

## **The overwhelming responsibility of the United States and European Union in the explosion of world prices of cereals**

Jacques Berthelot (jacques.berthelot4@wanadoo.fr),

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The explosion in the world prices of cereals from 2005-06 to 2007-08 then from 2009-10 to 2011-12 stems from many factors – climate, oil price, dollar exchange rate, speculation, higher demand – but mainly from two: the fall of global stocks of cereals and the increasing share of the US corn processed into fuel ethanol.

As there is very generally a reverse correlation between the levels of global stocks and prices for all commodities, the US and EU responsibility in the surges of world prices of cereals is overwhelming. Whereas the Western media finger pointed the responsibility of China and India given their increasing consumption of animal products, actually their cereals stocks rose, mitigating the surge in world prices.

If this responsibility is clear over the whole period 2005-06 to 2012-13 (for which we use the USDA prospects of 10 August 2012), this was already verified in the first phase of prices explosion, from 2005-06 to 2007-08 when the fall in US+EU cereals stocks of 31.4 million tonnes (Mt) exceeded by 14.2% that of global stocks of 27.5 Mt. The main responsibility lies on coarse grains for which the US+EU stocks fell by 19.6 Mt against by 4.4 Mt only for global stocks, whereas, for wheat, the fall in the US+EU stocks of 18.3 Mt represented 68.3% of the fall of 26.8 Mt in global stocks. It is not necessary to deal with the final stocks of rice as those of US+EU are tiny, even if their level fell when the global stocks rose.

If the global cereals stocks rose significantly in 2008-09, the previous prices explosion having fostered production, they fell again by 18.7 Mt from 2009-10 to 2011-12, those of US+EU falling by 28 Mt, 50% more than global stocks. Here also the main responsibility lies on coarse grains for which the US+EU stocks fell by 29.7 Mt, accounting for 97.4% of the fall in global stocks of 30.5 Mt. For wheat the US+EU stock fell by 7.2 Mt whereas the global stock rose by 2.2 Mt.

The situation will deteriorate sharply for 2012-13 after the severe US drought in Summer 2012 and, to a lower extent, in Russia, Ukraine, Kazakhstan, Turkey, Argentine and Australia. Over the 2009-10 to 2012-13 period, the collapse in the US+EU cereals stocks of 64.4 Mt would exceed by 11% the fall of 58 Mt in global stocks. Here again the overwhelming responsibility would lie on coarse grains stocks as their fall of 43 Mt would account for 91.7% of the fall in global stocks. The fall of 11 Mt in the US+EU stock of wheat would represent 60.4% of the expected fall of 18.2 Mt in global stocks.

Finally the share of the US+EU stocks in global stocks dropped from 28.8% in 2005-06 to 18.5% in 2011-12 and 11.8% expected in 2012-13, of which respectively by 26.3%, 17.1% and 16.9% for wheat and by 47.3%, 25.3% and 19.2% for coarse grains. On the other hand the share of China+India rose from 30.3% in 2005-06 to 42.3% in 2011-12 and 47.4% expected in 2012-13, of which respectively by 24.7%, 39.7% and 43.2% for wheat and by 21.9%, 35.7% and 40.1% for coarse grains. And their share in the global stock of rice rose from 61.6% in 2005-06 to 65.6% expected in 2012-13.

The global production of cereals exceeded the global demand on average by 8.2 Mt from 2005-06 to 2011-12 as the deficits registered in 2005-06, 2006-07 and 2010-11 were

compensated by the surpluses of 2007-08, 2008-09, 2009-10 and 2011-12. And, over the period 2005-06 to 2012-13 – year for which the deficit is expected at 40 Mt –, global production would also exceed global demand on average by 2.1 Mt. Now, without the US maize ethanol, not a single year would have been in deficit and the surplus of global production over global demand would have been on average of 99.2 Mt from 2005-06 to 2011-12 and of 93.9 Mt from 2005-06 to 2012-13. And, if we add the EU cereals devoted to fuel ethanol – from 4 Mt in 2005-06 to 10 Mt in 2011-12 and 11 Mt expected in 2012-13 –, the surplus of global production over global demand would have been of respectively 105.6 Mt and 103 Mt. One can deduct that this large permanent surplus of global production over global demand would have led to a fall in world cereals prices instead of the explosions registered from 2005-06 to 2007-08, then from 2009-10 to 2011-12 and expected for 2012-13. If the fall would have been the most noticeable on maize it would have spilled over the other cereals, oilseeds and animal products through a dominos effect, as was acknowledged already since 2005-06.

To conclude, the production of agrofuels from food feedstocks should be forbidden and all countries exporting cereals – the US and EU the first – should keep public stocks – because private stocks are speculative – at least in line with their share in global exports. However this would be very difficult to impose because agrofuels secure exploding cereals (and oilseeds) prices which enrich all producers and improve the trade balance of the exporting countries.