The End of a Long Downward Trend? Analysis of the basic elements influencing the evolution of the prices of staple products in the long term

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Outline

- The Food Price Crisis: What is Going On?
- Why Did Prices Rise?
- How to overcome the food crisis and set the foundations for the transformation of agriculture
Agriculture and Poverty

- Developing world
  - 5.5 billion people
  - 2.5 billion are in households involved in Ag
  - 1.5 billion are smallholder households

- 800 million people food insecure

- 80% of food insecure people are in rural areas

- In many developing countries:
  - >50% of employment
  - >25% of GDP

- Increase in GDP from Ag is twice more efficient for poverty reduction than any sector
The Food Price Crisis: What is Going On?

- Agricultural commodity prices reached record levels of nominal prices in mid 2008.
- World attention is focused on food prices.
- Human made crisis.
- Main Causes: Poor policy choices.
Why Did Prices Rise?

- Long Term Trends Relevant to the Performance of the Agricultural Sector
- Short-Term Factors in the Price Crisis
Long Term Trends Relevant to…

- **Failure to address poverty:**
  - Decades of low agricultural prices have depressed rural income and discouraged investment in productive capacity of agriculture.

- **Failure to address food security:**
  - Little progress in improving food security.
  - Focus on exports has directed new investments to export high value products to high income markets.

- **Failure to address environmental performance:**
  - Agriculture and Forestry second to fossil fuels in GHG.
  - Inability to introduce environmental costs into producers balance sheet.
Long term trend in agricultural commodity prices

30+ years of declining and or flat prices

Agricultural commodity prices and Food Security
Public Spending in Agriculture has stagnated and it is the least where is needed the most.

Global Anthropogenic GHG Emissions

(a) Global annual emissions of anthropogenic GHGs from 1970 to 2004. (b) Share of different anthropogenic GHGs in total emissions in 2004 in terms of CO$_2$-eq. (c) Share of different sectors in total anthropogenic GHG emissions in 2004 in terms of CO$_2$-eq (Forestry includes deforestation.)

GHG for ag and forestry is to address the 31% of annual emissions coming. If we take care of this we take care of 0.26% Searchinger, et al.
Short-Term Factors in the Price Crisis

- Rapid increase in use of grains and oilseeds for biofuels.
- Low level of stocks-to-use ratios.
- Deregulation of US commodity futures trading and increase price of oil, triggered high speculative demand for grains and oilseeds.
- Impact of China, India, and weather have been over estimated.
Grains for Feed and Fuel Use

Feed long term driver of ag. demand

Developing countries are reproducing diet of the west based on high content of animal protein

Biofuels demand, the straw that broke the camel's back

Biofuels Expansion took off when world inventories were declining.

Source: USDA
The Conventional Way Out of a Price Crisis

- Agriculture is no strange to crisis
  - In mid-seventies: exploitation of Brazil Cerrados; expansion of soybeans
  - Mid-nineties: utilization of short term set asides in US & elimination Stocks
- Expand supply and go back to low prices
Nature of Crop Markets

- Technology expands output faster than population and exports expand demand
- Little self-correction on the demand side
  - People will pay almost anything when food is short
  - Low prices do not induce people to eat more
- Little self-correction on the supply side
  - Farmers tend to produce on all their acreage
  - Few alternate uses for most cropland
- Market failure: lower prices do not solve the problem
How to Overcome the Food Crisis and set the Foundations for the Transformation of Agriculture

- Higher agricultural prices: opportunity to invest in agriculture. But which type of investment matters.

- Goal: poverty reduction, increase food security, and enhance environmental performance.
Increase in agricultural prices is not necessarily a bad for food security, specially if coming from long trend of low prices.
Expand the Impact of Higher Prices in Food Security

Investments directed to improve share of high prices capture by farmers would improve food security.
Strategy for Food Security

- Increase farmers ability to capture larger share of higher prices:
  - Invest in farmers’ access to markets, improving marketing & distribution systems

- Increase access to land, water and productive resources

- Invest in research and extension to improve productivity of local crops to supply the now profitable local market

- Implement programs to ensure access to food for vulnerable population
Trade-off Between Agricultural Prices and Environmental Cost

Under current agricultural practices and food consumption patterns, an increase in ag prices could accelerate environmental costs.
Higher Ag Prices Create Conditions to Invest in reducing Environmental Cost

Investment in agricultural technologies less intensive in fossil inputs, and in tune with local soil and food habits would reduce environmental cost of agriculture.
Strategy for Climate Change

- Drastically change diet composition towards more efficient sources of protein and food from local origin.

- Invest in Research & Extension oriented to:
  - Reduce use of fossil based inputs in agriculture.
  - Improve management practices which increase the environmental performance of production agriculture.
  - Ensure the best use of soils and landscape.

- Recuperate the complementarity of crop and livestock activities in the farm.

- Integrate GHG emissions and other environmental impacts into food system economic balance sheet.
Institutional Investment

- Strengthen land property rights and enforcing mechanisms to protect small holders
- Re-develop domestic institutionality to support transformation of agriculture
- International food reserve system
- Global coordination of biofuel development
Concluding Remarks

- We can not afford to go back to the pre-crisis agriculture. If nothing is done, missed opportunity for poverty reduction, agriculture, and climate change.

- Domestic food policy objectives before trade objectives.

- Be prepare for lower prices!
Thanks!

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