

The Rise in International Grain Prices

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1. Why are international grain prices going up?

Severe drought has hit around 60% of the United States landmass, seriously damaging crops. The US Department of Agriculture has announced that the country is suffering from the poorest harvest in 24 years dating back to 1988. This has boosted the international prices of corn and soy beans to their highest historical levels.

2. The global food crisis in 2008 occurred as a result of the rise in international grain prices. Could it happen again?

In 2008 international grain prices tripled from pre-crisis levels. This had nothing to do with the production of grain, however, which was stable at that time. There were a number of factors considered to have caused prices to surge in 2008. I would think that a major cause was the change in corn supply, owing to the fact that corn had previously been consumed solely as food or feed but then began to be used as a raw material for ethanol production as an alternative to gasoline. While burning gasoline emits global-warming gases, plant-derived fuel is considered to be carbon-neutral, the burning of which does not emit any additional greenhouse gases other than the carbon dioxide which plants absorb from the atmosphere through photosynthesis. For this reason, governments of various countries have promoted the production of ethanol from biomass feedstock. The US government has offered the industry a variety of subsidies, including a grant for constructing ethanol production facilities. Plant-derived fuel was seen to accomplish the dual purpose of mitigating global warming and increasing farm income. In 2008, soaring crude oil prices also provided favorable conditions for biomass-ethanol production, for which a large volume of corn was allocated. In sum, the new demand significantly pushed up the price of corn.

As the price of corn jumped, many US farmers switched production from soy beans to corn. This caused a price hike in soy beans because of their short supply. The higher price of corn also led to an increase in the price of wheat. Most of the corn was used for livestock feed, while a portion of wheat production was also allocated for livestock feed. Cattle farmers used more wheat for their livestock because of the higher price of corn, which in turn increased demand for wheat, sending the price even higher and resulting in increased consumption of rice as a substitute for wheat. This then boosted the price of

rice. In the end, the prices of corn, soy beans, wheat and rice all went up. Based on the above, it is safe to say that the rising price of crude oil has increased international grain prices. The flow of international speculative money into commodity markets, such as into crude oil and grain, has also helped boost international grain prices.

As a result, grain-importing countries, such as the Philippines, were severely hit by a food crisis. It affected some other countries. International price increases tend to shift supply from domestic markets to overseas markets, hiking domestic prices due to the decline in domestic supply. This adversely affects poorer citizens, making it more difficult to buy food. In 2008, countries such as India and China implemented measures to restrict the export of foodstuffs in order to prevent a shortage of domestic supply and price increases.

3. How do you see the present increase in grain prices as compared to the one in 2008?

As mentioned above, one of the major reasons for the rise in international grain price in 2008 was attributed to the higher price of crude oil. Today the price of crude oil is 30-40% lower than that was at its height in 2008. Currently about 40% of the corn yield in the US is allocated for ethanol production, while 36% of the remaining corn is used as feed for domestic livestock, 13% is exported, and 11% is consumed as food or used for industrial purposes, such as producing starch. As the price of corn surges, so does the price of ethanol. The price of crude oil has leveled off (at least it is not going up), so ethanol production is suffering a price disadvantage versus crude oil. It is possible in this situation that less corn will be allocated for ethanol production, while more may be allocated for livestock feed, which may to some extent work to mitigate the impact of a diminished corn yield.

International trade in corn and soy beans may be significantly affected by the decline in yield in the United States as US exports of corn and soy beans account for 40-50% of global trade. In most countries, corn is traded for livestock feed, and oil meal, which is generated by pressing oil from soy beans, is also consumed as livestock feed. So the vast majority of corn and soy beans is not ingested by human beings. The exceptions are Japan and other East Asian countries where soy beans are processed into tofu, soy sauce and other foodstuffs. In contrast to corn and soy beans, wheat and rice are mainly consumed as food, and they are produced not only in the United States but also in many other countries. There is sufficient supply of wheat and rice in the world for the moment, so they do not appear as if they will cause a food crisis like that in 2008. As for wheat, Russia has announced that its production is down by 20%, which has pushed up the wheat price. But the current price level is about 30% lower than that in 2008. As for rice, there is a sufficient supply in the world, and the current international rice price is more than 40% below that in 2008. So a surge in the price of corn has had a very limited

influence on the prices of wheat and rice for the moment. Given current conditions, it is less likely that a food crisis like that in 2008 will recur.

4. Do you think that the present grain price increase may have any impact in Japan?

The situation with livestock farmers in the United States and Japan is the same as Japanese farmers use American grain for livestock feed. So the increase in grain prices may possibly cause a rise in the prices of animal products such as beef, pork and chicken regardless of whether they are imported to or domestically produced in Japan. Japan imports soy beans from the US to produce not only food oil but also other foodstuffs such as tofu, miso and soy sauce. Prices of these soybean products may be impacted by the international grain price increase.

With regard to wheat, however, Japan's Ministry of Agriculture, Forestry and Fisheries imposes a surcharge on wheat imports to sell to domestic milling companies at nearly twice the import price. The intent of the surcharge is to procure financial resources to bolster domestic wheat, the price of which is in no way competitive with its imported counterpart. The increase in the international price of wheat has narrowed the price differential between imported and domestic wheat, which cuts down the amount of compensation required for domestic producers and therefore lowers the surcharge on imported wheat. In other words, a rise in the international wheat price has little impact on Japanese citizens because they are accustomed to paying double the international wheat price.

From the very beginning, Japan's imports of farm and marine products are as little as 1.2 trillion yen, whereas final consumption of foodstuffs in Japan amounts to 73.6 trillion yen. An increase in the price of imported grain, which constitutes a part of imported farm and marine products, cannot have much of an impact on final consumption of foodstuffs. While it is true that the nominal grain price is at the highest level ever in history, it is also pointed out that, taking general price increases into account, the real price of grain in Japan is lower than that in the 1960s and 70s. So we should maintain a level-headed perspective on the current increase in the international price of grain.

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