



**STUDY**

**ON**

**THE IMPACT OF THE PRICE FLUCTUATIONS OF FOOD PRODUCTS ON THE FOREIGN TRADE OF THE OIC MEMBER STATES**

**Realised by ICDT**

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# ABSTRACT

## I.CONTEXT:

The year 2008 was characterized by an unprecedented food crisis following a staggering rise in food products prices, which dragged 1 billion individuals in a situation of food insecurity further enhanced by the world financial crisis. The Food crisis is the reduction of food stocks and a tremendous increase in the prices of staple food whose prices increased at the rate of 20 to 76% between 2007 and 2008 putting thirteen OIC Member States in a chronicle situation of food insecurity. According to the FAO data, the way forward to solve food crisis requires a financing ranging between 25 and 40 billion US dollars per year.

Within the context of trade globalization, the fluctuations of the food prices has a mixed impact on the foreign trade of the OIC Member States, in the sense that it will have a positive impact on the trade balance of these countries, which are net exporters of these products, but it will also contribute to swell the bill of importing countries. Most of these products have experienced price variations between 2 and 177% between 2005 and 2008. Furthermore, the fluctuations of oil prices have contributed to price volatility of most food products increasing thus the agro- inputs and boosting demand for these products, particularly, sugar maize, oleaginous products, palm oil used for the production of alternative energy such a biofuels. This has contributed to deteriorating the terms of exchange of some OIC Member States whose economies depend heavily on food products intended for export and import.

In front of this Food Crisis situation, the Islamic Centre for Development of Trade (ICDT) has prepared a study on the impact of price fluctuations of food products on the foreign trade of the OIC Member States. The major objective of this sector-based study is to analyse Intra-OIC trade in agro-food products in order to identify trade potential as well as potential partners, to contribute to the development of trade and investment exchanges in the agro-food sector between Member States with a view to ensuring food security.

This document served as the basis for the workshop organized under the auspices of the Ministry of Foreign Trade of the Kingdom of Morocco by ICDT and in collaboration with the International Islamic Corporation of Trade Financing (ITFC)- IDB Group on the **“Impact of Food Crisis on the Economies of the Member States of the Organisation of the Islamic Conference (OIC) and Trade and Investments Developmental Prospects in the Agricultural Sector”**, on 17<sup>th</sup> and 18<sup>th</sup> June 2009 in Casablanca, Kingdom of Morocco.

This study is divided into five parts:

- The first part gives an overview of the importance of trade in food products in the and the OIC member States;
- The second part examines the importance of intra-OIC trade in food products;
- The third part analyses the state of the evolution of the world prices of strategic food products of the OIC member States and the impact of price fluctuations of these products' prices on the foreign trade of the OIC Countries;
- The fourth part brings out the strategies dealing with the price stabilization of food products;

- The fifth part will focus on concrete recommendations enabling to reach a regional solution of the OIC Countries to fight food insecurity.

## **II. INTRA-OIC TRADE IN FOOD PRODUCTS:**

The value of intra-OIC trade in food products increased from 48 billion US dollars in 2006 to 50 billion US dollars, i.e. an increase by 4.2%. The share of intra-OIC trade in the world trade of Member States of food products accounted for about 26.4% between 1997 and 2007. The intra-OIC exports increased fourfold between 1997 and 2007 going up from 7 billion US dollars to 29.2 billion US dollars, while intra-OIC imports increased twofold rising from 8.7 billion US dollars in 1997 to 20.8 billion US dollars.

### **Intra-OIC Exports of food products**

- The main intra-OIC exports of food products reached a value of 29.2 billion US dollars in 2007, i.e. 37.87% of the total exports of food products of the OIC Countries against 43.5% in 2006, i.e. a drop by 14.5%.
- The main food products exported by the OIC Member States to the OIC area in 2007 were: oleaginous oils and seeds with 9.2 billion US dollars, i.e. 31% of intra-OIC exports of food products followed by cereals and preparations (6.7 billion US dollars; 23%), fruit and vegetables and preparations (4.9 billion US dollars; 17%), tropical products for beverages and products thereof (3 billion US dollars; 11%), meats, fisheries, and preparations (2.5 billion US dollars; 8%), milk and dairy products (2 billion US dollars; 7%) and miscellaneous products (901.4 million US dollars; 3%).

### **Intra-OIC imports of food products:**

- The intra-OIC imports of food products amounted to 20.9 billion US dollars in 2007, i.e. 22.93% of the total imports of the food products of the OIC Countries against 33.6% in 2006, i.e. a drop by 31.7%.
- The main food products imported by the OIC Member States from the OIC area in 2007 were: oleaginous oils and seeds with 7 billion US dollars, i.e. 34% of intra-OIC imports of food products followed by cereals and preparations (4.7 billion US dollars; 23%), tropical products for beverages and products thereof (2.8 billion US dollars; 14%), fruit and vegetables and preparations (2.5 billion US dollars; 12%), meats, fisheries and preparations (2 billion US dollars; 9%), milk and dairy products (1.05 billion US dollars; 5%) and miscellaneous products (676.4 million US dollars; 3%).

## **III. IMPACT OF THE PRICE FLUCTUATIONS OF FOOD PRODUCTS ON INTRA-OIC TRADE**

### Effects of the price fluctuations of food products on intra-OIC exports

The price fluctuation of selected food products led to the following effects during the 1997-2007 period:

- Drop of intra-OIC exports of 8.5 billion US dollars, 3.7 billion US dollars, 3.2 billion US dollars respectively in the event the ton price of palm oil, sugar and tea increases by 10% in the world market while noting that most of the OIC countries will likely substitute them for cheaper products.

These three products are not strategic for intra-OIC exports because the increase of their prices in the international market induces a decrease in intra-OIC exports but they represent a tremendous trade potential for countries such as Malaysia, Indonesia, Pakistan and Uganda.

- Increase in intra-OIC exports of about 7.8 billion US dollars, 6.5 billion US dollars, 3.4 billion US dollars, 2.5 billion US dollars and 2.4 billion US dollars respectively when the ton prices of soya oil, banana, maize, rice increase by 10% in the international market reflecting thus that these products are strategic for Member States even if their prices increase in the world market, the OIC Countries shall keep on exporting them among them owing to the fact they are produced in Asian and tropical countries of the OIC.

#### Effects of the price fluctuations of food products on intra-OIC imports

The 10% increase in the ton price of some food products imply a drop in intra-OIC import such as those of soya, rice, maize, tea, sugar and banana respectively by 9.4 billion US dollars, 9 billion US dollars, 7.4 billion US dollars, 6.2 billion US dollars, 3.8 billion US dollars and 2.6 billion US dollars, on the other hand the increase by 10% in the ton price palm oil, coffee contribute to the increase of intra-OIC imports by 7.4 billion US dollars and 5.8 billion US dollars because most of Member States are the main consumers of these strategic products to meet their needs.

#### Effects of the price fluctuations of food products on the intra-OIC trade balance of the OIC Member States.

The evolution of selected food products during the period spreading from 1997 to 2007 shows an intra-OIC trade balance always recoding a deficit, which increased from 2.41 billion US dollar's in 1997 to 20.19 billion US dollars in 2007. The lowest deficit of intra-OIC trade balance was reached in 2002 amounting to about 919.4 million US dollars following a drop in food products in the world market.

### **IV. IMPACT OF THE PRICE FLUCTUATIONS OF THE FOOD PRODUCTS ON THE FOREIGN TRADE OF THE OIC MEMBER STATES: PROJECTIONS FOR 2009, 2010 AND 2012.**

#### Impact of the price fluctuation of food products on the foreign trade of the OIC Member States in 2008

When the average real prices of food products recorded in 2008 are applied to the dynamic panel model while considering that the OIC Countries exchange only food products, the following results are brought out:

- The world exports of Member States increased by 110.2 billion US dollars in comparison with the OIC world exports of 2007, i.e. an increase by 7.9%;
- The world imports of the OIC rose by 72.5 billion US dollars between 2007 and 2008, i.e. a slight increase by 6.6%;
- The surplus of the world trade balance of the OIC Member States increased by 37.7 billion US dollars during the same period, i.e. 12.6%;
- Intra-OIC exports increased by 67 billion US dollars in comparison with the intra-OIC exports of 2007, i.e. a 33.5% rise;
- Intra-OIC imports increased by 56.2 billion US dollar between 2007 and 2008 owing to the price increase in food products during 2008, i.e. a 25.5% rise;

- Intra-OIC trade balance experienced a surplus of 10.8 billion US dollars between 2007 and 2008.
- The price fluctuations of food products in 2008 contribute to increasing the value of the foreign trade of the OIC Member States.

#### Impact of the price fluctuations of food products on the foreign trade of the OIC Member States in 2009

According to the assumption that the prices of food products of 2007 were similar to those of 2009, the impact of these prices on the foreign trade of the OIC Member States while taking account of these countries only may be summed up as follows:

- The world exports of the OIC Countries may reach an increase of 17.5 billion US dollars in 2009 in comparison with the world exports of Member States in 2008, i.e. an increase of 1.2%;
- The world imports of the OIC Countries may show an increase by 15 billion US dollars in 2009 in comparison with Member States' imports in 2008, i.e. a rise by 1.3%;
- The surplus of the trade balance of the OIC member States is expected to increase only by 2.5 billion US dollars in 2009 in comparison with 2008, i.e. and increase by 0.7%
- Intra-OIC exports may experience a growth of 6.6 billion US dollars between 2008 and 2009, i.e. an increase by 2.5%;
- Intra-OIC imports will show an increase of 6.3 billion US dollars between 2008 and 2009 corresponding to a rise by 2.3%;
- The resulting Intra-OIC trade balance will show a surplus of 264 million US dollars owing to the fact that the 2009 prices are lower than those of 2008 owing to the solutions devised by some governments to alleviate the effects of food crisis.

On the assumption that the 2009 prices are similar to those of 2007, we witness a similar growth of intra-OIC exports of about 6 billion US dollars.

#### Impact of the price fluctuations of food products prices on the foreign trade of the OIC Member States between 2010 and 2012 with an inter-annual drop by 20% of the prices of selected food products

In the event of an inter-annual decrease by 20% in the prices of selected food products and by considering them as the sole products that are traded among the OIC Member Countries, everything being equal, the impact on the foreign trade of the OIC Member States is expected to be as follows:

- The world exports of the OIC Member States will show an increase of 32.6 billion US dollars in 2010, 11.7 billion US dollars in 2011 and 4 billion dollars indicating that that the price decrease of food products by 20% are expected to contribute to reducing the receipts of the world exports of the OIC Member States by 2% between 2010 and 2012 in comparison with the total exports of the OIC Countries in 2007;
- The world imports of the OIC Countries may show an increase by 33 billion US dollars in 2010, then 9.5 billion US dollars in 2011 and 3.3 billion US dollars in 2012 corroborating that a drop by 20% of food products prices, the value of the world imports of the OIC Countries is expected to reduce between 2010 and 2012 by 2.6% in comparison with that of 2007;

- The trade balance of Member States shall keep on showing a deficit of 418 million US dollars in 2010 then it will show a recovery recording a consecutive surplus of 2.2 billion US dollars in 2011 and of 641 million in 2012 corresponding to an increase of this trade balance by 0.35% in comparison with the trade balance of 2007;
- Intra-OIC exports will increase by 9.2 billion US dollars in 2010 than 3.2 billion US dollars in 2011 and 799 million US dollars in 2012. In the event of a 20% drop in food products prices, the value of intra-OIC exports may reduce by 4% between 2010 and 2012 compared with that of 2007;
- Intra-OIC imports will experience an increase by 7.8 billion US dollars in 2010 than by 2 billion US dollars in 2011 and 425 million US dollars in 2012 but this will be reflected by a decrease in the value of intra-OIC imports by 3.2% between 2010 and 2012 compared to that of 2007;
- Intra-OIC trade balance will show a progression thanks to a surplus of 1.4 billion US dollars in 2010 than 1 billion US dollars in 2011 and 374 million US dollars in 2012 corresponding to the worsening of the deficit of intra-OIC trade balance by 5.3% in comparison with the deficit of 2007.

In conclusion, the decrease by 60% in food products prices over three years shall be reflected by a decrease in the growth rate of the foreign trade of the OIC member States between 2010 and 2012 especially with respect to intra-OIC exports.

Impact of the price fluctuations of food products prices on the foreign trade of the OIC Member States between 2010 and 2012 with an inter-annual increase by 10% of the prices of selected food products

On the assumption that the prices of selected food products will increase by 10% per year between 2010 and 2012, these products being considered as sole products traded between the OIC Countries, the model of developed and dynamic panel shows the impact as follows:

- The world exports of the OIC Member States may experience an increase of 24.2 billion US dollars in 2010, 40.6 billion US dollars in 2011 and 64.8 billion US dollars in 2012. This implies that a 30% increase of the main food products' prices shall result in an increase of the world exports of Member States of about 3% between 2010 and 2012 in comparison with the value of the world exports of the OIC Countries in 2007;
- The world imports of the OIC Countries will show an increase of 33 billion US dollars in 2010 than of 44 billion US dollars in 2011 and 71 billion US dollars in 2012. The 30% increase of the main food products shall result in an increase of the world exports of Member States of about 3.4% between 2010 and 2012 in comparison with the value of the world exports of the OIC Countries in 2007;
- The trade balance of Member States will undergo a deficit of 8.8 billion US dollars in 2010, 3.5 billion US dollars in 2011 and 6 billion US dollars in 2012 following the price increase of food products by 10% each year during this period;
- Intra-OIC exports will show an increase by 3.5 billion US dollars in 2010 then by 8.2 billion US dollars in 2011 and 16.5 billion US dollars in 2012. This will be reflected by an increase in intra-OIC exports by 6.4% between 2010 and 2012 in comparison with the intra-OIC exports in 2007;
- The intra-OIC imports will increase by 4.8 billion US dollars in 2010, then by 13.2 billion US dollars in 2011 and 28 billion US dollars in 2012. The value of intra-

OIC imports will show an increase by 10.3% between 2010 and 2012 in comparison with the value of intra-OIC imports in 2007 if the food products prices increase by 10% each year during this period.

- The intra-OIC trade balance will experience a deficit by 1.3 billion US dollars in 2010, then 5 billion US dollars in 2011 and 11.4 billion US dollars in 2012 in case the prices of food products increase by 10% reach in the same period.
- In the event the food products prices increase by 10% per year between 2010 and 2012, foreign trade is expected to increase by 3% with respect to the world exports of the OIC member States and by 10% with respect to the intra-OIC imports compared with the values of 2007.

## **V. POLICIES DEVELOPED BY THE MEMBER STATES OF THE ORGANISATION OF THE ISLAMIC CONFERENCE (OIC) TO FACE THE FOOD CRISIS**

The food crisis has caused many problems of human, socio-economic and political problems in terms of security and development in many OIC Countries, particularly the LDCs where 50 to 80% of household incomes are devoted to food.

Among the measures taken by the OIC Member States to fight against the food crisis, we may quote the following:

- Trade policies to reduce tariffs and limit exports or to decrease prices or enhance domestic supply of food products. To that effect, the restrictions on exports were imposed by some countries such as Egypt, Pakistan and Kazakhstan. However such measures have favoured the price increase at international level;
- The policies of consumer aids, which provide a direct support to weak groups such as food subsidies or the use of the stocks of National Food Banks food stocks, the reduction of taxes on staples (VAT and other taxes), the permanent control of prices. These policies were experienced for example in Senegal, Pakistan, Bangladesh, Morocco, Mali, Indonesia, Egypt, Turkey and Cameroon. Other countries have just increased their imports to stabilize prices such as Saudi Arabia (rice) and Mauritania (cereals). Morocco decreased import taxes on wheat, which fell from 130% to 2.5%. Nigeria on rice from 100 to 2.7% and Indonesia abolished customs duties on wheat and soya beans, Turkey decreased import taxes on wheat they went down from 130% to 8% and barley from 100% to 0%, Burkina Faso abolished taxes on four basic food commodities and Jordan imposed to retail traders to print prices on wrappers such as sugar and rice. The announcement of price control on food products was made by Senegal for cereals, Côte d'Ivoire, Malaysia for rice, Pakistan imposed penalties on the companies, which apply very high wheat prices to consumers and Burkina Faso has established a negotiations policy between importers and wholesalers to fix an indicative price for sugar, oil and rice.

The development of a policy of food security consists in redistributing liquid assets and giving food to vulnerable populations (poor people and schoolchildren). This approach was applied for example by Bangladesh, Egypt, Afghanistan, Burkina Faso, Morocco, Saudi Arabia, Jordan, Indonesia and Mozambique.;

- Incentives to domestic farmers, which allow the increase of productions such as the provision of agro-inputs, which (fertilizers, seeds) at competitive prices in

order to enhance the value of products with reduced taxes, access to loans and equipment, reduction of import taxes of strategic products, but also to contribute to the value chain of food production and to the access to trade information. This policy contributed to the reduction of agricultural incomes in the budget of some States.

- Other countries increased the salary of employees to help some social layers to cope with price increase, these are for example: Algeria, Egypt, Iraq and Syria. Guyana decrease in income taxes of poor populations while Burkina Faso has reduced taxes on electricity to help poor populations to benefit from electricity.

According to the study of ICDT the following products with high trade potential can create trade opportunities among the OIC Member States, these are:

**At export level :** Products with high trade potential are: vegetable oils, mainly palm oil with a potential of 20.8 billion US dollars, fruit (5.6 billion US dollars), cocoa and preparations (4.7 billion US dollars), fisheries and other sea foods (4 billion US dollars), vegetables (2 billion US dollars), fruit and vegetable preparations (2 billion US dollars), tropical products for beverages (1.8 billion US dollars), cereals (1.2 billion US dollars), meat and seafood preparations(1 billion dollars) and cereals preparations (1 billion US dollars).

**At import level:** The products with high trade potential are: cereals with a potential of 22.5 billion US dollars followed by milk and dairy products (7.7 billion US dollars), sugar and sweets) (5.8 billion US dollars), vegetable oils (4.5 billion US dollars), meats and offal (4.3 billion US dollars), oleaginous oils and seeds (4.3 billion US dollars), miscellaneous food preparations (3.3 billion US dollars), vegetables (2.7 billion US dollars), tropical products for beverages (2.5 billion US dollars), cereals preparations (2.3 billion US dollars), fruit (2.3 billion US dollars) and fisheries and other seafood (2 billion US dollars).

## **VI. RECOMMENDATIONS:**

In order to stabilize the impact of the price fluctuations of food products on the foreign trade of the OIC Member States and contribute to food security, we propose the following recommendations:

### **ACCESS TO FINACING AND TO INTERNATIONAL AGRICULTURAL MARKETS:**

- To further promote investment in the agro-industry field in the OIC producing countries through financing by the IDB Group and local and regional banks,
- To set up compensatory financing mechanisms within international financial institutions in order to allow net importing countries of food products to resort to them automatically;
- To further foster family farming by developing microcredit companies within local, regional and international banks in the OIC Member States coupled with advantageous access conditions to credits in order to settle farmers in their environment, particularly for the benefit of women entrepreneurs;
- To advocate agro-food developmental polices based on food self-sufficiency by helping farmers to have access to fertilizers and seeds at cheap prices;
- To coordinate the positions of the OIC Countries within the Multilateral Trade



Negotiations of the WTO so as to endeavour to reduce and even abolish all kinds of subsidies to the farmers of developed countries;

- Open the markets of industrialized Countries to southern products by removing all barriers to entry and quotas on import and progressively reduce duties on agro-industry products.

#### **DEVELOPMENT OF INFRASTRUCTURES:**

- To open up rural areas by connecting them to road, railway and maritime networks in order to develop multimodal transport;
- To encourage investment in the logistics infrastructure facilitating transport and the distribution of food products among the Exporting and Importing Member States;
- To develop the storage equipment of regional reserves for food products so as to meet the shortage of strategic products and create regional production industries of selected fertilizers and seeds (seeds banks) in collaboration with the national and regional financial institutions of the OIC Countries as well as with international financial institutions;
- To invest in infrastructures capable to ensure a better conservation and more sure transport of agricultural production so as to avoid post-harvest losses.

#### **DEVELOPMENT OF THE FOOD SECTOR IN THE OIC MEMBER STATES:**

- To privilege agroforestry to enrich the soils with a view to developing agricultural system allowing the increase output of large scale farming and safeguard the ecosystems by fighting against soil depletion (sustainable agriculture);
- Adopt a policy of farmers' coaching: to be able to guarantee farmers' access to selected fertilizers, seeds and phytosanitary products;
- To further invest in crops by irrigated drip irrigation to as to save water and invest in genetic engineering to develop crops resisting to diseases so as to reach acceptable outputs.

#### **COOPERATION BETWEEN THE OIC COUNTRIES:**

- To strengthen cooperation between the Ministries of Agriculture and Commerce of the OIC Countries so as to develop strategies allowing to deal efficiently with the issue of food security at national level in collaboration with Agronomic Research Institutions and the Marketing Agencies of food products;
- To determine an Intra-OIC Cooperation Plan in the agricultural and agro-food sectors by providing for follow up mechanism of its execution like the Plan on cotton;
- To initiate a regional plan of the OIC Member States for Food Security by orientating the investments of the OIC Countries to the countries with agricultural vocation ( agriculture: cereals and fruit and vegetables, breeding and fishing) in Africa or in Asia or the Middle East;
- To organize a periodic meeting of high level experts to examine the ways and means with a view to meeting the food security problems in the OIC Member States.

#### **ROLE OF THE ISLAMIC CENTRE FOR DEVELOPMENT OF TRADE:**

- To urge the OIC member Countries to massively participate in the Fairs and

Specialised Exhibitions of the OIC Countries organized by ICDT, notably in the agricultural and agro-food fields;

- To call upon participating countries in trade negotiations among the OIC Countries to include in their list agro-food products that will be subjected to a tariff removal within the framework of PRETAS;
- To invite Member States to use the TINIC Network of ICDT ([www.icdt-oic.org](http://www.icdt-oic.org)) and to enrich the databases relating to the economic operators, business opportunities, customs tariffs, foreign trade regulations of the Member States, the virtual Fair, foreign trade statistics for these products in order to promote and strengthen intra-OIC trade;
- To urge ICDT to keep on publishing specialised studies on agro-food products.

## CONCLUSION:

In conclusion, in the history of agro-food products, prices have always shown fluctuations, but the sudden price surge of these products in 2008 created unprecedented tensions in low income OIC Countries and almost all the expenditures of these countries are devoted to household food supplies. The only solution to fight this plight is to revitalize the agricultural sector in the OIC Countries by creating public and private partnership by investing in this sector, which is not only vital for national economies but also for the Islamic Ummah through Intra-OIC Solidarity. This can be achieved by highlighting the importance of initiating agricultural policies respecting environment and profitable not only for producers but also for enterprises through regional co-enterprise via the World Sustainable Business Model. The latter can include national regional and international investors where governments can assess the value of the land and indentify the potential product to be introduced for example rice, choose a facilitator or a moderator coming from the regional organization. This is possible by creating an observatory of strategic intelligence on the evolution of commodities products in the OIC countries in collaboration with the UN Organisations since the commodities which include food products account for more than 53% of the Foreign Trade of the OIC Countries.