Soaring prices feed social unrest

JOHN VIDAL - Nov 01 2010 15:18

An impending food crisis could result in escalating prices and shortages in many countries as the cost of staple foods and vegetables reached their highest level in two years, with scientists predicting widespread drought and floods.

Though food stocks are generally good after a year in which harvests were wiped out in Pakistan and Russia, sugar and rice are at their highest price levels.

Five staple foods hit by the crisis

And global wheat and maize prices recently jumped nearly 30% in a few weeks. Global meat prices are at 20-year highs and in recent weeks, the United States predicted that global wheat harvests would be 30-million tonnes lower than last year.

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 United Nations food and agriculture organisation.

Repeat of 2008

"In the past 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." But opinions are sharply divided over whether these prices signal a world food crisis like the one in 2008 that resulted in riots in 25 countries, or simply reflect volatility in global commodity markets as countries claw their way through the recession.

"A food crisis on the scale of two or three years ago is not imminent, but the underlying causes 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 others point to food riots in Mozambique that killed 12 people in September, and say prices could spiral and lead to political turmoil.

They say this would be possible particularly if the price of oil jumps, if there are further climatic shocks -- like the floods in Pakistan or the heatwave in Russia -- or if speculators buy deeper into global food markets.

Concerns

"There is growing concern among countries about continuing volatility and uncertainty in food markets," said World Bank president Robert Zoellick. "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."

Recently the bank said food-price volatility would last another five years and asked governments to contribute to a crisis fund after requests for more than $1-billion 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."

Food price inflation

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

Last month, the governments of Kenya, Uganda, Nigeria, Indonesia 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 to release when prices rise.
Recently the United States government predicted the global wheat harvest would be 5.5% lower than last year.

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

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

According to the key Reuters-Jefferies commodity price indicator, meat prices are at a 20-year high.

**Agriculture**

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

"Worldwide, five million to 10-million hectares of agricultural land are being lost annually due to severe degradation and another 19.5-million hectares are lost for industrial uses and urbanisation," he said 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 a third of large-scale land acquisitions are intended to produce agrofuels."

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

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

**Price increase of consumable commodities**

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 future food-price uncertainties. -- © Guardian News & Media

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