

Posted on Sun, Mar. 30, 2008

Food prices on rise worldwide

By Katherine Corcoran

Associated Press

Soaring grocery bills aren't just a distressing trend that U.S. consumers are facing. From subsistence farmers eating rice in Ecuador to gourmards feasting on escargot in France, consumers worldwide face rising food prices in what analysts call a perfect storm of adverse conditions and new trends.

Freak weather is a factor. But so are dramatic changes in the global economy, including higher oil prices, lower food reserves and growing consumer demand in China and India.

The world's poorest nations still harbor the greatest hunger risk. Clashes over bread in Egypt killed at least two people recently, and similar food riots broke out in Burkina Faso, Cameroon earlier this month.

But food protests now crop up even in Italy. And while the price of spaghetti has doubled in Haiti, the cost of miso is packing a hit in Japan.

"It's not likely that prices will go back to as low as we're used to," said Abdolreza Abbassian, economist and secretary of the Intergovernmental Group for Grains for the U.N. Food and Agriculture Organization. "Currently if you're in Haiti, unless the government is subsidizing consumers, consumers have no choice but to cut consumption. It's a very brutal scenario, but that's what it is."

No one knows that better than Eugene Thermilon, 30, a Haitian day laborer who no longer can afford pasta to feed his wife and four children since the price nearly doubled to 57 cents a bag. Their only meal on a recent day was two cans of corn grits.

"Their stomachs were not even full," Thermilon said, walking toward his pink concrete house on the precipice of a garbage-filled ravine. By noon the next day, he still had nothing to feed them for dinner.

In the long term, prices are expected to stabilize. Farmers will grow more grain for both fuel and food and eventually bring prices down. Already this is happening with wheat, with more crops to be planted in the United States, Canada and Europe this year.

However, consumers still face at least 10 years of more expensive food, according to preliminary FAO projections.

What is rare, however, is that the spikes are hitting all major foods in most countries at once. Food prices rose 4 percent in the United States last year, the highest rise since

1990, and are expected to climb as much again this year, according to the U.S. Department of Agriculture.

As of December, 37 countries faced food crises, and 20 had imposed some sort of food-price controls.

For many, it's a disaster. The U.N.'s World Food Program says it's facing a \$500 million shortfall in funding this year to feed 89 million needy people.

In Egypt, where bread is up 35 percent and cooking oil 26 percent, the government recently proposed ending food subsidies and replacing them with cash payouts to the needy. But the plan was put on hold after it sparked public uproar.

"A revolution of the hungry is in the offing," said Mohammed el Askalani of Citizens Against the High Cost of Living, a protest group established to lobby against ending the subsidies.

In China, the price hikes are both a burden and a boon. Per capita meat consumption has increased 150 percent since 1980, so Zhou Jian decided six months ago to switch from selling auto parts to pork. The price of pork has jumped 58 percent in the past year, yet every morning housewives and domestics still crowd his Shanghai shop, and more customers order choice cuts.

The 26-year-old now earns \$4,200 a month, two to three times what he made selling car parts. And it's not just pork. Beef is becoming a weekly indulgence.

"The Chinese middle class is starting to change the traditional thought process of beef as a luxury," said Kevin Timberlake, who manages the U.S.-based Western Cattle Company feedlot in China's Inner Mongolia.

At the same time, increased cost of food staples in China threatens to wreak havoc. Beijing has been selling grain from its reserves to hold down prices, said Jing Ulrich, chairwoman of China equities for JP Morgan.

"But this is not really solving the root cause of the problem," Ulrich said. "The cause of the problem is a supply-demand imbalance. Demand is very strong. Supply is constrained. It is as simple as that."

TOP PRIORITY

Chinese Premier Wen Jiabao says fighting inflation from shortages of key foods is a top economic priority. Inflation reached 7.1 percent in January, the highest in 11 years, led by an 18.2 percent jump in food prices.

Meanwhile, record oil prices have boosted the cost of fertilizer and freight for bulk commodities -- up 80 percent in 2007 over 2006. The oil spike has also turned up the

pressure for countries to switch to biofuels, which the FAO says will drive up the cost of corn, sugar and soybeans "for many more years to come."

In Japan, the ethanol boom is hitting the country in mayonnaise and miso, two important culinary ingredients, as biofuels production pushes up the price of cooking oil and soybeans.

A two-pound bottle of mayonnaise has risen about 10 percent in two months to as much as 330 yen (nearly \$3), said Daishi Inoue, a cook at a Chinese restaurant. "If prices keep going up, we have no choice but to raise our prices."

Miso Bank, a restaurant in Tokyo's glitzy Ginza district, specializes in food cooked with miso, or soybean paste. "We expect prices to go up in April all at once," said Miso Bank manager Koichi Oritani. "We plan to order miso in bulk and make changes to the menu."

Italians are feeling the pinch in pasta, with consumer groups staging a one-day strike in September against a food deeply intertwined with national identity. Italians eat an estimated 60 pounds of pasta per capita a year.

The protest was merely symbolic because Italians typically stock up on pasta, buying multiple packages at a time. But in the next two months pasta consumption dropped 5 percent, said farm lobbyist Rolando Manfredini.

In decades past, farm subsidies and support programs allowed major grain exporting countries to hold large surpluses, which could be tapped during food shortages to keep prices down. But new liberal trade policies have made agricultural production much more responsive to market demands -- putting global food reserves at their lowest in a quarter century.

Without reserves, bad weather and poor harvests now have a bigger impact on prices.

"The market is extremely nervous. With the slightest news about bad weather, the market reacts," said economist Abbassian. That means that a drought in Australia and flooding in Argentina, two of the world's largest suppliers of industrial milk and butter, sent the price of butter in France soaring 37 percent from 2006 to 2007.

Forty percent of escargot, the snail dish, is butter.

"You can do the calculation yourself," said Romain Chapron, president of Croque Bourgogne, which supplies escargot. "It had a considerable effect. It forced people in our profession to tighten their belts to the maximum."

The same climate crises sparked a 21 percent rise in the cost of milk, which with butter makes another famous French food item -- the croissant. Panavi, a pastry and bread supplier, has raised retail prices of croissants and *pain au chocolat* by 6 to 15 percent.

Already, there's a lot of suspicion among consumers.

"They don't understand why prices have gone up like this," said Nicole Watelet, general secretary at the Federation of French Bakeries and Pastry Enterprises. "They think that someone is profiting from this. But it's not us. We're paying."

Food costs worldwide spiked 23 percent from 2006 to 2007, according to the FAO. Grains went up 42 percent, oils 50 percent and dairy 80 percent.

BAILOUTS

Economists say that for the short term, government bailouts will have to be part of the answer to keep unrest at a minimum.

But attempts to control prices in one country often have dire effects elsewhere. China's restrictions on wheat flour exports resulted in a price spike in Indonesia earlier this year, according to the FAO. Ukraine and Russia imposed export restrictions on wheat, causing tight supplies and higher prices for importing countries. Partly because of the cost of imported wheat, Peru's military has begun eating bread made from potato flour, a native crop.