



Causes of the 2007-2008 global food crisis identified

A recent report has examined the causes of the 2007/2008 global food crisis. A number of interacting factors, including increasing oil prices, greater demand for biofuels and trade decisions, such as export restrictions, all affected world cereal prices. The report makes suggestions for strengthening the world's food system to avoid a similar crisis in future.

Global prices of important cereal crops rose significantly from mid 2005 to 2008. Wheat and rice prices nearly doubled, triggering a food crisis that particularly affected developing nations. Although prices fell swiftly after peaking in 2008, food prices have risen again and will likely remain high for the foreseeable future. If the fundamental causes of the crisis are not addressed, a failure of the world food system to provide food security could happen again.

After reviewing the evidence, the study suggests the 2007/2008 food crisis was primarily driven by a combination of rising oil prices, a greater demand for biofuels and trade shocks in the food market. Rising oil prices led to increased costs of cereal production, as agriculture is generally an energy intensive enterprise. At the same time, there was increasing demand for cereal foods from wealthy oil-exporting countries. More importantly, higher energy prices increased the demand for biofuels, which became more competitively priced when compared with oil. In particular, this drove up the demand for biofuels derived from maize in the United States.

Of particular concern was the effect of trade shocks on the price of grain commodities. These impacts included export restrictions, panic buying of imported grains and droughts. Rice prices have historically been more volatile than other grain commodities. About 90 per cent of rice is consumed domestically, leaving smaller volumes available for trading. The surge in rice prices in early 2008 was primarily due to a ban on the export of rice by major rice producing countries (particularly India and Vietnam), in the face of shortages and rising prices at home. This caused panic buying in other countries, especially the Philippines, adding to the rise in prices.

Both weather shocks and trade restrictions were significant drivers in the near doubling of wheat prices. Successive droughts in Australia in 2005-2006 put pressure on the price of wheat. In addition, Ukraine and other major cereal exporters restricted or banned exports due to poor harvests and to protect domestic prices.

Contrary to some opinions, the study found there was little evidence to link changes in the diets of affluent populations in some emerging economies, such as China and India, to rising prices. Nor was there evidence to suggest that low grain stocks contributed towards the increasing prices. In addition, financial speculation was not considered to be one of the prime causes of the crisis.

The study suggests a number of actions should be taken to strengthen the global food system against further shocks in the future. These include:

- Encourage major grain producing countries, such as India and China, to release grain stocks during critical times to reduce volatility in international markets
- Scale up programmes to protect the vulnerable, especially children and women, from rising food prices
- Liberalise trade in agricultural products
- Advance sustainable agricultural development in regions dependent on food imports

In the longer-term, global food production will likely face further threats, especially from climate change and degradation of land and other resources.

Source: Headey, D and Fan, S. (2010) Reflections on the Global Food Crisis. How Did It Happen? How Has It Hurt? And How Can We Prevent the Next One? *International Food Policy Research Institute*. Research Monograph 165. The report can be accessed at: <http://www.ifpri.org/sites/default/files/publications/rr165.pdf>

Contact: d.headey@cqiar.org

Theme(s): Agriculture