

Communications & Opinions



Food and environmental security and the CAP reform*

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I am currently CEO of the Rural Investment Support for Europe or RISE foundation, the Chairman of which is former Commissioner Franz Fischler. Since its creation two and a half years ago, we have focused our think tank activities on three issues: world food and environmental security, renewable energies, in particular biofuels, and public goods provided by land managers. But the future of the CAP has become a growing interest as well.

Food and Environmental Security has since become a catch word that is now used by Commissioner Fischer Boel, the Check EU presidency for the Spring Informal Council of Ag Ministers, the UN, and some EU member Governments.

At the 2nd Forum for the Future of Agriculture this year in Brussels, in his opening address, FF said the world faced three global crises regarding finance, food and the environment. The sharpest of them is the current financial collapse, the worst since the Great Depression. The most frightening is the looming food crisis with world hunger reaching the one billion people mark, about half of whom are small farmers. The most alarming is climate change, because of its different and greater scale of risk. They are interconnected.

Financial Crisis

Governments, bankers, companies and rating agencies generally claim that the worst financial collapse in three generations could not have been predicted. False! There are several economists, most prominently Paul Krugman, who analyzed the pitfalls of a global economy lacking proper management, and predicted its collapse.

The most severe downturn since the Great Depression has multiple causes: financial irresponsibility by governments, banks, corporations as well as by the public, which have by and large behaved with “irrational exuberance” (Greenspan) by over-spending, over-investing, and over-consuming in good times, as if the party could go on for ever, as if resources were unlimited, as if economic cycles were a thing of the past, and as if budget and current account imbalances did not matter. Most of them acted unaware, ignorant, or oblivious of risk. The worst mistake perhaps was the liberalization of capital movements that Keynes had warned against.

Food Security

Better late than never, the World Economic Forum 2009 in Davos has for the first time ranked food security as a major risk to humanity. In its last annual report the World Bank emphasized

the role of agriculture for breaking the cycle of poverty. Farm land is under stress. The main reasons why world food supply is tightening are population growth and accelerated urbanization, changes in life-styles, falling water tables and diversion of irrigated water towards the cities. An estimated 40,000ha are needed for basic living space for every one million people added. All this leads to losses in soil availability, quality and use for food. The 2008 World Food Report of FAO warned against a “false sense of security” as it expected the current combination of low food prices, high input costs, tightening export finance and conditions for bank letters of credit, that farmers cut their plantings, and that there will be a price surge in the 2009-2010 harvesting season, “unleashing even more severe food crises than those experienced recently”. There is good potential new land for cultivation, but new land is insufficient, and either inappropriate or difficult to use for food, because of poor or polluted soils, doubtful property rights and/or poor finance and/or government mismanagement, and lack of transportation infrastructure.¹ Cultivated land is actually diminishing fast: deserts are expanding, while much of it is being lost to urbanization.

To satisfy world demand the necessary production growth will to a large extent have to be met by a rise in the productivity of the land already being farmed today. However, this will be difficult to accomplish as global agricultural productivity growth has been in decline on average since the Green Revolution of the 1960s and 1970s down to 1% a year. Productivity cannot be enhanced without boosting research and technology more than likely.

The role of the West as provider of food to the world is diminishing. Part of the explanation lies in a shift towards bio-fuel production. The EU capacity to help fight world starvation will be reduced at a time in which food production declines predominantly in those countries which already record increasing food import needs. The big question for us is how to take responsibility to significantly contribute to world food security and also to combat global warming by utilizing our production potential in a sustainable way.

The answer cannot of course come only from Europe and Northern America. All countries will have to improve their food security policies. In many of them, in particular in Africa, one cannot expect to boost agricultural production without land reform and courageous food price policies favouring the farmer and costly to the urbanite. Consumption patterns will also have to change, notably reducing beef intake.

There is no time to waste. We have witnessed a series of food riots in more than thirty countries, as well as an international scramble for food, and a related grab for land to produce it. According to FAO the race to secure farmland overseas risks creating a “neo-colonial system”.

Land shopping has become the rage, with countries such as Brazil, Ethiopia, Laos, Madagascar and Pakistan taking the lead to attract foreign investors.² There are more and

¹ For instance, an increase in Brazil’s grain land and the creation of new rural settlements there would have negative consequences for the environment: domestic-soil sustainability, rainfall recycling, biodiversity and climate effects worldwide. “Africa’s soils are the poorest in the world, and poor soils produce poor crops” (Kofi Annan). They are thin, laden with iron and often lacking nitrogen, potassium and zinc. They cannot hold much artificial or natural fertilizer, because their nutrient retention is very poor and most of it will be washed away. Much of Africa’s land is degraded, and about 8m tones of soil nutrients are lost every year.

² Pakistan has just offered 400,000ha uncultivated land for sale or lease, protected by a special security force. Laos, a least developed country, has leased 15% of its cropland to Thai, Vietnamese and Malaysian firms for

more foreign land buyers, public and private, notably from China, Japan and the Gulf States. For instance, China is investing in cultivable land not just in Asia (notably Burma, Kazakhstan, Philippines, Laos and Asian Russia), but also in Africa (notably Cameroon, Mozambique, Tanzania, Uganda and Zimbabwe (100,000ha for maize)).³ All these investors mostly pay average prices per ha of 3-9 USD, far below market prices, and invest for their own profit and for the benefit of their consumers back at home.

This process has gone so far that the UN has considered it necessary to organize a conference on it. This phenomenon can have political consequences when accompanied by the intensification of production, the emigration of farmers (apparently some 700,000 Chinese farmers have moved to Russia and 10,000 are meant to move to Madagascar), and social problems in the event of famine in those countries that have accepted out-farming their land. The impact of all this is unclear.⁴ The International Food Policy Research Institute has just called for a code of conduct to regulate investment in overseas farmland, notably to ensure that foreign investors do not have the right to export during food crises in the host country. The World Bank plans to publish such a code.

Clearly, banking crises have a substantial impact on food demand and supply, notably on planting, investments and trade. Last year, production costs have grown far more than corresponding farm income. The world's poorest developing countries lack the necessary credit lines to buy food. The great food exporters suffer from a lack of export finance. Trade financing costs tend to overtake trade margins. Food commodity markets are meanwhile so volatile and unpredictable, that barter trade has become too tempting to resist, despite its costs in shrinking markets. So has commodity speculation.

Environment Security

The credit crunch has also an impact on the environment, notably leading to decisions to forego investments to reduce GHG emissions. Joseph Stiglitz and Nicholas Stern have made a joint appeal to use the financial crisis as an opportunity to lay the foundations for a new wave of growth based on the technologies for a low carbon economy. This has not happened.⁵ In the long term, environmental security is the mirror image of food security, because there is no food without substantial clean water resources, productive soils, and appropriate climate. In turn, failure to tackle environmental degradation jeopardizes the future of agriculture and

rubber, sugar and cassava, to Japanese, Indian and Scandinavian firms for eucalyptus and acacia, and to China for rice and rubber. Madagascar has offered an even larger part of cultivable land to a Korean firm.

³ Japan is investing massively in South-East Asia, but is looking also to South Africa; Saudi Arabia is investing in Ethiopia and, together with other Middle-eastern countries in The Sudan (which reserved 10,000ha for it, and as much as 378,000ha for the UAE); Bahrain is investing in land in the Philippines, Central America and Eastern Europe; Kuwait in Burma, and Qatar in Indonesia.

⁴ It notably depends on whether the investor provides precious infrastructure, and trains and uses local labour, or kicks out the small farmers from their soil, and/ or eventually returns the land depleted. The Sudanese crop exports in 2008 have been a multiple of the food aid provided by the world to Darfur.

⁵ They added that "providing a strong, stable carbon price is the single policy action that is likely to have the biggest effect in improving economic efficiency and tackling the climate crisis." The planned stimulus packages may well provide for more green projects, more than planned so far, but much, when not all, of the additional spending is likely to increase emissions.

of the countryside. This notably calls for further reduction in the impact of agriculture on Greenhouse Gas emissions, principally carbon dioxide, methane and nitrous oxide.

There is much debate about the potential contribution of agriculture to renewable energies. The problem is that with existing technology, renewable energies may be renewable, but they are mostly not green. If one submits each of them to proper Life Cycle Analysis, they tend to be net producers of CO₂ via their production systems. Bio-gas is currently the most interesting, especially if it is produced from animals, or other waste. Whether second-generation agro-fuels could get clear of most of the pitfalls of the first generation is open to doubt, although they allow saving the food component of plants. Making use of crop residues for bio-fuels could actually deprive the soil of organic material that is useful to maintain its structure, and weaken its nutrients and carbon storage function, could increase the rate of soil erosion and require compensating use of potash.⁶

The European Commission has submitted a White Paper “Adapting to climate change” together with a working document. It notably deals with crops with existing varieties as well as biotechnology products, heat-tolerant livestock breeds and modifications in animal diet patterns. It advocates strengthening the CAP to discourage unsustainable practices, and assessing the need for further regulation. This should for instance help enhance water efficiency in agriculture, increase water storage capacity of ecosystems and reduce flood risks. The White paper indicates the need for financial support for investments aimed at facilitating adaptation to climate change. These initiatives are welcome.

Summing up on the three global crises I mentioned at the outset, we face a future of food scarcity, with high, albeit very volatile prices both for inputs and outputs. This makes once more the need for food security the central issue for mankind. Food scarcity is not just a matter of insufficient production. It is aggravated by managed trade and lack of finance and eventually also by environmental degradation. The market has lost its magic. Recent events have proven that markets can fail. Deregulation has backfired. Regulation has been rehabilitated. Open trade and related financing depend on it. A new financial architecture is urgent. Non-trade- distorting farm subsidies will have to stay, not just in Europe, but world wide, if food scarcity is not to worsen. Southern hemisphere countries will have to introduce land reforms allowing the poor to accede to the land, and adopt more appropriate food pricing policies. But this may not suffice. If there is going to be enough food at affordable prices for everybody, we may also have to change our food habits, not to say our life-styles. As environmental degradation is still accelerating, our biggest challenge in Europe is to produce more good food for the world in a more sustainable way. This cannot be achieved without much more research than currently envisaged.

The next reform of the CAP

⁶ The search for more environmentally friendly agricultural inputs and practices must continue. Scientists are actually working to improve the efficiency of photosynthesis, carbon capture, nitrogen fixation and many other cellular processes that boost biomass yields. It may also become possible to plant crops in soils lost to salinisation, and to genetically produce plants that can grow in marginal or otherwise unusable farmland. If and when this happens, the demand will be there.

Despite reservations by net contributors to the EU budget, according to this spring's *Eurobarometer* 58% in Europe think the share of the EU budget devoted to the CAP should remain the same (29%) or increase (29%). The remainder is equally split between those who want to decrease or increase it. And 88% believe farm subsidies should be reduced for farmers that do not respect food safety, environmental standards or animal welfare.

I will not describe in my presentation all possible and likely changes coming with the next CAP reform, some of which have already started with this year's Health Check. If there is interest we can discuss that later.

As circumstances change, so must the policy objectives of CAP support and the current distribution of CAP resources matching them.

The policy shift away from production towards environmental aspects will continue. We expect that clearer rules on accounting for the climate effects on land use, land use change and forestry will be included in an international deal on Climate Change in Copenhagen at the end of this year. This could create incentives for carbon-conscious soil management in agriculture and be positive in two ways:

1. for the climate – as effective carbon management in soils accounts for about 90% of the contribution that agriculture could make to the mitigation of climate change;
2. for productivity – as carbon rich soil holds water and nutrients better, is more fertile and more resistant to erosion.

It remains to be seen whether this accounting should become compulsory in any new international Climate Change agreement, or not.⁷

Let me focus here on two important policy issues for future CAP reform: public goods produced by land managers, and the length of the food chain.

Let me take **public goods** first. The subject of public goods connected with land management is attracting growing attention at a time in which the trend in agricultural support points downwards, whereas temperatures, emissions and environmental degradation point upwards.

As the purpose of the CAP is redefined away from commodity market management towards rural development and the environment, CAP payments have been shifting to new ends such as landscape, biodiversity and resource protection. This trend will continue in line with increasing environmental degradation and changes in public opinion. The main problem is that these ends are primarily being pursued through environmental regulations, which increase the costs to land managers, without them being able to count on compensating benefits through the market. So far, market signals have actually been distorted, because scarce resources as a good atmosphere, biodiversity and beautiful landscapes have been priced at zero. Resource degradation is the consequence. As farm prices rise, the opportunity cost of reducing farming intensity and using land to produce biodiversity and habitats rises as well, and so does therefore the need for shifting support from markets to structures. In order to encourage farmers to deliver those services one has to pay them for that.

There are two ways to do so. Either one finds a method to attach an attractive price to these public resources, or - if one doesn't know how, doesn't want, or can't do it -, one provides for

⁷ The suggestion of a « cow tax » in Europe because of GHG emissions from livestock will not fly, because it would simply drive production outside the EU.

payment of public goods in the context of the CAP. In any event, in order to save our planet, we need to give a value to what cannot be bought such as most public goods produced by land managers. This issue is currently being studied by two task forces financed by the European Commission as well as by one led by Allan Buckwell, run by the RISE Foundation and co-financed by the Italian Government.

The first conclusion of the RISE Task Force, which I chair, is that priority should be devoted to finding market mechanisms that allow attaching a value to those public services so that land managers will be interested in producing them also after direct CAP support goes down. If no such mechanisms can be activated, it will become necessary to pay for goods that unlike food and fiber are not remunerated by the market such as eco-system and other services - including carbon sequestration, the preservation of less favoured areas and the protection of the cultural heritage. These services become then the best argument to keep up farm support. Conversely, farmers would be well advised not to oppose, but to accompany this shift of attention towards the eco-system and other services they produce, and demand payment for the related benefits as long as the market does not do so.

The second policy issue for the future of the CAP regards the length of the **food chain**. If governments insist on seriously axing direct farm payments, but want to avoid a slump in agricultural production, they will have to tackle the progressive lengthening of the global food production and distribution chain, which has reached intolerable levels. This phenomenon has given to intermediaries an excessive economic power with the consequence of imposing prices on producers that are too low, and on consumers that are still too high to the detriment of the small guys and the benefit of the conglomerates and other big economic actors. In order to correct this imbalance, one needs to fully apply anti-trust policy to agriculture and the food industry at the international and national levels, and take strong measures to strengthen production cooperatives, develop farmers markets, and boost direct sales. The European Commission has started looking into this. Progress on this score would allow reducing, and possibly eliminating altogether direct farm payments for all but the smaller farmers without foreseeable negative effects on production or the environment.

Thank you.

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