FOOD ECONOMY CRYSIS

CRIZA ECONOMIEI ALIMENTARE

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Abstract: *The paper presents the implications of the growing prices of food upon poverty, economical and political stability, and also analyses the factors that influences the increasing price of food. Also are presented measures that can be implemented for avoiding a food crisis on global scale.*

Key words: *food security, fuels, climatic changes, speculations*

INTRODUCTIONS

Over the last few years, agriculture has attracted considerable attention in high-level political fora, following the sense of urgency generated by the turbulence of world prices.

Food price riots, in 30 countries in 2008 alone, have been factors in the overthrow of developing country governments, such as Tunisia and Egypt. The estimates of those without enough to eat are approaching a billion people-about one out of six on the planet. While the deregulation of financial and commodity markets by themselves did not cause the current recession, the insolvency of deregulated major financial institutions and the resulting credit freeze, certainly have lead to increased unemployment, poverty and food insecurity [1].

MATERIALS AND METHODS

The price of food has an extremely worrying evolution, so between 2000 and 2010 it recorded a spectacular growth of 300% according to FAO. In year 2000 the price index of food was positioned at a value of 90 points, and in January 2011 the index reached 231 units.

Table no 1

Price index for food in word

Years	Price index for food	Meat	Milk	Grain	Vegetable Oil	Sugar
2000	90	96	95	85	68	116
2001	93	96	107	86	68	123
2002	90	90	82	95	87	98
2003	98	97	95	98	101	101
2004	112	114	123	107	112	102
2005	117	120	135	103	104	140
2006	127	119	128	121	112	210
2007	159	125	212	167	169	143
2008	200	153	220	238	225	182
2009	157	133	142	174	150	257
2010	185	152	200	183	193	302
2010	223	166	208	238	263	398
2011	231					
2012	214					

Sources: FAO

The forecasts are also worrying. The last estimations show that the food prices will increase worldwide with 20-50% in the next 10 years. (Lucian Anghel, Raportul anual pentru agricultura, 2011).

Results and discutions

This fact has major global implications, on short and long term for social, economic and political life.

The implications of growing prices of food upon poverty are enormeous.

From the economic point of view, the augmentation of food prices is reflected in higher costs for the state budget, that lead to an increased budgetary deficit, because in many countries basic foodstuff benefit of state subsidies. Also in the actual recession period, the growing inflation determined by food crisis lead to toleration and maintaining the interest rate constant, a fact that negatively affects the population by decreasing purcheasing power, or to apply measures to couterfight inflation, that may have a negative impact upon financial system stability and economic growth.

It's interesting how food functions for different people in different places. In the Middle East it is used as a powerful tool to control the masses.

Political stability is highly affected in some regions by food crisis.

Protest in Arab world, in countries like Siria, Egipt, Tunis, Libia had a component linked to population poorness, social disparity and persistence of food insecurity. Breisinger, Ecker and Al-Riffai have analysed the results of Gallup surveys from 12 Arab countries and shows that deterioration of population satisfaction concerning life conditions and worsening acces to food represents important factors in explaining Arab mutiny. [2]

There can be identified many factors that contribute to growth of prices in food industry.

The economic factors that will determine food supply and balances can be divided into the two categories of demand and supply factors, which will be regionally differentiated: demand and supply, biofuels, oil price, climate changes and speculations.

One of the most important factors is the demand of foods. It records advances due to growing population.

After industrialization, specialization and trade increased economic growth and living standards in Western Europe, much of the rest of the world also started growing rapidly after 1950.

Acording to some estimation, on average, 219000 persons are added every day to the global population, so 80 million each year. [3]

Demand has been conditioned by another two factors: income growth and shifts in tastes (often derived from income growth), examples of which include switches from diets based largely on grains to more reliance on meat- and dairy-based proteins. In most high-income and some developing countries, the income elasticity is nearly 0 for many food commodities as saturation points have been reached. There is nonetheless a

substantial portion of the global population that would potentially demand relatively more food as incomes rise.

Figure no 1

People at risk of hunger, baseline projection FAO-REF-00

	People at risk of hunger *(millions)*		
Region	2000	2010	2020
Sub-Saharan Africa	196	252	286
Latin America	56	43	31
Near East and North Africa	42	51	57
East Asia	173	139	104
South and Southeast Asia	364	378	362
Developing countries	833	864	839

Sources: IIASA WFS simulations; FAO-REF-00 scenario, May 2009.

The World Bank's most recent estimate of the incidence of poverty (at the USD 2 per day level) in developing countries was about 47 percent in 2005, declining to about 33 percent by 2015. In addition, the intensification of meat and dairy consumption would raise the demand for grain-based feed in larger proportion than any relative drop in household-based grain demand.

At a global level it is considere that 3 billion persons, from countrie like China and India have a higher life standard, and entering the middle class, consumes more meat, milk, egs that lead to a growth of demand in animal foods. [3]

Biofuels is another factor care influenteazaq food prices. Under the threat of diminishing oil reserves, the explosion of its price, and environment protection policies, development of biofuels seems the right solutions.

The potential for using crops to produce biofuels had its moment of glory during the recent price surges of both energy and food commodities. At one extreme, biofuels were vilified as causing the food price surges and,

occasionally, as destroying the environment and land and water resources. At the other extreme, they were seen as offering great opportunities for boosting farm incomes and energy independence, and for mitigating adverse environmental effects by reducing the burning of fossil fuels.

The debate subsided with the collapse of oil prices. These days, headlines are usually concerned with the woes of the biofuels industry following its rapid expansion during the boom years. The industry is now largely kept alive by mandates and subsidies, with the possible exception of sugar ethanol, mainly in Brazil.

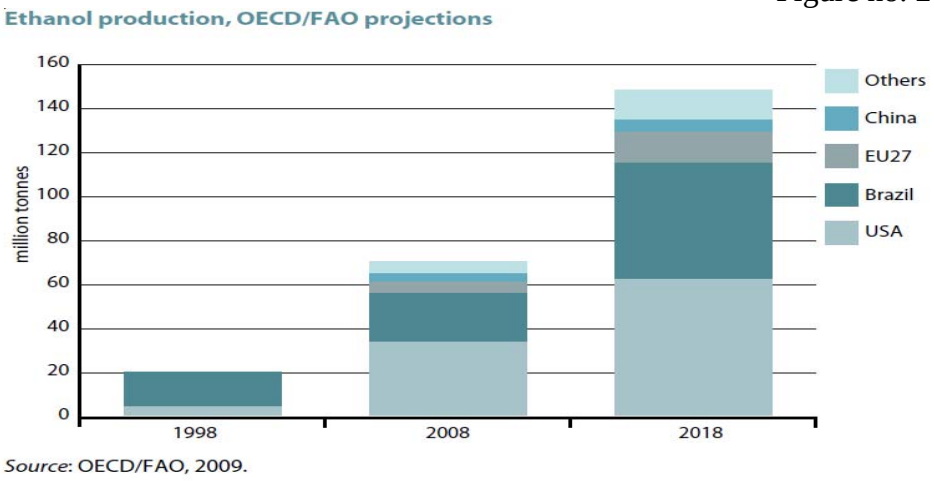
However, the issue is not dead. High energy prices are likely to return (IEA, 2008; Stevens, 2008; McKinsey Global Institute, 2009), and the geopolitical causes driving the quest for energy security are not going away. Add the strength of the farm and biofuel industry lobbies, the continuing relevance of environmental concerns and the prospects for technological change in converting biomass to liquid fuels, and the debate can be expected to reignite. Currently, biofuel projections are commonly an integral part of most food and agriculture projections. In this area, the latest attempts that contain (to varying degrees) sufficient detail of the biofuels modules are all medium-term (ten years), not long-term.

World production of ethanol is projected to increase by slightly more than 100 percent from 2008 to 2018, with the United States of America, Brazil and the EU27 as the major players. Both Brazil and the EU are projected to increase their shares in the world total. The United States of America's share will be somewhat reduced (from 43 to 37 percent) and will lose its top position to Brazil's share, which will increase from 34 to 39 percent. Biodiesel production is seen as growing even faster than ethanol, by 170 percent in the ten-year period.

Also there are some countries that impose a certain percent of energy offert to be provided from biofuels.

The oil price influences in a direct way the price of the foods, reflecting in its production costs: transports, irrigations, fertilizations, mechanized agriculture.

Figure no. 2



Another important impact factor upon food prices is represented by climate changes, respectively global warming, desertification, dwindeling water reserves, but aslo floods and fires. Ecologists estimates that an increase of average season temperature by 1 degree, determines a decrease f 10 % in agricultural production, and soil erosion affects productivity of 33% of arable terrains at global level. Decreasing of underground water supplies also determine a low agricultural production in countries like India, China, Siria, Saudi Arabia.

Therefore the growing prices of cereal at the highest level from the past 3 years was caused by unfavourable wheather conditions: floods from Australia, bad wheather in Argentina, drought in Russia from summer of 2010, that reduced the harvested wheat by 40%, a fact that lead to cancelation of cereal exports. (The New Geopolitics of Food, Foreign Policy, mai 2011)

Capital migration from financial markets to agricultural markets induces pressure upon food prices. Consequently agricultural markets enter under speculation impact. FAO forecasts show that 30-40% from price volatility of soia and corn is due to speculations. [1]

But speculative funds got accustomed to position to food markets. Out of 20 transactions, 19 are strictly financial, and only one is translated in fizical delivery. Financing food commodity markets is an important phenomenon that was multiplied three times in the last years. Descuraging operation of speculation is very expensive. There must be constituted warranty deposits for transactions, to suppress balancing effect. Public authority must insure that this financial deposit exists and the operators play according to the law.

The actual food crisis is followed by increasing number of speculative contracts on basic products, and speculations on agricultural markets can prepare the next financial crash, doubled this time by a food crisis.

Solving this serious problem dictates a coordinated action at global scale that would take shape in many categories of policies: active policies for reducing prices volatility, shocks resilience and passive policies for reducing prices growth.

Prices volatility can be diminished by increasing transactions transparency in stock exchange with food products, establishing some regional reserves for emergencies and international cooperation in this effect, understanding the relation between international prices and poor countries prices, a more efficient informing about quality and cereal quantity, alternatives to embargos or fixing the prices, supporting small farmers, elimination of subsidies for biofuels.

Upon supply can be interceded by various policies, from control measures of climate changes, increasing productivity, expanding cultivated areas until ideological changes take place in developed countries, for balancing individual and national wealth.

The food demand can be adjusted directly by demographic policies, very complex and with long term effects, and indirectly by promoting an education to prevent wasting food and stuffing.

As for measures for attenuation the effects of prices growth there are some very important policies for protecting vulnerable population, and establishing some safety nets at international level by creating safety stocks and cooperation in care of crisis.

CONCLUSIONS

Strong economic growth is the key to future poverty reduction. Forecasts of future economic growth rates and poverty rates are necessarily speculative and depend on a large number of assumptions about human behavior and policy decisions that are impossible to know in advance.

Important measures to avoid a big crisis are vast, because the causes of the problem are complex and needs important structural reformes and international cooperation.

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