



## Bread and Oil: Rising Food Prices and the Middle East

Posted by [Stuart Staniford](#) on March 3, 2008 - 11:00am

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Tags: [biofuel](#), [egypt](#), [middle east](#), [morocco](#), [peak oil](#) [[list all tags](#)]

*This is a guest post by **Yair Wallach**. Originally from Jerusalem, he is completing his PhD in Cultural History in Birkbeck College, the University of London (writing about Palestine/Israel between 1858 and 1948). During his five years of study in London he has lived in precarious conditions, spending many months without electricity or hot water. These experiences have made him aware of issues of environmental sustainability, especially relating to energy, water, waste and the global food market. He currently makes his living by writing articles of economic analysis on the Middle East.*

### Abstract

The use of food crops for biofuels is one of the key factors driving a dramatic increase in the global price of cereals. As Stuart Staniford demonstrated here in the past few weeks, this trend is set to intensify. This article will look at the potential implications of rising wheat prices for countries in the Middle East, taking Egypt and Morocco as examples. Government food subsidies in both countries have so far protected the poor urban population from much of the global hike in cereal prices. However, as food prices continue to spiral, subsidies will demand a growing share of national budgets. Subsidies cuts seem inevitable, leading to riots and political instability.

The further development of biofuels could make food too costly for millions of poor in the Middle East, and destabilise the region which supplies most of the world's oil exports.

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### Introduction

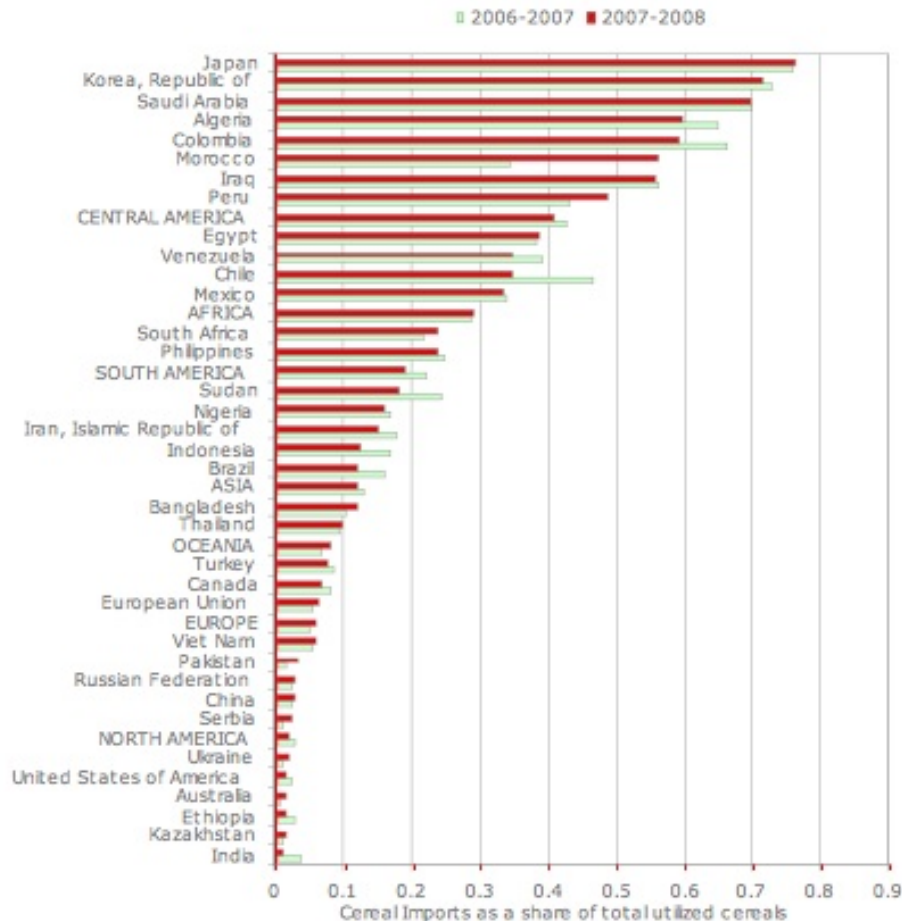
Stuart Staniford's article [Fermenting the Food Supply](#) exposed the dangerously rapid manner in which food crops have been diverted to biofuels in the USA, and the likelihood that this pattern will be copied elsewhere. Staniford attempted to gauge the impact of price rises on the global poor. Looking at the elasticity of food expenditure, he suggested a grim possibility of 60% of the globe's population priced out of the food market within the next five years. In a later article, [Death Rates and Food Prices](#) he considered the mitigating effect of subsistence farming, which could support a considerable part of the global poor.

Staniford established convincingly that the impact of biofuels on food crops will be almost immediate – that is, within the next decade or even five years. However, within such a short time span, assessment based on universal parameters will give a very limited picture. I believe that a more detailed attention needs to be given to specific regions and countries. Which ones are most at risk?

The Middle East is my home region, with which I am familiar personally and professionally. It is

natural for me to be interested in the dangers for the region's population. But furthermore, a food crisis in the Middle East may have far reaching consequences, due to the importance of the region for oil and natural gas exports.

My starting assumption is that countries that import a large percentage of their cereal utilisation will be more exposed to the rising prices. Where hard currency has to be paid for cereal, the increase in price will be most visible. By this criterion, the Middle East is especially vulnerable. As the chart below shows, out of 20 countries that import 10% or more of their cereals, 7 countries are found in the Middle East: Saudi Arabia, Algeria, Morocco, Egypt, Iran, Iraq and Sudan.



*Imported Cereals as share of utilized cereals in selected countries. Source: [FAO, Food outlook](#). Data for 2006-2007 is estimated; data for 2007-2008 is projected. The data is selective and probably includes only countries with substantial population.*

The vulnerability of the region also lies in the fact that wheat-based bread is the main staple. Without bread there is no life – indeed, in Egypt the same word is used for both ('aish). The global commodity price of wheat has gone up most drastically, tripling between 2000 and 2007. Maize and rice prices have doubled during this time. Countries in which wheat is the main cereal are likely to be more severely affected.

Outside the rich pockets of wealth in the Gulf, poverty is widespread in the Middle East. In Egypt, 45% of the population are estimated to live on US\$2 per day or less (2007). The population in the region spends on average a third to half of its income on food. Poor urban households are in a precarious position to begin with, and they will be affected badly by any prices increases. However, the price of bread is not dictated directly by global cereals prices, because of generous

government subsidies. Before examining the possible implications of the crisis by looking at the specific cases of Egypt and Morocco, a few words on the economics and politics behind food subsidies in the Middle East.

## **Oil and Food subsidies**

Government intervention in the food market is a crucial mitigating factor that has to be taken into account when trying to assess the impact of the current price hike. In virtually all countries in the Middle East and North Africa, governments offer generous subsidies for food and, in most cases, for fuel. There is an unwritten pact between governments and peoples in the region that guaranties that the price of bread and fuel remains affordable, and any cut in subsidies is seen as a direct attack on people's most basic rights.

The IMF and various other global consulting bodies have persistently preached against subsidies, arguing that they are not an effective means to alleviate poverty. The argument has merit: the subsidies benefit poor and rich alike; they encourage corruption and waste. This is especially true with fuel subsidies, of which the middle classes take full advantage. The IMF has consistently called for replacing the subsidies with other mechanisms that would support directly the population in need, such as cash transfers. However, the population in the region has real concerns about such suggestions: Will cash-grants be sufficient? Will they rise with inflation? Will they reach everyone in need? Will governments be competent enough to administer the scheme? The general sentiment is that the answer to all of these is 'no'; a recent survey showed that 88% of Egyptians are opposed to any subsidy reform, fearing that 'reform' would mean in effect elimination.

The subsidies form a considerable part of all national budgets in the region, but for some countries they are a bigger strain than others, especially as the bill is getting higher. The rich oil and gas producing countries – Saudi Arabia, UAE, Algeria and others – are able to pay the rising price with high revenues from hydrocarbon exports. Other countries are in a far more precarious situation: these include not only resource-poor countries like Jordan, Tunisia and Morocco, but also oil producers such as Egypt, Iraq and Iran, which, for various reasons (resource depletion, internal strife or failing infrastructure) are fiscally vulnerable. Egypt, which has a substantial fiscal deficit, is expected to spend 30% of its budget for 2007/08 on subsidies.

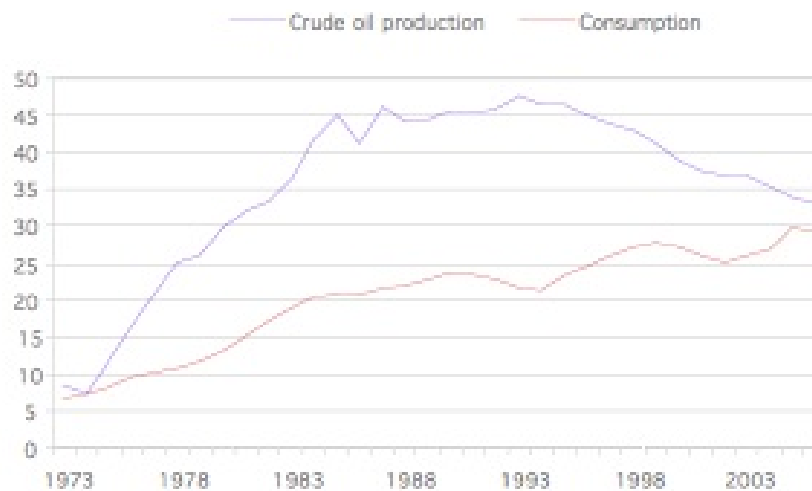
Middle Eastern governments have been wary of eliminating food subsidies or replacing them, as it is clear that the issue is politically explosive. Subsidy cuts lead to riots. This has been the case in Egypt (1977), Sudan (1979), Morocco (1981, 1984, 2007) Jordan (1989, 1996), and Tunisia (1984). The riots are perceived as serious challenge for the regimes. In some cases (Morocco 1981) hundreds of demonstrators were killed. After clampdown of arrests and emergency measures, governments usually back down from the subsidy cuts. We have seen this happen in the last bread riots in Morocco (September 2007). This scenario will become increasingly unlikely as the subsidy bill becomes much more costly. As prices of oil and food go up, removing subsidies will become politically impossible, but sustaining them could become economically unviable. Whatever happens, subsidies are unlikely to be eliminated completely, and global price rises will be mitigated and not hit the population in their full toll. Famines are therefore not to be expected in the immediate future. Yet political unrest is unavoidable. Even if governments succeed in repressing food riots, popular disapproval will remain and the political situation will be much more volatile.

## **Egypt**

Egypt has the biggest population in the region – 77 million people, and a high growth rate. The country is also one of the biggest wheat importers in the world, importing about 38% of its cereals in 2006-7. The price of bread is very low – less than one cent in 2007, and subsidised bread is available mainly for the urban population, which made 42% of the total population in 2007. In 2007 rising wheat prices cost the Egyptian government an additional US\$ 2.5 billion in subsidies. The government could afford this because of windfall oil and gas revenues, and strong economic growth since 2004 in non-oil sectors. In 2007 Egypt had a US\$ 5 billion trade surplus. In the recent Davos conference, Egypt was hailed as a success story for liberalisation reforms, and as one of the next emerging economies.

But in 2008 things are set to change. Egyptian oil production peaked in the mid 1990s. Oil consumption is growing strongly, due to economic growth. In 2008, Egypt is set to become a net importer of oil for the first time. From a dwindling source of income, oil will become a substantial fiscal burden. The government would have to import oil and sell it at a subsidised price – which would be a heavy burden, since fuel subsidies already made 20% of the government budget in 2005/6 (source: IMF).

Will the Egyptian government sustain bread prices at their current levels? After announcements of possible changes to the subsidy system, the Government recently announced that no major reform will take place. The current system will continue and will be extended. But can the government afford it to sustain bread prices at their current levels? Natural gas exports will continue to bring hard currency, but subsidies cuts seem inevitable. In 2007 the price of fuel went up by 30%. Further rises are no doubt on the way.



*Egypt's production and consumption of crude oil, in million tons, between 1973-2006. Source: BP*

## Morocco

Morocco has a large agricultural sector and therefore is in a better position to fall back onto subsistence farming. However, in recent decades Morocco has been plagued by recurrent droughts, in what is widely seen as the effect of climate change. The frequency of droughts has increased from once every five years to every other year; the length of the growing season has shortened considerably. (Source: [Karrou](#)). Yields vary considerably between years, and in 2007 they were especially low. As a result, Morocco is forced to import a growing share of its cereals: about a third of its cereals in 2006/7, and in 2007/8 it is expected to import about 56%.

Both fuel and food subsidies in Morocco are much lower than in Egypt. To give some indication, in 2004 the retail price of a litre of gasoline was US\$ 1.10, compared with 28 cent in Egypt. Diesel was 70 cent compared with 10 cent. ([source](#)). Bread is sold at 1.20 Dirham or US 15 cents. Yet oil and food subsidies still made up about 10% of the government budget in 2007; if they were to double, this would create a considerable fiscal strain.

There are some early signs of crisis. In September 2007, just before the month of Ramadan (in which bread consumption rises) the government raised the price of bread by 30%. Bread riots followed, and after clashes between police and demonstrators, the government backed down and restored the lower price. The decisions on subsidies cuts, interestingly, was taken by the Ministry of Interior, in charge of internal security. (source: [ecomaroc.blogspot.com](http://ecomaroc.blogspot.com), French).

Also there are indications of falling demand for oil. The volume of crude oil imports in 2007 was about 2% lower than in 2006. However, when November 2007 is compared to November 2006, we find an alarming drop of 43% in the volume of oil imports. (source: [Moroccan Statistics](#)). With no substantial hydrocarbon industry, a more urbanised society (60% urban compared with 42% in Egypt), and greater dependency on wheat imports, Morocco seems more vulnerable to the impending crisis than Egypt.

## Conclusion

Cereal prices in the Middle East are mediated through state subsidies. So far, the urban poor have not been exposed directly to the rise in prices. It seems inevitable, however, that at some point the price rises will be passed on to the public through subsidy cuts, either in 2008 or in 2009, in countries such as Egypt, Morocco, Tunisia, Iraq, and Jordan. Subsidy cuts will, without doubt, result in immediate riots. The urban poor will not wait until they reach a starving point: they will act immediately, as they have done before, against what they will see as the government betraying its fundamental duty to provide affordable food prices.

Egypt and Morocco are among the US's closest allies in the region. Belonging to the so-called "moderate Arab/Muslim countries", they have been the most accommodating in terms of supplying the US with intelligence and military cooperation against Islamist groups. In return the US has supported these regimes militarily and economically, through direct support (Egypt) or Free Trade Agreements. Political instability in these countries will put in serious risk the position of the US in the Middle East. The notion that food prices have gone up because of American (and other developed countries') use of biofuels will not make the US more popular among people in the region.

The American policy on biofuels is repeatedly presented as a means to improve US national security, by reducing dependency on imported oil from the Middle East. Articles on Ethanol production here in the Oil Drum (by Robert Rapier and others) have shown this to be a fiction at best, because of ethanol's poor EROI. Now it becomes clear that the subsidising of biofuels will make the world less safe for the US, by destabilising "friendly regimes" in the Middle East and beyond.

A few more words. Egypt, Morocco and other Middle East countries are regularly covered by Western Media, because of their economic and geo-political importance, as well as their proximity to Europe. Other countries – for example in sub-Saharan Africa – may be even more vulnerable, as many of them depend on cereal imports (although perhaps not to the same extent). It would seem likely that governments in sub-Saharan Africa have less power to mitigate price rises through generous subsidies. However, many such countries are off the radar for Western media,

and the developed world will learn about the problems only through news of famines or refugee crises.

To forecast the impact of cereal price rises, one should take into account food subsidies (where they exist) and the ability of governments to sustain them. In the Middle East, it seems, the political consequences will be almost immediate, and will come before actual food shortages. In other regions it may take a different course. In Mexico, for example, subsidies have been eliminated long ago. But as I am no expert on Mexico, I will leave this for others.

If this short article dealt with the problem in strategic terms, in grand summaries of numbers (population, oil, food), it is important to remember that behind all these are people, real people, and many of them. Poor families in Egypt and Morocco, for whom life is already very difficult, and who survive on the bare minimum, are going to be badly hit in the next two years, when even a pita bread will become too expensive. The important issue here is not the survival of certain political regimes, but rather the survival of these families.

### Sources:

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- [IMF latest report on Morocco](#)
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