Global food crisis forecast as prices reach record highs

Cost of meat, sugar, rice, wheat and maize soars as World Bank predicts five years of price volatility

- Six casualties of the world food crisis
- UN warned of major new food crisis at emergency meeting in Rome

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guardian.co.uk, Monday 25 October 2010 15:26 BST

An Indian farming family carry bundles of paddy from a rice field in the northeastern state of Tripura. India has had food price inflation of 17% in the last year. Photograph: AFP/Getty Images

Rising food prices and shortages could cause instability in many countries as the cost of staple foods and vegetables reached their highest levels in two years, with scientists predicting further widespread droughts and floods.

Although food stocks are generally good despite much of this year's harvests being wiped out in Pakistan and Russia, sugar and rice remain at a record price.

Global wheat and maize prices recently jumped nearly 30% in a few weeks while meat prices are at 20-year highs, according to the key Reuters-Jefferies commodity price indicator. Last week, the US predicted that global wheat harvests would be 30m tonnes lower than last year, a 5.5% fall. Meanwhile, the price of tomatoes in Egypt, garlic in China and bread in Pakistan are at near-record levels.

"The situation has deteriorated since September," said Abdolreza Abbassian of the UN food and agriculture organisation. "In the last few weeks there have been signs we are heading the same way as in 2008.

"We may not get to the prices of 2008 but this time they could stay high much longer."

However, opinions are sharply divided over whether these prices signal a world food crisis like the one in 2008 that helped cause riots in 25 countries, or simply reflect volatility in global commodity markets as countries claw their way through recession.
"A food crisis on the scale of two or three years ago is not imminent, but the underlying causes [of what happened then] are still there," said Chris Leather, Oxfam's food policy adviser.

"Prices are volatile and there is a lot of nervousness in the market. There are big differences between now and 2008. Harvests are generally better, global food stocks are better."

But other analysts highlight the food riots in Mozambique that killed 12 people last month and claim that spiralling prices could promote further political turmoil.

They say this is particularly possible if the price of oil jumps, if there are further climatic shocks – such as the floods in Pakistan or the heatwave in Russia – or if speculators buy deeper into global food markets.

"There is growing concern among countries about continuing volatility and uncertainty in food markets," said Robert Zoellick, president of the World Bank. "These concerns have been compounded by recent increases in grain prices.

"World food price volatility remains significant and in some countries, the volatility is adding to already higher local food prices."

The bank last week said that food price volatility would last a further five years, and asked governments to contribute to a crisis fund after requests for more than $1bn (£635m) from developing countries were made.

"The food riots in Mozambique can be repeated anywhere in the coming years," said Devinder Sharma, a leading Indian food analyst.

"Unless the world encourages developing countries to become self-sufficient in food grains, the threat of impending food riots will remain hanging over nations.

"The UN has expressed concern, but there is no effort to remove the imbalances in the food management system that is responsible for the crisis."

Mounting anger has greeted food price inflation of 21% in Egypt in the last year, along with 17% rises in India and similar amounts in many other countries. Prices in the UK have risen 22% in three years.

The governments of Kenya, Uganda, Nigeria, Indonesia, Brazil and the Philippines have all warned of possible food shortages next year, citing floods and droughts in 2010, expected extreme weather next year, and speculation by traders who are buying up food stocks for release when prices rise.

Food prices worldwide are not yet at the same level as 2008, but the UN's food price index rose 5% last month and now stands at its highest level in two years.

World wheat and maize prices have risen 57%, rice 45% and sugar 55% over the last six months and soybeans are at their highest price for 16 months.

UN special rapporteur on the right to food, Olivier de Schutter, says a combination of environmental degradation, urbanisation and large-scale land acquisitions by foreign investors for biofuels is squeezing land suitable for agriculture.

"Worldwide, 5m to 10m hectares of agricultural land are being lost annually due to severe degradation and another 19.5m are lost for industrial uses and urbanisation," he says in a new report.

"But the pressure on land resulting from these factors has been boosted in recent years by policies favouring large-scale industrial plantations."
"According to the World Bank, more than one-third of large-scale land acquisitions are intended to produce agrofuels."

But the World Development Movement (WDM) in London warned that food speculation by hedge funds, pension funds and investment banks was likely to prompt further inflation.

According to the US Commodity Futures Trading Commission, speculators on the trading floor of the Chicago Exchange bought futures contracts for about 40m tonnes of maize and 6m tonnes of wheat in the summer.

Longtime hedge fund manager Mike Masters, who has worked with WDM, said: "Because there is already much more capital available in the world than hard commodities, speculators can increase the price of consumable commodities, like foodstuffs or energy, much higher than traditional consumers and producers can react."

"When derivative markets are linked to commodity markets, this nearly unlimited capital from the financial sector can cause excessive price volatility."

US government reports of much cooler-than-normal water temperatures in the Pacific, which traditionally lead to extreme weather around the world, last week added to food price uncertainties.