2009 GLOBAL FORUM ON AGRICULTURE: CHAIR'S SUMMARY REPORT

1. The 2009 Global Forum on Agriculture, held on 29-30 June in Paris, brought together over 116 government and private sector representatives from 42 countries to discuss the medium and longer term prospects for the agricultural sector and related policy issues. Neil Fraser, New Zealand delegate, once again chaired the Forum. The OECD Committee for Agriculture Chair, Gerrit Meester from the Netherlands, opened the meeting. The economic context for the Forum was one of considerable uncertainty with commodity prices having fallen from the 2008 peaks, oil prices on the rise, financial markets in turmoil and a deepening global economic crisis. The policy context was a widespread introduction of market and trade distorting measures in response to the sharp rise in food prices in 2006-08 and growing fears over food availability. The subsequently lower prices have not alleviated these fears. The Forum theme, "*preparing for the future*", was timely given the fact that food security is a major issue on the international policy agenda in light of population growth, climate change concerns and the FAO's latest estimate of 1.02 billion people below the hunger threshold. This note by the Chair provides a summary of the Forum, drawing on the background material, presentations and discussions. It does not purport to reflect consensus views of the participants. Additional information on the agenda, presentations, and participants is available on the Forum web site: www.oecd.org/agriculture/globalforum/june09.

2. A number of innovations were introduced this year. Greater efforts were made to provide background material and presentations well in advance of the Forum *via* the dedicated website. At the meeting, all participants were given a USB key with recent OECD publications, including highlights of the Agricultural Outlook, the Monitoring Report on agricultural policies in emerging economies, a synthesis report on agricultural policy design and implementation as well as the latest OECD Factbook and OECD in Figures. The results of a pre-Forum opinion poll of participants on the key issues under discussion were used to introduce each session. Finally, each participant was asked to fill in an evaluation form at the end of the Forum. The results are summarised below, but the general level of satisfaction with the Forum was very high with 98% indicating a good or excellent rating. Forum organisation was particularly highly regarded, which 69% of participants rated as excellent.

	Poor	Good	Excellent
Forum as a means for dialogue between OECD and non-members	4%	60%	36%
Forum as a source of new information and contacts	2%	58%	40%
Forum as a means to discuss the agricultural outlook and related policy issues	7%	40%	53%
Forum agenda to effectively address the issues raised	9%	60%	31%
Overall quality of the meeting organisation/management	2%	29%	69%
Overall quality of the presentations	2%	60%	38%
Overall quality of the panelists	7%	60%	33%
Overall quality of the discussion	16%	67%	18%
Overall level of satisfaction with the Forum	2%	64%	33%
Usefulness of the dedicated Forum website	2%	58%	40%

3. The Forum is an important mechanism for sharing OECD analysis and that of other international organisations with non-members, and for obtaining feedback to inform the Secretariat's work programme. Considerable new material was presented including the 2009 OECD-FAO *Agricultural Outlook*, results of the 2009 symposium on *Agri-food in an Increasingly Globalised World*, agriculture-related aspects of the OECD Environmental Outlook, the 2009 monitoring report on *Agricultural Policies in Emerging Economies*, ongoing Secretariat work on the development dimensions of food security and preliminary results from the FAO's preparatory work for its upcoming High-Level Expert Forum on *How to Feed the World in 2050*.

Medium term Agricultural Outlook

4. The first day of the Forum focused on the medium and longer term prospects for agriculture. Speakers and panellists suggested that agriculture was relatively resilient, although certainly not impervious, to the global economic crisis given recent profitable times, generally solid balance sheets and the inelastic demand for food. The shift towards higher protein diets and greater meat consumption in emerging economies, while somewhat dampened by the global economic recession, is also a source of economic growth for the sector. The Secretariat has work underway to examine the changing structure of agricultural commodity demand in large developing and emerging economies in terms of commodity mix (*e.g*. grains *vs.* meat) and composition (*e.g.* lower-quality *vs.* higher quality grains/meats) as well as the effects on price and income elasticities of demand.

5. A small OECD survey of some 60 agri-business firms supported this impression, although tight trade credit was posing some serious problems and any long delays in the global economic recovery could see conditions deteriorate rapidly. Conditions were more difficult in at least some developing countries where food demand is more income sensitive and credit less readily available. However, generalisations are difficult. As one participant noted, even within countries the urban and rural contexts can be quite different. Some 49 % of participants responding to the pre-Forum questionnaire felt the global economic recession would not have a significant negative effect on agriculture while 60% felt the impact would be greater in emerging/developing countries.

6. On average, real agricultural commodity prices over the next 10 years were projected to remain at or above the average 1997-06 levels, the period just before the 2007-08 price peaks. Average crop prices are projected to be 10-20% higher in real terms relative to 1997-2006, while for vegetable oils real prices are expected to be more than 30% higher. Meat prices in real terms are not expected to surpass the 1997-2006 average, while average dairy prices in real terms are likely to be slightly higher. The continuing role of the emerging biofuels markets and associated support policies as a major influence on world commodity markets was stressed by many participants. The OECD-FAO Outlook does not foresee a strong return to the long term trend of declining real commodity prices. In fact, some argued that real prices have tended to be more or less flat since the mid-1980s for many commodities with short 2-3 year periods of spikes and troughs. Market growth, whether it be production, consumption or exports, is expected to be higher in percentage terms for emerging economies as has been the case in recent years. Increased South-South trade is a significant feature of the current Outlook. However, it was noted that the short-term supply response to higher prices in developed countries amounted to over 12%, albeit a substantial part of which was explained by a return to more normal weather conditions, while developing countries together could only muster a less than 1% increase in their cereal production. Low income food importing countries are expected to import more food in the future even though it would seem for at least some such countries their comparative advantage would lie in agricultural production.

7. Participants were concerned about price volatility, with 75% expecting greater volatility in the future due to the general tendency for lower stocks and uncertain energy and biofuel markets. There is also the risk of greater volatility in such external factors as oil prices, exchange rates and financial markets. The

Secretariat is looking at the possible sources of increased volatility (*e.g.* lower stocks, thin markets, speculative fund investments) as part of a project on structural changes in agricultural commodity markets. project driving The idea of reducing such volatility through managing international stocks/reserves was briefly discussed but received little support as such attempts in the past had not worked very well. More interest was expressed in approaches to improve market functioning help facilitate markets, for example, financial and institutional mechanisms to ensure the execution of contracts and to enhance trade financing of food imports by low income developing countries. While such measures would require considerable further analysis and assessment before considering introduction, the basic idea is that they would address food market failures without changing the market fundamentals (unlike commodity reserve schemes) or disturbing the efficiencies of private sector trade.

8. Forum participants were quite optimistic about the longer term prospects for agriculture to meet the rising demand for food. Almost one-half of those responding to the questionnaire agreed that global agricultural output will increase by 50% over the next 20 years, with the higher output expected to come from some additional land in production but mainly from increasing agricultural yields. There was far less certainty about the sector's ability to reduce its demands for water through more efficient use, which will be essential given expected water shortages and increasing competition from industrial users. This uncertainty is also reflected in the 20-year projections of agricultural (irrigation) water use by various analysts, which range from significant reductions to significant increases.

Longer term outlook for the agri-food sector

9. Participants discussed concerns over the emerging trend of government and private sector (*e.g.* trading houses, investment community, farm management firms) investments in foreign agricultural land, both to ensure commodity/food supplies and as an attractive asset class. Huge tracts of lands are changing hands, often in poorly regulated markets, with little information on the potential impacts on production mix, the environment or on local populations. In the future, the access to water *via* land acquisition may be even more important than the land itself. Most of the reports in the media of large land transactions to date seem to be apocryphal. In most cases, they have not been substantiated and have only complicated matters for legitimate private investors committed to transparency and bringing much need management know how and technology in order to help agriculture develop. The FAO, in collaboration with the International Fund for Agricultural Development (IFAD) and the Institute for Environment and Development (IIED), have released a new report on this phenomenon in Africa – *Land Grab or Development Opportunity.* The OECD is also considering some work in this area.

10. Several participants noted that much of the solution to food security lies outside of agriculture *per se* and depends to a great extent on the development of appropriate infrastructure (*e.g.* roads, ports, storage facilities) and market/regulatory institutions as well as the need for broader economic growth as the principal means to reduce poverty. Food security was generally acknowledged to be a problem of food affordability rather than food availability. Still, it was pointed out that there was much that could be done to change consumption patterns and reduce wastage - areas which are seldom discussed in the context of food security. It was mentioned several times that fishing and aquaculture should be a part of any discussion of food security, given that this sector accounts for about 15% of total world animal protein supply and that production, mainly through aquaculture, is estimated to rise by more than 15% over the next 10 years.

11. There was discussion of the main scarcities (*e.g.* land, water, micro-nutrients, phosphate) that will impact on agro-food development, the possible contributions of technology and innovation, the changing linkages with non-agricultural sectors (*e.g.* financial sector, supply chains, supermarkets, private standards) and the societal expectations for the agro-food system. Clearly a dilemma facing the industry is how to produce more food while reducing greenhouse gas emissions. It was noted that there remains much

uncertainty around measuring agriculture's contribution to emissions and carbon sequestration. More analysis is required. Key messages included the need to fix market failures such that prices reflect resource scarcities, to integrate distributional considerations into resource use policies, to monitor anticipated scarcities and to prepare for the adaptation that will be needed to adjust to changing climatic conditions. The experts tended to be optimistic that the sector can achieve the goals relating to all these imperatives but caution that the main mechanism to do so is to get the incentives right for long term growth in the context of increasing environmental pressures. This last point is particularly germane to OECD efforts to help governments design policies which support the right incentive structure to induce private actions that address these problems.

12. Concerning the environment, the priority areas for urgent action were presented as climate change, biodiversity loss, water scarcity/shortages, and the health impacts of environmental pollution and toxic chemicals. The timing of policy action is critical, as delaying action could lead to irreversible damage to ecosystems and losses of biodiversity. Agriculture is currently responsible for about 70% of total global groundwater withdrawals and more than 15% of terrestrial biodiversity losses. Climate change will require both mitigation of greenhouse gas emissions (*e.g*. through low/no tillage, manure management, reduced fertiliser use, improved soil carbon capture, restoration of peat and degraded lands, more efficient rice cultivation techniques) and adaptation to climate change (*e.g.* different crops and cropping patterns, more efficient irrigation technologies, risk management of more frequent weather extremes - flood, drought, storms), particularly in the low latitudes where climate change will have the greatest impact.

13. A broad mix of policy instruments are recommended in the OECD Environment Outlook, with an emphasis on the importance of economic or market-based instruments, such as green taxes, water pricing, emission trading, pricing pollutants and waste charges. Removal of environmentally harmful subsidies, particularly for fossil fuels and agricultural production is also recommended in the report. The report suggests that accompanying policies are needed in terms of regulations and standards, investment in basic R&D, sectoral and voluntary approaches and information-based instruments (*e.g*. eco-labelling).

14. The second day of the Forum focused on policies responses – first to higher food prices and then to the rising concerns about longer term food security. In fact, the two are closely related as it was mainly the market and trade distortions brought on by the policy responses to higher food prices that undermined confidence in global commodity markets and trade, and greatly increased national concerns about food security. Some 60% of the participants responding to the questionnaire expected a policy shift towards greater protectionism and self sufficiency. A fairly high proportion (64%) felt there would be more measures to protect consumers. Fewer participants foresaw a shift to more trade (43%) and producer (38%) oriented policy measures.

Short term policy responses to higher and volatile food prices

15. An overview of the short term policy responses to higher food prices introduced in Brazil, Chile, China, India, Russia, South Africa and the Ukraine identified a variety of measures that were oriented towards trade (*e.g.* reductions in tariffs and other charges, quantitative restrictions and taxes on exports), consumers (*e.g.* price controls, release of government held stocks, direct transfers) or producers (*e.g.* increase in minimum prices, input subsidies). Measures that provided producer support were intended to facilitate a supply response given that oil and fertilizer prices increased even more than grain prices, but short-run policies that prevented the transmission of higher market prices to producers or restricted the sector's capacity to export often muted these incentives.

16. The overall assessment was that the measures combined to support consumers generally at the cost of producers, while not necessarily targeting those poor consumers most affected. Not all the measures were effective at isolating domestic consumers from the price peaks. The extent to which these policies

were successful, and the macroeconomic costs of such adjustments, depended on the extent of import dependence, availability of domestic alternatives to imported food, and how well integrated domestic urban and rural markets were with international markets. These policy regimes reverted to pre-trade liberalisation modes of operation and ignored much of the advice of the last two decades on open markets. The protectionist measures weakened the domestic supply response and likely absorbed resources which were targeted for longer term policy objectives. In comparison to targeted food aid, broad policies to reduce all domestic market prices were costly as the benefit was given to all consumers rather than in proportion to the severity of their food insecurity. Subsidies to producers tied to outputs or inputs accrue most to largest farms, contributing little to the economic development of poorer farmers and perhaps even less to landless agricultural workers. In any event, trade measures certainly put upward pressure on world prices and export restrictions resulted in a loss of confidence in world markets.

17. Participants noted that World Trade Organization (WTO) disciplines did not restrict countries from taking the protectionist and isolating actions. It was also noted that reforms proposed in the July 2008 Framework Agreement of the WTO's Doha Development Agenda would not have disciplined these actions, as there are no provisions to discipline export taxes or bans, and special safeguard mechanisms as well as setting bound tariffs well above applied tariffs allow the kinds of actions taken by importing countries.

18. Countries were hesitant to rely on international markets to maintain an adequate degree of stability, but their consequent policy actions contributed to greater international price instability. Moreover, their policy responses and lack of market integration limited pass through of price incentives to farmers, so supply responses to these high food prices was greater by developed countries than by developing countries. Country specific experiences showed a marked difference in approach between those that focused solely on income support for consumers through various social programmes (*e.g.* Chile, South Africa) and those that intervened in the markets (*e.g.* China, India, Russia, Ukraine). Considerable detail on these alternative approaches is available in the country-specific presentations on the Forum website.

19. It was noted that while food prices went up with commodity prices, they were slower to come back down but food prices are now falling, at least in OECD countries. For some developing countries, FAO reports that food prices have in fact remained quite high, suggesting weak price transmission from global markets. The factors influencing these price movements are not always evident but it is clear that price spikes impact regions very differently depending on which commodities are affected, transmission of world prices to domestic markets, extent of value-added processing in the consumer food basket, the relative importance of food in consumer expenditures and household income levels. The OECD Secretariat noted that there is some work underway examining how to better monitor the different regional impacts of commodity price fluctuations and the distributional impacts across households.

Longer term policy responses to food security

20. The last session dealt with longer term policy approaches to ensuring food security. Clearly, Forum participants see this as a major challenge. Based on the questionnaire, only 43% of participants expected the number of persons below the hunger threshold to decline significantly over the next 20 years. Conversely, almost three-quarters of participants believed investment in agriculture would be significantly increased over the next 20 years, with the same proportion indicating that research and development was the highest investment priority. While it was not pursued in the discussions, the issue of smallholder agriculture was raised. Half the participants felt productivity on small farms could be increased significantly. The issue is to what extent agricultural development and poverty reduction can be achieved through improving the performance of smallholders as opposed to the more traditional path of structural change towards larger operations, with concomitant large scale off-farm migration.

21. There has been much recent work summarizing lessons learned from agricultural development experience (*e.g.* OECD's 2006 report *Promoting Pro-Poor Growth*, World Bank's 2007 *World Development Report*). This work points out that in many developing countries with high potential for increased sustainable production and where agriculture can still make a significant contribution to economic development, small production units are predominant and account for a large share of employment. Development strategies must address the smaller holder issue. Future work on effectiveness of targeting smallholders needs to distinguish between the merits of this approach as an agricultural development strategy and as a poverty reduction strategy. The trade-offs that must be faced by national governments in making these policy decisions need to be more openly and explicitly addressed.

22. OECD work on the development dimension of food security stresses that national governments and development agencies have paid more attention to short term measures than to accelerating agricultural development. While debate on how best to expand efforts to foster agricultural development persists, a few keys lessons have been learned from past experience. First, both national governments and donors should fund public goods. Agricultural research is the obvious area meriting greater funding, but extension, market information and infrastructure are also public goods in need of greater support. Second, market failures need to be addressed through replacement of missing input and output markets, and building of institutions such as quality control, legal frameworks, value chains, marketing systems and stabilisation mechanisms. Many of the institutions that had been provided by parastatals were not replaced by the private sector following privatisation initiatives. Foreign aid has not proven to be a long lasting solution to missing markets. Effective agricultural development programmes require that each of these areas is addressed, and failure may result if one component is missing. Key to success is overcoming political failures, so effective national governments are a critical element.

23. Agricultural development approaches were only lightly touched on but two consistently present challenges were identified. The first was how to scale-up and ensure continuity (once aid is reduced or withdrawn) of successful development projects. The creation of stable institutions was one suggested solution (*e.g.* development of local input supplies rather than provision of input subsidies). The second was how to ensure farmers have the capacity to react to market opportunities that arise. Here, in addition to ready access to technology and inputs, a crucial factor is the development of human capital. Both development agencies project officers and private sector investors in agricultural land management operations agree that there is a serious lack of management talent.

24. The FAO reported on an expert meeting in preparation for a High-Level Expert Forum on *How to Feed the World in 2050*, to be held at the FAO in October 2009. Issues addressed included the capacity to produce enough food at affordable prices, the appropriate investment, trade, support and development policies and specific regional "hot spots". Preliminary messages were that there was general optimism on global supply prospects but that increased investment in technology, infrastructure and institutions, as well as in environmental services and sustainable resource management, was needed to sustain productivity growth. It was suggested that strengthening the sector's ability to adapt and respond to new pressures and uncertainties was necessary to deal with expected increases in climate and market volatility. Seen as equally important was the need to improve access to food for the poor through more equitable income growth both within agriculture and in other sectors, better tools for risk management at household and national levels and strengthening of safety nets for those most vulnerable.

25. For major food importing countries like Japan, guaranteed access to food is considered an issue of national security with increased domestic production, sourcing reliable imports and stockpiling all important components in minimising the risks associated with ensuring a stable food supply. The question this poses for policy makers is to what extent the costs of self-sufficiency and stock holding objectives can be justified and how such policies can be made more cost effective. It also raised the question of what international programmes aimed at expanding global food production to support.

Assessment

26. In summary, the 2009 Global Forum on Agriculture provided a timely venue for the dissemination and discussion of a wide range of new analytical material on agricultural prospects and policy challenges over the next 10 to 20 years. The exchange of information and ideas should prove very useful to all participants and provides additional “food for thought” for the ongoing work within the OECD Committee for Agriculture.

27. Bringing together related analysis from other international organisations such as the FAO, the World Bank, IFAD, IFPRI and Oxfam, was a particular strength of this Forum, as was the active participation of the major emerging economies with which the OECD Committee for Agriculture is seeking to strengthen relations. The Forum seems well suited to the dissemination of the OECD-FAO Agricultural Outlook and should be considered as a venue for similar discussion in the future.