

Tensions rise as world faces short rations

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By Russell Blinch and Brian Love

WASHINGTON/PARIS (Reuters) - Food prices are soaring, a wealthier Asia is demanding better food and farmers can't keep up. In short, the world faces a food crisis and in some places it's already boiling over.

Around the globe, people are protesting and governments are responding with often counterproductive controls on prices and exports -- a new politics of scarcity in which ensuring food supplies is becoming a major challenge for the 21st century.

Plundered by severe weather in producing countries and by a boom in demand from fast-developing nations, the world's wheat stocks are at 30-year lows. Grain prices have been on the rise for five years, ending decades of cheap food.

Drought, a declining dollar, a shift of investment money into commodities and use of farm land to grow fuel have all contributed to food woes. But population growth and the growing wealth of China and other emerging countries are likely to be more enduring factors.

World population is set to hit 9 billion by 2050, and most of the extra 2.5 billion people will live in the developing world. It is in these countries that the population is demanding dairy and meat, which require more land to produce.

"This is an additional setback for the world economy, at a time when we are already going through major turbulence. But the biggest drama is the impact of higher food prices on the poor," Angel Gurría, head of the Organization for Economic Cooperation and Development, or OECD, told Reuters.

In Gurría's native Mexico, tens of thousands took to the streets last year over the cost of tortillas, a national staple whose price rocketed in tandem with the price of corn (maize).

Global food prices, based on United Nations records, rose 35 percent in the year to the end of January, markedly accelerating an upturn that began, gently at first, in 2002. Since then, prices have risen 65 percent.

In 2007 alone, according to the U.N. Food and Agriculture Organization's world food index, dairy prices rose nearly 80 percent and grain 42 percent.

"The recent rise in global food commodity prices is more than just a short-term blip," British think tank Chatham House said in January. "Society will have to decide the value to be placed on food and how ... market forces can be reconciled with domestic policy objectives."

Many countries are already facing these choices.

After long opposition, Mexico's government is considering lifting a ban on genetically modified crops, to allow its farmers to compete with the United States, where high-yield, genetically modified corn is the norm.

The European Union and parts of Africa have similar bans that could also be reconsidered.

A number of governments, including Egypt, Argentina, Kazakhstan, and China, have imposed restrictions to limit grain exports and keep more of their food at home.

This knee-jerk response to food emergencies can result in farmers producing

less food and threatens to undermine years of effort to open up international trade.

"If one country after the other adopts a 'starve-your-neighbor' policy, then eventually you trade smaller shares of total world production of agricultural products, and that in turn makes the prices more volatile," said Joachim von Braun, director general of the International Food Policy Research Institute in Washington.

In Argentina, a government tax on grain led to a strike by farmers that disrupted grain exports.

Vietnam and India, both major rice exporters, announced further curbs on overseas sales on Friday, sending rice higher on U.S. futures markets. Other food commodities retreated from record highs in recent days but analysts attributed that less to fundamentals and more to profit-taking by investors.

DISCONTENT

In the next decade, the price of corn could rise 27 percent, oilseeds such as soybeans by 23 percent and rice 9 percent, according to tentative forecasts in February by the OECD and the U.N.

Waves of discontent are already starting to be felt. Violent protests hit Cameroon and Burkina Faso in February. Protesters rallied in Indonesia recently and media reported deaths by starvation. In the Philippines, fast-food chains were urged to cut rice portions to counter a surge in prices.

Last year, the central bank of Australia -- where minds were focused by a two-year drought -- asked whether the surge in commodity prices could be one of the few really big ones in world history, like those of the mid-1930s or the 1970s.

Real commodity prices remained flat or even fell during the rapid industrialization of the United States and Germany in the early 20th century. But the industrialization of China, with 1.3 billion people, is on a totally different scale, it noted.

"China's population is proportionately much larger than the countries that industrialized in earlier periods and is almost double that of the current G7 nations combined," the Australian central bank said.

The emergence of China's middle class is adding hugely to demand for not just basic commodities like corn, soybeans and wheat, but also for meat, milk and other high-protein foods.

The Chinese, whose rise began in earnest in 2001, ate just 20 kilograms (44 pounds) of meat per capita in 1985. They now eat 50 kilograms (110 pounds) a year.

Each pound of beef takes about seven pounds of grain to produce, which means land that could be used to grow food for humans is being diverted to growing animal feed.

BIOFUEL TROUBLE

As the West seeks to tackle the risk of global warming, a drive towards greener fuels is compounding the world's food problems.

It is estimated that one in four bushels of corn from this year's U.S. corn crop will be diverted to make fuel ethanol.

"Turning food into fuel for cars is a major mistake on many fronts," said Janet Larsen, director of research at the Earth Policy Institute, an environmental group based in Washington.

"One, we're already seeing higher food prices in the American supermarket. Two, perhaps more serious from a global perspective, we're seeing higher food prices in developing countries where it's escalated as far as people rioting in the streets."

Similarly, palm oil is at record prices because of demand to use it for biofuel, causing pain for low income families in Indonesia and Malaysia, where it is a staple.

But despite the rising criticism of biofuels, the U.S. corn-fed ethanol industry enjoys wide political support because it boosts farmers, who suffered years of low prices, and that support is likely to continue.

John Bruton, the European Union's Ambassador to the United States, predicts that the world faces 10 to 15 years of steep rises in food costs. And it is the poor in Africa and, increasingly, South East Asia, who will be most vulnerable.

The director of the U.N. World Food Program, Josette Sheeran, is on a global tour in search of donations to fill a \$500 million funding gap caused by the rising prices. America's largest aid program, Food for Peace, has seen its commodity prices jump 40 percent and may have to curtail donations.

But aid and many policy options available to governments for helping the hungry distort markets and cause pain elsewhere in their economies, according to proponents of free markets.

"I was involved in a government that introduced food subsidies in Ireland and we had the devil's own job to get rid of them," said Bruton, who was Prime Minister of Ireland from 1994 to 1997.

Others trust that better fertilizers and higher-yielding crops -- some of them genetically modified -- will keep production in line with demand.

Bruce Babcock, an economist at Iowa State University, said the rising markets are a signal to farmers that they need to raise production.

"It's actually the greatest time in the world to be a farmer around the world," Babcock said. "We are going to see fairly substantial increases in production because farmers have never had such a large incentive to increase production."

But others note that expensive seeds and fertilizers are out of reach of farmers in poor countries.

Around the beginning of the 19th Century, British political economist Thomas Malthus said population had the potential to grow much faster than food supply, a prediction that efficient farming consistently proved wrong. Now, at the beginning of the 21st century, some are revisiting his predictions.

(For graphics, pix and video, click [here](#))

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