



Short Article

Rising Prices and the Food Crisis: Don't Look for a Scapegoat

So-called 'food riots' have multiplied over the recent weeks and triggered the proliferation of media articles looking for culprits. The demand for agricultural products to feed biofuel production, the booming demand for animal products caused by the growing purchasing power of people in emerging economies, economic liberalization and international financial institutions, and falling public investment in agriculture in a good number of poor countries have been successively blamed for causing the crisis. But these factors are merely presented as scapegoats.

Rising prices do not foretell some global food shortage resulting from a world production that is not sufficient to feed a booming demand. They are due to the combination of two main factors.

The first one is a trend, a long foretold factor: the slowdown of supply growth. This slowdown results from the effect of policies aimed at mitigating the chronic oversupply of agricultural products – and associated low prices – that has expanded over the last 20 years. This situation was blamed for exerting competitive pressure on the agricultural sectors of the poorest countries. The slightest public funding support for agriculture in the USA or in Europe translated into a slowdown of supply growth. World stocks have thus diminished, and climatic shocks during recent years have sped up their reduction. The current situation is one of more tense markets, having less regulation and fewer stocks to face production fluctuations. In agriculture, these fluctuations are quite normal because of climatic variations. Also, rising oil prices and associated production costs in agriculture and transport enhance the trend towards higher food prices.

The second factor is an occasional one: speculation and export restriction. The financial crisis resulted in a shift of investment towards more buoyant markets such as oil products, minerals and agricultural raw materials. Fear of rising prices led some countries to restrict exports so as to prioritize the supply of their domestic markets. Both positions are 'self-realizing': the countries' planning measures in anticipating rising prices, actually create high prices and boost them.

The long-term trend and this occasional factor thus raise the issue of international market regulation. On the one hand, global warming induces and multiplies climatic shocks, especially in the inter-tropical zones. One must then expect further fluctuations of agricultural production. On the other hand, the development of speculation on agricultural raw materials leads to the fear of new market instabilities; and this, by anticipation, amplifies price variations due to production fluctuations. This situation leads to a

spotlight being thrown, or more precisely, being thrown again, onto the debate over the mechanisms for smoothing price fluctuations such as regulatory stocks and rules of speculation. However, in a context of economic liberalization, the idea of regulation or intervention may cause fear that the return of public intervention will distort markets.

If agricultural markets become more and more unstable in the future, then research faces a formidable challenge. The challenge is to invent production systems, plant material, crop protection systems, transport and trading systems adapted to these climatic and economic instabilities.

The current price increase is not due to the booming food demand of emerging countries such as China. To the contrary, cereal consumption growth in these countries is slowing down. In China, the demand for animal feed did not raise cereal imports, but rather it was due to soybean imports. The reason for rising prices of rice or wheat cannot be found in higher consumption.

Yet, one can anticipate real difficulties in the future due to the long-term prospects of food demand for animal proteins in the diet of a growing population in emerging countries. If emerging countries wish to adopt the consumption patterns of industrialized countries, they are just at the very beginning of their journey. According to Agrimonde (2007), crop production, whatever its final consumption purpose (food, feed, industrial), expressed in energy equivalents, increased from 3,300 kcal/capita/day in 1985 to 3,700 kcal/capita/day in 2005. In the USA, the production was about 16,000 kcal/capita/day over the same period, due to feed and industrial use. In order to reach this level, China would have to multiply its production by five. Ambitious agri-fuel development programmes will only boost this demand.

A cautious management of the future supply and demand balance cannot avoid serious consideration of the limits of expanding the agri-food model of industrialized countries to the entire planet. Before stigmatizing the evolution of demand in emerging economies, the most industrialized countries should question their own consumption models. ■

Written by Nicolas Bricas, Senior Economist, French Agricultural Research Centre for International Development (CIRAD).

(References available upon request)