

# Food costs at record high as U.N. warns of volatile era



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MANILA/WASHINGTON (Reuters) – Record high global food prices showed no sign of relenting following a rash of catastrophic weather, highlighted by a major U.S. snowstorm and a cyclone in Australia, which could put yet more pressure on prices and spark further unrest around the world.

The closely watched U.N. Food and Agriculture Organization Food Price Index on Thursday touched its highest level since records began in 1990.

The index rose for the seventh month in a row to 231 in January, topping the peak of 224.1 in June 2008, when the world was last gripped in a food crisis.

"These high prices are likely to persist in the months to come," FAO economist and grains expert Abdolreza Abbassian said in a statement.

Surging food prices have helped fuel the discontent that toppled Tunisia's president in January and that has spilled over to Egypt and Jordan, raising expectations other countries in the region would secure grain stocks to reassure their populations.

World Bank President Robert Zoellick urged global leaders to "put food first" and wake up to the need to curb price volatility.

"We are going to be facing a broader trend of increasing commodity prices, including food commodity prices," he told Reuters in an interview.

## SUPPLY THE KEY

Catastrophic storms and droughts have been battering the world's leading agriculture countries in recent months, including flooding and a massive cyclone in Australia and a powerful winter storm that swept across parts of the United States.

Dubbed "Stormageddon," one of the biggest snowstorm in decades dumped up to 20 inches of snow in some parts of the U.S. grain belt this week, paralyzing grain and livestock movement.

Meanwhile, more cold weather in the U.S. Plains ignited concerns the region's winter wheat lacked adequate insulating moisture.

U.S. wheat prices surged to 2-1/2 year highs on Thursday before retreating slightly on profit taking, along with prices of the other big crops such as corn and soybeans. But traders said pressure remains on wheat prices with forecast for more cold in the U.S. Midwest.

Sugar prices also surged to three-decade highs on fears of damage Cyclone Yasi would bring to the Australian cane crop. Prices for Malaysian palm oil, a cooking staple in the developing world, hit 3-year highs on flooding.

Big companies have had to adjust to higher raw material costs. Kellogg Co, the world's largest breakfast cereal company, said on Thursday it has boosted prices on many of its products to offset rising costs for ingredients such as grains and sugar.

"Today's announcement by the Food and Agriculture Organization should ring alarm bells in capitals around the world," said Gawain Kripke, a policy and research director for Oxfam America, an international development group.

"Governments must avoid repeating the mistakes of the past when countries reacted to spiraling prices by banning exports and hoarding food. This will only make the situation worse and it is the world's poorest people who will pay the price," he said.

Janis Huebner, economist at Germany's DekaBank said inflation partly fueled by increasing food prices could in turn trigger interest rate rises in several countries this year.

"This could mean a slowing down of growth in the countries which raise their interest rates," he said. "This could involve Asian countries and other regions, this would somewhat brake growth but I do not expect a hard landing."

## STOCK BUILDING

Some countries, particularly where food prices loom large in household budgets, have been building up food stocks to contain prices -- and to limit the political and social fallout.

During the last food price crisis, the World Bank estimated that some 870 million people in developing countries were hungry or malnourished. The FAO estimates that number has increased to 925 million.

"2008 should have been a wake-up call, but I'm not yet sure all the countries in the world that we need to support this have woken up to it," the World Bank's Zoellick said.

Indonesia, Southeast Asia's biggest economy, last week bought 820,000 metric tons of rice, lifting rice prices, while suspending import duties on rice, soybeans and wheat.

Algeria last week bought almost 1 million metric tons of wheat, bringing its purchases to at least 1.75 million since the start of January, and ordered a speeding up of grain imports.

On a day of bloody confrontation in Egypt, where protesters are demanding an end to the 30-year rule of Hosni Mubarak, the U.N. World Food Programme's executive director Josette Sheeran said the world was now in an era where it had to be very serious about food supply.

"If people don't have enough to eat they only have three options: they can revolt, they can migrate or they can die. We need a better action plan," she said.

(Additional reporting by Jonathan Saul in London, Martinne Geller in New York, Lesley Wroughton and Christopher Doering in Washington and Michael Hogan in Hamburg; editing by Jonathan Thatcher, Keiron Henderson, Russell Blinch and Xavier Briand)

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