



## Food Price Crisis 2007-2008: Lessons for the Commonwealth Caribbean and Haiti

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### Abstract

In June 2008, global food prices reached their highest levels in 30 years, sparking a global crisis and threatening the livelihoods of many in the Commonwealth Caribbean and Haiti. From April to August 2008, this intense crisis prompted various policy responses by governments and international agencies in the region to ensure short-term food security and availability of food supplies at more affordable domestic prices. Food-importing countries generally reduced or suspended their import restrictions while others limited their exports to avoid food shortages and higher domestic prices. Immediate responses concentrated on short-term measures applied to mitigate the impacts of higher prices on vulnerable groups and households, including price controls, social programs, subsidized food sales or food distribution. Since the crisis, however, co-ordinated regional efforts have focused on longer-term strategies resulting in a Regional Food and Nutrition Security Policy. This policy brief reviews policy responses to the 2007-2008 food price crisis in Commonwealth Caribbean countries and Haiti, as these countries are highly vulnerable to such crises in light of their extreme dependence on food imports coupled with high poverty rates. This policy brief assesses the impact of the crisis, the region's responses and provides lessons for looming food price shocks to come.

### Essentials

- The need for both Haiti and Commonwealth Caribbean countries to design and implement regional and country-specific food policies that will help manage the impact of future food price shocks is not adequately analyzed.
- The region needs to better monitor and share information on food price changes, policy measures and results across the region.
- The need to protect consumers from higher food prices must be balanced against maintaining supply incentives for producers. Policy measures need to be targeted, non-distortionary and positive toward agricultural investments.
- The promising 2010 Caribbean Community Regional Food and Nutrition Security Policy commits the region to secure higher food production, better health and nutrition, income and employment opportunities, and poverty alleviation.

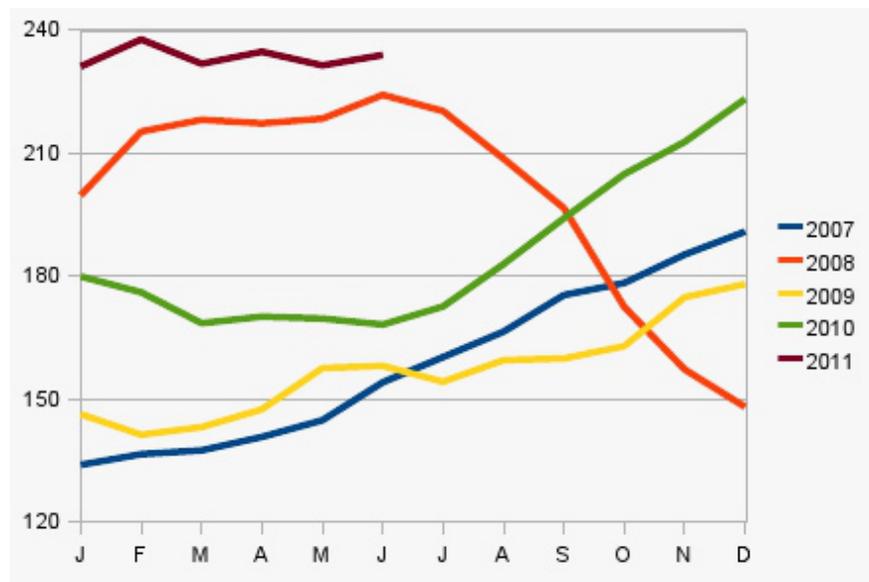
## Introduction

Food prices of many staple commodities in the Commonwealth Caribbean and Haiti have increased substantially since the food price crisis of 2007-2008. According to the World Bank, all countries in the region are net food importers. Thus, these countries face ever-growing and costlier food import bills. Additionally, most countries in the region suffer from high levels of debt. Consequently, higher food prices have implications for growth, development and food security in the region.

United Nations Food and Agriculture Organization (FAO) figures for 2005-2007 estimate the number of people undernourished in the Caribbean at 8.1 million, almost a quarter of the entire region. Of these, the majority are found in Haiti (5.5 million people undernourished). Moreover, though with limited data, FAO examined the challenges and outlook for the Caribbean sub-region in 2010 and found that both the 2007-2008 food price crisis and 2008-2009 economic crisis significantly increased poverty, malnutrition and the level of non-communicable diseases.

Indeed, staple food prices soared on world markets during the food crisis of late 2006 to 2008, first with maize, then wheat, then rice, and then maize a second time. In all, world prices for all three cereals more than doubled in

**Figure 1**  
**FAO Food Price Index (2002-2004 = 100)**



Source: United Nations Food and Agriculture Organization (FAO) Food Price Index, July 7, 2011.

a span of less than two years. Today, food prices are higher than during the 2007-2008 crisis. In February 2011, the Food Price Index of the FAO averaged an all-time high of 238 points, much higher than the peak reached in June 2008. Major increases are also seen in items such as sugar, oils, oilseeds, dairy and beef.

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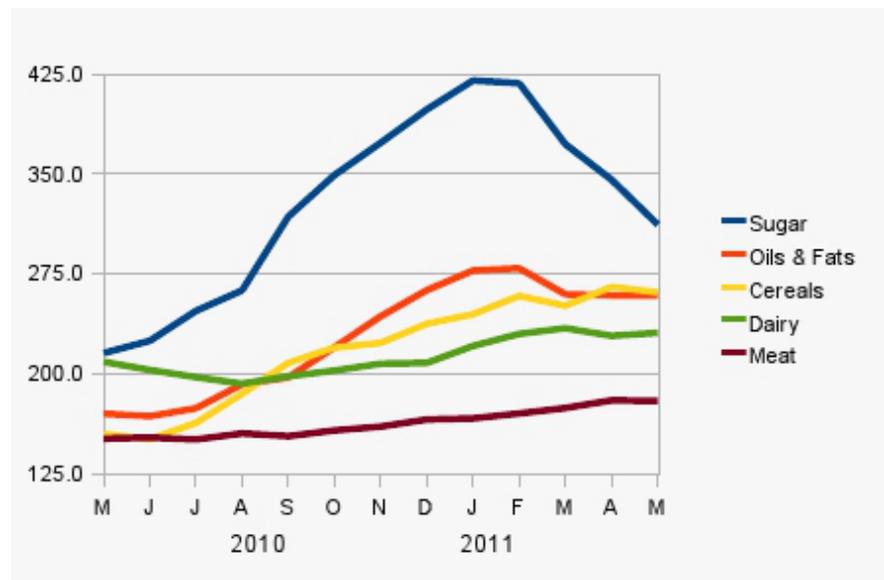
## Review of the 2007-2008 food price crisis

Global demand for food outstripped growth in supply in the lead-up to the 2007-2008 food crisis, causing a rise in global food prices. The depreciation of the U.S. dollar prior to the crisis was and continues to be another contributing factor. However, the largest factor was the imbalance between global supply and demand that occurred during the crisis. On the demand side, sustained growth and changing consumption patterns toward higher protein-based diets in emerging economies—in the Asian middle class in particular—as well as the diversion of grains to

distillation for first generation bio-fuels, and speculative investments in agriculture commodity in future markets all contributed to the crisis. Panic buying, stock building and lack of transparency also generated volatility. On the supply side, rising production costs due to higher oil, transportation and fertilizer prices, as well as poor harvests —particularly for wheat— and lower global grain stocks factored into the surge in food prices. Some policy responses to the crisis such as export bans or restrictions and restocking worsened the situation, whereas others such as reducing import tariffs, implementing market-based responses, safety net programs and investments in agriculture proved successful in limiting the impact of the crisis.

With the exception of Belize, Guyana and Suriname, Caribbean countries are island states with small, open economies. They face several significant challenges: predominantly imported food and fuel; economic vulnerability to market shifts; high crime rates; and repeated natural disasters and environmental degradation. Dependence on imported food and fuel means they are vulnerable to small shifts in international food markets. For the region, higher food import bills during the 2007-2008 crisis widened trade deficits and increased inflationary pressures, affecting household and individual incomes and consumption levels

**Figure 2**  
**Food Commodity Price Indices (2002-2004 = 100)**



Source: FAO Food Price Index, July 7, 2011.

and growing the ranks of the poor. Regional achievements in poverty reduction and social development associated with the Millennium Development Goals were reversed after seven years of global advances, according to the World Bank and the United Nations Economic and Social Council.

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According to the World Bank, between 2006 and 2008, the world price of wheat increased by 152 per cent, maize by 122 per cent, beef by 20 per cent, and bananas by 24 per cent. Some Caribbean countries could have expected to benefit from rising food prices for their agricultural exports, but the region's commodities—including sugar (Barbados and Jamaica) and bananas (Dominica, St. Lucia and St. Vincent-Grenadines)—did not appreciate from comparable price hikes in world markets. Instead, global food prices provoked a rise in domestic food price in the region. In 2007, international food prices rose substantially faster than the overall inflation rate in countries such as Jamaica and Trinidad and Tobago, with Haiti as an exception. The food

crisis was also compounded by the global economic meltdown of 2008-09 and austerity budgets that Caribbean countries put in place to cope with the recession.

Notably, this situation revealed that the focus on exports had led to a neglect of domestic agriculture, which suffered from sectoral weaknesses including the use of marginal lands for domestic food production; poor road access between available lands and markets; the absence of adequate physical marketing facilities; poor and ineffective institutional support; insufficient drainage and irrigation infrastructure; and scarce funding for agricultural research and development. As a result, the Caribbean agricultural model has been put into question by many observers as the deterioration of the terms of trade continues to destabilize economies and hinder economic growth in the region.

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### **Box 1: The food crisis in Haiti**

Haiti was severely hit by the global food crisis, which was partly responsible for the outbreak of riots across the country and the dismissal of the prime minister. Like neighbouring countries, Haiti faced a rise in the price of foodstuffs and fuel, which account for 60 per cent of the country's consumer price index. In addition, half of Haiti's food supply is imported. The crisis caused the consumer price index to rise 70 per cent in four months. Faced with the increased price of foodstuffs, school feeding programs had to shut down. Over one million people across the country were considered to be in a situation of transitory food insecurity. As a result, policy measures implemented in response to the crisis included temporary subsidies on the price of rice and chemical fertilizers; increased food aid; agricultural relief efforts; distribution of seeds and farming tools; and the development of various plans linked to nutrition and food security.

## **Policy responses**

Before the crisis, Caribbean Community (CARICOM) countries saw the need to develop a common food strategy, and the Regional Food and Nutrition Security Policy was created as part of the 2001 Revised Treaty of Chaguaramas. Food and nutrition security was also reiterated as a goal of the CARICOM Agricultural Policy, supported by the 2004 Jagdeo Initiative to reduce constraints to agricultural development. As well, food security was made one of the main pillars of CARICOM's Regional Transformation Programme for Agriculture in 2006, while other initiatives on trade negotiations and co-operation on health also addressed food security. Yet none of these initiatives were instrumental in

limiting the impacts of the crisis as experts have found they were either prepared and executed in isolation, lacked co-ordination, were not made operational or relied on low and fluctuating levels of external funding from official development assistance.

In July 2009, regional leaders reaffirmed their commitment to providing financial and other support measures for agriculture through the Liliendaal Declaration on Agriculture and Food Security, stating that the 2007-2008 food price crisis highlighted the urgent need to maximize regional agricultural production to meet food security and nutrition goals; to address poverty alleviation, income and employment generation; and to ensure that agriculture

be recognized as a generator of wealth. The Declaration also called for a more co-ordinated framework in developing and implementing appropriate policies, programs and incentives in support of the agriculture sector's development agenda. This led to the 2010 CARICOM Regional Food and Nutrition Security Policy, which commits the entire region to secure the aforementioned needs. Three areas have been identified for immediate implementation: development of an early warning system, a public health Caribbean diet awareness campaign to reduce obesity and nutrition-related non-communicable diseases, and increased production through the value chain approach. Existing ownership, co-ordination and higher levels of productive investment in agriculture, will be crucial to the policy's success.

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At the country level, Caribbean nations implemented different sets of policy measures (see Table 1). The responses were tailored based on the domestic impacts of the food price crisis, and depended on the capacities

**Table 1: Policy responses by the Commonwealth Caribbean and Haiti to the 2007-2008 food price crisis**

Policy response	Country
Tax cuts	Antigua-Barbuda, Dominica, Grenada, St. Kitts-Nevis, St. Lucia, St. Vincent-Grenadines
Consumption subsidies and or price controls	Grenada, Haiti, Jamaica, St. Kitts-Nevis, St. Lucia, Trinidad and Tobago
Trade-oriented policy (e.g. export bans or tariff reductions)	Bahamas, Barbados, Dominica, Grenada, St. Kitts-Nevis, St. Lucia, St. Vincent-Grenadines, Trinidad and Tobago
Agricultural production support or market management	Antigua-Barbuda, Bahamas, Barbados, Grenada, Haiti, Jamaica, St. Kitts-Nevis, Trinidad and Tobago
Selling of government food stocks	None observed
Social safety nets	Bahamas, Grenada, Jamaica, Trinidad and Tobago
Welfare programs	Grenada, Haiti, Jamaica
Wage increases	St. Kitts-Nevis

Source: Prepared by the author using data from the Economic Commission for Latin America and the Caribbean (ECLAC), FAO and the World Bank.

and resources available. A goal of the emergency response measures used was to stabilize food prices and limit the impact of the international food price crisis on domestic prices, followed by efforts to increase access to food and purchasing power more broadly, as well as short-term interventions to boost domestic food production.

Haiti, for instance, provided subsidies for both rice imports and inputs for rice production and related transportation. School feeding programs also ended temporarily in Haiti, and were replaced by food-for-work programs. Barbados mobilized credit for small farmers, implemented a land use policy to ensure agricultural land availability, and provided support for

sustainable agriculture production. Jamaica focused on broadening its Programme of Advancement through Health and Education, on training and community empowerment (as safety nets), and on consumer price subsidies and conditional cash transfer programs. Grenada distributed food baskets and milk while suspending the common external tariff (CET) on selected goods. St. Kitts-Nevis eliminated the consumption tax on numerous products, suspended the CET, extended price controls on selected goods, increased wages, and distributed land to rural workers for agricultural production. St. Lucia also suspended the CET and consumption tax on some goods, increased subsidies for bulk imports of rice, flour and sugar, and tripled price controls of

staple foods and health-related articles. St. Vincent-Grenadines extended the list of zero-rated and value-added-tax (VAT) exempt articles, including staple foods. Pre-crisis, school feeding programs had been developed in many countries including in Haiti, Jamaica and St. Vincent-Grenadines and, aside from Haiti, continued despite high food costs.

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Common policy measures used across the region to counter the food price crisis included price control measures or price subsidies on basic foods, trade policy measures to reduce tariffs on imports, and derogations from the CET and other CARICOM obligations. To a lesser extent, other familiar responses included welfare programs to distribute food, cash, or provide employment opportunities; agricultural subsidies to stimulate local production and consumption subsidies on food and fuel; removal of

consumption taxes, customs services taxes, import duties, expansion of zero-rated basket of food items (VAT); implementation of new or scaled-up social safety nets; and targeted policies to reduce the incidence of the food price crisis on vulnerable groups.

In sum, the policy measures put in place had three main orientations. First, market-level responses were widely implemented to stabilize domestic food prices, though for such measures to be efficient tariffs needed to be sufficiently high at the outset of the price hikes; otherwise, any reductions of already low tariffs could only offset a small proportion of the overall price rise of food imports. Second, on the demand side, market management measures such as price controls were applied for a short period, despite their well-known potentially destabilizing effect over the long term or during food shortages as they affect the functionality and competitiveness of food markets. In fact, food sector businesses and farmers are currently asking governments whether these price controls have affected their engagement in food markets, as seen in Barbados, St. Kitts-Nevis and St. Lucia. However, these repeated food crises are also providing opportunities for governments to reassess price levels and reliance on such measures, trade and food security. Finally, micro-level interventions were used to mitigate adverse consequences of higher

food prices including food access-based and supply-based approaches. Together they alleviated short-term food supplies to local markets and populations while facilitating access to inputs and improving agricultural development to increase the production of food.

## Conclusion

This policy brief has documented recent policy responses to food price shocks in the Commonwealth Caribbean and Haiti. There exists a promising regional agreement on how to confront a similar crisis in the future, combining short- and long-term social and productive interventions which include macro-economic and trade measures along with targeted measures to producers and consumers. In determining appropriate policy responses to rising food prices and shocks, Caribbean nations need to consider the domestic and external causes of price shocks; determine if they are structural or transitory; ensure existing targeted transfer and safety net programs are compatible with productive measures; work to achieve efficient and transparent food and agricultural markets; and weigh in factors related to household vulnerability.

Further policy options could include the promotion of national agricultural development and production with a focus on small farmers and women

to enhance equity and efficiency; the promotion of consumption and nutrition patterns less dependent on imported foods; the increase of stock resilience through emergency grain reserves to serve as hunger insurance and to help avoid panic purchase, but in consideration of costs and market impact; the development of safety nets and tied fiscal capacity (including targeted conditional cash transfer programs) if not already in place, and their expansion and scaling-up when price shocks occur; the reduction and eventual elimination of price controls; and the strengthening of regional trade, harmonization and competition within the Caribbean. However, funding and financing for these and other measures may require money supply increases, tax reforms or transfer adjustments. Increased international trade policy co-ordination in times of crisis can also reduce volatility and ensure the region's markets can remain a reliable source of food.

In the longer run, it will be important to increase investments in agriculture, both public and private, and improve the functioning of markets. Through the proposed early warning systems, well-targeted safety nets, and trade measures, the region can reduce the exposure of its citizens to acute food price changes. And by implementing the above policies, Caribbean nations can better ensure food security despite the assured price increases, inflationary pressures,

extreme weather events and food price shocks to come.

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The opinions expressed in this paper are those of the author and do not necessarily reflect the views of FOCAL, its board or staff.

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## FURTHER READINGS

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