



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

13 May 2008

Dr Andrej Bajuk
Ministry of Finance
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SLOVENIA

Dear Dr Bajuk

Rising global food and energy prices are increasing inflationary pressures across the world economy, hitting poorest households the hardest and threatening to reverse the progress we have made over the past few years in reducing poverty. The increases in agricultural prices seen over the past two years have been substantial, with wheat prices for example rising by around 150 per cent, and food price inflation in the EU27 has accelerated over the past year, to stand at over 7 per cent in March.

The EU has a clear responsibility to play a full role in the international community's collective efforts to address the consequences of spiralling food prices by tackling the causes, but it also has responsibility to its own citizens to ensure that its own policies do not unnecessarily inflate the cost of food within the EU.

It is therefore unacceptable, that at a time of significant food price inflation, the EU continues to apply very high import tariffs to many agricultural commodities. The Commission should give urgent consideration to extending the suspension of import tariffs on grains, and to reducing or suspending the import tariffs that apply to other agricultural commodities.

Against a backdrop of climate change, population growth, higher energy prices and increased global demand for meat, EU and global food security in future will be critically dependent on ensuring efficient international markets for agricultural products and pursuing liberal trade policies. To this end, and consistent with the Lisbon Agenda, I believe that under the discussions at the June ECOFIN on food prices and our preparation of the June European Council, ECOFIN ministers should seek to agree an agenda for tackling the problem of rising food prices focussed on the following core elements.



First, we should work with our international partners to develop an international strategy which includes: more and better support for agricultural and rural development in the poorest countries; more and better research internationally into methods for increasing yields and productivity; commitment to increase social protection programmes which take people out of long-term dependency on food aid; consideration of how to maximise the effectiveness of IMF and World Bank support; and reform of relevant international institutions.

Second, we need an ambitious international trade deal concluded as soon as possible. Whilst reductions in import tariffs are useful in the short-term, the current situation is a further impetus for long-term reform of EU tariffs via an ambitious deal in the Doha Development Agenda trade round. Barriers and distortions in the global food market increase volatility and stifle the incentives to increase supply to match demand. Developed countries must deliver on their pledges to provide a substantial 'aid for trade' package to help build the trading capacity of the poorest countries.

Third, we need a fundamental reform of Europe's agricultural sector. Specifically this should include:

- phasing out of all elements of the CAP that are designed to keep EU agricultural prices above world market levels (such measures cost EU consumers €43 billion in 2006);
- an end to direct payments to EU farmers (which cost EU taxpayers €34 billion – 32% of the whole EU budget - in 2006);
- improving the efficiency of EU markets for agricultural land, labour and capital;
- raising farmer knowledge of the benefits of market mechanisms for risk management, such as agricultural futures and options, and ensuring a more liquid market for these is free to develop and covers more commodities; and
- encouraging an appropriate level of agricultural research and development at EU and national level.

Fourth, we need a renewed focus on ensuring the single market delivers the best outcomes for the European citizen. I welcome the Commission's decision that one of the first "market monitors" under single market review proposals agreed at the Spring Council in March will examine the retail sector and propose that this study should cover groceries and make recommendations on what more could be done to tackle rising food prices.



Fifth, we need a close examination of the direct and indirect effects of EU biofuels policy, including a full assessment of its effect on food prices, now and in future. This is the objective of a review led by Ed Gallagher in the UK who will produce his interim finding at the end of this month. In line with the conditions agreed at the Spring 2007 Council, the implications of these effects should be factored into the current negotiations on the Fuel Quality Directive and Renewable Energy Directive.

I look forward to the opportunity to discuss this over our lunch on 14 May.

I am copying this letter to ECOFIN colleagues and Commissioners Almunia, Mandelson, Michel, Grybauskaite and Fischer Boel.

A handwritten signature in black ink, consisting of a stylized 'A' and 'D' followed by a long horizontal line.

ALISTAIR DARLING

Ms. GEMMA DAWSON
PRIVATE SECRETARY TO THE CHANCELLOR
APPROVED BY THE CHANCELLOR