

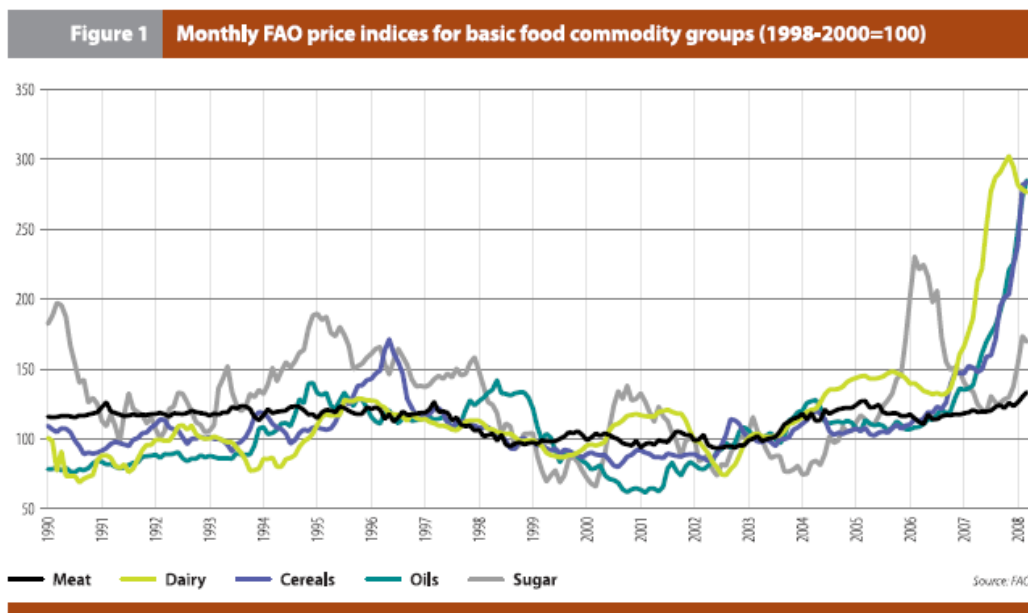
December 9th 2009

Position Paper: Sustainability and Food Security

This paper makes recommendations on how to tackle sustainability and food security if agriculture and the businesses along the food chain are to thrive over the long term in Europe. It suggests discussing the right issues - the interlocking issues that impact the food chain – in a much more holistic and integrated way than is the case so far. It claims that this is a European debate but also a global one and Europe cannot look at its food issues in isolation. It also insists that more cohesive thinking is required around the issues of natural resources use and technology. In its conclusions there are both substantive and institutional recommendations.

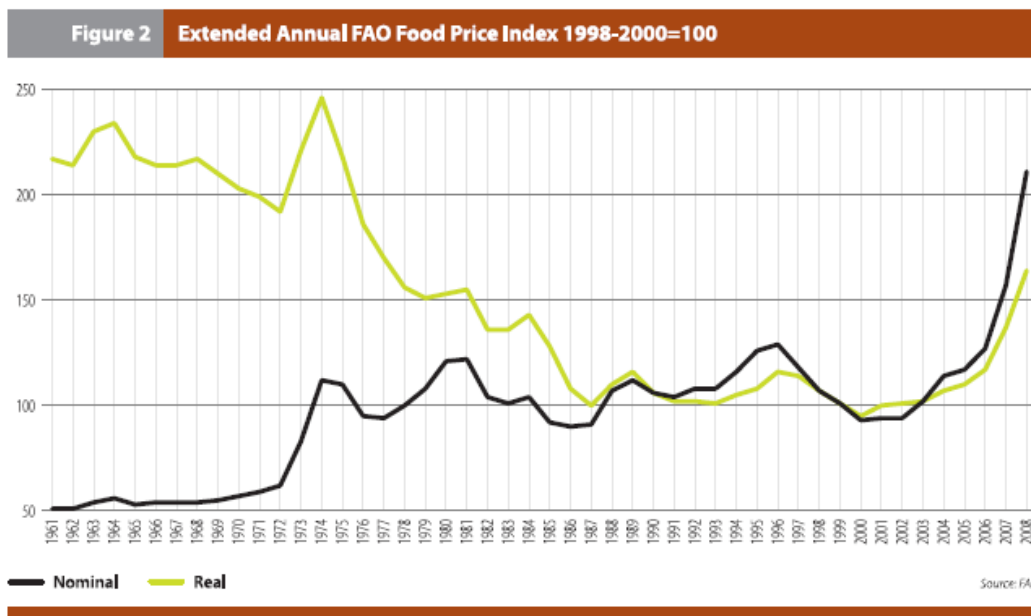
Why should we tackle sustainability and food security now?

The food and agriculture sector has attracted renewed attention over the last year or so as price increases revealed how fragile our food system can be if we take it for granted. Although several commodity prices have now fallen back as harvests have improved in response to high prices and better weather, prices seem unlikely to revert to previous levels. There is a higher level of sustained demand and supply will take time to adjust – see Figure 1 below.



In the EU, the Czech Presidency of the EU has stated in its work programme that it “gives priority to the revision of the existing legislation and the improvement of the regulatory environment in agriculture”. Internationally, the United Nations (UN) has established a high level Task Force on the Global Food Security Crisis which is working on a food security plan.

When prices are examined in real terms it is clear that real prices in agriculture have been very low for the last 20 years, resulting in a severe underinvestment and incapacity to respond to shocks. – see Figure 2 below. Going forward, it is clear that it is in our collective interest that prices should not again be so low.



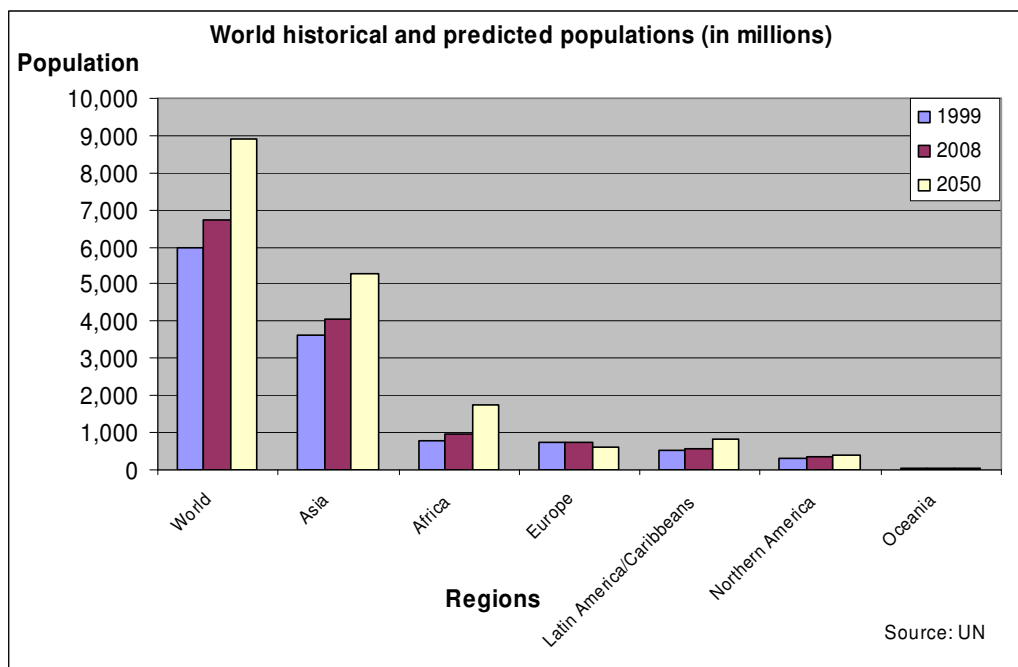
This shift in the economics of the chain coincides with renewed emphasis on sustainability, both environmental and social. It also coincides with multiple, contradictory initiatives, which seek to introduce sustainability into the food chain through legislation, without much understanding of existing market initiatives and without considering how different pieces of legislation fit together. AmCham EU believes that this sector deserves a better approach if we are to give ourselves greater food security in future.

Shifting economics

Recent food price rises have drawn attention to a number of factors that are shifting the supply and demand pattern for agricultural raw materials and foods¹.

- On the demand side we have rising populations and rising incomes in Asia leading to higher consumption of food of animal origin - see Figure 3 below. This pulls rapidly on the supply of grain. Demand is also impacted by biofuels policies which currently focus on food crops while research breakthroughs are awaited.

Figure 3: Population increases

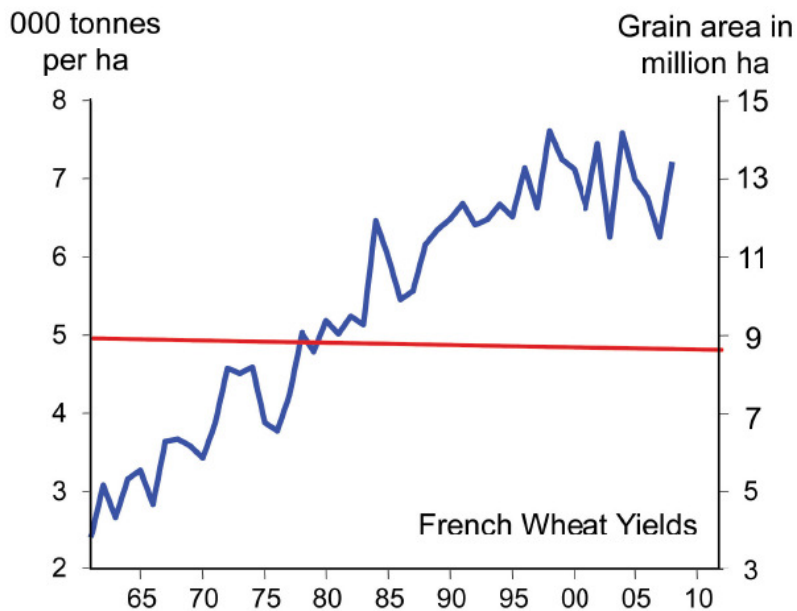


- On the supply side, vulnerability to poor weather is a critical issue as witnessed in 2007. Europe moved from surplus to deficit in grain for at least one year. Supply is impacted by other uses for land e.g. urbanisation and renewable fuels. Lack of investment in infrastructure and grain storage is also an issue. A shortfall in public sector investment in agricultural research over the last 20 years is evidenced by stagnating yields and there is distrust of private sector research – biotechnology,

¹ The analysis done by the Food and Agriculture Organization (FAO) for the High-Level Conference on World Food Security¹ (June 2008), the International Food Policy Research Institute (IFPRI) assessments on High Food Prices¹ (May 2008) and the European Commission's issues paper on High Food Prices¹ (June 2008) confirm this view.

innovations in animal agriculture. The chart below - Figure 4 - shows the progress made in increasing wheat production in France over recent decades has all come about through yield increases, as the amount of land used has actually declined. However, yield increases have stagnated in recent years as research has fallen back.

Figure 4: Developments in French wheat production over the last 50 years



Supply is further constrained by low stocks (the lowest in a generation and symptomatic of demand outstripping supply for almost 10 years). When governments put barriers on trade (export bans) and prevent food flowing from surplus to deficit areas, supply is also inhibited and prices become very volatile. Moreover, rising energy costs inflate the cost of supply.

Increased focus on social and environmental impacts

At the same time, more attention is being placed on the social and environmental impacts of the food supply chain. The Common Agricultural Policy (CAP) originally had a strong production focus, which did not take much account of the environmental impact of agriculture. This has been changing with the introduction of cross compliance, although the recent Court of Auditors report suggests this is not working well. The issue of how to deal with cross compliance outside the EU remains a major challenge; moreover, does cross compliance go far enough? For example does it need to extend to measure greenhouse gas (GHG) emissions or water or land use (i.e. total resource use)?

- Demand for knowledge of provenance of foods and the impact of particular supply chains is growing, both in terms of environmental impacts and labour impacts.
- Social impacts of our supply chains on people are receiving greater attention e.g. child labour, land rights. Industry is working hard, often in multi-stakeholder groups, to deal with these issues. As schemes proliferate, the clarity around this work decreases. It might be useful to have a debate about where the dividing line should be between public involvement, legislative requirements and common standards or measures on the one side, and private sector initiative, innovation, creativity and competition for value on the other. Many of these schemes have international dimensions. The EU is uniquely placed because of its size as an import market to influence this agenda in a sustainable way.
- As a corollary of the climate change agenda, the agriculture industry is working on various schemes to build and improve environmentally sustainable supply chains e.g. in delivering biofuels; in palm or soy oil; in the water usage in the production of beverages; and in enhancing the performance of animal production while improving animal welfare. These schemes are currently being looked at more on a case-by-case basis, however, than in a holistic way. In all these schemes, measurement using some kind of a common system of resource use would be a useful step forward.

AmCham EU member companies, which operate across two or more regions of the world, have put in place significant mechanisms to further the goal of sustainability. Over the years, AmCham EU member companies have developed policies, processes and management practices that result in continual improvement of agricultural supply chain management with a view to ensuring that goods that meet consumer needs in terms of safety, quality and convenience are produced and traded under conditions that are acceptable from social, environmental and economic perspectives².

² AmCham EU Position Paper: *Achieving Sustainable Agricultural Supply Chains*, January 30th 2008.

Proposals, initiatives and legislation currently impacting the food chain

Together with these market and external factors, a number of EU proposals and initiatives are currently impacting the food chain:

- **Agreed CAP Health Check:** This focuses mostly on the supply and demand picture, but is limited primarily to the short term EU perspective.
- **Market management measures:** Recent high grain prices saw import tariff barriers suspended although they have now been put back in place. This was welcome recognition of the problem of high raw materials prices both for the EU economy and for consumers. More attention needs to be given to securing export competitiveness especially further up the value chain.
- **Investigations into pricing in the food chain:** These are a function of the price spikes of last year and so far suggest that more monitoring of prices is needed as well as some further investigations. The Commission is proposing increased monitoring.
- **Sustainable production and consumption agenda:** This proposes the application of the eco-labelling initiative to a part of the food chain (only certain stages of food processing). This does not appear to have been properly appraised and it might be better to exclude the food chain until it is. There are several private sector initiatives in place to try and measure the environmental footprints of supply chains. In line with these initiatives, if action is taken in this area a full life cycle approach should be considered.
- **Nutrition labelling:** Here the debate is about how best to give consumers information on nutrition, enabling them to make informed choices. It is rarely linked to all the other information being given to consumers. Managing these competing information demands and avoiding consumer confusion is a challenge.
- **Biofuels:** The Council reached agreement on the Energy and Climate Change package, which included the Renewable Energy Directive (RED) and the Fuel Quality Directive (FQD). Apart from their targets, these pieces of legislation are pioneering the development of sustainability criteria which impact crops that can be used for food/feed or fuel. The ongoing climate change agenda will result in increasing attention in this area.
- **Quality labelling:** A recent Green Paper has been issued on the labelling of Geographic Indicators (GIs) and on the role of other standards and their certification. It is unclear how this is linked to other items on this list.
- **High Level Group on the Competitiveness of the Agro-Food Industry:** This initiative is looking at many different aspects of competitiveness.
- **Pesticides:** There has been recent agreement to remove certain pesticides from use without a clear impact assessment as to what that does to food security.

- **REACH:** Companies in the agriculture and food sectors have entered thousands of pre-registrations as the first step to implementing the European Community Regulation on chemicals (REACH). Its impact on the food chain remains unclear.
- **Energy trading certificates:** The EU Emissions Trading System (EU ETS) already includes many food plants in its carbon-trading scheme.
- **Customs:** The new electronic approach to customs has the ability to improve trade in raw materials and food but may be used to bring in further controls.
- **EU Platform on Diet, Physical Activity and Health:** This platform initiative to tackle obesity encourages companies and Member States to take more actions to address the issue. It is a clear example of where joined-up and collaborative thinking is required across a range of legislative sectors if solutions are to be found. However, the promotion of healthy food is not often linked to the CAP reform.
- **Animal health and welfare:** There are numerous initiatives here, the most important one being “The new Animal Health Strategy (2007-2013)”. Given the devastating impact that serious disease outbreaks can have on farmers, society and economy, the new strategy is based on the principal that “prevention is better than cure”. It also focuses on issues such as public health, food safety, animal welfare, sustainable development and research.
- **Fisheries:** The Green Paper on the review of the Common Fisheries Policy. A broad, public stakeholder consultation will be open from April 2009 until the end of 2009. A major reform of the Common Fisheries Policy is planned to be in effect from 2013 with a view on making the European fisheries sector more sustainable.

Longer term

- **Future of the CAP:** Debate was initiated under the French Presidency about CAP expenditure beyond 2013 and about the place of the CAP in a different world of higher prices and constraints on resource use. This debate needs to include Europe’s role in helping to feed the rest of the world as well as what is appropriate at European level and what at local level.
- **Doha Development Agenda (DDA):** Talks are currently suspended but would impact agricultural policy as well as imports and exports significantly. In the immediate term efforts should be made to bring the DDA to a conclusion given that an agricultural framework agreement is so close and would have immediate benefits in helping farmers find outlets for production and keeping prices down for consumers. Without the DDA a proliferation of bilateral agreements could have an uncertain effect on our production and trade.
- **Access to raw materials:** This is becoming a key strategic priority for the EU and focus is needed on agricultural products as well as minerals and metals.

- **Developing country farmers:** An initiative proposed by the European Commissioner for Agriculture, Mariann Fischer Boel, that involves the transfer of certain CAP funds to developing country agriculture is noteworthy. The private sector is already involved in many supply chains which have a substantial impact on development³. The issue of Europe playing a more active role in agricultural sectors of developing countries is more protracted and will not be resolved in the short-term.
- **Biotechnology and innovation:** Attempts are slowly being made to achieve more pragmatic regulations and get away from the unrealistic world of “zero tolerance” for new biotech solutions and innovations in food production that have been approved elsewhere but are held up in the EU process. The promotion of innovation in the agri-food chain in Europe needs serious analysis so that the research framework is aligned into the wider picture.
- **Water:** The use of water in agriculture is beginning to be debated.
- **Agriculture and Climate Change:** The Commission’s White Paper (“*Adapting to climate change: Towards a European framework for action*”, released in April 2009) on the effects of climate change on agriculture looks at how climate change is likely to impact different regions in Europe and at how farmers will have to adapt to climatic changes in coming decades

Figure 5: Risks and opportunities associated with climate change for different agricultural regions⁴

³ See the Centre for European Policy Studies (CEPS) on these issues: *Global Supply Chains, Standards and the Poor: How the Globalization of Food Systems and Standards Affects Rural Development and Poverty*, by J.F.M. Swinnen, June 7th 2007.

⁴ Source: *Adaptation to Climate Change in the Agricultural Sector AGRI-2006-G4-05* AEA Energy & Environment and Universidad de Politécnica de Madrid Report to European Commission Directorate - General for Agriculture and Rural Development ED05334 Issue Number 1 December 2007

Table A. Summary of risk and opportunity prioritisation by agro-climatic zone

Description	Bor	Atl N	Atl C	Atl S	Cnt N	Cnt S	Alp	Md N	Md S
Risks									
Crop area changes due to decrease in optimal farming conditions		M	M	M	M	M	M	M	H
Crop productivity decrease		M	M	M	M	M	M	M	M
Increased risk of agricultural pests, diseases, weeds	H	M	H	H	H	H	M	H	H
Crop quality decrease			M	M	M	M		M	H
Increased risk of floods	H		H		H		H		
Increased risk of drought and water scarcity		H	H	H	H	H	H	H	H
Increased irrigation requirements				M		H		H	H
Water quality deterioration	H	H	H		H		H		
Soil erosion, salinisation, desertification	H			M		H	H	H	H
Loss of glaciers and alteration of permafrost	M						H		
Deterioration of conditions for livestock production	H	H	H	L	H	L	H	L	M
Sea level rise	H	H	H	H	H			H	H
Opportunities									
Crop distribution changes leading to increase in optimal farming conditions	H	H	H	M	H	H	H	M	
Crop productivity increase	M	H	M	M	M		H		
Water availability	H	M	H	H	H		M		
Lower energy costs for glasshouses	M			M	M	M		M	
Improvement in livestock productivity	H	H	H		H		H		

H=High M=Medium L=Low

Legend: Boreal (Bor), Atlantic north (Atl N), Atlantic central (Atl C), Atlantic south (Atl S), Continental north (Cnt N), Continental south (Cnt S), Alpine (Alp), Mediterranean north (Md N), Mediterranean south (Md S).

This range of initiatives and proposals above clearly demonstrates the need for joined-up thinking about the food agenda. Ways need to be found to ensure that one part of this agenda - such as the emphasis on biofuels and the focus on environmentally sustainable production standards - meets the other part with its focus on cost effective production, security of supply and a fair living for farmers. In other words, both the economic sustainability of farming and the food chain and their social and environmental sustainability need to come together. This is true not only for the EU but also worldwide.

Conclusion: Key questions for discussion

From the above these issues merit discussion:

- With a different price structure the role of support instruments and their relationship to farm incomes needs to be rethought: how can performance be enhanced, with producers producing what the market needs, yet also receive viable incomes?
- Resource use deserves greater attention – what is the trade off between extensive production which uses more land, and intensive production which uses other resources? What is the trade off between environmental preservation and farming, or labour and farming? What renewable resources do we want to devote to food production and what to fuel? As resources are unevenly spread across the world

- how do we ensure that trade helps raw materials and food to move from surplus to deficit areas at least resource cost? What is the role of technology in this context?
- How can the public and private sectors best work together to deliver the conditions to enable farmers both in the EU and in developing countries to thrive? (In developing countries areas of possible cooperation include research & development, infrastructure, transport and logistics, extension of services to encourage good agricultural practice, training and skill development, financing systems for inputs and the means to develop value-added products).
 - If we look at sustainable production in economic, social and environmental terms, what is the EU's role in world agricultural and food production?
 - How far do standards need to extend in reaching social and environmental objectives, and where can private sector initiative best focus? What should be certified and by whom?
 - How does the sustainability issue relate to healthy eating, nutrition and hunger, both within the EU and outside?

Recommendations and next steps

With these important issues it is clear that many actors both public and private need to work together to tackle the problems raised. Few have expertise across this spectrum and one of the challenges is how to organise the work so it links together.

- Encourage a broad discussion of priorities in sustainability and food security encompassing economic, social and environmental sustainability issues together as outlined above. Use this to form a base for a future food strategy against a long-term horizon (10 years or more).
- Promote a thoughtful debate about the roles of the public and private sectors in this long-term strategy, so that the strengths of each are called out.
- Tackle the questions of constrained resource use - land, water, and carbon – together with the questions about technology, which is about overcoming constraints. Acknowledge the trade off - if the focus of private sector investment in technology e.g. biotechnology is not supported by the public sector then the public sector must itself invest in other technologies to ensure that investment does not stagnate, or resources will be depleted.
- Promote an EU/US dialogue on sustainability, competitiveness and hunger.
- Ensure that sufficient consideration is given to infrastructure; logistics and trade.
- Initiate consideration of what comes after mandates (e.g. in biofuels).

Organisation of work

The overall principle here is to improve our institutional ability to look holistically at the interlocking issues impacting the food chain. With that in mind we suggest the following deserve consideration:

- Produce impact assessments earlier in the process and ensure they are discussed earlier with the multiple Directorate-Generals so that they encompass the full range of impacts accurately.
- Strengthen the role of the Commission Secretariat General under the Commission President in putting a strategy in place which coordinates the work of different Directorates as it affects the food chain.
- Alternatively, give a leadership role for coordinating the impacts on the food chain to a senior Commissioner.
- The Council meets as one, but where there are specialist councils, encourage joint meetings where the food chain is concerned. We note that some national ministers do have whole food chain responsibilities and think this should be encouraged.
- Consider whether there remains an ongoing role for the Special Committee on Agriculture or whether the time has come for Coreper to take the full holistic approach.

AmCham EU looks forward to a robust public policy framework which adopts this integrated and holistic approach. It should have appropriate standards and safeguards for the disadvantaged but encourage the innovative creativity of the marketplace in trying out new routes to deal with economic, social and environmental objectives and to enhance food security.

Annex Presenting Examples of Inconsistent Policies in the Agro-Food Sector

- Developing countries: Concerns about developing countries and their economic development do not fit well with very stringent EU regulations on e.g. aflatoxins or pesticides which are so restrictive that they can exclude developing countries products from the market. EU regulation is too exclusive in this respect, for marginal health benefits for the EU population.
- Pesticides: Pesticides regulations are excluding currently used materials without there being replacements. As a result, more of our crops may go to waste through infestations. This is unhelpful to food security and to competitiveness
- Biofuels legislation: Biofuels legislation was responsible for some of the increase in food prices. Not enough thought has been given to how biofuels policy and food policy can both achieve their objectives.
- Sustainability criteria: These have been introduced in biofuels – which we support – but since biofuel crops are also food and feed crops there has been little thought as to how and whether the criteria apply more broadly.
- Investment: Lack of investment in agricultural research by governments and lack of support for private sector investment in biotechnology has caused the productivity of EU agriculture – and other countries’ agriculture (countries which take a lead from the EU e.g. Africa) - to slow, thereby harming food security and raising prices.
- Emissions trading scheme: the emissions trading scheme already includes several food processing plants and its scope is being gradually expanded. When the eco-labelling scheme was first proposed to cover processed food it seemed to be entirely in isolation from other initiatives that deals with environmental resource use in the food chain.
- Dysfunctional GMO approval: The dysfunctional Genetically Modified Organism (GMO) approval system effectively interrupts trade of commodities between GMO growing countries and the EU. Livestock produced in GMO cultivating countries is allowed on the EU market but farmers producing livestock within the EU are denied access to the same feed materials.
- Legislation on contaminants: The ultimate purpose of laws and regulations is to serve and to protect the consumer from poor quality products. One of the tools to ensure quality products and services is to provide accurate information on the label. Legislation on contaminants or impurities is established for food, feed and seed (e.g. 2002/32/EC on Undesirable substances in animal feed; Regulation 1881/2006 on setting maximum levels for certain contaminants in foodstuffs;

variety registration for seed). However, this legislation is not extended to the presence of GMO's. Adventitious presence of GMO's is technically unavoidable; therefore a labeling threshold should be established that allows correct information the consumer.

- Organic label: Deviations are possible under severe environmental conditions; however, the label “organic” is maintained.
- Labelling initiatives: These initiatives are often considered in isolation from each other with little understanding of how nutritional information, for example, will fit all the other information that food packaging is required to carry.
- Competitiveness: the High Level Group report highlighted many areas for attention, indicating that competitiveness has not been sufficiently taken into account in many of the existing policies.

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AmCham EU speaks for American companies committed to Europe on trade, investment and competitiveness issues. It aims to ensure a growth-orientated business and investment climate in Europe. AmCham EU facilitates the resolution of transatlantic issues that impact business and plays a role in creating better understanding of EU and US positions on business matters. Aggregate US investment in Europe totalled €1.2 trillion in 2008 and currently supports 4.8 million direct jobs in Europe.

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