GM and the food chain meeting
Friday, 27 June 2008
09.30-12.00

What lies behind the Food Crisis?

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SWOT - Strengths

Strengths derived by agriculture from the Food Crisis

- *higher agricultural prices in general*
- *including traded cereals – wheat, maize, rice*

SWOT - Weaknesses

Weaknesses from the Food Crisis for agriculture

- *high oil prices*
- *sharp rise in fertiliser prices*

SWOT – Threats 1

Threats to:

- *urban consumers – main source of protests*
- *rural landless*
- *subsistence farmers during off-season*

SWOT – Opportunities 1

Opportunities for:

- *Farmers and rural areas*
- *including producers of traditional staple crops*

SWOT – Threats 2

National threats to:

- *Developed food-importing countries, e.g. UK*
- *82 Low Income Food Deficit Countries (LIFDCs)*
- *NOT Indian or Chinese trade*

SWOT – Opportunities 2

National opportunities for:

- ***Agricultural exporting countries***
- ***e.g. US, Australia, Brazil, Ukraine***
- ***Thailand and other rice exporters***

Agricultural sources of crisis

- Declining stocks:consumption ratios
  - 18.8% for all cereals (FAO figure)
  - lowest for 30 years
- Declining growth in yields
  - 3% p.a. in 1970s
  - 1%-2% p.a. in 1990s
- Bad 2007 wheat harvests, e.g. in Australia, Ukraine
- Droughts, lower water tables
- Soil depletion, e.g. in South Asia
- Biofuels

Underlying factors

- Population growth
- Biofuels --> diversion of land
- *Low prices over long period*
  --> less emphasis on yield increases
  - *(comparable to oil, metals, phosphates booms)*
- *Some consequences of intensive agriculture*
  - *e.g. soil depletion, fertiliser costs*

How have prices moved?

Price increases (%), 2006 to Jan-May 2008:

Oil	61
Fertilisers	191
Food	82
Wheat	118
Rice	115
Soya beans	110
Coffee	28
Cotton	32

Price formation

"On balance, there appears to be a consensus that in normal times, speculation stabilises the market, whereas in times of large shortages of surpluses, it tends to accentuate the instability of the market."

Signs of speculation

- Hoarding of rice, e.g. in Bangladesh
- Commodity index funds
  - $46bn in 2005
  - $260bn in 2008
  - value compared with physical market:
    - Oil 1%-2% Wheat 6% Coffee 12%
- Giant pool of money – dark pools?
  - other investments less attractive since Credit Crisis began

Long-term trends in LIFDCs

- Rapid increase in food imports
  - Sub-Saharan net imports:
  - rice: 4.7m tons in 1990, 11.4m in 2005
  - wheat: 4.6m tons in 1990, 14.5m in 2005
- Emphasis on export agriculture
  - but recent export prices *not up as much as cereal imports*
  - *e.g. coffee, bananas, cocoa, tea, cotton*
- *Successes in expanding traditional staple crops (for import substitution)*

Complex set of problems

Relate to:

- biofuels
- intensive agriculture
- export orientation for world markets
- major traded cereals preferred to indigenous staples
- loss of food reserves
- lack of regulation of commodity markets
  - to reduce price volatility
  - to neutralise excessive speculation
    - especially when there is a price spike