

Position ESA Section on Oil and Fiber crops (SOF) regarding

"Increased Agricultural Commodity Prices: Main Causes and Consequences for Oil and Fiber crops"

## **1. Introduction**

Since 2007 food prices in Europe and globally have increased significantly due to a sudden rise in agricultural commodity prices. However due to an increased production area in 2008 and favourable harvest conditions prices have come back to a more reasonable level. This paper envisages listing the main causes for the increased agricultural commodity prices and the consequences of these prices on agricultural production of Oil and Fiber crops for both food and non food purposes (feed, industrial raw materials, bio-fuels) for information and use by ESA members in the debate on national level.

## **2. Main causes for high agricultural commodity prices**

As indicated by the European Commission in document COM (2008) 312 both temporary as well as structural factors and the combination thereof have caused the increase of agricultural commodity prices:

- A steady rise in demand for staple commodities can be observed from developing countries as China, Brazil and India. This is driven by record economic growth rates as well as the growth in population.
- Increased energy prices are also affecting agricultural prices in relation to increased prices for fertilizer, plant protection and costs for production, processing and transportation.
- Demand for agricultural commodities is also influenced by the development of the production of bio-fuels.
- Due to unfavourable climatological conditions the cereal harvest in Europe and other parts of the world in 2007 was below average. Low yields in combination with a variable quality have affected commodity prices.
- It is also indicated that the increase of cereal yields in general is slowing down due to underinvestment in agriculture.
- Furthermore, developments in the financial markets have had an impact. Increased speculation in commodities has lead to increased price movements.

## **3. Consequences for agricultural production of food and non-food crops.**

High agricultural commodity prices have consequences for agricultural policies and agricultural production of food and non-food crops.

### **3.1 Effects on agricultural policies**

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In the past decade both in the European Union as well as in the USA and other parts of the world policies have been put in place to stimulate the production and use of bio-energy. In the European Union the focus was on:

<b>Bio-energy form</b>	<b>Crops concerned</b>
Bio-diesel	oilseed rape, soybean and palm oil
Bio-ethanol	maize, sugar beet, cereals
Bio-gas	maize, grasses

Increased agricultural commodity prices and the resulting high food prices have triggered high level debates on the acceptability of policies to promote the production and use of agricultural commodities for the production of bio-energy. So far the European Commission has maintained its policy with a target of 10% of bio-fuel for transport by the year 2020. The ESA SOF section supports the policy of the European Commission regarding sustainable production and use of bio-fuels.

### **3.2 Effects on agricultural production of food and non-food crops**

Due to the increased agricultural commodity prices and the changes in the Common Agricultural Policy (CAP) significant changes have occurred regarding the agricultural production of several oil and fiber crops [in ha]:

Table: EU-27 Area of Oil & Fiber crops (in 1,000 ha)

	2006	2007	2008
Rapeseed (*)	5.254	6.240	6.178
Sunflower (*)	3.741	3.175	3.543
Soybean (*)	466	361	322
Cotton	450	384	310

(\*) Source: Coceral

## **4. Conclusions**

The relation of the impacts of the main causes for high agricultural commodities prices as listed in paragraph 2 is publicly disputed. The production of bio-fuels is one of the factors which have an influence on prices of commodities. The importance of the impact is likely to depend on the market share. For instance:

- In the USA an estimated over 100 Mio. tons of maize will be used for bio-ethanol in the marketing year 08/09. That would be more than 30 % of the total US maize production.
- Of the total world wide production of vegetable oils in 2007
  - 7 % was used for bio-diesel
  - 10 % for other industrial purposes
  - 83 % for food

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- 100 % of the cotton production is used for industrial purposes.

Rising food prices make it extremely difficult in many developing countries to feed the population, as must be the first objective of agricultural production

Prices are determined by the market forces of supply and demand. Government intervention can be necessary if an unwanted allocation of production factors takes place. It should be noted that in principle the seed industry serves the demand of the market.

There are, however, positive effects of the present situation and discussions.

- Increased agricultural commodity prices stimulate agricultural production.
- Farmers in industrial and developing countries find it easier to make a living and can invest in their agricultural production.
- There is a new focus on agricultural technologies to increase the yield and quality of agricultural production which was neglected in the past.

From this point of view, seed companies can provide a major contribution, being a part of the solution and not being a part of the problem.

ESA SOF is of the opinion that considering the crucial role of high quality seed and performing varieties in agriculture it is imperative to create an enabling environment, which means, among others:

- Producers should be encouraged to use high quality seeds of performing varieties,
- Acceleration of the harmonization process of regulations to allow access to genetic progress through new varieties and the free marketing of seeds within the territory of the European Union.

With appropriate crop management regimes for specific crops and the use of performing varieties with certified seeds offering high yields and good quality, the European production of different species will remain competitive and profitable for the farmers and users.