

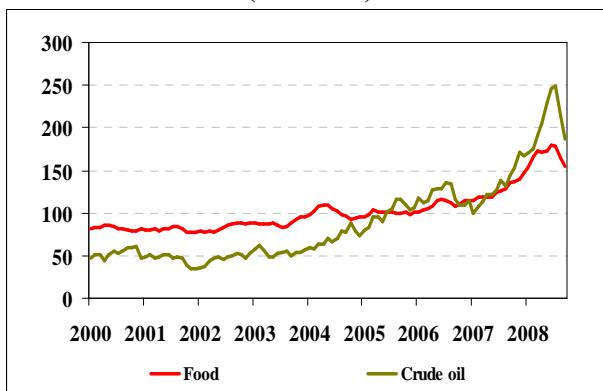
ROSA Focus

This Month's Highlight: Another look at the drop in food prices

The 2007/08 season was marked by strong tensions on the food and energy markets. After having reached record highs, the price of the main food products and oil decreased markedly as from the second half of 2008. This drop is the result of increased world supplies (perspectives of good harvests, less export restrictions,...). The season was also marked by the crisis on the financial markets, which helped increase changes in price and speed their drop. Furthermore, the appreciation of the US dollar and the decrease in oil prices have contributed to this trend. It is difficult to predict price trends because of the unusual state of the markets. However, in the short and middle term, no structural changes are in view. International markets will remain mainly volatile.

This article will look at recent price variations and perspectives for change in world markets. It raises questions about the ability of populations, governments and the international community to deal with a new situation with high, volatile prices.

**Graph No. 1: Index of food and oil prices
(2005=100)**



Source: IMF Database

Structural changes combined with cyclical factors behind the fluctuation of international prices

Slowed production growth, the drop in supply, low stock levels, the continual increase in quantities used for human consumption and animal feed, the increase in energy prices and the large increase in the demand for biofuels are the main components that have come together to make price rises so high in 2007/08. Global **cyclical factors** have added to these **structural factors**, things like climate change (the succession of droughts and floods), the significant increase in investments on markets derived from agricultural products (cf. box No. 1) and export restrictions imposed by exporting countries, particularly for rice. It is important to distinguish between structural and cyclical factor in order to differentiate between elements that contribute to a lasting price rise and events that contribute to amplifying the phenomenon of price rise or price drop on international markets.

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Box No. 1: The rapid expansion of non-commercial investments in agricultural future markets

Data concerning the activity of non commercial investors on American future markets provides some information about the speculative profiles and calibre of non-traditional investors. The total open position on maize, for example, increased from 0.66 million to 1.45 million contracts between February 2005 and February 2008, and during this period the share of non commercial speculators in long-term positions rose from 17% to 43%.

The cumulated long-term effect of these activities on the level of prices on future markets remains very uncertain. But it seems that increasingly volatile prices may be a possible result, given the quantity of these non-commercial investments, and the fact that they are liable to enter or leave commodity trading depending on their possibility to arbitrate.

Source: *OECD, 2008*

International prices start a downward trend

The world price of wheat, secondary cereals (particularly maize), rice and oilseeds more than doubled between 2006 and 2008 (cf. graph No. 2). Over the last few months, prices have tended to drop markedly but remain high despite good harvests, and even exceptional ones in certain cases, predicted for all cereals. The substantial drop in oil prices and the international financial crisis have also helped reverse the trend.

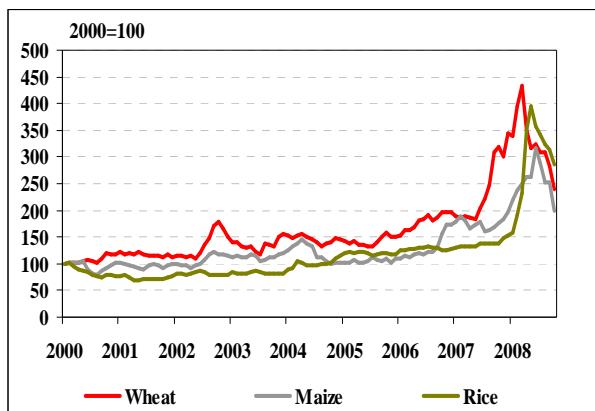
The prices of **wheat** began to drop in April thanks to predictions of good harvests expected for the new season. This is because the high prices led to a large increase in planting, which should lead to record wheat production in 2008. Compared with the peak reached in March, world wheat prices should be 45% lower in October. Most wheat futures in the United States also dropped to their lowest level since July 2007. Nevertheless, the price of wheat remained markedly lower than the average observed between 2002 and 2007.

The drop in international **maize** prices began in July. The high demand, combined with uncertain harvests¹, maintained an upward trend until the beginning of the second half of 2008. But the latest forecasts have been revised upward, notably in the United States. Moreover, greater availability of wheat is likely to reduce the demand for secon-

dary cereals and contribute to a drop in the price of maize.

The rise in price of **rice** increased sharply from February 2008, after export limits in various Asian countries. The effect of these measures was to decrease the supply on world markets, amplifying the price rise. Production in 2008/09 is predicted to be exceptional, which started a drop in prices as from June 2008. Governments have also started to lift trade restrictions. However, prices remain 60% higher than the average over the last five years (2002-2007).

Graph No. 2: Variation in the price of cereals over the 2000-2008* period (index 2005=100)



*October 2008 (average for the first three years)
Indexes were established from the export price (US\$/tonne)².

...but markets will remain tense and volatile

The drop in food prices does not mean a structural change in markets. Market fundamentals with unusually low stocks should not lead to a **persistent price rise** (even if prices remain higher than those registered over the last decade³). Market tensions are likely to be favourable to very **volatile prices**. Price fluctuations in foodstuffs are often very marked in the world market. A slight deficit in the market balance could create an upsurge in prices. A slight surplus is likely to cause them to collapse. In order to avoid a major crisis in the future, price volatility needs to be reduced, because this affects both consumers and producers of foodstuffs.

¹ In the United States, the main producer and world exporter, the drop in areas sown, combined with bad weather, has slowed the sowing.

² Wheat: No. 2 HRW (ordinary), f.o.b. Gulf of the US
Maize: No. 2 Yellow, Gulf of the United States
Rice: White Thai rice, 100% 2nd grade, f.o.b. Bangkok

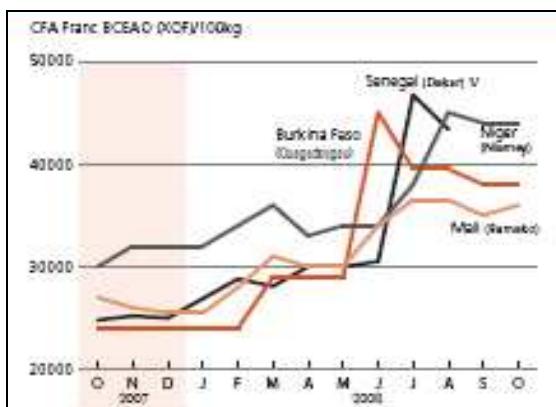
³ On average over the next ten years, the real prices of cereals, rice and oilseeds should be 10 to 35% higher than those recorded over the past decade (OECD, 2008).

Repercussions on local and regional markets

The price rise is reflected differently in different countries. Countries in which urban populations mainly consumes imported foodstuffs are the most affected. The question of the dependence of countries and households on imports has been a particularly important factor of vulnerability. Furthermore, national factors such as how the cereal market operates (locally and regionally), the behaviour of economic agents or policies implemented by governments, have had a decisive influence on the scale of effects. They have helped increase or attenuate the international price rise⁴.

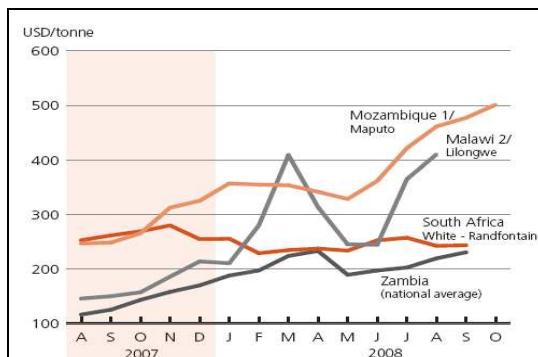
It is still too soon to assess the degree and dynamics of price transmission on local and regional markets. However, the available data shows a slight downward trend, but this drop is less important than the drop observed on international markets. This is the case for imported rice in West Africa (cf. Graph No. 3) and maize in Southern Africa (cf. Graph No. 4).

Graph No. 3: Price of imported rice in certain West African markets



Source: GIEWS/FAO

Graph No. 4: Price of maize in some Southern African markets



Source: GIEWS/FAO

The need to reduce vulnerability in a sustainable way

Soaring food prices have highlighted the general worsening of living conditions of a significant part of the population in many countries. Forecast trends of international markets show that this situation is going to last, given the increased volatility of international markets. This implies that "crises" of food accessibility could occur more often and with more severity than in the past. So there is a need to take account of this new context when defining the responses that will attenuate the consequences of price fluctuations and also sustainably reduce the vulnerability of countries and populations. Whence the importance of promoting safety nets for strengthening the help and protection of the most vulnerable groups. In the same way, food agriculture needs to be encouraged, as does investment in how the food sector operates.

The international financial crisis raises questions about the risk of reducing international cooperation funds that can be used to develop more appropriate medium- and long-term solutions. However, the financial crisis has also caused the issue of increased regulation to resurface, and this seems essential to reduce the volatility of agricultural markets.

For more information:

CIRAD, An analysis of the causes of the rise in food prices. Note on the variation of fundamentals of the world food market, June 2008

IFPRI, Speculation and World Food Markets, IFPRI Forum, July 2008

OECD/FAO, Agriculture Outlook 2008-2017, July 2008

OECD, The rise in food prices: causes, consequences and solutions, September 2008.

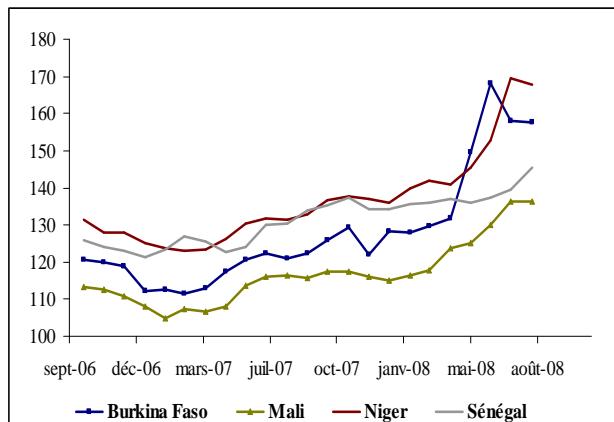
⁴ The devaluation of the dollar is also an element to take into account. In the CFA area, inflation is increasing, but less than in other regions. This is due both to the fact that expectations of inflation are anchored in the system of fixed exchange with the euro, and to the slowing effect of the stronger euro (IMF 2008).

Current food security situation

Repercussions differ from country to country

The transmission of international prices of food products to local markets in Western and Central Africa is variable, and depends on several factors, such as i) how much the national economies depend on imports, ii) local contexts particularly the level of production during the last growing season and iii) the economic situation and living conditions in households⁵. Graph No.1 shows the price variation of food products in four West African countries. It is apparent that all countries have been affected by the acceleration of inflation since the last quarter of 2007, but there are large differences in the scale of the rise (or drop) from country to country.

Graph No. 1: Variation in the CPI in some West African countries - Food Products



CIP: Consumer Price Index (IHPC – Indice Harmonisé des prix à la consommation)

Source: UEMOA

This article aims to present an insight of the situation in four countries in West (Senegal and Burkina Faso) and Central Africa (Burundi and DRC) and show the combination of national and international factors that explain the variation in food prices. It was written with the contribution of EC Delegations.

West and Central Africa

Senegal: A country that is very exposed to price rises

Senegal is a country with a food deficit, only half of the national consumption of cereals is covered by national production. In 2008, the analysis of prices up to September shows a strong inflationary trend.

As far as millet (the main local cereal) is concerned, the price for the producer rose by about one third compared to last year, while the retail price rose by 62%. The rise in the price of rice was very substantial in Senegalese markets. Local hulled rice increased by 49% compared to last year. This increase is even greater for broken rice (54%).

These increases are mainly explained by:

- the poor results of the peanut trading season. Producers sold their cereal stock at higher prices (they usually have a conventional annual peanut/cereal rotation);
- the low supply of local cereals and the speculation of traders in response to the high consumer demand;
- the high inflation observed in the world price of basic commodities (rice, wheat, milk, sugar, etc.).

Burundi: The proportion of the household budget spent on food remains high

Foodstuffs in Burundi come from local food crops and imported products (essentially from countries in the sub-region). Supplies in Burundi do not cover the population's needs. The causes of the deficits are to be found in weak production capacities, which are themselves a consequence of insecurity in the country, instability of the population, lack of agricultural inputs and climate vagaries. According to the World Bank, net import of food products amounts to about 13%. On the other hand, demand is increasing because of demographic growth in Burundi (about 2.7% per year).

In 2007/08, prices for basic food products increased on average by 23% (with variations among different products and disparities between the various markets particularly reflecting differences in consumer habits).

⁵ Oxfam UK and Save the Children have conducted a study on the impacts of high prices on food security in Sahelian countries. This contributes to the analysis of regional and national factors that helps to increase or attenuate the impacts of rising prices at the regional level and on household food security. This study will be issued in late November.

For imported products, prices have generally increased, particularly due to the depreciation of the Burundi franc against the currencies of its trade partners and to the rise in transport costs. Retailers also play a significant role, selling their purchases directly on the market or building up stocks to be sold at a later date, thus creating artificial shortages which result in a strong rise in the prices of those products. Trends on the domestic market in fact show that seasonal factors have a major influence on prices (lower during the harvest period than during the rest of the period).

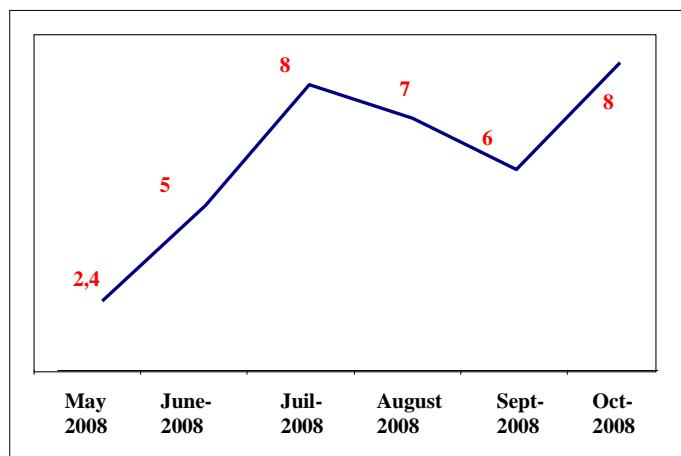
The proportion of the household budget spent on food remains high. About 67% of household income is spent on food. The rise of the price of foodstuffs has a negative impact on the quality and quantity of the food consumed, as well as on the resources available for non food commodities (health, housing,...). The purchase of seeds and other agricultural inputs, for example, to cover the next growing season is sometimes compromised, leading to a deterioration of the situation.

The rising trend continues in the Democratic Republic of Congo (RDC)

The price variation between May and October 2008 was 8.18% overall for the whole of the DRC (cf. Graph No. 2). Border towns experienced substantial price rises (over 20%). The political situation is unstable in these areas, and there are large numbers of displaced people, which limits farming. In the markets in Goma, for example, prices of maize and manioc have risen twice. Prices of food staples remain high, despite the harvest that is underway. This is the result of poor harvests that are partly due to low rainfall, but mainly due to the volatile political situation. The pressure caused by the demand for farm produce in Bukavu (maize, beans, manioc), Rwanda (beans, bananas, maize) and Uganda (beans, bananas, maize) is also a sizeable factor causing price fluctuations for these foods in the Goma markets. The price rise of imported goods (like wheat flour) and fuel is no doubt due to world price fluctuations and to BIVAC setting up in border posts to reduce fraud.

Throughout the country, the state of roads and infrastructures in general has a negative impact on supplies to markets and the circulation of good and contributes strongly to price rises.

Graph No. 2: Variation in prices of agricultural products in DRC



The price of foodstuffs is starting to go down in Burkina Faso

Forecasts are for good food harvests in 2008-2009, with an overall increase of 25% expected compared with the previous season, which was mediocre. This is due to good weather conditions, but also no doubt due to government grants, particularly for agricultural inputs.

Cash crops seem to be good too, particularly cotton, with a production increase of 45% forecast (the previous season was particularly bad). The price of sesame, which is being grown more in Burkina Faso, has more than tripled compared with last year.

In rural areas, prices have begun to drop after good harvests, although they remain higher than last years' prices (cf. Afrique Verte, October 2008). In Ouagadougou, the September CPI is already noting a drop in the price of dry cereal of about 19% in the last three months, and the price of fresh vegetables dropped by 25.5% over the same period. Meat prices are still high (+11.9% over the period), driven by high demand from neighbouring countries.

Thanks to the EC Delegations their contribution, in particular Amparo Gonzalez Diez (DEL Dakar), Stephan Fox (DEL Bujumbura), Patrick Houben (DEL Kinshasa) and Stéphane Meert (DEL Ouagadougou).

International News

First Ministerial Conference on Social Development in Africa

The first conference of African Ministers in charge of Social Development was held from 27 to 31 October 2008. Convened by the Social Affairs Department of the African Union Commission (AUC), it took place in Namibia, under the theme "Towards a Sustainable Social Development Agenda for Africa". Participants were drawn from national governments, civil society organisations, NGOs and bilateral and multilateral agencies. The conference mainly considered the Social Policy Framework (SPF) and reviewed the outcomes of regional consultations on social protection.

The regional consultations were conducted in 2008 under the theme "Investing in social protection in Africa". This process, known as "Livingstone 2", took forward commitments made by a number of African governments who adopted the Livingstone and Yaounde Calls for Action on Social Protection in 2006. A series of six national and three interregional dialogues took place in Eastern and Southern Africa, in North Africa and in West and Central Africa in 2008.

A key outcome of the Ministerial Conference is the adoption of the SPF which is a framework to guide Member States as they develop and/or implement appropriate national strategies and programs. The Ministers reiterate their will to implement the SPF strategies. They also adopted the Common Position on social Integration which will constitute Africa's contribution to the 47th UN Commission on Social development to be held in New York in February 2009.

The Second Session of the Conference will be held in Khartoum, Soudan, in October 2010.

European Development Days

The third European Development Days organised by the European Commission, will take place in Strasburg from 15th to 17th November 2008. About 3 000 people participated in the two previous events, coming from governments, civil society of European Union member states, international organisations and the private sector. Local authorities and national partners also took part.

Several themes will be covered in plenary sessions, panel sessions and workshops. Discussions will cover the new issues of development policies, particularly implementing the Paris Declaration of the Millennium Development Goals (MDG). They will also deal with the question of decentralised cooperation and discussion with local authorities to strengthen their participation in designing and implementing development activities.

A workshop will be organised on public policies in post crisis situations. We will be discussing the exact needs of states to improve their ability to define and implement effective policies in major areas such as education, training, health and the environment. There will also be discussion on necessary coordination of the different levels of international support helping to reinforce public policies in such states.

*For further information:
<http://www.eudevdays.eu>*

This bulletin was written by the GRET team in charge of animating ROSA (Operational Food Security Network). It is an initiative of AIDCO E6 (thematic support for food security, rural development and environment) in collaboration with AIDCO G4 (Training and Knowledge Management). The viewpoints expressed do not in any case represent the official European Commission viewpoint