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Can biofuel policies be changed in times of food price crisis to reduce impacts on the poor?

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All viable mechanisms to alleviate under-nourishment caused by spikes in food prices are worthy of consideration. Several studies, reports and agencies (e.g., Committee on Food Security 2013, High Level Panel on Biofuels and Food Security; Locke et al. ODI 2013, Wright 2011,) including the Food and Agriculture Organization (FAO) through their policy report to the G-20, have recommended introducing flexibility into policy driven demand for agricultural feedstocks for biofuels production (FAO, IFAD, IMF, OECD, UNCTAD, WFP, the World Bank, the WTO, IFPRI, and the UN HLTF, 2011). The proposals suggest that grain can be diverted from biofuel production to dampen the impact of volatile cereal prices on the poor. (Locke et al. 2013).

This presentation reviews the evidence for and against temporary lifting of incentives to produce biofuels in response to food price crises. We focus on the two largest producers of biofuel in the world, Brazil and the USA. The behavior of prices for US maize, Brazil sugar, food (consumer price indices), and energy are considered and compared along with other drivers identified to influence food price spikes. Special attention is given to periods of price volatility, including rising prices in 2007-2008 and 2010-11. Relevant research is summarized and more recent data are analyzed to examine if and when biofuel feedstock could be diverted with beneficial results. Diversion proposals sound logical and are widely assumed to be the “right and moral thing to do,” but the evidence raises many cautions about such diversion proposals. Temporary market interventions to divert feedstocks from biofuels would have multiple costs but little or no beneficial effect on the populations most vulnerable to food price crises. And there are several plausible relationships identified in the analyses to indicate that employing intervention mechanisms may do more harm than good, and lead to more future food crises in the future. Based on the analysis, several recommendations are made for simultaneously improving food security and energy security to address the needs of the poor and less developed nations.

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