

Commission outlines European response to mitigate effects of rising global food prices

The European Commission today adopted a Communication setting out potential policy responses to mitigate the effects of rising global food prices. The document will be discussed at the European Council on 19-20 June. The Communication analyses structural and cyclical factors and proposes a three-pronged policy response, including short-term measures in the context of the Health Check of the Common Agricultural Policy (see [IP/08/762](#)) and in the monitoring of the retail sector; initiatives to enhance agricultural supply and ensure food security including the promotion of sustainable future generations of biofuels; and initiatives to contribute to the global effort to tackle the effects of price rises on poor populations.

Commission President José Manuel Barroso stated: "The European Union has reacted rapidly to the sudden surge in food prices. We are dealing with a problem that has many root causes and many consequences. So we need to act on several fronts at the same time to address them. The possible policy responses we put on the table today complement the measures we have already taken. The Commission calls on Member States to give a united European response to this global challenge. We will coordinate our response with our international partners within the UN and the G8".

Why have food prices risen?

The Communication examines the reasons behind the recent surge in food prices, both within the EU and internationally. The increase followed a three-decade long trend of declining agricultural prices. Recent indications show a decline from the peak levels of early 2008 for most commodities. Among structural drivers of higher food prices has been a steady rise in demand for both staple and higher value-added foods, particularly in large emerging economies and a general growth in world population. Rising energy costs are having a marked effect on food prices, particularly by increasing the cost of inputs like nitrogen fertilisers, for which the cost has risen 350 percent since 1999, and through increased transport costs. The growth in crop yields has slowed down and new outlets for agricultural products have emerged. Temporary contributing factors include poor harvests in a number of regions of the world, a historically low level of stocks, the depreciation of the US dollar, and export restrictions in a number of traditional suppliers to the world market. Speculation has amplified the underlying price volatility.

Effects in the EU

Rising commodity prices have contributed to higher food and headline inflation in the EU, though transmission to retail prices was limited by the appreciation of the euro, the falling share of raw materials in food production costs compared to energy and labour and the low share of food in average household expenditure. But the impact has been felt much more starkly in some Member States than others and has had a more serious effect on low income families. While arable farmers have benefited, livestock producers have been hit by higher feed prices.

Effects at global level

Developing countries that are net food importers are the hardest hit, while net exporters have generally benefited. If higher prices have not yet led to food shortage, they have translated into greater poverty, malnutrition and increased vulnerability to further external shocks for the world's poorest. However, in the medium to long-term, rising prices potentially present new income-generating opportunities for farmers in the developing world and could enhance farming's contribution to economic growth.

Future trend

Prices have begun to fall from recent peaks and the Commission expects this to continue and markets to stabilise. However, the Commission does not expect a return to the low prices of the past.

The policy response

The three-pronged policy response proposed by the Commission today consists of the following measures:

- 1) short-term: the Health Check of the Common Agricultural Policy (see [IP/08/762](#)) and monitoring of the retail sector under the Single Market Review in line with competition and internal market principles.
- 2) longer-term: initiatives to enhance agricultural supply and ensure food security including the promotion of sustainable criteria for biofuels and development of future generations of biofuels in Europe and at international level, and strengthening agricultural research and knowledge dissemination especially in developing countries.
- 3) Initiatives to contribute to the global effort to tackle the effects of price rises on poor populations including: a more coordinated international response to the food crisis, in particular in the UN and G8 context; continued open trade policy offering preferential access to the EU market to the world's poorest countries; swift response to immediate short-term humanitarian needs; targeting development aid at longer-term projects to revitalise developing country agriculture.

Generally, the Commission will continue to actively monitor the situation and to adapt policies to take the new circumstances into account.

Should the EU drop its biofuels target due to rising food prices?

In 2007, the European Council fixed the target for biofuels for transport, and in January 2008 the Commission made its proposals to implement it. The target has never been to reach 10% biofuels at any price. It is 10% biofuels under strict conditions. Those conditions include a workable and robust sustainability scheme, and commercial viability for second generation biofuels. This EU sustainability scheme is currently under discussion at the Council and the European Parliament. It will be the first of its kind in the world. It will need to ensure that production will not have damaging side-effects and has to be robust and enforceable. With or without the Union's 10% target, there will be a further increase in the worldwide production of biofuels. Europe can best make a contribution by doing everything possible to show that a sustainability scheme *can* work and to ensure a rapid transition to the new generation of biofuels. In the transport sector today, the only alternative to non-sustainable fossil fuel is biofuel. The EU objective for sustainable biofuels has a decisive role to play in enabling the EU to reduce its CO2 emissions by 20 % by 2020.