



Regional conference 'Russia's Agriculture and its place in the world: challenges and opportunities'

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Paolo De Castro – EU/Russian agriculture cooperation and potential

I am honoured to be here today, taking part of this important conference on Russian Agriculture and its place in the world. I would like to thank ELO, RISE Foundation and Syngenta for inviting me as one of the speakers. Recent trends in the world economic scenario have called into question the development models of modern society. The imbalance between the exploitation of resources and their capacity to regenerate has assumed ever-increasing importance on the international political agenda, and has led to concerns not only for the short-medium term but for the very conditions on which to build and guarantee welfare for future generations.

Food, water and energy run the risk of becoming increasingly scarce resources as consumption pressure grows together with the world's population and wealth: a scenario of environmental vulnerability that translates into economic and social vulnerability and into exceptionally wide-ranging risks for future generations. The role of agriculture is very important in responding to the challenges we have mentioned: in the fundamental phase of the food chain, agriculture plays an important role in responding to the growth in food demand; as the chief user of water resources, agriculture affects both water availability and quality; as manager of over 35% of the land surface (without counting forest land which occupies a further 32%), it plays a fundamental role in conserving and regenerating natural resources and in combating climate change.

This is why the role of policies for the agricultural sector and for rural areas will be decisive to promote an active role for over 1.3 billion farmers who manage about two-thirds of the Earth's land surface and ensure that this outstanding economic, social and



environmental resource, namely farming, can make a decisive contribution in meeting the great challenges faced by modern society.

In the last few years we have become aware that we are heading towards a scenario of greater uncertainties, which are inevitably reflected in market trends. We should consider the role played by a key factor such as the future volatility of food markets in the agriculture sector. Many analysts predict that the frequency of price shocks will increase, thereby increasing exposure to income risk and farm closure.

First of all, we have the specific market structures of some strategic commodities like cereals and rice. Overall, only 18% of world cereal production and 6% of rice passes through international markets. The volumes traded involve few exporting and importing countries, and in this situation minor shifts in supply or demand may drive large variations in prices. Secondly, the level of food reserves is at its lowest for several decades. Cereal reserves have reached their lowest point since 1982, in that price stability during the years prior to the rise actually discouraged the creation of reserves. This undermined the capacity to respond to the market crisis.

Third, the role played by financial speculation has not been marginal. The drop in prices, starting from mid 2008, has also been one of the main signs of the deep crisis in the world economy, which has seen the stagnation of industrialised economies and a considerable slow-down in rising economies. The slow-down and, in certain cases, the fall-back in consumption, have had immediate effects on farm commodity prices, bringing major production areas to crisis point. The fact that the effects of this price fall upon farmers were so fast and severe is mainly because of the price transfer mechanisms in the agro-food chain, which tend to press margins in the primary sector, the weakest contractual component of the production chain. In this scenario, the agricultural potential of Russia is a resource of extraordinary importance, not only for the economy and farmers of this country, but also for the stability of international markets for some strategic agricultural products.



Recent events in Russia, one of the largest suppliers of wheat in the world, have raised concern about the current and future price of wheat and wheat-based products. Russia is one of the world's major markets for agri-food and fish and seafood products; it is the world's second largest agri-food importer among emerging markets, and fifth overall (counting the European Union as a single market). Its consumer market is now the eleventh largest in the world and is forecasted to become the fifth largest by 2020.

Over the past five years Russian imports of agri-food products have increased from US \$11 billion in 2003 to US \$32 billion in 2008, an increase of 187%. Russia is now the world's second largest agri-food importer among upcoming markets, and fifth overall (counting the European Union as a single market). The Russian Government recently approved a US\$41 billion program for the development of agriculture for the period of 2008- 2012. The broad objective of the program is to increase Russia's self-sufficiency in food. Specific objectives are sustainable rural development, increased rural employment, improved rural living standards, improved competitiveness of Russian agriculture and natural resource conservation.

Today more than ever we experience a need for a global food policy and international coordination. This in order to respond to the greatest challenge of modern agriculture; produce more and pollute less. Common international policies would also work in favour of a new generation of global agriculture politics that could improve the functioning of markets. It is important to establish a well-functioning collaboration between the main producing countries. In 2050 the world will have 2, 3 billion people more to feed. This will require a 70% increase in food production. At the same time agriculture must be more efficient in order to reduce its impact on the climate. Trade policies must encourage transparency and the correct functioning of markets.

The support to farmers must encourage a continued agriculture activity and the provision of services to society.