

# Causes and consequences of rising food prices



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The prices of staple foods such as corn, rice, wheat and oilseed crops have risen constantly from the beginning of 21st century and made a dramatic increase from 2007 to 2008 as figure 1 shows. The causes of this price spike are complex and due to structural and conjunctural reasons, including the rising population, drought and the diet change in emerging country. The food prices has been elevated and have led to a serious concern about deficiency of food supply which might result in turbulence of international market and starvation in developing countries. Thus it is obviously immediate controls on commodity price are required for food security.

Figure 1: The trend of food prices from 2000- 2008

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### **The factor s which affect the prices**

The reasons of such food price rises are both long-term and short-term. Firstly, the population of world increase steadily which is led to two problems. For one thing, the steady yield of food production must face more and more people's need. For another, More people means more consumption goods are demanded. These all requires more fuel per person. Combined with this rising demand of energy and higher expense of oil extracting, the oil price therefore rose up to 147 dollars a barrel. Associated with increase of oil price, the cost of food production raised because the price of artificial fertiliser, machinery operations and transportation of food increase synchronously. This thereby significantly effects the supply side of food.

Moreover, because energy is the most essential in a country's economic life especially in those industrial countries. It is inappropriate to depend on other countries who dominate the oil supply and price. As the result of concerns about energy security, multiple forms of biofuels are developed which was too expensive to use once upon a time. However with high oil price, biofuels was able to compete with traditional fossil fuels; thus, wheat and oilseed are turned to produce biodiesel and sugar plants are made into ethanol. 'More than half of the increase in use of both coarse grains and vegetable oil was due to higher use in the biofuels industry.' [1] Due to the supportive and protective policy to renewable energy section established by government, the feedstock demand of coarse grains and oilseed will keep growing in future. This is one of root cause that driving up the food prices to high level.

In the short term, the continued drought and flood occurred in food production region could deliver more harmful results. Notably, drought that has taken place in Australia cracked down the wheat production in 2007 made the world cereal stocks lower. As can be seen in figure 2, after experienced a slightly growing from 2004 to 2006, world cereal stocks dropped in 2007. Besides, speculation in commodity market by investor who are looking for a better price to sell led to fluctuation of food price as well. These factors lifted the food prices sharply but temporarily.

#### Figure 2: Declining Global Stocks

The last cause may be long-term or short-term. Some developing countries flourished rapidly in last few decades such as BRIC countries (Brazil, Russia, India and China). People from these countries prefer high-protein food like

beef and other domestic animal than vegetables and staple food after they become wealthy. Animals fed by coarse grains produce less calories than they absorbed. One calorie intake of people made from livestock consumes seven calories of plant originally. But it might not be a permanent phenomenon because more people have the awareness of benefit from balance daily diet and nutrition. They will find it not healthy and bored to eat too much meat. The consumption of meat will reduce ultimately. Nevertheless it still cause the food prices to rise currently.

## **The consequences**

The consequences of the price rises for individuals are dissimilar. Although the cost of food production have raised due to high oil price, big farm owners, particularly who can get access to the world market would be benefited definitely. Small farmers who lived in developing countries will profit from high prices if they do not have obstacles to sell products to world market. The consequences for low income consumers particularly in developing countries are negative. It would take large fractions of income to feed themselves which result in reduction of food consumption or switching to cheaper or less nutrition food.

On world trade market, Many countries have been facing higher exchange cost of food import which made them had a financial burden, especially the country is not energy resources exporter. On the other hand, These countries have to stimulate their own agriculture in order to be self-sufficiency. Such a labour-intensive industry can absorb many poor people which could mitigate the harmful effect of food prices on poor.

Moreover, the consequences of higher food prices for a country's balance of trade is different (shown in figure 3). The trade balance of food exporters like Kazakhstan will be improved by more than 1 percent while other exporters improving from 0 to 1 percent. Food importers such as most African countries' trade balance will aggravate by more than 1 percent. The trade balance of energy exporters who would benefit from rising oil price will not worsen a lot.

Figure 3: Impact of Food Price Increases on Trade Balances

## **Conclusion**

Food prices have been rising since early 21 century and reach the peak value in 2008 because of higher energy cost, demand of biofuels, growing demand of people's food as populations increase, and for livestock foods and natural calamities.

The consequences of this phenomenon are poor households need face hunger and poverty, food-importing countries experience high import bills and worse trade balance.