



## Oil and Food Prices

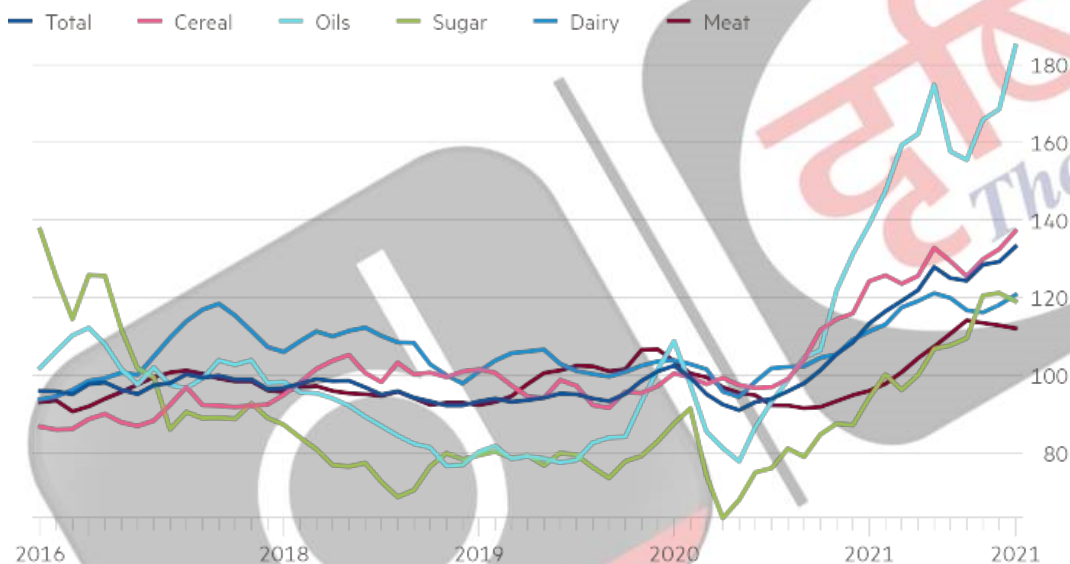
### Why in News

Recently, the [United Nations Food and Agriculture Organisation](#) (FAO) released data showing its [world Food Price Index \(FPI\)](#) the highest since July 2011.

- Food supplies and prices are under pressure from extreme weather, disturbed supply chains, worker shortages and rising costs.

// The FAO food index has surged

Nominal, 2014-2016=100



### Key Points

- **Food & Fuel Move Intandem:**

- One reason why petroleum and agri-commodity prices move in tandem is the [bio-fuels link](#).
- When crude prices rise, [blending ethanol](#) from sugarcane and corn (maize) with petrol or diverting palm and soybean oil for [biodiesel](#) production becomes that much more attractive.
- Cotton, likewise, turns relatively affordable vis-à-vis petrochemicals-based synthetic fibres.
- Also, since **corn is primarily an animal feed, its diversion to ethanol leads to substitution by other grains**, including wheat, for livestock use.
  - That, then, **pushes up prices of foodgrains as well.**
- The same happens to sugar, as mills step up the proportion of cane crushed for fermenting

into alcohol.

- But it is not only the bio-fuels effect alone, **large price increases** also tend to have an effect on other farm produce through creation of positive sentiment.

#### ▪ **Economic Activity and Stimuli:**

- The **positive sentiment** of the market is connected with two things:
  - The first is the **demand returning with revival of economic activity worldwide** amid receding **pandemic** cases and rising vaccination rates.
  - The second is the **liquidity infused** by the **US Federal Reserve and other global central banks**, to limit the economic damage wreaked by **Covid-19**.
    - All this money, combined with the policy-induced **ultra-low global interest rates**, has found its way into stock markets, start-up investments and also commodities.
- However, since **restoration of supply chains** hasn't kept pace with the demand recovery — manifested in **congestion at ports, shortage of shipping containers/vessels** and labourers yet to fully return to plantations — the overall result has been **inflation**.

#### ▪ **Impact on Farmers:**

- Some products like Kapas (raw unginned cotton) and Soyabean are selling at prices **well above the government's Minimum Support Price (MSP)**.
- On the flip side, however, **farmers are being forced to pay much more for fuel and fertilisers**, as their international prices have shot up.

#### ▪ **Fertilizers:**

- The situation is worse in fertilisers, **Di-ammonium phosphate (DAP)** is currently being imported into India at USD 800 per tonne, including cost and ocean freight. **Muriate of potash (MOP)** is available for no less than USD 450 a tonne.
  - These are close to the prices that prevailed during the world food crisis of 2007-08.
  - DAP and MOP are **non-urea fertilisers**.
- Together with fertilisers, the **prices of their intermediates and raw materials such as rock phosphate, sulphur, phosphoric acid and ammonia have also skyrocketed** due to a combination of demand-pull (from higher crop plantings) and cost-push (from oil and gas).

### **Food Price Index**

- It was **introduced in 1996** as a public good to help in monitoring developments in the global agricultural commodity markets.
- The **FAO Food Price Index (FFPI)** is a measure of the **monthly change in international prices** of a basket of food commodities.
- It **measures changes for a basket** of cereals, oilseeds, dairy products, meat and sugar.
- **Base Period:**2014-16.

**Source: IE**