



Meeting of Energy and
Environment Committees, 21 January
2008

Meeting of the COSAC
Chairpersons and the Troika, 18
February 2008

Meeting of Defence Committees, 3
March 2008

Meeting of Foreign Affairs
Committees, 17-18 March 2008

Meeting of Cultural Affairs
Committees, 14 April 2008

Meeting of the XXXIX COSAC, 6-8
May 2008

**Meeting of Agricultural Affairs
Committees, 2-3 June 2008**

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General Information

List of participants

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Agriculture, Forestry and Food
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02.06.2008

**PRESS RELEASE - The future of
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**MEDIA INFORMATION - XXXIX
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Speech Fischer Boel

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Food security and the CAP Health Check

Conference on Food security

Ljubljana, 2 June 2008

Food security and the CAP Health Check

[Ladies and gentlemen],

Let me first of all thank the National Assembly of Slovenia for organising today's conference and for inviting me to speak.

The conference could hardly have come at a better time!

This is a time when many questions are on the lips of politicians and analysts who previously had little interest in agriculture. Among those questions are:

With regard to prices for farm commodities and food, are we entering a new era?

And if we are, how should we respond?

Questions like these certainly seem urgent.

Between September 2006 and February this year, world agricultural prices in dollars climbed by 70 per cent. At the same time, the price of oil has also skyrocketed.

As a result, in various parts of the world, city populations have rioted, governments have been threatened and the misery of hunger is bearing down more heavily on many urban poor.

As the world's leaders see this, they are looking ahead with some anxiety to the growth of 3 billion people which is likely in the global population by 2050.

In this situation, in one sense we must react quickly, and another sense we must take our time.

What we must do quickly is get food to those who have difficulty in gaining access to it.

Therefore, the Commission is looking at ways of mobilising extra funds to contribute to humanitarian aid operations. This would be an immediate/short-term response.

But with regard to agricultural policy, we need to keep a cool head – whether we're talking about policy at the level of individual countries, regions or whole continents (for example, Africa).

We must take our time to identify the real sources of the problem, and not rush into overly simplistic solutions, such as putting all the blame on biofuels. For this, we need detailed analysis and well-judged responses for the medium-to-long term.

This is why a number of departments of the European Commission have teamed up to examine price developments from various perspectives, including at commodity-specific level.

What are our key observations so far?

One important observation is that the recent increases in farm prices follow three decades of decline in real terms. Even now, cereal prices are half what they were in 1975, in real terms.

These facts offer valuable perspective for anyone who thinks that all farmers are "cashing in" unfairly in the current situation. (And of course, for some farmers, high cereal prices make life very difficult.)

What about the causes?

I think more people are finally realising that biofuel production is not the driving force here.

The European Union uses less than 1 per cent of its cereal production to make ethanol. It uses more of its rapeseed to make biodiesel, but this accounts for a small share of the global oilseed market.

The US biofuel programme is having a rather larger impact on world prices. Nevertheless, even this influence is modest when compared to several others.

Rising demand from emerging countries has been extremely important. A shift towards meat consumption in states with populations of over 1 billion people implies huge increases in cereal use – because it takes about 4 kg of cereals to make 1 kg of pork, and about 2 kg of grain to produce 1 kg of poultry meat.

Let me emphasise that I'm in no way "blaming" emerging countries for price rises. Their people

have as much "right" as anyone else to eat more meat and dairy products. I'm simply pointing out a strong demand-side influence.

On the supply side, bad weather has hit us very hard. Australia has suffered three droughts in the last six seasons, and its cereal production fell by half in 2006. There are signs at the moment that it could have drought problems again this season.

Also in 2006, the weather-related shortfall in the cereal supply of North America, Europe and Australia was more than 60 million tonnes. This is nearly four times greater than the increase in cereal use for ethanol in those countries.

Another factor is the surge in energy prices. If a barrel of oil costs around 130 dollars, of course this has consequences for mechanised agriculture. And between 1999 and this year, fuel costs have raised the price of nitrogen fertiliser by 350 per cent.

Other influences that I should mention are:

the slowing-down of growth in cereal yields;

the depreciation of the US dollar;

strong movements in financial markets; and

export restrictions or bans.

Of course, some agricultural prices are now starting to fall. Compared to their latest peaks, prices in the European Union have come down by 25 per cent for wheat and 35 per cent for butter.

Our analysis suggests that prices will stabilise below the peaks of the past few months but above the low levels of recent years.

So how should we respond?

High agricultural prices are a global issue that demands global action. I will return to this point later.

Event calendar

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But in any case, European Union agricultural policy is clearly relevant. It must be a good policy for the Union and be consistent with a sensible global approach. I have had these points very much in mind while preparing proposals for the Health Check of the Common Agricultural Policy. If we want the Health Check to make a useful contribution to food security, there are paths which I believe we must not take.

First, we must not try to pull up the draw bridge and shut ourselves off from agricultural trade in a drive for "self-sufficiency".

We need a reasonable level of border protection; this is our firm position in the Doha Round of WTO talks. But the European Union is already a large agricultural importer, and is committed to allowing duty-free imports from the world's poorest countries. Furthermore, our agricultural exports are very large: they were worth about € 75 billion in 2007. So we have a huge stake in a reasonably open trading system.

Secondly, we must not try to micro-manage farmers' decisions in order to achieve higher production. Well-functioning markets allocate resources much better than administrators.

But thirdly, we must not leave absolutely everything to the market. The market will not reliably deliver things like a good level of care for our countryside. And our farmers need defences against crises, otherwise shocks from bad weather or an animal disease epidemic could wipe out too much of our production potential – with serious consequences.

Instead, through the Health Check we must do at least three things which are very relevant to the current situation.

We must clear away obstacles which are hindering farmers' responses to market signals.

We must make our support systems more effective, efficient and simple – and more consistent with competitiveness.

And we must help farms and other businesses in rural areas to meet various new challenges, such as climate change.

Doing these things will give us a farm sector that can respond quickly and accurately to demand, survive shocks and meet wider public expectations.

You can see this push for greater market-responsiveness quite clearly in the section of the Health Check proposals on market instruments.

The milk quota system remains a key constraint on our production – at a time when the world clearly wants more of our high quality dairy products.

The system is due to end in 2015, but within the Health Check I have proposed to relax it somewhat before then, so that our producers can already get a slice of the new business in emerging markets.

Therefore, on top of the quota increase of 2 per cent which took effect earlier this year, I propose to raise quotas by a further 1 per cent annually from 2009 to 2013 – so, 5 steps of 1 per cent.

Compulsory arable set-aside is another constraint that now makes no sense in terms of the market. It should go.

On the other hand, it has produced beneficial environmental side-effects, and we must try to keep these. This is why I would like to introduce a cross-compliance requirement concerning buffer strips. We should also give incentives to use environmental set-aside measures.

The Health Check proposals also address other market instruments, such as public intervention and aid for private storage.

I believe cereals intervention would work more effectively in that way if it were based essentially around common wheat, with a tendering system in operation at all times.

Intervention for other cereals would come into operation only under special circumstances.

All dairy intervention should also be based on tendering. And the various other support schemes in the dairy sector should either be made optional in any given year, or abolished. We introduced them to keep heavy over-supply under control. Over-supply has ceased to be a problem!

Likewise, my proposals for changes to the Single Payment Scheme aim both to raise farmers' market-responsiveness and to provide the right kind of security.

I'm firmly convinced that, in the vast majority of cases, decoupling helps farmers to respond quickly and accurately to what the market needs. Therefore, we should push ahead with full decoupling.

I think there's still room for a few exceptions to this rule, but only in cases where partial coupling is clearly the best defence against serious economic, social or environmental problems.

The Single Payment Scheme also has a role in underpinning farmers' security during crises – and it's an economically efficient way of doing this. But we could develop this role.

What is called "Article 69" in the current rules is popular in theory. It allows Member States to top-slice direct payment ceilings for a given sector and spend it on special objectives in that sector. But in practice, Member States have found the rules too limiting.

I would like to make the tool more flexible and add new applications. For example, Member States could use it to support risk management measures – crop insurance schemes for natural disasters, and mutual funds for crises linked to animal and plant disease.

On the other hand, we should not allow a new-looking Article 69 (or "Article 68" in the proposals) to turn the clock back on decoupling or on simplification of the CAP.

The final section of the Health Check proposals – on dealing with "new challenges" – is also highly relevant to food security.

Climate change is a threat to our whole way of life, and certainly a threat to farming. Although European agriculture has already made a big contribution to fighting climate change with 20 percent less emissions since 1990, it must do more, just like other sectors. And it must adapt to the changes which are already taking place – otherwise our agricultural output will suffer heavily.

Similarly, the need to meet strong demand for food in the future is partly a challenge of managing our water supply better. The European Union continues to waste around 20 per cent of this precious resource – which is becoming scarce in some areas. It's urgent that we turn this situation around.

Finally, it's right to support the efficient use of various forms of renewable energy. This includes biofuels of course and here I'm particularly interested in boosting the developments of the second generation. Doing so can help our agriculture to give us valuable energy without putting an excessive strain on food and feed markets.

Overall, then, with the help of the Health Check, the CAP can make a sensible contribution to food security.

But let's not kid ourselves: the challenge of food security is a global challenge. The European Union cannot see itself as a modern-day version of Atlas, carrying the weight of the world on its shoulders.

There is potential in many parts of the world for agricultural yields and production to rise strongly from low levels.

In some cases, this may happen as a spontaneous response to higher prices. In others, it will not. So much of the world needs better seed, better rural infrastructure, and access to fertiliser.

There's also a need – not only in the developing world – for new crop varieties and improved cropping systems: to keep yields higher and more stable, cut down the need for pesticides and

cropping systems, to keep yields higher and more stable, cut down the need for pesticides and resist disease and environmental stress. These things will not appear by magic. They need research and development, and of course investment. And unfortunately, in terms of investment, agriculture has been the neglected child for many years. So it's time to act. Let me conclude with a Slovenian proverb that is apparently well known: "Brez dela, ni jela" ("no work, no food"). In terms of policy, we have work to do in strengthening our approach to food security: an approach based on well-functioning markets, appropriate support and safety nets, and action over challenges such as climate change. The CAP Health Check can make a sensible contribution to this work. But it can't take the whole burden on its shoulders. Imbalances in agricultural and food markets have caused problems at the global level. Let's find solutions at the global level. Thank you.