of policy.

But I would urge you to go back to the administration and keep pressing this. You know these issues. You've dealt with them firsthand and you've been very passionate about them. It doesn't make any sense to me.

Apart from Iraq, the urgency—I just wish that the actions by the administration, some of which have been great—$770 million is great, but that's for 2009. I just wish that the actions by the administration would match the urgency and the gravity of the human misery that we're seeing affected by these—by food prices and the food insecurity that comes with it.

Ms. FORE. Thank you, Senator Casey. We're working with the funds that we have now to try to maximize their impact and to try to be sure that we're getting it to the places most in need. But I hear you.

Senator CASEY. Keep pushing.

Thank you.

The CHAIRMAN. Thank you very much.

Senator Isakson.

STATEMENT OF HON. JOHNNY ISAKSON, U.S. SENATOR FROM GEORGIA

Senator ISAKSON. Thank you, Mr. Chairman.

I want to go back to a comment by Senator Voinovich. Israel has done the most remarkable job of taking some of the most desolate, arid land in the world and producing unbelievable agriculture. So I just want to echo what George said about that.

If there was any way, I would like to see USAID, being the deliverer of aid, information and technology, match some of Israel's technology and advances and get it into some of these countries, particularly in Africa. Africa has so much commonality of landscape and arid land with Israel. This would be a huge help. It is remarkable what Israel has done with no water and with tough, tough soil to deal with.

The second thing I want to say is, having gone to Ethiopia and worked with USAID in 2002, you made a comment that I had not really focused on until you said it. In some of these areas where hunger is a huge problem and where we need subsistence agriculture to meet basic needs, it's not only that we don't have the agriculture, but that there is no mechanism of transporting or there is not a good transportation system in these areas to get the food to where it needs to go.

Is USAID doing anything to look at that issue of transporting food and saving food in these countries where there is so much need?

Ms. FORE. Yes. Senator, it's a very interesting issue and sometimes it just becomes so practical and so basic. Some of the programs we have are border customs, so that if you are moving goods on the road from Mombasa inland and you are moving through Kenya and you're going into Uganda that it would take you a few hours to get through the checkpoint, rather than 5 to 6 days, because in 5 to 6 days food can spoil. It is taking too long. So transportation corridors are very important, and it is an area that we've been working on.

We've also been working on some areas such as the weights and size of trucks that are allowed on roads and across borders, because the transportation system and the transportation networks need to function regionally. There need to be good trading hubs regionally. In Africa we've identified about 15 corridors that, if food could move with good transportation and good roads, we think we could reach probably 75 percent of the poorest in Africa, and that then would lead to greater food security.

So transportation is going to be a very key part of this. Fuel prices of course tie into this. It's very complex, but transportation is definitely one of our areas of interest. It's part of our approach for the medium-term and the long-term development.

Senator ISAKSON. So it's more an issue of border crossings than availability of transportation that's the difficulty in Africa?

Ms. FORE. Well, availability of transportation is also important, to local markets, so that food moves from the farmer, from his or her farm to the local market, because it's affordability of food, it's availability of food, and it's access to it. So it's all of these that are important.

Senator ISAKSON. Chairman Lazear, the popular perception is that corn-based ethanol has driven the price of corn from $2.25 a bushel to over $6 a bushel. In your statement, you said biofuel contributes to the price increase, but it doesn't have much of an effect. I think that's what you said. Is that correct?

Mr. LAZEAR. Not quite, Senator. What I said was if we looked at the effect of ethanol production on overall increases in food prices, it wouldn't have much of an effect. If we were looking at corn specifically, it would have a larger effect. It wouldn't account for the rise from $2 to $6, but it would have a larger effect.

Senator ISAKSON. It's my understanding that there has been some shift from production land for wheat growing to corn, because of the demand for corn and that in turn impacts the price of wheat. Is that correct?

Mr. LAZEAR. Indeed, yes. And in fact when we said 3 percent on food prices, we're taking into account the indirect effects that you're mentioning, where you do have some spillover into the wheat market and to other markets as well. But the effect on corn prices is quite significant. We estimate that it would be—the U.S. ethanol production can account for about 20 percent of the rise in corn prices and the worldwide ethanol production can account for about another, oh, another 10 to 15 percent there.

Senator ISAKSON. It seems to me—you're the economist, but it seems to me that we've got the double whammy of increased demand and decreased supply hitting at the same time. The supply is as much because of weather and disasters as anything else, but the demand is due to improved diets in countries such as India, China, and other places. Is that correct?

Mr. LAZEAR. Absolutely, that is correct. So they're both going on simultaneously and it's unfortunate because we've had again significant adverse weather consequences that have had huge effects on the supply. Again, it affects crops differently. It tends to affect wheat more than it does corn in terms of the prices. But the effect on wheat has been dramatic.

Senator ISAKSON. Thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much.

Does anyone have any closing questions for the panel?

Oh, Senator Cardin.

Senator CARDIN. I didn't give up my time. I yielded.

The CHAIRMAN. I am so sorry.

Senator CARDIN. That's quite all right. I wasn't going to let you get away with it.

The CHAIRMAN. You have a half an hour. [Laughter.]

STATEMENT OF HON. BENJAMIN L. CARDIN, U.S. SENATOR FROM MARYLAND

Senator CARDIN. Thank you, Mr. Chairman. And let me thank Chairman Biden and Senator Lugar for their longstanding leadership on this role that the United States has played on humanitarian relief in regards to hunger around the world. I'm just very proud to serve with the two of you on this committee and look for ways that we can make the U.S. programs more effective.

One of the things I would hope that we would learn from today's hearing and from what's happening internationally is that I expect the problems of hunger and the cost of food to be a continuing problem. I don't think we're going to solve it in the next 6 months or 12 months. The United States has many tools at its disposal, including, as Ms. Fore has indicated, the USAID's role in helping developing countries with their capacity in food development. We have the World Food Programme, and our participation in that. We have the Emerson Trust, which was designed to help in these types of circumstances. We have our influence over private sector involvement and what they do to help, and our influence in other countries.

Senator Voinovich mentioned Israel as a model for development in arid countries and Israel itself has initiated many programs with other countries to try to help in their food development.

The chairman mentioned our trade policies, which are certainly a critical point.

My first question is, What are we learning from this? Is there a better way that we could organize the tools that we have in this country to help the growing problem of food, the distribution of food internationally, and the problems of hunger? Will there be suggestions made as to how we can be more effective in dealing with these international challenges?

Ms. FORE. Well, let me mention one thing and then turn it to the chairman. One area that we think has enormous promise is the area of biotechnology. You have mentioned Israel, but also India, China, many other countries, have been working in biotechnology. We have a number of food staples that we have been working on that can help increase production throughout the developing world.

But there are also some threats that we see, such as wheat stem rust, that needs addressing, because the world's food supply is something that we need to protect, to grow, to encourage, to invest in. We just need to be investing more and more smartly in the years to come, to work with multilateral donors, international organizations and other countries, bringing with us America's leadership in agriculature.

Mr. LAZEAR. You actually stole most of my thunder, which is fine. I'm perfectly happy to have you do that.

The only thing I might add to that is that one of the things we can do is by ensuring that markets can function appropriately we can smooth some of these problems out so that they're less pronounced over time. A big problem of course is that if you intervene and create incentives to, say, hold off, to hold things off the market, so investors, as Chairman Biden had mentioned earlier, have incentives to enter those markets, what you do is you don't have the supplies available during those periods when prices are going to be highest and when there is a crisis situation.

So hopefully we'll learn our lesson from this and make sure that we don't put ourselves in the same situation in the future.

Senator CARDIN. Let me ask you specifically about the Emerson Trust. We've talked about the replenishment funds, but as I understand it the authorization is much larger than the amount of capacity that it currently has. It holds wheat, but it could hold corn and rice, among other commodities.

Are we looking at perhaps coming forward with a more ambitious role for the trust in the future in dealing with certainly temporary problems, not just in this country but internationally?

Mr. LAZEAR. I'm sorry, I thought you were talking to——

Ms. FORE. Do you want me to?

Mr. LAZEAR. Go ahead. I thought that was directed to you.

Ms. FORE. The Emerson Trust has been one of the many tools that we have used to good effect in times of food crises and emergencies. But we are starting to think through what our other options are, what sorts of flexibilities can we create with the tools that we have as a nation to address food crises around the world. So we will look forward to working with this committee on the future of the Emerson Trust, and how we can use such tools that need replenishing, but also can be utilized in times of crises.

Senator CARDIN. It just seems to me that the authorization level is so much higher than what we traditionally have used in the trust. I know that's going to be reauthorized in the farm bill that's on the floor, but I would hope that we would take a look at that becoming a more effective tool in dealing with some of the ongoing problems.

Mr. Chairman, let me ask you one question if I might.

The CHAIRMAN. Sure.

Senator CARDIN. Wrong chairman. This chairman here.

The CHAIRMAN. Good. I'm glad you have to answer it. [Laughter.]

Senator CARDIN. It's on the trade policies. You talked traditionally about the problems we have in the WTO in opening markets, and I couldn't agree with you more, particularly with the export subsidies that we see in Europe and Asia. It was very disappointing to see that is what really brought down this current round. But it seems to me that one of the current problems we're having is countries are trying to hold onto their crops now, rather than making them available internationally as they should.

So it seems to me we have a somewhat different challenge right now in regards to the world agricultural markets. What role can the United States play to prevent countries from trying to hold onto their crops, preventing the international economic forces to work appropriately?

Mr. LAZEAR. Absolutely, I think that that point is an extremely important one. We've seen what I would think of as major distortions of markets by countries prohibiting exports of crops to countries that really need these crops at this point, where we could see prices falling pretty significantly if crops were allowed to move across those borders.

You're really asking me a political question in terms of what we could do to encourage that. That's really not my area of expertise, but I would say that we should certainly push this very strongly, because prohibiting crops from moving to those countries that need them the most is very problematic at this point. I couldn't agree with you more.

Senator CARDIN. Well, thank you.

Thank you, Mr. Chairman. I guess my last question is to you. What are you serving for lunch today?

The CHAIRMAN. Hang around. The menu is open.

Thank you, Senator, and I apologize for thinking your yielding was yielding. But thank you very much.

Let me say before—do you have any further questions, Dick?

Senator LUGAR. No.

The CHAIRMAN [continuing]. Before I dismiss the panel, and thank you both for giving us so much time, one of the frustrating things that Senator Lugar and I and Senator Cardin and others who care, as most of us do, deeply about issues like this, and PEPFAR, the Global AIDS Fund, Darfur, and all these human catastrophes that are around the world that we have the capacity to do something about, is that it's hard to get them up on the agenda in a way that we're able to overcome objections of just a very few people.

I was very proud of the work that Senator Lugar's staff and mine did in working with the administration on something they should be complimented on, on PEPFAR, on dealing with the global AIDS funding, and we increased it significantly and made some real changes, real compromises, and it was ready to roll, and a few Senators on the floor are stopping us moving on it.

One of the purposes—I remember Chairman Fulbright when I first served on this committee telling me he thought the most useful purpose of this committee was as an educational tool. It's a means by which to inform our colleagues. We don't have that much legislative authority. It's not like when I was chairman of the Judiciary Committee or chairman of the Agriculture Committee, where there's more you can actually legislate. You don't legislate foreign policy.

One of the things I want to raise with you, because we'd like very much, Madam Secretary, to work with you, is that I really do think the point made by the chairman is that one of the great contributions you can make and the administration can make to the next President, whether it's John McCain or Barack Obama or Hillary Clinton, whomever, is to bequeath them a beginning of a reorganized effort here that's consequential and coordinating, so they don't start from scratch, because the truth of the matter is there are some big ticket items here.

One of the pieces of it—and this is reason for me for some degree of optimism—is that there are scores of significant people in the United States who neither run NGOs nor are government officials, but who are very, very bright and wealthy individuals who are willing to make significant financial and personal sacrifices, as we've seen in the fight against AIDS, and I would argue here in this area.

This is anecdotal, but I think it's the reason Americans should be optimistic. I was talking to a friend of mine who is a very successful investment banker, who called me the other day—and I hope he won't be embarrassed; his name is Terry Meehan in New York. He said: Look, Joe, I'd like to come and see you, he said, because I'd like to devote the next 3 or 4 years of my productive life here in doing something about the food crisis. I want to be involved. I want to get deeply involved with my resources as well as whatever skill I can bring to bear.

So I just would hope that as you're thinking about it, the administration is thinking about it, and we're thinking about it, and the

witnesses we're about to hear, is that there's got to be an even better way to sort of coordinate. And I'm not suggesting that the Terry Meehans of the world are the solution to the problem. I don't mean to suggest that. But a better way to coordinate from the United States the totality of our resources, human as well as financial, to deal with what everyone has acknowledged and you both pointed out is a problem that is not—is emerging. It's difficult now; it's going to get bigger. But it's not without solution, it's not without—it's not without answers.

So I just raise that with you. I would ask, Madam Secretary, whether you'd be willing to, over the next months, just to be able to work a little bit with our staffs to see if we can try to either follow on, build on what you're already proposing or follow on with maybe some ideas about how we just change the dynamic here.

I know your forte is management. It is something I think we desperately need, and we'd like to work with you.

Ms. FORE. Thank you, Mr. Chairman. I would welcome that. This is a time when we really will have a chance to do something significant and multiyear and public and private, including foundations and other countries.

The CHAIRMAN. As I said earlier, I cannot speak for any of the candidates, although we all three know all of them well because they're colleagues. But I believe, I know that Senator Obama and I know that Senator Clinton, and I believe that Senator McCain, would be very, very interested in beginning to reshape the organizational chart here so that they're in a position to be able to hit the ground running.

Again, that is not a criticism of the administration. I'm not trying to suggest anything other than we all acknowledge we need a new model here.

So I thank you very much. Thank you both for being here.

Ms. FORE. Thank you, Mr. Chairman.

Mr. LAZEAR. Thank you.

The CHAIRMAN. Our next panel is a very distinguished panel: The Honorable Josette Sheeran, she's the Executive Director of the United Nations World Food Programme, the largest operation in the world. It is the largest humanitarian agency, with an annual budget exceeding $3.1 billion. Ambassador Sheeran was appointed to her current position on November 2006. Previously she was confirmed by this committee as Under Secretary for Economic, Energy, and Agricultural Affairs at the State Department.

The WFP has recently released an advisory donor appeal for $755 million. We look forward to hearing from her today, as well as how we can best support the effective response right now and what we need to do in this immediate crisis. It's not going to be over soon, as we've all said.

And also, Dr. Peter McPherson, president of the National Association of State Universities and Land Grant Colleges. Dr. McPherson has a long and distinguished history of working with development and food issues. He's a former ambassador—excuse me—Administrator of USAID, and also President Emeritus of Michigan State University.

He's a founder and cochair of the Partnership to Cut Hunger and Poverty in America. Dr. McPherson, your long involvement with

U.S. food policy and agricultural issues is especially helpful to this panel now.

I might add parenthetically, unrelated to this, we're trying very hard to move along the legislation we talked about. We're trying to make that part of a package of some very good legislation that's come out of here where we can force those who are holding this up to have to deal with it on the floor. So it is one of the four priorities, I just want you to know. It's an unrelated issue.

Finally, James Lyons is the vice president of Policy and Communications of Oxfam America. Mr. Lyons served in the Clinton administration as Under Secretary for Natural Resources and Environment in the Department of Agriculture. His responsibilities during that period included drafting conservation and forestry titles of the 1990 farm bill, which are a big deal in my State, the conservation pieces of that, the reason why I supported the bill.

Mr. Lyons also represents—as a representative from the NGO community, your perspective on these issues is critical in providing us with a better understanding of how we got to this point and what we need to do and consider in the short term as well as the long term, but in this immediate crisis.

So I thank the panel for being here. Thank you for your commitment, and I yield to you, Madam Secretary, to begin with. Thank you, and thanks for being here. You're back before the committee and not having to be confirmed for anything.

STATEMENT OF HON. JOSETTE SHEERAN, EXECUTIVE DIRECTOR, WORLD FOOD PROGRAMME, UNITED NATIONS, ROME, ITALY

Ms. SHEERAN. Yes; exactly.

Well, Mr. Chairman and Senator Lugar, I want to thank you so much for this opportunity to come and explain what we're seeing out there on the front lines of hunger. News reports and images of deadly riots in Haiti, triggering the collapse of the government, and in more than 30 nations around the globe, are stark reminders that food insecurity threatens not only the hungry, but peace and stability itself.

Some say there are only seven meals between civilization and potential anarchy. At the seventh meal lost, people are reduced to fending for their survival and the survival of their children, fraying the very moorings of society.

Ensuring access to adequate, affordable food and nutrition is certainly one of the fundamental roles of government and indeed of civilization itself. Yet today many governments, despite their best efforts, are finding it more and more challenging to ensure that those basic needs are met. In part, this is not only about record high prices for the world's staple foods, but about the alarming and aggressive pace of those price increases.

For example, in February rice cost the World Food Programme $460 a metric ton in Asia. Just 5 weeks after that, the price had shot up to $780 a metric ton, and a few weeks after that it had reached record levels at $1,000 a metric ton. This was on top of already steep increases in 2007.

Consumers are getting hit worldwide. For some it is a painful pinch. For those living on less than a dollar or even 50 cents a day,

it is a catastrophe. Of course, we're all consumers when it comes to food. Food is so basic to human survival that its denial is a denial of life itself.

Today the global food supply system is groaning under the strain of skyrocketing demand, soaring cost of inputs, depleted stocks, and crop loss due to drought, floods, and severe weather. Last June I warned we were facing a perfect storm for the world's most vulnerable. Today I believe we are in the eye of that storm.

That storm is made even more complex when the world is hit with unexpected disasters, such as Cyclone Nargis in Myanmar or the massive earthquake in central China. The cyclone last fall in Bangladesh threw thousands into desperation and devastated more than 300,000 hectares of rice crops. According to USAID's Office of Foreign Disaster Assistance, the total number of disasters worldwide on average is now 400 to 500 a year, up from an average of 125 in the 1980s.

I have traveled in recent months to Ethiopia, Kenya, Senegal, Mali, Egypt, and Syria and talked with farmers and consumers. They express confusion and frustration as to what is robbing them of milk for their children, their weekly portion of meat, or, for those who make less than 50 cents a day, reducing them to a single bowl of grain or one piece of bread. With little awareness of the macroeconomic forces at play, many blame their own leaders or local suppliers, millers, traders, or anyone else, threatening confidence in fragile democracies and markets.

The world's misery index is rising as soaring food and fuel prices roll through the lives of the most vulnerable, a silent tsunami that knows no borders. Most do not know what has hit them.

The issue here is resiliency. For those living on less than 50 cents a day, there is no place to retreat. This is the new face of hunger, with people who were not in the urgent category just months ago joining the ranks of desperation, and it is more urban than we have seen before. For many, their coping strategies have already been greatly weakened. As you have read, many are reduced to mudcakes, for example, in Haiti or black flour, which is cassava flour that is blue with mold, in Burundi. In Burundi, even the cost of black flour has tripled.

Of greatest concern here is the threat of severe malnutrition, especially on highly vulnerable groups such as under-2-year-olds, pregnant and lactating mothers, HIV/AIDS patients. For a child under 2, we now know that nutritional deprivation will stay with them for a lifetime.

As Secretary General Ban Ki-moon has said, this crisis threatens the hard-earned development progress of many nations across the range of millennium development goals.

Perhaps the most fundamental question will be, Is this challenge fundamentally different than the food price and supply crisis of the early 1970s, which was ultimately followed by an era of cheap and abundant food and oil? Or are we witnessing a structural shift in global agricultural markets, a new era of rapid and persistent growing demand for food bumping up against resource limitations in fossil fuels, land and water? Is all of this coupled with increasing climatic changes that introduce unprecedented levels of uncertainty into annual agricultural yields?

How accurately and effectively we answer this question may be one of the top peace and security issues of our time.

The Secretary General of the United Nations has pulled together a task force to help unite global action from the United Nations to the World Bank, to regional organizations and countries. Among the action steps that I'd like to highlight are most critical for those who are under pressure right now; hunger pressure.

First, we have to help governments alleviate the immediate suffering and malnutrition. This was the root of WFP's extraordinary emergency appeal. This is a cup from our school feeding program in Rwanda, and today we're actually able to put 40 percent less food in this cup than we could even last June, simply due to the rising food prices. But also we are seeing a new face of hunger, increased demand in many countries, including 2.5 million people in Afghanistan, for example, who were newly identified as hungry due to the soaring prices.

The second issue I'd like to raise is humanitarian access to food. As you've heard, dozens of nations have put export controls on food and have imposed high taxes on food exports. The World Food Programme has three challenges. Today over half of our food is purchased in more than 80 different countries, including 69 countries in the developing world. Today we have humanitarian supplies blocked in countries that have put on export controls. We're finding fewer and fewer countries we can procure food from, threatening our pipeline in Somalia, Afghanistan, and other places. Others like Joachim van Braun of IFPRI have warned that we need to set up a global humanitarian grain stock to get us through this challenge.

But today I would call on all nations to respect the movement of humanitarian food despite whatever blocks they have and to help us be able to meet the needs that are out there.

The third is to help nations ramp up safety nets. Many of those are overwhelmed right now, school feeding and productive safety nets such as Ethiopia has in place.

The fourth option I'd highlight is urgent action on agricultural inputs. One would think—and Senator Lugar, as a farmer you would know—when prices are high farmers plant more. I was just in the Rift Valley in Kenya and meeting with 40 farmers there and was very shocked to learn they're planting much less than they were a year ago. This isn't because of the disturbances there, but this is because the cost of inputs has skyrocketed. So fertilizer was 1,700 shillings in December, is now 4,000 shillings, just 12 weeks later or 16 weeks later. And they simply cannot afford the inputs. As you know, they have no access to credit to do that.

We are hearing this is happening from FAO and IFAD all over the developing world, and we need these harvests to be big and better than last year, not to be less. So we need urgent action on inputs, and FAO has called for $1.7 billion for fertilizer and seeds.

The fifth area I'd highlight that's so important is the work by the African Union, NEPAD, and CAADP, calling on the countries of Africa to invest 10 percent of their budget in agriculture. The countries that have, such as Malawi and Ghana and others, are actually beating the hunger curve. If all countries in Africa did this, there would be an extra $5 billion of investment in agriculture on the table immediately.

The World Bank is doubling their investment in long-term agriculture. I know this morning you focused on this, which I think is very critical. The IMF will help with import financing, balance of payment. This is critical.

Then the last thing I'd highlight, and perhaps most importantly, is support for efforts like the Green Revolution in Africa and other efforts to get up yields, to bring the kind of science and research and technology to these countries, but also to look at the infrastructure and market challenges they face.

I want to assure you that the Secretary General has pulled us all together. We had our first task force meeting on Monday. The United States leadership is also critical, and I want to pass on to this committee what I hear all over the world in refugee camps, villages, HIV/AIDS clinics: Thank you, America. The American people provide more than half of the world's food assistance to the hungry. This means one out of every two potentially starving people that are reached with external aid, is provided for by America.

This is a noble legacy. But of course no one wants to depend on another any longer than they need to in order to meet their food needs. Some decades ago America unlocked the keys to food abundance through the vision of people like Dr. Norman Borlaug, and we urge America's leadership at this time to help bring an era of food abundance throughout the world.

As President Kennedy said: "Food is strength. Food is peace. Food is freedom. Food is a helping hand to people around the world whose goodwill and friendship we want." That goodwill is at the root of the founding of Food for Peace and also the World Food Programme.

We thank the President of the United States for the request that he has made through the Emerson Trust and also for the $770 million in the 2009 budget to help. We also thank the Members of Congress who are leading efforts to ensure that upcoming supplementals can help close the immediate and urgent gap that we have in funding.

I just want to end on a positive note, which is the world today is nurturing more people than it has throughout human history. We have cut the proportion of hungry in half from 1969 to today. We just are not keeping up with the pace of increase we need to. But many countries are on track to meet the Millennium Development Goal of cutting the proportion of hunger in half, from Ghana, Chile, Brazil, Malawi, Vietnam, and others. We must stay the course. We must stand by them. Many are doing the right things, and that's why I'm a long-term optimist.

Thank you.

[The prepared statement of Ms. Sheeran follows:]

PREPARED STATEMENT OF HON. JOSETTE SHEERAN, EXECUTIVE DIRECTOR, WORLD FOOD PROGRAMME, UNITED NATIONS, ROME, ITALY

Mr. Chairman, distinguished members of the committee, I thank you for giving me the opportunity to meet with you today to explain what we are seeing out there on the frontlines of hunger.

Today we come together to address one of the most pressing global issues of our time—the impact of soaring food prices on the world's most vulnerable and the hungry. News reports and images from deadly riots in Haiti, triggering the collapse of the government, and in more than 30 nations throughout the globe are stark re-

minders that food insecurity threatens not only the hungry but peace and stability itself.

Some say there are only seven meals between civilization and potential anarchy—at the seventh meal, lost people are reduced to fending for their survival—and the survival of their children, fraying the very moorings of society. Ensuring access to adequate, affordable food and nutrition is certainly one of the fundamental roles of government, and, indeed, of civilization itself.

Yet today, many governments, despite their best efforts, are finding it more and more challenging to ensure that those basic needs are met. In part this is not only about record high prices for the world's staple foods—but about the alarming and aggressive pace of those price increases.

For example, in February rice cost $460 a metric ton; just 5 weeks after that prices reached $780 a metric ton and just a few weeks after that it reached record levels at $1,000 a metric ton.

Other commodities have doubled or tripled in price over the past year. Consumers are getting hit worldwide—for some it is a painful pinch, for those living on less than a dollar, or even just 50 cents a day, it is a catastrophe.

Of course, we are all consumers when it comes to food. Food is so basic to human survival that its denial is a denial of life itself. Today, the global food supply system is groaning under the strain of sky-rocketing demand, soaring cost of inputs, depleted stocks, crop loss due to drought, floods, and severe weather. Last June, I warned we were facing a perfect storm for the world's most vulnerable. Today, I believe we are in the eye of that storm.

That storm is made even more complex when the world is hit with an unexpected disaster, such as the cyclone last fall in Bangladesh, which devastated more than 300,000 hectares of crops.

And Cyclone Nargis in Myanmar—which hit the rice producing delta at a critical time, has not only left an estimated 1.5 million people fending for survival, but has threatened a critical source of food supply in that region.

WFP has launched an Emergency Operation to provide food assistance to 750,000 people for a period of 6 months, at a cost of $70 million, and a Special Operation to provide logistics and emergency telecommunications services for the joint international humanitarian effort, with a budget of $50 million. I thank the U.S. Government for approving $13 million in support of these operations.

A critical issue now is access. WFP has managed to reach more than 28,000 people with food aid so far, with 14 international and 214 national staff in-country. Our flights are allowed to bring in some supplies, but far from enough—a massive effort is needed to save lives, such as was launched after the tsunami in Asia or the earthquake in Pakistan. The Secretary General has expressed his deep concern and urged the government to allow for a major scaling up of global assistance. Strong international engagement and support is needed to ensure that the people of Myanmar—already among the poorest in the world—can recover from this calamity.

With the soaring food prices, I believe we are facing a challenge that is humanitarian as well as strategic, with moral, political, economic, and security dimensions.

It is clear that an immediate international response is required to address this global crisis and to ensure that the underpinnings of long-term solutions are in place. The United Nations is coming together to tackle these challenges, under the leadership of the Secretary General, who has declared the food crisis an emergency, the World Bank President, who has called for a "new deal" on global food policy, and all the members of the Secretary General's task force that met in New York on Monday.

United States leadership is also crucial to help address the global challenges facing the world's most vulnerable. Let me pass on to this committee the message that I hear in refugee camps, schools, villages, and HIV/AIDS clinics across the world: "Thank you, America." The American people provide more than half the world's food assistance to the hungry. This means one out of every two starving people reached with external aid in the world is provided for by America. That is a noble legacy.

America, some decades ago, through science, technology, and hard work, and through the vision of people like Dr. Norman Borlaug, unlocked the keys to food abundance. America also decided to reach out, regardless of friend or enemy, to those in need, helping build goodwill and stability for the post-World War II generation.

George Marshall, when laying out his grand plan for postwar economic recovery, saw this assistance as a vital and dynamic part of American foreign policy. I believe that meeting the current challenges of the global food crisis can be just as crucial a cornerstone of U.S. foreign policy in today's volatile world.

As President Kennedy said: "Food is strength, food is peace, food is freedom, food is a helping hand to people around the world whose goodwill and friendship we

want." This goodwill was at the root of the founding of Food for Peace and also of the World Food Programme.

At WFP, we are heartened by the response and support of the United States in this time of need for the world's most vulnerable. The President's request for $770 million, on top of the $200 million released from the Bill Emerson Humanitarian Trust, is most welcome—and urgently needed to prevent deep and permanent cutbacks in our life-saving food assistance programs and operations around the world. I encourage you and all Members of Congress to urgently support the President's request. We also thank the Members of Congress who are taking the lead to ensure that there is adequate funding for this crisis in upcoming supplementals. The American people have a long history of providing aid to others in times of great need. Now is another critical time when the U.S. needs to lead.

Other nations have stepped up to the plate, including Japan, many nations in Europe and the European Union, and Canada which announced last week a total untying of all contributions, providing WFP with cash to purchase food from poor farmers in the developing world.

It is important to note that the world today is nurturing more people than ever before in human history, and we have cut the proportion of hungry in half, from about 37 percent in 1969 to 17 percent last year. With advances in seed, fertilizer, and production technologies we have doubled yields for many crops for the past three generations.

But we are not keeping apace of demand. The absolute number of hungry people—defined as those unable to meet the basic caloric and nutritional requirements for human health—has continued to grow to 860 million, with an estimated 4 million people added every year. WHO calls hunger and undernutrition the No. 1 threat to public health, killing more people than HIV/AIDS, malaria, and tuberculosis combined. Every 10 days the world loses 250,000 people to hunger-related deaths, the equivalent of the casualties from the Asian tsunami. The vast majority of those casualties—160,000—will be children.

Now the World Bank estimates that an additional 100 million people will be thrust into deeper poverty and hunger due to the soaring food prices. The director general of the Asian Development Bank believes that a billion people in Asia are seriously affected by the surging costs of daily staples.

I have traveled in recent months to Ethiopia, Kenya, Senegal, Mali, Egypt, and Syria and talked with farmers and consumers, they express confusion and frustration as to what is robbing them of milk for their children, their weekly portion of meat, or, for those who make less than 50 cents a day, reducing them to a single bowl of grain or one piece of bread. With little awareness of the macroeconomic forces at play, many blame their own leaders or local suppliers, millers, traders and anyone else—threatening confidence in fragile democracies and markets. The world's misery index is rising as soaring food and fuel prices roll through the lives of the most vulnerable; a silent tsunami that respects no borders. Most do not know what has hit them.

The issue here is resiliency, and for those living on less than 50 cents a day there is no place to retreat. This is the new face of hunger, with people who were not in the urgent category just months ago, joining the ranks of desperation.

Many nations also are exhausting their own coping strategies, with grain reserves reaching record lows, foreign currency reserves to purchase costly food imports depleted and mitigation strategies, such as removing import taxes on food, already accounted for. Joachim von Braun, the director general of the International Food Policy Research Institute, warns that, quote, "The world food system is in trouble and the hot spots of food risks will be where high food prices combine with shocks from weather or political crises. These are recipes for disaster."

Perhaps the fundamental question will be: Is this challenge fundamentally different than the food price and supply crisis of the early 1970s, which quickly followed by another era of cheap and abundant food and oil? Or are we witnessing a structural shift in global agricultural markets, a new era of rapid and persistent growing demand for food crashing against resource limitations in fossil fuels, land and water, coupled with climatic changes that introduce unprecedented levels of uncertainty into annual agricultural yields?

These are the questions we must urgently ask, because they must inform an urgent global response. The answers, and the actions, will determine whether together we enter an era of opportunity and hope; or a world of scarcity where nations and individuals fend for themselves, with the world's bottom billion losing out once again.

Let us quickly explore three subjects: (1) The revolution in food aid; (2) the new face of hunger; (3) a global call to action.

REVOLUTION IN FOOD AID

The World Food Programme is the world's urgent hunger institution—you turn to us when all else fails to prevent life-threatening food and nutrition vulnerability. We have been undergoing a transformation in how it does business—this is not your grandmother's food aid.

WFP is the world's largest humanitarian organization and charged with the responsibility to meet hunger when all other systems collapse. Today, WFP manages a global lifeline that can reach any corner of the world in 48 hours—as we did after the war in Lebanon and we will today in Myanmar following the devastating cyclones there. WFP uses thousands of planes, ships, helicopters, barges and, if needed, donkeys, camels, and elephants. We deliver not only food, but an array of life-saving goods for dozens of partners, including medicines for WHO. Our Humanitarian Air Service brings 400,000 humanitarian and development workers in and out of disaster zones each year—including 10,000 in and out of Darfur each month. Today we reach up to 90 million people a year threatened with starvation and acute malnutrition. We are also among the most efficient in the world, using only 7 percent of our budget on overhead. We have state-of-the-art controls on food distribution, from purchase to consumption.

WFP is 100 percent voluntarily funded; receiving no assessed funds from any source. When WFP was founded back in the early 1960s, it literally was a surplus food program with nations of the world sharing their bounty with the world's hungry. This saved many millions of lives, but also could be a rather blunt instrument, leading at times to a mismatch between populations and food products and could lead to disruptions in local agricultural markets. Today, less than 2 percent of our food is surplus donation. And today, up to 55 percent of our budget is cash, allowing us to purchase food from farmers throughout the developing world. Today, 80 percent of WFP's cash for food is used to procure food in the developing world. This year, this will infuse around $1 billion into poor farming economies. Today, in all of our operations, WFP asks how we can use food and food assistance to not only meet critical emergency needs, but, whenever possible, to work in concert with governments and other organizations, such as FAO, to ensure urgent hunger interventions help strengthen local food security and local markets and solutions on a more lasting basis.

To that end, we have:

(1) Upgraded our needs assessments and vulnerability analysis—which we conduct for the global system—to include local market conditions. Thanks to a 3-year project just completed, we can now assess down to the household level what is causing the hunger vulnerability—is it, for example, crop failure or that food in the markets is too expensive? Obviously, that would inform our response.

(2) We seek to ensure our hunger responses support local markets and farmers whenever possible. For example, during the recent floods in Mozambique, food could not reach the victims, and they could not afford to buy it—but there was plenty of food on local markets. In that case 80 percent of the food for the victims was purchased from Mozambiquan farmers—creating a win/win solution.

(3) To that end, we are asking our board to approve a broader tool box or responses to hunger that can be more nuanced in protecting local markets while addressing urgent hunger and nutrition needs. These responses range from bringing in commodities when necessary, such as in Darfur where 70 percent of the more than 3 million people we feed everyday are fed with American commodity aid and there is not enough extra local food to purchase; to local purchase where often there is no food on the shelves but there is food on the farms but no infrastructure to get it out, and WFP can go and get it as we do in the DRC where we tripled our local purchases this year in the middle of major conflict; also one tool we are looking at is targeted food vouchers or cash as we did in Indonesia after the economic troubles there in the 1990s and may be appropriate in the context of the current challenge; to food for work and assets; to local capacity building in food security systems and infrastructure.

(4) We have also introduced what I call my 80/80/80 solution: Today 80 percent of WFP's cash for not only food, but also land transport is spent locally and 80 percent of WFP's staff is locally hired. This helps build permanent local capacity and knowledge about food security. I am adding another 80 to my 80 solution—because also more than 80 percent of our activities take place outside of our headquarters in Rome or in the major cities of our partner countries. We are deep into the rural economies, helping improve desperately needed local infrastructure.

We seek, whenever possible, that food is transformed into a productive investment into these economies. To that end, WFP, in exchange for life-saving food has trained local populations and, over the past four decades, together we have planted over 5

billion trees in the developing world, helping stabilize ground soil; have demined and built tens of thousands of kilometers of vital feeder roads, including over the past few years reopening more than 10,000 kilometers of roads in DRC, Angola, and Southern Sudan. Last year, the Government of Southern Sudan became one of our top 10 donors as WFP partnered with them in reopening roads for farmers, and building schools and hospitals—allowing us to reduce dependency and cut general food distribution in half.

In all our work, we now look at what I call the value chain of hunger to ensure our interventions are coherent with the work of governments—our No. 1 partners—and our U.N. partners such as FAO, UNICEF, WHO, UNDP, and our vital NGO partners such as CARE, World Vision, Oxfam, Caritas, and the Red Cross and Red Crescent movement.

On local purchase, I will just give you one example in Senegal. President Wade has called for action on goiter, a huge challenge for Senegal where virtually none of the salt for local consumption is iodized. They have big salt producing companies that do iodize but it all gets exported. To support the President's call to action, WFP decided that we would purchase our salt for our programs in Senegal from 7,000 village salt producers and, partnering with the Micronutrient Initiative, we helped the villagers purchase the equipment and receive training in the technology to iodize the salt.

Today 7,000 salt producers—most of them women—have a steady income and they provide 100 percent of the salt needs for our Senegal program. In fact, they now produce iodized salt for the local markets, which is helping address what President Wade called one of the biggest health challenges in Senegal. This is a win-win situation. The salt-ladies of Senegal are so good that we were able to now buy some of their salt for our regional programs. There are now many such examples. Last year, in our school feeding program in Ghana, 100 percent of the food is purchased locally. This is the kind of win-win solution that we feel can use food assistance to break hunger at its root.

THE PERFECT STORM

Let me address the challenges we face—and the action we feel is needed—to address what I call the "new face of hunger." Soon after joining WFP, I looked at our portfolio of work and became very concerned about the trends. The world was consuming more than it produced, food stocks were being drawn down and the stock-to-use ratios were at all time lows. When did this tip into a crisis mode for the world's most vulnerable? While things were already difficult, I would point to last June as the launch pad for a period of aggressive and relentless price increases that have left poorer nations and WFP itself reeling. Between June of last year, as I mentioned, when we priced our program of work for 2008, and February of this year, our cost drivers of food and fuel had increased 55 percent. This pattern of aggressive increases has continued for most commodities, with the exception of wheat, which has dipped down a bit recently. And sorghum prices have also skyrocketed.

There are a confluence of factors cited for the increases—the very positive economic boom in many major developing countries, with the increased prosperity causing a change in diets toward meat and dairy products, which takes more grain to feed livestock; the cost of energy with oil prices driving up costs across the entire value chain of food production; to the fusing of food and fuel markets, with more and more food being purchased for industrial uses such as biofuels; with increasingly severe weather throwing in additional supply shocks.

These factors have created a supply and demand challenge that may take some years to sort out. Food supply is relatively inflexible and vulnerable to unpredictable factors such as weather—record droughts in Australia greatly affected global wheat supplies and prices in recent years. According to USAID's Office of Foreign Disaster Assistance, the total number of disasters worldwide on average is now 400–500 a year, up from an average of 125 in the 1980s.

And there have been what I call the follow-on factors—nations shutting down export markets further tightening supplies. In addition hoarding and market speculation are also now contributing factors. For example, the great increase in futures markets and hedging on agricultural products, which is linked to the depreciating dollar, has increased price volatility.

THE GLOBALIZATION OF HUNGER

This is creating perhaps the first globalized humanitarian emergency. It has been said that a hungry man is an angry man. Food riots and protests have broken out throughout the world, triggered by a new face of hunger in urban areas, which have attracted the majority of the world's population in search of opportunity. While it

has been said that famines are incompatible with democracy, I will tell you that some of the world's gold standard new fledging democracies are the nations under most pressure now. These nations, many of which are dependent on imports to feed up to half—or more—of their populations are reeling under the combined hit of record food and fuel prices.

Countries are coping with food inflation and import dependency in different ways. Many have removed import tariffs, sacrificing revenues, but alleviating price pressure. Today it is estimated that more than 40 nations have imposed export controls on commodities, greatly restricting global markets. Today WFP—a buyer in more than 80 nations, has humanitarian food trapped in nations that have banned exports. In addition, WFP is finding fewer and fewer nations willing to sell us food for export. We are having trouble buying food for our Afghanistan program, with Kazakhstan, Pakistan, and others imposing steep export restrictions. Today, one-third of the globe's wheat suppliers, have banned exports. Countries most at risk are developing nations that are import-dependent and already experiencing an additional shock from conflict, floods, droughts, or storms. Think here Afghanistan, Somalia, Haiti, Burundi, Mauritania, and others.

WFP has mapped countries on a scale of high vulnerability to low vulnerability—by far the greatest vulnerability is in Africa. We have also mapped individual vulnerability: Most urgent to watch here are those whose health is already fragile or critical—the under 2-year-olds, pregnant and lactating mothers, HIV/AIDS patients, refugees, and IDPs who cannot meet their own food needs. The new face of hunger is also more urban than before. As the world's most vulnerable struggle on the thin edge of survival we are seeing negative coping strategies in full force:

—For those living on less than $2 a day, education and health are being sacrificed. Livestock is being sold off.

—For those living on less than a dollar a day, milk, protein and fruits and vegetables have become rarities, if at all.

—For those living on 50 cents a day, it is a catastrophe, with whole meals being lost, or whole days without food, or diets totally devoid of nutritional content.

Let me give two examples.

In Haiti, this experience of compounding vulnerability with coping strategies already having been greatly weakened, and as you have read, mud cakes—originally used for medicinal purposes only—are now sold, and consumed, as a staple. Even those prices have shot up.

In Burundi, the staple now for the poorest of the poor is something called "black flour"—it is cassava that is moldy and looks something like blue cheese—even that has gone up threefold.

As Secretary General Ban Ki-moon has said, this crisis threatens the hard-earned development progress of many nations across the range of Millennium Development Goals.

WFP CONCERNS

Here are our concerns at WFP:

First, in a time of increased need, WFP is able to reach fewer people than even just months ago. Due solely to soaring prices, today WFP has 40 percent less food in the pipeline. For our programs, this is a direct impact. I was just in Kenya, in the Kibera slums, at a school where many of the children rely on WFP for their only food each day. Some are now taking home half their cup of food for younger siblings who do not have any.

For these children the vulnerability is profound. We are not talking about meat, potatoes, vegetables, and a little desert that get sacrificed in hard times. It is the one cup of porridge. As you have seen, we announced this week that we have to cut 450,000 school lunches in Cambodia and we have another number of countries where we will have to be rolling out cutbacks.

Second, right now, as I have already mentioned, we have an emerging new face of hunger. WFP estimates that an additional 130 million will be unable to meet their foods needs due to the high prices crisis.

Third, we are concerned about access to food supplies. For example, we tried to buy wheat this fall to make biscuits for the victims of the floods in DPRK and for 10 days, and for the first time in our memory, we could not buy it anywhere in the markets in Asia. In past weeks we have had commodity contracts broken. Between the time we made the contract and picking up the food 2 weeks later, prices had risen so quickly that the grain went to a higher bidder, with the supplier willingly paying WFP the 5-percent performance bonds to get out of our contract. We also have food aid trapped in nations as I mentioned. We also are finding fewer and

fewer markets open to procurement at all, with an estimated up to 40 nations currently under some level of export controls.

The fourth is connected to that. One would expect that the natural reaction from farmers to high prices would be to plant more and that is happening throughout the major developed economies. But in the developing world, there are indications that the reverse is happening in many places. I knew that most poor farmers were not benefiting from the high prices because half the hungry in Africa are farmers who cannot even produce enough for their own family. Most are so disconnected from markets that they really cannot benefit. What I did not realize and what I saw in Kenya when I visited the Rift Valley. Fertilizer has gone from 1,700 shillings there in December to 4,000 shillings just 12 weeks later. This—the breadbasket of Kenya—farmers were planting one-third of what they were planting a year ago. According to the International Herald Tribune this is happening in other places such as Laos, and FAO and IFAD say this is happening throughout the developing world. These farmers are retreating to subsistence mode, withdrawing from markets until things stabilize. This could indicate serious shortages in upcoming harvests, further compounding our challenge.

My fifth concern is that many of the policy reactions globally and locally may actually be helping feed the crisis, not people. It is understandable that nations will use whatever levers they have to alleviate pressure and help meet the needs of their people. Yet some of these may deepen the challenge. Today, many of the world's farmers are under price controls, further discouraging increased planting. Inputs rise, but food prices are under a ceiling. A range of major food exporters have put blocks on food exports almost overnight, from China to Vietnam to Argentina to Kazakhstan. This global rash of "beggar thy neighbor" responses will not provide a solution. In addition, many nations who can afford to are stockpiling, further tightening supply and driving up prices.

And last, I am concerned that, as high prices persist, we are entering a second phase of this challenge, one that is threatening not only caloric intake, but nutritional status and livelihoods. In our vulnerability mapping of household needs, is finding that coping strategies, such as selling off livestock and other possessions, shifting to cheaper foods, sacrificing health and education, are being depleted, without any clear indication that relief is in sight.

A GLOBAL CALL TO ACTION

What should be done? We must take this crisis as a global call to global concerted action to support the governments and people hardest hit and to help stabilize the global response. The Secretary General's task force was formed to help provide a coherent strategy of response. We are working closely together—all of us—WFP, others at the U.N., with the World Bank and IMF. The Secretary General has appointed coordinators Sir John Holmes and David Nabarro to help on this global action plan.

Among the actions that we—the WFP—see as urgent are:

First, we do have to help governments alleviate immediate suffering and prevent a crippling outbreak of severe malnutrition that could set global development back by decades. When there is no food to be had, we must keep the humanitarian pipeline full. We are working with partners such as UNICEF and WHO to scale up therapeutic feeding to reach children most at risk. We have the tools—we can reach children quickly and can alleviate acute humanitarian crises.

Second, we need humanitarian access to food and today I call on all nations to provide procurement access for humanitarian purchases. IFPRI's Joachim von Braun has urged the world to consider humanitarian grain stockpiles that can be drawn down on systematically over the next few years as we adjust to this challenge. We urge a dialogue on this issue.

Third, we must help nations ramp up safety nets such as school feeding and productive social safety nets, as WFP does in partnering with Ethiopia. To this end, we call on Congress to urgently include the substantial predictable funding for the McGovern-Dole School Feeding Program in the current farm bill. School feeding is one of the most powerful human rights programs for girls—if a school meal is provided, or if girls receive extra food rations to take home for perfect attendance, parents who would never allow their girls to go to school do. Our programs see a revolutionary almost 50-percent attendance rate for girls.

Fourth, to ensure the next harvests, we need action—urgent action—on agricultural inputs, priced out of the reach of poor farmers—FAO estimates that $1.7 billion is needed urgently. IFAD is deploying an action plan on fertilizers that will put an immediate $200 million in the reach of governments that want to act.

Fifth, the African Union, under NEPAD and the comprehensive agricultural development plan (CAADP) has called on all governments in Africa to invest 10 percent of their budget in agriculture. Nations that have, such as Ghana and Malawi, are beating the hunger curve. The average investment is now 4 percent throughout the continent. Shifting to 10 percent would put an additional $5 billion on the table.

Sixth, the World Bank has doubled its investment in agriculture in Africa and has activated globally to assist governments on short-term and long-term solutions.

Seventh, the IMF has announced plans to help nations deal with import financing challenges—and balance of payments issues.

Eighth, and perhaps, most critically, as FAO has called for, we must all join forces to boost agricultural production, especially in the developing world. The Gates and Rockefeller Foundations have formed the Alliance for a Green Revolution in Africa—or AGRA—under the leadership of Kofi Annan, and there are the fantastic contributions of Norman Borlaug, and others such as Jeffrey Sachs and many, who are joining to boost production with the African Union and governments throughout the world. These efforts can help ensure an era of plenty and stability for all.

CONCLUSION

At the 1974 World Food Conference in Rome, Henry Kissinger gave what he considered one of the most important speeches of his career. In response to that food crisis, he set the bold objective that, "within the decade no child will go to bed hungry, that no family will fear for its next day's bread, and that no human being's future and capacities will be stunted by malnutrition."

He called upon the world to act urgently, saying: "No social system, ideology or principle of justice can tolerate a world in which the spiritual and physical potential of hundreds of millions is stunted from elemental hunger or inadequate nutrition. National pride or regional suspicions lose any moral or practical justification if they prevent us from overcoming this scourge.

"In short, we are convinced the world faces a challenge new in its severity, its pervasiveness, and its global dimension. . . . Let us agree that the scale and severity of the task require a collaborative effort unprecedented in history.

"And let us make global cooperation in food a model for our response to other challenges of an interdependent world—energy, inflation, population, protection of the environment."

A number of countries have been on track to reach the Millennium Development Goal on hunger and will by 2015 if we stand with them—Ghana, Chile, Brazil, Malawi, Vietnam, and others. We must stay the course. Many countries are doing the right things. We must stand by their side.

I am an optimist. My ancestors were from Ireland and left during the famine and yet just two generations later we have left an economy of famine to one of prosperity. It can be done.

I believe that increased demand should create opportunities. This "perfect storm" has dramatically raised awareness that food cannot and must not be taken for granted. The world has also awakened to the fact that the food supply chain—from imports, to planting, to harvesting, to processing, to storage and delivery, and all the supporting market structures, from access to credit, risk mitigation, commodity exchanges, crop surveys, and water access—are all vital to world stability and prosperity.

This crisis has also raised awareness that we have to prepare for the challenges of climate change; the Intergovernmental Panel on Climate Change predicts that some food insecure areas of the world, particularly in rain-dependent African nations, could see current yields drop by half in the next 12 years.

There are also opportunities, not only for the American farmer, but hopefully for poor farmers in Latin America, Asia, Africa, and elsewhere. Seventy percent of African farmers are women, who typically bear more of the risk—and receive less of the gain—than any farmers in the world. In fact, almost half the world's hungry are marginalized farmers with little or no access to fertilizer, seeds, tractors, credit, markets, or extension services. With concerted determination, now is the moment this can change.

Defeating hunger is achievable; it requires no new scientific breakthrough. We have the weapons to defeat hunger, and I thank you for working with us to do so.

The CHAIRMAN. Thank you very much. I've read your entire statement. We'll put your entire statement in the record as well, with your permission.

Dr. McPherson.

STATEMENT OF HON. M. PETER MCPHERSON, PRESIDENT, NATIONAL ASSOCIATION OF STATE UNIVERSITIES AND LAND GRANT COLLEGES, WASHINGTON, DC

Dr. MCPHERSON. It's good to be here, Mr. Chairman.

The CHAIRMAN. It's good to have you here.

Dr. MCPHERSON. I realize that, as the other members came in, when I usually testified before you in the 1980s none of them were here, but you were.

The CHAIRMAN. As was Senator Lugar.

Dr. MCPHERSON. The two of you, exactly.

The CHAIRMAN. It's a frightening thought.

Dr. MCPHERSON. It's good to be before you, sir.

I'd like to make a few quick comments. I have submitted a longer statement, of course. One, I think it's very important to target the efforts that we do carefully. The pregnant women, the very young children, are particularly vulnerable. We know what it does to the lives of people if they don't have food as very young children.

Second, I think it's important that AID have great flexibility in where and how they buy the food for the delivery. This is something that the World Food Programme has been doing. I think about half your food is flexible in that manner. The case I think is very strong today.

Next, as I've been listening back and forth about the 40 countries or so that are restricting food exports by taxes or even more complete export restrictions, it really—it reminds me of a negative Smoot-Hawley, isn't it? I think that's kind of the way to think about this, is that we're constraining in a time of emergency instead of opening up.

The last point I'd like to make on the immediate set of issues is that we need to be sure that the effort we do to extent practical doesn't compromise the longer term response. The idea which has been talked about a lot of free fertilizer, for example, instead of some sort of subsidized, but not too much, voucher system, is a much more practical idea. We need to build those distribution structures, the private sector and so forth. And I'm afraid that emergency will compromise the longer term efforts if we're not careful.

Let me talk about those longer term efforts. First of all, Senators, I think your opening statements today were just outstanding. We need to as the U.S. Government, the administration and congressional leadership, need to come together in some way to make this a priority. I don't think—I think if we're not careful we won't.

There needs to be some sort of coherent policy. Perhaps it's organizational, Mr. Chairman, but I think it clearly is some major effort. I agree with Senator Lugar that you can't have ethanol be the totally bad policy here responsible for all this. If you do that, we're going to end up thinking if we could get through that we'll solve the rest of it, and that simply isn't the case. Whatever contribution it makes, it isn't the whole. The whole is very large indeed.

There's a lot of support out there to some sort of—if there could be some leadership articulation and drive, there would be a lot of support for it. I notice, as you have, that a number of private parties—you had that call, Senator Biden. But there are so many peo-

ple out there like that. The Gates Foundation is really making a major effort in agriculture in Africa.

Myself and several colleagues in the last couple weeks have put together a little coalition of groups. You'll see this letter. We're what we're calling the Coalition for Agricultural Development. It has some 70 signatures of university associations, my colleague here Oxfam, Bread for the World, and many others. It's saying: Look, we need a longer term agriculture.

So there's support, there's interest. We don't have the capability of articulating or driving it. It really needs—in this committee, leadership is in such excellent position.

I think one of the ways to think about this is not just the next 2 or 3 years, but over the next 15-to-30-plus years. IFPRI has done some really interesting work—they did it 3 years ago actually—where they said, OK, let's look at population increases for the next few decades, let's look at income increases, some of which clearly we can expect. You have to do this in various scenarios, but you can see that there's going to be a lot more food required in this world than current technology or land would allow.

There may be some extra land to use in the Ukraine or various places, but not enough. It's going to have to be, as Senator Lugar has suggested, multiple increases. You mentioned when your father had, what, 50 bushel an acre. I remember growing up on my family farm there in Michigan, 75 was pretty good. But that same land today is 150 an acre. But it's going to have to be a lot more.

In Africa, the lowest per-hectare production region in the world, it can be a lot more for certain. So let's look at this long term. We look at it long term, we realize that, not necessarily intentionally by anybody's part, but food and agriculture has been neglected by our U.S. Government efforts for at least 20 years. It's gradually just floated down.

Now, I think we have to understand among ourselves that the earmarks for various activities have—and agriculture doesn't have an earmark—has crowded it out. That isn't to say that child survival and PEPFAR aren't very important. I certainly supported the child survival. Remember the ORT activity that we worked so hard and drove, which was really the precursor to the child survival efforts.

But those immediate efforts have had greater public appeal. You could measure them easier than this long struggle to increase food production. And in fact the agency, when I look at it today as opposed to in the 1980s, is much more of an immediate relief, delivery of goods and services organization than it is a development organization. Henrietta Fore, who I respect and I think she does—she's deeply committed to this; she mentioned a number of things today. But the reality is that she doesn't have money for most of those things. There just—there isn't money. She's working hard to reallocate, as some of your staff knows, and struggling.

Now, what would a longer term effort be? And I'm going to stop because I realize that everybody is—your time for this overall hearing must be about done. It's a complicated effort and country leadership—I work particularly in Africa—country leadership needs to take charge of it. There's economic policy. Again, 100 percent inflation. A number of things—infrastructure, fertilizer, seed. In the

paper I delivered I worked pretty hard at setting forth a number of ideas about that.

But when you look at sort of the IFPRI projections, current technology won't produce the food. You have to produce—you have to have more than one more Green Revolution. You have to have multiples. Africa is a very complex place. Only one place won't work, one revolution. It's drought-resistant seeds, it's seeds resistant to too much of various types of problems in the soils, and so on.

And by the way, fertilizer is a real problem. We haven't had new fertilizer technology since that produced by TVA over 3 decades ago. Urea, the most common nitrogen fertilizer used in the world, only 30 percent of the nitrogen in the urea applied actually gets to the plants. We need major efforts to increase the utilization rates for fertilizer, and there's no serious research going into it.

I would say one last point. Several people today, appropriately, applauded Israel's just wonderful efforts. What Israel has, among many things, it has an educated population. It has human resources that are wonderful. What most of Africa doesn't have is anything near like that. So as we work on technology and many other components here, I would suggest that people is a significant portion.

I neglected one last matter about research. I strongly endorse the need for biotechnology. We've got to have it. We won't get there without it.

Thank you.

[The prepared statement of Dr. McPherson follows:]

PREPARED STATEMENT OF HON. PETER MCPHERSON, PRESIDENT, NATIONAL ASSOCIATION OF STATE UNIVERSITIES AND LAND-GRANT COLLEGES, A PUBLIC UNIVERSITY ASSOCIATION, FORMER ADMINISTRATOR OF USAID (1981–87), CHAIR OF THE BOARD, THE PARTNERSHIP TO CUT HUNGER AND POVERTY IN AFRICA, WASHINGTON, DC

Let me begin my comments by saying we have an immediate problem that must be addressed, hopefully in a way that does not complicate long-term solutions. We also have a long-term and more complicated agricultural problem that the world has neglected over many years. A major, long-term recommitment is needed. The world's population will continue to grow rapidly and we hope and expect that incomes will grow rapidly in several parts of the world. All of this means a greater demand for food.

The committee asks that I comment on:

- How did we reach this crisis?
- What should be the short-term response?
- What should be the steps taken to address the medium- and long-term problems of high food prices and food insecurity?

HOW DID WE REACH THIS CRISIS?

A number of factors have contributed to the great jump in food prices, but the problem has been long in the making.

Decades ago many felt we were going to run out of food and forecasted greater famines. In the 1960s there were still famines in India and China. The global think tank, the Club of Rome, warned of pending food disasters in the 1970s and some said that Thomas Malthus' principles on population were right after all. However, the Green Revolution and other advances in technology and production methods and related investments in agriculture greatly increased production in important areas of Asia and parts of Latin America. Arguably more lives were saved by the Green Revolution than almost any event/technology in history.

In the decades following the Green Revolution, the marvel of the new technologies that produced food abundance was taken for granted. The world assumed that further new technologies were not needed or would be generated without investment. The quote "There is plenty of food on the planet, it is just a problem of distribution,"

was heard in donors' halls. Varieties and production systems were not innovated nor adapted for dry and marginal lands that were brought into production as a means of increasing food supply. Governments and most international organizations cut back on agriculture development expenditures in developing countries. In 1990 about 12 percent of global Official Development Assistance (foreign aid) went to agriculture, now it is about 4 percent. In the early 1980s, 30 percent of the World Bank lending was for agriculture but by the early 2000s it was down to 10 percent, despite the fact about 75 percent of the world poor live in rural areas. The U.S. Agency for International Development's (USAID) reductions in commitment to agriculture was comparable.

This reduction in agriculture assistance was part of a bigger pattern. The donor community, especially the bilateral donors, shifted its focus from long-term development investments into more short-term interventions.

However, world population increased year by year and food demand continued to increase. Incomes in developing countries increased, especially in the high population countries of Asia. Higher incomes meant people could afford more food and changed their diets to include more meat, dairy products and processed foods. All of these products require more energy from cereal crops to produce than if the cereal crops were eaten directly by humans. The result has been a dramatic rise in the global demand for cereal crops. The dramatic increases in income in China have had a huge impact.

Further, agriculture around the world is often a subsidized and controlled industry. That practice has restrained market forces from driving comparative cost and production advantages. The subsidies that drove production up in some countries reduced production in others that could not compete with subsidized food.

Additional pressures have emerged recently.

Using corn to produce biofuels increases the demand for corn and appears to increase its price as well. My understanding is that this is roughly the view held by the USDA's chief economist. It is not easy to sort out biofuels' impact on food prices. I note that the International Monetary Fund's World Economic Outlook states that biofuels account for almost half of the increase in consumption of major food crops in 2006–07.

Higher fuel prices have increased food production costs. For example, high energy costs greatly increase the costs of producing fertilizer, transporting food, and operating farms.

Troubled bond and security markets have increased the money flowing into commodity markets. Liquidity and depth in the commodity futures markets are generally forces of stability over time and therefore positive influences in the longer term for users/consumers and farmers/sellers of grains. Accordingly, we have to take care in imposing regulations of these important markets so we do not distort their positive contributions to the stability of commodity trading.

Grain reserves have declined from a high of 100 days of global consumption in 2000 to 55 days currently and that has created a greater sense of market risk and an inability to buffer market fluctuations.

There is drought in Australia and new export restrictions by a number of governments that do not allow markets to function efficiently.

All of these and more have produced the food price crisis.

WHAT SHOULD BE THE SHORT-TERM RESPONSE?

In determining the appropriate response we need to realize that "Food crop prices are expected to remain high in 2008 and 2009 and then start to decline as supply and demand respond to high prices; however, they are likely to remain well above the 2004 levels through 2015 for most food crops. Forecasts of other major organizations (FAO, OECD, and USDA) that regularly monitor and project commodity prices are broadly consistent with the projections." [1]

Clearly donors should provide a substantial amount of food and the World Food Programme (WFP) has called for that support. This need will not be just for 2008 and so planning should be done accordingly. The WFP and USAID have substantial experience in delivering food to the most needy. This is difficult to do right. For example, needy pregnant mothers and very young children should get food or vouchers to buy food because food deficiencies of the unborn and very young are most likely to cause lifelong damage. It was always a challenge to be sure that the right schools got the food when I was a Peace Corps Volunteer in Peru in the 1960s working in

[1] Paper of the World Bank, "Rising Food Prices: Policy Options and World Bank Response," April, 2008.

the Food for Peace school feeding program. It was too easy for the food to go to middle-class communities that had the most political power.

Buying food in the developing world should be done without greatly increasing prices in the region of purchase. Purchases should be done as practical to provide a market for surplus production in the region's poor countries. Achieving this balance is a challenge. The WFP and USAID need to be given great flexibility in where they purchase food. Food relief efforts should not only feed the needy, but also help build regional trade and encourage production in poor countries.

Great care should be taken so responses to the crisis do not hinder longer term increases in production in developing countries. Free fertilizer, for example, can be another way of providing next year's donor food. However, there can be serious long-term consequences of such an approach to sustained development. I will address this tradeoff below.

Higher prices should quickly increase production in the developed world unless there are artificial constrains on doing so. In some countries, mostly developing countries, there are food export constraints. The Washington Post, in a May 11, 2008, editorial, reported that "More than 40 countries have taken steps to discourage grain exports—or to stop them altogether." Such constraints will hurt market operations and limit comparative cost advantages for the global food markets and should be discouraged.

Generally there will be some increases in production in developing countries in response to higher prices. Orville Freeman, President Kennedy's Secretary of Agriculture, advised me when I was USAID Administrator in the 1980s, "I have known farmers that could not read or write but I have never known one that could not add and subtract." Nevertheless, many developing countries will have capacity issues that will prevent a full response, e.g., lack of farm to market roads, technology, fertilizer, appropriate varieties of food plants, etc. I will explore how to deal with these issues below.

WHAT SHOULD BE THE STEPS TAKEN TO ADDRESS THE MEDIUM AND LONG TERM PROBLEMS OF HIGH FOOD PRICES AND FOOD INSECURITY?

Commitments and Resources

To deal with this situation there needs to be a recommitment by developing countries, international organizations and other donors to increase agriculture production and rural income in the developing world. About 75 percent of the world's poor live in rural areas of developing countries, and these people need to produce more food. Africa is a major case in point. More than 60 percent of the people of sub-Saharan Africa live in rural areas and a large portion of those people are poor. It is clear Africa needs more agriculture production and income to feed its people and the world needs to increase food production and supply to meet an ever increasing demand.

Developing countries, particularly those with large rural populations, need to use the food price crisis to reaffirm their commitment to more food production. A few years ago African heads of state committed to increase expenditures of their national budgets dedicated to agriculture to 10 percent. While the pledge was a substantial increase for many countries and has not been reached by most, strong action by national governments to support increased agriculture production and rural income is essential if the food crisis is to be successfully addressed.

The World Bank is substantially increasing its commitment for food production in Africa after many years of decline. The International Fund for Agriculture Development (IFAD) is also working on agriculture issues very effectively. It is in the process of putting together its next replenishment and deserves support.

The Millennium Challenge Corporation (MCC) is finding that countries are asking for a different portfolio than the priorities in the USAID budget, and one of the big differences is in requests for substantial help with agriculture. (MCC could be more effective if their agriculture and other programs could have a longer term horizon than 5 years. Also MCC money should be able to be spent on regional projects, e.g., transportation linkages that are often regional. Such regional expenditures are currently not allowed.)

If the United States is to help solve this food crisis, as it helped in the past, USAID must return to a greater commitment to agriculture. The 2008 allocation of USAID includes, as I understand it, no allocation for core funding for the CGIAR, the international agriculture research centers. (One of those centers is located in Washington, the International Food Policy Research Institute [IFPRI] and is providing excellent analysis and policy advice on the food price issues.) Funding for Title XII: Famine Prevention and Freedom From Hunger Improvement Act that engages U.S. universities in building agriculture capacity in developing countries to

generate new means of food production is funded at only a small fraction of resources allocated in 1970s and 1980s.

In fact agriculture assistance has been substantially reduced in the USAID budget over at least 15 years. (There was a limited increase in the early years of this administration under the leadership of the former USAID Administrator Andrew Natsios.) There were further major cuts in the 2008 budget and the 2009 budget submitted by the administration does not appear to increase agriculture above 2008 levels.

However, the President recently requested a food supplement bill that includes $150 million for long-term agriculture work. USAID Administrator Henrietta Fore is strongly supportive of this increase, and this Senate Foreign Relations Committee hearing is important to highlight possibilities.

The historical global pattern has been that if the World Bank and USAID moved away from an area of investment other bilateral donors followed. Consistent with that pattern, bilateral donors' interest in agriculture declined dramatically over the years. The World Bank and the United States should lead the way back to sustained and substantial support for long-term agricultural development. Such a step by USAID would signal a renewed commitment to the fundamental elements of development. In recent years USAID moneys have increasingly been used to respond to critical immediate needs with goods and services. I trust that most people at USAID believe producing more food in the developing world is central to healthy and better lives and would welcome additional resources for those purposes.

Foundations, NGOs, and the private sector have become substantial factors. The Bill and Melinda Gates Foundation is providing leadership on agriculture issues in Africa. U.S private contributions to the NGO work in Africa in recent times have perhaps equaled the contributions of the U.S. Government and NGO contributions will continue to grow.

Of great importance is emerging leadership from African countries. The African Union and NEPAD have developed the Comprehensive African Agricultural Development Program (CAADP) as a framework for coordinating assistance around strategic national and regional priorities. When practical, donors should support African-led efforts as suggested in CAADP.

Programs

I will focus my comments here on sub-Saharan Africa because the need for more food production is so great in Africa and, while parts of Africa like Southern Africa have the potential to be major grain exporters, Africa overall is a net food importer. More than 60 percent of the people in the region live in rural areas with agriculture being the primary source of income for many living there. Grain yields have stagnated for 45 years and current yields of cereal crops are about 30 percent of world averages.

There is no single magic bullet to solve Africa's food crisis. Each country and region has different histories, strengths, weaknesses, and challenges. There are, however, some lessons that stood the test of time. I would classify the lessons into two broad categories: (1) Efforts that support and encourage developing the whole country or region, including rural areas and (2) agriculture-specific assistance. Obviously these categories overlap. All of these efforts need to be led by Africans at the country or region level or they probably will not work. Donors need to provide strong support for African-led solutions.

At the country level, the national leadership needs to be committed to broad-based economic growth and poverty reduction. That commitment must include an effort to improve food production and rural incomes. The commitment should also include mechanisms that allow the broad input of society into major government decisions. Sound economic policy is essential. It is hard to make progress with 100 percent inflation. There needs to be the rule of law, ease of entering business, and legal title to real estate including farms. The work of Hernando De Soto on legal systems and property rights is instructive in this regard.

The country and donors need to foster and invest in appropriate infrastructure. Major infrastructure projects can change or overcome the history of a region. The Zambezi River divides Mozambique and the bridge being built over the river will tie the country and its markets together as never before. (The story of our Erie Canal is instructive. It was built in the 1820s and opened up the Midwest. The Erie Canal made Michigan wheat part of the international wheat market, so when the Crimean war in the 1850s increased world wheat prices, Michigan land prices increased, too.) In Africa new and revitalized corridors (rails and roads) to transport minerals and agriculture goods are being built or are under consideration. Most of these corridors involve more than one African country and so donors, including the United States, must consider this in their assistance programs. These corridors are

complicated and to be successfully completed will take many donors working together. The African Development Bank is taking a leadership role. The Hewlett Foundation and the Partnership to Cut Hunger and Poverty in Africa are working to encourage the full agriculture development impact of the corridors.

There is no question that cell phones and Internet connectivity increase the flow on knowledge and increase economic growth. (The World Bank has announced that they will invest billions of dollars in connectivity in African over the next few years.)

Electrical power to communities also has a dramatic impact. We need to remember our own fairly recent history with the impact of the Tennessee Valley Authority (TVA) and Rural Electric Cooperatives.

Primary, secondary, and higher education are needed to build a country, including a strong agriculture sector. Educated people drive progress in the private and public sector. Development is about helping such people get the knowledge and tools they need so their work pays off. The creativity, energy, and drive of people are the most important sources of power for economic growth, but are too often forgotten or thwarted by governments and donors.

The National Association of State Universities and Land-Grant Colleges (NASULGC) is undertaking a substantial effort to rebuild and expand partnerships between U.S. and African universities to address this human and institutional needs. USAID has provided some planning money for this effort. The number of students in colleges and universities in Africa has doubled in about 15 years and will continue to grow rapidly, but African higher institutions are not yet capable of absorbing these students and hence not yet capable of capturing the creativity of their national intellectual capital.

Trade has a major role to play, including gains that might be made in the Doha round. Perhaps even more important for Africa is regional trade. African regional trade has not been part of the Doha discussions, as regional trade is traditionally not part of international trade rounds. In this situation that is unfortunate, though it would be complicated. There is some progress with regional trade agreements, e.g., East Africa, but most regional trade discussions are slow and unsteady. The transportation/development corridors mentioned above will help increase regional trade and will put pressure on governments to reduce trade barriers.

In order to take advantage of current and future trade openings, many African countries need help in training and working through safety requirements and other standards. Meeting standards can often be demanding for small farmers even for in-country sales, especially as supermarkets take a growing share of local food sales. Farmer organizations/cooperatives can often play a major role in helping farmers meet standard and marketing.

As for efforts that are more agriculture specific, there are a number of related needs.

Farm-to-market roads are required to bring in seed and fertilizer and take out production. Such roads also connect rural communities to goods and government-provided services. These connections bring quality teachers for basic education; health care to address diseases such as malaria and HIV/AIDs; security and banking that allow markets to function more efficiently; and a range of other national services frequently absent in the rural context.

Farmers need seed and fertilizer, and fertilizer costs have risen dramatically in recent times. There is a great debate in the development community on how to provide these inputs, particularly fertilizer. One group argues for free or nearly free fertilizer to kick start production and provide food. The other group, composed of a large portion of the agriculture development professionals, argues that free fertilizer will often be sold by farmers instead of used and will destroy commercial distribution systems and/or prevent such distribution systems from emerging. While such systems are needed to sustain effective fertilizer distribution, there is a long history in Africa of failed government distribution systems. Many agriculture development experts argue that, once established, huge subsidies will be politically impossible to reduce. These expenditures will probably crowd out other important investments by the governments in rural areas, e.g., roads, schools, etc. Some note that this year India will spend about $20 billion on fertilizer subsidies and some of that money would probably be better spent on longer term investments.

I am concerned about free or nearly free fertilizer for reasons suggested above. Free fertilizer is an even bigger problem when it is distributed by governments. Properly structured voucher programs can be used wisely. Vouchers can be sold at a discount (not free) or earned by targeted groups of farmers and then redeemed for fertilizer from a commercial dealer. Such an approach supports and strengthens commercial distribution systems. Moreover, it is somewhat easier to reduce the subsidy over time when there is no direct government distribution.

A related issue is financing for farmers. There is no question that farmers and rural businesses need credit. Local moneylenders are often expensive and do not have enough capacity for the local needs. Government-owned farm credit banks in Africa have a long history of failure because farmers often do not think they have to repay government, and frequently politicians have encouraged farmers to treat the credit as a resource transfer. In some countries private banks are getting stronger and South African banks are now doing business in many African countries. A practical option may be for governments and donors to extend money to such banks to be lent out by the banks, with those banks incurring some real portion of the risk of nonpayment. These are complex arrangements to put together and may be more applicable for credit to rural businesses than for credit to farmers. (Note: Rural businesses are an important part of rural economic growth and increased local food production.) Another way to extend credit is through the commercial seed and fertilizer distribution systems. Such commercial entities also must bear part of the risk of nonpayment but these entities can insist upon payment for the credit extended the year before in connection with extending credit for this year's seed and fertilizer. I should note that microcredit has an important role in rural Africa but their loans are usually small.

It should also be pointed out that a majority of farmers in Africa are women and they must have equal opportunity to services like fertilizer, credit, and education.

Creating new technology for African production is important. No doubt some technologies exist that are not being used or fully adopted. These opportunities must be exploited. However, we have never had a Green Revolution for Africa. While this may be more complicated in Africa because of its diversity of soils, climates, and crops, it is achievable if Africans and donors invest in research that is required to produce a new wave of varieties, breeds, and technologies to transform African food production.

CGIAR and U.S. universities have a major role to play in this research. Their funding should be increased along with increased accountability. I expect for CGIAR this will mean continued change in the organizational structure under its able leadership and for U.S. universities, new innovative partnerships.

The research needed includes a substantial effort with fertilizer especially in Africa where soil fertility is a major constraint on productivity. Major fertilizer products currently used by farmers were developed more than three decades ago. These fertilizers were designed in an era of energy abundance and their utilization rates by plants are low. For example, plants utilize urea at only about 30 percent efficiency. This inefficiency is alarming given urea is the dominate form of nitrogen fertilizer used globally. The energy equivalent of about four barrels of oil is needed to make one ton of urea, and so about 2.8 barrels of oil are wasted for every ton of applied urea. Phosphate, a primary nutrient needed for plant growth, is produced from phosphate rock using highly inefficient processes. In short, the world needs a major research effort to improve the effectiveness of fertilizer production and use. Fertilizer is a commodity industry and it is unlikely the industry alone will undertake the research. Some public investment is probably required. I chair the board of IFDC, an international organization based in Muscle Shoals, AL, and long involved in fertilizer issues.

Biotechnology holds great promise to provide the varieties necessary to match Africa's diverse environments and needs, and to do so rapidly and efficiently. Its strength is its ability to produce variability rapidly and precisely. I want to underline that biotechnology is only one of the many research tools needed and it should be used carefully and selectively. Perhaps the food crisis will make biotech crops more acceptable. Of course, the use of biotech crops must be properly regulated and African countries or regions working together should develop the capacity to have their own regulatory oversight and decisions on biotech plants.

Extending new knowledge to farmers in Africa is a challenge. Personnel intensive U.S. style extension systems have not been financially sustainable in most of Africa. New combinations and approaches to extension include the use of computer information centers in villages, solar powered computers and cell phones to gather and exchange market prices around the country, and more and better radio use since most people have radios. Some of this is location specific. (Note: For extension to work you need to have knowledge or technology that really adds value to the farmer. They are usually smart about what they can do in their environment with their technology.)

I mentioned universities as part of building a country. The agriculture education and the problem-solving capacity of African universities deserve a comment here. Ideally teaching, extension, and research should be organizationally tied together, a design that has worked well in U.S. land-grant universities. Universities need to train people who are capable of creating, working and leading the development of

a sophisticated agriculture sector. Only then will Africa significantly increase its food production.

CONCLUSIONS

The food price crisis had some immediate causes but there have been pressures on demand for some time. In brief the world neglected the long-term development needs of agriculture for many years.

Immediate relief is needed and I support supplemental funding for that purpose. Short-term relief should not be undertaken in ways that will complicate the long-term solutions.

Dealing with the medium- and long-term food prices will require a major recommitment by developing countries and donors. I support supplemental money for long-term agriculture development as part of that recommitment. This is a huge and complicated job for everyone that needs to be lead by the developing countries themselves. We will need to continue to work on these matters for the foreseeable future because world population will continue to increase and incomes will go up substantially, especially in some parts of the world. We have a long-term supply side problem. All this work will need to be done in a period of global warming and other environmental issues.

The CHAIRMAN. Thank you very much.

Mr. Lyon.

STATEMENT OF JAMES R. LYONS, VICE PRESIDENT FOR POLICY AND COMMUNICATIONS, OXFAM AMERICA, WASHINGTON, DC

Mr. LYONS. Thank you very much, Mr. Chairman, Senator Lugar. It's a pleasure to be here. We appreciate your interest in this issue. It is really an honor to join you and my colleagues in addressing this critically important issue.

Oxfam America is part of a larger affiliate of organizations. We work in 120 countries around the world. One of the things that distinguishes us is that we accept no government money for the work we do. All our support comes from U.S. citizens and philanthropic organizations.

I want to say from the outset that probably the easiest thing for me to do is just associate myself with your remarks and the remarks of Senator Lugar, and then I probably could cut my testimony short. I think you gave an excellent overview of the crisis that we face and outlined some of the critical elements of the solution.

I'd just like to add a few thoughts to that discussion. First of all, I want to emphasize, as Josette had mentioned, we've seen price volatility in agricultural commodities over time. What's unique about this crisis is the confluence in the hike of world prices for nearly all major food and feed commodities all coming together at once.

Also, there are many indications that these high prices will be sustained over time, and many factors that may continue to drive them. A report that was just issued yesterday by the World Bank related to this is a projection that climate change will result in a 15-percent reduction in agricultural production worldwide by 2080. So we can't ignore that factor as we look forward.

As has already been noted, the reason that these significant price increases have such a dire impact in the developing world is because, unlike most Americans who spend 10 to 15 percent of their disposable income on food, in the developing world people are spending 50 to 80 percent of their income simply to keep them-

selves and their families fed. Lacking the resources in a situation with high food prices forces them to make some very, very difficult decisions with consequences for their health, the education of their children, and their overall well-being. In fact, in some cases where they have to sell assets to feed themselves, their capacity to continue to make a living is compromised.

The World Bank has studied the connection between food prices and poverty and estimates that there's an expansion in absolute poverty of about 4.5 percent or another 100 million people in poverty as a result of what we've recently seen. As you've already mentioned, Mr. Chairman, there's a clear connection between increased food prices and social unrest. World Bank President Zoellick has spoken to this, anticipating social unrest in at least 33 countries. He predicted this in April. We've seen many examples of this, including food riots and the ouster of the Haitian Prime Minister.

I would note that the United Nations Global Information Early Warning System identifies 37 countries in crisis requiring external assistance. Twenty-one of these are in Africa, clearly a continent of considerable focus. And we've seen food riots in many of these.

To bring home the national security issues, I just want to offer two examples. One is in Pakistan, a very important U.S. ally. Of 56 million people living in urban areas in Pakistan, about 21 million are now deemed food-insecure by the World Food Programme. In response to the food crisis, Pakistan recently banned flour exports to Afghanistan. Of course, banning flour exports to Afghanistan greatly exacerbates neighboring Afghanistan's food insecurity problems. So you can see the snowball effect in two important parts of the globe as it relates to U.S. security.

Shortly after this occurred, the World Food Programme made an appeal for 89,000 metric tons of food, including wheat, beans, and cooking oil, to help the Afghans deal with their food crisis.

Many nations face the impact of increased food prices and that's been amplified, of course, by the increase in oil prices. Imports have been—inputs, excuse me, have been noted as one of the significant concerns. Certainly fertilizer costs are being driven here. But oil costs have another impact in that many of these countries that are food insecure are also importers of oil, so their ability to produce energy to maintain their basic infrastructure and their economies is also impacted.

As an example, Ethiopia currently spends six times as much money on oil than it has received in debt relief from the Heavily Indebted Poor Countries Initiative some time ago. So the progress that was made through commitments by the United States and others to address this is now eroding. As a result, these countries are slipping backward because of these actually combined crises.

I won't talk about the causes of the problem. I will simply reinforce what was said about the fact that there's clearly a connection between increased corn prices and corn-to-ethanol production. We believe this needs to be looked at very carefully with regard to the impacts on world food prices.

We certainly don't want to see a situation where energy security and food security are in conflict, and we certainly don't want to see a situation where a commitment has been made, as it has been made in the United States, to build an infrastructure to produce

ethanol and then suddenly cut the legs out from under all those who are counting on that for their ability to build the capacity to help address U.S. energy security concerns.

Accelerating research and development to move to cellulosic ethanol, as Senator Lugar mentioned, is a critical part of this. Our recommendation is some sort of high-level blue ribbon panel to look at this particular issue, to report back to the Congress by the end of the year, and to provide input to the new administration. If there's a direct correlation between increased corn prices and world food prices, we can then determine if the additional incentives built into the energy bill and those contemplated in the farm bill—which may pass here shortly—should continue. So we would advocate for a reasoned approach to this, not the pendulum swing that some have argued for.

Let me talk about solutions quickly, and many of these have been mentioned, so I'll just reemphasize a couple. Then I want to raise an important point about the long-term solution. Obviously, in the short term, we need to deal with the immediate food crisis that we face. Meeting the World Food Programme's request for additional funding and the additional request for funding from USAID that was mentioned, is critical.

I want to point out something, though. USAID had made estimates about their additional food needs some time ago, before the food crisis hit. So I suggest that it would be useful to go back to the Administrator to get an up-to-date estimate of what increased aid would be necessary to get us on par with where they wanted to be simply a year ago. And I'd suggest the impacts have been somewhat escalated.

Second, as you've already alluded to, Mr. Chairman, it's important to get food aid to people more quickly and much more efficiently. This gets to the local purchase issue. For a long time, we've been a band of one beating on the issue of a change in the structure for our food aid system. It's essential that we look at a change in law. We're pleased to see the pilot program that's included in the farm bill. We have lots of problems with the farm bill. But we think greater flexibility is really needed in the food aid system. The $60 million in the farm bill for a local purchase pilot is a drop in the bucket.

The administration has proposed 25 percent flexibility in food aid. We think that would be an excellent change in policy and move us in the right direction.

I just want to point out one thing. You mentioned the 50-percent reduction in cost. Actually, Mr. Chairman, an April 2007 study by GAO showed that increased costs have reduced the tonnage that can be delivered overseas by about 52 percent over the previous 5-year average. Then if you look at additional costs, the actual impact on total emergency food aid in terms of reduced effect is 65 percent.

I'd suggest to you that's the equivalent of telling your mother in Delaware that you're going to give her $100 to purchase food, but first she's got to buy a tank of gas, and then she can only buy her food in Washington, DC.

The CHAIRMAN. I want to make it clear, it's my mother's money. [Laughter.]

Mr. LYONS. Well, I suggest to you, Mr. Chairman, that neither your mother nor you would be pleased with that outcome.

So we think that's an essential change in policy. The opportunity does exist to make that change in the context of the farm bill. The Bush administration has argued for that as many of us have. I'm pleased to see that the gentleman from Tennessee has said they want to address this issue. Somehow, some way, this needs to be addressed, because we're wasting precious dollars that could be going to feeding people immediately.

I'd also suggest the need to address an issue that came up just a few weeks ago, raised by two of your former colleagues, Senator McGovern and Senator Dole. That is the food aid assistance program for children in developing countries that was severely cut in the farm bill. I don't see the logic to that and I think restoration is in order. We certainly have the assets, so I think that reinvestment is appropriate.

I've already mentioned the intermediate step in my mind, which is to look at the connection between corn prices, corn-based ethanol production, and global food prices, and to offer some recommendations to guide a new administration as it moves forward.

Most importantly, the global food crisis is clearly a long-term problem. This is the confluence of many issues that we should not ignore, and it's going to take a comprehensive, strategic approach to dealing with the issues that we face.

First, we clearly need to increase aid for agricultural production. As you pointed out in your opening statement, Mr. Chairman, agricultural aid has declined precipitously over the past two decades. We need to recognize that more than 70 percent of the poorest people in the world live in rural areas and depend on agriculture for their livelihood. So we're literally cutting their lifeline by failing to make the investments necessary to help them grow food for themselves and hopefully for economic development.

In Africa, 60 percent of the workforce depends on agriculture. We need only look at the United States to understand the importance of agriculture as a foundation for economic growth. One hundred years ago we were an agrarian society. Now, of course, agriculture is less than one-half of 1 percent of total U.S. GDP. Nevertheless, in many developing countries agriculture is as critical to them as it was to the United States over a century ago, and we shouldn't ignore the lessons we learned in moving forward.

To amplify that point, I just want to point out that the World Bank study that you referenced earlier also points out that poverty reduction impacts associated with agricultural investments have an impact two to four times greater than investments in other sectors in terms of GDP growth. It just shows the close connection to agriculture.

I also want to point out—unfortunately, the Administrator is gone—that U.S. agricultural assistance has also declined in this year's budget request from the administration to an all-time low of about $283 million this past year. Only $91 million of that, by the way, would go to Africa, a region of critical concern.

Second, I want to emphasize that we need to modernize the overall aid system. You've focused on this, Mr. Chairman, in the work that you and Mr. Lugar are doing to look at how we reform our

overall aid system. Whether we call it smart power or smart development, we need to be smart about what we're doing. We need to look at aid in a much more comprehensive way. We need to determine if improving aid effectiveness requires structural change, a change in law, or simply a change in the rules of the game so we have the capacity to respond more quickly and in a much more comprehensive way to these issues. It's critically important, so we applaud your efforts to begin this process, which we hope will create a foundation for a new administration to look at the aid system and make changes necessary to make it much more efficient and effective.

One thing that we certainly know that a new administration will face is, because of the large deficit, there are limited dollars to do what we need to do. So every dollar has to be extended as far as possible.

When I joined the Clinton administration in 1993, the previous administration had left the nation with a huge deficit. What's changed? The point I want to make is that the first thing we had to do was cut programs, cut staff, and reduce many of our capacities. Then we had to, as it was termed, "reinvent government," understanding ways in which we could be much more efficient and more effective. We need to go back and I think reevaluate that approach.

Finally, I want to emphasize something that Mr. Lugar raised in his tutorial in agricultural development and trade, which was outstanding. That is the point that an element of promoting economic development and restoring agricultural production in developing countries is providing fair and equitable access to markets. Otherwise there's no reason to make an investment in agriculture that is intended to promote economic development.

This is part of the situation we face in Haiti. Back when rice was not a rare commodity, but in fact plentiful, U.S. policy led to dumping of rice overseas. In countries like Haiti, obviously it was much wiser to buy cheap rice from places like the United States than to invest in agricultural production. So the capacity to produce rice was virtually eliminated since they could buy it cheaply from the United States.

Now that there's a food crisis and rice is in short supply, Haitians don't have the capacity to turn around and simply start producing rice again. So we have to be careful about how our policies are impacting other countries and how they respond. And I think that's evidence of the fact that we do need to look at trade-distorting subsidies and address this issue. It's not going to be addressed in the farm bill. Yet, it needs to be addressed somewhere, because the Doha Round is critical to helping address the needs of developing countries.

Let me close by saying, Mr. Chairman, that we certainly appreciate your leadership. As Josette mentioned, many countries are looking for help. The United States has always been a generous country with regard to the aid and the assistance we provide for development. How we respond as a nation will speak volumes about how we want to be viewed and how other nations view us.

It simply comes down to leadership, Mr. Chairman. We certainly have the resources. The question is, Do we have the will to lead?

I know that you do, Mr. Chairman. I know that Senator Lugar feels strongly about this. I hope that the Congress will find the will to move forward and help a new administration chart a path toward greater sustainability and stability in the world.

Thank you.

[The prepared statement of Mr. Lyons follows:]

PREPARED STATEMENT OF JAMES R. LYONS, VICE PRESIDENT FOR POLICY AND COMMUNICATIONS, OXFAM AMERICA, WASHINGTON, DC

Good morning Chairman Biden, Senator Lugar, and members of the committee. Thank you for holding this hearing and for inviting me to appear before you this morning to discuss Oxfam America's perspectives on the causes, consequences, and solutions to the global food crisis.

Oxfam America is an affiliate of Oxfam International, a nonprofit humanitarian aid and development organization working in more than 120 countries around the globe. Oxfam America takes no U.S. Government funding. Our support comes from American citizens and organizations that support our mission to end hunger, poverty and social injustice.

AN OVERVIEW OF THE GLOBAL FOOD CRISIS

The recent spike in food prices has caught the world by surprise. It was not long ago when low commodity prices were viewed as the bigger challenge and food prices were expected to decline steadily.

For example, as recently as 2006 the U.S. Department of Agriculture's Economic Research Service (ERS) stated that "Retail food prices are projected to increase less than the general inflation rate," and the ERS projected farm income to decline.[1] Likewise, international market observers expected low and even declining agriculture commodity prices. The U.N. Food and Agriculture Organization said, "Farmers and countries that depend on commodity exports have to contend with the long-term decline and short-term volatility of real commodity prices on international markets."[2]

Instead, agricultural commodity prices have risen steadily over 4 years, and accelerated dramatically in the last year. The international food price index increased by 9 percent in 2006, but accelerated to a 40-percent increase in 2007.[3] Food prices have continued this dramatic rise in the first 3 months of 2008.

Price volatility in agricultural commodities is not uncommon. What is unusual, however, is the confluence of the hike in world prices of nearly all major food and feed commodities. This means there is no safety valve for consumers seeking cheaper alternatives. There are also indications that these high prices may be sustained over time—meaning that the shock of higher commodity prices may not be a short-term problem, but a longer term stress that needs a strategic and comprehensive response.

THE CONSEQUENCES OF HIGH FOOD PRICES

Some of the first warnings about the high food price crisis came not directly from people facing food insecurity, but from the humanitarian agencies trying to assist them. In January, the U.N. World Food Programme (WFP) put out a special appeal for Afghanistan noting that millions of Afghanis could no longer afford to buy the wheat that is a staple in that country. Since November 2007, the price of bread in Kabul has increased over 90 percent, from $0.11 to $0.21. As a result, 1.4 million people in rural areas and 1.1 million in urban areas have been pushed into high risk for food insecurity.

Later, the WFP made an emergency appeal for an additional $755 million, saying that high food prices had made it impossible to fulfill its 2008 plan to provide food assistance to 73 million people in need. The WFP's original budget was $2.9 billion. Although new pledges have been made, the WFP's need has not yet been met. As an example of the strains being felt, the WFP has recently announced that it will

[1] "Agricultural Baseline Projections: Baseline Presentation, 2006–2015," Economic Research Service, USDA, updated February 10, 2006. http://www.ers.usda.gov/Briefing/Baseline/present2006.htm, last viewed May 5, 2008.

[2] U.N. FAO, "The State of Agricultural Commodity Markets, 2004." See: http://www.fao.org/docrep/007/y5419e/y5419e00.htm.

[3] "Rising Food Prices: What Should Be Done?", Joachim von Braun, International Food Policy Research Institute, April 2008. http://www.ifpri.org/pubs/bp/bp001.asp#read.

suspend a school feeding program for 450,000 children in Cambodia in May, unless additional funding is found.[4]

Other humanitarian agencies are experiencing similar strains and making difficult decisions. Last week, World Vision International announced it has discontinued feeding programs for more than 1 million people due to increased food costs and lack of funding.[5] CARE has cut the size of its rations in Somalia.[6]

Higher prices are affecting markets across the world, increasing the costs of staples and generating spontaneous protests and civil unrest. Dozens of countries have experienced "food riots" in recent months.

While higher agricultural commodity prices are affecting developed and developing countries, the impact of higher food prices varies greatly in each. Two factors tend to moderate the impact of higher agricultural commodity prices on consumers in the U.S., and conversely magnify their impact for poor people in developing countries.

First, most American consumers don't buy agricultural commodities. American consumers rarely buy wheat, for example. In fact, most households buy wheat flour only occasionally. Instead, we buy bread. And although bread may be made of wheat, the value of the raw commodity in the final product is actually quite small; perhaps 20 percent. This contrasts with poor consumers in developing countries, who often buy food in much less processed forms, as wheat flour or maize kernels. For these consumers, commodity price increases are felt more directly in their purchasing power.

The second factor that tends to moderate the impact of high agricultural commodity prices for American consumers is the fact that, on average, American households spend only about 10 percent of their disposable income on food. Of course, for some American households, such as those who are poor or on fixed incomes, food purchases can make up as much as 25 or 30 percent of household expenditures. In fact, food price inflation in the U.S. is at 5 percent and expected to rise to 8 percent this year prompting a record number of Americans to request federal food assistance.[7]

This is no small matter in the U.S., and the situation is only magnified in most other countries where food makes up a larger portion of household incomes. Poor people in developing countries may spend 50–80 percent of their income on food. So, when commodity prices increase, the capacity of people in developing countries to respond is much less. In order to feed their families, they must make extremely difficult choices such as reducing food consumption, switching to a less nutritious diet, forgoing medicines or health care, removing their children from school (since they are unable to pay school fees), selling important assets—like livestock or land, or some combination of these actions.

These are the awful choices that many poor people are being forced to make today as high food prices are impacting their lives, their families, and their livelihoods.

HIGH FOOD PRICES, HUNGER, AND POVERTY

After a very long and steady decline over the course of decades, the number of people facing chronic hunger globally took a disappointing turn upward in the last few years.[8] By some estimates, 1.2 billion people could be chronically hungry by 2025; 600 million more than previously predicted.[9]

It might seem obvious that lack of food is the cause of hunger. And while that's true, it's actually much more complicated. The truth is that the world does not lack food. Globally, we produce more than enough calories and nutritious food to sustain humanity. While there are droughts and other circumstances that create acute food scarcity, more often hunger is caused by other factors.

The World Bank recently studied the connection between food prices and poverty and reported the recent food price increases will expand absolute poverty by 4.5 per-

[4] "WFP says high food prices a silent tsunami, affecting every continent," World Food Programme, April 22, 2008; http://wfp.org/english/?ModuleID=137&Key=2820, last viewed May 4, 2008.

[5] World Vision press release: http://www.worldvision.org/worldvision/pr.nsf/stable/20080428-foodcrisis?open&lid=food-crisis-release&lpos=day_txt_food-crisis.

[6] "Hunger Stalks Globe as Aid Groups Forced To Cut," Missy Ryan, Reuters, May 2, 2008.

[7] "As Jobs Vanish and Prices Rise, Food Stamp Use Nears Record," by Erik Eckholm, New York Times, March 31, 2008.

[8] "The State of World Food Insecurity in the World: 2006" U.N. Food & Agriculture Organization.

[9] Runge, Ford C. and Senauer, Benjamin "How Biofuels Could Starve the Poor" Foreign Affairs, May/June 2007.

cent. Projected across the globe, this is an increase of more than 100 million people in poverty.[10]

Approximately 1 billion people—one-eighth of the world's population—survive on an income of less than $1 a day. More than 2.5 billion people scrape by on less than $2 a day. Approximately 850 million are malnourished.[11] This is a vast pool of vulnerable people, spread out across the world. For these people and their families, hunger is a constant worry and a looming possibility.

FOOD INSECURITY, POVERTY, AND GLOBAL SECURITY CONCERNS

Where incomes are not rising at the same rate as food inflation, high food prices seem certain to cause an increase in food insecurity and pose risks of widespread food crises in many developing countries. There is a clear connection between social unrest and rising food prices in many parts of the world. In April, World Bank President Zoellick warned that 33 countries around the world face potential social unrest because of the acute hike in food and energy prices. For these countries, where food comprises from half to three quarters of consumption, there is no margin for survival.[12]

The United Nation's Global Information Early Warning System identifies 37 countries "in crisis" and "requiring external assistance." Twenty-one of these are in Africa. Not surprisingly, food riots have erupted in the majority of these countries over the past few months. Closest to home, Haiti recently experienced food riots leading to the dismissal of Prime Minister Jacques Edouard Alexis.

To illustrate the importance of addressing this issue, one need only look at the impacts of high food prices on a country like Pakistan, a strategically important U.S. ally. Of the 56 million people living in urban areas in Pakistan, about 21 million are now deemed food insecure by the WFP.[13] In response to the food crisis, Pakistan recently banned flour exports to Afghanistan and the government has introduced ration cards for food for the first time since the 1980s. While banning flour exports was understandable for Pakistan, it greatly exacerbates neighboring Afghanistan's food insecurity. Shortly thereafter, on January 17th, the WFP made an appeal for 89,000 metric tons of food including wheat, beans, cooking oils, and table salt to help over 2.5 million Afghans.[14]

Further amplifying the effects of high food prices (as well as one factor creating the rapid increase in food prices) is the dramatic increase in global oil prices. Many nations now face the impacts of high energy costs and high food prices, leading to further instability and potentially reversing years of progress in many developing countries. Keep in mind that all but a few of the world's poorest countries depend on foreign oil imports to drive their economies, and world oil price vulnerability—and recent price increases—eat away at limited foreign exchange reserves and national budgets.

As the price of oil escalates, the gains of a range of antipoverty measures are being quickly eroded. Ethiopia, for example, currently spends six times as much on oil than it has received in debt relief from the Heavily Indebted Poor Countries Initiative. The International Energy Agency estimates that for every $10 increase in the price of a barrel of crude oil, the economy of a sub-Saharan African oil importing nation is affected more than 10 times as much as the U.S. economy. As a result, rising energy costs are systematically erasing any gains achieved from significant debt forgiveness initiatives and commitments to tackle poverty and hunger. Combined with record commodity prices, the effects can be paralyzing for some nations, in particular those countries referred to as "low income food importing developing countries." Those countries which are also net energy importers are typically hit the hardest.

---

[10] "Implications of Higher Global Food Prices for Poverty in Low-Income Countries," Maros Ivanic & Will Martin, the World Bank Development Research Group, April 2008.

[11] Sources: "Millennium Development Goals Report 2007" United Nations and "The State of Food Insecurity in the World," 2006, U.N. Food and Agriculture Organization.

[12] "Sovereign Wealth Funds Should Invest in Africa, Zoellick Says Outlines plan to advance development in face of market turmoil, high food and energy prices," Press Release No:2008/255/EXC, April 2, 2008.

[13] "XXXX" IRIN Asia January 8, 2008. Accessed at: http://www.irinnews.org/Report.aspx?ReportId=761 38, IRIN.

[14] "AFGHANISTAN: Bread Price Hike Affects Millions," IRIN Asia, February 28, 2008. Accessed at: http://www.irinnews.org/report.aspx?ReportId=76870.

THE CAUSES OF FOOD PRICE INCREASES

Many experts have noted that there is a confluence of forces driving food prices upward. My copanelist, Ambassador Sheeran has described it as a "perfect storm." I will just mention a few and then briefly address one.

Factors contributing to high food prices include:

- Rising demand for higher protein foods in fast-growing developing countries like India and China;
- Changing weather patterns and production problems for some commodities and some regions, notably droughts in wheat-producing regions including Australia, North Africa, and Ukraine;
- High energy prices that raise food production costs, food transport costs, and agriculture;
- Input costs (e.g., fertilizer and fuel for mechanized machinery and pumps for irrigation);
- Possible speculation emerging from a large movement of investor capital out of equities and into commodities futures and related instruments; and
- Growth in biofuels production and consumption.

While experts argue about their relative importance, each of these factors appears to be having an impact. The biofuels issue is of particular importance since much of the growth in biofuels production has been driven by policy decisions in Washington and Brussels. For this reason, I will address it briefly.

In 2008 the U.S. will convert approximately one-quarter (23.7 percent) of our corn production into biofuels. That's an increase from 20 percent last year and 14 percent the year before. In short, we're rapidly diverting larger portions of our corn supply to fuel, leaving less for food. Dedicating 3.1 million bushels of corn for ethanol this year will take more than one-tenth of the global corn supply off the market for food and feed.

The U.S. is a massive producer of corn, harvesting more than 40 percent of the world's corn supply.[15] The U.S. is also a massive exporter of corn, supplying nearly twice as much corn as all the other exporters combined. USDA's Economic Research Service noted that since 2002–03, nearly 30 percent of the global increase in cereals demand came from U.S. corn ethanol.[16] So, reduced supply and/or higher prices in the U.S. corn market can have significant implications for the global corn supply and global prices for food and feed.

Although ethanol mandates and subsidies directly impact corn prices, they also have implications for other agricultural commodities. This is because higher corn prices encourage farmers to commit more acreage and agricultural inputs to corn production. This leaves less acreage and agricultural inputs available for other crops, especially soybeans, which are often planted in alternate years with corn. As a result, production for other commodities like soybeans is lower and prices are higher. In 2007, U.S. soybean plantings decreased by 15.7 percent to about 63.3 million acres from 2006 levels.[17] Additional demand for soybeans is also generated through U.S. Government encouragement for biodiesel production driving prices up 40 percent from to $10.80 per bushel from 2006 to 2007.[18]

Last month, the World Economic Outlook identified increased biofuels consumption as a major driver of food price increases: "Rising biofuels production in the United States and the European Union has boosted demand for corn, rapeseed oil, and other grains and edible oils. Although biofuels still account for only 1.5 percent of the global liquid fuels supply, they accounted for almost half the increase in the consumption of major food crops in 2006–07, mostly because of corn-based ethanol produced in the United States. Biofuel demand has propelled the prices not only for corn, but also for other grains, meat, poultry, and dairy through cost-push and crop and demand substitution effects." [19]

Finally, the International Food & Policy Research Institute (IFPRI), one of the premier organizations tracking food and hunger issues, estimates that biofuels will drive up corn prices by between 27 percent and 72 percent by 2020, depending on the scenario analyzed. Other commodities (oil seeds used for biodiesel) would rise by 18 percent to 44 percent. IFPRI stated, "In general, subsidies for biofuels that use agricultural production resources are extremely antipoor because they implicitly

---

[15] "World Agriculture Supply and Demand Estimates," USDA (WASDE–457), April 9, 2008.

[16] "Global Agricultural Supply and Demand: Factors Contributing to the Recent Increase in Food Commodity Prices," Ron Trostle, USDA Economic Research Service, May 2008, p. 17.

[17] USDA, ERS. Accessed at: http://usda.mannlib.cornell.edu/ers/89002/Table02.xls.

[18] Ibid.

[19] World Economic Outlook, April 2008. International Monetary Fund. P. 60. See: http://www.imf.org/external/pubs/ft/weo/2008/01/index.htm.

act as a tax on basic food, which represents a large share of poor people's consumption expenditures and becomes even more costly as prices increase. . . ."[20]

SOLUTIONS TO THE GLOBAL FOOD CRISIS

While there are no simple solutions to the global food crisis—just as there are no easy answers for dealing with the energy crisis—there are steps that need to be taken to deal with the immediate effects of the crisis, to better understand the factors that are creating this crisis, and to begin to make longer term, strategic investments as part of a long-term solution.

SHORT-TERM, EMERGENCY RESPONSES

Oxfam America suggests three important short-term responses to the global food crisis.

First, the Congress should respond to the request of the World Food Programme and that of President Bush by immediately providing the $770 million requested to meet essential food aid needs. The President recently communicated to the Congress his desire to see the necessary funds provided to meet these emergency needs and to avert cutbacks in the World Food Programme's food aid efforts. This is a critical emergency stop gap measure. Likewise, the U.S. Agency for International Development has requested $350 million in supplemental funds for this fiscal year. But that request was made months ago. In the meantime, food prices have spiked upward. USAID now estimates it will need an additional $260 million just to maintain existing commitments—due to food price increases and the depreciation in the dollar.

Second, current food aid needs to get to the people who need it much more quickly and with much greater efficiency. To achieve this, a change is needed in current aid policy to permit U.S. agencies greater flexibility in providing food aid assistance. Current law requires that U.S. food aid consist of U.S. commodities that are purchased in the United States and shipped overseas on U.S.-flagged vessels. This constraint on U.S. food assistance results in higher costs for food aid due to the high cost of purchasing commodities in the U.S. (in U.S. dollars) and the added cost of shipping them overseas. Higher energy prices have amplified transportation costs, further exacerbating the problem. In addition, the requirements of current law delay the delivery of desperately needed aid. And, it works to the detriment of policies and programs designed to promote local agricultural production and greater self-sufficiency on the part of developing countries.

Many commentators have pointed out the flaw in current law, and some, including President Bush, have requested that a change in current law be made to permit as much as 25 percent of U.S. food aid to be purchased locally. Oxfam America believes that this would be a substantial improvement over current policy. This change would expedite the delivery of food aid and save as much as 50 percent of the food aid budget—funds urgently needed to address rapidly growing needs. In short, this fix would make limited food aid go much further than can be achieved under current law.

Finally, as has recently come to light, a program designed to provide nutritional assistance to school children in developing countries will be severely impacted by proposed cuts in the pending farm bill as recently agreed to by Senate and House conferees. This food assistance program named for former Senators McGovern and Dole, is another important part of the U.S. food aid safety net and funding for it should be restored. An opinion piece in the Washington Post by the two Senators raised this issue and included their request to move funds from farm subsidy programs to restore funding for this important program. Again, we would concur in that recommendation.

INTERMEDIATE SOLUTIONS

We have a responsibility to carefully assess the impact of our policies on those who face poverty and hunger and to take actions to make the lives of poor people less difficult. In living up to this commitment, there should be no reason to pit food security against energy security.

The 2005 Energy Policy Act mandated 7.5 billion gallons of renewable fuels to be mixed into gasoline by 2012. Actual ethanol production is at least 4 years ahead of that schedule, with expected production of more than 7 billion gallons this year. But this is just the beginning of the planned expansion of corn ethanol. The 2007 Energy Independence and Security Act, mandates 36 billion gallons of biofuels by 2022.

[20] "The World Food Situation: New Driving Forces and Required Actions," Joachim Von Braun, International Food Policy & Research Institute, December 2007.

While the majority of this amount is meant to be "advanced biofuels," 15 billion gallons would be corn ethanol. This would double current corn ethanol production and implies a much larger diversion of corn from food and feed.

In addition, the pending farm bill would continue incentives for corn to ethanol production. The 2008 Farm Bill Conference Report would lower the blender's tax credit from 51 cents per gallon to 46 cents per gallon to offset a production credit for cellulosic ethanol of $1.01 per gallon. The farm bill would also extend the import tariff of 54 cents per gallon until 2010. Additional provisions include other tax incentives, supports, and investments in research, production, and cellulosic technology. Despite minor reductions to the blender's credit, U.S. support to ethanol is predicted to approach $100 billion for the 2006 to 2012 period and will likely rise if the new Renewable Fuels Standard is met.[21] The large majority of this support—about 75 percent—will be directed to corn ethanol.[22]

If the connections between corn ethanol production and increased food prices are accurate, then the policies associated with incentives for corn to ethanol production need to be reevaluated in light of the global food crisis. Therefore, Oxfam America recommends that a blue ribbon panel be established to quickly investigate this issue and that the panel bring recommendations back to the Congress by the end of this calendar year to guide decisions regarding incentives and subsidies for ethanol production already on the books and those likely to be added should the farm bill become law in its current form. Clearly, an accelerated strategy is needed to do the research and development necessary to quickly transition to the so-called "next generation" of cellulosic biofuels. Oxfam believes that the U.S. Congress should promote research and development for alternative and renewable sources of fuel that do not lead to increased food insecurity in the developing world.

LONG-TERM SOLUTIONS

The global food crisis cannot be addressed for the long run by simply increasing food aid to countries that find themselves in a humanitarian crisis. Food aid is an essential part of an emergency response mechanism. However, the ultimate solution is to help developing countries improve their capacity to feed themselves, to market their agricultural products, and, through these strategies, lift themselves out of poverty.

First, we need to increase aid for agricultural production. More than 70 percent of the poorest people live in rural areas and depend on agriculture for their livelihood. Sixty percent of the workforce in Africa works in agriculture. And despite agriculture's clear importance and close nexus with poverty, it has been a backwater for economic development and commercial activity—particularly in developing countries. Aid donors neglected the agriculture sector for decades, with bilateral aid for agriculture slipping from 18 percent of foreign assistance in 1980 to about 4 percent today.

Unfortunately, many developing countries and poor farmers have little capacity to improve and expand agricultural production because they lack working capital, access to information and technology to improve farming practices, access to agricultural inputs like fertilizer and improved seeds, storage facilities, and markets. All of these factors require a financial and physical infrastructure that will take time and resources to build. Helping developing countries make these investments is a very important element in resolving the current crisis posed by high food prices and should be a key component of a global response.

The evidence is building that improving the agriculture sector is key to reducing poverty. World Bank's World Development Report 2008, "Agriculture for Development," underscored the importance of growth in the agricultural sector for reducing global poverty and improving food security, especially in sub-Saharan Africa. The World Bank report finds that investments in agriculture have a poverty reduction impact 2 to 4 times higher than GDP growth in other sectors.

Like other aid donors, the U.S. has neglected agriculture in developing countries. U.S. assistance for agricultural development is at an all-time low at about $283 million. Only $91 million of this is for Africa. This is down from $589 million, including $172 million for Africa in FY05.[23] To begin to rectify this situation, Oxfam America recommends that the U.S. Congress set the funding level at a minimum of $600 million for USAID's agricultural development program, including at least $300 million

[21] "Biofuels at What Cost?: Government Support for Ethanol and Biodiesel in the United States, 2007 Update," Global Subsidies Initiative of the International Institute for Sustainable Development.

[22] Ibid.

[23] Thanks to Emmy Simmons' unpublished paper. Source: USAID/EGAT/AG. No non-emergency food aid funding or Millennium Challenge Corporation funding is included.

for development assistance (DA) funding. This should be separate from MCA funds or food aid programs.

But if we are to have any hope of actually making progress in improving the plight of developing nations, we need to modernize our overall aid system to make it more efficient and focused on ending poverty. So our second priority must be to undertake a fundamental reform of the laws, strategy, structure, and practice of U.S. foreign assistance so it can meet the challenges of the 21st century. The current system is broken: Too many agencies are involved in delivering foreign aid and there is a lack of coherent strategy and leadership.

Oxfam believes foreign aid is most effective when it focuses on long-term poverty reduction as its primary mission. In the last few years, we have seen U.S. foreign assistance increasingly focus on short-term security and political objectives, rather than long-term development goals. U.S. foreign assistance should focus on strengthening responsible and effective states and helping active citizens to foster equitable economic growth through their own efforts. Funding should be used strategically to strengthen the ability of poor countries and poor people to feed themselves. Our current system is woefully unprepared to take on the challenge of promoting small producers and rural communities, strengthening national and local governments, civil society groups, and basic infrastructure.

Until we modernize the structure, laws, strategy and implementation of our foreign assistance, the U.S. will have a limited ability to promote the self-sufficiency, economic growth, and stability that comes with the certainty that there will be food on the table, adequate shelter, and the means to obtain health care for one's family, and education for their children, and a sustainable livelihood.

Third, we need to ensure that farmers in developing countries have access to global markets and the opportunity to participate in global trade in a fair and equitable manner. The Doha Round of trade negotiations—explicitly launched to assist developing countries benefit from trade—offers a historic opportunity to align trade policies with the goal of development and poverty reduction. At the moment, the negotiations are horribly deadlocked, with continued U.S. farm subsidies posing a major obstacle to successful negotiations. Reforming and reducing U.S. trade-distorting farm subsidies could offer a double-benefit of helping developing countries and unblocking the global trade negotiations. Unfortunately, the farm bill that recently emerged from the conference committee is a major disappointment and would actually create new trade-distorting subsidy programs while expanding existing subsidies.

While the global trade talks have been stalled since December 2006, the U.S. can take actions without waiting for a global trade agreement by improving our "general system of preferences" and other trade policies. We could, for example, take the example of the European Union which has opened its market to duty-free and quote-free trade for all imports from least-developed countries (except weapons). Least developed countries (LDCs) account for a mere 0.5 percent of U.S. non oil imports. Taking this step could offer a significant benefit to poor countries while having very marginal economic costs to the U.S. Unfortunately, the current U.S. tariff and quota system hits the poorest countries the hardest, and preference programs intended to remedy this exclude very poor countries, such as Bangladesh and Cambodia, as well as a number of products that are of greatest economic significance to the developing world. Even the African Growth and Opportunity Act (AGOA), the most extensive U.S. preference program, excludes agricultural products that African countries can produce competitively.

Oxfam recommends that Congress support the Partnership for Development Act (NPDA), which would provide duty-free and quota-free access to the U.S. for all LDCs, additional benefits for sub-Sahara African countries, and aid for trade to help those countries take advantage of these benefits in addition to other trade preference programs set to expire in 2008.

CONCLUSION

Food price increases have delivered a shock to consumers and governments around the world. The impact of these prices is now being felt and is creating significant turmoil, especially in developing countries that depend on food imports and have large, vulnerable populations. Not only is the current crisis a humanitarian concern, but as evidenced by events over the past several months, it has important ramifications for the security and stability of a large number of nation-states. As such, it has important national security ramifications for the United States as well.

How we respond as a nation will speak volumes about how we want to see ourselves and have others view us in a global context.

In the short term, the U.S. must rapidly respond to appeals for food aid from individual countries and the World Food Programme, and reform current U.S. food aid policy to make our food assistance programs more efficient, timely, and cost-effective.

In the medium term, the U.S. must revisit and revamp, if necessary, "food to fuel" mandates and supports, with respect to how these policies affect global commodity prices and markets. Further, an accelerated effort to transition from corn-based ethanol production to more advanced cellulosic ethanol is essential to address both domestic energy needs and any inadvertent impacts on world food prices.

Over the long term, the U.S. must make a greater commitment to investing in agricultural productivity in developing countries, reforming U.S. Foreign Assistance to be poverty-focused, reaching a prodevelopment conclusion to the Doha round and providing better access to the U.S. market for least developed countries.

The combined effect of rising food and energy prices runs the risk of wiping out all progress made in reducing developing country debt in recent years. This would be a huge step backward, reversing years of progress in reducing poverty, and increasing global security risks.

I will close, Mr. Chairman, by suggesting that just as many Americans are concerned about the state of the U.S. economy, the price of gasoline, and the cost of food, so, too, are people around the globe. Fortunately, most Americans can "get by" by "cutting back"; by reducing household expenditures and by tightening their belts. That is not the case for the billions around the world who live on less than $2 a day. When 60–80 percent of your disposable income is needed to put food on the table—if you even have a table—increased food prices can literally be a matter of life or death.

As the world's most prosperous nation, we have an obligation to lead in helping others. Americans would expect the United States to help those in need. In fact, we have long been the most generous nation in providing humanitarian and other assistance in times of need. The current crisis is a time for leadership, Mr. Chairman. Clearly, the United States has the resources to respond to this crisis. The question is, "Do we have the will to lead?"

The CHAIRMAN. I thank all three of you. I have a couple brief questions.

I know I'm trespassing on your time here, but let me make a generic point here. The Congress can do a lot and it's an indispensable partner in dealing with the immediate crisis and the long-term crisis. But the truth is that we tend to view each of these issues in splendid isolation. There will be no solution to the world food crisis without a solution to the energy crisis. It will not occur. It cannot occur. We can stem the pain, but the idea 15 years from now we're going to be in a situation where somehow we could ignore the energy crisis and alternatives and focus on food production is ridiculous. We don't even think of things that way.

The idea that we are going to put ourselves in the position—you said, Ms. Sheeran, that this is a perfect storm. I view it as a perfect opportunity. But it's an opportunity that can only be seized by an administration. We're kidding ourselves if we think we're going to be able to put together a policy that puts all the pieces in place, that are gigantic pieces, to think that we're going to get anything other than a Band-Aid approach to how we're going to deal with this food crisis as it emerges.

It's trade, it's energy, it's significant technological advancement, significant investment in that technological advancement. So the idea—I just view AID, A-I-D, and the significant work you're doing, Ms. Sheeran, at the United Nations as one of the spigots that can let loose a flow of services and commodities, if in fact you have an overall plan as to how you're going to deal with all of this.

I just want to make it clear that this is sort of—this is going to sound trite—big think stuff here. Up to now we've had people who've focused on energy, we've had people who focused on food,

we had people who focused on trade. But yet there's no place you can go in any administration, Democrat or Republican, and say: What's the plan, Stan? What's the deal here? How are you going to deal with these factors that are undeniably interrelated now? You can't solve any one of them without all of them being part of a long-term solution.

So I don't say that to take the Senate Foreign Relations Committee or the Senate or the Congress off the hook. We have to act more responsibly in my view. But we have a tendency, as you—I don't know which one of you actually said—to make the immediate emergency—it ironically ends up becoming the very thing that forestalls the harder, more difficult, less urgent but harder, more difficult, real serious thinking.

I'll conclude before I go to my questions by saying this requires essentially what Senator Lugar and I are trying to do, which may be beyond our capacity in this committee. We need a new national security arrangement. We need a new 1948 act. We need to think of this completely differently than we have.

That's not an excuse. I can see Dr. McPherson going: Wait a minute now; is this a way to get away from the underlying? The fact of the matter is it's not. We've got to deal with what's before us. But we need the help of you and we need an administration—and it's not, again, a criticism. What's happened, what's past is past. But no President's been required to have to think this way, that the next President's going to have to think. And I might add, no President will have had the opportunity, the opportunity.

Every significant step forward this Nation has made to advance human rights and dignity and opportunity has come in the face of overcoming a crisis. It hardly ever comes when all things are going well. This is a great opportunity.

Toward that end, I have basically three questions, and in the interest of time I'd like to direct them to each one of you if I may. Let me start by asking you, doctor. In terms of this idea which you've pointed out, the need for additional applied research—fertilizer you gave as a specific example—have you thought through the organization, where you would target if you were able to sit inside the next administration and allocate resources for applied research? Where would you focus?

The second piece of that is, How much could we change in the immediate, the next decade, if we just used the technology we've acquired with regard to genetics in places that will not allow their use? I mean, if we had no change—what would be different, if it would be at all, if in fact we had not gotten the pushback internationally and through the Europeans on genetic products, if any?

Dr. MCPHERSON. First of all, I think your phrasing this as an opportunity is right. Thank you. I don't think there's one organization that you'd want to put all your research dollars into. I think there's universities here and in other parts of the world——

The CHAIRMAN. I'm not asking where, specifically where. What areas would you invest, what type of research? In other words, would you focus on—have you thought through—for example, if we did it in the energy side of the sector here, there's a lot of talk here about actually targeting some research dollars to, for example, battery technology, hydrogen technology. Not who, not what company,

not what university, but what are the areas where there's potentially the best bang for the buck, with breakthrough possibilities?

I went out, for example, and visited Pioneer Seed. They're going through—they believe that they're going to be able to exponentially increase yield, provide farmers the capacity to increase yield per acre, that is significant and larger than happened from when you were on the farm to today, when Senator Lugar's father was running the farm versus today. They believe that they can make that kind of exponential gain. Now, whether that's true or not I don't know enough to know.

So the question I have is, What are those areas? Fertilizer? What are they?

Dr. MCPHERSON. I would think about the following. First of all, I think seeds, plant production, is very important. The National Science Foundation a couple years ago looked at a Green Revolution for Africa, did some very good work, some reasonable prioritization. It's drought-resistant seeds. In fact, Michigan State's done a bunch of work on this, as a number of the land grant universities have.

It is seeds that can grow in various kinds of soils and so forth. Got to work on the seeds. The private, Monsanto and Pioneer and others, will do important work here.

So, too, in the more basic work will universities and some in the centers. I think the fertilizer thing just cries out for it. It is a nexus of energy and of agriculture. In fact, a friend, my colleague—I chair this board out of Mussel Shoals where much of the early research was done. We were over at the World Bank just a few weeks ago talking about—and it's interesting. It's a commodity industry, therefore you can't get the companies to put the money in like you can a Pioneer.

I'm very interested in the energy work. I think that the cellulose area is worth a major—it was mentioned here today, but this is not a 2-year project.

The CHAIRMAN. No.

Dr. MCPHERSON. And my sense is—you perhaps know Ray Orbach, the Under Secretary of the Department of Energy, who has proposed a set of centers around the country to look at how you would do this. I think Ray's thoughts are very well developed and very interesting. He's looking at plant—plant energy work.

But my sense is that we've got to put a lot more resources into alternative energy research. I don't see how—and it's how to make coal cleaner. It just seems to me that it makes sense for a new President to say, as all the candidates have, we're just too dependent upon foreign oil. It's too much of a driver of too many things, and we better do it.

But internationally, it's feed, it's plants, it's fertilizer. Globally, it's energy.

The CHAIRMAN. Thank you.

Ms. Sheeran, you wanted to say something?

Ms. SHEERAN. If I could just jump in quickly. I also want to support your comment that there's a huge opportunity here. My hope would be that maybe the time has come for the African farmer, who has long awaited the kind of research and attention and

investment that is needed to turn around the types of yields that we're seeing there.

Some of the biggest gaps in ag research seem to be similar to the gaps we see in medical research, where it's not applied to the type of soil conditions that we see in Africa. So I think the question is, Do we have a match of the kind of research we need to get the yields up in areas of the world that have been neglected for the kind of investment in research and technology?

We are seeing some of the traditional knowledge, for example in Africa, being threatened by changes in climate patterns. So if the planting season is 2 weeks longer, what does that mean for farmers and their traditional way of planting? I think we need to get on top of the connection between farming and climate very quickly, because the patterns are changing very quickly. So it's just an area I would point to that we're seeing increasing vulnerability out in Africa.

The CHAIRMAN. Let me ask you a very practical question since you just came back from Africa. One of the things that has impressed me as I've gone around the world, recently to Afghanistan, talking about agriculture, Iraq used to be a major producer, a major agricultural producer, back in the fifties. Coming from a land grant college in a State that most people don't realize its largest industry is agriculture, that I've been incredibly impressed. When I got here as a 29-year-old kid as a Senator, even though I had grown up in the State of Delaware, the State is upstate-downstate. It's like New York City versus Schenectade or something in New York or whatever.

What a critical role the land grant colleges played and the Department of Agriculture and ag extension services. What they basically do is they provide a capacity for farmers to be able to apply whatever technology exists. They're basically an ongoing tutorial. There's a place where every farmer in Sussex County, DE, or in any county in Michigan can go and get someone to tell them what's best to plant on their soil, how to plant it.

Now, our farmers are much more sophisticated these days. But one of the things I see missing in Africa and everywhere else around the world is capacity. I don't mean just technology, not just resources, not just the inability to borrow, because that's—every farmer in America would go bankrupt if he couldn't borrow against the next crop—borrow to plant.

So talk to me just a moment if you would, Ms. Sheeran, about what do we need to be doing dealing with having structures on the ground helping those countries build infrastructures that support, as much as anything else, sort of the intellectual gravamen of teaching farmers, helping them figure out how to make best use of their land?

Ms. SHEERAN. Senator, I have a dream. There's a report in the World Bank called "Doing Business," and it takes small and medium business economy and breaks it into the 30 or 36 factors that are needed to get a small and medium economy going and ranks every country on Earth on each of these pillars. So if it takes 2,000 days of bureaucratic work to register a small business, you're not going to have a functioning small or medium business economy. If

it takes 70 years of someone's salary to open a business, you're not going to have one.

So it analyzes these levers. I find many leaders, like President Kufour in Ghana, actually have studied this and know which levers they're working on to get that small and medium economy going.

There's nothing that we have called the "Doing Farming Report." If I go to a country in Africa and the leader is determined to bring about an agriculture revolution, there will be a thousand opinions on what is the most important levers. What intrigues me here is my ancestors, half of them are from Ireland. Ireland was suffering huge famines for many years, including a huge one just 160 years ago. They broke that cycle of famine and poverty, as have others—Vietnam is now doing it. Brazil did it. China's doing it. Europe did it. Sweden did it.

So the world knows how to get these levers right. But I would really hope that we could look at something like a "Doing Farming Report." The expense here is not huge, but get the world's best minds together. What 36 elements need to be in place, including extension services, knowledge, early warning systems on weather, whatever all these pieces are, so we have a base of diagnosis of where the challenges are.

So I think there's a big gap there. We're often asked, and we partner with FAO and others in helping break the cycle of hunger, but it becomes a big challenge to do so.

I will also say that at least half of hunger has to be an infrastructure problem. WFP now is one of the largest purchasers of food in the developing world and so we're now deep into this infrastructure. But we can do this because we actually have the systems to go in there and do that. We just opened 3,000 kilometers of road in DRC that were closed and now farming is flourishing along those roads.

So we do think if we could get some kind of systematic analysis of where the levers are broken, it would allow us all to be able to focus funding more clearly along those levers, in addition to the kind of breakthrough research that might be helpful.

The CHAIRMAN. I appreciate that answer.

I have one concluding question and I'd like to ask you, Mr. Lyons. The idea of, "buying locally." Is there anyplace to buy locally from these days? I'm not being facetious. The change in policy—let's assume we change the policy in the ag bill or independently. We change the policy, which I think makes sense in my view. In light of what's going on in the countries that are curtailing, the sort of antithesis of Smoot-Hawley, the flip of Smoot-Hawley here, is there a—would the policy change be able to yield near-term benefits in light of what's going on now in terms of markets?

Does it make any sense? I'm not sure.

Mr. LYONS. Sure. No, it makes perfect sense. I think the short answer is, yes in many places, in some places no. But the advantage is then it creates the capacity to move commodities that would have been exported elsewhere or traded elsewhere, to have them purchased locally to serve local populations. By building those markets, it also builds an infrastructure, if you will, that encourages more local production. So it helps enhance the incentive then for additional farming and additional production.

So if we didn't face this crisis I would say that buying local would be a solution everywhere. It'll have limited impact, but it will have immediate impact in those places where resources are available.

I dare say, Mr. Chairman, there's food in the world. The question is getting it to the people who need it, and that's what's hurting us right now with regard to current U.S.——

The CHAIRMAN. Long-term we've got a problem with food in the world.

Mr. LYONS. Yes.

The CHAIRMAN. That's the part I don't want to take our eye off. I want to deal, as Senator Menendez said, with the immediate crisis. You know that old expression, in the long run we'll all be dead. You know, the idea of not being able to provide assistance immediately and in the very near term, the next year or 2 or 3, 5 years.

But one of the things we don't do, it's a hard thing for nations to do, especially when the crisis isn't one they are physically feeling themselves, is to do what you've all said. Every witness today said: We're talking of having the plan 2, 5, 10, 20, 30 years down the road. And to solve the problem 30 years down the road, you better figure out where to start now. That's the only generic point that I'm trying to make, not that we shouldn't—there is food now. We can increase significantly, based on all your testimony and your written statements. We could increase significantly now without any change in technology the amount of food being produced by a whole range of things you mentioned. We also could increase access to that food by different transportation nets and distribution capability, and they should all be worked on.

I'm just trying to get at this sort of larger sense. I don't want my successor sitting here 20 years from now saying, why the heck didn't anybody back in 2008 sit there and start, knowing this is going to be a real long haul, to deal with these problems? Why didn't they do something?

I want to make it clear: I claim no expertise in here. I come at this originally from a foreign policy perspective. I come at this originally from the perspective of the interlocking, the perfect storm you referenced, of our national security, our physical security, our place in the world, our values, what we say. That's what I come at this from. So I don't pretend to have an expertise in agriculture in terms of dealing with this larger problem.

So the only thing I wanted to—and you've answered the question. I think it's a sound policy to change the policy to be able to buy locally. I just wondered how much immediate relief that is likely to have in what the crisis that is faced at this very moment for millions of people around the world. So that's the reason I asked the question.

One of the things I—let me conclude by giving you an example. I've done a lot of work in dealing with what's "work"; I spent a lot of time trying to deal with what I think has been a gross mismanagement of our efforts in Iraq, from going in in the first place to what we're doing now. I've come away from my experience in working so closely with the military over the last 2 decades with a completely different view than when I got here, when I got here in 1972, doctor. I thought everybody with four bars on their shoul-

der was Slim Pickens jumping out of a B–52 on the back of an atom bomb yelling "Yippee-kay-ae."

The smartest guys, most informed women I've met in all of government are in the military. I sit with a three-star general in—I guess I was with him in Basra, also in Baghdad. His name is General Ciarelli, the First Cavalry. I said: What are you going to do about the militia? This was several years ago, because the militia were increasing exponentially.

He said, "You want me to deal with the militia, give me the Department of Agriculture." And he went back and he gave me the statistics of what was produced in the breadbasket of the Middle East called Iraq in the forties and fifties. And he said, "You want me to fundamentally change our circumstance here, give these people jobs, get their agriculture department functioning, have a functioning agricultural system, begin to build it." And he said, "I promise you, I'll reduce exponentially the number of people who are getting paid to tote guns and kill one another right now."

Then he gave me an interesting example. You both may know what the fungus is or what the pest is that can—it's like the boll weevil for date palm trees, which is the national symbol and fruit. I don't know what it is. He said, "You know, you've got to spray these trees every 5 years." And he said, "Otherwise you run the risk of losing them to this particular pest."

And he said, "So I picked up the phone and I called the State Department," and I said, "Are you guys going to—what are you doing to spray these trees, these date palms?" And they said, "That's up to the—you know, that's local; we've given the authority to—oversimplifying it—to the Iraqui, quote, 'department of agriculture.'"

So he went to them, and they had no idea. They had never done it before. Saddam had been hanging around for the last 3 decades and what he'd do, he'd have the military helicopters go out and spray the date palms whenever he needed to do it. There was no department of agriculture. It didn't do much.

So I said, "What did you do?" He said,: "Damn it, I used my helicopters and I sprayed the damn trees; I saved them." He said, "Then I went back, had my guys go back to their department and say, 'Look, this is what you've got to do; this is the stuff you've got to mix; this is how you've got to do it; this is where you do it.'"

The point I'm making is a generic point. He said, Senator, something to the effect of, "Smack me if I ever criticize bureaucracy again. There are no bureaucracies in these countries that can take the aid, assistance, and capacity—they can take some of it—to deal with the practical, on the ground, day-to-day implications of putting a crop in the field and harvesting the crop, irrespective of any new technology, just the most modern technology that exists right now, for a whole range of reasons."

But part of it is building a sophisticated civilian civil service that is able to do these things. That was the essence of my question, why I asked it.

So there's so much to talk about. We didn't talk about that at all. But I think it's fair to say there's an overwhelming consensus, even with the administration now, that there is a real crisis at hand at this moment that we must deal with in coordination with

the rest of the world, the United States, and independently. It requires more resources from the United States than are forthcoming now, and from the rest of the world that is forthcoming. And we've got a longer haul, "management" problem here.

I'd like to ask to be able to continue through my staff and directly to work with you all as we try to—again, we are not going to be able to do it. I'm not envisioning coming up with some megapiece of organizational legislation here for the next President. That's not the way this will happen. But at least what we're doing here is to try to design, to be very blunt about it, is to try to force whoever the next administration is, by the hearings we're having on a whole range of subjects, to have to address these problems.

Your input today is very helpful. I apologize for keeping you so long. As you can tell by my interest and curiosity, I could probably keep you here the rest of the day, but I'll refrain from doing that and thank you all very, very much for taking the time to be here.

We're adjourned.

[Whereupon, at 12:41 p.m., the hearing was adjourned.]

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

RESPONSES OF USAID ADMINISTRATOR HENRIETTA FORE TO QUESTIONS SUBMITTED BY SENATOR RUSSELL FEINGOLD

Question. I have heard from several Wisconsin farmers who have forged long-lasting and mutually beneficial relationships with farmers in other nations after participating in farmer-to-farmer exchanges. These types of citizen diplomacy programs play an important role in addressing both our short-term humanitarian goals and long-term foreign policy priorities. What are your impressions of these programs? Do you see a role for these programs in our long-term plans?

Answer. The John Ogonowski Farmer-to-Farmer (FTF) Program is an effective and valued tool in our development assistance program, combining effective voluntary technical assistance and citizen diplomacy. The program currently provides assistance to farmers and agricultural organizations in 41 countries. Over the past 4 years, the program funded 2,705 volunteer assignments, and provided developing country host organizations with voluntary technical assistance services with an estimated value of over $21.3 million.

Volunteers work mainly in technology transfer, market, and enterprise development, and organizational strengthening. The current program has provided technical services to: 475 farmer cooperatives and associations; 373 individual private farmers; 663 other private enterprises; 170 NGOs; 110 educational institutions; 68 rural financial institutions, and 101 public sector agencies (5 percent). Volunteers provided direct formal training to 208,631 beneficiaries, 40 percent of whom were women.

The FTF Program goes beyond simply placing volunteers on an individual basis and focuses on development of specific market chains for which overall impact can be evaluated. Major program areas include: Horticulture and high value crops, income diversification, dairy and livestock, producer organizations, financial services, marketing and processing, and natural resources management. Since the program's inception, evaluations have consistently found the farmer-to-farmer voluntary technical assistance to be of high quality and highly appreciated by host organizations. Volunteer efforts have benefited approximately 1 million farmer families, representing over 5 million people.

Wisconsin, which frequently leads all other States in numbers of volunteers sent abroad through the FTF program, currently ranks first with 202 volunteers through September 30, 2007. Next were Hawaii with 185 volunteers, Florida with 138, and Oregon with 125 volunteers.

Examples of a few Wisconsin volunteers are:

- Robert Albrecht who traveled to Ethiopia with the Virginia State University Farmer-to-Farmer Program to provide hands-on practical training on livestock feed formulation to selected input suppliers. The assignment enabled participating suppliers to increase sales of more appropriate feed mixes that increased

small farmer dairy production and income. One feed dealer, Sanford Legesse, increased his sales by 41 percent and net profit by 29 percent in just 6 months, increasing his gross income threefold to 1,400 USD per month and enabling him to hire three local employees, pay school fees for his two children, and buy a television set for his family.

- Bill Broske, who has more than 50 years of experience in processing cheeses in Wisconsin, went to El Salvador as a Winrock International Farmer-to-Farmer volunteer to assist dairy processors improve formulation and processing of various cheeses—colby, mozzarella, cheddar, cream cheese, processed cheese, Monterey jack, and natural yogurt. He worked with three cheese factories that buy milk from small farmers. One of them, Luis Merino, plant owner of La Isla, said, "The most important was the experience to interact with Mr. Broske . . . He gave us practical advice on cheesemaking. We had a machine to make mozzarella cheese that we did not know how to use. Thanks to him now we can work the machine and produce mozzarella cheese. The volunteer also taught us how to make a healthy yogurt."

Beyond facilitating technical assistance, the FTF program furthers U.S. public diplomacy by directly engaging citizens in short-term humanitarian goals and long-term foreign policy priorities. Indeed, by working alongside farmers in developing countries, FTF volunteers demonstrate the compassion of the American people. Additionally, by focusing on the effective delivery of much-needed technical assistance, FTF volunteers are directly contributing to improvements in local markets throughout the developing world, a key U.S. foreign policy goal.

Question. Wisconsin has a long history of supporting both farmer-owned and other cooperatives. Do you see farmer cooperatives as beneficial in countries where we are providing agricultural development assistance? If so, is there a need to further encourage cooperative development?

Answer. Cooperatives and other less formal farmer associations have important potential for increasing small-farmer productivity and income. USAID promotes cooperatives and producer association development in many of its programs. Cooperative group action provides economies of scale in marketing and delivery of services and can give small farmers a voice in policy formulation, government programs, and market negotiations. Still, cooperatives in developing countries and emerging democracies must generally overcome a legacy of distrust due to past government control and manipulation of cooperatives that lacked a democratic base and market orientation. Cooperatives in developing countries, as in the U.S., must face competitive pressures and survive or die based on their ability to meet needs of their members and respond to market demands.

The USAID Cooperative Development Program is strengthening cooperative systems in developing countries and emerging democracies utilizing the expertise and resources of long-established U.S. cooperative organizations, their members, and volunteers. Current focus is on credit, housing, agribusiness, technology transfer, democratic institutions, rural telecommunications and electrification, private enterprise development, and insurance protection sectors. The program has helped developing countries overcome obstacles in starting and operating successful cooperatives, by finding workable solutions to impediments, ranging from restrictive cooperative law and regulation to practical implementation practices (e.g., raising member equity participation as a major element in self-reliance).

Farmer-to-Farmer Program volunteers frequently work with a range of organizations, involving rural cooperatives and producer organizations, to build local institutions and linkages to resolve local problems. Organizational development assignments tap the knowledge and expertise of U.S. volunteers to establish market linkages, democratic management systems, and educate members in cooperative principles. Volunteer introduction of productive new technologies and market linkages frequently work through cooperatives and producer associations to produce measurable impact on incomes and productivity. Two examples are:

- Citizens Network for Foreign Affairs (CNFA) Farmer-to-Farmer volunteer Bruce Williams introduced growing seedless watermelons to the "AgroAccess" Vegetable Marketing Cooperative in Northern Moldova. Williams helped the cooperative confirm a market demand for this promising new product and then trained 15 cooperative members in appropriate soil mixes, tray preparation, seeding, and greenhouse conditions for growing of healthy seedlings. Williams provided 1,250 seedless watermelon seeds, donated by the Rotary Club in Wilmington, NC, and by the "Seminis" seed company and "AgroAccess" produced a first crop in 2007. It also plans to plant 15,000 seedless watermelon seedlings in 2008.
- In Nepal, the Women's Panchakanaya Agricultural Cooperative Ltd. was formed in 2004 due to community concerns about food safety and family health.

Winrock International Farmer-to-Farmer Program volunteer Arbindra Rimal helped the cooperative plan for organic farming and for obtaining organic certification. Volunteer Nathan McClintock later provided training on organic production techniques. This small group of 25 village women has establish a market for sale of organic vegetables that gives about a 25-percent price advantage and increases members incomes by almost 40 percent.

Question. The administration has been a supporter of local purchase of food aid. I understand that there are potential benefits from this and I supported the pilot program that Chairman Harkin proposed in the Senate farm bill. Do you have any information on what portion of locally purchased food would also be locally produced? It seems that there is limited benefit to the local farmers if we are just substituting European, Brazilian, or even privately imported U.S. grain.

Answer. We expect food would be purchased from developing countries. The focus of our local procurement will be on locally grown commodities. It will only be done in developing countries where the prevailing conditions indicate that such purchases would not place an extraordinary pressure on local prices. If food aid is not available for local or regional purchase under appropriate market conditions in developing countries, the food aid will be purchased in the U.S. We are completely committed to taking the necessary measures to ensure that local procurement is done appropriately. For example, guidance would include instructing our partners to take into account data on local crop harvests, market behavior, and stock levels. It is important to note also that the World Food Program presence as a competitive buyer in the food markets has had positive impacts on market development in many countries, promoting competitive behavior, raising business standards and improving the quality of food supplied by traders.

Question. When some people talk about agricultural development assistance, they seem to be more concerned with opening markets for multinational corporations to sell the items required to establish industrial-scale agriculture. As a recent New York Times article on the resurgence of traditional farming practices in Mexico highlighted, there often are local and cultural conditions that technology transfer alone misses. What steps should we take to make sure that the desire to open new markets for multinational corporations is not driving policy in this area?

Answer. USAID's agricultural strategy focuses on small-holder farm families, providing them with the technologies, policies, and market opportunities they need to be competitive in the local, regional, and global marketplace. Our investments concentrate on meeting their needs and helping them, in turn, meet the agricultural and economic growth opportunities of their countries.

There is a strong and growing body of evidence that suggests that small-holder farmers can and do respond to market signals and to the chance to invest in ways that raise their productivity and their incomes. These are truly win-win solutions for the poor—with producers earning a better living by providing a larger and more affordable supply of food for consumers. Low-income groups, urban and rural, benefit greatly because they spend so much of their limited incomes on food.

USAID is committed to working with our partners, many of them from the private sector, to help developing countries benefit from higher yielding and more stress-tolerant seeds, ready access to input and output markets, and policies that sustain a virtuous cycle of trade and investment and in which all can and do benefit.

When private sector partners, with their expertise in marketing, value addition, biotechnology and other areas, can help advance our efforts the most, we work with them to help deliver the benefit of their expertise to the needs of small-holder producers. Thus crops like cassava and cowpea, grown by poorer farmers in Africa, Asia, and Latin America, can benefit from scientific investment that provides higher yielding and hardier varieties. In this way, we help ensure that needs of low-income farm families are not bypassed by science, and that they have the choices they want in meeting the challenges of food security, environmental sustainability, and climate change in the years and decades to come.

PREPARED STATEMENT FROM JOACHIM VON BRAUN, DIRECTOR GENERAL, RAJUL PANDYA-LORCH, HEAD 2020 VISION INITIATIVE AND CHIEF OF STAFF, INTERNATIONAL FOOD POLICY RESEARCH INSTITUTE, WASHINGTON, DC

MEETING THE CHALLENGES OF RISING FOOD PRICES

Background

The sharp increase in food prices over the past couple of years has raised serious concerns about the food and nutrition situation of poor people in developing coun-

tries, about inflation, and even about civil unrest. Both developing and developed country governments have roles to play in bringing prices under control and in helping poor people cope with higher food bills. A two-track strategy of social protection and of agricultural growth promotion is called for, accompanied by a more open trade regime and new grain reserves policies that should be coordinated at a regional level.

Since 2000—a year of low prices—the wheat price in the international market has almost quadrupled and maize prices almost tripled. The price of rice jumped to unprecedented levels in April 2008. Dairy products, meat, poultry, palm oil, and cassava have also experienced price hikes—the prices of butter and milk have tripled and the price of poultry meat has almost doubled. When adjusted for inflation and the dollar's decline (by reporting in euros, for example), food price increases are smaller but still dramatic, with often serious consequences for the purchasing power of the poor.

National governments and international actors are taking various steps to try to minimize the effects of higher international prices for domestic prices and to mitigate impacts on particular groups. Some of these actions are likely to help stabilize and reduce food prices, whereas others may help certain groups at the expense of others or actually make food prices more volatile in the long run and seriously distort trade. What is needed is more effective and coherent action to help the most vulnerable populations cope with the drastic and immediate hikes in their food bills and to help farmers meet the rising demand for agricultural products and to translate the price crisis into opportunities for the rural poor.

The Sources of Current Price Increases

The combination of new and ongoing forces is driving the world food situation and, in turn, the prices of food commodities. Income growth, globalization, urbanization, and subsidized biofuel production are major forces on the demand side altering the food equation. The growing world population is demanding more and different kinds of food. Rapid economic growth in many developing countries has pushed up consumers' purchasing power, generated rising demand for food, and shifted food demand away from traditional staples and toward higher value foods like meat, milk, vegetables, and fruits. This dietary shift is leading to increased demand for grains used to feed livestock.

A key factor behind rising food prices is the high price of energy. Energy and agricultural prices have become increasingly intertwined. With oil prices at an all-time high of more than US$120 a barrel in May 2008 and the U.S. Government subsidizing farmers to grow crops for energy, U.S. farmers have massively shifted their cultivation toward biofuel feedstocks, especially maize, often at the expense of soybean and wheat cultivation. About one-third of U.S. maize production will go into ethanol in 2008 rather than into world food and feed markets. Biofuel production is estimated to have contributed to 30 percent of the increase in grain prices from 2000 to 2007. High energy prices have also made agricultural production more expensive by raising the cost of mechanical cultivation, inputs like fertilizers and pesticides, and transportation of inputs and outputs.

On the supply side, land and water constraints, climate change, and underinvestment in agriculture innovation are impairing productivity growth and the needed production response. Poor weather, for example, severe drought in Australia, has cut into global production. Even though production is expected to pick up in 2008, productivity growth will not match the rising demand. Speculative capital, rising expectations and hoarding are also playing a role in the rise of food prices. Grain reserves could mitigate the impact of speculation, but stocks have been at their lowest levels since early 1980s.

The Impacts of High Food Prices

Higher food prices have radically different effects across countries and population groups. At the country level, countries that are net food exporters will benefit from improved terms of trade, although some of them are missing out on this opportunity by banning exports to protect consumers. Net food importers, however, will struggle to meet domestic food demand. Given that many developing countries are net importers of cereals, they will be hard hit by rising prices. At the household level, surging and volatile food prices hit those who can afford it the least—the poor and food insecure. The few poor households that are net sellers of food will benefit from higher prices, but households that are net buyers of food—which represent the large majority of the world's poor—will be harmed. Adjustments in wages, employment, and capital flows to the rural economy, which can create new income opportunities, will take time to reach the poor, but opportunities exist to transform the challenges into gains for the poor.

The nutrition of the poor is also at risk when they are not shielded from the price rises. Higher food prices lead poor people to limit their food consumption and shift to even less-balanced diets, with harmful effects on health in the short and long run. At the household level, the poor spend about 60 percent of their overall budget on food. For a five-person household living on US$1 per person per day, a 50-percent increase in food prices removes up to US$1.50 from their US$5 budget, and growing energy costs also add to their adjustment burden.

Making the world more peaceful is directly linked to making the world more food secure and affluent. It has long been recognized that social conflict increases food insecurity, but food insecurity can be a key source of conflict. Some of the trigger conditions of violence can be directly related to change in the prices of food. In times of price increases, the poorest usually suffer silently for a while, but the middle class typically has the ability to organize, protest, and lobby early on. Since early 2007, social unrest related to high food prices occurred in at least 30 countries.

Policy Responses to Date

Many countries are taking steps to try to minimize the effects of higher prices on their populations. Argentina, Bolivia, Cambodia, China, Egypt, Ethiopia, India, Indonesia, Kazakhstan, Mexico, Morocco, Russia, Thailand, Ukraine, Venezuela, and Vietnam are among those that have taken the easy option of restricting food exports, setting limits on food prices, or both. For example, China has banned rice and maize exports; India has banned milk powder exports; Bolivia has banned the export of soy oil to Chile, Colombia, Cuba, Ecuador, Peru, and Venezuela; and Ethiopia has banned exports of major cereals. Other nations, however, have contributed to the expansion of the global food market. Some net-food importing developing countries, for example, have reduced import barriers—in principle a welcome move toward more open trade.

Price controls and changes in import and export policies may begin to address the problems of poor consumers who find that they can no longer afford an adequate diet for a healthy life. But some of these policies are likely to backfire by making the international market smaller and more volatile. Price controls reduce the price that farmers receive for their agricultural products and thus reduce farmers' incentives to produce more food. Any long-term strategy to stabilize food prices will need to include increased agricultural production, but price controls fail to send farmers a message that encourages them to produce more. In addition, by benefiting all consumers, even those who can afford higher food prices, price controls divert resources away from those who need them most. Export restrictions have harmful effects on trading partners dependent on imports and also give incorrect incentives to farmers by reducing their potential market size. These national agricultural trade policies undermine the benefits of global integration, as the rich countries' longstanding trade distortions with regard to developing countries are joined by developing countries' interventions against each other.

Sound Policy Actions for the Short and Long Term

The increases in food prices have a dominant role in increasing inflation in many countries now. It would be inappropriate to address these specific inflation causes with general macroeconomic instruments. Rather, specific policies are needed to deal with the causes and consequences of high food prices. Although the current situation poses policy challenges on several fronts, there are effective and coherent actions that can be taken to help the most vulnerable people in the short term while working to stabilize food prices by increasing agricultural production in the long term.

First, in the short run, developing-country governments should expand social protection programs (that is, safety net programs like food or income transfers and nutrition programs focused on school feeding and early childhood) for the poorest people. Higher prices could mean serious hardship for millions of poor urban consumers and poor rural residents who are net-food buyers. These people need direct assistance. Some countries, such as India and South Africa, already have social protection programs in place that they can expand to meet new and emerging needs. Countries that do not have such programs in place will not be able to create them rapidly enough to make a difference in the current food price situation. They may feel forced to rely on crude measures like export bans. Aid donors should expand food-related development aid, including social protection, child nutrition programs, and food aid, where needed.

Second, developed countries should eliminate domestic biofuel subsidies and open their markets to biofuel exporters like Brazil. Biofuel subsidies in the United States and ethanol and biodiesel subsidies in Europe have proven to be inappropriate policies that have distorted world food markets. Subsidies on biofuel crops also act as

an implicit tax on staple foods, on which the poor depend the most. Developed-country farmers should make decisions about what to cultivate based not on subsidies, but on world market prices for various commodities.

Third, the developed countries should also take this opportunity to eliminate agricultural trade barriers. Although some progress has been made in reducing agricultural subsidies and other trade-distorting policies in developed countries, many remain, and poor countries cannot match them. This issue has been politically difficult for developed-country policymakers to address, but the political risks may now be lower than in the past. A level playing field for developing-country farmers will make it more profitable for them to ramp up production in response to higher prices.

Fourth, to achieve long-term agricultural growth, developing-country governments should increase their medium- and long-term investments in agricultural research and extension, rural infrastructure, and market access for small farmers. Rural investments have been sorely neglected in recent decades, and now is the time to reverse this trend. Farmers in many developing countries are operating in an environment of inadequate infrastructure like roads, electricity, and communications; poor soils; lack of storage and processing capacity; and little or no access to agricultural technologies that could increase their profits and improve their livelihoods. Recent unrest over food prices in a number of countries may tempt policymakers to put the interests of urban consumers over those of rural people, including farmers, but this approach would be shortsighted and counterproductive. Given the scale of investment needed, aid donors should also expand development assistance to agriculture, rural services, and science and technology.

Facing the Challenges

World agriculture is facing new challenges that, along with existing forces, pose risks for poor people's livelihoods and food security. This new situation calls an international pact to achieve food security with actions in three areas, all of which have short- and long-term dimensions and need sequencing:

1. Comprehensive social protection and food and nutrition initiatives to meet the short- and medium-term needs of the poor;
2. Investment in agriculture, particularly in agricultural science and technology and for improved market access for small farmers, at a national and global scale, to address the long-term problem of boosting supply; and
3. Agricultural trade and energy policy reforms, in which developed countries would revise their grain-based biofuel policies and agricultural trade policies; and developing countries would stop the new trade-distorting policies.

The global agricultural imbalances pose a serious problem for the poor, but they also give an opportunity to overcome the undervaluing of natural resources and the labor engaged in food production. In the face of rising food prices, diverse actors—governments and international organizations as well as the private sector, civil society, and foundations—have a role to play in creating a world where all people have enough food for a healthy and productive life. The time to act is now.

PREPARED STATEMENT OF BRYANT E. GARDNER ON BEHALF OF THE MARITIME FOOD AID COALITION

America Cargo Transport Corp. ◆ American Maritime Congress ◆ American Maritime Officers ◆ American Maritime Officer's Service ◆ International Organization of Masters, Mates & Pilots ◆ Liberty Maritime Corp. ◆ Maersk Line, Limited ◆ Marine Engineers' Beneficial Association ◆ Maritime Institute for Research and Industrial Development ◆ Sailor's Union of the Pacific ◆ Seafarers International Union ◆ Sealift, Inc. ◆ Tosi Maritime Consultants, LLC ◆ Transportation Institute ◆ United Maritime Group, LLC

MAY 13, 2008.

Senator JOSEPH R. BIDEN, Jr.,
Chairman, Senate Committee on Foreign Relations,
Dirksen Senate Office Building, Washington, DC.

DEAR MR. CHAIRMAN: Mr. Chairman, this statement is respectfully submitted on behalf of the ad hoc maritime food aid coalition composed of the organizations listed above.

The coalition supports the continued vitality of our nation's food aid programs, and respectfully provides the following points in connection with proposals to cut U.S. food assistance programs in favor of new initiatives under which cash, not food, would be sent to areas in need under the sometimes misnomer "local and regional purchases." We are concerned that the debate on this point has not been informed

by a balanced view of the risks and benefits of local purchase versus in-kind food aid and, therefore, submit this statement toward that end.

I. FOREIGN PURCHASE MAY UNDERCUT SUPPORT FOR P.L. 480 AND RESULT IN A DECLINE IN OVERALL ASSISTANCE LEVELS

Saving lives for over 50 years, the P.L. 480 Food for Peace program is the workhorse of humanitarian assistance the world over. The program has endured for many reasons. Sharing their abundance with those in need overseas appeals to the generosity of the American people. Shipped from the Heartland to ports overseas in vessels flying the American flag, donated American commodities stamped "Gift from the American people" act as ambassadors, spreading goodwill toward our country and helping to address some of the root causes of international terrorism.

P.L. 480's longevity is also due in large part to the broad-based support from the many sectors of the economy it stimulates. Americans working on farms, in food processing, domestic inland transportation, ports, and the U.S. Merchant Marine, as well as many Americans in the broader U.S. economy, benefit from the direct and economic ripple effects of the program, and have helped ensure its sustained political support. Foreign purchase would cut the link between the American people, their economy, and P.L. 480, eliminating crucial support at a time when competition for budget dollars is already acute.

Experience shows that foreign purchase drains support for food aid programs and results in an overall drop in aid levels. In 1996, the European Union ("EU") passed a law leading to local food aid purchases.[1] The result has been a decrease in EU donations. The overall food security budget line decreased from approximately a half billion euros in 1997–98 to 412 million in 2005. Andrew Natsios, former AID Administrator and the President's Special Envoy for Sudan, cautioned against relying too heavily on cash transfers for foreign purchases: "Relying on cash food aid will not work," he said. "Look at the numbers from Europe: After the Commission and Member States began moving to cash, their contributions fell by 40 percent."[2] He has also noted that their food aid has "declined really significantly from 4 million tons a year to 1.4 million tons a year"—a 60-percent decrease.[3]

The broad appeal of donating American commodities has allowed Food for Peace to thrive over the last 50 years. Converting this uniquely successful program into a pure welfare program, whereby American taxpayers are asked to commit to a direct wealth transfer with no corresponding benefit for the American economy, may very well undercut its support just as it undercut support in Europe.[4]

II. USAID ALREADY HAS AUTHORITY FOR FOREIGN PURCHASE

Operating under the authority of § 491 of the Foreign Assistance Act of 1961,[5] USAID's Office of Foreign Disaster Assistance ("OFDA") responds to humanitarian emergencies overseas. OFDA uses this authority to purchase commodities locally and distribute them in emergencies when appropriate.[6]

---

[1] Edward J. Clay, "European Food Aid: Untying and Budgetary Flexibility" at 3 (Dec. 16, 2004) (citing Council Regulation (EC) no. 1292/96 of June 27, 1996, on Food Aid Policy and Food Aid Management and Special Operations in Support of Food Security, Official Journal L 166. Brussels (July 5, 1996)).

[2] Will Lynch, InterAction: American Council for Voluntary International Action, "Making Food Aid Work" (May 22, 2006). See also James Lutzweiler, World Vision Food Security and Food Programming Advisor, "Much Ado About Food Aid: Misdirection in the Midst of Plenty" (Jan. 19, 2006) (delivered at Overseas Development Institute Conference "Cash and Emergency Response") ("The EU has already demonstrated a cut in aid to any type of food aid program. Since shifting to a cash-based concept of food security, the EU's contribution to global food aid has decreased by 40 percent. Is there a correlation between cash-based aid and a reduction in food aid? The volume of food aid worldwide has plummeted from 15 million metric tons in 1999 to 7.5 million metric tons last year, and the portion of aid dedicated to agricultural development has dropped sharply from 12 percent in the early 1980s to roughly 4 percent today. Ironically, this has happened despite a dramatic increase in Overseas Development Assistance to nearly $80 billion annually.").

[3] Andrew S. Natsios, USAID Administrator & Karan Bhatia, Deputy U.S. Trade Representative, Press Briefing at the World Trade Organization, Hong Kong Ministerial Negotiations (Dec. 14, 2005) (Mr. Natsios speaking).

[4] For a broad discussion advocating the use of cash aid to establish a world welfare program, see Paul Harvey, et al., Cash Transfers—Mere "Gadafi Syndrome," or Serious Potential for Rural Rehabilitation and Development, 97 Natural Resource Perspectives (Overseas Development Institute, March 2005).

[5] Pub. L. No. 87–195, 75 Stat. 424.

[6] The President's FY 2007 budget explains that OFDA distributes "supplementary food" along with other emergency relief and the OFDA 2002 Annual Report indicates that OFDA locally purchased 350,000 bags of wheat flour for airlift to Afghanistan.

There is no need for new legislation to provide authority or funding for foreign purchases inside the P.L. 480 program.[7] Indeed, the Foreign Operations appropriations bill in 2007 provided new funding and explicitly directed the use of § 491 authority for overseas food aid purchases.[8]

The administration and a minority of private interest groups have strenuously advocated a new foreign purchase program for emergency response inside Food for Peace. However, there is no need to upend Food for Peace when there is already a government office dedicated to disaster emergency response that undertakes foreign purchases of commodities when necessary.

Lastly, the recent farm bill compromise includes a pilot program designed to study local purchases, which pilot program we understand is designed to be independent and not to compromise Food for Peace. We are pleased to see initiatives that would lead to an informed exploration of limited local purchase operations where necessary to save lives, rather than a gutting of our essential food aid programs.

III. THE BENEFITS OF FOREIGN PURCHASE ARE NOT AS SURE AS HAS BEEN REPRESENTED

A. Is foreign purchase really faster?

Foreign purchase advocates have argued that P.L. 480 commodities funding must be converted to cash for foreign purchases in order to assure timely delivery of commodities. However, numerous options exist for expediting the delivery of food aid provided under P.L. 480.

Every day of the year, food aid is moving through the pipeline and out across the world. Rapid response has been achieved in the past by diverting aid flows from less urgent projects. For example, this was done following the January 25, 2001, earthquake in Gujarat, India,[9] as well as during the floods of 2003 in West Bengal.[10] Following the Indian Ocean tsunami in late 2004, the United States was able to divert quickly an entire shipload of its food aid to needy survivors. In 2006, a shipment was diverted to Lebanon before it had physically left port in the United States, and was available to unload only 17 days later.

Time savings are also achievable through prepositioning. USAID established a sizeable commodities prepositioning site at the Al Rashid terminal in Dubai, and has plans for another in Djibouti, East Africa. Ensuring reliable, secure storage of high-quality U.S.-donated commodities at the place of need offers significantly more promise than the abandonment of the Food for Peace program.

Cash is not necessarily faster than in-kind food aid. United Nations World Food Programme ("WFP") senior public affairs officer Gregory Barrow explained that "in an ideal world," WFP would prefer the flexibility of cash donations. "The practical world," however, "is somewhat different. We have found in the past that even when there is a division in terms of donors—with those who give food aid in kind and those who give in cash—food aid has been quicker to arrive than cash," citing to the 2005 Darfur emergency when U.S. aid arrived ahead of European cash donations.[11]

B. Purported cost savings of foreign purchase are dubious

Various academic commentators, other observers, and the administration in its foreign purchase budget proposals have maintained that converting food aid to cash aid will result in dramatic cost savings, freeing up funding for more aid, and saving more lives. Even assuming that aid funding would be the same for cash as it is for U.S.-grown commodities, the purported savings are not so clear.

In its April 2007 report, "Foreign Assistance: Various Challenges Impede the Eficiency and Efectiveness of Food Aid," GAO presented WFP's program as a more efficient model and suggested that WFP transports food aid at an average of $100 per metric ton ("MT"), representing slightly more than 20 percent of procurement costs. In support of its $100/MT number, GAO cited WFP's "WFP in Statistics" published July 2006, which shows at Table 13 that ocean transportation costs per MT are $97. In comparison, GAO analyzed Kansas City Commodity Office ("KCCO")

---

[7] Notably, OFDA enjoys annual budget carryovers. See, e.g., OFDA, Annual Report 2006 ($45 million budgetcarry over to FY 2007). Additionally, the USAID Budget Appendix for FY 2008 shows a $65 million balance carried forward at the end of FY 2007.

[8] H. Rept. 110–197 at 65 (2007) (appropriating $20 million for a § 491/OFDA pilot program to study the benefits of overseas food aid purchase).

[9] Will Lynch, "When to Purchase Food Aid Locally" (Bread for the World, 2006).

[10] Id.

[11] Joel J. Toppen, "Should the U.S. End In-Kind Food Aid? Assessing the Case for Cash" at 7 (Oct. 2006) (quoting Gregory Barrow).

data regarding shipments of U.S. food aid and concluded that U.S. food aid administrative and freight costs are much higher.

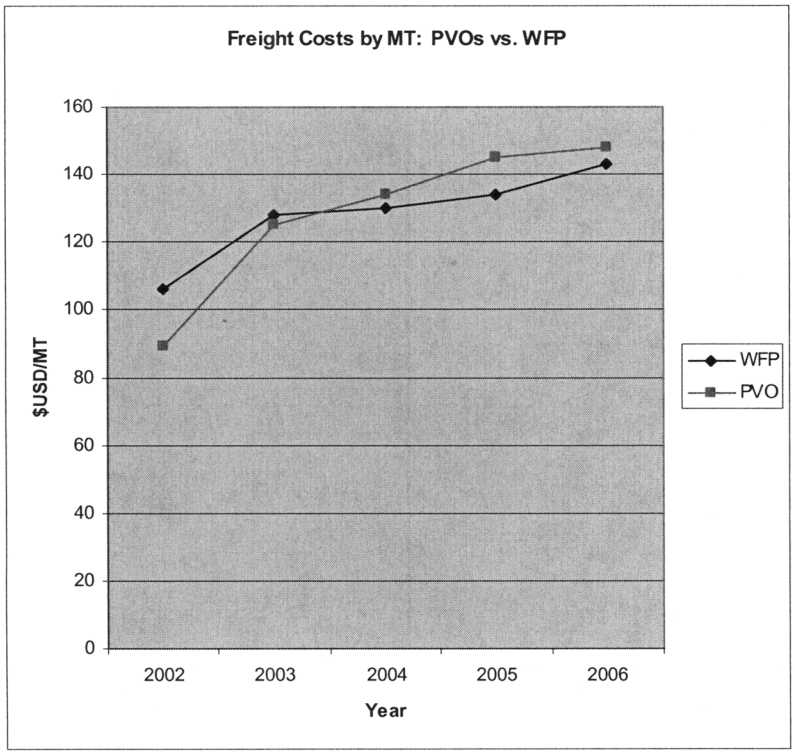
First, Table 13 is internally inconsistent and, on its face, not reliable in that it reflects both bulk and liner (bagged, containerized) shipments with $97/MT freight rates.[12] Bulk and liner shipping are two entirely different systems of ocean transportation and cannot realistically have the same average cost per metric ton.

Second, GAO's comparison is really one of apples to oranges. WFP data cited at Table 13 of "WFP in Statistics" segregate overland transport costs from ocean freight, whereas the KCCO data upon which GAO relies for its U.S. food aid numbers include inland costs. Thus, the KCCO data numbers reflecting U.S. food aid shipments include significant additional costs that do not burden the WFP Table 13 freight rates of $97/MT. James Lutzweiler, World Vision's Food Security and Food Programming Advisor, explained: "Whether commodities are purchased locally or shipped internationally, transport is a significant cost of the overall program. Inland transport and storage can, at times, account for up to 35–40 percent of the overall program budget. When comparing a dollar-for-dollar exchange between international food aid and local purchase, the additional costs are not always included in the analysis. For appropriate program implementation, proper storage and handling of the commodity are essential for success."[13]

Third, WFP commodity shipment costs cannot be clearly compared to U.S. food aid costs because they overlap substantially. That is, many WFP food aid shipments overseas are U.S. food aid donations shipped by KCCO using the same facilities available to the other humanitarian relief organizations through which USAID/KCCO distribute commodities, i.e., private voluntary organizations ("PVOs"). Thus, it is not surprising that WFP and PVO shipment costs for KCCO donated commodities track one another closely:

[12] WFP has been unable to explain the error in response to query.

[13] James Lutzweiler, World Vision Food Security and Food Programming Advisor, "Much Ado About Food Aid: Misdirection in the Midst of Plenty" (Jan. 19, 2006) (delivered at Overseas Development Institute Conference titled "Cash and Emergency Response").

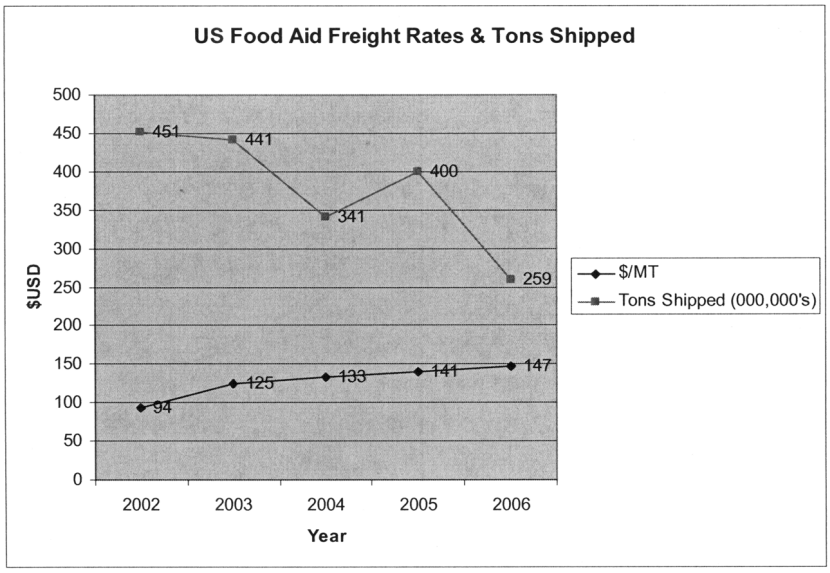


Source: Kansas City Commodity Office Procurement Database

Finally, if one looks strictly at the apples-to-apples KCCO shipment data, which are qualitatively consistent and do not labor under the same methodological infirmities as the Table 13 rates, PVOs paid an average of $125/MT whereas WFP paid an average of $127/MT.

GAO also stated in its report that rising transportation and "business" costs have contributed to a 52-percent decline in average tonnage delivered over the last 5 years because ocean transportation has been accounting for a larger share of procurement costs. Specifically, GAO stated that by 2006, U.S. food aid shipment costs rose to $171/MT, such that noncommodity expenditures rose to 65 percent of program costs.

The KCCO data do not appear to support freight costs anywhere near $171/MT, and GAO did not explain to what extent the alleged increases in transportation and "business" costs have contributed to a decrease in commodities shipped. However, there does not appear to be clear correlation between food and freight costs and tons of food aid shipped. For example, total tons shipped increased from 3.4 million in 2004 to 4 million (17 percent) in 2005, even though freight rates increased from $133/MT to $141/MT (6 percent) over the same period:



Source: Kansas City Commodity Office Procurement Database

Furthermore, it is not at all uncommon for transportation costs alone to absorb as much as 50 percent of the cost of a shipment—even in a commercial transaction.[14] And as for WFP, its noncommodity costs were 66 percent for 2006, which is even greater than the noncommodity costs incurred by U.S. food aid shipments.[15]

Some advocates of foreign purchase have unfairly targeted cargo preference law, suggesting that it makes in-kind food aid more expensive, and that its elimination through foreign purchase programs would make more funding available for commodities. These criticisms reflect a misunderstanding of the role of cargo preference and its impact upon food aid.

Cargo preference requires that 75 percent of food aid cargoes be shipped on U.S.-flag ships that tend to be more costly because of taxes, health and safety laws, and other U.S. regulations not imposed upon foreign-flag ships.[16]

Provisions of the Merchant Marine Act, 1936, prevent the additional cost of using U.S.-flag vessels, i.e., "Ocean Freight Differential" or "OFD," from draining funding for commodities from aid budgets. First, the law requires that the U.S. Maritime Administration ("MARAD") reimburse USDA for that portion of OFD corresponding to the final third of preference shipments, from 50 percent to 75 percent of cargoes shipped U.S. flag ("incremental OFD").[17] Second, MARAD reimburses USDA to the extent that ocean freight (U.S. and foreign flag) and the incremental OFD noted above exceed 20 percent of the total cost of commodities, ocean freight, and OFD.[18] The cost of OFD and this cost as a percentage of program total commodity and transportation costs have declined substantially from FY 2000 to FY 2005, due to changing market conditions.[19] For example, foreign-flag rates have risen, driven by growth in demand generated in substantial measure by the expanding Chinese and Indian economies, which growth has not been met by the relatively inelastic supply of large oceangoing cargo vessels. U.S.-flag rates have not increased apace.

The same legislation that authorizes cargo preference also caps the rates that may be charged. U.S.-flag vessels are subject to "fair and reasonable rates" for the car-

[14] USDA, Agricultural Marketing Service, Transportation Services Branch, Frequently Asked Questions, available at http://www.ams.usda.gov/tmd/TSB/faq.htm.

[15] World Food Programme, Annual Accounts (2006): Part I, No. WFP/EB.A/2007/6–F/1/1 at 6 (Apr. 27, 2007). If one excludes "programme support and administration," the percentage of costs for noncommodities is still 63 percent, virtually indistinguishable from the GAO number of 65 percent for U.S. food aid.

[16] 46 U.S.C. §§ 55305(b) & 55314(a).

[17] 46 U.S.C. § 55316(a).

[18] 46 U.S.C. § 55316(b).

[19] MARAD, Office of Cargo Preference data, November 2006.

riage of preference cargoes, as defined by the United States Government.[20] Therefore, just as U.S. maritime operators are protected from the bottom of the market by cargo preference, they are also prevented from scoring windfall profits. We have seen this in the recent market, during which U.S. food aid rates for bulk ocean carriage were half of the rates available on the international commercial market.

C. Food aid provides needed donor flexibility

There is already global balance among donors of cash versus commodities, if not an imbalance tipping toward cash donations. The EU gives cash aid, and Canada has now converted to cash aid. Indeed, even before Canada switched from 50 percent to 100 percent cash, WFP's income was approximately 80 percent cash, 13 percent commodities.[21]

The United States is one of the few remaining donors that provides food. If the United States moved away from food and toward cash for local purchase, WFP would lose flexibility overall.[22] Indeed, many food aid managers and PVOs are quick to question why even more aid must be given as cash when the majority of aid is already given in that form.[23] Recent food crises, aggravated by export restrictions imposed by Argentina and others, have only served to underscore the need for reliable U.S. food donations.

IV. DANGERS OF FOREIGN PURCHASE

A. Corruption and market manipulation

Proponents of foreign purchase promise great things but little is said about its risks. Sending USAID into a developing country with millions of dollars to spend raises the specter of corruption and market manipulation. Aid agencies already experience a certain degree of "shrinkage" in the commodities they distribute. Consider the panoply of purchase fees, taxes, duties, and import licenses imposed upon rich donor countries when they arrive, lining the pockets of politicians, bureaucrats, and businessmen while cutting into the purported cost savings of foreign purchase.

Market manipulation is another serious problem. WFP routinely pays over market, both because its massive demand spikes prices in smaller local/regional markets, and because traders know they can take advantage. Following the European move to local purchase in 1996, a study by the Ethiopian Ministry of Economic Development and Cooperation found that the aid agencies were charged 12 percent over prevailing market purchases.[24] The Ministry concluded that the likely result was windfall profits to grain traders without passing on any benefits to farmers, and the expenditure of scarce resources that could have been used to create other benefits.[25] In the end, the Ministry found that the cost of local commodities was only "slightly below the landed imported cost of comparable quality grain."[26] Similarly, a recent review of WFP's local purchase program in Uganda revealed that a small group of bidders conspired to rig bids and manipulated prices for aid commodities. This was made easier by the tight oligarchical nature of traders having the wherewithal to meet tenders locally—even in a relatively developed market with a decade of local purchase history such as Uganda.[27]

B. Unreliable suppliers

WFP has also found local supply to be unreliable. Without functioning contractual enforcement and regulation, traders can and do simply walk away from contracts

---

[20] 46 U.S.C. § 55305(b). The U.S. Maritime Administration enforces this requirement by, inter alia, reference to the average profits derived from Fortune's top 50 U.S. transportation companies.

[21] World Food Programme, Audited Biennial Accounts (2002–2003): Section I, No. WFP/EB.A/2004/6–B/1/1; World Food Programme, Audited Biennial Accounts (2004–2005): Section I, No. WFP/EB.A/2006/6–A/1/1. The remaining income, approximately 7 percent, comes from sources such as investment income.

[22] Tonetta Landis, InterAction: American Council for Voluntary International Action, "The Food Aid Debate: What is it All About?" (May 22, 2006).

[23] Id.

[24] Ethiopia Ministry of Economic Development and Cooperation, Grain Market Research Project, Market Analysis Note #4 at 4 (Mar. 1997); Ministry of Economic Development and Cooperation, Addis Ababa, Grain Market Research Project, Meeting Food Aid and Price Stabilization Objectives Through Local Grain Purchase: A Review of the 1996 Experience (May 1997).

[25] Ministry of Economic Development and Cooperation, Addis Ababa, Grain Market Research Project, Meeting Food Aid and Price Stabilization Objectives Through Local Grain Purchase: A Review of the 1996 Experience at ii (May 1997).

[26] Id., Executive Summary.

[27] James Lutzweiler, World Vision Food Security and Food Programming Advisor, "Much Ado About Food Aid: Misdirection in the Midst of Plenty" (Jan. 19, 2006) (delivered at Overseas Development Institute Conference "Cash and Emergency Response").

to take advantage of better opportunities.[28] Perhaps more disturbing, they have been found to withhold available grain while people starve in order to take advantage of expected increases in price as the food emergency festers.[29] Lastly, there have been numerous accounts of sellers adding stones and other foreign matter into grain sold to WFP by weight. To counter these risks, purchasing agents must institute costly quality checking and supplier evaluation programs, further eroding any local purchase price advantage with an unwieldy administration to recreate the U.S. regulatory environment that is already bundled into safe, reliable, high-quality American commodities donated through Food for Peace.[30]

The potential unreliability of supplies for local purchase initiatives has come to the forefront because of the recent global runup in food prices. Numerous nations more proximate to humanitarian operations than the U.S. have imposed food export restrictions, disrupting emergency relief efforts dependent upon local purchase. Furthermore, nations imposing export restrictions have included not only importers such as Egypt, Mali, Niger, Burkina Faso, Sudan, Ethiopia, and Tanzania, but also traditional exporters such as Kazakhstan, Russia, China, India, Pakistan, Vietnam, Pakistan, Bolivia, Vietnam, and Argentina.[31] All of this serves to underscore the importance of a reliable, in-kind food donation program such as Food for Peace acting as the guaranteed safety net that it has been for the last 50 years.

C. Market disruption

There is no disagreement that large-scale aid efforts cannot be undertaken locally without disrupting local markets.[32] Will Lynch, a 20-year veteran in international relief and development in Africa, Asia, and Europe, has explained: "It is simple economics that the local purchase of thousands of tons of commodities for emergency food aid will drive up the local price. Higher prices will force people who were not food insecure to either cut their consumption due to the price increase or become recipients of food aid themselves."[33] Indeed, the disruptive effect has recently driven Ethiopia to call on WFP to cease local purchases in that country.[34] Moreover, WFP has recently explained that "there isn't a whole lot more room to purchase a whole lot more in most of these [lesser developed] countries."[35] Even the most ardent supporters of local purchase do not deny the potential for disastrous effects upon local food markets.

Conversely, there is little to suggest that local purchase actually helps local markets. There has been no evidence that local procurement is having a positive effect on interannual price stability in the supplying countries.[36] Local suppliers do not store and allocate their commodities across harvests and, emergencies being what they are, aid agencies do not time their purchases to soften the impact on local mar-

---

[28] Ugo Gentilini, World Food Programme, Cash and Food Transfers: A Primer at 9 (2007) ("Traders maximize profits. In some cases, it may be more lucrative for them to delay food deliveries to certain localities as part of a normal strategy based on price fluctuations over seasons. When crises hit it may therefore be risky from a humanitarian perspective to rely on markets. . . . In Ethiopia, a United Nations mission report warned that 'traders delivered [food] either too late or in the majority of cases not at all, putting their financial interest over the interest of the needy population.'").

[29] Id.; Will Lynch, "When to Purchase Food Aid Locally" (Bread for the World 2006).

[30] Will Lynch, "When to Purchase Food Aid Locally" (Bread for the World 2006); See also John Rivera & Conn Hallinan, "Food Aid or Band-Aid?", Foreign Policy in Focus (Aug. 30, 2006) (relating problem of quality control with unregulated third-world traders, including presence of stones in grain sacks to increase weight and volume).

[31] Slide presentation of Josette Sheeran, World Food Program, Before the Peterson Institute (May 6, 2008).

[32] Christopher B. Barrett, Food Aid and Commercial International Food Trade at 1 (2002) ("food aid clearly displaces commercial sales of food contemporaneously in recipient countries"); Will Lynch, "When to Purchase Food Aid Locally" (Bread for the World 2006); John Rivera & Conn Hallinan, "Food Aid or Band-Aid?", Foreign Policy in Focus (Aug. 30, 2006) ("The local purchase of commodities for emergency food aid may drive up the local price. It may force people who were not food insecure to either cut their consumption due to price increase or to become recipients of food aid themselves."

[33] Will Lynch, "When to Purchase Food Aid Locally" (Bread for the World 2006). Lynch also reported that in the Sahel in 2005, local commodity traders anticipated that relief agencies would be buying locally available cereals to meet emergency feeding needs in Niger. From May through August, traders bid up the price of grain in the warehouses. This speculation had the double-edged effect of raising prices for the urban consumer and forcing aid agencies to reduce local purchases to avoid further market disruption, thereby limiting the commodities immediately available for the truly food insecure.

[34] Josette Sheeran, Speech Before the Center for Strategic and International Studies (Apr. 18, 2008).

[35] Id.

[36] David J. Walker, et al., Policy implications arising from the development impact of local and regional procurement of food aid at 12 (Natural Resources Institute, Dec. 2005).

kets. Indeed, local purchases in Ethiopia were found to be the highest in 2003 when estimated market surplus was lowest.[37] Uganda experienced a major maize price crash in 2001, resulting from the combined effect of a bumper crop in Kenya and minimal WFP purchase for much of the year. In contrast, heavy WFP intervention in 2003 caused severe price rises in Kampala in the April-August period.[38] Ten years after the Europeans commenced their local purchase program in earnest, the problem persists, with local purchases peaking in the lean season or amidst drought and famine.[39] The result is that foreign traders benefit at the expense of farmers, food processors, transportation companies, ports, and taxpayers in America and other donor countries.

And what of the future? It may be that USAID will forever spend hundreds of millions of tax dollars in overseas commodities markets. If not, there will be significant market shock when donors do cease cash purchases locally. In this situation, farmers who have committed the investment to raise production and meet the artificial demand from overseas aid will suddenly find the bottom dropping out of the market, leading to widespread economic malaise. Of course, this effect is tempered if, as has often been the case, aid dollars marked for so-called "local purchase" are actually spent in agriculture-exporting nations that compete with our farmers.

The major food-exporting countries are in the best position to capture the benefits of untied U.S. food aid. This is because they are still subsidized and enjoy numerous economies of scale and technological efficiencies not found in lesser developed countries. Most "local" purchases are not even purchased in the aid recipient country, but are triangular purchases from third countries and WFP reports that "over the past 5 years there has not been a significant increase in purchasing from LDCs, despite cash being available. Instead, purchases have increased in other developing countries—mainly large food exporters like Turkey and South Africa—who are better placed in terms of location and capacity to respond to the large and sudden demands of food aid that are typical of emergency situations."[40]

According to WFP's 2006 update, it procured only a third of its "local purchase" food in both least-developed countries and low-income countries, combined.[41] WFP procures the next 40 percent in lower and upper middle-income countries, and approximately a quarter of its food in developed countries.[42] Even putting aside developed countries, upper middle-income countries such as Turkey and South Africa (which supplies nearly 60 percent of the cross-border food aid in Africa as "WFP's most important source of maize")[43] are agricultural competitors, not appropriate targets of humanitarian aid dollars in the same category as aid recipient countries.

Spending hundreds of millions of U.S. tax dollars with our agriculture competitors is not only bad policy, but bad politics.

V. CONCLUSION

Our coalition believes that the debate regarding foreign or "local" purchase proposals has not been informed by a balanced view of their potential risks. Their basic premises of increased efficiency, effectiveness, and speed of delivery remain unproven. There are also serious potential problems with corruption, accountability, profiteering, quality, reliability, safety, market disruption, and loss of a visible symbol of American generosity when our Nation's foreign policy and national security already face daunting global challenges.

Above all, these proposals represent a risk to the entire U.S. food aid program and thus to recipients in need around the globe. There is no substitute for the current U.S. food aid program. We provide one-half of the world's food aid, 60 percent of WFP's total food resources, and three times the level of all EU food aid.

American food aid programs have endured because they appeal to a wide cross-section of interests. In-kind food aid provides jobs and stimulates economic activity at home while feeding the hungry overseas, and the domestic constituency has been an invaluable ally in the efforts of the Congress to sustain and increase food aid.

---

[37] Id.

[38] Id.

[39] Id. at 13.

[40] Sonali Wickrema, "World Food Programme, Food Aid and Untying of Aid: Opportunities and Challenges for the Least Developed Countries" at 4 & 6 (2004).

[41] WFP, Update on WFP Procurement, No. WFP/EB.A/2006/5–1 at 4 (May 23, 2006).

[42] Id.

[43] David Tschirley, "Local and Regional Food Aid Procurement: An Assessment of Experience in Africa and Elements of Good Donor Practice" at iv (2007); WFP, Update on WFP Procurement, No. WFP/EB.A/2006/5–1 at 6 (May 23, 2006). See also Update on WFP Procurement at 9 (The top two recipients of WFP procurement dollars were South Africa and Canada, respectively, in the first quarter of 2006). These countries, like Saudi Arabia, are in the "upper middle income" category on the DAC List of ODA Recipients.

When the EU discontinued in-kind food aid, donations dropped dramatically, proving that there is no constituency for sending cash welfare payments overseas. Today our Nation's vital security requirements and other pressing domestic priorities demand every dollar in the available budget. We are concerned that cash aid, with no constituency to fight for it and competing with other pressing national priorities, would simply melt away, leading to an overall decline in much-needed international humanitarian assistance.

Respectfully submitted,

BRYANT E. GARDNER,
On behalf of the
Maritime Food Aid Coalition.

○