

Faced with today's food and energy crisis, how can society improve its well being?

Summary:

[The global food and energy prices have brought a sea change to their landscape. For the reinforced of per capita income growth, rapid industrialization, urbanization, higher commodity intensity of growth and rapid population growth in some emerging economies as well as biofuels demand has increased in developed countries are responsible for these crisis. Thus, food and energy exporting countries have benefited, whereas some importing countries experienced substantial losses. In this essay first, I have portrayed the discussion on the rising global food and energy crisis. And, finally conclude with how societies can improve from this disaster.]

Faced with today's food and energy crisis, how can society improve its well being?

“The price of grain is now directly tied to the price of oil. We used to have a grain economy and a fuel economy. But now they're beginning to fuse.”

— *Lester Brown, president of Earth Policy Institute, a Washington research group*

“We will depend on them for every seed we grow, every crop we grow, and if they control seed they control food, they know it. It's strategic. It's more powerful than bombs, it's more powerful than guns.”

—*Vandana Shiva, India, May 10, 2008*¹.

Global climate change, food crisis and energy crisis are now very crucial concern among the all politicians, researchers, international development organizations, moreover all of the societies around the world. At present, most of the countries in the world that acutely felt the resonance of the recent almost simultaneous rise in global food and oil prices. Price of many commodities- oil, nickel, tin, corn, wheat and so on have reached records high than ever. The current price boom has also been broader and longer lasting than any of the past period.

A research of world Bank found that due to 10% food price rises, approximately 0.8% poverty rate increased at Cambodia, Zambia, Malawi, Pakistan, Peru, Vietnam, Bolivia and approximately 2.1% increased at Nicaragua and Madagascar.² Globally, the food price index calculated by the Food and Agriculture Organization of the United Nations rose by nearly 26 percent last year, compared with 9 percent the year before. So far in 2008, that same index has jumped to unprecedented levels. Thus, now People around the world are experiencing sticker shock at the grocery store, the result of runaway economic forces that show no signs of abating. The economic forces pushing prices are complex.

Now, one question is coming into all, why are food and energy prices so high? In fact, various analysts have seen that high food and energy prices as an important reason for the growth of many emerging and development economics. At the same time, investment in the food sector has accelerated after a long period of lackluster performance. Thus, in financial markets, foods are now an established part with alternative assets. Although, emerging countries as well as buoyant global growth in recent years is only one of the reasons for high prices. Some of the bigger reasons for rising food and energy prices include:

First, Emerging economics have driven demand for various commodities and a trend that is likely to continue. Annual increases in the global consumption of major commodity groups during 2001-2008 were larger than they had been during the 1980s and 1990s.³ However, in the oil market demand from China, India & Middle East accounted for more than 56% of the growth in oil consumption during 2001-07. For example, Passengers car

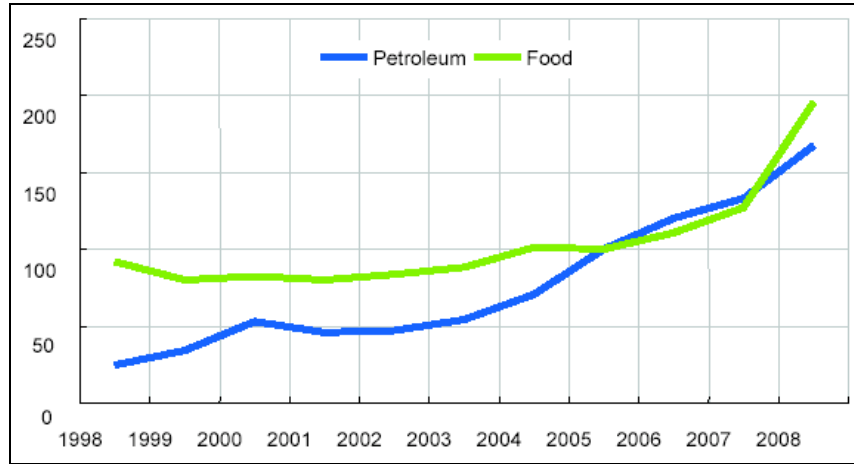
¹ <http://fooddemocracy.wordpress.com/category/quotes>

² Ivancic, M. and Martin, W. 2008. Implications of higher global food prices for poverty in low income countries, Policy research paper-4594, The World Bank.

³ IMF, commodity price system and international financial statistics databases.

sales in china increased fivefold in 2001-07⁴. Emerging economics also responsible for the boom in nonfuel commodity markets like meat, seafood, edible oils, corn, rice and soybeans.

Figure 1: Indices of Fuel and Food Prices, 1998-2008



[Source: IMF, 2008]

Second, biofuels demand has increased in specific food crops. Due to the high oil prices in recent years, United States, the EU and the other advanced countries, have increased in the use of biofuels as a supplement to the transportation fuels. In 2005, Brazil and USA was the largest producer of ethanol and they used over 80% of global biofuels. However, the rapid biofuels production is seriously affecting food markets. In addition, USA, EU and major corn and rapeseed producing countries are being diverted from food to biofuels.

Third, Commodity linkages to push up the high prices. For example, demand for biofuels has increased not only prices of corn but also those of other food products, because corn is used as input in meat, poultry, dairy and so on production. To a lesser extent, demand for biodiesel has also affected in edible oil prices, because soybean and other vegetables oil such as palm and rapeseed are used as a biodiesel inputs.

Table: 1 World price scenario for 2005-2008

Name of the commodity	Price change
Dairy	90%
Maize	80%
Poultry	25%
Rice	20%
Wheat	70%

[Source: Food and Agriculture Organization (FAO), 2008]

Forth, Due to global climate change and natural disaster is one of the main reasons behind food crisis.

⁴ IMF. Indices of Primary Commodity Prices, 1998-2008. *International Monetary Fund*, 5 June 2008. <http://www.imf.org/external/np/res/commod/table1a.pdf>.

Countries affected by climate change and natural disaster in 2007-2008⁵

Africa	Asia	Latin America
Lesotho (drought)	Korea, DPR (floods)	Bolivia (floods)
Somalia (adverse weather)	Bangladesh (cyclone)	Dominican Republic (floods)
Zimbabwe (drought & floods)	Tajikistan (floods/landslides)	Ecuador (floods)
Mauritania (drought)	Timor-Leste(drought& floods)	Haiti (floods)
Ghana (drought & floods)		Nicaragua (floods)
Kenya (adverse weather)		
Ethiopia (insufficient rainfall)		

How societies can improve from this crisis?

As the energy and food price increased some emerging and developing economies reaped large gains from their export, but some importing countries experienced substantial losses. Big losers are most of the LCDs; small losers are USA and EU respectively, and where as big gainers are India, China, Middle East and other emerging countries. Thus, for the sake of global economic stability the following should be need to concern.

- Enhance energy conservation incentives on the demand side in all the economics.
- Reduce the extent of oil price volatility in response to demand or supply fluctuations.
- Reduce obstacles and policy uncertainty for oil and metal investment could accelerate capacity buildup.
- Ensure efficient & realistic use of biofuels.
- Discourage the protectionist elements to reduce the prices of corn and edible oil.
- A better policy would be allowed for free trade in biofuels while incorporating emissions costs into prices of all fuels.

In fine, food and energy nexus is rather complex for the underdeveloped and developing countries. Thus, a policy initiative that can enhance the functioning of global food markets, mitigating the impact of rising food and fuel prices on poor households should be taken.

⁵ FAO. Crop prospects and food situation, Rome, April 2008.