

Wheat in the Mediterranean Region: Societies, Trade and Strategies

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Cereals are considered the cornerstone of the great civilisations and constituted one of the premiere agricultural crops, providing a regular means of food around which human activity could be organised. Hence the civilisations in Europe or the Middle East were built around wheat, those of the Far East around rice, those of the Amerindian peoples around maize and those of Sub-Saharan Africa around millet.

In the Mediterranean Region, wheat plays an essential role in societies and their consumption patterns, in relations between the authorities and the population, and in the trade taking place in the region. While agriculture becomes central again on the international relations agenda, wheat alone represents the panoply of geopolitical issues that a staple crop can conjure. This article focuses on the Middle East and North Africa (MENA) Region and will attempt to present the main trade, geo-economic and socio-political dynamics.

Cereal Hyper-Dependence on the Rise

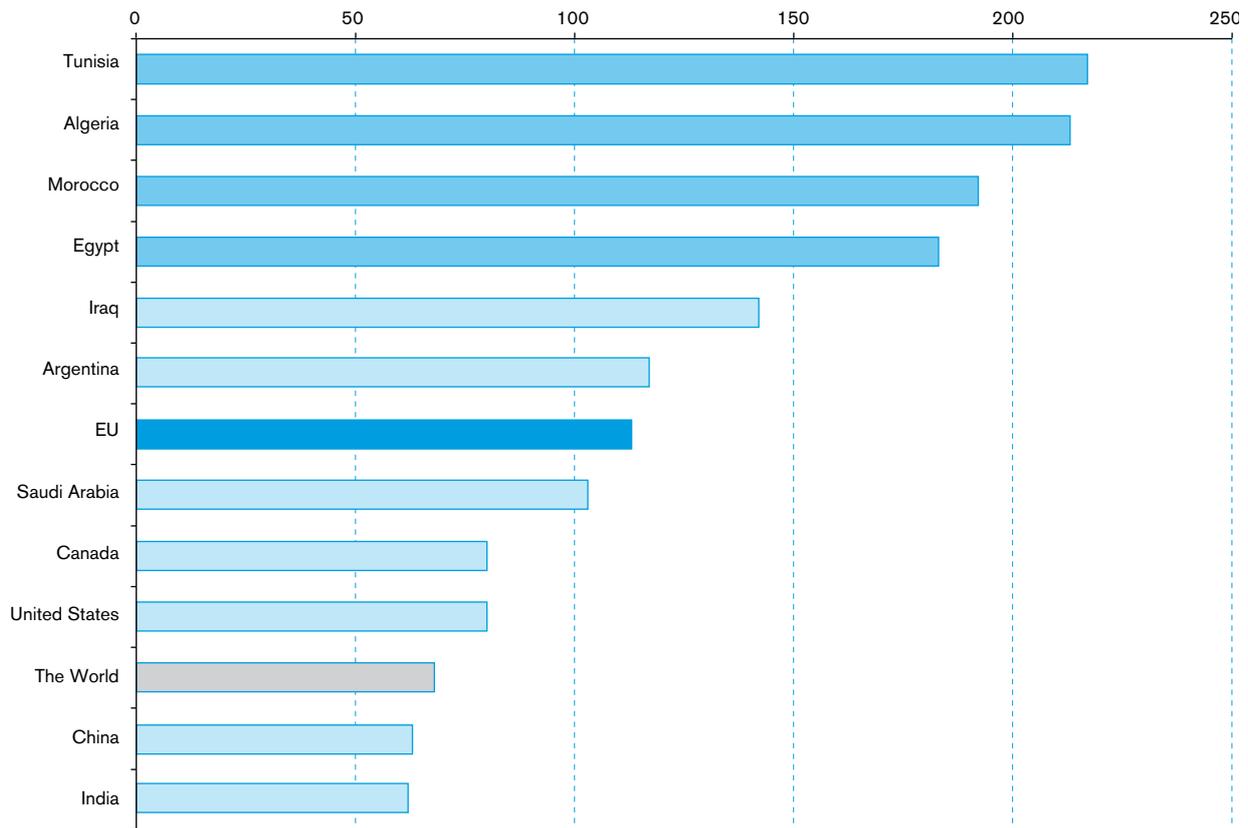
Climate and geography constraints combined with demographic growth and economic development have led the MENA Region to a structural food dependence on international markets, which the prevailing liberal doxa have fostered since the 1980s and the progressive liberalisation of trade.

Wheat, a staple food in these countries, is among

the most imported foodstuffs. The inhabitants of Arab countries are the greatest consumers of wheat in the world. Nearly 700 grams per person per day in Morocco and approximately 600 grams in Tunisia, Algeria and Egypt, for instance, as compared to 400 grams in India or 320 grams in France. Despite efforts to develop cereal agriculture and improve production, the MENA Region has gradually reached the point of being incapable of supplying sufficient wheat to meet the domestic demand. More than half of the cereals consumed are now imported. From the 2004/2005 to the 2011/2012 seasons, wheat imports increased by 50% in the Middle East and 20% in North Africa. Moreover, for the latter geographic subregion (Morocco, Algeria, Tunisia, Libya, Egypt), local wheat consumption rose by 28% from 2004 to 2011, that is, a much greater growth than the world average of 7%. With over 10 million metric tonnes (Mt), which represent approximately 8% of annual international purchases, Egypt is the leading wheat-importing country in the world. Algeria, with 6.4 Mt, ranks 5th, followed by Morocco in 14th place with 3 Mt, Tunisia in 21st place and Libya in 25th. The combined statistics reveal the statistic importance of wheat for these countries. The MENA Region, which has but 6% of the world's population, has accounted for a third of international wheat purchases every year since the beginning of the 21st century. This represents a volume of between 40 and 50 Mt on average over the course of recent years and an expense amounting to tens of billions of dollars. The evolution of this expenditure also varies according to domestic harvests as well as the price of wheat on international markets. Recently, the price of wheat has been experiencing strong inflation (such as in 2007/2008 and in 2010/2011)

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CHART 18 Wheat Consumption in 2011 per Person and Year (in kg)



Source: Statistics Division of the UN Food and Agriculture Organization (FAOSTAT)

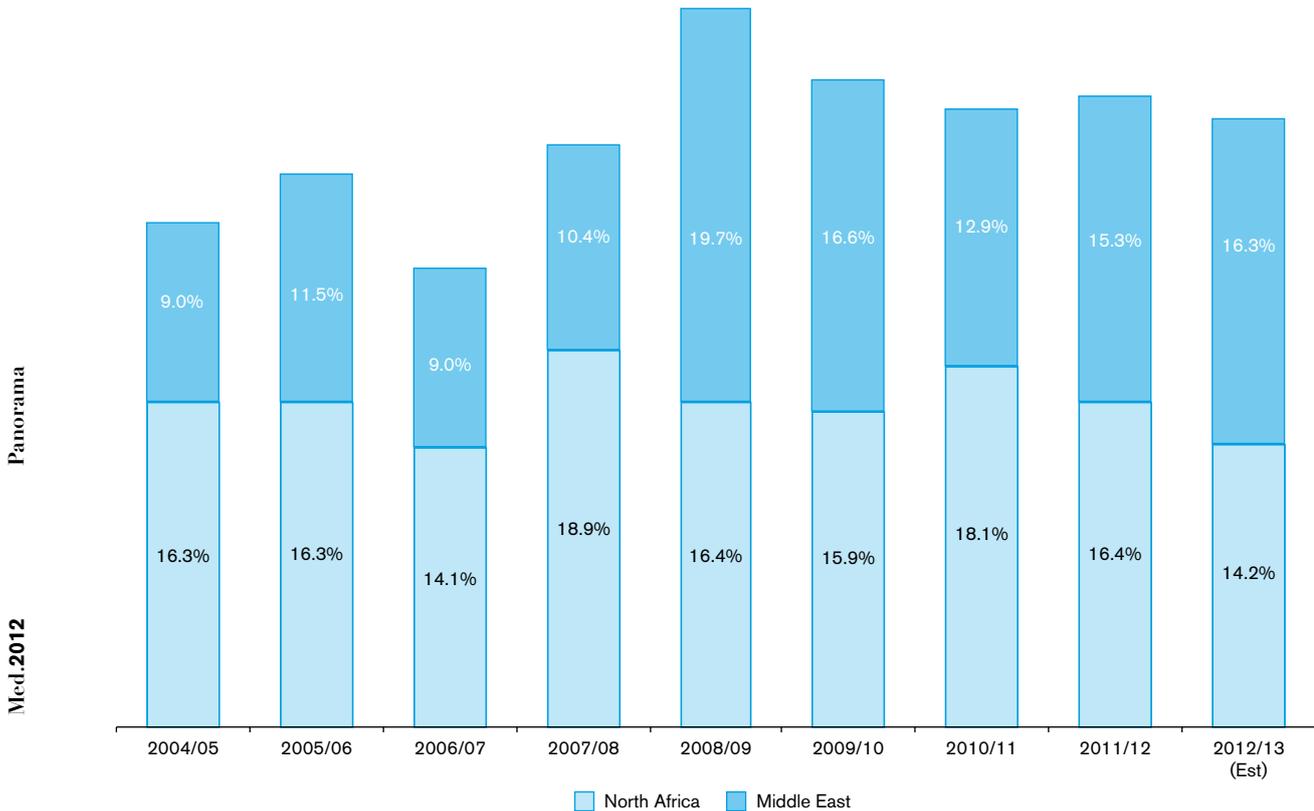
and is proving highly volatile, two trends that could continue in the future. As of the 2001/2002 season, world cereal production (excluding rice) was less than consumption over the course of 8 years, which explains the nervousness on the markets. Moreover, it is worth pointing out that wheat is the object of a high degree of commercialisation compared to other cereals. On average, 18% of the quantity of wheat produced is sold on the international market, where-

as this figure is an average of 10% for maize and 6% for rice. The specificity of wheat is also valid upon examining the figures for fresh fruit and vegetables, since hardly 10% and 4% of what is produced is exported, respectively.

Arab countries will be obliged to continue importing to meet their cereal needs, since the demand for cereals for animal fodder is also on the rise. Considering all cereals together, the net balance (production

TABLE 9 Wheat Consumption (in millions of metric tonnes)

	2004/05		2005/06		2006/07		2007/08		2008/09		2009/10		2010/11		2011/12		2012/13 (est)	
	Q	%	Q	%	Q	%	Q	%	Q	%	Q	%	Q	%	Q	%	Q	%
Algeria	7,300	1.2%	7,500	1.2%	7,650	1.2%	8,050	1.3%	8,300	1.3%	8,550	1.3%	8,750	1.3%	8,950	1.3%	9,050	1.3%
Egypt	14,200	2.3%	14,800	2.4%	15,450	2.5%	15,800	2.6%	17,200	2.7%	18,100	2.8%	17,700	2.7%	18,900	2.7%	18,900	2.8%
Morocco	6,600	1.1%	6,800	1.1%	7,150	1.2%	7,225	1.2%	7,450	1.2%	8,100	1.2%	8,250	1.3%	8,850	1.3%	8,400	1.3%
North Africa	32,308	5.3%	33,514	5.4%	33,895	5.5%	35,825	5.8%	37,375	5.9%	39,350	6.1%	39,325	6.0%	41,325	6.0%	40,850	6.0%
Middle East	48,958	8.1%	49,912	8.0%	50,635	8.2%	50,758	8.2%	52,669	8.3%	53,615	8.3%	54,038	8.3%	54,038	8.3%	54,505	8.0%
MENA	81,266	13.4%	83,426	13.4%	84,530	13.7%	86,583	14.0%	90,144	14.0%	92,965	14.3%	93,363	14.3%	97,975	14.3%	95,355	14.0%
The World	606,822	100%	624,215	100%	616,870	100%	617,576	100%	636,543	100%	650,015	100%	653,670	100%	688,073	100%	684,000	100%



Source: Calculated and drawn up by the author based on the report by the US Department of Agriculture (USDA), "Grain: World Market and Trade," Circular Series, August 2012

minus consumption) in the MENA Region registered a deficit of 7 Mt in 1970. This deficit amounted to 54 Mt in 2000 and 66 Mt in 2010. On the 2050 horizon, it could reach 115 Mt. Morocco, where rain was rare during the winter of 2011/2012, experienced a considerable decrease in its cereal harvests and will rely more on imports in the 2012/2013 season. With an estimated 5 Mt of wheat, the supply volume has reached a record high since the country's independence in 1956. This case is neither geographically nor temporally isolated. The Arab countries will be most affected by climate change and extreme meteorological phenomena in the forthcoming years, inevitably burdening their agricultural production and wheat harvests.

Many countries are thus currently attempting to develop their stocking capacities and logistics systems in order to build up serious wheat reserves and thus protect themselves against supply risks. Although they are the greatest purchasers of wheat on the planet, the Arab countries only hold some 10% of the world's wheat stocks (8% of which in Egypt), whereas 30% is located in China alone. This ambition, which requires substantial financial effort, also

arises from a will to reduce losses. Due to lack of efficient infrastructure and transport systems, approximately 20% of the wheat in Egypt, whether from local harvests or imports, goes to waste. These losses, which generate additional costs for States, reveal how the improvement of logistics performance is crucial to national food security strategies.

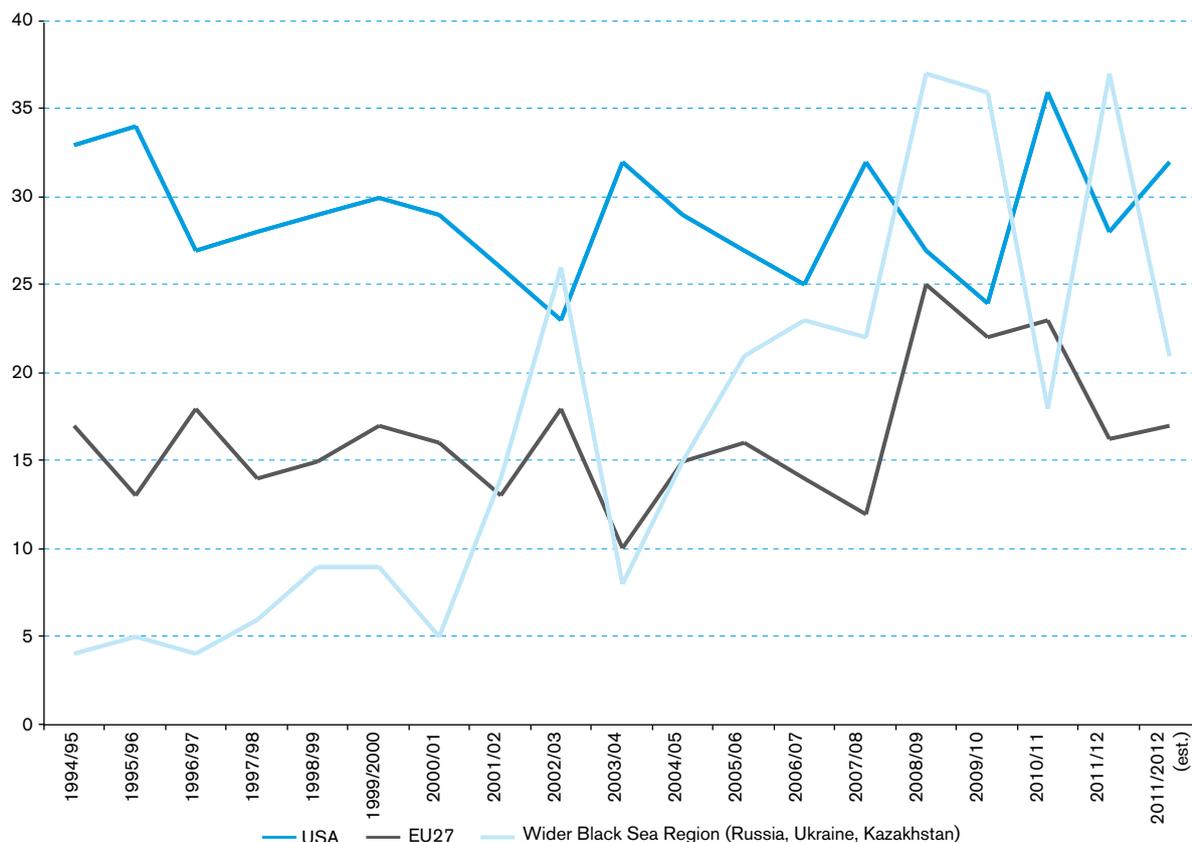
Geo-economic Rivalries Growing

The MENA Region will remain the premiere market opportunity for the world's cereal producing countries. This state of affairs stokes greed and explains why geo-economic competition is accelerating. The European Union (EU), one of the major breadbaskets of the planet, is one of the privileged partners of the MENA Region for cereals. Approximately two thirds of its extra-EU wheat exports are annually sent there, primarily to Algeria, Egypt and Morocco. France accounts for an average of 60 to 70% of EU wheat exports and nearly three quarter of its sales to third countries are to countries in the Mediterranean Basin. Australia, Canada and Ar-

gentina are some of the extra-Mediterranean cereal powerhouses likewise selling to the MENA Region, as is the United States. The latter has always been active in cereal commerce, supplying approximately a third of the world's wheat exports and targeting the MENA Region during the Cold War and today, with both commercial and geopolitical aims. This double motivation likewise constitutes the dynamic relaunched by Russia to reinstate a capacity for strategic influence through the exploitation of its considerable agricultural potential. Russian wheat, which represented over half of world sales before the Bolshevik Revolution of 1917, is now making its comeback in the world, in particular in the Arab countries. Thus, Egypt has been purchasing the majority of its wheat from Russia since the mid-2000s. It is the countries near the Black Sea that are currently playing significant roles on the strategic cereal scene. For the 2011/2012 season, a third of world wheat exports has been supplied by Russia, Ukraine and Kazakhstan (i.e. some 35 Mt). With such volume, Arab countries are naturally turning towards the countries of the Wider Black

Sea Region, generally more competitive insofar as price with respect to wheat from the US or the EU. Of the 10 Mt of wheat imported by Egypt in the 2011/2012 season, three quarters were from Russia (66%), Ukraine (6%) and Kazakhstan (2%). Moreover, Arab countries are increasingly obtaining their maize supplies through Kyiv. Certainly, a project that should be followed is the one regularly mentioned by Russia of progressively grouping the producing countries of the Wider Black Sea Region (including Turkey) into a customs union in order to constitute a "wheat OPEC" and thus gain geostrategic weight on the international stage. In any case, the strength of the Black Sea countries should be relativised, considering the high interannual variability of their harvests, their infrastructural backwardness and their unpredictability on the political and legal levels. This was particularly the case when Russia suspended its wheat exports in the summer of 2010 following the droughts there. This unilateral decision not only destabilised the world market by taking wheat prices to new heights, but it also shook Egypt,

CHART 20 Wheat Exports by the World's Major Breadbaskets (1994-2012) (in millions of metric tonnes)



Source: Calculated and drawn up by the author based on the report by the US Department of Agriculture (USDA), "Grain: World Market and Trade," Circular Series, August 2012

which had been the top destination for Russian wheat for several years. The Russian freeze on wheat exports caused panic among policymakers, who were forced to seek wheat elsewhere at higher prices, thus aggravating the national budgetary situation. In January 2011, with international then local inflation, the price of wheat in Egypt was 30% higher than in January 2010.

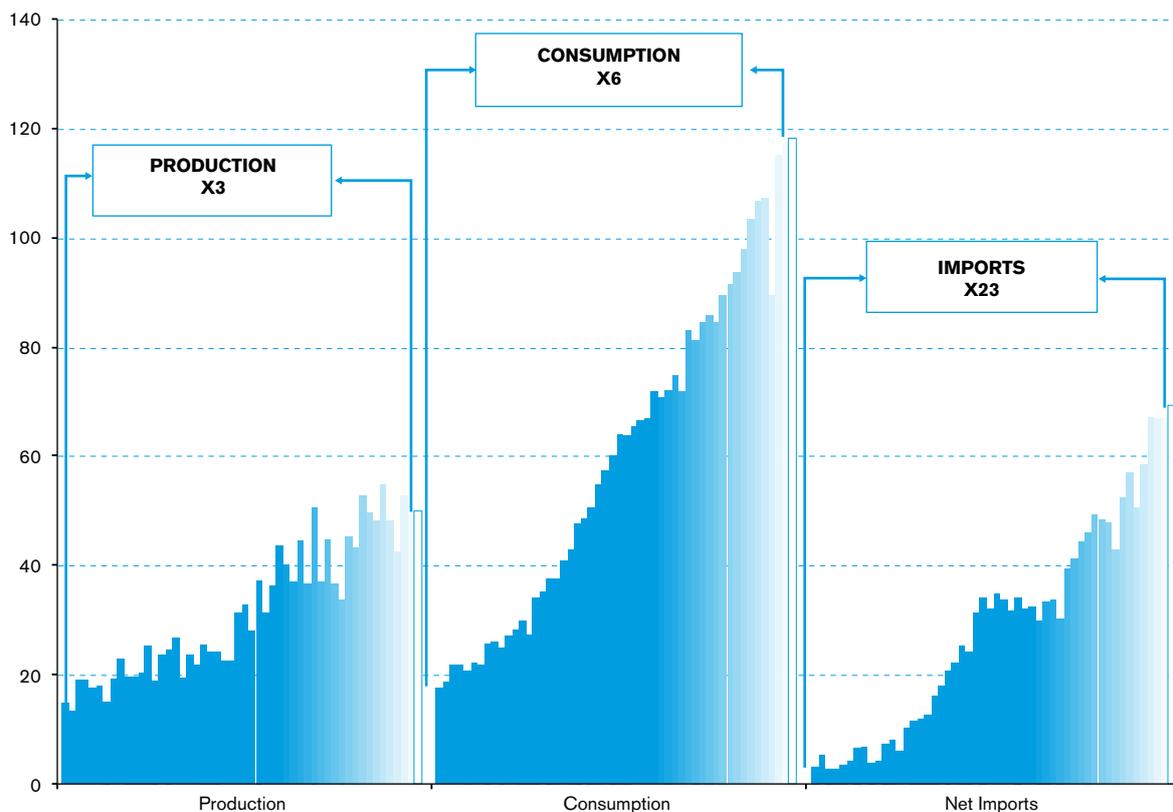
Political and Financial Risks on the Rise

In MENA countries, approximately half the products consumed are cereals and the average household expenditure for food can represent 40 to 60% of the monthly budget. Hence soaring prices for such staple products causes immediate economic anxiety in these societies, in particular among the poorest sectors. Wheat alone shows to what extent a product can be closely monitored by the government. Already at the time of the Roman Empire, a regular supply of wheat and bread to the population constituted an imperative for the authorities. It soothed certain popular ferment and thus pur-

chased social peace. Since then, the fact is that this socio-political equation has not changed. Unrest associated with the price of bread has marked the contemporary history of many countries. This was the case in Egypt in 1977, in Tunisia in 1984 and in Jordan in 1996, and rebellions also broke out in the MENA Region during the world food crisis of 2008. But these riots were relatively well handled by governments, which were well aware of the sensitivity of the matter. Hence transfer mechanisms were developed (subsidies, price support, food stamps) to absorb the impact and render staple products accessible to the greatest percentage of the population.

Purchasing social peace via food subsidies is a major characteristic of MENA countries. It is at the heart of relations between the government and the governed. The problem is that these payments are more and more cumbersome for public budgets, and they are not always very efficient, benefiting cities more often than rural areas and being the object of recurrent corrupt practices. Egypt represents the archetype of this problem. The amount dedicated to food subsidies has been oscillating at

CHART 21 Evolution of the Cereal Situation in the MENA Region from 1960 to 2011 (in Mt)



around 2% of the GDP for several years and amounted to a total public expenditure of 4 billion dollars in 2011. Nearly 75% of the Egyptian population benefits from the system of subsidies. These are allocated through two complementary mechanisms: the first consists of the allocation of monthly rationing cards that entitle certain households to a specific quantity of staple foods (rice, oils, sugar); while the second consists of “baladi” bread support (the typical “country bread,” a 130-gram loaf sold at 5 piastres). To keep it at that rate, Egypt’s General Authority for Supply Commodities (GASC) covers the difference between the purchase price of the wheat (both local and international) and the low price at which it awards the wheat to mills.

Concerned about the rise in international agricultural prices and the possible contagion of the popular revolts spreading through the Arab world, a number of States decided to boost their systems to maintain the population’s access to major staples. In Morocco, nearly 800 million dollars were mobilised in 2011 for foodstuffs from the Compensation Fund. In Tunisia, nearly 900 million dollars were used by the provisional government to sustain the price of staple foods in 2011. In Algeria at the beginning of January 2011, it was this same anxiety regarding the rise in staple food prices that caused an outbreak of violence, which the authorities quelled via large additional subsidies (for sugar and oils in particular, for an estimated total of nearly 4 billion dollars in 2011).

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At the same time, Algeria also began purchasing wheat in large quantities (7.4 Mt, that is 2.8 billion dollars) as a preventive measure, not only to meet domestic needs but also to assist neighbouring countries destabilised by the geopolitical and cli-

mate situations (Libya, Mali, Niger). In Jordan, Syria and Lebanon as well as the Gulf monarchies, similar measures to keep staple product prices low can be observed. The International Monetary Fund (IMF) estimates that approximately 40 billion dollars were allocated to keeping staple food prices low in Arab countries over the course of 2011. Although these subsidies can be analysed as “social transfers” and instruments capable of counteracting inflationist shocks, the situation is not tenable if the latter become too frequent and if such a system endures in such a tenacious climate of corruption. However, the reduction or elimination of food subsidies that certain financial institutions seem to be advocating (noting that this system hampers other essential expenditures in health or education), could deal a severe blow to the social policies of these countries, already in a period marked by great economic hardship and major demands by the population. Maintaining these food programmes therefore requires trade-offs.

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Regarding wheat, people and power, it is the matter of the social contract that is being expressed. History has often been punctuated by events organised around the interdependent pair of bread and freedom. One need only consider the French Revolution of 1789. While it would be excessive to speak of bread riots to describe the Arab revolts or revolutions taking place since the winter of 2010/2011, it should however be noted how the rise in food prices was a catalyst for the expression of the varied discontent. In 2011 alone, food inflation reached 15% in Egypt and Syria, 6% in Algeria and Lebanon and 4% in Tunisia. In Morocco, the price of cereals was 12% higher in February 2012 than the same month a year earlier. In Libya, where nearly 90% of cereals consumed come from imports, food inflation reached 10% in 2011. Often mentioned among the factors triggering these revolutions, the problem of high cost of living can thus be placed in the sphere of food insecurity (de-

creased purchasing power), which unrest or fighting can complicate (disruptions of the supply chain, damaged harvests, etc.).

Conclusion

Several dynamics converge to strengthen the strategic dimension of wheat in the Mediterranean Region. They illustrate just how essential food and agriculture remain for the development of Nations and for the future of international relations.

In the current period of political, economic and social transitions, working harder together to mitigate risk and reduce uncertainty is a reasonable goal that the Euro-Mediterranean Partnership can set itself. The need for greater cooperation in the field of food security, particularly regarding the supply of wheat, seems obvious.

While needs are on the rise and the stakes are growing higher in the southern neighbourhood countries, the EU should not abandon its policy of agricultural production. Though it does not intend to feed the world, the EU may nevertheless play a role in the demand for food and cereal in the MENA Region. The EU should build on the regularity of its crops and its logistical advantages to compete with other granaries of the world, including those of the Wider Black Sea Region, and thereby build strategic cereal relations with Arab countries. Such an ambition would combine commercial interests with geopolitical duty.

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