

Brasília, May 20th, 2011

E.M. nº 006-2011/CONSEA

Your Excellency Madam President of the Republic

The National Council on Food Security and Nutrition, in a plenary meeting of May 4<sup>th</sup>, 2011, discussed and made propositions regarding the volatility of prices and their impacts to the sovereignty and food and nutrition security as well as the accomplishment of the human right to adequate and healthy food, in Brazil and the world. Giving continuity to the Explanatory Statement nº 004, of May 30<sup>th</sup>, 2008, the expectation of the Council with this new manifestation<sup>1</sup> is to contribute with the internal decisions of the government, knowing that these have multiple repercussions in the Brazilian agenda of eradication of extreme poverty, as well as in the international performance of the country, searching for coherence between the internal and external Brazilian foreign policy.

## **1 – Characterization of the Problems**

As occurred in 2008, the world faces again a period of volatility of prices with a prevalence of tendency of price increases, since the second half of 2010, which could culminate with a new global food crisis. This phenomena already has repercussions in the country's inflation and consequently, in the accomplishment of the human right to adequate and healthy food.

The Explanatory Statement nº 004, of May 30<sup>th</sup>, 2008, presents a diagnosis showing that the increase in food prices had multiple causes, therefore the analysis made could not only be limited to conjuncture factors treated by themselves. The return of the elevation of these prices made the price volatility of the agricultural commodities become very highlighted due to the extreme and unforeseen fluctuations of these factors, with an amplitude

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<sup>1</sup> The present document was based in the contributions of the Work Groups on the Volatility of Food Prices, as well as Consea's Monitoring Indexes, with representatives from the Presidency of the Republic, CDES (Economic and Social Development Council), Ministry of Social Development and Actions Against Hunger (MDS), Ministry of Agrarian Development (MDA), Ministry of Finance (MF) and Foreign Relations (MRE), as well as the National Food Supply Company (Conab), National Fund of Education Development (FNDE), Inter Union Department of Statistics and Socio Economic Studies (Dieese), Institute for Applied Economic Research (IPEA) and representatives of the United Nations Food and Agriculture Organization (FAO), Action Aid, Brazilian Institute for Social-Economic Analysis (Ibase) and the National Confederation of Agriculture Workers (Contag).

and frequency which result in the instability of the market and, consequently, on uncertainties for farmers and consumers who suffer with the repercussions of this instability in the final prices of food.

According to the United Nations Food and Agriculture Organization, the climatic changes, the increase in the demand for food, the use of grains to make agro fuels and the increase in oil prices are some of the main factors to explain nowadays situation.

Ratifying its previous diagnosis, CONSEA understands that the food price volatility occurs for systemic reasons and not only conjectural ones, making it necessary to reflect deeply on the global production model and food consumption, based on the food trade. This does not mean that the problem will not be solved only by means of the increment in the production volume, but also requiring a revision of the production, trade and consumption model of food. Food production can not be analyzed simply by the commercial production logics but its social aspect has to be considered.

In the context of the government target of the eradication of extreme poverty, the destabilization of food supply and the increase in the cost of living, strikes the poorest in a cruel manner.

### **1.1. International Indicators**

According to the Food and Agriculture Organization (FAO) Index of Food Prices, the world food prices reached in February 2011, the highest level of its historic series, being the 8<sup>th</sup> month in a row of such a record of high food prices, overcoming the punctuation registered in the peak of the previous crisis, in June 2008. It is important to stress that this indicator measures the monthly price changes for a basic basket of cereals, oilseeds (chestnuts, hazelnuts, almonds), milk products, meat and sugar, which are also characterized as agricultural commodities.

In spite of the drop which occurred in March 2011, in comparison with February 2011, FAO's Food Price Index is still 37% higher than the level of March 2010, making it impossible to infer an inversion on the increase tendency. Much to the contrary, a strong instability of food prices in the international scenario is confirmed.

Still according to the Report on Food Perspectives, published by FAO in 2010, a drop of the world food market was foreseen for 2011 due to the estimate of low agriculture production, especially that of cereals and grains. According to this report, the global world cereal stocks should suffer drastic reductions of 6% in average. This scenario points out to a

world supply crisis. Especially for the developing countries which depend on the import of seeds.

It is also important to stress that there was an increase on the food demand in the world. According to figures from the Ministry of Agriculture, Cattle Breeding and Supply, the importation of oils and oilseeds by China increased by 8,7% per annum between 2003 and 2010.

Another factor to be considered is the increase in the production of agro fuels and its repercussions on the production and availability of food in the world. According to FAO's figures, countries have destined about 120 million tons of human consumption cereals for fuel production. In this matter, it is to be noted the great volumes of corn used in the production of ethanol, especially, in the United States of America.

An element which gained importance in the two recent crises is the increase of financial speculation with agricultural and non agricultural commodities. According to figures by the International Compensation Bank, the number of open contracts in the commodities stock reached an historic record in the third quarter of 2010, before dropping in the fourth quarter and going up again in the beginning of 2011. The international commodities prices have responded more to the financial speculation rather than the demand for food of the emerging countries. In 2010, 63 billion dollars were invested in future commodities contracts, forming a stock, according to estimates from private banks, of 320 billion dollars in bets that the prices of these goods will continue to grow. This index, which embodies the main raw materials, went up 6% between the 15<sup>th</sup> and 25<sup>th</sup> March, 2011.

As well as the factors mentioned, the concentration of markets of agriculture raw materials, transformation and transport of food, in the hands of great corporations, has a repercussion in the forming of the prices of food. In this sense, it is also worth quoting the risks presented by the purchase of Brazilian land by transnational companies, threatening the right of territory to the traditional peoples and communities, and the access of these communities to food for their own consumption.

## **1.2. Repercussions in Brazil**

Between June 2007 and May 2008, in the worse period of the later food crisis, the cost of the basic basket of food verified by the Inter Union Department of Statistics and Socioeconomic Studies in 16 capitals of Brazil, presented an annual elevation between 27, 24% and 51, 85%. More recently, the cost of this same basket suffered an increase of 12% in April 2011 in relation to January 2010, and the prices of food products increased

14, 63%. In this percentage, the increase in the prices of meat and poultry can be highlighted, respectively by 28, 88% and 27, 4% in the period, while the prices of beans and sugar in this period (January 2010 to April 2011) increased 33, 36% and 11, 40%.

According to Dieese, the Cost of Living Index which measures the variation of the cost of living of families with an income of 1 to 30 minimum salaries a month, in the municipality of São Paulo, went up 6,9% in 2010. In the first quarter of 2011, the ICV (Cost of Living Index), presented a cumulated increase of 3, 48%, due mainly to eating out (expenditure with meals outside one's home). In the period of 2005 to 2011, the cumulated inflation was of 37,27%, in which period increases of over 60% in the eating out item, and 48,68% for eating at home, could be noticed. The prices of food in general were the main reason for the great increase of the cost of food in both of these items.

The increase of oil by products such as kitchen gas, also contributed to the increase of these costs. Also, according to Dieese, the prices of commodities have contributed directly to the increase of inflation in Brazil.

The official indicator of inflation in Brazil, the Full Consumer's Price Index (IPCA), measured by the Brazilian Institute of Geography and Statistics (IBGE), between June 2007 and May 2008, in the item Food, presented an accumulated variation of 14,63%. On the other hand, the accumulated variation of the IPCA in 12 months, in March 2011, was of 6,30%, and the prices of the food items increased 8,76%. We highlight in this period the increase of the meat prices and that of eating out, respectively, 22, 3% and 10, 69%.

## **2 – Diagnostic elements**

Contrary to the idea which considers the present day volatility of prices as a seasonal behavior, common to agricultural products, CONSEA understands the recent picture as a new phenomenon due to its amplitude and the non traditional causes involved.

Among these causes, the financial speculation can be pointed out linked to the lack of transparency and regulation of the future markets for agricultural products. As from 1990, the agriculture commodities started to receive attention from investors of the financial market, being subject to the oscillations of the global investors. It is known that the speed and magnitude of the decisions of investments in the financial markets could provoke sudden pressures on the demand for investments, among them

included the agricultural *commodities*, in such a manner that the food prices become as volatile as the investor's expectations. CONSEA agrees with the diagnosis that the future markets have surpassed their functions to provide liquidity and protection against risks, contributing therefore, with the instability of the food prices. For this reason, there is a need to strengthen the CASH MARKETS, against the FUTURE MARKETS which have to have their regulation amplified as to avoid that the financial speculation continues as one of the main causes of crisis such as the present one. The high liquidity of the international financial markets and their impacts in the recent increases in the price of food, were stressed in the meeting of COPOM (Central Bank Committee on Monetary Policy), in March 2011.

The complexity of the food price instability requires that its analysis considers how specific each product is, going beyond the treatment of all the products in a clustered manner. Having mentioned this exception, it is important to stress the contributions of the increase in the demand and the change of the standard of food consumption in the emerging countries for the tensioning of the food prices. The global consumption standard has become concentrated on a few types of food, making certain population groups vulnerable as well as countries which do not diversify their production, do not give value to their regional products and waste the food which is produced. Besides this, the reducing of the food availability enhances any food price variation due to the concentration of the consumption in certain products only. This strengthens the importance of rescuing biodiversity and the local food culture to face the volatility of the international food prices. It is necessary to pay attention to the fact that some of the threats and obstacles to this rescuing, in Brazil, are also found in legal documents such as, for example, the "Law of Vegetable Varieties Cultivation".

In relation to the need of diversification of the production and food consumption, the environmental matter grows in importance due to the destruction of some biomes and their respective foods in natura. Brazil presents a quite a great potential in its capacity of production of healthy foods, considering especially, the specificity of family agriculture, and the practices of indigenous peoples and other traditional peoples and communities, as well as the potential of urban agriculture.

Another important element in nowadays crisis is the advance of the control of a reduced number of great multinational corporations in all segments of the world food system. The organization of the world production and of the commercial flows has favored the transnational oligopolies of the grain markets and agricultural raw materials, as well as the food industry and retail activity, with the consequent empowerment of the great corporations

in determining the standards of production and consumption. The growing power of the corporations has promoted the concentration of wealth, of the right to the land, food production, market of agriculture raw materials, transformation, transport and wholesale of food, as well as the control over the grains, reinforced by the liberation of the genetically modified seeds. The Brazilian legislation has adopted a food production concentrated model which is harmful to socio biodiversity and human health, enabling the restriction to the free access of the natural resources beginning with the liberation of the genetically modified seeds and agro toxics in the production of food which also contributes to the increase of the production costs.

For all this, CONSEA understands that the auto regulation mechanisms are not sufficient. It is noted that the lack of regulating instruments from the financial liberation of the national markets requires intervention measures of the national States by means of public policies oriented by the principle of sovereignty and food and nutrition security.

In this same direction, commercial negotiations such as the Doha Round of the World Trade Organization, founded under the aegis of commerce liberation, become out of context, being able to generate more unstable effects to the food production and commercialization in various countries. Another matter is the phenomena of re-concentration of income which is happening in Europe having in mind that the common agriculture policy of the European Community is a model which results in income re-concentration.

As well as the economic and financial aspects, CONSEA's Plenary concluded that the facing of the food crisis should also incorporate the climatic matter added to the other environmental matters. This is due to the food price instability which has contributed to the production volatility due to the larger number of extreme climatic events. On top of this, the climatic changes have promoted the dislocation of production, the lose of crops, the disappearance of certain species and other impacts over food production. For this reason, due to fact that the impact on the vulnerable populations are much more destructive, CONSEA understands that the facing of the repercussions of climatic changes does not limit to the mitigation actions of its causes and the evaluation of its impacts on production, but also involves actions of prevention and adaptation turned to the groups which are more vulnerable.

It is important to highlight that the food price volatility, has a negative repercussion in public policies which act in the access to food, such as the School Meal Program (PNAE) and the Program of Acquisition of Food

(PAA). This requires a revision of the structure of these programs which takes into account the food price behavior, being the volatility caused by the agriculture commodities, or that provoked by other factors in the case of fruits or greenhouses. As well as this, one should consider the impacts on the income transfer programs which suffer a reduction of their purchasing power, in relation to the food price increase.

In respect to the public policies, the present budget contingency of the federal government's costs with hotel payments and air tickets should be noted, as this has impacted the final activities of these programs as well as strategic federal actions, such as land regulation, especially of the traditional peoples and communities, the technical assistance and the rural extension in the scope of the National Program of Family Farming Strengthening (Pronaf) and the foment to the sustainable development, such as the fishery policy and racial equality, contributing to increase production's vulnerability, the access and consumption of food for populations facing food and nutrition insecurity and of extreme poverty.

As well as this, Brazil has an international responsibility due to the notoriety it has acquired in this field, ensuring that the government decisions are not restricted to exploring the gains offered to the country by the economic conjuncture, due to its condition of great food exporter. Therefore, the risk of a fragmentation of the Brazilian vision should be treated as an institutional matter which requires, among others, the search of a coherence between the internal and external policies.

In this sense, we respectfully submit to Your Excellency, the following propositions for the national and international areas, oriented by the food and nutrition security and sovereignty focus, as well as by the promotion of the human right to healthy and adequate food.

### **3 – Propositions for the national sphere**

#### **3.1. Strengthening of agro ecological family farming through a policy of prices and access to local markets**

The role carried out by family agriculture in the promotion of the Brazilian population's sovereignty and food and nutrition security, proven in the food crisis of 2006-2008, required the Brazilian government to articulate, in an inter sector manner, the economic developing policies with this major objective. One of the elements for this is the recognizing of the direct relation to the access to land and territories to the production turned to the national food supply. In the same direction, it is indispensable to revise the

dominant agricultural model in the country, which stimulates the commercialization of food and expresses the exclusive interests of Brazilian agro business, going against the necessary pillars to guarantee the achievement of the human right to adequate and healthy food.

CONSEA understands that the strengthening of family agriculture passes by the guarantee and stabilization of prices for family agriculture, as its production provides a great parcel of food for internal consumption, being responsible for approximately 70% of the food produced in the country. The impacts of the international prices in Brazil have been attenuated due to the increase in production based on various public policies, especially those based on family agriculture (National Program of Family Agriculture Strengthening – Pronaf, and the Program of Acquisition of Food - PAA). Added to these policies there are those in the area of social security, social assistance, income transfer, school meals and increase of the minimum salary. It is important to reaffirm that the strengthening of family agriculture should be based on a policy of agro ecological transition and in the managing of agro biodiversity.

We also propose that the Brazilian government adopts measures which combat the monopoly and oligopoly in the agricultural product market, and at the same time, strengthening the policies of fomentation to family agriculture and agro ecology. These should be followed up by the rescue of traditional seeds and the regional food habits so to strengthen the local production and the adequate and healthy food and promote the local and regional development. One of the instruments for this is the implementation of a differentiated price policy for agro ecological family farming.

Besides these, it is proposed to follow up other measures for the strengthening of family farming:

- Strengthening of technical assistance and rural extension adequate for agro ecological family farming;
- Foment the sanitary vigilance inclusive to the traditional manners of production;
- Foment the associations and cooperatives;
- Absorption of the family farming production in the government purchase market;
- Increase of credit and of the policies of income transference to the rural environment;
- Foment the family urban and periphery urban family agriculture;
- Foment the agriculture practiced by indigenous peoples and peoples and traditional communities by guaranteeing their territorial rights .



The adoption of these suggested measures contributes, furthermore, to the environmental preservation and the reduction of the destruction of the biomes, as the environmental degradation promotes the scarcity of certain foods specific to certain biomes.

### **3.2. Installment of a national policy of food supply**

Taking as a base the Explanatory Statement n° 024, of December 19<sup>th</sup>, 2005, to the Federal Government, CONSEA proposed the installment of a National Policy of Food Supply with focus on sovereignty and on food and nutrition security, as well on the human right to adequate and healthy food. The context imposes an immediate return and update of the referred document, with the definition of institutional responsibilities by means of the Interministerial Chamber on Food and Nutrition Security (Caisan) viewing the beginning of the implementation of the referred policy.

Through appropriate channels at the Federal Senate, there is a bill (n° 51/2008), which proposes the creation of a national supply policy which does not serve the purpose of the recommendations described in this Explanatory Statement. For this reason, the Interministerial Chamber on Food and Nutrition Security (Caisan) is elaborating a proposal of a substitute for this bill, which appoints the National Policy of Food Supply as an integrated system which extends from the production to the consumption of food. CONSEA supports this initiative in the sense that it will contribute to the implementation of a National Policy of Food Supply, as a central part of the government's strategy of facing the present crisis of food prices.

The areas of performance of the National Policy of Food Supply include:

- a) Food and its availability and accessibility, including the programs turned to the sharing and sustainable production of food and the maintenance of food stocks;
- b) Food as an expression of the consumption habits of the population, with the corresponding promotion of adequate and healthy food;
- c) Actions related to the regionalization of production, commerce and other food services;
- d) Actions directed to specific population groups.

It is important to mention that the principles of the referred National Policy of Food Supply, should orientate the elaboration of a multi annual Plan (PPA) 2012-2015, according to what is mentioned in the following:

- I – Guarantee of sovereignty and food and nutrition security;
- II – Sustainability in the production, commercialization, distribution and consumption of food;
- III– Increase of the access of family production and of the small and medium size of markets, including sustainable agriculture products;
- IV – Valorization of the biodiversity products;
- V – Participation and social control.

### **3.3. Immediate implementation of specific instruments of market regulation**

For the immediate implementation of specific instruments of market regulation and promotion of family agriculture, it is necessary to increase the transparency of the private food stocks, considering that the public stocks have reached this transparency in Brazil. In this sense, CONSEA proposed the regulation of the compulsory information of private stocks so as to allow its monitoring.

### **3.4. Actions to assist more vulnerable populations**

Also emphasized is the need to implement measures to attenuate the impacts on the volatility of food prices for consumers, especially the population groups who are more vulnerable, such as; (i) the return of the policy of public food stocks, including a investments in infrastructure of storage and transport, improve the management, having in view the increase of the access to food for the most vulnerable families; (ii) realignment of the values transferred from the Family Grant Program, taking into consideration the inflation due to the increases in the cost of the basic food basket; (iii) realignment of the per capita values of the National School Meal Program (PNAE), according to the food prices increase; (iv) tributary reform and revision of the tax exemption so that the benefits can reflect on the price paid by the consumer, among other measures.

### **3.5. Creation of a National Observatory on Food Prices**

CONSEA proposes the creation of a National Observatory on Food Prices, with an institutional format that allows the organization of a series of information coming from other institutions, which, together, propitiate an inter sector analysis on the problem of the price volatility, including its causes and ramifications. Each institution should contribute with its expertise and/or with the data gathered and processed by them, so as to be

able to monitor this matter in a way to minimize negative impacts over the sovereignty and food and nutrition security of the population.

CONSEA proposes that the National Food Supply Company (Conab) be the institutional locus of the Observatory and that in its composition there will be an effective participation of members of the civil society, conferring it legitimacy and transparency.

The building of the National food Price Observatory should be gradual, beginning by the follow up work of the domestic prices and food stocks, and later including an international follow up, including as well the climatic changes and use of the land.

The Work Group of Consea's Monitoring Indexes, coordinated by the Secretariat of Food and Nutrition Security of the Ministry of Social Development and Actions Against Hunger (MDS) defined a relation of indexes which could be followed up, in principle, by the Observatory, according to what is described below:

- 1) Food weight in the inflation indexes for wholesale and retail;
- 2) Volatility Index of food prices;
- 3) Number of basic baskets purchased with the minimum salary;
- 4) Variation of the group "food at home" in the Cost of Living Index;
- 5) Food prices in relation to the prices of other products;
- 6) Composition of Food prices;
- 7) International commodities quotations and exchange oscillations;
- 8) National production of the main grains and oilseeds;
- 9) Balance of the national offer and demand for the main grains and oilseeds;
- 10) Historic series of production of the main grains and oilseeds;
- 11) Production cost of the main grains and oilseeds;
- 12) National production of meats and eggs;
- 13) World production of meats and eggs;
- 14) Balance of the national offer and demand for meats and eggs;
- 15) Balance of the world offer and demand for meats and eggs;
- 16) Seed markets and weight of the great corporations;
- 17) Expansion of the sugar cane and soy culture;
- 18) Specific volatility impact in homes run by women;

In the scope of the institution of the National Food and Nutrition Security System (Sisan), foreseen in Law no. 11.346, of September 15<sup>th</sup>, 2006, it is proposed that the creation of the Observatory be articulated with Sisan's system of indexes and monitoring.

#### **4 – Propositions for the international sphere**

It is proposed that the international actions of the Brazilian Government be affirmative on the promotion of the human right to adequate and healthy food in the decision making, at the same time in which it questions the food price volatility resulting from the food commercialization in the international scenario.

In respect to the global governance on food and nutrition security, it is known that the present institutions and international organisms are insufficient for facing the food price crisis. This is the reason that CONSEA has supported as the main forum of coordination of actions, the United Nations Global Food Security Committee (CSA), for its unilateral format which, as well as this, went through a recent reformation incorporating civil society's participation, directly, in its deliberations, differently from G20, where the possibility of this participation, as well as very restricted, is indirect through the liberality of the governments which participate in this forum.

CSA has recommended a study to the High Level Panel of Experts in Food and Nutrition Security on food price volatility. It is proposed that a special effort is made for involvement in then discussion which will arise from this document and, especially, on the Brazilian participation, when its final version is appreciated in the Plenary session of the Committee in October 2011.

A specific recommendation refers to the need of updating the calculation methodology of the state of food insecurity (Sofi), elaborated by FAO, which should also consider the preventive dimension of the collection and analysis of data.

It is also important to consider that the World Trade Organization (WTO) has weakened its role and opened space for bilateral relations among countries and the re composition of national policies of difficult implementation by most countries with greater vulnerability. For these reasons CONSEA reaffirms its importance of multilateralism on global governance, however, a multilateralism with contents dictated by the perspective of social participation, promotion of family sustainable agriculture, creation of the capacity for projecting and implementing policies of sovereignty and food and nutrition security, among them the forming of national stocks of food, among others.

In respect to the official document of the Brazilian government on the theme to be presented in the G-20 scope, in spite of pointing out the

existence of the problem of the price volatility and express the existing controversies in the diagnosis to this respect, it is considered that it does not indicate, in a sufficient manner, the necessary answers. Furthermore, it concentrates on the food prices question and does not take into consideration in a proper manner, its other causes and repercussions. For this reason, CONSEA proposes the defense of the transparency in the public and private food stocks, and the support of the constitution of physical food stocks in countries, with a focus in the poorest countries, as well as the transparency, visibility and regulation of the derivative markets, responsible for the great impact of the financial speculation on the food prices.

By being a great exporter, Brazil puts itself as a possible beneficiary of this conjuncture from a mere commercial optics. The country has adopted a predominant standard of agriculture production intensive in agro chemicals, in a large scale, concentrator of land and income and which does not use a lot of labor. This conception does not face the rise in prices and the achievement of the human right to an adequate and healthy food of most of the Brazilian population. It is necessary to re-think the present standard of production by its socio-environmental impacts, as well as debating the conception of food security based in the free-commerce premise.

Finally, CONSEA proposes to the Brazilian government to advance in its ways of cooperation and international technical support, in the field of sovereignty and food and nutrition security, and of the human right to adequate and healthy food. To be highlighted is the performance in the scope of Mercosul (Common South Market), being in the definition of a regional strategy, or by means of nets and institutionalized ways, such as Reaf (High Level Meeting on Family Agriculture).

Therefore, Mrs. President CONSEA hopes to be contributing to the search of solutions for this situation, hoping to strengthen even more the sovereignty and food nutrition security in Brazil and in the world.

*Respectfully yours,*

***Renato S. Maluf***  
*President of CONSEA*