



FAO Regional policy consultation on high food prices

Europe and Central Asia Region

Summary of proceedings

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Acronyms

BRIC	Brazil, Russia, India and China
CFA	Comprehensive Framework for Action
CIS	Commonwealth of Independent States
EU	European Union
EXW	Ex Works
FAO	Food and Agriculture Organization of the United Nations
FOB	Free on Board
GIEWS	Global Information and Early Warning System
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
OECD	Organization for Economic Co-operation and Development
SCT	Single Commodity Transfers
UNCTAD	United Nations Conference on Trade and Development
USDA	United States Department of Agriculture
USSR	Union of Soviet Socialist Republics
WFP	World Food Program
WTO	World Trade Organization

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1. Introduction

Following the commodity price peaks of 2007-2008, countries faced new challenges as food prices surged to a historic peak in February 2011 and it became evident that commodity prices were in an upward trend. By May 2011 the FAO Food Price Index reached 232 points, 37% higher than in May 2010. The upward trend was typical for all commodities, with some downward seasonal adjustments (for sugar, for example). The fundamental reasons behind the price increases included unfavorable weather conditions in some major producing countries leading to less than expected harvests against the background of the continued moderate growth of demand. In addition, export barriers, particularly in the CIS region, added to uncertainty and drove prices for wheat higher. Market fundamentals—a tight demand-supply situation on commodity markets that can be easily aggravated by weather shocks and unpredictable export barriers—have prompted most experts to forecast continued rising and volatile prices over the medium term.

Rising food prices threaten to increase poverty rates throughout the world, since the poor spend a greater portion of their family budgets on food. According to a recent World Bank report, the food price rises of 2010-11 will significantly increase poverty in the Europe and Central Asia region in lower income countries (World Bank, *Rising Food and Energy Prices in Europe and central Asia*, page 23-24; 2011). There is thus a growing concern about the effects of rising food prices in the region.

In response to these developments, in March 2011 FAO kicked off a series of seminars designed to bring together interested development partners and to help governments make informed policy decisions to respond to the current rise in food prices. The two-day seminars are scheduled at regional and subregional levels, starting in Asia and Africa. These seminars provide policy decision-makers from relevant government ministries (agriculture, trade and finance) and others with the opportunity to exchange experiences from the 2008 food price crisis and to become better acquainted with the pros and cons of the various policy measures and programmatic actions at country level to address high food prices. The seminars are implemented in coherence with the Comprehensive Framework for Action (CFA) prepared by the High Level Task Force on the Global Food Security Crisis. The http://www.fao.org/fileadmin/user_upload/ISFP/UCFA_Final.pdf CFA is designed to encourage concerted responses to the food price crisis with actions that respond to the immediate needs of vulnerable populations and contribute to longer-term resilience (the twin track approach).

The consultation for Europe and Central Asia took place in Istanbul, Turkey from June 20 to June 22, 2011. Government representatives from nine countries from the region attended, including Armenia, Georgia, Moldova, Russia, Belarus, Ukraine, Azerbaijan, Kazakhstan and

Kyrgyzstan. Representatives of international organizations such as the IMF and the World Bank attended, as well as bilateral donors, private sector representatives and civil society organizations.

The main purpose of the consultation was to give stakeholders in the region a chance to express views and discuss food commodity policies in a neutral international forum for which FAO played a supporting role by organizing the consultation, providing information and analysis on the issues of rising commodity prices and policies and producing this report of the consultation. In addition consultation participants agreed on a set of recommendations for countries in the region in three main policy areas in order to protect the food security of the poor in small importing countries: (1) domestic measures to address rising food prices in 2010/11, (2) regional trade measures and cooperation and (3) regional weather and crop prospects.

The two-day Regional Consultation was structured in three information and working group sessions. The first information session covered the global and regional food price situation and domestic policy measures. The second session dealt with regional food trade issues and cooperation. The third session concerned public information systems on market conditions and crop prospects. After each information session consultation participants were encouraged to discuss policies in their own countries implemented in reaction to higher commodity prices. Participants then made recommendations for the countries of the region which can be found in this report and in a separate document entitled a *Summary of Recommendations from Consultation Participants*.

2. Perspectives on the regional consultation for the Europe and Central Asia Region

Ms. Jutta Krause, Deputy Regional Representative of the FAO Regional Office for Europe and Sub-regional Representative for Central and Eastern Europe, opened the consultation by outlining the current efforts of FAO to organize a series of consultations in each region of the world. Mrs. Krause highlighted that food security today is regarded as one of the main priorities for the countries in the region due to high and volatile prices. Rising food prices affect the most vulnerable groups of population and proper policies to address the issue are essential. The hope of this consultation was that information exchange may promote best practices for policy makers of the region. Ms. Krause stressed that FAO was ready to provide follow up assistance to countries of the region, if requested.

On behalf of the Government of Turkey, Mr. Vedat Mirmahmutogullari, Undersecretary of the Minister of Agriculture and Rural Affairs, noted the timeliness of this regional consultation. He noted that Turkey is strategically placed in the region – being a transit point for foods and goods to and from the European Union and to and from Asia. Commodity price volatility puts a strain on trade relations, forces changes in trade structure, affecting

processors, farmers, consumers and vulnerable groups. Turkey was forced to change its grain import providers as Russia and Ukraine banned or limited their exports in 2010. As a result of international price increases wheat prices in Turkey increased by 23 percent From June 2010 to June 2011. Mr. Mirmahmutogullari added that Turkey hopes for an increased commitment and trust between trading partners in the region. Countries must increase cooperation on information exchange (market information and policy measures changes) build a framework for increased trade in the future. Mr. Mirmahmutogullari emphasized that the global situation with food insecurity needs inter-governmental attention. Countries should identify new sources for production increases through expansion of area and yield increases. According to Mr. Mirmahmutogullari, governments should carefully review the situation with commodity speculation and work out new regulations to weaken the effects of speculation on commodity markets. In addition, he urged country governments to come to a consensus that the growing biofuel industry contributes to commodity price volatility. It is an obligation of governments to reconcile their support for biofuels with the greater priority of meeting growing demand for food from growing populations.

2.1. Food security and price volatility on agricultural markets: Principles for the G20 French Presidency¹

The G20 was created in 1999 in response to the financial crises affecting emerging countries in the late 1990s. Its members are the member countries of the G7, 11 emerging economies (the BRICs and South Africa, Saudi Arabia, Argentina, Korea, Indonesia, Mexico, Turkey), Australia and the European Commission. The main purpose of the G20 is to facilitate international economic cooperation through meetings of finance ministers and central bank governors of the industrialized and emerging countries. Today G20 is the main platform for global economic policy coordination. G20 economies produce 85% of global GDP and comprise two-thirds of the world population.

The French Presidency of the G20 has identified three priorities: reform of the international monetary system, addressing commodity price volatility (reducing excessive commodity price volatility and limiting its impact) and improving global financial governance.

Agriculture was first included in the agenda of the G20 meeting in Seoul, South Korea in November 2010. The Seoul Mandate officially declared the need for FAO, IFAD, IMF, OECD, UNCTAD, WFP, the World Bank and WTO to work together with key stakeholders in order to develop options for G20 consideration on how to address food and commodity price volatility without distorting market behavior. The ultimate goal is to protect the most vulnerable populations.

¹ This is a summary of the presentation made by Mr. Anselme Imbert, French Embassy in Istanbul, on behalf of the French Presidency of the G20.

The French Presidency proposes the following measures to reduce commodity price volatility:

- first, higher transparency on indicators of the fundamentals (commodity consumption, supply determinants and inventories);
- second, risk-management tools should be used to cushion the impact of volatility;
- third, crop forecasting should be improved and food supplies better managed;
- fourth, market abuse should be prevented and limited and good risk management practices should be ensured through regulation of markets and financial instruments;
- fifth, commodity derivatives should be regulated, just as other derivatives.

It is proposed that governments can make better decisions by means of a joint information initiative, early warning systems and strengthening commitments of the member states to inform others of export restricting measures. France also notes the necessity to discuss the limitation of export restricting measures and derivatives on agricultural markets (with decisions leading to transparency and appropriate regulation of such market).

Considering the new global challenges, risk-management tools need revision. The situation demands actions in the areas of new risk management tools for producers and consumers, financing facilities for net importer governments, market-based mechanisms such as weather based indices, warehouse receipt systems, augmented social safety nets, both national and international. This is also a good time to discuss the issue of emergency food reserves.

To increase international cooperation, France proposes to concentrate attention on early warning systems, coordination of national measures and crisis and pre-crisis management. To address increasing agricultural production and productivity, it proposes to give attention to large investments in agriculture, monitor commitments, support smallholders and family farming, research, innovation and infrastructure.

These main topics will be discussed at the meeting of Ministers of Agriculture in Paris (June 22-23, 2011). The meeting will conclude with a declaration and a plan of action. Following the Meeting of Ministers of Agriculture, there will be a Washington Joint Meeting of Ministers of Finance and Development (September 2011). The Cannes Summit in early November 2011 will gather Heads of States to further address global issues.

3. Global and regional overview of the food price situation and domestic policy measures

In 2008 the world entered a new phase of increasing commodity price volatility. According to the FAO Food Price Index, world commodity prices are continuing to rise this year. In 2010 the FAO Food Commodity Price Index reached over 200 points for the main commodities (meat not included, 2002-2004=100). In 2011 all major commodities (oils and fats, cereals,

dairy, meat) show upward trends. Both supply and demand factors have contributed to food price increases and volatility. The most disturbing issue for policy-makers in commodity markets is the persistent volatility of prices since 2008. No doubt, the situation demands urgent actions from governments to address price volatility.

3.1. Global food price situation and outlook: Lessons learned from 2007/2008 crisis²

FAO has identified the leading factors behind high commodity prices and volatility in 2007/2008 and 2010/2011. These are climatic shocks and production shortfalls, market dependency on emerging exporting regions, trade restrictions, low levels of stocks, higher biofuel demand, higher oil prices and depreciation of the US dollar. For example, grain prices, particularly in 2007/08 were highly volatile because of lower stocks than in the past, more market dependence on less stable regions (in terms of yields) and climate change, export restrictions and growing links with non-commodity markets (energy and financial).

The level and volatility of commodity prices in 2011/2012 depend on the outcome of the 2011 harvest, the lifting or continuation of export restrictions, political instability in North Africa and the Middle East region, price developments in other commodity markets and the pace of world recovery.

In order to enhance the quality of information on commodities globally, FAO joined forces to create a new information-exchange tool, the GIEWS Food Price Data and Analysis Tool. This is a source of up-to-date information for monitoring national food prices in FAO member states.

3.2. The food price situation in Europe and Central Asia in 2010/11³

GDP growth rates in 2010 indicate that countries are now recovering from the general economic decline of 2009. In 2010 economies should attain their pre-crises levels of production and more. The new challenge for governments today is to urgently react to the situation of commodity price volatility and vulnerability of lower income populations.

The Europe and Central Asia region is characterized specific factors that make it fragile in terms of food vulnerability. These are the diversity of production between countries of the region, volatile production, extensive state intervention and poverty. Food prices have been increasing in all countries of the region regardless of their status as net food exporters or net food importers. In net food-exporting countries prices increased due to rises in international prices for tradable commodities and shortfalls in production for non-tradable commodities

² This is a summary of the presentation by L. Balbi, Senior Economist, Global Information and Early Warning System (GIEWS), FAO.

³ This is summary of the presentation by J. Kurbanova, Economist, Regional office for Europe and Central Asia, FAO.

(mainly potatoes), as well as government policy measures that restricted exports and dulled production incentives. In net food-importing countries food prices increased due to their import dependency in particular for cereals and energy. Increases of fuel and fertilizer prices, as well as of other related transportation costs contributed to price increases. The countries of the region, mainly low and lower income countries, such as Armenia, Georgia, Kyrgyzstan and Tajikistan, show high dependency on international prices.

The main concern in this situation is how price increases and volatility affect the poor and vulnerable populations who are in danger of falling into poverty. If governments have not developed adequate targeted social assistance programs, vulnerable populations may be pushed into poverty by the current food price increases. Simulation results for poverty increases from higher food price inflation in 2010 and 2011 by the World Bank showed that food price spikes pushed poverty levels up in Armenia, Georgia, Kyrgyz Republic and Tajikistan (World Bank, 2011, *Rising Food and Energy Prices in Europe and Central Asia*).

The current food price increase is an opportunity as well as a challenge. Higher commodity prices for producers should lead to higher production in the future, but only if policy measures do not prevent commodity prices from rising, as they have in the exporter countries of the region. At the least, exporter countries of the region should notify their poorer trade partners in advance in case of restrictive trade policy changes. New challenges lie ahead in the area of provision of sustainable safety net systems for the vulnerable population while continuing with long term policies to support higher production.⁴

3.3. Overview of regional policy measures to address rising and volatile food prices⁵.

⁴This presentation was followed by a lively discussion with participants expressing their views on the current price situation. A representative from Georgia emphasized that wheat prices in Georgia are currently showing a downward trend, reflecting positive expectations of an end to the Russian wheat export ban. The vice-president of the Russian Grain Union, Mr. Alexandr Korbut, stated that after Russia banned wheat exports, global prices did not increase immediately. Markets expected the ban considerably before its formal introduction and had already incorporated these expectations into prices. The reason cited by Russian officials for the wheat export ban was harvest failure caused by a drought. Through the wheat export ban, the Russian government sought to maintain domestic supplies of wheat for its population and livestock sector. Mr. Korbut also noted that governments should take measures to control speculation on commodity markets. He mentioned that currently, Egypt does not buy Russian wheat, demanding commitment not to ban exports. The representative from Tajikistan, Rano Mansurova, noted that intervention in trade markets by grain exporters are only part of the widespread government intervention in agriculture in the region. She noted as an example of government intervention the Tajik local government policy on cotton planting, noting that 70% of arable land in farms is required by local government officials to be directed to grow cotton.

⁵ This is a summary of the presentation by D. Sedik, Senior Agricultural Policy officer, Regional office for Europe and Central Asia, FAO.

Medium term price projections indicate that the world can expect higher prices for commodities for the near future. Against this background FAO has three main concerns that lie behind its efforts to support policy consultations in this region. First, FAO is concerned that vulnerable populations in the region may fall into poverty, though it is clear that this region in particular over the past 15 years has seen one of the greatest reductions in poverty. Second, FAO believes that it is essential to allow price increases to pass through to producers in order to increase production incentives. Finally, FAO, along with most countries, is concerned that commodity price volatility should be minimized, because sudden changes do not allow time for consumers and governments to adapt to price increases prudently.

Reflecting on government policy reactions to the price spikes of 2008 in this region and the effects of these policies, one can only conclude that though export restrictions did in fact keep prices for producers lower than they would have been in their absence, these restrictions did not stop price increases in exporter countries. Moreover, export restrictions prevented the pass through of higher production incentives to producers and created alarm on international commodity markets, thus adding to the volatility and increasing the level of commodity prices.

Small importer countries face a variety of risks that make for exceptionally high food insecurity in this region. First, a small importer country such as Kyrgyzstan, Tajikistan, Armenia or Georgia faces weather risk, meaning crop losses due to weather or natural disasters. Second, small importer countries face price risk: international price variability beyond their control can lead to substantial retail food price increases. Third, small importer countries of this region face perhaps more political risk than in many other regions of the world: border closures from neighboring countries (in Central Asia and the Transcaucasus in particular), unpredictable changes in imported food availability from Russia, Ukraine or Kazakhstan due to export restrictions, and unpredictable government policies that implicitly tax producers and/or exporters.

Commodity price increases have had profound effects on the Kyrgyz Republic, both in terms of raising poverty and in influencing the policy dialogue in the area of agriculture and food security. Commodity price increases probably contributed to an increase in the national poverty rate in Kyrgyzstan in 2010 from 32 to 34 percent. Though this change was small in comparison with the declines that took place each year between 2006 and 2008, it was still significant. The government of Kyrgyzstan chose to respond to the price spikes of 2008 and 2010 by increasing social assistance payments, distributing wheat reserves to poor households, importing wheat and flour in an attempt to depress domestic prices for bread, subsidizing credit and fuel for farmers, and monitoring processor and retail profit margins more closely.

These measured actions by the government of Kyrgyzstan contrast with the shift in the policy orientation toward a greater emphasis on food self-sufficiency and intervention in agricultural markets. The change in policy orientation can be found in the 2008 Food Security Law,

which advocated price ceilings on essential food items, limits on profit margins on food products, restrictions on fuel prices and regulation of food imports and exports. Not all of these measures were implemented in practice, but the policy dialogue in Kyrgyzstan and other countries of the region has changed from an appreciation of the productive role of private sector and liberal trade to a greater emphasis on food self-sufficiency and intervention in agricultural markets.

3.4. Lessons and Recommendations of Consultation Participants on Domestic Policies in the Region, 2007-2011⁶

Lessons pointed out by consultation participants:

1. Social safety net systems in the countries of the region were not adequate to compensate for household income declines caused by external price shocks.
2. Emergency reserves are essential for smooth transition during crisis food situations.
3. Governments of the region made ad hoc, not always well thought out, policy decisions with inadequate market information.
4. Smallholders were negatively affected by price shocks, because rises in fertilizer and fuel prices outstripped domestic price increases for commodities.
5. Regulation of export, farmgate and retail food prices by governments of the region often did more harm than good by destroying production incentives, creating domestic market imbalances and increasing volatility of international commodity prices.
6. Existing social protection measures were not sufficiently targeted to be useful in addressing the effects of rising prices in an effective way.
7. Participants of the consultation believed that countries should limit their use of commodities for bio-fuels.

Recommendations unanimously supported by consultation participants:

8. Restrictions on exports and imports should not be used, because they were judged to be ineffective policy measures for the protection of food security of the countries in the region.
9. Retail price regulation should be minimized, because it creates market imbalances, can lead to unsustainable budget pressures and creates obstacles for market price transmission to producers.
10. There should be *genuine* anti-trust policies in the countries;

⁶ This is the result of the first working group session.

11. Access to financial resources for smallholders in the countries of the region should be improved (microfinance, donor funding, etc).
12. Early warning systems (weather warning, crops forecasting, sharing of price information, etc) and emergency preparedness on country and regional levels should be strengthened.
13. Farmers in the countries of the region would benefit from the introduction of warehouse receipts systems where appropriate.
14. Governments of the region should take measures to improve crop assessment and forecasting at the country level, and to establish a regular food price monitoring system.
15. Governments of the region may wish to consider the introduction of crop insurance systems (public and private).
16. Governments of the region should take measures to ensure workable and effective targeted social safety nets in support of poor and vulnerable groups (using vouchers or cash).

Recommendations supported by some consultation participants:

17. Food self sufficiency is important and should be taken into account in agricultural policies and strategies.
18. WTO rules on limits for support to agricultural producers should be increased.

4. Regional food trade issues and cooperation

The CIS grain and wheat market is highly integrated and interdependent. Small importer countries of the region are most concerned about rising commodity prices, because they are highly dependent on imported grain and flour. For many countries in the region, the share of wheat imports in domestic availability is quite high. Armenia imports 63% of its wheat, while Georgia 83% and Tajikistan 60%.⁷. In addition, importing countries import commodities nearly exclusively from exporters from the region. Azerbaijan, Armenia, Georgia and Kyrgyzstan imported between 90 and 100% of wheat and flour from the region in 2007-2009. At the same time, Ukraine and Russia do not depend much on regional exporting partners from CIS. The share of exports to CIS from Russia is 10% (2007) and from Ukraine is 2% (2009). Only Kazakhstan depends on the importers of the region for

⁷ FAOSTAT, the data is the averages for 1992-2008.

wheat exports. 43% of Kazakh wheat and wheat flour exports went to countries of the region in 2007.⁸

4.1. Overview of Russian commodity export policies⁹

An increase in state intervention in both domestic and export commodity markets has accompanied the rise in commodity prices throughout the world. The government of the Russian Federation, the largest commodity exporter in the region, has introduced controls both domestically and for exporters in the last few years. The government introduced export restrictions on grains during the 2007/2008 (barley and wheat) and 2010/2011 (barley, corn, wheat and flour) marketing seasons. In combination with these restrictions, the government has attempted to stabilize internal commodity prices through state grain purchases and sales. In 2009 the government created the State United Grain Company, a state grain trading company with control over state port and grain storage facilities and charged it with interventions in grain markets and state grain exports. Since 2000 Russia has had five grain purchasing interventions and four sale intervention campaigns. Starting in January 2011, Russia sold 873 thousand tons and directly distributed around 2.4 million tons of grain from the intervention fund to selected mills around the country for flour and then bread production.

An analysis of the effects of intervention on wheat markets indicates that wheat sales in October 2007 at best delayed price increases by a couple of months. In January 2008 domestic prices for wheat increased rapidly despite the intervention sales and the introduction of a prohibitive export tariff. Grain interventions in the Russian Federation have not always proved to be transparent. Only a limited number of companies have been allowed to participate in the state trading process. Companies willing to participate in the interventions process have not been informed about procedures, nor do they have a clear understanding of the process.

Along with regulation of the wheat, barley and corn markets in Russia, the government also regulates the market for rice. In the early 2000s Russia imported nearly 70-75% of its domestic consumption of rice. Presently, the share of imports is 40%. In other words, domestic production now provides 60% of rice consumption in Russia. This situation is purely due to state policy, which protects domestic rice producers through high import duties. Domestic producers of rice in Russia enjoy increasing rice prices paid for by consumers. In June 2011, Vietnam and Thailand rice traded globally for between \$468 and \$518 per ton FOB, while Russian rice is priced at \$752 per ton, EXW. The difference is the tax on Russian consumers.

4.2. Overview of commodity export policies in Ukraine¹⁰

⁸ All figures are from UN Comtrade.

⁹ This is an edited summary of the presentation made by Vladimir Petrichenko, General Director of Analytical Centre ProZerno, Riussia.

Ukrainian agriculture has grown substantially since 2000, leading to a significant expansion of commodity exports. The main exports in 2010 were of grains, oilseeds and vegetable oils. The country is highly integrated into global trade with the highest share of both agricultural imports and exports from neighboring countries such as Russia and the EU. The EU-27 and Russia supply 55 % of total Ukrainian agricultural imports, and accept 38% of total Ukrainian exports.

Ukrainian WTO commitments limit its ability to control and impose restrictions on exports. According to Ukraine's agreement on WTO accession, it cannot apply any obligatory export prices and is obligated to reduce export duties on sunflower and other oil seeds, live cattle and sheep, certain hides and skins. Moreover, export licensing requirements, other export restrictions and control requirements have to be applied in conformity with WTO provisions.

The State Agrarian Fund, created in 2005, is the state trading organization of Ukraine. It is charged with implementing commodity and financial interventions on domestic commodity markets both on spot and futures markets. The effect on prices from state market interventions has been insignificant. Procurement operations do not exceed 4% of total production or 6% of marketed wheat. Minimum intervention prices do not play a role of guaranteed prices, as according to WTO commitments they cannot be higher than current domestic prices. In addition, the State Agrarian Fund is involved in food price regulation through sales of flour at below-market administered prices to an authorized list of bakers determined by regional authorities.

The State Agrarian Fund has had a positive effect on domestic grain prices through its use of forward contracts to purchase grain at harvest time and sell later in the year, thus preventing large price decreases at harvest time and increases later in the marketing year. This price smoothing effect has been noted for one marketing year.

Ukraine introduced quotas on grain exports during the 2006/07, 2007/08 and 2010/11 marketing years, lifting them in May 2011. The chronology of Ukrainian export quotas from 2006 to 2010 shows that quotas push down prices slightly in the short term, but in a matter of weeks, prices tend to revert to the previously established increasing trend. Export quotas do not bring the desired effect of stopping prices from rising.

Export quotas dramatically reduced producer prices below what they would have been in their absence. This has led to sizeable implicit subsidies on producers. Product Single Commodity Transfers (SCT) for wheat, a measure of the tax or subsidy effect of policies on farm revenues by commodity, shows highly negative values in 2007, 2008 and 2009 (-34%, -59%, -30%, respectively) indicating implicit taxes on producers, a result of domestic producer prices being kept considerably below international prices. During this period farmers' incomes suffered significantly. Losses of revenues for wheat only in 2010 are estimated at 1 billion US dollars.

¹⁰ This is a summary of the presentation made by Irina Kobuta, Independent Consultant, Ukraine.

The government of Ukraine replaced export quotas for grains with duties. Export duties on wheat for the 2011/12 marketing year are to be 9%, but not less than 17 EUR/t, for barley – 14% but not less than 23 EUR/t, for corn – 12%, but not less than 20 EUR/t. The projected losses of agricultural producers from export duties can range from 440 million to 680 million US dollars.

In addition to export quotas and duties, the Ukrainian government attempts to control grain trade through the mandatory registration of export contracts on the State Agrarian Commodity Exchange. From February 1, 2011 a monopoly on trade contract registration has been created which has raised the price of registration tenfold. A second and more ominous attempt by the state to control grain trade is the proposal to create a state agent for agricultural product foreign trade in Ukraine. If such a state agent is established, the effect would be an increase of administrative control and a reduction of competition on the Ukrainian market. It is also doubtful that the state would itself be able to find the financial resources for large-scale purchases of grain for export.

To sum up the discussion, the following recommendations for policy makers were made: First, export restrictions have imposed high implicit taxes on producers, have destroyed production incentives, and should be abolished. Second, food security in Ukraine can and should be addressed through targeted assistance to the extremely poor, rather than through agricultural policy. Third, the government of Ukraine should develop a system for monitoring, analysis, and forecasting of agricultural market production and prices and make it available to all agricultural market participants. Fourth, the role of the State Agrarian Fund needs to be revised in the area of state price policy. While the Fund could be useful in smoothing domestic commodity prices over the marketing year, it should not be an agent of state price control overall. Fifth, the Ukrainian government should continue to advocate the rapid conclusion of the Doha Round of WTO discussions. In its discussions with WTO partners it should try to obtain separate preferences concerning its existing commitments. Sixth, the government should strengthen domestic business associations by engaging professionals from these organizations as advisors in international trade discussions, including in WTO negotiations.

4.3. Agricultural commodities trade and export policy in Kazakhstan¹¹

The Kazakh government intervenes in the domestic wheat market through the following mechanisms: First, through intervention purchases and sales via the State Food Contract Corporation; second, through export restrictions and, third, through price controls. The State Food Contract Corporation, created in 1995, performs intervention purchases of grain on domestic markets for state and commercial purposes. The main purpose of these intervention purchases is “to form state grain stocks, stabilize domestic grain markets and support

¹¹ This is summary of the presentation made by Rakhim Oshakbayev, Analyst, Analytical centre of economic policy in agricultural sector, Kazakhstan.

domestic agricultural producers.” The State Food Corporation is today the largest holder of grain stocks in Kazakhstan and is the most influential market maker in the country. The price policy of the Corporation greatly influences the expectations of producers and influences domestic prices.

From 2003 to 2005 the State Food Contract Corporation purchased between 11% and 19% of all domestic wheat production. During the most favorable year for wheat production (2009), purchases were even higher, 29% of domestic wheat production. As any state-owned intervention purchase organization, the State Corporation attempts to buy wheat when prices are low (at harvest time or during crop years when international prices are low) and sell when prices are higher (during the winter or spring or during crop years when international prices are high). Though seasonal purchases and sales of grains may have assisted in the smoothing of domestic grain prices over the marketing season, it is not clear that between-year sales and purchases of grains have had much effect on grain prices.

The second instrument in the hands of the government to influence domestic market is export restrictions. The government of Kazakhstan has used temporary export bans for wheat and oilseeds in 2007/2008, 2008/2009 and 2010/11. Many believe that processor lobbying led to oilseed export bans. Export bans have negatively affected farmers’ income. The Single Commodity Transfer (SCT) for wheat, a measure of the tax or subsidy effect of policies on farm revenues for wheat producers, shows highly negative values in 2007 and 2008 (-28% and -24%, respectively) indicating implicit taxes on producers, a result of domestic producer prices being kept considerably below international prices. To put the export taxes of the region in comparison, while Russia, Ukraine and Kazakhstan taxed wheat producers on average between 2006 and 2008 at rates of 16 to 20 percent, the OECD countries subsidized their wheat producers by 7% on average and the governments of Turkey and Japan subsidized producers at rates of 34 and 55 percent.

4.4. Regional cooperation for food security¹²

Countries of the region are different in economic development. They are quite diversified in agricultural production. At the same time, they have a common history (USSR), common infrastructure and geographical market (for example, CIS market) where they can trade with each other based on their agro-climatic comparative advantages.

The diversity comes from the fact that they differ in economic development. The highest GDP per capita in the region is for Russia (\$9,000) (World Bank, 2009). Kazakhstan and Turkey follow Russia with a slight gap, leaving all other countries behind. Many countries still have significant agricultural sectors in their economy. The share of rural population is over 50% in Tajikistan, Uzbekistan and the Kyrgyz Republic. The contribution of agriculture

¹² This is a summary of the presentation made by E. Serova, Senior Advisor, FAO Investment Centre.

value added as a portion of GDP is about 20 percent for Armenia, the Kyrgyz Republic, Tajikistan and Uzbekistan.

The different agro-climatic conditions for producers within this region imply that there is very high production complementarity and significant potential for trade in agricultural commodities based on specialization of production between countries. In bilateral trade in the region one can identify leading producers of cereals (Kazakhstan, Ukraine, Russia, Turkey, Republic of Belarus, etc.), potatoes (Republic of Belarus, Ukraine, Kazakhstan, Russia, Armenia etc.), sunflower seeds (Moldova, Ukraine, Kazakhstan, Russia, etc.), rice (Kazakhstan, Tajikistan, Turkey, Turkmenistan), sugar beets (Ukraine, Turkey, Russia, Republic of Belarus, etc), vegetables (Armenia, Tajikistan, Ukraine, Kazakhstan, Uzbekistan, Tajikistan and etc.), poultry meat (republic of Belarus, Russia, Ukraine, Turkey, etc.) and dairy products (Republic of Belarus, Turkmenistan, Ukraine, Kazakhstan, etc.).¹³

Though the potential for developing agricultural trade within the region according to comparative advantage and specialization is there, governments of the region have thus far failed to take good advantage of this potential. Instead, for many years countries have targeted self-sufficiency as a priority. Moreover, countries of the region compete for buyers on the same external markets and compete on markets within the region as well. Unfortunately, governments of the region use sanitary and phytosanitary reasons to justify import restrictions, when the real reasons lie more in the area of inter-governmental competition.

The main reason for the lack of trade cooperation is a lack of trust between the political leadership of the countries. Regaining trust is the crucial starting point in trade cooperation. New commitments are required to build platform for growing confidence and trade in partnership. Yet another example of the lack of trade cooperation came from Ukraine in July 2011 when it introduced export duties on grains in violation of the CIS Free Trade Agreement.

The building of trust in the region requires action on a number of levels, including between political leaders. Macroeconomic stability, sustainable agricultural growth, as well as stable and open trade policies would contribute to building trust in the region and allow countries of the region to produce and trade according to their comparative advantage. This would allow agricultural sectors in these countries to flourish and remove the burden that state-imposed self-sufficiency policies impose on producers.

4.5. Recommendations of Consultation Participants on Regional Cooperation, 2007-2011

Recommendations unanimously supported by consultation participants:

¹³ All data based on FAOSTAT.

- Governments of the region are recommended to improve implementation of existing multilateral and bilateral agreements on trade between the countries of the region.
- Countries of the region are recommended to develop a network for information exchange and knowledge sharing on agriculture, food processing and trade issues to support better policy decisions.
- Countries of the region are recommended to share new technologies and strategies to reduce losses along the entire production, marketing and consumption chain.
- A regional network of NGOs would be an effective method to monitor government policies in the interest of making them more transparent.
- Countries of the region are recommended to ensure increased and easier access to neighboring country markets.
- Governments of the region are recommended to ensure harmonization of normative documentation related to customs, transportation, trade and food quality and safety.
- FAO is recommended to improve its cooperation with regional organizations (Organization for Eurasian Economic Cooperation, Commonwealth of Independent States, etc.) in the area of agriculture and food security.
- Countries of the region are recommended to reduce production volatility through:
 - Use of high technology (no till agriculture, better irrigation techniques, etc.)
 - Institutional reform including land reform
 - Extension service
- Governments of the region are recommended to consider the option of a regional exchange for commodity futures.
- FAO and countries of the region are advised to conduct joint analytical studies on the potential benefits of cooperation between countries of the region.

Recommendations supported by some consultation participants:

- Considering the lack of proper commodity storage facilities on the Black and Caspian Seas, some participants advocated joint financing of regional infrastructural facilities (such as grain storage facilities, grain transportation, etc.).
- Some participants suggested development of cooperation on labour division based on comparative advantage and social needs.
- Some participants advocated that country governments consider the establishment of a regional commodity intervention agency.

- Some participants encouraged governments to establish interstate commodity balances between importers and exporters on major commodities (bread, meat, milk, vegetable oil, etc).
- Some participants advocated that governments of the region may wish to develop national food security strategies with the support of FAO, and consider development of an overall food security strategy for the region.
- Some participants advocated the establishment of regional commodity production and trade associations.
- Some participants suggested that governments may consider granting most favored nations trade status for food and agricultural goods for all countries of the region.

5. Public information systems on market conditions and crop prospects

5.1. Developing food security information for policy-making and the market¹⁴

Lack of reliable and timely information has been a major problem for decision-makers at all levels during the previous food crisis. The lack of information meant that policy makers made less than well-considered decisions and changed their decisions as information became available. These factors led to imperfect and unstable policy decisions that have contributed to market volatility.

Recently, there has been a suggestion to improve agricultural market information at the global level. A number of international agencies, including FAO, have proposed to the G20 leaders to develop an information system for monitoring agricultural markets, building on existing systems. This information system would be a collaborative effort involving the major food-producing, exporting and importing countries, commercial enterprises and international organizations. The system would be expected to improve agricultural market outlook and forecasts at both national and international levels, issue alerts for food price surges and strengthen global early warning capacity, thus enhancing response capacity, as well as building data collection capacity in participating countries. The new information system would strengthen information in countries that have a significant impact on production, imports and exports for selected products. There are no specific plans for other countries where the crisis has affected both prices and the vulnerable populations. The main priorities

¹⁴ This is a summary of the presentation made by Francoise Trine, Agricultural Development Economics Division (ESA), FAO.

of the information system are agricultural statistics, crop forecasting, market information and analysis and food security related analysis. It is hoped that the new system will assist governments to make more informed policy decisions.

5.2. Recommendations of Consultation Participants on Improvement of Information Sharing in the Region

Recommendations unanimously supported by consultation participants:

- Participants recommended that FAO: work out a standard methodology for the assessment of food insecurity, to include:
 - crop forecasting methodology in consultation with countries
 - indicators of food insecurity
 - a regional program for the development of crop forecasts and food insecurity indicators in the region according to a standard methodology
- Participants recommended that governments of the region pursue transparent and open dissemination policies on food and agriculture issues, including data on current country commodity stocks, balances, crop forecasts, import, export, retail and farmgate prices (including for grains). These indicators should be public information, made available to market participants and shared with international organizations.

Annex 1. Agenda FAO Regional policy consultation on high food prices Europe and Central Asia Region

Istanbul, Turkey, 20-22 June 2011

Date	Event	Speaker
20 June	Day 1	
18.00	Reception: Official opening, FAO	J. Krause, FAO
21 June	Day 2	
8.15	Registration	
9.00	Beginning of Consultation	
	Chair: Jutta Krause	
9.00	Introductory remarks	Jutta Krause, FAO, Mr. Vedat Mirmahmutoğulları, Undersecretary of MARA Mr. Anselme Imbert, French Embassy, on behalf of G-20 Presidency
9.30	Objectives of seminar	D. Sedik
9.40	Introduction of participants	Facilitators

Session 1: Global and regional overview of food price situation and domestic policy measures

Chair: Francoise Trine

10.00	Overview of global food price situation the lessons of 2007/08	L. Balbi
10.20	Food price situation in Europe and Central Asia in 2010/11	J. Kurbanova
10.40	Coffee break	
11.10	Overview of regional policy measures to address rising and volatile food prices	D. Sedik
11.30	Discussion	Facilitator
12.30	Lunch	
14.00	Working group on policy measures of 2010/11 to address rising food prices	Facilitator
15.00	Coffee break	
15.30	Plenary presentations: Types of policy measures introduced to address rising food prices in 2010/11	Facilitator
17.00	End of day 2	

22 June Day 3

Session 2: Regional food trade issues and cooperation

Chair: Sarina Abdysheva

9.00	Overview of regional commodity trade and food security in the region	D. Sedik
9.15	Overview of Russian commodity export policies	V. Petrochenko
9.30	Overview of Ukraine commodity export policies	I. Kobuta
9.45	Overview of Kazakh commodity export policies	R. Oshakbayev
10.00	Discussion	
10.15	Coffee break	
10.30	Regional cooperation for food security	E. Serova

12.00	Working group on measures for regional cooperation to safeguard food security in the region	Facilitator
13.00	Lunch	
14.30	Plenary presentations: Cooperative measures to safeguard food security in the region	Facilitator
	Session 3: Public information systems on market conditions and crop prospects	
	Chair: Eugenia Serova	
15.30	Developing food security information for policymaking and the market	F. Trine
15.50	Discussion	Facilitator
16.20	Coffee break	
16.40	Working group on situation and outlook for publicly available information on market and crop prospects	Facilitator
17.00	Plenary presentation: Prospects for publicly available crop prospects	Facilitator
17.30	Summary and wrap up	D. Sedik and J. Kurbanova
17.45	End of day 3	

Annex 2. List of participants for FAO Regional policy consultation on high food prices

LIST OF PARTICIPANTS

Europe and Central Asia Region

20-22 June 2011, Istanbul, Turkey

International organizations, institutions, consultants

No	Name	International organizations, institutions	Contacts
1	Mr. Anselme Imbert	Financial Counselor, French Embassy, Istanbul	
2	Ms. Canan Özbay	French Embassy, Istanbul	
3	Ms Rachel Nelson	Embassy of the United States of America, Agricultural Attaché	
4	Ms. Berna Bayazit	UNDP, Turkey	
5	Mr Stefan J.D.Verbunt	Embassy of the Kingdom of the Netherlands, Ministry of Economic Affairs, Agriculture and Innovation, Istanbul, Agricultural Counselor	
6	Mr Recai Cecen	International Monetary Fund of Turkey, Senior Economist	
7	Mr Giuseppe Fantozzi	World Bank	
		International Consultants	
1	Mr. Dmitry Zvyagintsev	International Agricultural Economist/Report writer, Russia	
2	Mr. Vladimir	International Consultant,	

	Petrichenko	Russia	
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Turkish Authorities

No	Name	Organizations, Institutions	Contacts
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2	Mr. Vedat Mirmahmutogullari	Undersecretary, MARA	
3	Mr Veli Celebi	Agricultural Credit Cooperatives of Turkey, Assistant of General Director	
4	Mr Ali Barutcuoglu	GUBRETAS (Gubre Fabrikalari Turk Anonim Sirketi)	
5	Mr. Fethi Ozbek	Turkish Statistical Institute	
6	Mr. Selahattin Mermer	Union of Turkish Chambers of Agriculture (TZOB), Deputy Secretary General , Agricultural Engineer	
7	Dr Gonca Gul Yavuz	Agricultural Economics Research Institute (AERI), Agricultural Economist	
8	Mr V.Tunc Necipoglu	Turkish Grain Board (TMO) Director of Trade Department	
9	Mr Ali Canlumac	TUGEM	
10	Mr Emek Gelik	TUGEM	
11	Mr Cem Varnatopu	MIR Holding, Sales Manager	
12	Mr Ibrahim Mirmahmutogullari	MIR Holding, President	

NGOs

No	Name	Organization	Contact details
1	Ms Rano Mansurova	ACTED (Tajikistan)	
2	Ms Viola Artikova	The Resource and Policy Exchange Inc, Public Health and Disability Advisor for Central Asia (Uzbekistan)	
3	Mr Dmitry Bulatov	Non-Profit Organization National Union of Food Exporters, President, PhD (Russia)	
4	Mr Anar Safarov	Agro Information centre , Information and Marketing Manager (Azerbaijan)	
5	Dr. Taras Gagalyuk	Ukrainian Agribusiness Club, coordinator of AgriSurvay Project (Ukraine)	
6	Mr. Hrant Ayvazyan	"Lori Development Center" (Armenia)	
7	Mr Thomas Lines	Consultant in Trade and Food Security (England)	
8	Ms Zynaida Ilyina	Institute of System Researches in Agricultural of National Academy of Science, Chief of the Market Department, Doctor of Economic Science, Professor, Member-Correspondent of the National Academy of Sciences (Belarus)	

No	Name	Organization	Contact details
9	Mr Anatoli Saiganov	Institute of System Researches in Agricultural of National Academy of Science, Deputy Director on Scientific and Innovative Work, Doctor of Economics, Professor (Belarus)	
10	Ms Marija Ranic	University of Belgrade, Institute for Medical Research, MSc ChemEng, Research Associate (Serbia)	