

## **Driving Forces behind the Recent Fluctuation in Global Food Prices**

### **-Points of Discussion in the Symposium of AESJ (The Agricultural Economic Society of Japan) and its Policy Suggestions-**

Yoichi Izumida (The University of Tokyo), President of the AESJ

Osamu Koyama (JIRCAS), Chairman of the Symposium

Kiyohide Morita (Nihon University), Chairman of the Symposium

In the year 2008, we suffered from serious food price fluctuations symbolizing the era of the global economy. International prices of agricultural products, such as soybeans, maize, rice, and wheat skyrocketed from around 2006 to early 2008, and this triggered a steep rise in food prices. Some food exporting countries adopted policies including export restrictions and bans, and consequently, difficulties in food access arose, especially in low-income food importing countries. There were several food riots in low-income countries with a high dependency on food imports. However, after the Lehman shock in September 2008, investment funds withdrew money from commodity markets, and this caused a sharp decline in international prices of agricultural products, while at the same time there was a decline in demand caused by the world wide economic depression. As a result, fears of a “food crisis” eased. But, it should be noted that serious fluctuations in food prices brought about disorder in agricultural product transactions.

In July 2008, the Board of Directors of AESJ issued a statement entitled “G8 Summit announcement on high food prices and AESJ”, emphasizing the necessity of thorough analysis on the underlying driving forces behind global food price hikes. As explained above, food prices fell sharply from September 2008, but it is still reasonable to stress the necessity of the analysis on the background and factors for food price hike problems. The fundamental points that brought about the high food prices in the

international market are unchanged, and it is highly probable that we will encounter the same problem in the near future. It is very appropriate to discuss the issue at this stage, when concern regarding the food crisis has eased, since we are able to discuss the matter objectively and calmly without emotional judgments.

In the 2009 annual meeting of AESJ in Tsukuba University, we had two synchronized symposia, namely, “Global Food Price Fluctuation and Japanese Agriculture” (March 28) and “Global Food Price Hike and Agriculture in East Asian Countries” (a trilateral symposium with Korean and Chinese experts, March 29). The purpose of these symposia was to comprehensively analyze the factors and background of high food prices and the price instability of recent years, responding to the statement of the Board of Directors of AESJ. In the symposia, we had intensive and active discussions on the issue, based on presentations made by several experts. Although we did not reach a consensus on all the points of the arguments, the discussions were full of important information and findings, and hence, we believe that we fulfilled the mission of the AESJ, which deals with agriculture and food issues, by providing some of the outcomes of the discussion to the public.

Specific tasks of the symposia were as follows. The first task was to analyze the driving forces behind high food prices. Above all, it is important to clarify the difference between agricultural price hikes of the past, e.g. in the 1970s, and that of the 2006–2008 period, taking into account the factors of long-term trends and short-term cyclical trends. Also, other factors, including trade policies, have to be examined. The second task is to predict the demand and supply of food, and food prices, in the long and medium term. It is also required to examine price volatility, and its impact on domestic producers, consumers, and society. The third task is to propose concrete options for coping with high food prices and instability and for activating Japanese agriculture, as well as for contributing to the stabilization of the world’s food supply.

The following is a summary of the discussion.

Concerning driving forces for soaring food prices, we concluded that under the situation of lower cereal stocks caused by strong demand from emerging countries, the factors of production shortfalls caused by droughts and floods, and of new demand for biofuel exacerbated the expectation of higher food prices, together with related policies, such as export restriction policies. The factors in the price hike of the 2006–2008 period are multiple and intertwined, but the expansion of demand for biofuel is regarded as the most significant factor. In addition, increased speculative activity in the agricultural commodity market could be another factor in soaring food prices. However, in order to identify the effect of speculation on food prices quantitatively, further research is needed. If we compare this food price hike with the hike that occurred at the time of the first oil shock, we see that impacts on food availability in developing countries were more serious in the 2006–2008 period. At the same time, it should be noted that the importance of food security in low-income countries was well acknowledged, as it was expressed in the phrase “food security as a human right”.

With respect to the prospect on food demand and supply in the long run, world wide agricultural production is likely to expand, due to technological progress, retrieval of agricultural investment, and so on. Consequently, even though demand for food will increase in emerging countries, it is not expected that a “food crisis” threatening the lives of people will occur in high-income countries. However, it is likely that low-income countries will continue to suffer from hunger. It is expected that international food prices in the next decade will be at a higher level than the level prior to the price hike of the 2007–2008 period.

The most important point is the increase in the uncertainty of food supplies and price changes, caused by the globally integrated food market and by the link between energy and the food market. We need some policy measures against increasing price volatility.

Concerning future food demand and supply in China, there is a possibility that

China will become one of the biggest food importers, following the experiences of Japan and Korea, depending on the success or failure of the structural reforms in China's agricultural sector. If China becomes a food-importing giant, there will be a big change in the world food market.

One of the domestic measures for overcoming the growing uncertainty in food prices is to revitalize Japanese agriculture, and therefore, raising the self-sufficiency capacity is meaningful. For this purpose, it is inevitable to enlarge farm size through structural reforms. At the same time, it is important to design institutions for regional resource management and environmental services based on the consensus of the people in the country. Production of high quality/high value-added agricultural products for the growing Asian markets should be promoted, and feed production and energy crop production using uncultivated farmland should be encouraged. In addition, for the stabilization of the world food market, a new market system with more transparent market transactions, sustainable agricultural trade, and a buffer stock system is necessary. In order to realize such a system, it is important to propose establishing it at the international forum, based on the discussions held among East Asian countries.