



The Voice of OECD Business

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***BIAC intervention by***

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BIAC would like to thank the OECD for giving us the opportunity to participate in this meeting as we celebrate the 150<sup>th</sup> session of the Committee for Agriculture. Over the past decades, this committee has played an important role in providing fact-based policy analysis on key issues related to the agricultural market. This meeting is particularly timely as dramatic rises in food and raw material prices have recently turned into one of the most pressing policy issues for governments around the world. They are leading to diverse political, economic and social impacts within and beyond the agricultural sector. Yet the exact nature and extent of these impacts requires further clarity, and there is therefore a pressing need for fact-based analysis that will help to inform policy-making.

➤ **Identifying the reasons for rising prices**

The rise in commodity prices has undoubtedly been driven by a wide range of factors. Not only are farm commodity prices often cyclical, but their supply also requires a certain amount of time to be able to catch up with rapidly rising demands. High oil costs have pushed up the cost of transportation as well as production of fertilizers, which has led to further cost increases. Failed crops (e.g. due to drought in Australia) have led to supply disruptions. Growing food demand, due to increased demand for cereals and meat from countries, such as China and India, as well as ambitious biofuels policies, have had direct impacts. We need to understand

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precisely which factors influence price increases, and we believe that the OECD could play an important role in this area.

### ➤ **Addressing direct impacts on the food industry**

The food industry is directly impacted by rising prices. While theoretically higher prices can be passed on to consumers, this is not always easy as the purchasing power in many countries is decreasing. Rising food prices in many countries have led to an increased share of food expenditures in households. The degree to which the food industry is affected also depends on whether raw materials are acquired through long-term contracts or on the open spot market. While eventually price mechanisms are likely to work, the issue of access to raw materials will require close attention in the future as limiting access would have direct implications for the food industry, retailers and consumers.

### ➤ **Can trade policies help?**

The agricultural sector is full of state interventions. In the context of rising food prices, we have reached a point where we need to seriously address the issue of cutting distorting agricultural subsidies and creating open markets for food imports. Reducing import restrictions in the developed nations, for example, would help create clear incentives for developing country agriculture. A key concern is that governments might introduce the wrong policies in response to high prices. Additional policies intended to protect national markets, price controls and export taxes would discourage the necessary additional investment in agricultural productions and impede access to agricultural raw materials. We encourage the OECD to look closely at how trade policies, but also other factors, such as currency fluctuations, can impact the development of food prices as well as investments in both developed and developing countries.

### ➤ **An urgent need for increased yields**

As there is often limited scope to bring new land into cultivation, it is becoming increasingly important to increase the returns from the existing cultivated land. The demand for raw materials, including from countries such as China and India, is expected to rise further. Innovation in the agricultural sector therefore needs to be given the highest attention, and public perception issues need to be addressed. At the same time, smallholders in developing countries are often not able to heavily invest in techniques for improving yields, and the lack of functioning infrastructure

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further acts to increase the price of their products. Putting the necessary infrastructure in place is therefore essential. Moreover, there is a need for investment in extension services as well as farmer and business education to increase their knowledge and capacity to invest in technologies that improve yields. We encourage the OECD to put further emphasis on innovation in their policy analysis, as maximising yields will be essential to meet increasing demand, while at the same time addressing rising food prices. As the best way to feed the world is not to bring more land under cultivation, but to increase yields, research and development as well as the deployment of new technologies will be crucial.

### ➤ **Supporting further analysis on biofuels**

The OECD has carried out ground-breaking analysis on biofuels and their impact on land requirement. In view of high food prices, further analysis would be helpful to determine the precise link between biofuel production and food prices. It seems clear that biofuels are playing a role in driving up food prices, as demand for feedstock is rapidly growing in order to meet production targets. However, the *extent* of the impact of biofuels on food (and other co-product) prices requires further attention, as a number of other factors are also responsible for the current rise in food prices. Key questions need to be answered with new research that reflects the current market situation. For example, in what ways and to what extent is biofuels production not only affecting land-use and food prices, but also biodiversity, carbon emissions, as well as water availability and quality? How might technological advances in biofuels production, as well as possible macro-economic, political and environmental trends, shape the cost-effectiveness and impacts of biofuels production going forward? BIAC believes that the OECD, based on its extensive expertise and resources, can help to answer these questions.

### ➤ **Addressing agriculture in the context of global challenges**

As the OECD Agriculture Committee considers its work going forward, we recommend that the Committee not only look at the agricultural sector in isolation, but also at its interaction with global challenges. There is a need, for example, to address the links between climate change and agriculture. A key question that new analysis could address may be: in what ways and to what extent could global warming affect agricultural production and how does agriculture affect climate change? Similarly, the issue of water availability and quality in relation to the agricultural sector, which is water-intensive, requires close attention. Which regions are most at risk from water shortages and to what extent is this impacting on agriculture and the economy more broadly? We strongly encourage the Committee

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to work with other OECD committees to contribute to the analysis of global challenges and how they relate to the agricultural sector.

➤ **Concluding remarks**

In the context of rising food prices and looking ahead, we encourage the OECD Agriculture Committee to harness its international expertise to carry out broad-based analysis, considering not only the agricultural sector in isolation, but also how it relates to and is impacted by other policies, including trade, environment, water, currency and other international challenges. BIAC once again thanks the OECD for inviting us to participate in this meeting, and we stand ready to provide detailed input and support for further OECD analysis on agricultural issues.