



Food Situation in Latin America and the Caribbean

Regional Office for Latin America and the Caribbean



HUNGER OBSERVATORY
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International and Regional Context

The prices of international commodities have been decreasing since July and August, but the global economic scenario is still complex, characterized by the world's economic growth slowdown —mainly in developed economies which now also affects Europe and Japan, aside from the USA-; the raising inflation rates; the subsequent reduction in the purchasing power of the population; and the turbulence of financial markets (IMF, 2008; Elmeskov, 2008).

Regarding international food prices, although figures show a reduction in the last months (see Figure 1), long term projections indicate that for the next 10 years food prices will remain around 10 to 60 percent higher than in the previous decade (OECD, 2008).

Despite the current circumstances described above, the economic growth projections in Latin America and the Caribbean region (LAC) continue to be favorable —with an expected growth of 4.7% for 2008— mainly due to the Region's condition as a raw material exporter and its macroeconomic stability in recent years. However, the global demand commodities contraction is expected to affect the growth rate in 2009 (CEPAL, 2008).

One of the main concerns of authorities is the transmission of external inflation (food and oil driven) towards domestic economies, especially for the adverse effects in the welfare of the most vulnerable population. This fact caused the reaction of monetary authorities, increasing interest rates trying to tackle inflationary expectations (see Table 1), and some governments, aiming to alleviate the reductions of the population's real income.

Furthermore, the last two-month period has also been characterized by climatic events that affected food availability, especially in the Caribbean —Cuba, Haiti, Jamaica and the Bahamas being the countries that

reported the biggest damages and, in some cases, deaths. In South America (Bolivia, Ecuador, Peru, Chile and Argentina) some production losses due to flooding and/or drought have been reported, forcing governments to respond with production subsidies (provision of fertilizers, seeds and other supplies) and cash transfers.

Figure 1. International cereal prices, 2008
US\$/Ton.

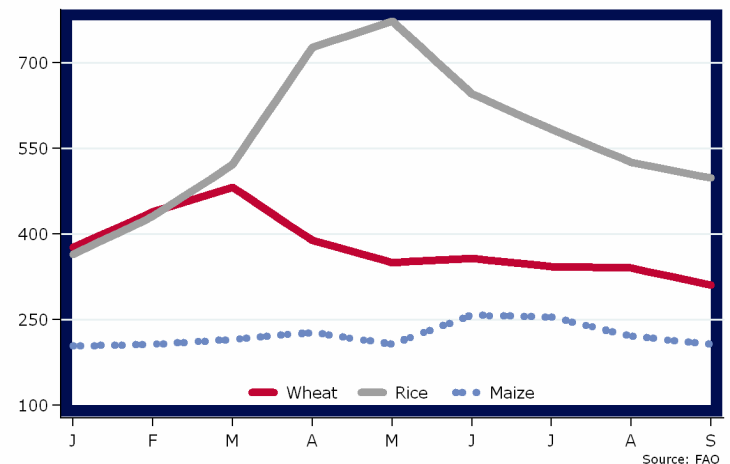


Table 1. Interest rates in LAC, selected economies

	End 2007	Current	Variation (Base points)
Brazil	11.25	13.75	250
Chile	6.00	8.25	225
Colombia	9.50	10.00	50
Costa Rica	5.50	10.00	450
Guatemala	6.50	7.25	75
Peru	5.25	6.50	125
Mexico	7.44	8.17	73

Source: Hunger Observatory staff compilation with data from Central Banks.

Finally, after observing the high levels of food prices during 2008, new analysis provided more information about the current food crisis causes, impacts and

policy recommendations¹. The following is a synthesis:

Causes. There is a wide agreement about the fact that the rise and volatility of food prices are the result of accumulation and combination of fundamentals (that is, bigger increase in the demand beyond food supply) and financial factors. The dynamic world economic growth, mainly in the developing economies, the increased use of maize for the production of ethanol in USA, the reduction of food stocks, the fall of investment in agriculture, and the high concentration of the world food market stand out among the fundamental factors. Regarding financial factors, the transition of investments from money market towards commodities market, in the search of larger yields is worth mentioning.

Impacts. Estimates show that the rapid increase of inflation, particularly in food products, has worsened income distribution and has increased poverty. In this sense, a series of studies are needed to analyze in depth the population's vulnerability in order to anticipate these external shocks, as well as to evaluate the impact of the measures adopted by the countries to face the recent crisis (FAO, 2008a; Benson *et al.*, 2008).

Policy Recommendation. It is necessary to articulate emergency interventions with medium and long term measures aimed at ensuring more sustainable and lasting impacts. Among these policies, we can mention those for food assistance and social protection, promotion of food production from small-scale farmers, and increase of investment in agriculture, as well as commercial policies (in particular to resume the Doha Round).

Food and Agriculture Situation in LAC

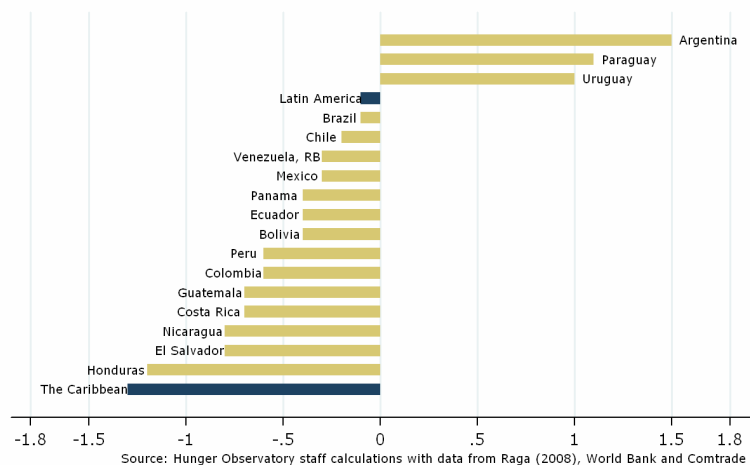
Cereal production in LAC is foreseen to increase 5.7% to reach 189 millions tons in 2008 (twice the growth rate of world cereal production). In turn, it is expected that aggregated production of México, Central America and the Caribbean may exceed the 2007 harvest and reach a rate of 14% above the average of the last five years. Meanwhile, in South America, where around two thirds of the cereals of the Region are produced, the forecast is also favorable since production is expected to expand 6%, basically driven by maize production and benign climate conditions (FAO, 2008b).

Harvest forecasts for 2009 still remain uncertain due to the negative effects expected from the increase of seeds, fertilizers and other inputs prices.

In order to understand the impacts and the degree of LAC countries vulnerability to recent food crisis, other factors associated with food situation, such as trade balance, consumption patterns and availability of food stocks must be taken into account².

In this sense it may be expected that those countries dependent highly on imports could be more vulnerable than those who satisfy their food demand through internal production. A detailed analysis shows that excluding Argentina, Paraguay and Uruguay, the rest of the countries of the Region have a deficit in the cereal balance. The cases of the Caribbean and Central America stand out specially because of their deficit averaged between 0.7% and 1.3% of the GDP from 2000 to 2006 (see Figure 2).

Figure 2. Balance of cereals, average 2000-2006
GDP percentage

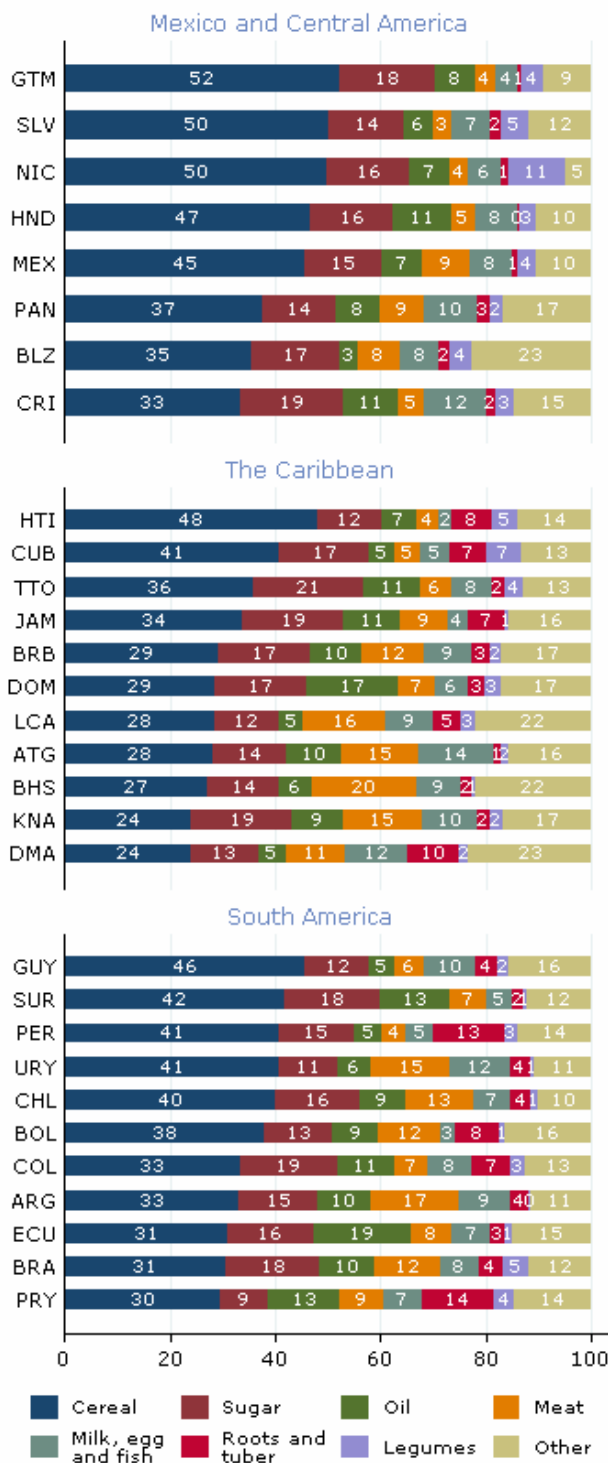


On the other hand, some of the large food producers of South America have managed to take advantage of the international high prices situation opportunities: cereal exports of Argentina and Uruguay have increased respectively 55% y 72% in the last year, while Chile doubled its total food exports during the same period.

¹ For further references go through FAO (2008), IMF (2008a), CEPAL (2008a), as well as more recent work of the IFPRI available at: <http://www.ifpri.org/themes/foodprices/foodprices.asp>.

² Considering the relevance of cereals in human consumption, the present Bulletin will focus its analysis on them.

Figure 3. Share of dietary components in total energy consumption in LAC, 2001-2003



Source: FAO

Regarding consumption, 25% to 50% of daily caloric intake of LAC population³ is provided by cereals, being especially important in México, Central and South America (Figure 3). It is important to distinguish different consumption patterns among the sub-regions, such as the relative importance of legumes in Mexico and Central America (especially in Nicaragua), the significance of meat in some countries in the Caribbean and in particularly in South America, as well as the importance of roots and tubers in the population diet of the latter sub-region.

Impacts

High food and fuel prices are still causing the soaring of inflation rates along LAC countries and impacting adversely in the welfare of, particularly, the low-income population. New estimates show that if food prices remain high, around 26 millions people could fall into extreme poverty (BID, 2008) and 6 million could become part of the Region undernourished population (see Box at the end of the section).

The soaring food prices at international levels started in midyear 2002 and reached, by midyear 2008, the highest levels observed since world economic crisis of the 70s (Von Braun, 2008). Undoubtedly, this behavior of international prices has conditioned the evolution of food prices in the countries of the Region (see Figure 4). In fact, although non-food products prices at the beginning of the present decade were relatively higher than food prices, this relation has reversed at the beginning of 2002 and become sharper since 2006, as observed in Figure 5.

Nevertheless, some considerations are important in order to understand the extent to which international prices are *transmitted* into domestic prices. In this sense, prices transmission —i.e. the relation where international prices determine the domestic prices— will depend on transport costs, internal market structure (whether the market is competitive or concentrated), commercial policies and exchange rates, among other factors.

³ At world level, around 80% of per-capita daily caloric intake comes from cereals (47%), oils (10%), sugar (9%), meat (8%) and milk, eggs and fish (7%).

Figure 4. Headline and Food Price Indexes, 2000 - 2008
Base 2001 = 100

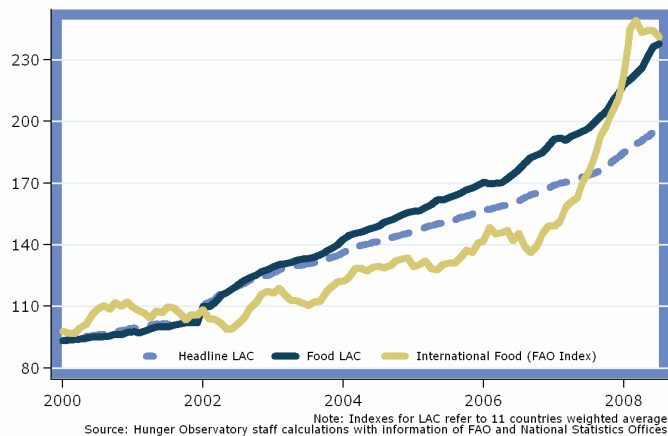
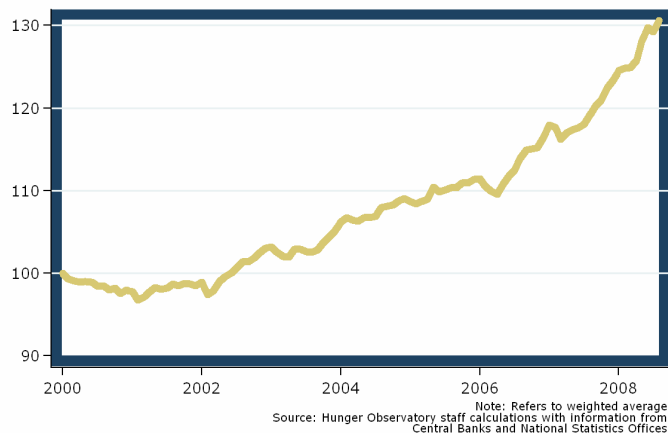


Figure 5. LAC: Ratio Food CPI / Non-food CPI
Base 2001 = 100



Previous concepts mean that changes in international prices do not necessarily reflect equivalent changes in domestic prices. Table 2a shows the degree of price transmission for three basic products in four Latin American countries, making a distinction between short (ST) and long (LT) term. The case of Chile stands out because a 1% increase in maize and wheat international prices lead to increases in respectively 0.8% and 1.14% domestic prices in the long term.

Table 2a. Price transmission elasticities in selected LAC countries

Country	Maize		Wheat		Rice	
	ST	LT	ST	LT	ST	LT
Argentina	0.22	0.67	...	0.63
Chile	0.71	0.80	0.58	1.14
Guatemala	...	0.42	...	0.42
Mexico	...	0.38	...	0.31	0.20	0.66

(...) No estimates / statistically non significant.
Source: Acosta and Ortega, 2006.

When comparing rice prices transmission, it can be observed that the transmission in Chile and El Salvador between 2007 and 2008 has been higher than during the 2002-2008 period (see Table 2b). However, regarding transmission of general food prices, Chile is the only case where food inflation in the last year has shocked food domestic prices with greater intensity.

Table 2b. Price transmission elasticities in selected LAC countries

Country	2002-2008		2007-2008	
	IPCA	Rice	IPCA	Rice
Chile	0.37	0.21	0.45	0.46
El Salvador	0.41	0.32	0.26	0.35
Peru	0.30	...	0.26	0.20

Source: Hunger Observatory staff calculations with data of CEPALSTAT.

Finally, the importance of understanding the prices transmission dimension lies in the possibility of establishing the necessary adjustments to stabilize internal economy, considering the potential effects this could have on local consumers.

BOX: HUNGER ON THE RISE

FAO has developed new estimations on hunger after an adjustment was applied to minimum per-capita dietary energy requirements methodology. These results show that the world population suffering from hunger has risen in 6 millions between 1990 and 2005, going from 842 millions to 848 millions. Unlike these global figures, the number of undernourished people in Latin America and the Caribbean has diminished from 53 millions to 45 millions during the same period.

Moreover, provisional figures indicate that, during 2007, high food prices have resulted in hunger conditions for additional 75 million people –so increasing the number hungry people to 923 million worldwide, and 51 million in LAC (Table 3). For the region, this means almost a complete step back in the progress achieved between 1990 and 2005.

Table 3. World Undernourished Population, 1990-2007
Million people, per region*

Region	Total 1990/92	Total 2003/05	Price increase effect	Total 2007
Latin America and the Caribbean	53	45	6	51
Asia / Pacific	582	542	41	583
Sub-Saharan Africa	169	212	24	236
Near East / North Africa	19	33	4	37
Developed countries	19	16	...	16
Total	842	848	75	923

(*) Estimated figures

The possibility that during 2008 the number of people suffering from chronic hunger have increased can't be ruled out, considering the constant and drastic soaring of food prices noticed until mid 2008.

Source: FAO, 2008c

Policy Response

Policies to support food production are becoming more usual and they predominate over the actions oriented to mitigate high food prices effects in the short term. Some of the persistent strategies along the Region are fertilizers, seeds, inputs, machinery and technology distribution –via subsidies and credits– to increase national productivity. Policies for the access to preferential credits (provided by national or private banks) to boost internal production and, in some cases, small and medium producers agro-export capacity, as well as policies of training and land lease, complement these actions.

Among long term strategies, some governments have adopted institutional policies oriented to strengthen Food Security and Nutrition, such as the National Food Plan of Costa Rica, the 2008 Food Security and Sovereignty Productive Program in Bolivia, the Food and Nutritional Security National Policy of Colombia, and the adoption of the Organic Law of Food Security and Sovereignty in Venezuela.

There are also other countries that have opted for multilateral cooperation. For example, the initiative Petroalimentos is a fund driven by 16 countries members of the PetroCaribe to finance food production key areas. Up until now, the allocation of US\$ 2 millions to each participant country and the creation of Alba-Alimentos Company to coordinate technical and financial cooperation among countries have been announced.

Although the measures oriented to guarantee immediate access of poorest population to basic foods are still being implemented, these are becoming more limited. Some examples are the food street markets with controlled prices organized by some governments (Bolivia, Venezuela and Nicaragua), tariffs reductions, and in some cases, elimination of VAT. It should be noted that some actions implemented in the previous months have expired, such as the cases of bread and rice subsidies in Dominican Republic and Haiti, respectively.

Besides emergency responses, international agencies are still delivering support for the medium and long term. The World Bank has approved a loan of US\$ 10 million to Honduras to mitigate the food crisis in the framework of its national program to respond to the world food crisis, as well as US\$ 20 million to Peru for the «Aliados» program. The

IADB, on the other hand, will allocate US\$ 80.2 million to food and energy production projects in Nicaragua. Finally, important technical and financial support to food production projects in Haiti has been delivered by Spain, the European Commission, WFP, UNICEF and FAO for agricultural support projects.

Policy actions in the countries of the Region have been consistent with the gradual evolution and the characteristics of the domestic agricultural situation, acting on food products or specific supplies. The main actions implemented by product are:

Maize. Public stocks and tariffs exemption have been created, apart from the support to producers' financial capacity through debt exemptions and guaranteed prices.

Bread. Prices control over final product and flours, as well as tax exemption, have been the most frequent measures.

Rice. Interventions on this product have been among the most common and diverse. Tariff exemptions for import, elimination of VAT, direct distribution, state sales, storage plans, price controls and subsidies for its production are the most important.

Milk. This kind of interventions has taken place mainly in South America, with cultivation and storage plans, along with production subsidies and funding.

Bean. Due to its relevance in the Central America diet, this product has been the object of several public interventions in the sub-region, among which seed distribution, credit for production and reduction of import tariffs stand out.

Wheat flour. Tariff reduction, subsidies and direct distribution policies have been applied.

Fertilizers. The actions were limited mainly to reduce costs of fertilizers and their distribution.

Table 4 shows the main products countries have adopted measures around in the last two months.

Table 4. Products included in public policies implemented in LAC July-August

Country	Maize	Bread	Rice	Milk	Meat	Bean	Wheat Flour	Fertilizers
Argentina				●				
Bolivia		●	●		●		●	
Brazil	●		●	●				
Chile			●					●
Colombia	●		●	●		●		
Costa Rica	●		●			●		
Cuba								●
Ecuador	●	●	●	●	●		●	●
El Salvador				●	●	●		
Guatemala	●		●	●			●	
Guyana		●	●				●	
Haiti			●					●
Honduras				●	●			
Mexico	●	●						●
Nicaragua	●		●			●		
Panama			●				●	
Peru								●
Dom. Rep.		●		●				
Uruguay	●	●	●				●	
Venezuela	●		●	●	●			

Source: Hunger Observatory compilation based on country's official information.

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