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GLOBAL TREND BY MARTIN KHOR

In Malaysia, the rising cost of wheat flour and its related products such as bread and noodles is causing anxiety to consumers. It's the same bad news all over the world, and higher food prices are likely to stay or even rise.

THE rising cost of wheat flour and its possible inflationary spill over to bread, noodles, cakes, biscuits and chapatti has been making hot news in Malaysia.

It was reported in *The Star* last Thursday that the price of wheat flour per kilo rose from RM1.70 to RM2.00 on Sept 15 and to RM2.60 on Oct 16. The Government has urged makers of wheat-based food products to restrain from raising their prices excessively.

It is the same bad news the world over. And wheat is only one example. The prices of many other food items are also going up.

In the world market, wheat and milk prices have risen to all-time high levels. Rice is at a 10-year record level. Corn and soyabean prices are also higher than their averages a decade ago. The price of meat has shot up in many countries.

The era of cheap food seems to be over. With demand exceeding supply, there is also concern of impending shortages, as stocks in warehouses decline, and as some countries restrict the export of their food.

We are used to some food prices suddenly going up and then declining again. This is usually due to output being affected by drought or crop disease, and indeed the present drought in some wheat-producing countries is one reason for the recent increase in wheat prices.

But this time there are also other more structural and long-term factors that suggest that the high levels of food prices will remain or climb further.

The first is the rising demand for many types of food in developing countries, due to population growth, rising incomes, and changing tastes.

China is often cited as an example of this rising demand, but there are also many countries where demand is outstripping local supply, thus increasing the pressure on world markets.

The second is the rising cost of inputs that go into producing food. Oil is the prime example. Its price has been shooting up; last week it hit a record of US\$92 a barrel and there are predictions of its reaching \$100 in due course.

This hits food prices in at least two ways - by driving up the cost of inputs such as tractor fuel and fertiliser, and by increasing the cost of transporting the food across oceans.

The third is the boom in bio-fuels, which is causing land that could be growing food crops to be used for producing crops for fuel.

The increased demand for bio-fuels is causing basic changes to agricultural markets that may drive up the world prices of many farm products, according to a June report by the Food and Agriculture Organisation (FAO) and the OECD (the developed countries think-tank).

Their Agricultural Outlook 2007-2016 said that temporary factors such as droughts in wheat-growing regions and low stocks largely explain the recent increases in farm commodity prices.

But structural changes are underway which could well maintain relatively high nominal prices for many agricultural products over the coming decade, said the report summary.

The most important change is the growing use of cereals, sugar, oilseed and vegetable oils to produce fossil fuel substitutes, ethanol and bio-diesel.

This is underpinning crop prices and, indirectly through higher animal feed costs, also the prices for livestock products.

The shift of land use from food to fuel is ringing alarm bells. On Oct 26, the United Nations rapporteur on the right to food, Jean Ziegler, told a press conference in New York that there should be a five-year

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moratorium on bio-fuels as it is a crime against humanity to convert food crops to fuel.

Bio-fuels are driving up food prices at a time when there are 854 million hungry people in the world.

Another recent FAO report on (Crop prospects and food situation) said that international wheat prices have risen sharply since June, hitting record highs in September, due to tightening world supplies, low stock levels and sustained demand.

The combination of higher export prices and soaring freight rates is pushing up domestic prices of bread and other basic food in importing developing countries, and causing social unrest in some areas.

Overall, developing countries are estimated to spend a record US\$52bil (RM173bil) in cereal imports in 2007. Other highlights of the FAO report:

>> MAIZE prices are well above last year's levels, despite bumper crops, due to strong demand from the bio-fuel industry;

>> THE 2007 cereal harvest will only meet utilisation levels in 2008, meaning that stocks will not be replenished. Cereal stocks will remain at very low levels for the foreseeable future;

>> WHEAT stocks are worrying. Sustained demand amid insufficient production increase this year may cause world inventories to fall by at least 14 million tonnes to 143 million tonnes, the lowest in 25 years; and

>> THIRTY-SIX countries are currently facing food crises.

With food prices on the rise, and with food insecurity increasing as stocks tighten or fall, many countries are already planning to increase their own production of food.

Since the prices of food imports are now so high, it is economically more worthwhile, for both farmers and the nation, to start or increase the production of various types of food crops.