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FOOD FOR THOUGHT ...  
PUN INTENDED

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## **Food for Thought ... Pun Intended**

If people didn't believe we lived in an interdependent world where the aggressive pursuits of parochial, national economic interests might have unintended consequences, they should now. If the U.S. subprime crisis has proven anything, it is that global economic contagion is a reality not well enough understood. Who would have thought that a U.S. investment banking firm's problems could trigger a financial crisis that would cause a meltdown of Iceland's economy?

The global lessons we are learning now should be applied to not just future international banking and currency policy, but also to energy policy and the food-for-fuel debate. The right kind of global energy planning can reduce the risk for future oil price volatility, while creating longer-term support for more sensible development of alternative energy.

The oil price collapse of 1998 drove home the need for collective action among major oil-exporting countries to protect national revenues. Over time, this "defensive" pursuit morphed into resource nationalism. Oil producers pressed for higher and higher returns (so called "economic rents") for their commodity; at the same time, world demand for oil expanded with economic growth. Coupled with orchestrated production cutbacks by the Organization of Petroleum Exporting Countries (OPEC) and saber rattling by Russia, oil prices rose rapidly, prompting consumer nations to search for alternative energy sources. Both the United States and Europe announced massive programs — including an estimated \$11 billion in government subsidies — to produce fuel from biomass such as corn, soybeans and rapeseed.

As a result, European grain and American corn prices soared — the unintended, adverse effects of which were only pushed out of the news by exponential increases in fuel costs and the accompanying petrodollar-asset bubbles created by those rising oil prices. People around the globe had increasing troubles paying their bills. For Americans, those bills included home mortgages which had been resold and leveraged innumerable times at loose credit. What started as a minor tremor on Wall Street escalated into a global financial earthquake, and oil demand fell sharply — just as it did in the 1980s when oil prices soared in the aftermath of the 1979 energy crisis.

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There is plenty of blame to spread around for the current predicament. In the globalized world we live in, it should be clearer now that one country's short-term, muscle-flexing gain can easily self-destruct and turn out to be everyone's loss.

Now that there is a scourge on the houses of both oil consumers and producers, it is a good time to step back and be reflective about future energy relations. Nowhere is this point more relevant than in the food-for-fuel debate. Oil producers withheld production. Oil consumers moved to the defensive, turning to biofuels. The results were bad for everyone.

Biofuels might seem to be the quickest, cheapest card in the oil-consuming country deck. But if more and more agricultural land in the bread-basket, food-exporting countries is diverted to making fuel, who will pay that price? The answer: oil-rich, food-importing countries.

By 2025, according to most forecasters, the world will be short of oil again and a handful of oil producers will be back in the driver's seat. But even more regions of the globe will be dependent on the world's largest food producers — the United States, Australia, Argentina, France and Canada. Not only will the need for imported food rise in the Middle East, including Iran, it will also rise in China, the Indian subcontinent, Russia and North and West Africa.<sup>1</sup>

I am not suggesting that food-exporting countries will create a food weapon or a food cartel to counter the oil cartel. President Gerald Ford rightly ruled that out in the 1970s on moral and humanitarian grounds. But the unintended consequences of oil nationalism could indeed be the needless diversion of agricultural lands to “grow” fuel. Both oil consumers and producers should resist this catastrophe and return to a world order based on trust, comparative advantage and fruitful trade that will expand all economies at the expense of none.

The time to negotiate a better path forward is now, and both oil producers and oil consumers must be more cognizant that a zero-sum energy game is not productive. Now is the time to begin

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<sup>1</sup> Alexander J.B. Zehnder et al., "A Water Resources Threshold and Its Implications for Food Security," *Environmental Science and Technology* 37 (14) (2003): 3048-3054.

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the difficult discussions of a gradual climate-driven reduction in the global reliance on fossil fuels — with a transition that allows oil-producing countries to have a long preparation for a brighter economic future not tied to the vicissitudes of volatile commodity prices.

U.S. rhetoric that global climate goals and “energy independence” are two sides to the same coin fails to recognize the interdependencies of our economy with those of major oil-producing states. A zero-sum approach means everyone loses as Iceland so bitterly realized in October. Let’s hope our next president and Congress are able to recognize this important reality, and show the political will and leadership to move our national — and subsequently global — energy policy forward in a sensible manner.