

WHY ARE FOOD PRICES GOING UP ?

Food Prices are Special

Food is essential for life – something we all know at least at an intellectual level. And it is this character of food which makes the price of food act in a special way. If we don't have the food we need to live, we will pay a very high price to get it. If we have enough food, we will pay only a low price to get extra. In other words, the price of food is very sensitive to the supply – if the supply is not adequate to meet the demand, the price will rise quickly. And that has happened in the past year for the first time in at least 30 years.

What's Pushing the Prices Up ?

The warning flags have been up for the past two years. Over the past decade almost every year the amount of cereals consumed globally has exceeded the amount produced by farmers. Not by much – just enough to gradually reduce global food stocks from about five months in 1998 to less than two months of consumption in 2006. Then, in the last two years, several relatively sudden changes or shocks have occurred that have caused food prices to increase abruptly.

1. Rising Consumption of Meat and Dairy Products

Over the past fifty years, the methods of producing meat and dairy products have changed dramatically. In order to take advantage of the economies of scale, farmers have specialized in producing particular farm products. Before the 1960s, farmers who raised beef cattle raised their own feed – either grass or, for the winter, some grain and silage. The same was true for poultry and pigs. As part of the specialization, the diets of these animals were switched to products that could be produced by other specialized farmers or by-products of other products. Today, most poultry, pigs and cattle are fed grain, grain by-products or oilseed by-products. Unless it is grass-fed, beef takes 8 kilograms of grain to produce one kilo – pork takes about 4 kilograms of grain per kilo, poultry about two kilograms of grain.

North Americans eat on average about 100 kilograms of meat each year – a number that has risen slowly over the past 50 years. At the same time, the average Chinese was eating only 6 kilograms of meat/year in 1965, but this rose to 20 kilograms/year by 1985. Today s/he eats on average 50 kilograms/year and this continues to rise. India shows a similar pattern of rising meat and dairy consumption. Much of this meat is coming from the same kind of specialized meat farms as we have in North America. The consumption of grain as feed has been rising rapidly.

2. Crop Failures in Major Exporting Countries

The past few years have also seen some unusually large declines in crop production in major exporting countries. Australia has had several years of drought which have all but removed them from the world export markets. Poor weather in the US and Canada in some of the recent years have also had an effect. It is difficult to say for sure that these declines are linked to climate change but this is a real possibility.

At the same time, many countries in Africa have seen their own crop production slashed by droughts and floods which do seem to be more clearly linked to climate change. They have also seen very low levels of investment in agriculture during the past twenty years.

3. Use of Cereals and Oilseeds to Make Biofuels

Much has already been written about the rapid and massive diversion of corn into ethanol and edible oils into bio-diesel. Up to 40% of the huge US corn crop now goes to make ethanol and the US was the largest exporter of corn in the world. In Europe, the goal of replacing 10% of diesel with bio-diesels by 2010 will require far more edible oil than Europe can produce. Already large amounts of palm oil and Canadian canola are being imported to make bio-diesel.

The impact of biofuels on food prices is complex. If corn and edible oils become too expensive the production of biofuels will slow down. If the price of oil continues to rise, biofuel production may rise even faster.

4. Increased Speculation by Financial Markets

Finally, the recent rapid changes in cereal and oilseed prices have drawn the attention of the financial markets which are particularly interested in anything whose price is changing rapidly. This price 'volatility' offers a chance to make huge short term profits. With the collapse of the sub-prime mortgage market in the U.S., and the knock-on effects on stocks, food commodities have attracted great interest by speculators.

In developing countries as well, speculation has begun to play a role with traders hoarding stocks in hopes of making money as the prices continue to increase.

How Long Will High Prices Last?

It is difficult to know for sure how long these prices will last. As with other products, if the price increases, the producers will try to increase production. This may take some time however ; one to two years, some predict. Others say that, with the advent of biofuels, grain and oilseeds prices have become linked for the first time to oil prices. If oil prices continue to climb as many expect, the price of oilseeds and grains may never return to previous levels. Furthermore, some of the trends noted above will likely continue (e.g. meat consumption, climate change) and will help keep prices high.

Are Higher Prices Good News for Small-Scale Farmers ?

As our own farmers will attest, after so many years of prices so low they didn't even pay the costs to grow them, these high prices could finally help many small farmers in developing countries escape from poverty. Whether or not that will happen will depend on whether their governments and the aid donors like CIDA will finally provide the infrastructure (e.g. roads, market places, extension services) that are essential.

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