

***High food prices,  
food security  
and the international trading system***

***This paper was presented by Nicolas Brown, Assistant Secretary, Trade and Economic Analysis Branch of the Department of Foreign Affairs and Trade (DFAT), Canberra, to the Informa National Food Pricing Summit, Sydney, 29-30 September 2008.***

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## Summary:

*The surge in world food prices over 2007-08 has had widespread effects, especially on developing economies, including increases in poverty, government budgetary pressures, and in some cases civil unrest. Developing country governments have responded with lower import tariffs and targeted subsidies for the poor; but also with some counterproductive policies, in particular export restrictions. There is general agreement that, in addition to the immediate emergency food aid effort underway, the global response must centre on increased international assistance for agriculture and rural development, and reduction of the long-standing distortions to global agricultural production and trade. Australia is advocating and strongly supporting the implementation of these solutions, including by pressing strongly for the early conclusion of WTO multilateral trade negotiations encompassing ambitious reforms to world agricultural and food trade.*

## Introduction

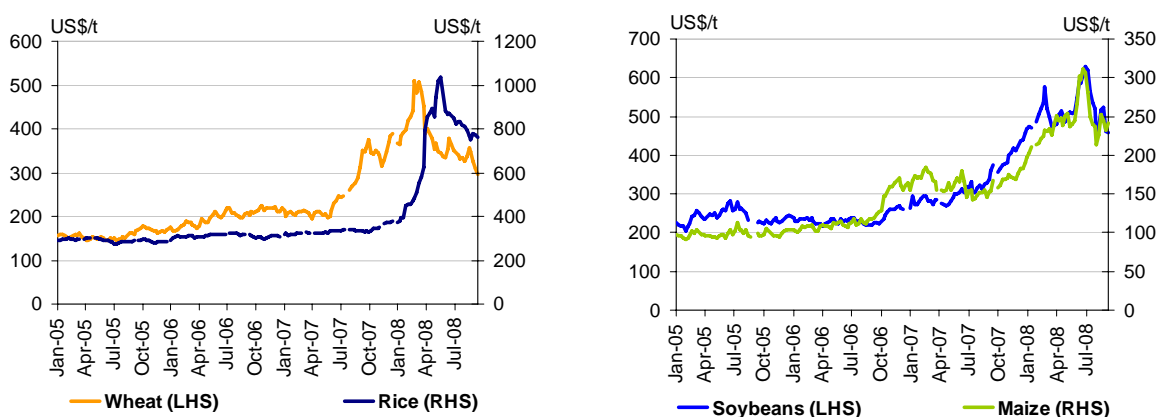
The prices of key agricultural commodities – notably rice, wheat, soybeans, maize and palm oil - surged in the first half of 2008. While prices in real terms have not reached the levels of the early 1970s, the rapid rises have badly affected the poor and vulnerable in developing countries. As a result, many have been forced to reduce their nutritional intake and defer expenditure on other essential items – such as health and education – in order to cope. In effect, the world is now facing a global food security crisis which is threatening to push many more people into poverty and reverse the development gains of the last seven years.<sup>i</sup> According to the United Nations, the number of people in developing countries without adequate food increased by 75 million in the last year to around 925 million.<sup>ii</sup>

The crisis, and in particular its impact on developing countries, has highlighted the critical role of the international trading system in contributing to food security – the ready availability of adequate, reliable and affordable food supplies – to the world. This paper considers the responses of governments and the international community, focussing on the role of trade in improving food security. It sets out the role that Australia is playing and highlights the importance of further reforms to the international trading system.

## High food prices – the story so far

Agricultural commodity prices have been rising since 2006 and they increased sharply in the first six months of 2008. Prices have fallen back from their peaks since then, but remain substantially higher than a year ago and in most cases more than double their level in mid-2006. World stocks of many of these commodities are also very low, increasing the volatility of prices and the risk of further price rises in the event of poor harvests or unexpected increases in demand.

**Figure 1: Prices of key agricultural staple commodities, 2005-2008 (US\$ per tonne)**



Sources: FAO, FAOSTAT Database, accessed September 2008.

The price rises have been driven by a combination of short and longer term factors.

**Longer term factors** include:

- continued population growth in developing countries (with world population projected to reach 9.2 billion by 2050), driving up demand for basic staples (especially grains and edible oils);
- changing consumer tastes and preferences. Strong economic and per capita income growth in emerging economies is leading to higher per capita food consumption and changing diets, including increases in demand for grain-intensive foods like meat and dairy products;
- the increasing demand for food and feed crops to use in biofuel production, which has been driven by concerns about energy security and climate change;
- the lack of investment in developing country agriculture in recent decades, both by developing countries themselves and by international donors who have reduced the amounts of development assistance provided for agriculture and rural development vis-à-vis other priorities;
- the array of export subsidies, production subsidies, tariffs and non-tariff barriers (NTBs) that have distorted world trade in agriculture and food for decades. Subsidies in developed countries have distorted prices on world and local markets, reducing the ability of farmers in non-subsidising countries to earn a sustainable income and generate the capital required to invest in increasing production and improving productivity. At the same time, import barriers in major markets have denied export opportunities to efficient farmers in both developing and developed countries; and
- rising energy and associated fertiliser prices, which have significantly increased the cost of agricultural production, food processing and food distribution.

**Short-term factors** include:

- poor weather conditions and harvests in the past couple of years in several major surplus producers, including Australia;
- a run-down in global stocks to record low levels due to the production shortfalls;
- introduction of 'temporary' export restrictions such as bans, quotas or taxes, by some key grain and oilseed producers seeking to ensure domestic supply and rein in domestic food prices;
- the substantial depreciation of the US dollar (the currency in which most agricultural and other commodities are traded and to which many food importing countries link their own currencies) against the Euro and other major currencies since 2002.

As weather conditions have improved and the likelihood of better harvests in major producers has increased in recent months, prices have eased back from their peaks. But the long-term factors that drove prices to record levels remain, and international experts – including in the World Bank, the Food and Agriculture Organization and the OECD – agree that food prices are likely to remain well above their pre-2006 levels over the next ten years.

Consumers, producers, governments and the international community must therefore be prepared to address a sustained period of higher food prices. The key questions for policy-makers are what impact high food prices will have; what can be done to help alleviate the impact on the poor and the vulnerable in developing countries; and how can governments support the increases in food production that will be necessary to meet the growth in demand. Answering these questions is not easy, but it is clear that increasing global food production will require raising the low productivity of agriculture in many developing countries and removing (or substantially reducing) the distortions to world markets for agricultural and food products.

## The impact of high food prices

High food prices have had the greatest impact in developing countries with large low-income populations, such as Bangladesh, Egypt, Indonesia, Nigeria and the Philippines. However, every developing country has been affected, even large agricultural producers like China and India. In developing countries, the poorest households spend as much as 80 per cent of their income on food.

The impact has been especially severe on the increasing numbers of urban poor living in the rapidly expanding cities of Asia and Africa. These people have had to absorb the impact of rising prices without commensurate increases in income. At the same time, while the majority of the world's nearly 1 billion very poor people (living on less than US\$1 a day) live in rural areas and depend largely on agriculture for their livelihoods, many are also net food buyers<sup>iii</sup> and have been negatively affected by the price rises.

Rises in the price of food staples have caused civil unrest and protests in many countries. In Indonesia, the doubling of prices within 12 months for soybeans (a key staple mostly imported and eaten as tofu, or tempeh, a fermented soy cake) caused street protests in early 2008 by thousands of small food stall holders in Jakarta and elsewhere. In Egypt, a major importer of wheat and flour, protests erupted in February 2008 over the rising cost of bread (up by 26 per cent in a year), as well as cooking oil (up by 40 per cent) and other staples. As rice prices rose in Senegal, protesters marched through the capital Dakar in April 2008 carrying empty rice sacks. With such protests breaking out around the world, governments in many developing countries became concerned about the potential for serious social unrest and political instability as a result of high food prices.

Rising food prices have also driven up inflation around the world. In China, for example, food prices increased by 20 per cent and annual inflation reached 8.7 per cent by February 2008, a 12-year high, before falling back to 4.9 per cent for the year to July 2008. In Vietnam inflation reached 27 per cent in June, a 10-year high, with food prices up 45 per cent. And in India, where food accounts for 57 per cent of the consumer price index, inflation reached 12.4 per cent in August, a 13-year high.

### ***Box 1: India and Pakistan – The costs of keeping food prices down***

India has a longstanding and highly developed food security system, from the farmer to the consumer, involving significant budgetary and off-budget costs. A major element of the Indian Government's support for the poor is the Public Distribution System (PDS), which distributes subsidised food grains and other staples to the very poor through its extensive network of "fair price shops".

Economic reforms and growth, and lower poverty, were reducing the cost of the PDS until the 2007-08 food price rises. In order to maintain the subsidised PDS prices (at about two-thirds of domestic market retail prices), the government has had to raise its budget allocation for the PDS food subsidies to around US\$8.3 billion, compared with US\$6 billion in 2006-07.

India has also restricted exports of rice, wheat and corn, and lowered import tariffs on grains, pulses and edible oils, to improve supply and ease domestic price pressures.

In Pakistan, the government has reintroduced a subsidised food ration scheme for low income households - last used 20 years ago. Around 20 per cent of households are expected to be eligible to purchase five food staples (wheat flour, ghee and cooking oil, sugar, rice and pulses) at a 42 per cent discount to market prices.<sup>iv</sup> But the cost of the scheme has forced the Government of Pakistan to foreshadow major cuts in expenditure elsewhere.

Pakistan has also banned exports of wheat, pulses, and most recently sugar (all of which it normally produces at more or less self-sufficient levels), in an effort to shore up domestic supplies and restrain domestic price rises. The World Bank has warned that Pakistan is one of 35 countries that face a grave food crisis. The food security situation in Pakistan has continued to worsen, with the border region (Federally Administered Tribal Area) the hardest hit.

Higher food prices have greatly increased the budgetary costs of maintaining food subsidies and other food price control measures, squeezing the capacity of many developing countries to fund other public goods and services. Food price subsidies have significantly increased budget costs in Indonesia, Malaysia, the Philippines, Egypt, India and Pakistan to name a few. This has resulted in many countries reducing food subsidy levels, with the resultant price increases, or cutting back on budget spending in other areas (see **Box 1: India and Pakistan**). The rises in food prices have also put pressure on developing countries' budgets through the mounting costs of programmes to support domestic agricultural production.

In developed countries, higher prices for basic commodities such as wheat and rice have been less of an issue. This is because the cost of these commodities are typically a small fraction of the final price paid by consumers and food itself is a much smaller proportion of overall spending (and income). Nevertheless, higher prices for agricultural commodities have also increased consumer prices in developed countries and contributed to growing inflation.

Many developed countries such as the US, Canada, France, Germany and Australia are also major agricultural producers. High prices for crops such as wheat have benefited these countries by increasing their export revenues from agricultural products. Developed countries that spend large sums of money supporting their agriculture sectors have also benefited from a reduction in the cost of price-linked subsidy programs.

High food prices have also prompted a closer examination of biofuels programs. The US and EU, along with a number of developing countries like Brazil, China, Thailand, Malaysia and Indonesia, have supported biofuel production through targets, mandated levels and subsidies. However, support programs for biofuel production have been criticised by the OECD and others for driving up the demand for feedstock commodities such as corn and oilseeds and contributing to higher food prices. For example, the US is the world's largest corn producer, but nearly 30 per cent of its corn crop is now used to make ethanol. In light of these concerns, the EU is reviewing its biofuel policies to ensure they are sustainable, do not significantly affect food prices and contribute to improved environmental outcomes. The EU has also allowed energy crops to be grown on 'set-aside' land. This is designed to help reduce the impact of the EU's biofuel production targets on food prices.

## **Government policy responses**

Countries have responded to concerns about food security in a variety of ways. The responses have varied according to countries' levels of development, the impact on their populations, their ability to supply their own needs and their financial and administrative resources.

Governments have typically included a combination of one or more of the following policy responses:

- direct controls on food prices;
- consumer subsidies;
- reducing tariffs on imported food;
- imposing new restrictions on food exports; and
- increasing support for local farmers.

While all of the policy responses have sought to either lower prices within countries or mitigate the impact of higher prices on their populations, some measures – such as the imposition of export restrictions – are not well targeted and can have negative effects on long-term, global food security.

### *Reductions in import tariffs*

Many food-importing developing countries have moved, albeit on a temporary basis, to reduce import tariffs or increase import quotas to facilitate increased imports and exert some downward pressure on prices. For example:

- since 2006, India has reduced various import tariffs, including for two of its biggest food import categories: pulses and edible oils;

- from August 2007 Vietnam cut its tariffs on a range of food products, such as milk powder, wheat, soybeans and edible oils; and
- from early 2008, Indonesia temporarily removed tariffs on soybeans and wheat flour.<sup>1</sup>

Hopefully, 'temporary' import tariff reductions such as these will not be reversed. Removal or reduction of import tariffs can, however, involve a significant loss of revenue for governments, in particular in developing countries that have narrow tax bases and do not have sophisticated tax collection systems.

### *Restricting food exports*

Even developing countries that are major agricultural producers, including China (see **Box 2: China**) and India, became concerned about the potential for shortages and the impact of further price rises in their domestic markets. Many responded by restricting exports in order to ensure sufficient supplies for their citizens and exert downward pressure on domestic prices.

### **Box 2: China – Shoring up domestic food supplies**

Despite its enormous population and strongly growing food demand, China continues to be a net food exporter, with exports focused on horticulture and fishery products. But with the surge in world and domestic food prices in 2007-08, and food accounting for 40 per cent of China's Consumer Price Index, China quickly took decisive steps to ensure domestic supplies and tackle rising inflation. These measures included:

- Dec 2007: removal of VAT export rebates of 5-13% for grains, flours, oilseeds;
- Jan 2008: introduction of 5-25% export taxes on grains, flours, oilseeds, and export licences for wheat flour, corn flour and rice flour products;
- Jan 2008: central government approval required for price rises for staple foods;
- May 2008: central government directive to strengthen strategic food reserves;
- June 2008: various food import tariff reductions (e.g. pork, soybean meal);
- Aug 2008: introduction of new reporting system for imports of certain bulk agricultural commodities, aimed at better monitoring domestic supply and international price trends.

China has also taken steps to raise domestic grains and other food production. These include: a US\$1.7 billion grains seed subsidy program; additional export tariffs on fertilisers to shore up domestic supplies; and fuel subsidies for grain farmers and fishermen to offset the June 2008 national price rises for petrol and diesel.

Export restrictions are permitted under WTO rules for food security purposes as an exception to a general WTO prohibition (see **Box 3: Use of export taxes and quotas**). However, the imposition of export restrictions by a number of major developing country producers that are normally important exporters of grains and oilseeds has had significant implications for commodity markets. This has been a key factor in the significant volatility and rises in food prices in the first half of 2008.

Imposing taxes or other charges on exports is not prohibited under WTO rules<sup>2</sup> and can be effective in lowering prices in domestic markets. However, they can reduce the amount of food being supplied to other markets and drive world prices even higher than they would otherwise be, especially if imposed by large producers. Export restrictions therefore promote domestic food security at the expense of global food security and can be described as a 'beggar thy neighbour' policy.

<sup>1</sup> The import tariff for wheat grain was already at zero.

<sup>2</sup> Subject to the condition that the incidence of the taxes does not have the effect of quantitative export restrictions.

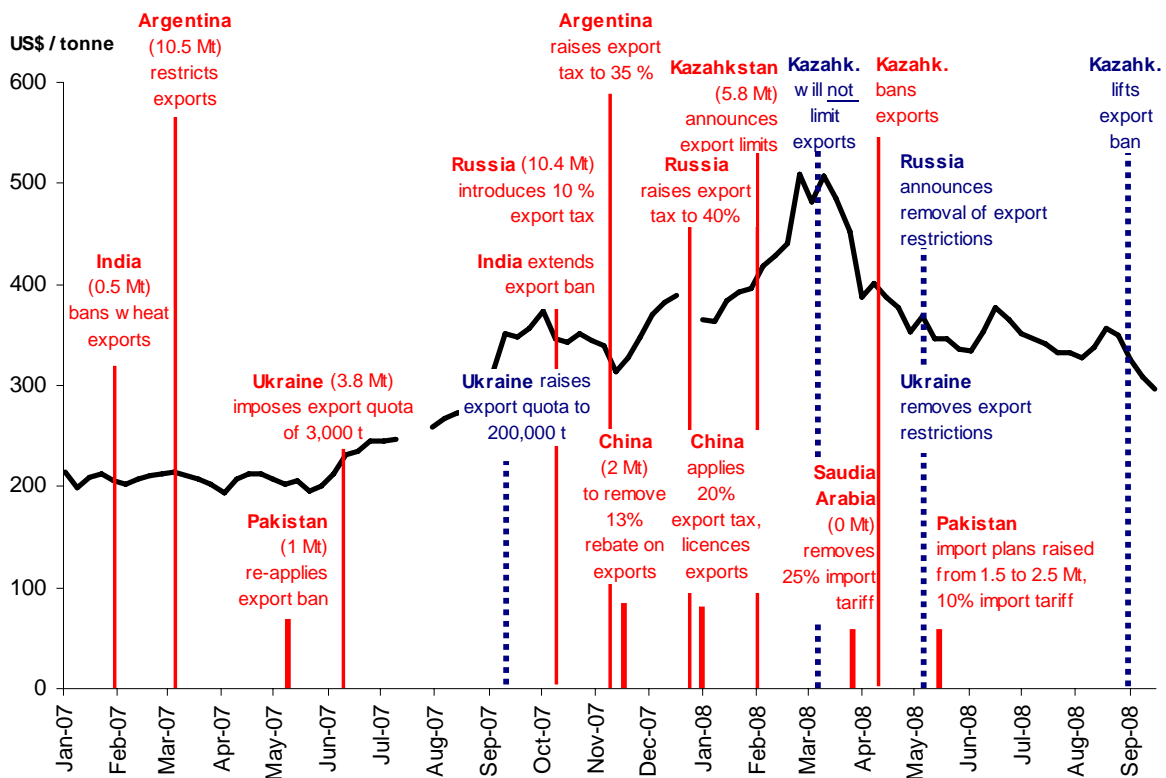
### Box 3: Use of export taxes and quotas

Many countries use **export taxes** on their principal commodity exports as a source of government revenue, due largely to their low income and a paucity of other areas for viable taxation. They are also used to stabilise prices, especially where exports are concentrated in a few agricultural commodities. In some cases, **export quotas**, which set maximum allowable export volumes for products, are also used to ensure adequate domestic supplies of a product and thereby restrain domestic prices.

Under WTO rules, quantitative export restrictions such as export quotas are generally prohibited other than for health and safety and environment reasons, or other exceptions related to: measures which might be necessary in regard to domestic stabilisation schemes and measures to maintain domestic supply of critical raw materials, including measures necessary for domestic food security. Export taxes are not prohibited as such, but are subject to these disciplines if they have the effect of restricting or prohibiting export volumes of a product.

Some countries have undertaken WTO commitments not to apply export taxes on specified products and similar commitments have been undertaken in some bilateral trade agreements. In 2004, approximately one-third of WTO members (mainly developing countries) imposed export taxes on various products.<sup>v</sup>

**Figure 2: Trade policy changes<sup>§</sup>, exports<sup>#</sup> and the international price of wheat<sup>ψ</sup>**  
 Total world wheat exports: 111-116 Mt pa; wheat production: 595-625 Mt



<sup>§</sup> Red (with solid vertical line) denotes policy changes that reduce supply to international markets and Blue (with dotted vertical line) denotes policy changes that should increase international supply. Source: IGC, USDA and media reporting.

<sup>#</sup> Figures in brackets represent average annual exports. Country and global export volumes and production are based on average quantity in last 4 marketing years, USDA estimates.

<sup>ψ</sup> Weekly prices, US No.1 Hard Red Winter, ordinary protein, fob Gulf of Mexico. Source: FAO.

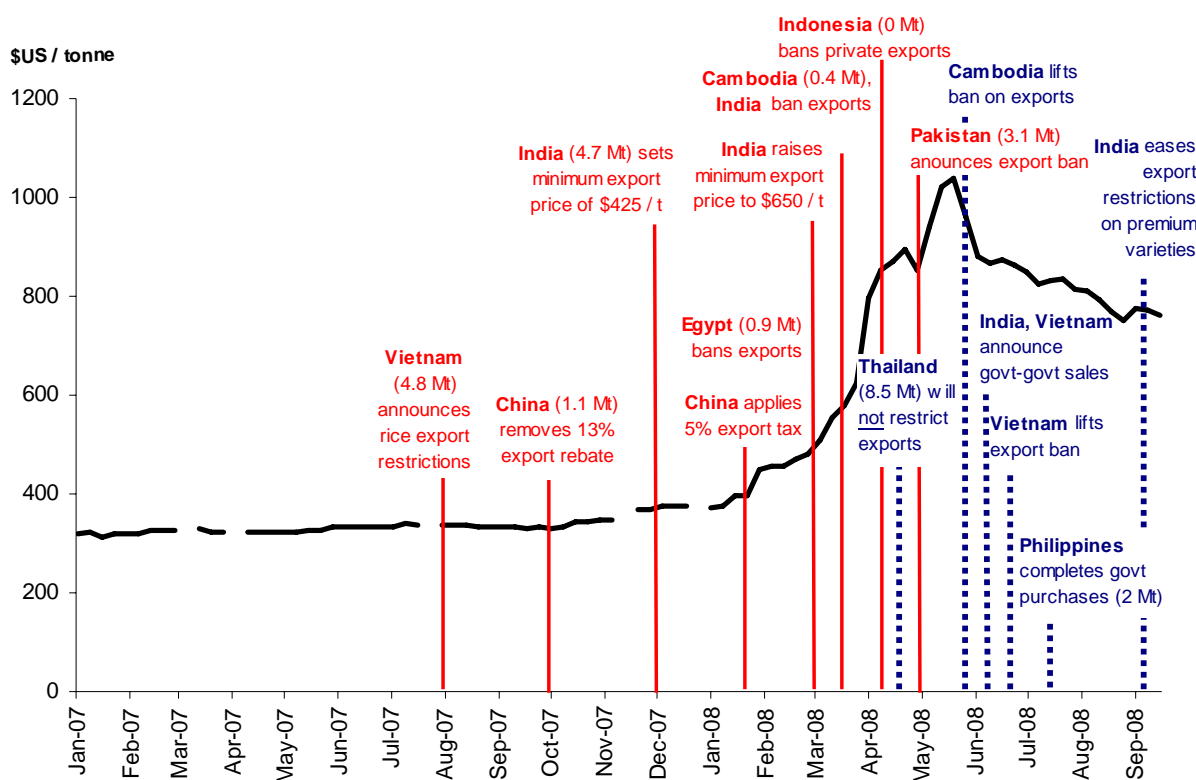
Sources: DFAT, compiled from various sources, 2008.

This is clearly seen in the case of wheat. In 2007 and 2008 a number of major wheat exporters – in particular Russia, Ukraine, Kazakhstan and Argentina - introduced either outright export bans, export quotas, or prohibitive export tariffs in response to poor domestic wheat harvests and rising global wheat prices. However, as **Figure 2** shows, when the new restrictions were announced, the world price of wheat rose even further. In contrast, as the prospects for domestic harvests improved in these countries and these restrictions were either eased or removed, the world wheat price fell.

A similar experience was repeated in the world rice market (see **Figure 3**). The moves by major exporters Vietnam and India, as well as lesser exporters like Egypt and Cambodia, to restrict exports from late 2007 set off alarm bells in the global market. World rice prices more than trebled within three months (from US\$300/ t in January 2008 for standard Thai export rice, to over US\$1,000/ t by May 2008). This surge in rice prices also reflected fears about possible production shortfalls in 2008 as had occurred in 2007, notably in Vietnam and India.

Good rice harvests in Thailand, Vietnam and elsewhere in 2008 have since eased supply fears and rice prices have fallen back.<sup>vi</sup> In addition, the fact that substantial export sales were permitted by countries like India and Vietnam while export restrictions were in place, has helped to ease pressures on markets. For example, India sold substantial amounts of rice to Bangladesh and a number of poorer African countries whilst export restrictions were in place. In early September 2008, India also eased its export restrictions on certain types of premium rice.<sup>vii</sup>

**Figure 3: Trade policy changes<sup>§</sup>, exports<sup>#</sup> and the international price of rice<sup>ψ</sup>**  
 Total world rice exports: 28-31 Mt pa; milled rice production: 400-430 Mt



<sup>§</sup>Red (with solid vertical line) denotes policy changes that reduce supply to international markets and Blue (with dotted vertical line) denotes policy changes that should increase international supply. Source: IGC, USDA and media reporting.

<sup>#</sup> Figures in brackets represent average annual exports. Country and global export volumes and production are based on average quantity in last 4 marketing years, USDA estimates.

<sup>ψ</sup> Weekly price data, Thai 100% B second grade, fob Bangkok. Source: FAO.

Sources: DFAT, compiled from various sources, 2008.

Export taxes have also been used by a number of developing countries to tackle the food crisis. For countries like Indonesia export taxes are an important tool for managing supply and domestic prices for key staples such as palm oil, as well as an important source of government revenue (see **Box 4: Export taxes – Indonesia and Palm Oil**).

#### ***Box 4: Export taxes – Indonesia and Palm Oil***

In April 1998, with agricultural output affected by drought, the Asian financial crisis and a massive depreciation of the rupiah causing a sharp rise in food prices, the Indonesian government first banned palm oil exports then imposed an export tax of 30-40 per cent, then raised it to 50-60 per cent in July 1998, in order to keep adequate supplies of cooking oil in the country.<sup>viii</sup>

From February 1999 the government started to reduce its palm oil export tax, and by 2001 it had fallen to between 1 and 3 per cent, largely reflecting competitive pressures, in particular from Malaysia, which had eliminated its export tax.<sup>ix</sup>

With the growing global demand for palm oil (and other vegetable oils) for food and biofuel feedstock, and consequent rise in palm oil prices along with other world food prices, the government again raised the export tax on palm oil to 10 per cent in late 2007 (and then to 15 per cent in early 2008 to apply when prices exceeded US\$1,100/ t), as it sought to ensure domestic supplies and restrain domestic price increases.<sup>x</sup> The export tax increases have been accompanied by an exemption for unbranded/ bulk cooking oil (palm oil) from local VAT, and subsidies for cooking oil for poor households.<sup>xi</sup>

Some developing country governments have also introduced food price controls. Such measures provide a temporary respite from high prices, but reduce the incentives for farmers and food producers to invest in increased production (see **Box 5: Argentina**).

#### *Increasing support for local farmers*

Most developing countries provide various forms of support to their agriculture sectors, much of it non-trade distorting, such as investment in agricultural research and development, extension services, and rural and market infrastructure development. Many, however, pursue policies to raise domestic production of key staples. In some cases they may have a comparative advantage in the production of a particular product (such as Indonesia and palm oil), but in other cases they face challenges to be globally cost competitive (such as Indonesia and sugar). The cost of production subsidies has risen for many developing countries where domestic prices are partly insulated from international prices. For example, in early 2008 India raised its minimum support price for wheat to well above levels in the previous six marketing years.<sup>3</sup> At the same time, the Indian government is on track to double its domestic wheat procurement for 2008/09. It may also need to double its fertiliser subsidy budget due to rising global fertiliser prices.<sup>4</sup>

A number of developing countries have also been spurred by the food crisis and domestic political protests to announce major increases in public sector investment in their agriculture sectors. For example, in April 2008, the Philippines announced a US\$1 billion agricultural support program covering fertiliser subsidies, irrigation, infrastructure, finance, education and training to lift agricultural productivity.<sup>xii</sup>

<sup>3</sup> Rs 10,000 (cUS\$253)/ t for 2008/09, up from Rs 8,500/ t in 2007/08, and Rs6,000-6,500/ t in 2006-07.

<sup>4</sup> Wheat procurement in 2008/09 will be doubled to 22 million tonnes; fertiliser subsidy budget stands at US\$23.5 billion and may also need to be doubled.

### **Box 5: Argentina – Major surplus food producer applying food export restrictions**

Argentina is a major food producer and exporter (especially of soybeans, wheat, beef, maize and dairy products). In recent years, its government has sought to tackle high inflation and a declining budget surplus, and to subsidise food prices for urban consumers, by increasing the taxation of its agriculture sector, including through export taxes.

The Argentine government reintroduced taxes on agricultural exports in March 2002 amidst an economic and budgetary crisis.<sup>xiii</sup> These were initially set at around 10 per cent on unprocessed agricultural products like wheat, corn, soybeans, and 5 per cent on processed agricultural products like soybean oil and meal, wheat flour, and meat. Export taxes have since increased markedly.

**Grains and oilseeds:** Export taxes were doubled in April 2002 to 20 per cent for key grains (wheat, corn and sorghum), flours and most oilseeds and more than doubled for soybeans and sunflower seed.<sup>xiv</sup> From 2006, the government imposed intermittent partial export bans on corn and wheat and further raised export taxes<sup>xv</sup>. In March 2008, the government sought to introduce further export tax hikes in the form of sliding scales based on FOB export price, ranging from, for example 20 to 46 per cent for wheat, and from 20 to 40 per cent for corn, with lower rates for wheat flour.<sup>xvi</sup> But in the face of strong action from farmers, the Argentine Senate rejected the sliding-scale export tax hike, and the government backed down.<sup>xvii</sup>

**Dairy products:** Between July 2005 and August 2006, export taxes on cheese and milk powder were increased from 5 per cent to 10-15 per cent, and export rebates abolished, as part of the Argentine government's efforts to restrain domestic dairy product price increases and contain rising inflation<sup>xviii</sup>. During 2007, the government imposed an export price cap of US\$2,100/t for milk powder, with the government collecting the difference between the price cap and the export price (which was over US\$2,000/t in 2007) for use in subsidising domestic dairy prices.<sup>xix</sup> The price cap was later increased, to US\$2,770/ t in late 2007.

**Beef:** In 2005, the Argentine government suspended export rebates of indirect taxes (5 per cent) on beef cuts, and raised export taxes from 5 to 15 per cent<sup>xx</sup>. In March-June 2006, the government banned most beef exports for 3 months<sup>xxi</sup>, before replacing this ban with an export quota for fresh and frozen beef.<sup>xxii</sup> The beef export quota remains in place, along with the 15 per cent export tax.<sup>xxiii</sup>

## **The global response**

The global food crisis is proving to be a catalyst for debating and tackling long-standing issues of low agricultural productivity in many developing countries and restrictions holding back growth in mutually beneficial international trade in agriculture. However, effectively responding to the crisis is closely linked to other major challenges confronting the global community, including poverty reduction, population growth and the resulting unsustainable demand for resources, and climate change.

On the whole, international agencies and institutions have responded quickly to the sharp rise in food prices, once the impact on developing countries started to become evident. In particular, the **World Bank** and the United Nations **World Food Programme (WFP)** took the lead in drawing international attention to the emerging crisis. The World Bank report, *Agriculture for Development*, published in October 2007, comprehensively analysed the linkages between agricultural development, food output and trade, economic growth and poverty reduction. It concluded that there needed to be much greater investment in developing countries' agriculture, in conjunction with reform of world agricultural and food markets.

In April 2008, the President of the World Bank, Robert Zoellick, warned that over 30 countries faced potential social unrest because of rising food and energy prices, and called for 'A New Deal for Global Food Policy'. The 'New Deal' has been endorsed by 150 countries, and the World Bank is supporting it through a US\$1.2 billion rapid financing facility - the Global Food Response Program (GFRP) - to

speed assistance to the neediest countries. The Bank is also boosting its lending support for global agriculture and food from US\$4 billion to US\$6 billion in 2008-09 (for programmes covering from agricultural R&D to extension services and rural infrastructure), and is launching risk management tools and crop insurance to protect poor countries and small-holders.

In March, **WFP** Executive Director, Josette Sheeran, called on donor governments for US\$500 million to address the funding gap in created by soaring food (and fuel) prices<sup>5</sup>. This was later raised to US\$755 million as a result of further price increases. The WFP has played a vital role in providing an immediate response to food security concerns. By providing emergency food aid to those most affected, the WFP has allowed time for longer term initiatives to be implemented. The WFP, with contributions from the Bill and Melinda Gates Foundation, the Howard G. Buffet Foundation and the Belgian Government, also launched a 'Purchase for Progress' initiative at the UN General Assembly meeting in September 2008. This initiative will explore ways for the WFP to use local purchasing of its food needs to create reliable markets for smallholder and low-income farmers to help them increase production and link to global markets.

Aside from its immediate response through the WFP, the **United Nations** is also playing a central role in coordinating a global response. In April 2008, Secretary-General Ban Ki-moon established a High-Level Task Force on the Global Food Crisis, which brought together the heads of key UN agencies along with the World Bank, International Monetary Fund and the World Trade Organization.<sup>6</sup> The Task Force has also worked closely with other parts of the UN system, the OECD, international experts, the Red Cross/Red Crescent Movement, and Non-Governmental Organisations (NGOs).

The Taskforce released its Comprehensive Framework for Action (CFA) in July 2008 (see **Box 6: Comprehensive Framework for Action**). The CFA provides a well considered menu of policy recommendations for individual countries. It recognises that there is no single formula to achieve food security, and allows countries to inform their food security strategies and implement the recommendations according to their specific context and needs. While many actions may require external assistance, the CFA's suggested policies and actions are intended to build countries' own capacities and resilience to future shocks. Australia has welcomed the CFA as a very useful step in guiding the global response.

The UN also convened a High-level Event on the Millennium Development Goals (MDG) at UN Headquarters in New York on 25 September 2008. The rise in food prices has had a direct and negative impact on progress towards the first MDG, to eradicate extreme poverty and hunger, increasing the number of people without adequate food by 75 million in the last year, and reducing the purchasing power of the poor. The UN event marked the halfway point towards the target date of 2015, and resulted in US\$16 billion in pledges to help achieve the goals, including an additional US\$1.6 billion to foster food security.

**Other multilateral development banks** are working with the United Nations Task Force and the World Bank to address food security concerns in their respective regions. The *Asian Development Bank* is providing up to US\$500 million as immediate budgetary support to the hardest hit countries in Asia-Pacific. It will also lend US\$1 billion to the agricultural and natural environment sector in 2008 and over US\$2 billion in 2009. The *African Development Bank* is raising its agriculture portfolio by US\$1 billion to US\$4.8 billion and providing a rapid disbursement facility of US\$250 million. The *Inter-American Development Bank* is providing a US\$500 million credit line for countries to improve agricultural productivity and expand cash transfer programs.

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<sup>5</sup> The WFP Executive Director subsequently referred to the food crisis as a wave of food price inflation, a 'silent tsunami'. (The Economist, 19-25<sup>th</sup> April 2008).

<sup>6</sup> Membership of the High-Level Taskforce on the Global Food Security Crisis includes the: Food and Agriculture Organization (FAO), International Fund for Agricultural Development (IFAD), International Monetary Fund (IMF), UN Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (OHRLLS), United Nations Conference on Trade and Development (UNCTAD), United Nations Development Programme (UNDP), United Nations Environmental Programme (UNEP), Office for the United Nations High Commissioner for Refugees (UNHCR), United Nations Children's Fund (UNICEF), World Food Programme (WFP), World Health Organization (WHO), World Bank, World Trade Organization (WTO), UN Department of Economic and Social Affairs (DESA), UN Department of Political Affairs (DPA), UN Department of Public Information (DPI) and the UN Department of Peacekeeping Operations (DPKO).

The **Food and Agriculture Organization (FAO)** is the primary UN agency with responsibility for monitoring global trends in agricultural and food, and promoting agricultural improvement in developing countries. The FAO hosted a High-Level Conference on World Food Security in Rome in June 2008. The conference called for countries to respond to urgent requests for assistance from the most affected countries; the rapid conclusion of the WTO Doha Round and further liberalisation of agricultural trade (see **Box 6: Doha Round and Food Security**); increased investment in science and technology for food and agriculture; and for in-depth studies on the sustainable production and use of biofuels.

### **Box 6: Comprehensive Framework for Action (CFA)**

The CFA is divided into **two sets of actions** which address issues with short-term and longer-term implications and calls for urgent attention for both groups. The CFA also suggests strengthening coordination, assessments, monitoring, and surveillance systems for food security and immediately scaling up public spending and private investment.

To meet the immediate needs of vulnerable populations, the CFA proposes a menu of different actions to achieve the following four key outcomes: enhanced and more accessible emergency food assistance, nutrition interventions and safety nets;

- 1) increased smallholder farmer food production;
- 2) adjusted trade and tax policies; and
- 3) the macroeconomic implications to be managed.

A further set of actions is included which aim to build resilience and contribute to global food and nutrition security in the longer-term, grouped under four additional critical outcomes:

- 1) expanded social protection systems;
- 2) sustained growth in food availability, led by smallholder farmers;
- 3) improved international food markets; and
- 4) an international consensus on biofuels to be developed.

The **Consultative Group on International Agricultural Research (CGIAR)** is a network of 15 autonomous international agricultural research centres producing global public goods, supported by 64 donor and other members. Research outcomes from CGIAR Centres such as the International Rice Research Institute were central to the agricultural production increases of the Green Revolution in the 1960s. The CGIAR network is continuing to play a key role in global public agricultural research, developing higher-yielding varieties and techniques for crops like rice, wheat and maize, as well as other crop, livestock and fishery species. The International Food Policy Research Institute (IFPRI) is a CGIAR-linked centre focussed on agriculture and food policies and has been providing policy advice and analysis on the causes and consequences of the food crisis and the best policies to deal with its effects.

The other key international organisation with a fundamental role in addressing the food crisis is the **World Trade Organization (WTO)** and its 153 members. The preamble to the WTO refers to the objective of raising standards of living and the need for developing countries, and particularly the least developed among them, to share in the growth of international trade. In addition to provisions designed to limit discriminatory trade protection and to enable non discriminatory access to world food supplies, the WTO rules include special provisions relating to food security and food aid, especially for least developed and net food importing countries.

The Doha mandate on agriculture (including food) calls for ambitious reform. Members agreed to achieve “substantial improvements in market access; reductions of, with view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support.” All the recent high-level international meetings which have discussed food security agree on the need for completion of the Doha Round as an essential element to tackle the crisis (see **Box 7: The Doha Round and Food Security**).

### **Box 7: The Doha Round and Food Security**

A key long-term cause of the current global food crisis has been the combination of huge production subsidies and high market barriers over several decades of a number of developed countries, especially the EU and the USA. These distortions have kept world prices low for a long period, and have discouraged investment and slowed productivity growth in agriculture in much of the developing world. The increasing scale of developing country food markets, and growth in their trade with one another in agriculture and food, underline the importance of developing countries also contributing to the reduction of global trade barriers.

Completion of the Doha Round, based on the July 2008 texts, has the potential to deliver a major readjustment to world agriculture and food trade, and would strengthen the incentives for developing countries in particular to increase their investment in their agriculture and food systems, and thereby boost their share of global food output and trade.

Key changes to agriculture and food trade that would be delivered by Doha include:

- Significant cuts to Overall Trade-distorting **Domestic Support** (OTDS)
  - Cut of around 70% to the US farm support ceiling, bringing it down from US\$48 billion pa to US\$15 billion pa or lower;
  - Cut of around 80% to the EU farm support ceiling, bringing it down from €110 billion pa to €30 billion pa or lower;
  - Cut of around 75% to Japan's farm support ceiling, bringing it down from ¥5,500 billion pa (cUS\$55 billion) down to ¥1,623 billion pa (cUS\$16.2 billion) or lower.
- Major improvements in **Market Access**
  - Cuts to import tariffs, notably 70% cut to the highest import tariffs in developed markets;
  - Minimum average tariff cut of 54% for developed countries, and maximum 36% tariff cut for developing countries;
  - Expanded tariff quotas where full tariff cuts not taken (sensitive products).
- Stronger disciplines on **Export Competition**
  - Elimination of export subsidies, by the end of 2013 for developed countries, and by the end of 2016 for developing countries;
  - New disciplines to limit the potential for dumping of surplus product on the world market in the guise of food aid;
  - New disciplines to be applied to US export credits (a programme worth US\$5.5 billion pa).

## Regional co-operation

Cooperation on food security issues is also being discussed at a wide variety of regional fora.<sup>7</sup> ASEAN countries have agreed to work towards greater regional cooperation on food security, including by strengthening the East Asian Emergency Rice Reserve (an ASEAN+3 initiative<sup>8</sup>). Vietnam has also proposed a regional meeting on food security in Hanoi on 25 October 2008 that would involve ASEAN members, dialogue partners (including Australia) and observers. The East Asia Summit process, with its slightly broader membership (including Australia<sup>9</sup>), is also proving a useful forum for discussing food security. Even more broadly, APEC is developing proposals to strengthen its contribution to international food security for consideration by Ministers and Leaders in November 2008. There have also been regional initiatives in Latin America, the Pacific and in Africa (see Box 8: Sub-Saharan Africa) and co-operation between countries in the Middle East.

### **Box 8: Sub-Saharan Africa -Tackling the Food Crisis through Trade & Investment**

Approximately half of the 750 million people living in the 49 countries of Sub-Saharan Africa survive on less than US\$1 a day.<sup>xxiv</sup> Generally difficult agronomic conditions, poor agricultural productivity growth and inefficient food markets, combined with high population growth rates<sup>xxv</sup>, have meant that most countries of Sub-Saharan Africa are both net grain importers<sup>xxvi</sup> and overall net food importers.<sup>xxvii</sup> Many have had to rely at times on some international food aid, even before being hit by the dramatic rise in world food prices over 2007-08.

Numerous African countries continue to apply export taxes to their principal agricultural commodity exports (mainly cash crops like coffee, cocoa, cotton), but at lower levels in recent years; however, some have raised these again to deal with recent surging import costs for food and fuel. Others have reduced import tariffs on key food imports (mainly grains and edible oils), such as Nigeria which has reduced its rice import tariff from 108 per cent to zero, and Ghana which has abolished import tariffs on rice, wheat and corn.

Around three-quarters of Sub-Saharan Africa's population depend on agriculture for their livelihood. The World Bank's report, *Agriculture for Development*, identified the improvement of agricultural productivity as a crucial means for increasing food supplies, boosting economic growth and reducing poverty in Sub-Saharan Africa.<sup>xxviii</sup> The bank's modelling in the report showed that global agricultural trade liberalisation could boost agricultural output in Sub-Saharan Africa by 0.4 per cent per year over ten years.<sup>xxix</sup>

In 2004 African governments agreed to work for a 'green revolution for Africa', with a renewed focus on agriculture and a goal of at least 10 per cent of national budgets to be allocated to investment in the sector. The 2007-08 food crisis added urgency to this goal, and at the June 2008 FAO regional conference for Africa, agriculture ministers agreed to increase agricultural production, expand intra-African regional trade, and urge international agricultural trade liberalisation.<sup>xxx</sup> So while extremely concerned by the 2007-08 food crisis, many African governments have also recognised the opportunity for African farmers of higher food prices, if coupled with agricultural trade reform, increased development assistance and increased investment.<sup>10</sup>

<sup>7</sup> Thailand also briefly raised the idea of a regional rice price-fixing cartel similar to oil-cartel OPEC in April 2008. The idea did not gain traction due to questions about its feasibility and desirability.

<sup>8</sup> The ten ASEAN countries are: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar (Burma), the Philippines, Singapore, Thailand and Vietnam. The plus 3 countries are: China, Japan and the Republic of Korea.

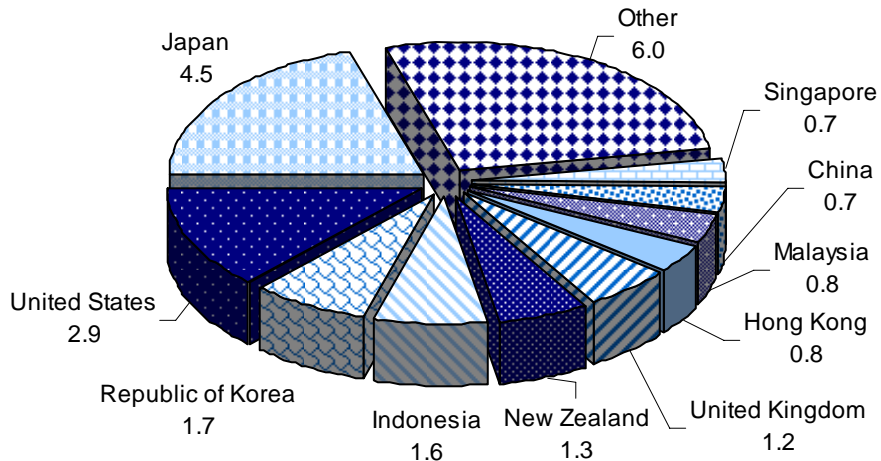
<sup>9</sup> In addition to the ASEAN+3 countries, the EAS also includes India, Australia and New Zealand.

<sup>10</sup> For example, in June 2008 Ugandan Prime Minister Museveni welcomed opportunities for Ugandan farmers from high global food prices, but advocated world agricultural trade reform for full benefits to flow to Uganda. The Ugandan Prime Minister again stated this view in his speech to the UN General Assembly in September 2008. *Reuters*, 'Uganda "happy" with food crisis, sees opportunity', 10 June 2008; and UN News Centre, 'Food crisis offers economic benefits for some states, Uganda informs UN debate', 23 September 2008.

## Australia's perspective and response

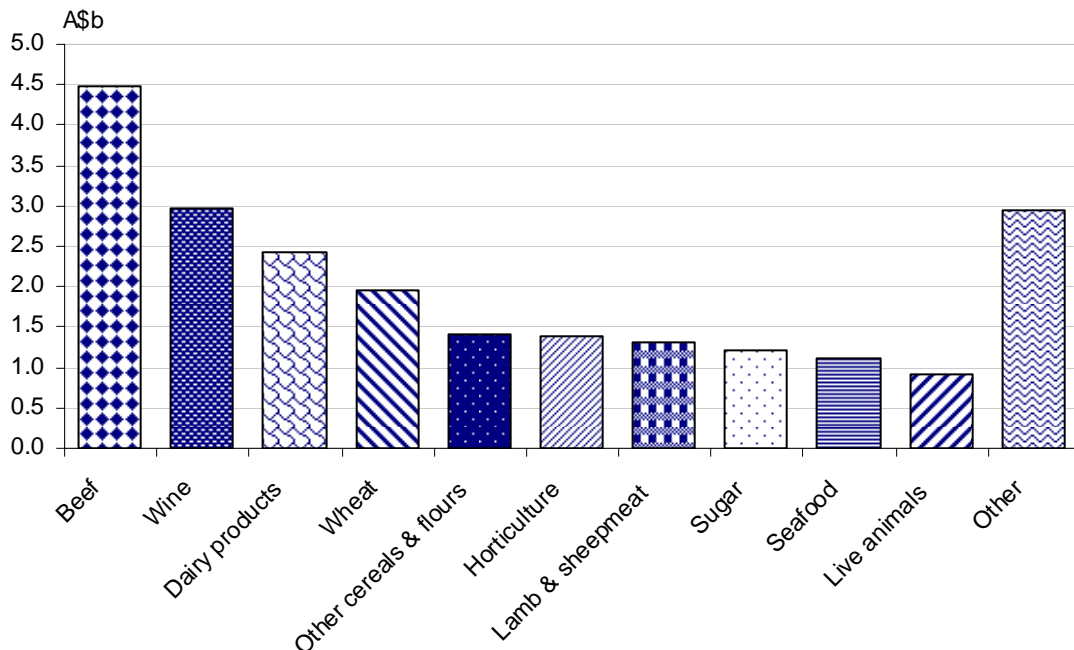
Australia has a key role to play in global food security as a substantial supplier of agricultural commodities and food products to the world market, especially in the Asia-Pacific region (see **Figure 4**). In 2007, despite lower output due to drought, Australia was the world's seventh largest supplier of agriculture and food exports. It ranked among the top exporting countries for beef (first), barley (first), wheat (third) and dairy (third). It was also a significant supplier of lamb, rice, wine, sugar, seafood, horticulture and live animals (see **Figure 5**). Australian agrifood exports have ranged around A\$20-26 billion in recent (drought affected) years. They totalled A\$22 billion in 2007.

**Figure 4: Australia's top 10 agrifood export markets 2007**  
(A\$ billion)



Notes: Country totals include confidential wheat and sugar.  
Source: DFAT, STARS database, September 2008.

**Figure 5: Australia's top 10 agrifood exports 2007**  
(A\$ billion)



Note: 'Other cereals & flours' includes rice, barley, sorghum, maize and other cereals, apart from wheat and wheat flour.  
Source: DFAT, STARS database, September 2008.

As a major exporter of agricultural commodities, Australia obviously stands to benefit in the short-term from the current high international prices. But governments need to take a much broader and longer term view of global food demand and supply trends.

Australia has benefited enormously from the post-World War II transformation of Japan, Korea and other Asian economies, as well as from the recent growth of China and other emerging economies. As they have developed, these economies have become important export markets for Australian goods and services, including for our food exports. Japan for instance has become Australia's largest customer for agrifood products. When one considers that average incomes in China and India, Indonesia and Vietnam for example, are still in the US\$1,000 – 3,000 per capita range, one can gain some idea of the future potential for Australian trade from the continued growth of developing economies.<sup>11</sup>

Agriculture is the key driver of economic growth and poverty reduction in developing countries. This was reconfirmed by the World Bank's World Development Report 2008, *Agriculture for Development*, which found that growth in agriculture is up to four times more effective in reducing poverty in the majority of developing countries than growth in other economic sectors.<sup>12</sup> Thus improved agricultural productivity and more efficient food markets in developing countries is not only a key driver of their overall economic growth; it is also vital for world economic growth and the prosperity of all of us. For this reason, Australia has long been a strong advocate of more efficient markets, free and open trade and secure frameworks for investment, as well as development assistance programmes to lift agricultural productivity and sustainability in developing countries.

The Government recognises, however, that meeting urgent humanitarian needs is the first priority. In May 2008, the Minister for Foreign Affairs, the Hon. Stephen Smith MP, announced a A\$30 million contribution to the emergency appeal of the World Food Program (WFP) to ensure it could continue its work preventing hunger and malnutrition as a result of the high prices. This was in addition to the A\$77 million Australia contributed to the WFP for 2007-08, some of which was specifically provided to assist with food security concerns in Pakistan, North Korea, Indonesia, Burma and East Timor. Since August 2008, the Foreign Minister has announced a further A\$6.5 million over two years to address chronic food shortages in Indonesia, a A\$10 million contribution to the WFP and UNICEF for humanitarian and food aid to drought-afflicted Ethiopia, and a more than doubling of Australian food aid to Afghanistan through the WFP to A\$22 million.

In addition to humanitarian assistance, Australia is taking a strategic approach to address the root causes of food insecurity in developing countries and improve long-term global food security, through three main categories of action:

- increased development assistance for agriculture and rural development;
- constructive participation in multilateral processes; and
- continued advocacy for international trade policy reform.

#### *Increased development assistance*

Australia has strong research and development capacity in agriculture and can contribute significantly to resolving the long-term issues through the agricultural component of its overseas aid program, as well as through domestic research and development. The Government has committed to increasing

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<sup>11</sup> Typically, in the first stages of a developing country's per capita income growth (up to around US\$2,000), the biggest increase in consumer expenditure is on larger amounts of staple foods. In the next stages (US\$2,000 – 10,000), consumers move on to a wider variety of better quality food, including more meat and livestock products. Japan clearly illustrates this - as per capita incomes steadily rose from the 1960s, Japan's per capita food expenditure also expanded. In China, on the other hand, current total food expenditure on average incomes of US\$2,500, is around US\$1 trillion per annum – around the same level as Japan's (with one tenth of China's population) where average incomes are around US\$34,000.

<sup>12</sup> An earlier World Bank study of 1993, *The East Asian Miracle*, found that the eight fastest growing economies of East Asia over 1965-1990 (Japan, Korea [ROK], Hong Kong, Taiwan, Singapore, Malaysia, Thailand and Indonesia), shared a number of key features, one of which was 'more rapid output and productivity growth in agriculture'.

Australia's Official Development Assistance (ODA) to 0.5 per cent of Gross National Income by 2015-16 and will use some of this additional funding to enhance development assistance programs in agricultural productivity and market development.

Australia is also supporting the World Bank's efforts to protect the vulnerable and to strengthen global agricultural production. In July 2008, the Prime Minister, the Hon. Kevin Rudd MP, announced Australia would commit A\$50 million to a new World Bank trust fund to support its Global Food Response Program, which helps provide immediate support for developing country agricultural production such as seeds and fertilisers for the upcoming harvests, particularly for small farmers. Australia's contribution represented nearly ten per cent of the Bank's publicly stated target of US\$500 million.

Over the longer term, the Government is developing a multi-year food security initiative that will focus on three areas:

- stimulating agricultural production through significant investments in international agricultural research;
- increasing rural livelihoods by facilitating solutions to specific market failures in rural areas including trade, land, capital and transport markets; and
- building community resilience by developing social safety nets that increase access to food and reduce coping mechanisms that entrench poverty.

Australia is closely monitoring the impact of high food (and fuel) prices on Pacific Island countries, which will be a significant focus of the multi-year food security initiative. Although around 75 per cent of Pacific Island populations derive their diet from subsistence farming, high food prices are still affecting economies through higher inflation and rising import bills. There are also some islands with little domestic food production like Nauru and Kiribati that rely almost exclusively on imported food.

Australia is also supporting international agricultural research directly, through the Australian Centre for International Agricultural Research (ACIAR), and indirectly through support for the CGIAR. Around 20 per cent of ACIAR's funding is provided to CGIAR Centres, amounting to almost A\$11 million in 2008-09.<sup>xxxi</sup> The development outcomes of agricultural research have shown very high returns to developing country agriculture. Published estimates of nearly 700 rates of return from agricultural R&D in developing countries average 43 per cent per annum, with the gains spread widely across the developing world. Through AusAID, ACIAR and the CGIAR centres, Australia is making an important contribution to restoring agriculture and promoting food security, focussing on sustainable livelihoods for the future. The new varieties and techniques developed through this assistance are increasing productivity right along the supply chain and will continue to improve food security, increase economic growth and reduce poverty.

### *Constructive participation in multilateral and regional processes*

Australia has a long history of involvement with multilateral organisations that deal with agriculture, such as the FAO, OECD and the WTO, as well as sectoral organisations such as Codex Alimentarius (food safety), the World Organisation for Animal Health and the International Plant Protection Convention.

Australia has also been actively involved in the multilateral responses to the food crisis. The Minister for Foreign Affairs represented Australia at the FAO's High-Level Conference on Global Food Security in early June, and the Prime Minister has discussed food security extensively with world leaders, including at the G8 summit in July and at the UN General Assembly in September. The Minister for Trade, the Hon Simon Crean MP, has been emphasising the role of trade in improving food security in the WTO, APEC and the OECD. The Treasurer, the Hon Wayne Swan MP, has also participated in international discussions on rising food and energy prices, including at the World Bank and IMF Spring meetings in April 2008 and at the G8 Finance Ministers' Meeting in June. Australia has supported the role of the UN High-Level Taskforce on the Global Food Security Crisis and is urging nations to implement its recommendations. Australia is also contributing to the food security work of the World Bank, International Monetary Fund and the Asian Development Bank through our membership contributions and through the work of our permanent representatives.

Within our region, Australia participates in a number of APEC projects and initiatives that contribute to food security such as the APEC Food Safety Cooperation Forum and the Agricultural Technical Cooperation Working Group. APEC Ministers will discuss food security issues again in November 2008. Australia also continues to advocate measures to improve global food security through other multilateral processes and regional groups, including ASEAN, the East Asian Summit and the Pacific Islands Forum as well as bilaterally with a wide variety of countries.

### *Continued advocacy and negotiations for international trade policy reform*

Economic and trade policies that promote increased agricultural productivity and contribute to better functioning and more open markets for agriculture and food products are a key factor to improving global food security.

The idea that 'food security' can best be achieved through 'food self-sufficiency' is misguided; strong, efficient and dependable international markets are a vital source of food security for countries around the world. For most countries, domestic agricultural production will form a significant part of their food supplies. But few countries can realistically be entirely self-sufficient, because it is neither practical nor economically advantageous. Even efficient agricultural producers, such as Australia, suffer from droughts, disease and crop failures. Broad and deep international agricultural and food markets are therefore vital to spread these risks and mitigate the effects of potential future crises.

These issues must be addressed by explaining and vigorously advocating the benefits of freeing up global food markets. Liberalising world food markets will expedite rational supply responses and the allocation of resources towards more efficient producers, including those in developing countries, thus lifting productivity and global output. This will stimulate growth in developing countries' agricultural sectors, increase their share of world food output, boost their economic growth and contribute to poverty alleviation.

Australia plays a leading role in efforts to reform global agricultural markets, primarily through multilateral trade negotiations in the WTO. The Minister for Trade, in particular, has been very active in arguing for the liberalisation of world agricultural trade. He has used his frequent bilateral meetings and discussions with counterparts from other countries and Australia's participation in regional groupings such as APEC and the East Asia Summit process to build international support for an early conclusion to the Doha Round.

Australia also leads by example, with the developed world's second lowest level of agricultural support (OECD producer support estimate of 6 per cent in 2007<sup>13</sup>) and low barriers to agricultural and food trade (a zero to 5 per cent import tariff range, and a tariff impact on agricultural and food imports equivalent to 1.2 per cent<sup>xxxii</sup>). Australia also imports a wide range of food and beverage products, averaging A\$7.5 billion per annum over the past five years (A\$9.2 billion in 2007). Imports promote competition and choice and, for many fresh foods, provide counter-seasonal supplies to Australian consumers.

Australia has been pushing long and hard for the completion of the **Doha Round of WTO multilateral trade negotiations**. The Uruguay Round, which preceded the current round and was completed in 1993 (after nine years of tough negotiations, and several "collapses") was the first multilateral trade round to start reducing global agricultural and food trade distortions. Critical to this was the leadership provided by Australia and the **Cairns Group** of agricultural exporting countries.<sup>14</sup> The Cairns Group is a coalition of 19 developed and developing agricultural exporters from Asia, the Americas, Africa and Australasia, which Australia founded and continues to chair. The Group plays a pivotal role in expounding the need for agricultural and food trade reform.

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<sup>13</sup> The OECD estimates Australian government support to farmers to be only 6 per cent of the value of farm output in 2007, compared with an OECD average of 23 per cent.

<sup>14</sup> The Cairns Group members are: Australia (Chair), Argentina, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Pakistan, Paraguay, Peru, Philippines, South Africa, Thailand, and Uruguay.

The Doha Round offers a key opportunity to improve on the Uruguay Round outcomes and reduce the agricultural and food trade distortions further. This will make a significant contribution towards improving long-term global food security. Despite the failure to reach agreement on everything at the July 2008 Ministerial Meeting (agreement was reached on about 80 per cent of the issues), there is still strong collective political will to hold on to the large areas of agreement achieved so far, and complete the Round (see *Box 6: Doha Round and Food Security*).

While global trade liberalisation through multilateral agreement remains Australia's top trade priority – it is the most effective means of achieving comprehensive global trade reform - Australia also seeks to negotiate comprehensive, WTO-consistent **free trade agreements** (FTAs) that are genuinely liberalising across all sectors, including in agriculture and food. Such agreements are 'WTO-plus' because they have a positive effect on the multilateral trading system and provide building blocks for further multilateral and regional trade liberalisation. FTAs, while WTO-consistent, can also cover a number of issues ('behind-the-border issues') affecting economic and trade relations which are not included in multilateral negotiations, such as investment.

Australia has so far implemented FTAs with New Zealand, Singapore, the US and Thailand. An FTA with Chile has been signed and is due to come into force on 1 January 2009. Australia is also negotiating FTAs with China, Japan, Malaysia and the Gulf Co-operation Council and has substantially concluded negotiations on a regional FTA with the ten ASEAN countries and New Zealand (ASEAN-ANZ-FTA). Preparatory talks on a bilateral FTA with Korea (ROK) are to commence shortly. Joint feasibility studies are under way on FTAs with Indonesia and India. Pacific Island Trade Ministers have agreed to consult on a way forward for a free trade area in the Pacific region.

Of the five FTAs which have commenced, or soon will, the FTAs with New Zealand and Singapore have resulted in the removal of all tariff barriers on trade in agriculture and food. The other three FTAs, with Thailand, the US and Chile, provided for the immediate removal of almost all tariffs but for the phasing out over agreed timeframes of tariffs on some agricultural products – for example, dairy products to Thailand and beef and dairy exports to the US.<sup>15</sup>

In all these FTA agreements and negotiations, Australia seeks to advance rational economic and trade policies that benefit all parties. Thus we see comprehensive FTAs with full coverage of agriculture and food as contributing significantly to food security for all parties.

## **Global food security - the way ahead**

In 2001, the World Bank noted that real agricultural prices in the previous few years were the lowest they had been for over a century.<sup>xxxiii</sup> However, the underlying trends of population growth and rising incomes were likely to result in significant increases in demand, and global demand for food was estimated to double by 2050 from 2001 levels. Yet there was likely to be only ten per cent more land available for production, so that increased investment in agriculture, improved agricultural productivity growth, and more efficient and open global food markets and trade were essential.

Fast forward seven years and the result of the failure to implement these policies is clear. Major distortions to agricultural and food production and trade remain, hampering more efficient production and impeding optimum global supply flows. Also, global food production has not kept pace with demand growth in recent years and food stocks have fallen. The result has been the rapid price increases and their flow-on effects described in this paper. For food security not to become a perennial problem and a constant brake on economic growth and poverty reduction, agricultural production needs to rise by 1.6 per cent per cent a year on average for the next forty years.<sup>xxxiv</sup> Water shortages, land degradation, desertification and climate variability as a result of climate change will make this an increasing challenge. Global (and national) agriculture and food markets must also be able to operate much more efficiently.

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<sup>15</sup> At the end of these timeframes all agricultural tariffs under these FTAs will be eliminated, except for sugar and over-quota tariffs on dairy in the case of the US, and a component of Chile's sugar tariff tied to its current "price band" system.

The sharp rise in food prices has finally brought the inefficiencies and distortions of global agricultural and food production and trade into the international spotlight. Now, through the co-ordination efforts of the UN High-Level Taskforce, there is an emerging global consensus on the way forward to address the crisis. The World Food Programme's appeal for emergency funding to meet immediate humanitarian needs has been met. In addition, the World Bank and other multilateral development banks, among others, are providing funds for fertilisers and seeds to assist developing country farmers to boost production in the upcoming seasons. Multilateral and donor agencies are also rapidly increasing their lending to support greater investment in developing country agriculture over the longer term. There also needs to be a step up in investment in agricultural R&D globally, including in developed countries. And all the key players agree on the need to free up trade through early conclusion of the Doha Round.

A key challenge will be to keep our eye on the ball and for the world to follow through on all the solutions identified and agreed upon, once the issue inevitably falls off the front pages of the world's newspapers. Australia is committed to do whatever we can to help drive progress on implementing these solutions, and contribute to not just averting another global food crisis, but to turning around the global agricultural and food system to provide food security for all. There are many formidable and complex related issues to be faced, most prominently climate change mitigation and adaption, more sustainable and efficient management of water resources, and environmentally sustainable land use and agriculture (including the need for land reform). Fundamental, however, are rational economic and trade policies, and an efficient and open global agriculture and food market. Australia will continue to convey this perspective strongly.

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