



Food Situation in Latin America and the Caribbean

Regional Office for Latin America and the Caribbean



**HUNGER
OBSERVATORY**
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Introduction

In the framework of the *Hunger-Free Latin America and Caribbean Initiative* and the *Initiative on Soaring Food Prices*, the Regional Observatory on Food Security and Nutrition (Hunger Observatory) is pleased to launch the first edition of a bi-monthly bulletin about the food situation in Latin America and the Caribbean. The objective is to provide decision makers and the general public with updated information on the state of food markets and policies at regional and international levels. The bulletin has been put together by a team of professionals and consultants from the Food Security and Fight Against Hunger Group and the Policy Assistance Branch of the FAO Regional Office.

International and Regional Context

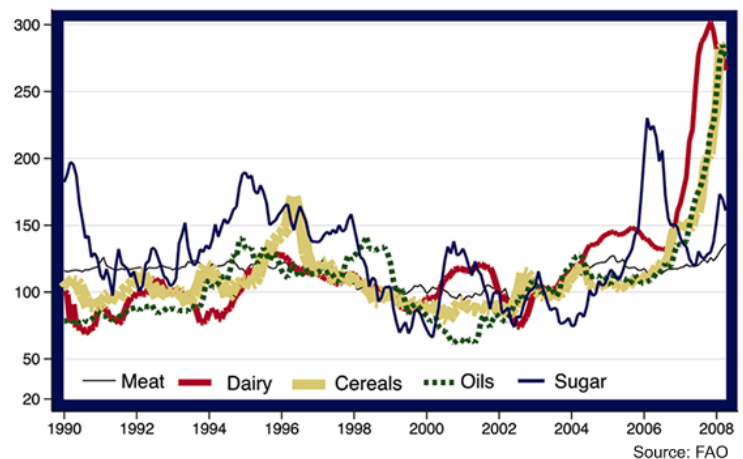
The USA economy slowdown, the American dollar depreciation and the soaring commodities prices, especially food and oil, are the main characteristics of the uncertain 2008 international scenario, whose effects are being observed in the increasing of inflation, and the lower economic growth of the countries in the region. The soaring food prices at international level, which started in midyear of 2002 and accelerated during the last two years (see Figure 1), is the phenomenon concerning world leaders and society as a whole, due not only to its direct effects on food importing countries and vulnerable population, but to its indirect effects, such as increasing social demonstrations and unstable governability in several countries.

At present, there are some indications about which factors could justify most of the rises in food prices¹, their negative impacts on poverty and food security, and the policy responses that could alleviate negative effects and boost the opportunities for agricultural

producers in poor countries. Factors that explain the recent events are: the accelerated rate of growth in developing countries, the production of biofuels, the negative impact of weather conditions in the production, the increase of agricultural inputs costs due to high oil prices, the reduction of food stocks, the speculation of financial and commodities markets and, finally, the policy responses that restricted food exports.

However, it is still unclear to the extent of what these factors influence, whether it is a temporary or a permanent phenomenon, which will be the specific impacts of the soaring prices and the policies response both at national level and among the population groups, as well as about the necessary changes in policies and institutions before a possible new balance in the world food system.

Figure 1. Monthly FAO price indices for basic food commodity groups 1998–2000 = 100



¹ See Von Braun (2007), FAO (2008b), OECD-FAO (2008), and World Bank (2008) to review the reasons of current movements of food commodities international prices.

Undoubtedly the international community must reach agreements in order to find solutions and to seize opportunities in the current international context, specifically when taken into account that the reason for the soaring food prices is not only the imbalance between supply and demand, but also the functioning of the world agricultural food and financial systems – integrated by institutions, politics and actors whose interests are not necessarily common. In this sense, as a first effort, the FAO and other international organizations (CGIAR, IFAD and WFP) have organized the **High Level Conference on World Food Security: The Challenges of Climate Change and Bioenergy**, held in June 2008 with the participation of representatives from 180 countries, including Heads of States. The Final Declaration of this Conference² reaffirmed the International Community's commitment to eradicate hunger and it was an effective advance in recognizing the central role of the investments on agriculture to achieve this goal. However, greater consensus is needed as regards to subjects such as commercial policies, biofuels, social safety nets and implementation of the announced measures.

In turn, high food prices in Latin America and the Caribbean region (LAC) have been clearly reflected through the regional inflation increase, which closed at 6.3% in 2007 –a little more than 1% higher than the previous year rate (IMF, 2008). This fact, along with other conditions, have affected the projections- still positive- of economic growth, which have been adjusted downward partially due to interest rates increases applied by some Central Banks to tackle inflation.

Food and Agriculture Markets Situation in LAC

Estimates show that during 2007 more than 2,100 millions tons of cereals have been produced at world level, two thirds of which are concentrated in Asia and North America (FAO, 2008c). Regarding Latin America, although it produces 8% of this total, South America's role stands out as responsible practically for the whole cereals production and exports in the Region (see Table 1).

From a wider point of view, the Region is distinguished for its food production rhythm, especially since the beginning of this decade, showing per-capita net production growth rates greater than the global average and that of developed countries economies (see Figure 2).

Figure 2. Per capita net food production index
1999-2001 = 100

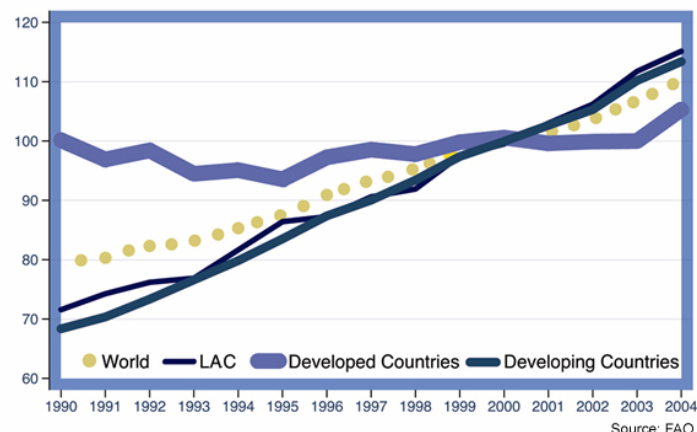


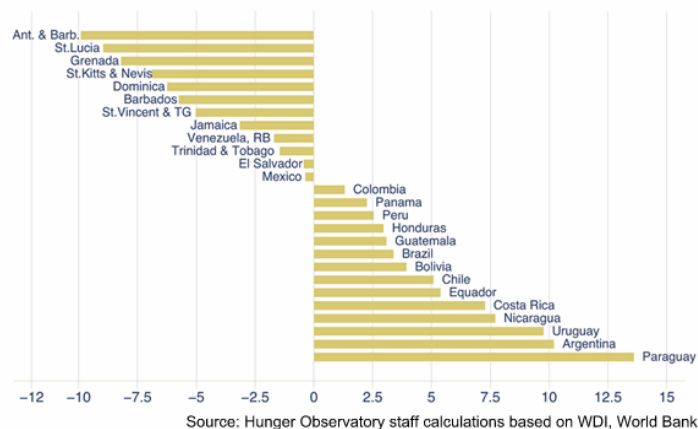
Table 1. Global Cereal Balance 2007/08
Percentages

	Prod.	Imp.	Exp.	Total Utilization	Ending Stocks
Asia <i>Total</i>	44.2	44.4	17.2	47.2	63.3
<i>China</i>	18.6	3.4	2.3	18.4	38.7
<i>India</i>	9.8	0.7	1.8	9.4	8.3
Africa	6.4	21.5	2.1	9.0	7.0
Latin America <i>Total</i>	8.1	18.7	16.1	8.3	3.6
<i>Central America*</i>	1.9	9.6	0.3	3.0	1.2
<i>South America</i>	6.2	9.0	15.8	5.2	2.4
North America	21.9	3.0	48.8	16.2	13.5
Europe	18.3	12.0	12.1	18.6	11.2
Oceania	1.1	0.5	3.7	0.7	1.5
World	100	100	100	100	100

* / Mexico included.

Source: Adapted from FAO, 2008c.

Figure 3. Food Trade Balance
In percentage of GDP, average 2004-2005



Source: Hunger Observatory staff calculations based on WDI, World Bank

² Final Declaration is available at:

http://www.fao.org/fileadmin/user_upload/foodclimate/HLCdocs/declaration-E.pdf

Notwithstanding this position at a regional level, conditions at a national level may be very heterogeneous. In fact, the food net trade balance shows food deficits mainly in the Caribbean countries, along with Mexico and Venezuela, differing from the great majority of South American countries whose balance not only are positive but also reach the 10% of the GDP in the cases of Uruguay, Argentina and Paraguay (see Figure 3).

Regarding the analysis of food prices, there is no doubt that so far this year the Region has not remained isolated from the sudden movements of international prices. Taking into consideration the economies of 16 countries of the Region, headline and food average inflation accumulated at May 2008 reached respectively 5% and 7.2%, while in the last 12 months the variation of these rates was 11.1% and 17.5%.

At country level, Figure 4 shows food inflation accumulated at May 2008 is not only higher than the headline inflation for the group of countries, but there are also countries where food prices exceed general prices in at least 2 percentage points, as are the case for Bolivia, Colombia, Brazil, Chile, Venezuela, Peru and Panama. Finally, the great range of food inflations among LAC countries stands out, going from 1% in Mexico to 15.3% in Venezuela.

Impacts in LAC

In general, LAC is better prepared now to face economics shocks than in the past thanks to the surplus in current account, a better organization of finances, a lower public debt and an also lower external debt, as well as greater international reserves (ECLAC, 2008). Nevertheless, the soaring food prices phenomenon has different impacts among countries and particularly among different social economic groups of the population. Inside the Region, it may be expected that those classified as Low Income and Food Deficit Countries³ as well as those populations living in poverty conditions could be hit by a higher negative impact than the rest⁴.

In this sense, populations under poverty conditions will be the most affected by the constant soaring of food prices, as they allocate a higher proportion of their

³ According the latest FAO's LIFDC classification, the countries of the Region in this category are Haiti, Nicaragua and Honduras.

⁴ ECLAC estimates shows that extreme poverty in the Region could be increased around 10 to 15 millions people due to soaring food prices (so reaching 200 millions of poor people in 2008) (ECLAC, 2008). World Bank (World Bank, 2008a) estimates that, at world level, the number of people under the poverty line could be increased in 105 millions.

expenses in food products. Table 2 shows that in the case for seven Latin American countries, the food expense average of their poorest population is around 46% of the whole expense, while the richest population assigns only an average of about 23% to food expense. It is worth highlighting that in almost all cases, the proportion spent in food by poorest populations allocates doubles that of the richest population.

Figure 4. Inflation in LAC: Headline vs Food
Selected countries, cumulative rate at May 2008

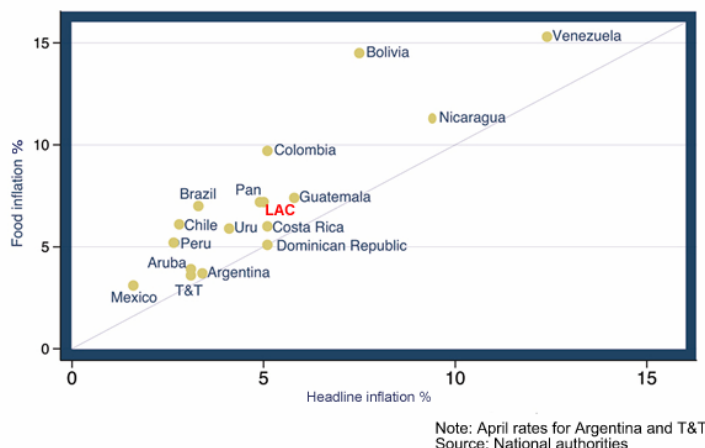
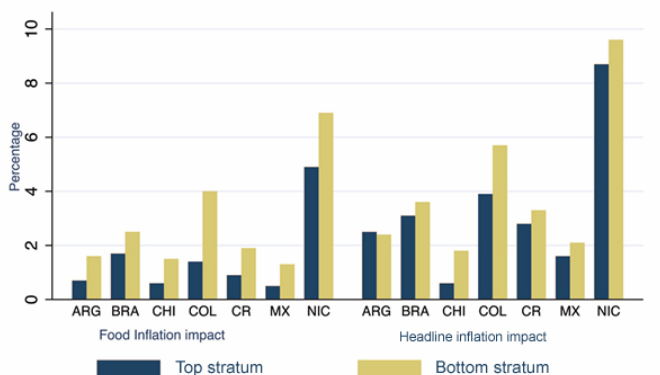


Table 2. Food share on total expenditure (%), selected LAC countries

Country	Level of expenditure	
	Bottom	Top
Argentina	53.9	23.8
Brazil	35.7	23.8
Chile	37.5	14.6
Colombia	41.4	14.7
Costa Rica	45.4	21.5
Mexico	46.0	18.6
Nicaragua	60.9	43.5
Average	45.80	22.90

Source: Households expenditures surveys in each country.

Figure 5. Cost-of-living fluctuation, according to expenditure level
Selected LAC countries, 2008



Source: Hunger Observatory staff calculations based on data from national authorities

Based on the former facts, it could be expected that the increase in the cost of living would have more strongly affected the poorest of each country. In fact, in the case of the above mentioned seven countries, the poorest populations have faced 2.8% increase in their cost-of-living during the first five months of 2008, while this was only 1.5% for the richest population. A similar situation is observed for the food cost of living. For both situations shown in Figure 5, inflation has impacted (except in the case of Argentina) on poor population to a greater extent.

Notwithstanding the recent accelerated increase of basic food prices threat to food security, this phenomenon must not be observed with a perspective isolated from the situation of other commodities.

Figure 6 shows prices index development according to major commodities exported by Latin America. For example, the important increase suffered by minerals and metals, energy —basically copper, petroleum and gas driven— and food has caused an increase in the export purchasing power of the Region⁵.

Previous concepts emphasize that LAC is not only a consumer but also a producer of food and other sort of commodities.

Therefore, the behavior of basic goods markets simultaneously represents an opportunity to integrate those agricultural-based household populations into development, and a potential benefit to alleviate the negative effect of soaring food prices through commodities export incomes or tax collection.

Finally, taking advantage of these opportunities implies overcoming the challenge of the recently observed production costs parallel increases. Figure 7 indicates selected cereals' relative price in comparison to urea, where it can be observed that -from the beginning of the year- the fertilizers reference price has grown faster than cereals prices.

Figure 6. Export Commodities Prices and Purchasing Power indices in LA, 2000–2006

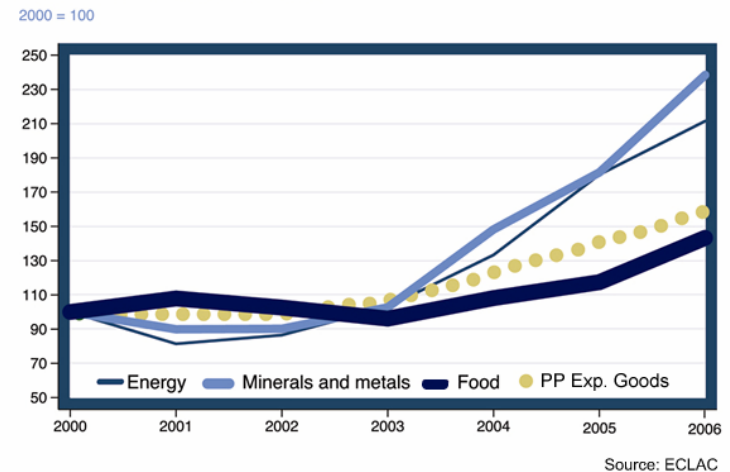
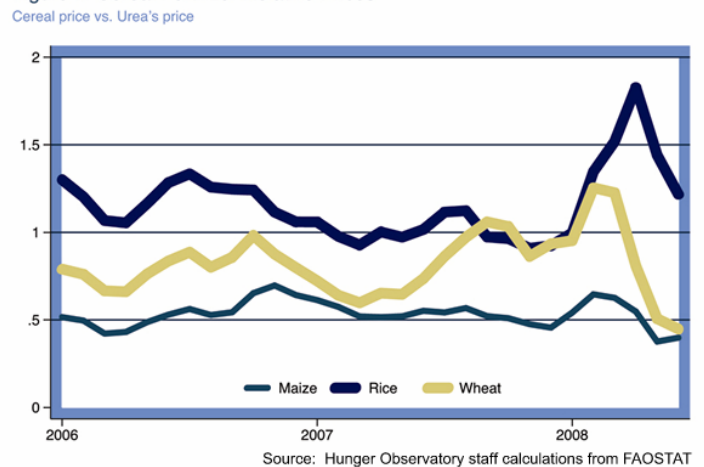


Figure 7. Cereal/Fertilizer Relative Prices



Policy response

The emphasis on public policies and the adoption of national specific measures to face the complex situation created by soaring food prices is determined by several factors. Among these, it is worth mentioning, mainly: the governments' political orientation, which sets the kind of acceptable and advisable measures for each case; the countries' economic and population dimension; the availability of fiscal resources, exchange rate, and different levels of dependence from food imports; the dimension and location of most vulnerable social sectors; and the capacity of social protection and food assistance existing systems and nets to face the emergency. The outcome is a wide range of measures and actions being used by countries to contain potential food insecurity risks, although these are not «new» since, in many cases, they derive from pre-existing programs —permanent sometimes— that have expanded resources and coverage to face food shortage situation.

⁵ The definition for *Purchasing Power of Export* is the imports total volume that can be financed with the exports total volume.

Table 3 shows the diversity of public actions, classified by the food security dimension they are oriented to⁶, the most specific area they belong to, the subtype inside this area and finally the countries (or countries' agreements) that are implementing each one of these actions⁷. The great frequency of measures oriented to food *availability* (supply increase) among the countries of the Region stand out, through actions carried out either in the international market or as internal production support. On the other hand, measures referred to the *stability* dimension are limited for the time being, probably because its design and implementation are more complex, generally with longer term horizons and, therefore, less favorable to solve utmost urgent situations.

It is worth highlighting the renewed active role of the public sector, emerging in several countries and participating in areas where they did not formerly do: a set of public programs directly involving government agencies in population food supply process and, in some cases, participating or coordinating production processes. It should be mentioned, for instance, the public programs of purchases of agricultural products to small producers for further distribution through social food nets (as the cases of Brazil and Panama), or the mechanisms for food supply to the population (in Peru, Bolivia, Ecuador, Brazil, Costa Rica, El Salvador, Guatemala, Panama, Nicaragua, Venezuela and Uruguay). Finally, in the same vein, although less elaborated as the previous, it is important to mention the public administration of some basic food products strategic reserves (stocks), being implemented by countries such as Brazil, Honduras, Ecuador and Mexico.

⁶ The dimensions of food security are «availability», «access» and «stability». The fourth dimension, «utilization», is not included in this case because specific initiatives of this kind were not found.

⁷ It must be clarified that measures included in Table 3 are exclusively those implemented as specific solutions to the current soaring food prices situation during the last months. These measures may be strictly temporary or, as mentioned above, preexistent public programs that have been reinforced or extended during the last months. In this case, mainly Latin American countries (Mexico, Center and South America) have been included, while the majority of the Caribbean countries are still pending.

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Table 3. Measures taken by the LA/C countries to cope with soaring food prices

Policy Area	Measure Subtype	ARG	BOL	BRA	CHI	COS	CUB	DOM	ECU	ELS	GUA	HAI	HON	MEX	NIC	PAN	PER	URU	VEN
International trade	Reduction of food import taxes		●	●					●	●	●		●	●	●				
	Increase of food export taxes	●	●	●												●			
	Government-to-Government trade		●				●		●	●					●				●
Strengthening of national food production	Government purchases to small farmers			●												●			
	Inputs subsidy		●					●			●					●			
	Inputs distribution					●				●	●		●		●				
	Production financing			●		●		●		●			●	●					
	Strengthening of legal & institutional framework: production increase								●	●									
	Technical assistance					●							●						
	Public-private negotiation																●		
	Staple food production international cooperation agreements (Countries group 1)										●	●		●		●	●		
	Staple food production international cooperation agreements (Countries group 2)		●					●								●			
Soaring prices mitigation	Specific products temporary price control							●	●			●				●		●	
	Food and utilities subsidies							●	●	●						●	●		
	Reduction of food consumption taxes															●		●	
	Inter-institutional linkages and/or public-private negotiations								●					●			●	●	
	Legal framework change to protect consumers' rights		●							●									
Purchasing power Fall mitigation	Food distribution programs		●	●		●			●	●	●				●	●	●	●	●
	Cash transfer				●	●		●	●	●				●					
	Tax cuts									●						●			
Stock	Creation/release of staple food strategic stocks			●					●				●						
Insurance	Agricultural insurance expansion					●							●						

Food Security Dimension: ● Availability ● Access ● Stability

Source: FAO RLC, 2008