

**Seventh Multi-year Expert Meeting on  
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**Policy actions for mitigating the impact of price volatility in  
commodities markets on global food security and  
increasing access to market intelligence, financial  
resources and markets for commodity-dependent  
developing countries**

By

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The views expressed are those of the author and do not necessarily reflect  
the views of UNCTAD.



## Multi-Year Expert Meeting on Commodities and Development

Policy actions for mitigating the impact of price volatility in commodities markets on global food security and increasing access to market intelligence, financial resources and markets for commodity-dependent developing countries

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Geneva, 16 April 2015

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# Outline

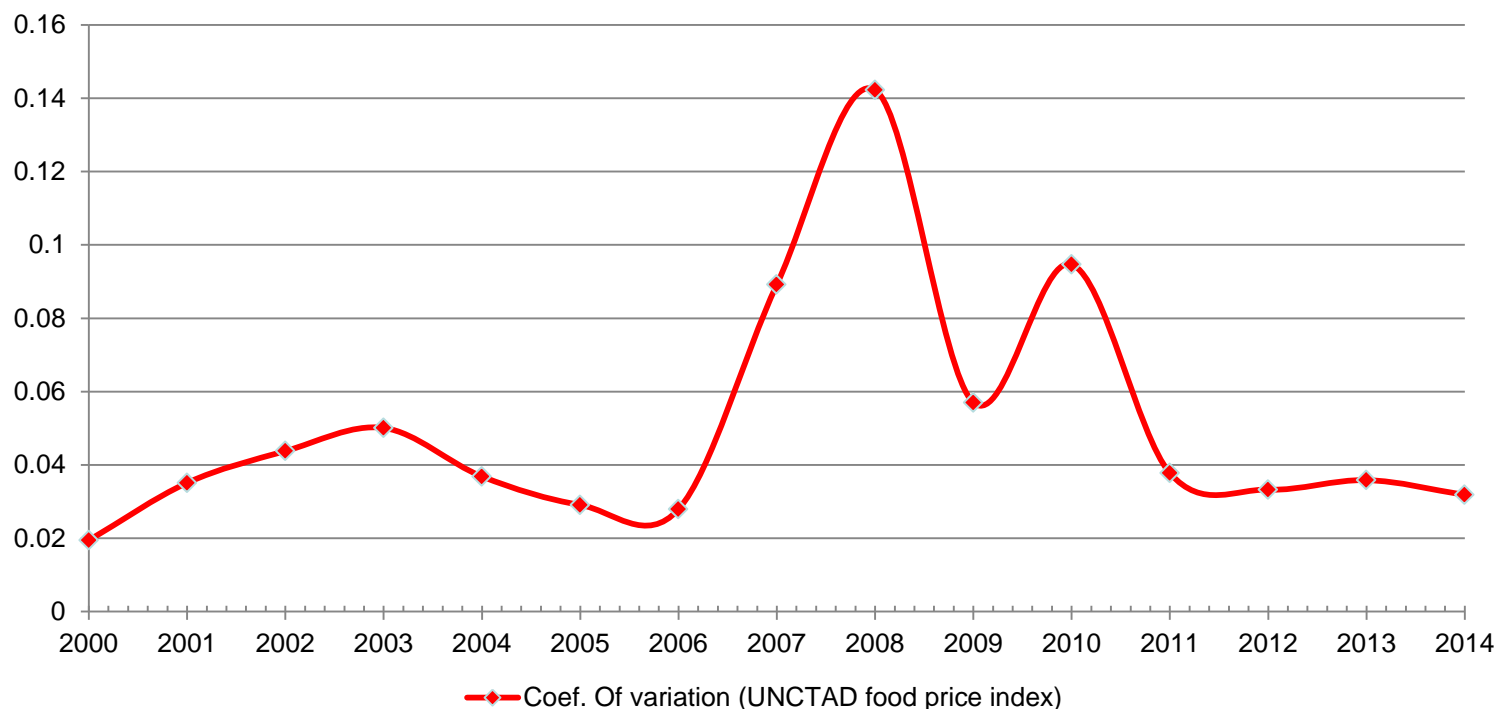
- (1) **The challenges** of food price volatility for Commodity Dependent Developing Countries (CDDCs)
- (2) **Policy actions** to mitigate the socio-economic impact of food price volatility
- (3) **Building-up agricultural productive capacities** in CDDCs



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## The challenges of food price volatility for Commodity Dependent Developing Countries

Food price volatility has returned to the level prevailing prior to the 2007-2009 financial crisis....



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## The challenges of food price volatility for Commodity Dependent Developing Countries

**...but** it still represents a major threat for development, with:

- **Direct effects** on food security and economic welfare (higher prevalence of malnutrition and food stress in vulnerable areas);
- **Indirect effects** on investments, in particular for smallholder farmers, backbone of food production in several regions;
- **Long term implications** on human development and achievement of development agenda.



# Policy actions to mitigate the socio-economic impact of food price volatility

*Short-term policy responses:*

- **Food reserves**

- High price volatility and 2008 food crisis has revived the debate over emergency food reserves
- Several ongoing initiatives (incl. within ECOWAS)
- Key challenges: WTO “**peace** clause” **shielding** certain stockpile programs from subsidy complaints.

- **National and international safety nets**

- transfer programmes, designed to provide support to vulnerable populations during periods of crisis
- Number of national and international initiatives (Global Food Crisis Response programme)
- But lack of resources and coherence



# Policy actions to mitigate the socio-economic impact of food price volatility

*Medium to long-term policy responses:*

- **Economic diversification**
  - Objective: strengthen the resilience of resource-rich countries to external shocks
  - 3 types of strategies. Horizontal diversification through exporting; vertical diversification through processing; and diversification into non-commodity activities
- **Market-based risk management strategies**
  - Include derivatives (forward contracts, futures contracts, options) and weather index-based insurance
  - Not broadly used due to the lack of internal resources, expertise to these products, and institutional weaknesses.



## Building-up agricultural productive capacities in CDDCs

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To cope with high food price volatility, there is a need to strengthen agricultural capacities in CDDCs by:

- **Improving access to market intelligence** and financial resources for CDDCs farmers;
- **Facilitating their access to international markets**, reducing tariff and non-tariff barriers;
- **Reducing distortive trade policies**, notably agricultural subsidies in OECD economies.





# Building-up agricultural productive capacities in CDDCs

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- Greater access to market intelligence implies:
  - To improve market information (via initiative such as the Agricultural Market Information System); and
  - To facilitate the access to ICTs, especially for smallholders in CDDCs.
- Greater access to financial resources involves:
  - To ensure that commitments by governments to support agriculture are met;
  - To strengthen South-South cooperation; and
  - To improve the access of CDDCS to international capital markets.



# Building-up agricultural productive capacities in CDDCs

Improving the access of CDDCs farmers to international markets requires to:

- Improve **trade facilitation** - following commitments made by WTO members Bali, in December 2013
  - Reduction in trade costs by 13-15% in devg countries
  - Improvement in borders controls and revenue collection.
- Address **tariff peaks and tariff escalation** issues:
  - stronger impact on agricultural goods rather than non-agricultural goods.
  - In 2013, concern 35.8 per cent of agricultural tariff lines.
  - The situation has deteriorated compared with year 2000 (in%)



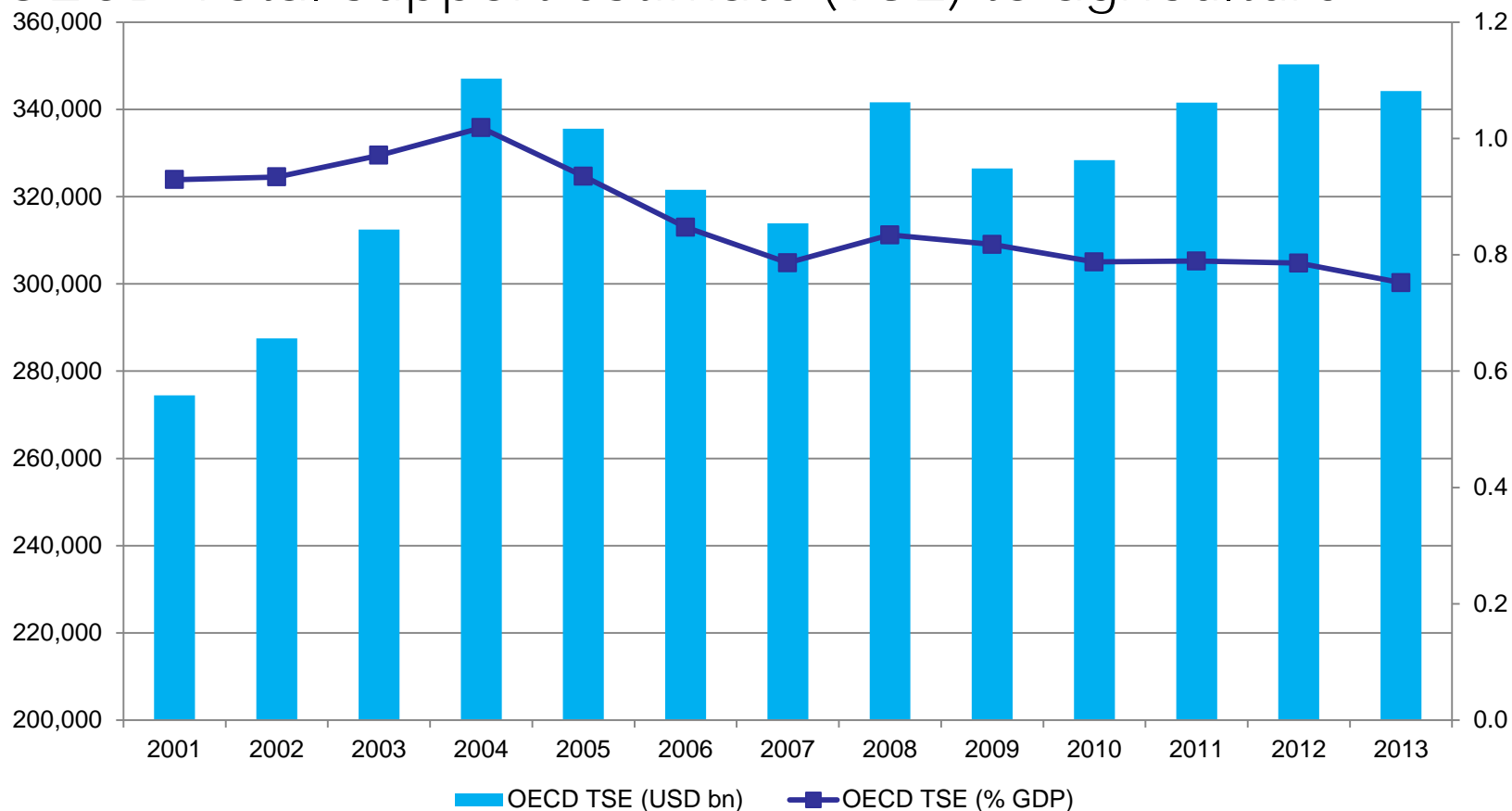
## Building-up agricultural productive capacities in CDDCs

Agricultural subsidies remain a major issue for CDDCs farmers as they distort international prices.

- WTO negotiations have **not led** to a drop in the Total Support provided by OECD governments in nominal terms (344 bn\$ in 2013 vs 274 bn\$ in 2001).
- "displaced exports" are particularly important for sugar, cotton and rice trade.
- Phenomenon of "box shuffling" is masking distortions (see Breustedt and Habermann, 2011)
- Subsidies to CDDCs farmers remain marginal. India allocated for instance 19 billion\$ Green Box for 397 million poor (the US: 127 billion\$ /5 million poor) - (see Banga, 2014)

# Building-up agricultural productive capacities in CDDCs

## OECD Total support estimate (TSE) to agriculture



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## To conclude

- Although price volatility has declined over the last three years, it affects the economic welfare of both commodity-exporting and importing countries, in particular CDDCs.
- To date, policy measures to mitigate the impact of high price volatility have achieved limited results.
- Need to:
  - Seize technological opportunities to improve access to finance and market intelligence:
  - build on the momentum of trade negotiations to effectively address trade-distorting agricultural subsidies, tariff peaks and tariff escalation, as well as non-tariff measures.
  - Clarify Bali 'peace clause' on food reserves

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