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**NOTE**

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from: Presidency  
to: Delegations

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Subject: Preparation of the meeting of Ministers for Agriculture at the OECD in Paris on  
25-26 February 2010

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Delegations will find attached an introductory note from the Presidency (Annex I) together with the latest version of the OECD Issues Paper (Annex II) with a view to the discussion to be held over lunch in Council (Agriculture and Fisheries) on 22 February 2010.

**Presidency Introductory Note**

***"OECD Agriculture Ministerial Meeting: Food and Agriculture Policies  
for a Sustainable Future  
Responding to Global Challenges and Opportunities"***

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On 25 and 26 February 2010 there will be an OECD Agriculture Ministerial Meeting on *"Food and Agriculture Policies for a Sustainable Future: Responding to Global Challenges and Opportunities"*.

The present moment, when food security is again becoming a matter for global concern and we are faced with new uncertainties, such as climate change, exiting the economic and financial crisis, rising energy prices and scarce resources, together with population growth, urbanisation, changes in consumption trends and price volatility, has resulted in the consolidation of the strategic nature of agriculture.

In recent years we have established that we need effective agriculture policies as a necessary component of the solution, since they will help us to respond to the agricultural challenges between now and 2050 of feeding the growing world population and to correct some undesirable market effects.

The Organisation for Economic Co-operation and Development (OECD) provides us with a forum in which we can compare and exchange political experiences, identify good practices and promote appropriate decisions and recommendations on the subject before us, agriculture and food policy.

The last Ministerial Meeting in 1998 gave us political principles and operative criteria that guided the recent reform of the CAP. Both the 2003 Reform and the Health Check that we approved have allowed our Agricultural Policy to develop positively, in accordance with those principles.

At this Ministerial Meeting we will have an opportunity of reviewing those political principles in the search for appropriate guidelines for the agriculture policies for the future, now that agriculture and food have become an important item on the international agenda as a result of the events of recent years.

Accordingly, I invite you to begin the political debate that we shall continue next Thursday and Friday with the rest of our fellow members of the OECD on the basis of the Issues Paper with which that Organisation has provided us as a guide for discussions at the Ministerial Meeting, concentrating on the second block of questions in particular.

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TRADE AND AGRICULTURE DIRECTORATE  
COMMITTEE FOR AGRICULTURE

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MEETING OF THE COMMITTEE FOR AGRICULTURE AT MINISTERIAL LEVEL  
ISSUES PAPER

25-26 February, 2010

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**MEETING OF THE COMMITTEE FOR AGRICULTURE AT MINISTERIAL LEVEL  
ISSUES PAPER**

**Food and Agricultural Policies for a Sustainable Future**

**Introduction**

1. The global food and agriculture system has demonstrated a considerable capacity to respond and adapt to a seemingly ever-changing market and policy environment. For many decades now, global food supply has grown faster than demand due to a large extent to productivity improvements. For this reason and others such as low income elasticity of demand for food, commodity prices (in real terms) have been declining.

2. In OECD countries consumers spend (on average) less than 15% of their disposable income on food. And whereas at an earlier stage of development most of the labour force in many OECD countries was engaged in agriculture, today vastly greater quantities of higher quality and safer foods are provided by very productive farms that account for less than 5% of total employment.

3. Significant progress has also been realised in emerging and developing countries and they are expected to be the main contributors to global food production, demand and trade growth in coming decades. But the current situation is markedly different than in OECD countries. The expenditure share for food is much higher, often double and ranging above 60% in some poorer countries. Agriculture also remains a much more important source of employment, engaging as much as half the labour force in some countries. Many farm households in these countries operate subsistence or semi-subsistence farms, at very low levels of productivity, and poverty is prevalent in rural areas.

4. Looking beyond the farm, innovations in input supply, food processing, distribution, retail, and food service sectors mean that many consumers around the world enjoy a wider choice of products, both fresh and processed, in-season and out-of season, than ever before. The emergence of integrated supply chains and the gradual opening of regional and global markets have played an important role.

5. However, not everyone has benefited from these changes. Hundreds of millions of people remain food insecure; that is, they do not have “at all times, physical, social and economic access to sufficient, safe and nutritious food that meets their dietary needs and food preferences for an active and healthy life” (FAO definition). Although the world now produces enough to feed its population, the number of undernourished has increased since the mid 1990s, reaching more than one billion persons in 2009, in part as a result of recent price spikes and the global economic recession. Paradoxically, many of the world’s food insecure people are themselves farmers.

6. There are other challenges confronting the sector. The pressure on natural resources is increasing and agriculture must compete with other parts of the economy for valuable land, water, mineral and energy supplies. Climate change increases the uncertainty of water supplies, temperature and precipitation patterns, and, ultimately, production yields. Agricultural prices are now more closely linked to energy prices which have exhibited instability in recent years. These and other factors such as possibly closer links to financial markets may contribute to increased price volatility on global agricultural markets in the years to come.

7. But there are also opportunities. Adoption of available technologies and production practises in some less developed areas can increase productivity, output and incomes. Appropriate policy frameworks and greater investment in developing country agriculture would benefit many of the chronically

undernourished and give a boost to development. Food demand is growing strongly and in some developing countries increased production of biomass could also offer new income opportunities.

8. Clearly, the global food and agriculture system – and both the domestic and international policies that govern it – will need to continue to adapt. The rest of this paper explores how the sector can do so, and ways in which governments can help.

**How well prepared is the food and agriculture system to respond to the needs of a rapidly changing world?**

*Questions for discussion*

**What are the main three main issues that will attract the attention of policy makers in the domestic and international arena over the next two decades?**

- *Does our current knowledge enable us to define the upcoming challenges and opportunities? Which are the main unknowns and uncertainties?*
- *To what extent can responses from the sector be relied upon to provide needed solutions?*
- *What are the main obstacles preventing appropriate responses?*
- *How can innovations in products, processes and organisation contribute to sustainable solutions to address climate change, natural resource limits and market volatility?*

*Climate change and resource scarcity*

9. *Climate change* projections vary as do views about the extent of likely effects of climate change on agriculture. Overall, there is a broad scientific consensus that already less-resilient agricultural production areas will suffer the most, as temperatures rise further in semi-tropical and tropical latitudes, for example, and as already dry regions face even drier conditions. Climate change may also increase food safety risks that might result from heat-related and water borne diseases with temperatures rising and more flooding. Production variability and uncertainty of supplies are expected to rise as a result of likely increases in the frequency of extreme events such as droughts and floods. In more extreme cases, production zones might shift.

10. *Adaptation strategies* that strive to avoid significant losses in production due to climate change could range from water management strategies to altering farm management practices, adoption of new varieties, new or different crops, and animal breeds more appropriate to the prevailing climate.

11. Agriculture accounts for a significant share of greenhouse gas emissions and will inevitably be called on to contribute to the *mitigation* effort. The sector could contribute much through improved cropland and grazing management, restoration of degraded lands and land use changes (such as agri-forestry as well as reduced deforestation). Emissions from livestock can be reduced through better animal nutrition and manure management. Agricultural waste can be transformed into bioenergy. Appropriately managed crop, pasture and forested land can sequester significant amounts of carbon, offsetting emissions from other sources, and provide other environmental benefits. However, the predominance of small and diverse production units and the complexity of measuring the impact of such management practices on net greenhouse gas emissions create practical implementation problems.

12. *Pressures on natural resources* are rising, independent of climate change, due to population growth, income growth, attendant industrialization and urbanization and other factors that together have caused pollution and unsustainable exploitation of scarce resources. Water scarcity is a particular concern, with agriculture currently accounting for 70% of world freshwater withdrawals (45% in OECD countries). Some predictions suggest that 36 countries with a combined population of 1.4 billion people will be either cropland or freshwater scarce by 2025. Depletion of non-renewable resources (including oil and minerals) and degradation of arable land add to the resource pressures. Biodiversity and genetic diversity in agriculture is being lost or threatened in many parts of the world. Additional land resources are available, notably in South America and in Sub-Saharan Africa, but much of this land is currently protected, forested or on the urban fringe. And bringing significant new areas of land into production has a wide variety of social implications, resource effects and environmental consequences, including on deforestation and forest degradation in developing countries, an important issue under climate change negotiations<sup>1</sup>. In addition, tensions have arisen concerning large land acquisitions by foreign companies or governments in parts of the world where abundant land is still available<sup>2</sup>.

#### *New demands*

13. Consumption in many developed countries is reaching (or going beyond) saturation levels in terms of caloric intake, while food demand is growing rapidly in many developing countries. This is expected to continue with both increases in the *levels* of consumption and a continued *shift* towards more protein rich diets. Population is also forecast to continue to rise, albeit at a slower rate than was experienced during the past thirty years. As a result of these changes and the fact that it takes multiple kilos of feed grain to produce one kilo of meat, fish or milk, the growth in demand for crops will be even stronger than the increase in food demand overall. The population and income dynamics in developing and emerging economies will continue to generate strong demand increases for food products in the decades to come.

14. Recent years have seen increased interest in the potential of *renewable energy* to contribute to lowering reliance on fossil fuels, linking food markets more closely to developments in energy markets (and oil prices in particular). This is a relatively new source of demand in OECD countries, though in many countries biofuel production and use is not currently viable in the absence of public support. Even if scientific developments enable profitable production of second generation biofuels in OECD countries, there could be an impact on food markets through related land use changes.

15. Rising incomes, changing societal demands, urbanization, and technology advances are contributing to *new consumer and societal expectations*. Many consumers have a keen interest in a wide range of product attributes and there is increasing environmental awareness. While food must of course be 'safe', 'high quality' and 'reasonably priced', the manner and place in which food is produced is of growing interest. This is leading to growing demand for 'organic' food production, standards for 'animal welfare', 'sustainable' food production methods, 'fair trade' products, and 'local' food movements. The increasing participation of women in the labour force is one factor increasing the demand for more ready-to-eat meals. While involving many aspects of economic and social behaviour, issues relating to *health and*

<sup>1</sup> Reducing Emissions from Deforestation and Forest Degradation plus conservation (REDD-plus) in developing countries is a new financial mechanism proposed under the United Nations Framework Convention on Climate Change, and is included as part of the financial provisions in the Copenhagen Accord that followed the United Nations Climate Change Conference in Copenhagen in December 2009.

<sup>2</sup> There is an ongoing debate involving FAO, IFAD, UNCTAD and the World Bank on good governance of investment and tenure of land and other natural resources, and possible "voluntary guidelines on responsible governance". OECD Principles of Corporate Governance are also relevant in this respect.

*nutrition* are attracting increasing attention; according to some sources there are now more overweight people in the world than under-nourished.

16. Most of the more than one billion undernourished people live in less developed countries. Lower supply growth and climate change effects on the fragile productive system in low income regions may aggravate already precarious food supply and demand balances. Although there is scope to increase food supply sustainably in most regions of the world, all regions will remain dependent on global markets to ensure their food supply. Therefore both a well functioning economy and an effective global trading system are necessary.

17. In addition to supplying feed, food and renewable energy, in many countries there are multiple expectations of the food and agriculture sector. These include: the production of non commodity outputs<sup>3</sup>, serving as a social safety net for small landholders, contributing to growth in less developed areas, acting as custodian of land, water and biodiversity, providing landscape, and contributing to rural and remote community well-being.

#### *Global food chains*

18. The *food industry* has become increasingly vertically integrated, globalized and concentrated in recent decades. These developments have enabled the industry to respond well to a wide range of changing consumer preferences, while maintaining relatively low prices. The food industry has been the instigator of innovation in many different aspects of farming, food processing and distribution. Contracting between farmers and processors can reduce or remove uncertainty about prices and therefore contribute to risk management. But there are also concerns about their growing market power, about price transmission and what is a “fair” distribution of profits across the food chain. Can a highly concentrated food processing and distribution system carrying limited “just-in-time” stocks and serving increasingly urbanised consumers, cope with shocks coming from outside the system, such as a fuel shortage or a flu pandemic?. What is the role of the food industry in the spread of food related health and nutrition problems?

19. Retailers and processors are particularly well placed to transmit consumer demands along the food chain, and one part of their response has been the introduction of private standards and labelling addressing a wide range of environmental, social and even ethical interests. These standards are sometimes introduced in collaboration with governments who certify claims or oversee testing and traceability procedures. Higher standards imply higher compliance costs across the food chain, including at the farm level and some farmers, particularly in developing countries, may have difficulty either in meeting the standards or the costs involved. On the other hand, there may be considerable gains for those who do succeed in accessing new markets, and economic gains more generally through the acquisition of the needed technical capacity. These are complex issues that continue to be considered within the multilateral context.

#### *Innovation*

20. The capacity of the global food and agriculture system to continue to provide adequate supplies for food, feed, and non-food uses depends in large part on *technology and innovation*. In some cases there remains considerable scope for improving productivity through more widespread adoption of available technologies. Much is already known about ways to improve the sustainability of agricultural production while also contributing to the preservation of biodiversity. In many developing countries applying existing technologies and farm production practises would improve yields, increase food production, and reduce

<sup>3</sup> Non-commodity outputs were studied in the context of the OECD work on Multifunctionality (OECD, 2001 “Multifunctionality: Towards an analytical framework”)



waste. The development of new technologies, including biotechnology, could do much to improve productivity and overall output levels while using scarce inputs more efficiently. Both public and private sectors may need to invest more in research, and there is considerable scope for public-private partnerships.

21. Innovation includes scientific and technological developments, but it also encompasses improvements in institutions and processes. In this context, national and international systems of agricultural research and collaboration, both public and private, have an essential role to play. Agricultural education, extension and training are also vital ingredients in ensuring that innovations not only occur, but that they are applied. Effective delivery mechanisms are needed to transfer technology and “know how” to where they can be employed. Efforts to ensure public understanding and informed acceptance of new scientific advances also contribute to timely adoption; there is ample evidence that “good science” alone is not sufficient to ensure widespread acceptance of available technologies, for example when ethical issues are involved.

22. Progress can also be made to make better use of what is produced – as much as one-third of food “disappearance” has been estimated as “waste”. Waste occurs at the farm level, in the storage and distribution system, in food service, and at home. Innovative solutions to address this issue could take many forms, from better use of technology to small changes in individual behaviour at home. But appropriate incentives and disincentives need to be in place.

#### *Wider economic uncertainties*

23. A global economic slowdown, rising unemployment, a growing need for governments to rein in spending in many countries, and continuing price volatility across a range of commodities suggest continued and possibly increased economic uncertainties. While the food and agriculture sector has fared relatively well compared to other sectors during this most recent economic crisis, how will it perform in the future?

#### **What role for Governments and for the OECD?**

##### *Questions for discussion*

**Which policies are needed to address the opportunities and challenges associated with:**

- *climate change and resource scarcities*
- *global food security and developing country agriculture*
- *the international trading system*
- *uncertainty, risk and possibly increased price volatility*
- *shifting consumer demand and wider expectations of society*
- *further innovation in the sector and*
- *global food chain developments*

**How can OECD help governments to improve their policies, in the short, medium and long term?**

- *What information is needed to reduce uncertainties, how can dialogue and sharing of experience be improved, what are the priority areas for policy development?*
- *What is the unique role of the OECD in developing solutions to these questions, in the light of its particular strengths and in view of the evolving role of other international institutions?*
- *How can OECD contribute to global responses that are inclusive for developing countries?*

24. OECD countries are engaged in a process of agricultural policy reform, driven in part by the application of the WTO Uruguay Round Agreement on Agriculture and the policy principles agreed during the 1998 OECD Agriculture Ministerial Meeting, but also in response to new challenges that have emerged. Progress has been made in introducing more decoupled policy instruments; less progress has been made in targeting farm policies to specific objectives associated with the issues outlined above. In a wider multilateral context, progress in reforming agricultural and trade policies could be strengthened by the conclusion of the ongoing negotiations in the WTO.

25. The scope and nature of on-going developments in the global food and agriculture system call for a reinvigorated effort to identify clear future directions for agricultural (and other relevant) policies. There is some urgency, as even inaction can have major consequences.

*Moving towards getting the incentives right*

26. The policy framework and related institutions provide the basic building blocks. Effective systems of governance, clear rule of law, enforceable property rights, a stable macroeconomic environment, and well functioning structural policies (health, education, labour, investment, trade, competition, etc.) are all needed. Policies and institutional frameworks work best if they support and complement markets. They should also help to move towards *getting the incentives right*, this means enabling suppliers and consumers to make decisions taking account, as far as possible, of the true costs and benefits associated with their use of scarce resources.

27. An appropriate balance between government intervention and market solutions needs to be found to address *climate change and resource scarcity*. Land, water, energy and other resource prices should better reflect their full underlying costs and benefits, although it is acknowledged that it is extremely difficult to estimate those values and that much more research is needed in this area. Where governments have artificially lowered or raised prices of these resources, the misalignment may also need to be corrected. Education, training, and dissemination of information can contribute to addressing some problems, while in other cases regulatory action may also be required. In some cases, it may be most appropriate to create markets (such as for carbon emissions or sequestration). Local institutional arrangements between citizens have often shown to be effective in managing common resources, and they can complement market solutions and regulatory actions. The process of mitigating, or adapting to, the effects of climate change can also result in hardship for particular regions, segments of society or countries; special attention needs to be paid to assist those otherwise unable to manage the required adjustments and the most severely affected regions and countries.

28. The impact of growing *consumer demand* for feed, food and fuel on markets should not be underestimated. The long run decline in real prices for agricultural commodities is slowing and may even begin to reverse. Allowing basic market forces to stimulate the desired response by suppliers around the world is highly desirable; historically, farm households have consistently demonstrated a strong capacity to respond to economic opportunities. In some parts of the world it will be necessary to take steps to ensure that the signal actually reaches producers, either by changing policies or creating the infrastructure needed for functioning markets. However, higher prices pose a problem for many poor and vulnerable people who will need assistance to cope. At the same time, caution needs to be exercised to avoid policy induced demand that is not likely to be economically, socially and environmentally sustainable, as appears to be the case currently for some biofuel policies.

29. An efficiently functioning *international trading system* will be a necessary, although not a sufficient condition, to allow global supply to match global demand and to meet changing consumer

requirements for quality and variety. Production patterns are shifting and trade will become increasingly important in connecting food surplus with food deficit areas. South-south trade is expected to increase more than north-south trade, with resulting benefits for many countries. Trade will be a more reliable contributor to secure food supply if greater volumes are traded among more participants than is currently the case for many commodities. Strong multilateral rules could also enhance the food security of importing countries. A balanced, comprehensive and ambitious conclusion to the Doha Development Agenda discussions would be important in strengthening the international trading system in ways that support food security.

#### *Investment, risk management and innovation*

30. A rules based multilateral trading system is necessary, but attention to improving the policy framework in many less developed economies is also required, as is increased *investment in developing country agriculture* and the capacity of farmers to be competitive and to respond to markets – at either local, regional, national or international levels. Both public and private investment can provide the needed capital for further development, but the private sector has an additional contribution to make with respect to bringing “know how” and networks to less developed regions. Both government and private sector actors will need to make sure that the investments being undertaken are the right ones in the specific context of the level of development, and resource endowments (including of human capital) in different countries. In parallel, wider *development strategies* are needed that will create income and employment opportunities outside agriculture for resource poor households with no long term prospects within the sector. Frameworks that ensure coherence for development among policies and actions in every sphere and at every level from local to global are needed.

31. International markets for many agricultural commodities are “thin” in the sense that the proportion of supply or demand that is traded is very small. The number of buyers and sellers is also relatively small. Such markets are vulnerable to sharp swings in prices. During the most recent episode price volatility was aggravated by the actions of countries that restricted exports. Markets with more volume and more buyers and sellers should be less susceptible to extreme price volatility. Improved functioning of international markets is therefore part of the solution. However, other factors may contribute to increased volatility, including the closer link between energy prices and agricultural prices and climate change inducing more uncertainty on the production side. Moreover, as policies continue to move away from traditional price support mechanisms and public stocks, price volatility is likely to increase for producers that were previously sheltered through administered prices or border protection. Determining an *efficient framework for risk management* and within it the appropriate attribution of responsibility among private and public actors is one of the key policy challenges facing governments.

32. Governments and industry, working together, might also complement the possible role of increased trade in reducing expected *price volatility* and its undesirable impacts. Wider use and further development of market instruments, such as production contracts, insurance policies and futures markets, could facilitate the management of price and production risk in agriculture. Carefully designed safety nets can complement these instruments. There is scope for improving existing risk management policies in ways that recognise interactions among different types of risk and that take account of the impact of the whole set of policies already applied in the sector.

33. In the area of *innovation* much will depend on successful efforts to maintain incentives and funding for research, development, transfer and adoption of appropriate technologies and processes. Policies should seek to ensure a balanced system of intellectual property rights protection that both provides adequate incentives for investors and enables technology diffusion. New technologies can help alleviate resource constraints, but in many cases much can be gained by better use of existing technologies, improved farming methods and improved management along the supply chain. It is also important to keep

global markets for knowledge open to enable the transfer of ideas and knowledge across borders. Education, extension and training services are key elements of the delivery mechanisms needed to transfer technology and “know how” effectively. Public understanding and informed acceptance of new scientific advances also require attention.

*Food and agriculture as part of the broader economy*

34. There is a wide range of other policy issues that might warrant consideration: growing consumer interest in the manner in which food is produced, food related health and nutrition concerns, the role of global supply chains, the emergence of public and private standards, and so on. Reflections on food and agriculture policy need to more fully integrate broad considerations about green growth<sup>4</sup>, innovation and sustainability, and the increasing role of emerging and developing economies. These factors will be important in any OECD contribution to identifying policy responses to emerging opportunities and challenges in food and agriculture. This implies horizontal work in cooperation with other parts of OECD and with other international organizations.

35. The evolving international architecture, in particular the G20 and G8 plus, reflects a more highly integrated and complex world and provides new opportunities for the OECD to contribute to policy development in the economic, social and environmental realms. With its long-standing experience in bringing horizontal and economic approaches to policy issues that encompass different sectors and dimensions of the whole economy the OECD has an advantage compared to other international organizations. This is also the case with respect to food and agriculture where the OECD has, for many years, assessed and monitored domestic and trade policies through a peer review and mutual assessment process that generates international dialogue and leads to policy recommendations and best practice guidelines. This peer review process builds on the only available, internationally agreed comparisons of support to agriculture. The OECD is uniquely well placed to contribute to coordinated and mutually reinforcing policy analysis and messages across a wide range of sectors and issues.

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<sup>4</sup> Ministers at OECD Ministerial Council Meeting of June 2009 endorsed a mandate for the OECD to develop a Green Growth Strategy. Green growth means promoting economic growth and development while reducing pollution and greenhouse gas emissions, minimising waste and inefficient use of natural resources, and maintaining biodiversity.