

The Coming Food Crisis

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For the third time in five years the world is braced for another food crisis. Bad weather conditions are leading to projections of major production shortfalls in some of the world's leading food suppliers. Substantially reduced access and sharp price increases are, therefore, expected to keep food out of the reach of a larger proportion of the world's population. The last two crises, in 2007-08 and 2011, led to food riots in many countries. So it is not just high food prices, increased hunger, localised famines and widespread increase in deprivation that are possibilities. Given the fact that the current food crisis occurs when the world is still steeped in the Great Recession that began in 2007, a period of political turmoil with unexpected consequences is also on the anvil. The world is only just waking up to this prospect.

With the world's food basket consisting of a range of commodities sourced from varied locations, each crisis has its own special features. But the cumulative consequences are similar, especially since the currently developing crisis is being determined by expected weather-induced shortfalls in the larger producers. Prime among these is the US, the central agricultural belts of which are experiencing their worst drought in almost half a century. Reports from the National Oceanic and Atmospheric Administration of the US are startling and almost unbelievable. July 2012 was the hottest single month in the country on record, and the first seven months of 2012 were on average the warmest since records began to be kept in 1895.

The two crops whose production has been affected the most by this extreme weather event are maize (corn) and soya bean. Between July and August the US Department of Agriculture (USDA) has slashed its estimate of production from the standing corn crop by 2.2 billion bushels to 10.8 billion bushels. Half of the corn crop is assessed as being in "poor" or "very poor" condition, which is the worst assessment since 1988. The output of soya beans is also expected to be the lowest in five years.

These production shortfalls are significant for three reasons. To start with, the US is the largest producer and exporter of corn. It accounts for nearly half of world exports of corn and about one third of the exports of soya bean. This implies that the effects on supply and prices of the shortfall in the US would be quickly transmitted to global markets for this important grain. Second, corn has alternative uses besides directly entering the food chain. Forty per cent of the crop is estimated as being absorbed by the ethanol companies and about a third as entering feed required by the meat and poultry business. So, when output falls, demands from competing sources tend to drive up prices to even higher levels. Finally, even if the worst production shortfalls are in corn and soya bean, other commodities such as wheat would also be affected, since they can substitute for expensive corn. Thus, there are fears that wheat production would be diverted to feed production, affecting supplies available for direct human consumption.

This is bad news because bad weather and expectations of output shortfalls are not restricted to the US and maize and soya bean alone. Drought conditions have affected wheat production in the Black Sea region (Russia, Ukraine and Kazakhstan), which accounts for a quarter of global exports. Adverse weather is also expected to lower production in Australia, Argentina and China. To make matters worse, governments, such as Putin's in Russia, are expected to adopt policies to discourage exports, tightening global supplies.

The first signs of the likely results are already visible. There has been a sharp increase in the prices of certain food grains. The FAO's Food Price Index (FPI) rose by 6 per cent in July 2012, driven by grain and sugar prices. Cereal prices rose by 17 per cent in June relative to the previous month, maize prices by close to 23 per cent and wheat prices by around 19 per cent. In the US, the USDA predicts that corn and soya bean prices may break previous records. When prices begin to rise in this fashion, speculators enter the market and push up prices further. Corn and soya bean futures have turned buoyant, reflecting this possibility.

In sum, the world must brace itself for another food crisis. Poor developing country exporters that have not recovered fully from earlier crises would be affected the worst, more so because the dollar (in which global prices are quoted) has strengthened as a result of the flight of international investors to what is seen as a "safe(r)" currency. Reuters reports that West African countries such as Mali, Niger and the Ivory Coast have cut import tariffs on imported food as a means of containing the rise in domestic prices.

Clearly action is needed at the supply end. FAO Director General Jose Graziano da Silva has in an article in the Financial Times of August 9, 2012 called on the US to substantially reduce the diversion of maize to ethanol production. "With world prices of cereals rising, the competition between the food, feed and fuel sectors for crops such as maize, sugar and oilseeds is likely to intensify. One way to alleviate some of the tension would be to lower or temporarily suspend the mandates on biofuels. At the moment, the renewable energy production in the US is reported to have reached 15.2bn gallons in 2012, for which it used the equivalent of some 121.9m tonnes or about 40 per cent of US maize production. An immediate, temporary suspension of that mandate would give some respite to the market and allow more of the crop to be channelled towards food and feed uses", he argues.

India too is likely to feel the effects of the imminent crisis. The south-west monsoon in the country has been deficient to the extent of an estimated 22 per cent or more leading to delayed and much reduced sowing. So the kharif crop is expected to be significantly lower this agricultural year. With food prices already ruling high, this can have adverse consequences even without accounting for the global crisis.

However, India's food economy has a buffer to fall back on. Good rainfall in 2010-11 had resulted in a recovery in production from its lower level in the previous relatively poor agricultural year (2009-10). In that year, rice production had fallen quite significantly and wheat

production had stagnated. The better performance in 2010-11 was followed by a further rise in production in 2011-12. This had taken both rice and wheat production to levels that are about 4 per cent higher than their previous peaks.

While comforting, this is by no means a major step up in production. However, even that rise in production has resulted in excess stockholding in the system. In April 2012, rice and wheat stocks at 333.5 lakh tonnes and 199.5 lakh tonnes respectively were much higher than the prescribed minimum buffer limits of 142 and 70 lakh tonnes for that time of the year. A consequence has been that the Food Corporation of India has run out of appropriate storage for the stocks it has been able to procure and needs to hold. In the event there have been recommendations from various quarters that the government must not only release stocks to the "open" market but should resort to exports, either directly or through market agents, of the stocks it holds.

It is not only the availability of stocks in excess of the buffer required that is being used to justify such demands. More importantly, since prices of food grains in the international market are ruling relatively high, it is being suggested that exports would not only help the government recoup the expenditure it has incurred on procuring and storing the food grains concerned, but would endow domestic prices with the buoyancy that would help farmers reap the benefits being obtained by their counterparts elsewhere in the world.

What is being ignored here are the likely global effects of production shortfalls in the major food exporting countries. With government having made a principle out of calibrating domestic prices in line with international prices, the danger that the country would fritter away its excess food reserves rather than use it to strengthen food security in period of global uncertainty is real.

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