

# Agri-Trade FORUM

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## Food Security and Trade

by Franz Fischler

*Franz Fischler, the former European Agricultural Commissioner, has been an IPC member since 2003. He is a contender for the Director General Post of the FAO.*

**F**ood price spikes are back in the headlines, following the price rally 3 years ago: the FAO reports the highest ever reached peak of its food price index and the number of hungry and malnourished



Franz Fischler

people is ratcheting up. “Commodity fever” is growing, rooted in long-term demand upswings: cereals in developing countries, animal protein in emerging economies and the use of agricultural commodities for non-food purposes (such as biofuels).

These trends are aggravated by short term anomalies like bad weather conditions in important agricultural production zones, low stocks and increasing speculation in commodity derivatives. Similar developments can be observed on the input side: sky-high input prices make agricultural production expensive and less profitable.

Price spikes present the biggest risk for the poor. As we have witnessed, they can also contribute to political unrest. International security experts are becoming increasingly concerned about challenges associated with population growth, migration

pressures, climate change, and food, water and energy shortages. In times of pervasive food insecurity, radical rethinking is needed. Policy-makers must put food security at the top of the international agenda. Some first steps have already been taken: The UN has held two global food summits and the French have launched a food security initiative at the G20.

There is no paucity of ideas on how to tackle the problem. Lester Brown of the Earth Policy Institute, proposes to combine a poverty eradication effort with a resource restoration effort, stating that for less than \$200 billion of additional funding per year “we can get rid of hunger, illiteracy, disease and poverty and we can restore the earths soils, forests and fisheries” (Lester Brown, World on Edge, p. 200). Others have proposed to tax financial transactions or to introduce a global trading system for GHG-emissions based on an equal distribution of emission rights. But not much progress has been made so far mainly because of lacking political will.

However, the status quo is not an option. Courageous action is needed now to reduce the production risks of the most vulnerable subsistence farms and to transfer better production

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## IPC to Co-Sponsor Chicago Council’s Global Agriculture & Food Security Symposium

*IPC will co-sponsor the Chicago Council on Global Affairs’ Symposium on Global Agriculture and Food Security. The symposium is being convened to assess U.S. progress on supporting agricultural development and food security and will be held on May 24, 2011 in Washington, DC.*

*The symposium will discuss the importance of continued, high-level U.S. support for agricultural development and food security activities; evaluate progress on relevant U.S. policies to date; and provide constructive thinking on the key issues that stakeholders will be working through in the next year.*

*The symposium will feature Bill Gates, co-chair of the Bill and Melinda Gates Foundation, as the keynote speaker.*



## IPC Continues Focus on Price Volatility

IPC members are following with great interest the policy deliberations in the G-20 context on price volatility. Strong consumer demand in emerging markets, policy-driven demand for biofuels and long lead-times for a supply response by farmers worldwide,



have led to worryingly low stock levels, which drive up food prices and make the food system more susceptible to supply and demand shocks, which can lead to

sudden and high price peaks. Higher prices importantly signal the need for increased production but significantly increased levels of public and private investment to promote sustainable agricultural intensification will also be required. It is important to consider policy responses to mitigate the impact of sudden price peaks on the poor, yet higher food prices may also spur development in poor rural areas, as farm surplus and upgrading of farming activity creates new rural demands for labor. A recent CEPR/World Bank study found that under

favorable conditions, even net buyers of food can benefit from higher prices because of induced long run structural changes and spillover effects. The challenge for policymakers is to assist vulnerable consumers in such a way that does not impede the positive spin-off from elevated producer prices in terms of global food security and development.

*A flexible global trade system ensures that food can move from areas of surplus production to areas experiencing food deficits.*

IPC welcomes the French initiative to focus on these issues in the G-20. In particular, members express the hope that these deliberations will give greater impetus to the Doha Round negotiations since trade liberalization and trade facilitation remain important components of a program of action on global food security. A rules-based, non-distorted and flexible global trade system ensures that food can move from areas of surplus production to areas experiencing food deficits. Deeper integration of countries and communities in regional and international markets contributes to

a more stable food supply, and spurs development. International trade rules must also provide for greater supply availability assurances. The Doha Development Round should be swiftly concluded in order to lock in important agricultural policy and trade reforms and to pave the way for the WTO membership to more fully tackle other pressing issues.

**IPC is pleased to announce a seminar, hosted by Wilton Park in partnership with IPC, to examine the causes of food price volatility, to reflect on its interconnectivity with issues across and beyond the food system, and to consider the international and national policy responses necessary to mitigate its negative effects, to take place April 11–13.** Discussions will focus on the role of markets and the management of risk, agricultural commodity speculation, export restrictions, farm policies, and international policy options to manage volatility.

IPC's Policy Alert, "High Food Prices and Food Price Volatility: What Role for Policy?" is available on IPC's website.

## Biofuels and Rising Food Prices: IPC Member Proposes a Solution

Particularly since the 2007/2008 food price shocks, biofuels have been the target of criticism and blame for rising food prices. However, rising fuel costs and environmental concerns have led many countries to continue to pursue ambitious biofuels policies. Biofuels production is most notable in the U.S., EU, Brazil and Argentina, but other countries, including other Latin American countries as well as some sub-Saharan African countries, are implementing biofuels programs. Even if countries decrease or eliminate

mandates and subsidies, there is a risk that further oil price increases will contribute to this trend.

IPC member Brian Wright has proposed a potential solution to this conundrum, which was released as an IPC Policy Focus in February 2011. The Policy Focus is available at <http://www.agritrade.org/Publications/BiofuelsandFoodSecurity.html>. In this Policy Focus, he proposes a system where governments could purchase call options on grain from biofuel

producers. These grains would then be diverted from fuel to food once the call option is triggered—by a specified indicator of food shortage—and the biofuels supplier would reduce output. As a voluntary program, the plan would not be a threat to biofuel producers, who would benefit from the sale of the call options. Such contracts would reduce the hazard that biofuels stocks could be confiscated by governments during a time of crisis. *(continued on next page)*

(continued from previous page) These arrangements would also facilitate a fast response to domestic food emergencies.

Such a program would be particularly beneficial as biofuels production has been increasing in countries that are less food-secure and vulnerable to food price shocks. The program is not designed to stabilize prices in developing countries, but rather to assure that the needs of poor and vulnerable consumers are met.

While the immediate benefits of providing food supplies to the vulnerable are most apparent in developing countries, similar safety valve programs in developed countries with ambitious biofuels programs could be used to safeguard access to agricultural feedstocks for emergency food aid purposes. A program of a large enough scale could even be used to lessen pressure on global prices in tight markets, in particular if the imposing country is a significant producer and exporter of a particular commodity—such as the U.S. is with corn.

### Upcoming Events

Global Food and Agriculture: Policy Options in Response to Increased Volatility

April 11 - 13, United Kingdom

For more information:

<http://www.agritrade.org/events/WiltonParkGlobalFoodandAgPrices>.

Chicago Council Symposium on Global Agriculture and Food Security

May 24, Washington, DC

### Upcoming Publication

For countries and communities to move away from subsistence agricultural economies—where poverty and uncertainty perpetuate hunger — to well-functioning commercial agrifood systems — where farmers can afford needed inputs and reach cash markets—the for-profit sector needs to be engaged. Private sector engagement is also critical for the “scaling-up” of development projects financed by governments, and for continued progress and results after government funding is reduced or withdrawn. **IPC has been working on a paper for the Chicago Council’s Global Agricultural Development Initiative on leveraging private sector involvement in the agrifood sectors of developing countries.** The study, which focuses on investments of transnational corporations, will be released in May 2011.

### New IPC Member

**Gerrit Meester**, *Former Deputy Director of International Affairs for the (former) Ministry of Agriculture, Nature and Food Quality in The Hague; Former Chairman of the Committee on Agriculture of the OECD.*



Gerrit Meester worked until his retirement (in 2009) in the (former) Ministry of Agriculture, Nature and Food Quality in The Hague, as Deputy Director International Affairs and Spokesman for the Netherlands in the EU ‘s Special Committee on Agriculture, as Head of the Strategic Policies Division within the Minister’s Office and as Agricultural Policy Adviser. He was meanwhile also Part-time Professor in Agricultural Economics, later European Economic Integration, at the University of Amsterdam and Chairman of the Committee on Agriculture of the OECD in Paris. He is a member of various advisory committees of the Netherlands government. He wrote and edited several publications about the Common Agricultural Policy, amongst others: Arie Oskam, Gerrit Meester and Huib Silvis (editors), *EU policy for Agriculture, Food and Rural Areas*. Wageningen Academic Publishers, Wageningen, 2010.

Gerrit Meester graduated in 1970 in Agricultural Economics and received his PhD degree in 1985, both at Wageningen University. Early in his career, Gerrit Meester worked as assistant-professor at the Erasmus University Rotterdam and as Researcher at the Agricultural Economics Research Institute (LEI) in The Hague.

systems (*continued on page 4*).

(*continued from page 1*) to them through intensified extension services. Net food importing countries require greater supply assurances. Significantly more development cooperation funds must be dedicated to agriculture and we must resolve the competition between food and fuel. Furthermore, R&D needs to be drastically increased in order to achieve a sustainable intensification of agriculture, as requested in a recent report by the UK government (UK Governments Foresight Project: Global Food and Farming Futures). There is a list of trade-related issues that need to be tackled as well. Unfortunately most of the agricultural trade policy interventions of recent years were rather counterproductive. Short term responses to supply shocks such as the imposition of export taxes or increased border protection measures have exacerbated the market tensions. I share the analysis carried out by Deutsche Bank of export restrictions, which “are likely to exacerbate price instability and price increases in world markets...

[and] limit the balancing of supply and demand and also send a signal which may lead to panic buying...[and], by depressing domestic prices, mask incentives for farmers to increase supply” (Deutsche Bank Research: Where are Food Prices Heading? March 2011). These restrictions have unfortunately led some to blame trade for market failures, whereas a truly open trade system—as Pascal Lamy rightly reminds us—is part of the solution for food insecurity. A rapid conclusion of the Doha Round and further abolishment of trade distorting practices will promote global food security.

The EU has made important progress: the full implementation of its “Everything But Arms” initiative, combined with decoupling internal support from production and ending most of its price guarantee schemes, led to a more than 50% increase in imports of agricultural products from the developing world and the EU now buys more agricultural goods from Africa than all other OECD countries combined. But all export subsidization

systems should be abolished. Trade distorting domestic support should be drastically reduced in all OECD countries and tariff escalations are no longer justified. Developing countries do still require special and differential treatment and reasonable border protection to protect their fragile agricultural production systems. South-South trade should be intensified and technical trade barriers removed. Aid for Trade is also crucial to help developing countries address serious supply constraints and increase their participation in global trade.

I also firmly believe that a broad field of possible cooperation between the WTO and FAO should be explored. The important role of FAO in setting solid standards should be strengthened, since WTO rules importantly view national measures based on these standards as WTO compliant .

In order to promote global food security, we require increased agricultural productivity, sustained levels of investment in agricultural development and a well functioning set of international trade rules.

## Membership of the International Food & Agricultural Trade Policy Council

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