The Voice of OECD Business

March 2009

The Future of the Agriculture and Food Sector in an Increasingly Globalised World

BIAC Discussion Paper

BIAC appreciates the opportunity to participate in the OECD Symposium on "What Future for the Agriculture and Food Sector in an Increasingly Globalised World." The accelerating pace of change in these sectors will present new opportunities but will also present challenges to those involved in the near future. The OECD symposium is an important opportunity to explore future trends and to help prepare governments as well as all other partners that have a stake in these opportunities and challenges. Particularly in times of economic crisis, the OECD can play a key role in providing a long-term perspective and in helping governments, business and other stakeholders keep the focus on long term policy goals and global challenges.

As the OECD Agriculture Committee considers its work going forward, we recommend that the Committee does not only look at the food and agriculture sectors in isolation, but also addresses their interaction with other sectors and global challenges, such as climate change and sustainable water supply, in addition to the pressing need to address food security. In the context of fluctuating food prices and looking ahead, we encourage the OECD Agriculture Committee to harness its international expertise to continue its broad-based analysis. We also encourage the OECD to increasingly look at the potential of innovation and technology and to identify the factors helping and hindering such innovation and its adoption.

As the financial crisis has illustrated, it is difficult to predict the precise nature of external shocks and their effects, and different scenarios are likely to occur. Therefore the future of the agriculture and food sector cannot be foretold. However, international dialogue and the analysis of different scenarios should help ascertain the facts that will help governments, business and other stakeholders reach policy conclusions and respond to future developments. In this paper, BIAC would like to contribute a business perspective on specific policy issues to be discussed at the OECD symposium.

Business and Industry Advisory Committee to the OECD
13/15 Chaussée de la Muette
75016 Paris
France

Tel. +33 (0)1 42 30 09 60
Fax +33 (0)1 42 88 78 38
email: biac@biac.org
www.biac.org

The effect of recent global economic developments

The world currently faces the most severe financial and economic crisis in decades. There is a real risk that the economic crisis will take the focus away from critical long-term challenges, which need to be urgently addressed. In BIAC's view, the OECD, with its proven strength in global economic analysis and its ability to understand long-term trends and policy implications, is a natural forum for contributing a long-term perspective to key policy goals and help address global challenges, such as food security, sustainability, climate change, to name just a few. In times of a global economic crisis, policy responses cannot be limited to national actions, but require multilateral cooperation, which must involve OECD as well as major emerging economies. OECD's increased dialogue with major non-member economies is therefore welcomed and should be further reinforced in view of the new multiple challenges the world is facing. In particular, the OECD can play an important role by contributing to the prevention of trade and investment protectionism.

The crisis is likely to have major implications for the agriculture and food sector as it has for other business. Following a period of soaring food prices, the crisis may well further complicate the lives of the poor in many developing countries. The impacts may also be felt at the macro-economic level, with further negative effects on agriculture and food security, especially with regards to developing countries' investment in these sectors. It is important that the problem of agricultural markets volatility be addressed globally and that the global financial and economic crisis does not overshadow the need to focus on food security and other global challenges. We specifically encourage the OECD Agriculture Committee to consider the implications of the economic crisis for the food and agriculture sector, in particular in developing countries, and to help countries adopt policies that alleviate future impacts.

Strong commitment against protectionism

Both economic growth in the food and agriculture sector and trade opportunities are crucial for offering increased access to food, land, income, employment as well as capital for community services and education in developing countries. Not all economies are resource-based but almost all sectors rely on resources, which underlines the importance of free trade. However, there is a real danger that the threat of global recession may tempt countries towards protectionism and towards reassessing their commitments. Business is concerned that governments might introduce the wrong policies in response to an economic situation that is becoming increasingly difficult.

In this difficult context, it is more important than ever to seriously address the issue of market distortions and work towards creating truly open markets. Trade barriers in the agriculture sector adversely affect all countries by impeding innovation, investment and economic growth. Additional policies intended to protect national markets, such as price controls and export restrictions would discourage the necessary additional investment in agricultural productions, impede access to agricultural raw materials, and threaten food security. The most effective step to prevent trade protectionism would be to conclude the WTO Doha Development Round. In this context, BIAC appreciates the commitment of the G20 leaders, which was supported by the OECD, not to introduce additional trade barriers. It will be of

critical importance that countries fully live up to these commitments. We encourage the OECD to continue to look closely at the effects of restrictive trade policies and to provide the necessary analysis on the negative implications of protectionism so that countries can take decisions based on fact-based analysis.

Addressing the impact of price fluctuations

Agricultural commodity prices are currently well below last year's high, which indicates significant price fluctuations. This could potentially lead to a cutback in planting and less intensive management practices, which could have the consequence of another round of high food prices in the future, with direct implications for poorer populations. These populations are affected in two ways: lower calorie intake and consumption of less nutritious food. Price fluctuations significantly influence not only consumers but also producers and are hard to predict. As mentioned above, additional policies intended to protect national markets, control prices and restrict exports would discourage the necessary additional investment in agricultural productions and impede access to agricultural raw materials.

The issue of access to raw materials will require closer attention in the future as limited access would have additional direct implications for the food industry, retailers and consumers. After the excellent analysis the OECD carried out in 2008, we encourage the Organisation to continue watching the developments of food prices as well as potential future challenges with regard to access to raw materials and provide countries with the necessary analysis of the causes and consequences of different policies.

Competing claims

The interaction and interdependence of different economic players is sometimes hard to determine but always needs to be kept in mind. Sustainability can only be achieved when all action is aligned and when the interaction between different sectors and goals is known and can be addressed. It is becoming increasingly clear that non-food/feed users are competing for land and water. Biofuels is one example, which has received a lot of attention from policy makers, farmers, business and other stakeholders. The discussion about biofuels illustrated the extent to which a wide range of sectors are affected, including the food, feed and energy sectors and farmers, to name just a few. The increased production of biofuels, supported by government policies, has triggered a food versus fuel debate and an environmental sustainability discussion. An impact assessment of all the consequences of these policy measures is required for the different sectors affected.

There are a number of considerations that need to be addressed, including impacts on food and feed prices, chemical raw materials, biodiversity and climate change, to name just a few. To focus only on part of these considerations would lead to misleading policy decisions. It is important to consider the complete lifecycle, implications for other sectors as well as economic, social and environmental impacts. Policy-makers therefore need to have at their disposal the complete picture of costs, opportunities and implications for other sectors so that they can base their policy decisions on fact-based analysis. In our view, the OECD has carried out excellent analysis in this area and should continue to play an important role in informing policy-makers. More generally, the OECD should expand its analysis to address

other competing claims affecting the food and agriculture sectors to provide decision-makers with the necessary facts when designing long-term strategies.

Addressing water demand

Agriculture continues to demand the lion's share of water supply in many OECD and non-OECD countries and needs to be given due attention. Water used for irrigation purposes accounts for about 70% of the total water consumption in some OECD countries, yet fresh water used for agriculture is becoming increasingly scarce. These trends can place certain countries and regions into a state of severe water stress. Although water stress may be somewhat localised, the impacts are far-reaching and global in nature as key crop producing regions may find themselves under threat. Regional or national water challenges must therefore be addressed without further delay in order to ensure global food security. Agricultural policies need to do more to improve efficiency and reduce water waste as a result of improper irrigation management and other factors. The role of agricultural research and development in improving water use efficiency should be recognized.

Sustainable water management services need to be implemented in conjunction with examination of other important factors, such as rapid population growth, growth of industrial and urban consumption, urbanisation, changing food demand, growth in energy consumption, infrastructure development, climate change, and others. In addition, further determination of the concepts of water footprints and virtual water will be necessary going forwards. Water allocation models and pricing models in agriculture need to be carefully analysed and developed, taking into account these factors and related economic and social implications, to more fully inform policy decision-making. This will require a whole of government approach, together with stakeholder involvement. In the current economic situation, understanding the economics of sustainable water management is crucial towards developing effective policy responses and increasing investment in water services. The OECD Horizontal Water Programme has proven to be an important step in helping to address these issues, and BIAC supports future work in this area, taking into account business considerations.

Addressing climate change

While the availability of water and arable land are well known resource constraints, the interaction between agriculture and climate should be considered a priority issue for future discussion by the OECD Agriculture Committee. New challenges emerging from climate change are leading to the need for both adaptation of agricultural production and the need for mitigating the contributions of the food chain.

Sectors such as agriculture, water and forestry are probably the most vulnerable to the impacts of climate change as a result of decreases in rainfall or the increased frequency of extreme weather events, such as flooding and drought. Relatively small changes in climate change can have significant impacts on agricultural productivity. Current differences in crop productivity between different areas are likely to increase under climate change, with low-income and food-deficit countries likely to be the most affected. Agriculture is a significant source of methane, nitrous oxide and carbon dioxide emissions. Improved crop and grazing land management, restoration of degraded lands, improved water, rice, livestock and

manure management have been identified as effective mitigation and adaptation options. The conversion of agricultural land to forest and increasing the organic matter content of soils also have the potential to create carbon sinks.

Preparing agriculture for adaptation and taking effective measures to mitigate climate impacts requires advance knowledge and anticipation of future trends. The OECD in cooperation with its sister organisations has carried out excellent work in the area of climate change, including detailed analysis of the economic aspects of both mitigation and adaptation measures. In view of the importance of addressing climate change, BIAC recommends that the OECD Agriculture Committee consider further analysis on the links between agriculture and climate change, identifying opportunities for cost-effective mitigation and adaptation measures.

Fostering innovation and technology

Growing populations account for an increasing demand for food. Impressive productivity growth in agriculture has been a main driver in feeding a rapidly rising world population. In the light of demographic and social developments, innovative technologies are increasingly important to meet growing demands as well as changing consumption patterns. As there is often limited scope to bring new land quickly into cultivation, increasing the returns from the existing cultivated land should be considered a key priority and is the most environment-friendly option available.

Innovation in the agricultural sector therefore needs to be given the highest attention, and public perception issues need to be addressed. There are a number of innovation opportunities, including improved farming techniques, the use of crop protection products and fertilisers, genetics (including biotechnology), and nanotechnology. In some of these areas, the OECD has dedicated work programmes. We encourage the OECD to shed further light on the potential opportunities of efficiency improvements in the agriculture sector through innovation. As the best way to feed the world is not to bring more land under cultivation, but to increase yields, investments in agricultural research and development as well as the deployment of new technologies will be crucial.

Concluding remarks

BIAC thanks the OECD for the opportunity to participate in the symposium on the future of the agriculture and food sector in an increasingly globalised world, which is taking place at a crucial point in time. It is our hope that the outcome of the symposium will provide a direct input to future work by the OECD Agriculture Committee. In BIAC's view and in the light of the difficult economic situation we are facing, the OECD can play an increasingly important role by helping decision makers remain focused on a long term perspective and the overarching global challenges we are facing. The Organisation can also help increase our understanding of competing claims, the interactions between the agriculture and food sector and other sectors and provide further insights into how to address global challenges in an economically efficient way. BIAC stands ready to contribute to these discussions and looks forward to continuing its constructive cooperation with the OECD Agriculture Committee.