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Global food crisis: Latin America has both abundance and want

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As world leaders left the Rome summit with plans to aid the world's poor struggling with record food prices, it is important to consider some unique characteristics of Latin American and Caribbean countries. High commodity prices present an opportunity for the region to increase food supply while confronting the urgent challenge to help those most in need during this crisis.

Latin American and Caribbean countries face a critical paradox. On the one hand, the region has a rich agricultural tradition, and several countries are among the world's largest food exporters. In 2006 the region exported more than $55 billion in food commodities.

Terms of trade gains associated with high commodities (including agricultural commodity) prices are benefiting several countries. For commodity-rich South American countries, this development presents an opportunity for sustained growth through a shift to value-added production, from raw materials to agro-industry. This in turn will have a positive impact on employment and will complement the transformations in countries such as Colombia, Chile and Peru, which have become world-class producers of fruit, asparagus, avocados and other specialty vegetables.

However, some countries, especially in Central America and the Caribbean, are in a very different situation. They must rely on food imports and are severely hurt by the food-price spiral. At the same time, they are experiencing terms of trade losses associated with the prices of nonagricultural commodities.

Food-price inflation affects different groups in different ways. It disproportionately affects poor urban consumers in all countries, including food exporting countries. Poor families spend at least 50 percent of their budget on food. Our research shows that across the region, poor people face an effective inflation rate significantly higher than the overall rate. As a result, and according to United Nation figures, 10 million people remain vulnerable in this crisis to malnutrition and hunger, as they must purchase food at unaffordable prices.

Therefore and as agreed in the Rome summit, we are urgently strengthening and expanding both our short- and long-term food programs in the face of this crisis. Recently we announced $1.2 billion in new emergency financing for nations across the globe most severely affected by this crisis and immediately approved a $10 million grant to Haiti for direct assistance programs.

Separately, school feeding programs in Haiti will be expanded, covering 15,000 children over the summer break and expanding the program in the fall to cover 45,000 children in the new school year. In addition we are also providing technical assistance to the Haitian government to develop medium-term solutions to improve agricultural productivity, mitigate risks and improve the social safety net.

In 2007, the Latin America and Caribbean region marked a fourth straight year of growth in excess of 5 percent -- its healthiest spurt since the 1970s. Governments in the region have implemented solid macroeconomic policies and have taken advantage of favorable commodity prices to reduce vulnerabilities, and financial markets are recognizing the region's stronger economic and fiscal position. Both Brazil and Peru have achieved investment grade status.

Poverty rates -- long the region's Achilles' heel -- have fallen in several countries from Brazil to Peru, Argentina and Mexico. These declines are linked to the steady economic growth of the past few years coupled with increased public expenditures, including targeted cash transfer programs. These gains are now at risk due to the impact of the economic slowdown in the United States as well as rising fuel and food prices. The challenge is daunting, particularly for the smaller countries, even if the region is better prepared and less vulnerable than in the past.

Meanwhile, the world's industrialized countries can contribute to easing the food crisis by creating some breathing space through easing subsidies, mandates and tariffs on corn-based bio-fuels. Ethanol production will consume 30 percent of the U.S. corn crop by 2010. Cutting ethanol tariffs in the United States and Europe would boost production of more efficient sugarcane bio-fuels -- as successfully produced in Brazil and Central America -- that do not compete with food production and would expand markets for poorer countries.

Concluding the Doha World Trade Organization deal to remove agricultural subsidies and tariffs would establish a more-level playing field that will benefit consumers all around the world.

Countries should also find ways to remove export bans and restrictions as soon as feasible, as these measures lead to hoarding and further raise food prices, delaying the supply-and-demand adjustments that the world needs to reach a new equilibrium.

The challenge in Latin America today is to sustain growth, while facing the new global and regional conditions. Latin America has the potential and will certainly overcome this new test. Together with the U.N. and other partners, the World Bank will continue to support countries in their efforts to build a safety net for the most vulnerable and at the same time continue to create economic and social opportunities for all.

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