Food Situation in Latin America and the Caribbean

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HUNGER OBSERVATORY
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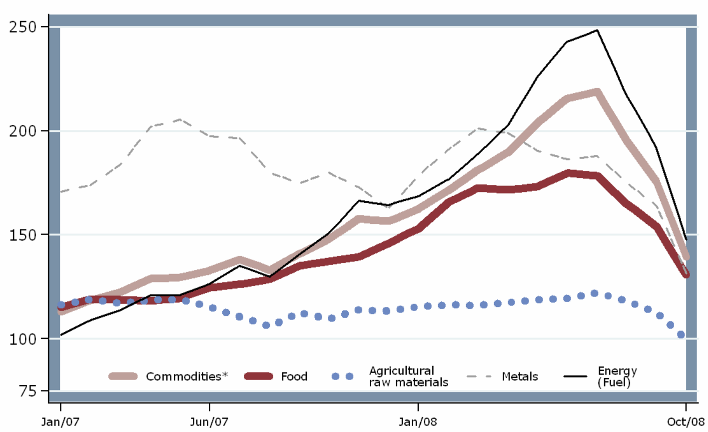
International and Regional Context

As a result of the deterioration of the global economy, food commodities prices have started to decline rapidly from the levels observed in the middle of this year. In this regard, FAO food price index reveals a 25 % fall from July to October 2008. However, this trend is also similar for other commodities, especially fuel, whose prices have declined 40 % over the same period (see Figure 1). In the case of agricultural raw materials[1] and metals, prices fell to levels not seen in at least two years.

Figure 1. Evolution of Commodities prices indices, 2007-2008
Base 2005 = 100



*/Fuel and non-fuel commodities

Source: IMF

With the United States, Japan and Europe in economic recession, the prospects for the economies in the Region are not beyond negative effects. In this sense, the scenario for Latin America and the Caribbean (LAC) in 2009 is expected to be marked by slower growth in GDP, exports and external financing, as well as high interest rates, inflation, unemployment and persistent volatility, as well as uncertainty in financial markets (ECLAC, 2008). In this context, it is feasible that countries of Central America will be most affected by the recession, while other countries will cope better with the current economic situation[2].

As a consequence of the uncertainty about the length and extent of the recent financial crisis, the international concern since last September has been oriented to prevent the impacts that this crisis could have on the real economy. In this scenario, a possibility that can't be ruled out is that the food crisis could worsen if it is ignored that -despite the recent trend- food prices are still high (compared with the levels at the beginning of this decade) and that the effects of economic recession (unemployment and reduction in remittances from abroad) could negatively affect an adequate access to food.

Food and Agriculture Situation in LAC

Latest forecasts indicate that world cereal production will expand by 5,3 % over the previous year, achieving a record of 2,242 million tons at the closure of 2008. The strong boost in cereal production is mainly explained by the 11 % increase of wheat production, as a result of high cereal prices and good weather conditions observed this year. The favorable forecasts for cereal production may predict that, for the first time in four years, the supply will exceed the use, and consequently, world cereal stocks will rise slightly more than 9 % over the value observed during 2007.

Despite the drastic 13 % fall of cereal production in Argentina, estimates show that total LAC production will increase 3 % during 2008, driven mainly by large volumes of corn produced this year in Brazil. This increased production in Brazil, together with other factors, would enable regional cereals stocks to increase one third over last year (see Table 1).

[1] It refers to wood, cotton, wool, rubber and leather.

[2] http://www.project-syndicate.org/commentary/edwards7

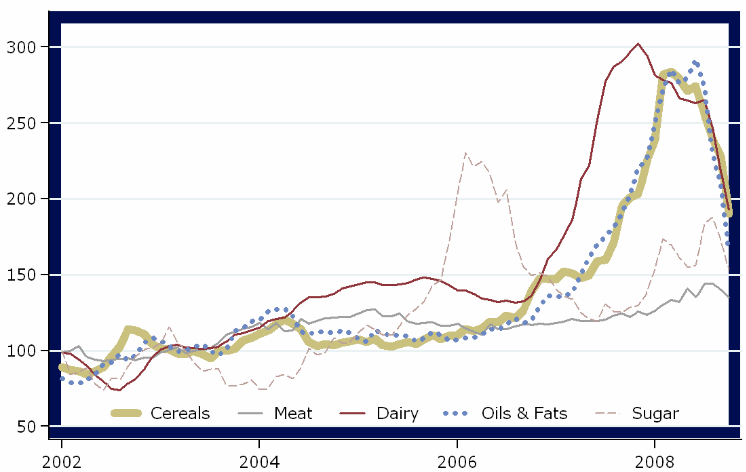
Table 1. Global and LAC Cereal Balance
Percentage variation between 2007 and 2008 crops

	Prod.	Imp.	Exp.	Utilization	Ending Stocks
Central America	2%	1%	29%	1%	-2%
Mexico	1%	5%	40%	2%	0%
South America	3%	-4%	-10%	5%	52%
Argentina	-13%	NA	-12%	6%	14%
Brazil	14%	-13%	-5%	6%	253%
Chile	7%	15%	0%	2%	17%
Colombia	3%	2%	0%	2%	0%
Peru	6%	-3%	NA	2%	0%
Venezuela, B.R.	0%	0%	0%	-2%	20%
Latin America	3%	-1%	-9%	3%	33%
World	5%	-4%	-3%	3%	9%

Source: FAO, 2008.

The good harvest forecasts, along with the sharp reduction in fuel prices and the weakening of the international demand, have led to a rapid fall of food prices from the levels reached in midyear 2008 (see Figure 2). In the case of cereals, FAO food price index shows that only between September and October 2008 prices were down 16 %. Meanwhile, prices of meat, sugar, dairy products and oils and fats were respectively down 8 %, 19 %, 36 %, and 43 % from their maximums shown between late 2007 and midterm this year.

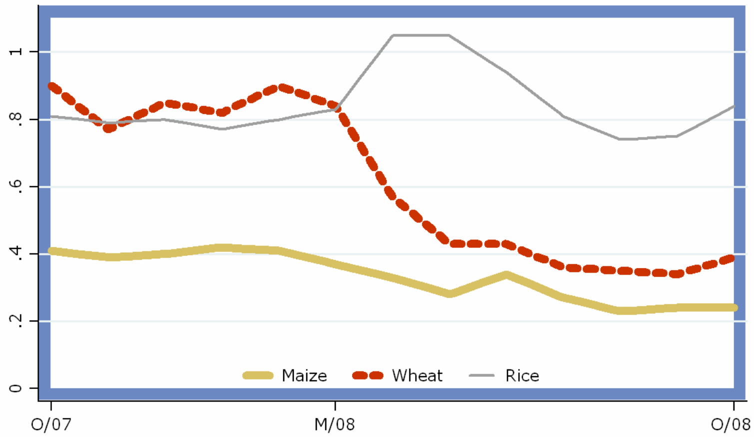
Figure 2. Monthly FAO Food Price Indices
Base 1998-2000 = 100



Source: FAO

While declining prices are good news for consumers, they may discourage food production, if added to the contraction of credits for agricultural investment –as a result of the financial crisis– and to high input prices. Regarding the latter, Figure 3 shows that relative prices of cereals and fertilizers have declined continuously since mid-2008 in the case of corn and wheat.

Figure 3. Evolution of Cereals/Fertilizers Relative Prices
Ratio Cereal/Fertilizers average prices

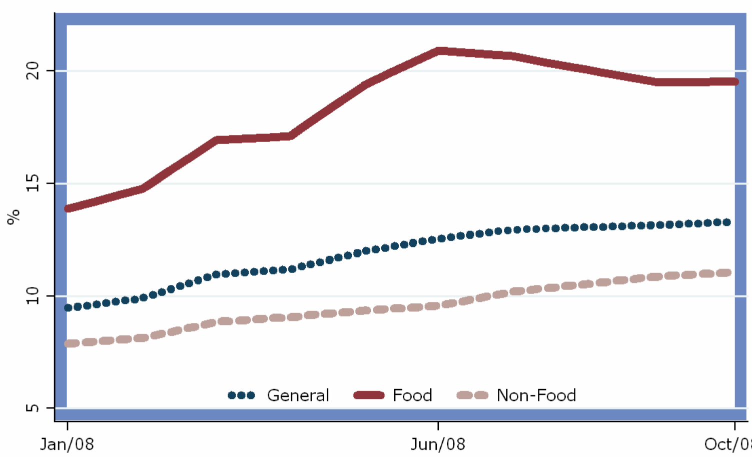


Note: Fertilizers weighted average price of international prices of urea, potassium hydrochloride and SPT, weighted according to the use in each crop.
Source: Hunger Observatory staff calculations based on data from national authorities

Under these circumstances, two important considerations regarding food security should be observed: i) the lack of access to food is still a current problem because prices remain above the levels observed before the food crisis; and ii) this problem could get worse given the scenario of uncertainty for agricultural production and GDP contraction.

This is a crucial moment for a Region which, although a large food producer, has not escaped the adverse effects of food crisis. In fact, due to the soaring international prices, LAC faces an annual food inflation rate close to 20 % by the end of 2008 (see Figure 4).

Figure 4. Annual Inflation Rate in LAC, 2008*
Percentual variation with regard to previous 12 months



*/ Weighted average with information from 11 countries
Source: Hunger Observatory staff calculations based on data from national authorities

LAC Exporter Role

LAC is a net exporter of merchandise in general and food in particular. However, a more detailed analysis shows heterogeneity among countries in the Region: from 26 countries with information on international trade in 2006, only Argentina, Bolivia, Brazil, Chile, Ecuador and Peru are net exporters of both merchandise and food. Regarding food trade, only Caribbean countries, Mexico and Venezuela are net food importers (see Table 2).

Table 2. LAC countries classification according to Merchandise and Food Trade Balance, 2006

		Goods Balance	
		Surplus (+)	**Deficit (-)**
Food Balance	**Surplus (+)**	» **Latin America and the Caribbean** » Argentina » Bolivia » Brazil » Chile » Ecuador » Peru	» Belize » Colombia » Costa Rica » El Salvador » Guatemala » Guyana » Honduras » Nicaragua » Panama » Paraguay » Uruguay
	Deficit (-)	» Trinidad & Tobago » Venezuela, B.R.	» Barbados » Dominica » Jamaica » St. Kitts & Nevis » Mexico » Saint Vincent and the G.

Source: Hunger Observatory staff elaboration with data from the World Bank.

Despite the adverse effects of the soaring food prices on the food security of LAC population –already discussed in the first two issues of this Bulletin–, the commercial advantage that many countries accounted for because of high prices of commodities cannot be ignored. This fact is explained by the exports structure in the countries of the Region, based heavily on the commercialization of fuel, food and minerals (see Table 3). The cases of Venezuela, Ecuador, Chile and Jamaica stand out, where more than half of their exports are concentrated on a single commodity.

It is not surprising then that according to official country figures, in the first half of 2008, the value of total exports of Argentina, Brazil, Chile, Colombia, Mexico and Uruguay respectively increased 32 %, 27 %, 112 %, 42 %, 17 % and 47 %, compared with the previous year. Furthermore, increases of 55 %, 135 %, 400 % and 72 % in the values of cereal exports in Argentina, Colombia, Mexico and Uruguay, and 108 % of total exports of food in the case of Chile, stand out.

Tabla 3. Main *Commodities* exported from LAC, 2006

Country	Share of main commodity in total good exports (%)	Commodity
Argentina	19.4	Soybean and derivatives
Barbados	39.6	Petroleum and derivatives
Belize	17.8	Sugar
Bolivia	39.5	Natural Gas
Brazil	9.4	Petroleum and derivatives
Chile	56.0	Copper and derivatives
Colombia*	26.1	Petroleum and derivatives
Costa Rica	8.9	Plantain
Cuba*	45.9	Nickel derivatives
Dominica	20.8	Plantain
Ecuador	58.4	Petroleum and derivatives
El Salvador	9.9	Coffee
Guatemala	14.5	Coffee
Honduras	20.8	Coffee
Jamaica	51.4	Aluminium derivatives
Mexico	13.9	Petroleum
Nicaragua	26.6	Coffee
Panama	24.4	Fish
Paraguay	35.0	Soybean and derivatives
Peru	41.8	Gold and copper
Trinidad & T.	34.1	Natural Gas
Uruguay	23.7	Beef
Venezuela, B.R.	89.5	Petroleum and derivatives

*/Figure for 2005.
Source: ECLAC, 2008.

It is worth pointing out that the fact that the increase in the value of LAC exports is largely due to their high price, and not so much to the increase in the export quantity –which in fact, in the first quarter of 2008, decreased 8,2 % compared to the first quarter 2007, according to figures from ECLAC (2008). As an illustration, Table 4 breaks down the change in the total value of primary exports between the first half of 2008 and the same period of 2007 for three countries. In the case of Argentina and Colombia, although the export quantity fell in the last year, the total value of exports increased significantly due to high food prices. Chile, meanwhile, experienced significant growth, similar in both quantity and price of their exports.

Table 4. Decomposition of primary exports value change in selected countries
1st Semester 2008 vs 1st Semester 2007

Country	Value	Price	Quantity	Compound Effect
Argentina	47.6%	49.3%	-0.9%	-0.8%
Chile	18.6%	8.4%	9.3%	0.8%
Colombia	25.7%	26.0%	-0.3%	-0.1%

Source: Hunger Observatory staff elaboration with official country information.

Policy Response

Faced with the drastic change of the economic scenario in the last months, government intervention in LAC countries have been targeted in a general way to bring stability and liquidity to the financial market and, to a lesser extent, to support the agricultural sector. At the macro level, some prominent cases are

Chile where USD $ 850 million were allocated to support medium-sized enterprises and the export sector, specifically by facilitating access to credit; and also Mexico, which recently announced a program to boost growth and employment that commits resources up to USD $ 4 000 million. Regarding the agricultural sector, Colombia launched the Income Protection Program for export agricultural goods producers for USD $ 3,7 million and Brazil will inject US$ 2 200 million to provide liquidity to the agricultural sector.

Gradually, governments in the Region have started to abandon the state of emergency in the context of the soaring food prices and have increasingly focused on a more sustainable food access and production. With this purpose, several existing social programs have been redesigned (Peru, Mexico, Colombia), means for financing productive projects have been strengthened (Chile, Costa Rica, Ecuador, Guatemala, Mexico, Paraguay) and, in some cases, guaranteed prices have been established (Argentina, Bolivia and Colombia), among other actions.

The short-term measures are aimed at addressing the adverse weather conditions. These are the cases of Honduras, Guatemala, Mexico, Dominican Republic, Jamaica, Cuba and Haiti where food has been distributed and monetary subsidies have been granted. The case of Haiti is particularly alarming due to the recent hurricanes and tropical storms, as a consequence of which the number of food insecure people reached 3 million during the last month.

Finally, the involvement of international agencies, especially the World Bank and the Inter-American Development Bank has been crucial in supporting programs for economic development and food security. Examples include: the "Strategic Alliance with Guatemala" of Guatemala and the "Program for Development Policies" of Nicaragua.

FAO in LAC

Undoubtedly, during the food crisis, agriculture has taken an important place on the countries political agenda. In support of this, FAO has promoted measures to increase food availability in the domestic market to ensure food security and to boost small-holder farming.

Regarding food availability, the FAO Initiative on Soaring Food Prices (ISFP) has already allocated USD$ 21,5 million through technical cooperation projects in over 20 countries in the Region, mainly located in Central America and the Caribbean[3]. Haiti is a special case since after suffering a natural disaster of great magnitude, on October 22 a package of emergency measures for USD $ 10,2 million for the next 3 years was approved, to encourage local production, increase food marketing and improve food security.

In addition to activities directly related to the ISFP, FAO implements other technical cooperation projects whose specific purpose is to reactivate small farmer's production.

Finally, in the closing statement of the XVIII Ibero-American Summit, Heads of State and Government of the Region stressed the importance of "promoting concrete actions at the Ibero-American level, aiming to cope with the food crisis through public policies that boost the global rural development, the sustainable production and the access to food". With this objective and at the request of the countries of the Central American Agricultural Council (CAC), FAO proposed to increase the availability and access to seeds of basic grains in Central America, and to help improve the impact of national plans of food production. The investment of USD $ 12 million considers increasing seed production by 60 % in three years, to reach a total production of around 32 thousand metric tones of seeds worth USD $ 53 million.

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[3] At world level the ISFP has assisted 94 countries, allocated a total of US$ 101.3 million dollars, of which US$ 82.9 have already been released.

The Hunger Observatory is a contribution of the
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to the Hunger Free Latin American and the Caribbean Initiative
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