

# A g r i - T r a d e FORUM

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*Katharine Shaw, Editor*

## **A Close Look at Food Price Spikes**

by Carlo Trojan, IPC Chairman

It is worth highlighting that the diverse group of participants in our May 26-27 Seminar on “Agricultural



Carlo Trojan

Price Volatility: Challenges and Possible Solutions” did not identify price volatility as a source of concern, given the important role that prices

play in bridging demand and supply, but viewed sudden and drastic price change, such as the one witnessed in 2007-08, as very problematic, in particular for the world’s poorest who can spend up to 70% of their very low incomes on food. IPC member

*Price volatility [was not] identified as a source of concern, given the important role that prices play in bridging demand and supply, but sudden and drastic change [was identified] as very problematic, in particular for the world’s poorest.*

**Raul Montemayor**, President of the Philippine Federation of Free Farmers Cooperatives, was also right to remind us that prior to the recent price spikes, prices had been undergoing a long term decline for several decades (with an intermittent price spike in the 1970s), posing particular problems for producers in developing countries. I stress these two conclusions because they illustrate quite nicely that when IPC decides to examine a topic, it considers the issue at hand in all of its complexity.

We were pleased to join forces with the University of Barcelona and the International Centre for Trade and Sustainable Development in convening in Barcelona, Spain, a distinguished group of international experts from governments, private sector, civil society, international institutions and academics to analyze the 2007-88 food price spikes and to agree on a number of policy solutions to address potential future price spikes. We also thank the Catalan Department of Agriculture, Food and Rural Development, the Barcelona Chamber of Commerce, and the Barcelona City Council for their support. To summarize, the large increase in biofuel production and a widespread resort to export restrictions were identified as important factors that built upon the longer term trends of increasing demand for food due to population and income growth coupled with a decline in agricultural investment.

Participants agreed that the widespread resort to export restrictions and price controls during the 2007 - 08 food crisis created further panic in the international markets and sent the wrong signal to agricultural producers and called for GATT/WTO rules on agricultural export restrictions to be strengthened in order to offer greater supply assurances to net food importing countries. A growth in biofuel production triggered by ambitious mandates and subsidies and/or increasing oil price were also seen as more firmly linking the price of food to the price of energy and participants emphasized the need to ensure that agricultural feedstocks can be diverted away *(continued on page 4)*

## *IPC Fall Seminar*

### **Carbon Standards in Agricultural Production and Trade**

São Paulo, Brazil, October 26

Governmental technical standards as well as food safety, animal and plant health standards have been commonplace in agricultural production and trade for many years, and are also established by the private sector. Environmental standards for food and agricultural products (including biofuels) are a newer phenomenon. Such standards seek to ensure that agricultural products are produced sustainably, given the serious constraints facing the agricultural sector, in particular the shrinking availability of arable land and limited water resources.

More recently, growing concerns about greenhouse gas emissions from agriculture and land use change have led to a large number of carbon standards, some of them based on “life cycle analyses,” which seek to measure the entire carbon footprint of a particular product from its production to its consumption, and sometimes also seek to encompass indirect impacts.

IPC will be holding an international seminar in São Paulo, Brazil to discuss the role of carbon standards in agricultural production and trade. *More information about the seminar is available at [www.agritrade.org/events/SaoPauloSeminar.html](http://www.agritrade.org/events/SaoPauloSeminar.html).*

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## AGOA Countries Face Challenges in the Export of Agri-Food Products

The African Growth and Opportunity Act (AGOA) has strengthened US-African trade ties, but the \$1.2 – 1.4 billion in food and agricultural goods the US purchases from Africa each year are only a small fraction of the total value of U.S. imports from the continent. Agriculture employs two-thirds of all Africans and is key to economic development in the region. However, only two countries, South Africa and Ghana, are among the top 50 countries that export food and beverage products to the U.S.



In July, IPC and the Partnership to Cut Hunger and Poverty in Africa released two policy briefs exploring two major challenges that exports of African agrifood products to the US face—phyto-sanitary standards and tariff-rate quotas. The papers, which clarify the difficulties faced by African Exports and suggest measures for

correcting them, were presented at the AGOA Civil Society Forum on July 29, 2010 and at a congressional briefing on July 28.

David Skully, a professor at Jagiellonian University, Poland, described the effect of U.S. TRQs on African market access. TRQs for key agricultural commodities, including sugar, tobacco and peanuts, are based on U.S. import patterns from decades earlier, thus limiting export opportunities for AGOA countries. Allocations of under-quota TRQ shares date from before decolonization and therefore discriminate against developing countries, many of which were not independent at the time the quotas were established. TRQs were initially designed to protect U.S. domestic commodity programs, but still persist even when some of those commodity programs have been eliminated or radically changed, as is the case for tobacco and peanuts.

African horticultural products face a lengthy approval system. U.S. regulators undertake detailed pest risk analyses, which are often hampered

by insufficient information provided by applicant countries. Imports can only be approved after a lengthy rule-making procedure. Rick Pasco, an Attorney with McLeod, Watkinson & Miller, author of the second paper, identifies many of these critical hurdles in relation to plant health standards, and shows that many import approval requests from Africa have been pending for years. Recommendations for streamlining and speeding up the process are provided for AGOA countries and producers, U.S. policy makers and regulators, and the international community.

During the congressional briefing, Professional Staff Member for the House International Relations Committee, Pearl Alice Marsh proposed putting together a working group of staffers from different relevant Congressional Committees to conduct further research into the effectiveness of AGOA. More information about the briefing and links to the Policy Focuses can be found on IPC's website at <http://www.agritrade.org/events/AGOAJuly2010.html>.

## IPC Calls for Greater Transparency in Government Support for Biofuels

Government support for the production and distribution of biofuels has been expanding in recent years, especially as concerns about climate change and countries' dependence on foreign oil continues to grow. The main catalyst for such growth has been the implementation of biofuels targets and blending mandates which usually also includes subsidies or tax credits to defray some of the costs of the mandates. Such support takes a wide variety of forms including direct and indirect subsidies offered at different levels of production, blending mandates, and tax credits.

Biofuels subsidies are subject to multiple international agreements including the WTO Agreement on Subsidies and Countervailing Measures (ASCM) and the Agreement on Agriculture (AoA). The matter is further complicated by the fact that

there is no one category for biofuels—ethanol is traded as an agricultural product while biodiesel is traded as an industrial product. There is little coordination between these notification requirements, and neither is comprehensive or transparent. In light of the growth in the biofuels sector to prevent potential trade disputes. IPC's latest paper call for clarification and increased transparency.

*Clarification and transparency is needed in light of the growth in the biofuels sector to prevent potential trade disputes arising from government support.*

In September 2010, IPC is hosting two events to disseminate its latest position paper regarding biofuels subsidies at a Congressional Briefing in Washington, DC and at IPC's session

at the WTO Public Forum in Geneva, Switzerland. The paper, authored by Tim Josling, David Blandford, and Jane Early, discusses the extent and the impact of biofuels subsidies and other government support in the U.S., EU, and Brazil, as well as the complex reporting structure for biofuels subsidies. Randy Schnepf, a specialist in agricultural policy with the Congressional Research service will join Dr. Josling to provide background on U.S. biofuels policies in the context of the next U.S. farm bill. In Geneva, Dr. Josling will be joined by Ron Steenblik of the OECD who will be speaking about biofuels sustainability criteria, WTO Deputy Director General Harsha Singh who will comment on the presentations, and IPC member Stefan Tangermann will chair the session. More information about the events and the paper can be found at [www.agritrade.org](http://www.agritrade.org).

## IPC Participates in International Consortium to assess the impact of Non-Tariff measures

Market access for agri-food exporters is determined by many factors, among them tariffs and the cost of complying with both public and private standards and other governmental regulations. Non-tariff measures (NTMs) do not figure prominently on the Doha Development Round agenda, but NTMs are playing an ever greater role in international trade, and in particular international trade of food and agricultural products.

NTMs applied to the agri-food sector fit into two categories: 1. sanitary and phytosanitary measures, which deal with food safety, animal and plant health matters, and 2. technical regulations and standards. Such standards and regulations can greatly facilitate international trade of food and agriculture and offer important protection for and information to consumers, but can also serve as unjustified or unnecessary obstacles to international trade. As such, they are subject to international trade rules as specified in two important multilateral agreements established in 1995 - the WTO's Agreements on Sanitary and Phytosanitary Agreement (SPS Agreement) and the Agreement on Technical Barriers to Trade (the TBT Agreement).

Despite their increasing importance, there is a general lack of information about the full range of NTMs and their precise impact on trade. Notification systems for proposed NTMs are in place, but do not always provide sufficiently detailed information about the measures, and importantly do not cover existing measures. There are a number of initiatives and studies

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that attempt to track the use of standards and their impact on trade, but often these are not sufficiently comprehensive or detailed.

IPC belongs to a partner consortium consisting of experts from some nineteen institutions throughout the world, that has recently embarked on a three year project (2009-11). Called "Assessment of the impact of non-tariff measures on the competitiveness of EU and selected trade partners - NTM-IMPACT", this collaborative research project collects and analyzes new data on NTMs. Financed by the European Commission under its 7<sup>th</sup> Framework Program, a key objective of the project is to collect and analyze new data on NTMs faced by EU agri-food exports to a number of key markets, and to compare these with NTMs faced by competing exporters to the same destinations. Relative competitiveness among EU and other export countries is of special interest. Attention will also be given to how NTMs in the EU and other major importers impact least developing countries (LDCs). The primary focus is on government regulations and

standards, but private standards will also be examined, especially in the LDC case studies.

IPC will play a key role in organizing two policy seminars to be held in 2011, at which key findings and recommendations from the research will be presented.

The research and findings of the project will be relevant for EU policy makers and stakeholders, but also for others interested in improved classification and quantification of NTMs, as it seeks to establish:

- An analytical framework for analyzing the effects of NTMs on global agri-food trade;
- The development of a database on standards and regulations imposed on EU agri-food exports by key trading partners and an indication of how these relate both to EU and internationally agreed standards;
- The development of a comparative analysis for analyzing the relative impact of NTMs at an aggregate level;
- 14 case studies on product trade clusters with quantitative results;
- Case studies to analyze the implications of both public and private NTMs in high-income markets on least developed countries in Africa and Latin America.

For more information and access to working papers already completed, go to [www.ntm-impact.eu](http://www.ntm-impact.eu).

### IPC Member Highlights

**Carlos Perez del Castillo** has been appointed to the Steering Committee of the High Level Panel of Experts for the FAO's Food Security Committee. Carlos was nominated by IPC for this high-level post, and he will be attending the steering committee's first meeting at the FAO in Rome, September 16 – 17.

**Willem-Jan Laan** joined the World Economic Forum's Global Agenda Council on Food Security. Other IPC members on this prestigious council include **Namanga Ngongi, Roberto Rodrigues, Carl Hausmann, Joachim von Braun, and Ji-kun Huang.**

(from page 1) from biofuel production towards food and feed use when necessary. A panel discussion between two IPC members – **Joachim von Braun**, the Director of the Center for Development Research and Professor of Economics and Technical Change, University of Bonn, and **Carl Hausmann**, the Managing Director of Global Government and Corporate Affairs at Bunge Limited, showed a divergence of views on how much of the price spikes could be contributed to financial speculation, but there was agreement on the need to proceed with some caution on possible reforms, given the crucial role played by futures markets in price discovery.

WTO Deputy Director General **Harsha Singh** and other speakers called upon the international community to continue seeking reforms to the still heavily distorted agricultural trade system to improve the incentive structure for increased agricultural production in developing countries. A sustained, long term commitment to agricultural investment by developing country governments as well as donor agencies was also identified as a priority in order to ensure ongoing productivity growth and poverty alleviation – both important factors for achieving greater food security. Developing country governments, donors and international organizations

must also focus on improving social safety nets to protect the poor during price spikes. Although such systems require scarce financial resources, they are in the long run less costly, more effective and targeted than emergency measures imposed during a price spike. Low stocks clearly exacerbate price shocks. Although stocks are difficult to manage and costly, and past attempts to have international reserves influence markets were not successful, participants agreed that reserves at the national and regional level for net food importers can smooth the impact of price shocks on the consumption side. Moreover, the need for greater transparency on stock levels was emphasized. **Tassos Haniotis** of the European Commission's Agriculture DG and Spanish producers pointed out that developed country producers are clearly also affected by steep price changes, and drew attention to the rising cost of agricultural inputs. It was agreed that while agricultural policies in the EU as in other OECD countries, will continue to place emphasis on risk management, they must do so in a context of shrinking government budgets and should be vigilant that such measures are non-distorting.

Additional information about the seminar, including the full agenda, background briefs, and panelist presentations, can be found at [www.agritrade.org/events/2010Spring\\_Seminar\\_AgPriceVolatility.html](http://www.agritrade.org/events/2010Spring_Seminar_AgPriceVolatility.html).

## IPC Publications

CSIS Global Food Security Project: The Role of Markets and Trade in Food Security by Charlotte Hebebrand and Kristin Wedding

AGOA Countries: Considerations in Exporting Horticultural Products to the United States by Rick Pasco

U.S. Tariff Rate Quotas and AGOA Market Access by David Skully

Biofuel and Biomass subsidies in the U.S., EU, and Brazil by Tim Josling, David Blandford, and Jane Earley

*Please visit [www.agritrade.org/Publications/](http://www.agritrade.org/Publications/) to view all IPC publications.*

## IPC Events

Hill Briefing: African Agrifood Exports to the US: Facing Challenges of Sanitary & Phyto-Stanitary Standards and Tariff-Rate Quotas

Hill Briefing: Clarifying Biofuels Subsidies: Farm Bill and WTO Considerations

2010 IPC Session at the WTO Public Forum: Clarifying WTO Rules for Biofuels

*Please visit [www.agritrade.org/events/](http://www.agritrade.org/events/) to view all IPC events*

### IPC MISSION

The International Food & Agricultural Trade Policy Council (IPC) promotes a more open and equitable global food system by pursuing pragmatic trade and development policies in food and agriculture to meet the world's growing needs. IPC convenes influential policy makers, agribusiness executives, farm leaders, and academics from developed and developing countries to clarify complex issues, build consensus, and advocate policies to decision-makers.

### IPC MEMBERS

Carlo Trojan (Chairman), The Netherlands	Carl Hausmann (Vice-Chairman), United States	Marcelo Regunaga (Vice-Chairman), Argentina
Bernard Auxenfans, France	Jikun Huang, China	C. Joe O'Mara, United States
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