

# press release

## THE END OF CHEAP FOOD

### But can Africa offer a solution?

**London, 20 October, 2009.** Significant increases in demand for food in emerging markets, coupled with increasing constraints on the ability to grow more crops, will make the scarcity of food a more pressing issue around the world – leading to sustained food price rises, whilst deepening food security issues in Asia, Africa and the Middle East, according to a report by Standard Chartered Global Research published today.

Food production would need to rise another 70 per cent by 2050 to feed the world's population, with constraints to production growth becoming more pressing. Water will become scarcer, restricted availability of arable land will increase imbalances in food production, whilst rising biofuels production will deny an increasing amount of grain output for human consumption. Whilst food production will continue to rise, the gap between increasing demand and slowing supply will ensure food prices will rise - and stay high.

The report finds:

- As emerging countries increasingly urbanise, demand will increase for meat products – which, in turn, will increase the global demand for grain feeds for livestock over and above that used for human consumption.
- With crop yields from existing arable land now slowing, producers are relying on increasing the intensity of cropping from existing land. As 'new' and available arable land is now concentrated in Sub-Saharan Africa and Latin America, this will exaggerate existing imbalances between food exporters and importers – with the Middle East having to import more foodstuffs, whilst Asia becomes increasingly unable to feed itself and reliant on imports.
- Water – vital for food production, with 1 tonne of grain requiring 1,000 tonnes of water - will become more scarce thanks to long-term inefficient use. With agricultural production currently consuming 70 per cent of all freshwater available globally, Standard Chartered estimates that 2.8 billion people will suffer water scarcity by 2025. Without increased supplies of water, increases in food production will not be possible, whilst climate change could exacerbate the scarcity of freshwater.

- With fixed targets for using biofuels as a percentage of gasoline over the next few years (eg 10 per cent share of transportation fuel in EU by 2020) biofuels have become a significant element of demand for commodities such as corn, sugar and palm oil. This has exacerbated the pressure on land and placed biofuel production increasingly in competition with food production, turning biofuels into a significant driver behind the rise in food prices.
- The report concludes that a. `Feeding the world' is achievable at a global level, but at a cost which will inevitably mean higher prices. b. Regional variations in food availability will widen, leading to more cross-border investment in the agricultural sector, the risk of protectionist policies, and heightened food security concerns for net food importers. c. At the local level, food affordability will become a key focus of fiscal and trade policy across the developing countries. While higher prices have positive implications for farm incomes and investment incentives, they will hinder the drive to improve food security for the poor.
- As far as industry sectors are concerned, there are positive implications for agricultural land owners and producers – as long as they are net food providers. Smaller producers who are net buyers of food – which tend to be small landholders -- will suffer from a higher proportion of their budget being attributed to food. Other sectors likely to benefit include agricultural equipment suppliers, and companies involved in inputs to boost yields, such as fertiliser and seed technology producers. Increased agricultural trade will provide opportunities for port owners and operators, and for integrated supply chain management companies.

### **Asia – the swing factor**

With a rapidly growing population and rapid economic growth, Asia is the single most important influence on global food demand. Arable land is scarce and heavily utilised, so supply is limited, while the population grows. The issues for Asia centre around growing water scarcity, and an increasing need to import food. These delicate changes in supply and demand will have a significant impact on food prices.

Helen Henton, Head of Commodity Research at Standard Chartered Bank, said:

“The striking regional variation in projected food demand and the capacity to increase output suggest that trade in food commodities will increase. Fears over future availability and improved returns generated from higher prices are already driving a trend towards cross-border investment in agricultural land. A sustained increase on agricultural prices is likely to attract private sector involvement in what is now largely a government-led initiative.”

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## **Note to Editors:**

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