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21-22 April 2016, Geneva

**Agricultural commodity price trends and
their implications for food security**

By

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The views expressed are those of the author and do not necessarily reflect
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Food and Agriculture
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AGRICULTURAL COMMODITY MARKETS, TRADE AND FOOD SECURITY

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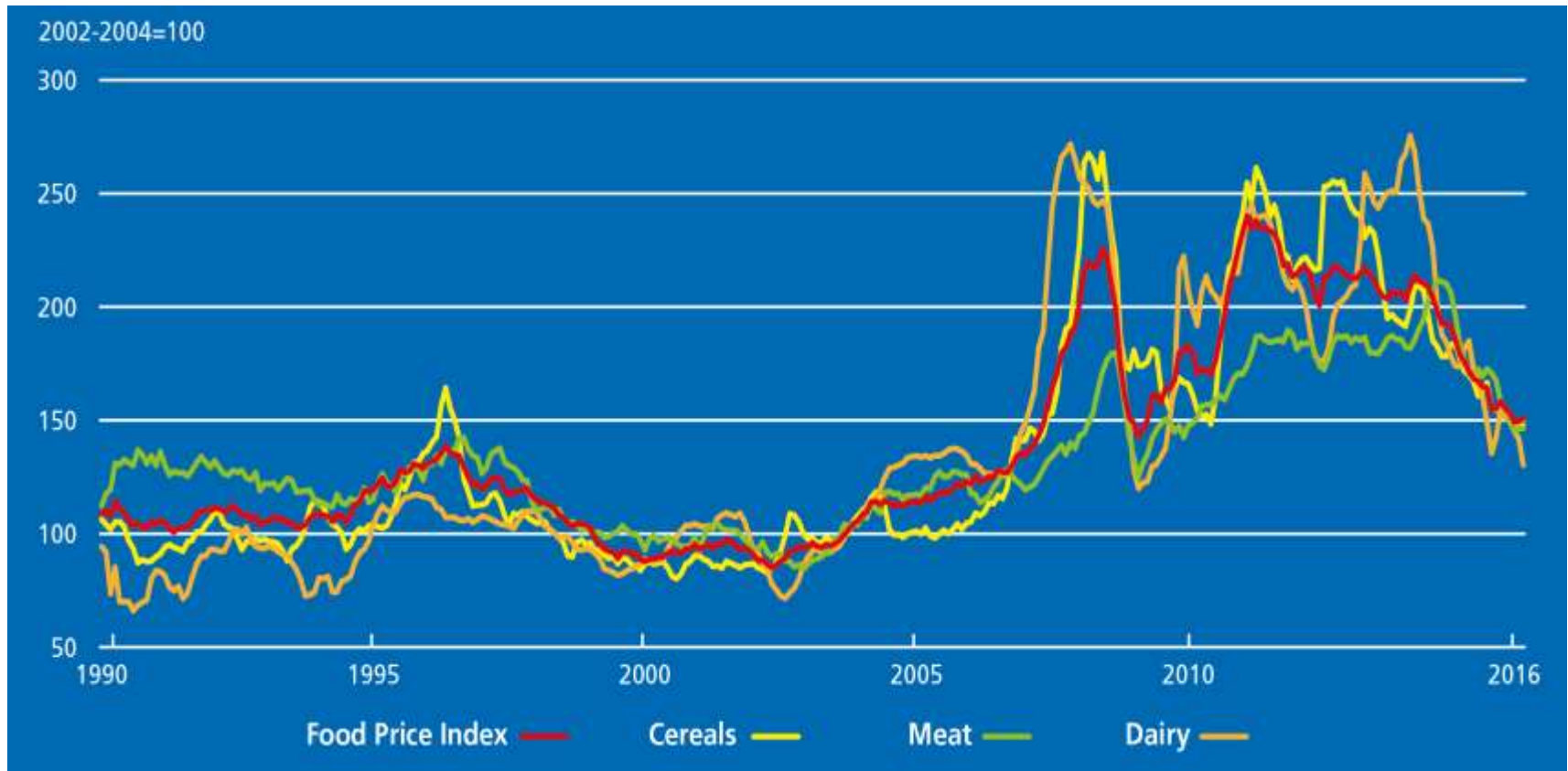
**UNCTAD Multi-Year Expert Meeting on Commodities and Development
Geneva, 21-22 April 2016**

Outline

- 1. What are the food commodity price trends and what do the balance sheets look like?**
- 2. What are the trends in food commodity trade and expected developments over the next years?**
 - **Evolution of net trade by region**
 - **Composition of trade by region**
- 3. How is trade linked to food security?**
- 4. What are the impacts of trade on food security and nutrition?**
- 5. How can trade and related policies contribute to better food security and nutrition outcomes?**

Evolution of food prices since 1990

Prices higher and more volatile... but declining more recently



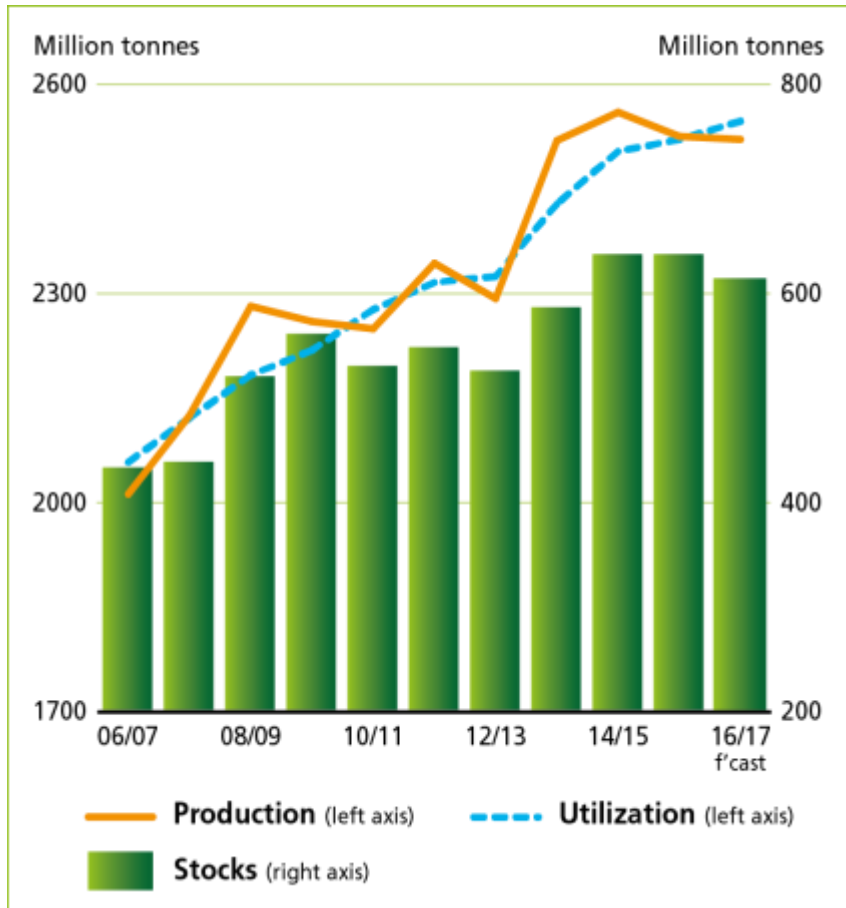
Cereals balance sheet

Is it balanced...

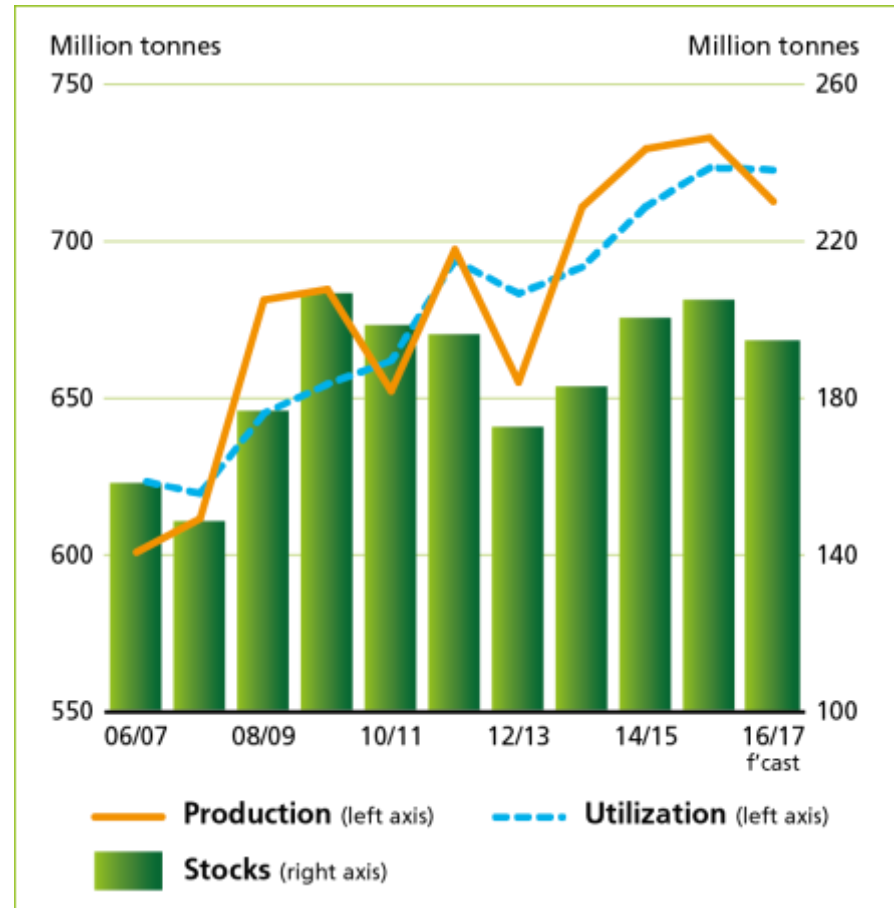
World cereal market					
	2012/13	2013/14	2014/15	2015/16 estimate	2016/17 forecast (07 Apr 2016)
	(..... million tonnes)				
Production¹	2 292.9	2 519.6	2 560.2	2 525.6	2 521.2
Supply²	2 839.6	3 043.9	3 145.0	3 161.3	3 156.7
Utilization	2 324.8	2 428.8	2 504.3	2 521.1	2 547.5
Trade³	318.1	361.6	376.1	370.2	365.1
Ending Stocks⁴	524.3	584.8	635.6	635.5	610.7
	(..... percent)				
World stock-to-use ratio	21.6	23.3	25.2	24.9	23.2
Major exporters' stock-to-disappearance ratio⁵	16.7	17.7	17.6	16.1	14.6

A look at supply and demand (1)

Total cereals

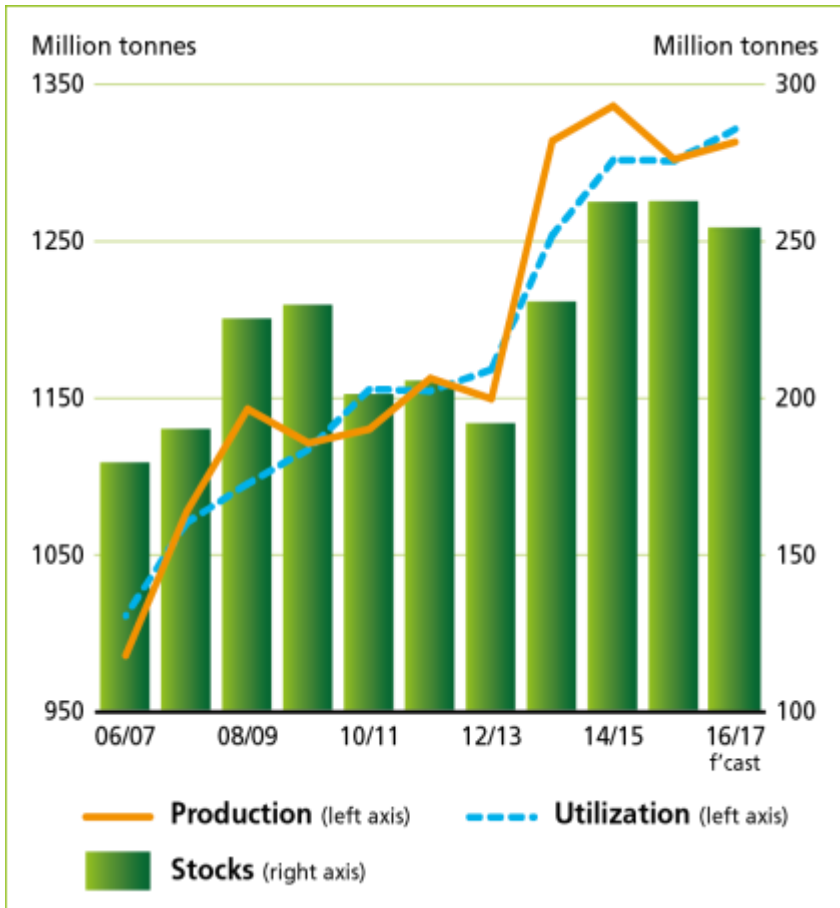


Wheat

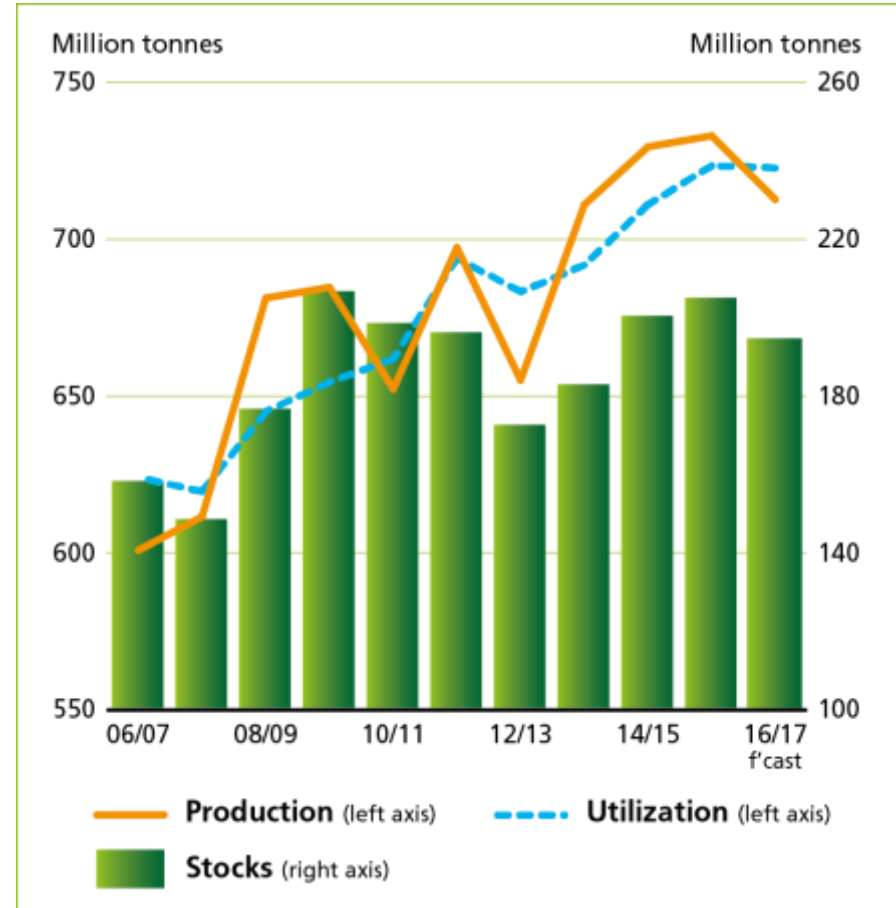


A look at supply and demand (2)

Coarse grains



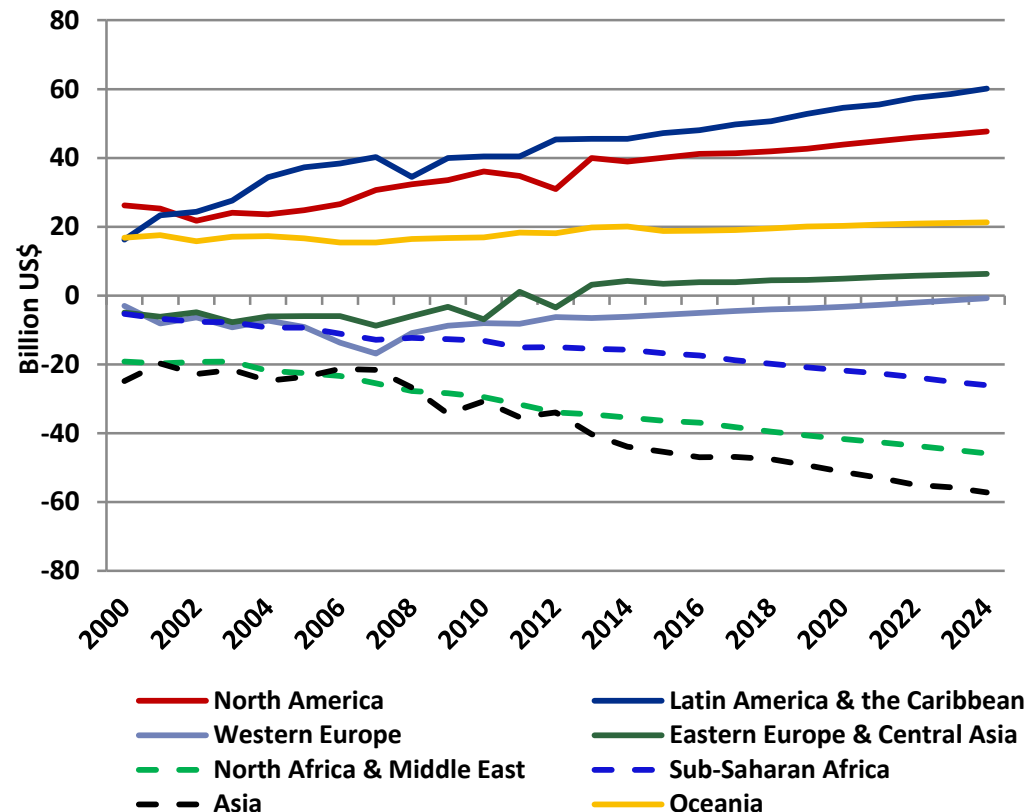
Rice



Agricultural trade, trends and outlook

Trade in agricultural products has grown almost threefold in value over the past decade, driven by high demand, particularly in emerging economies.

- **Among net importing regions,** Asia has been the fastest growing, followed by North Africa and Middle East, and Sub-Saharan Africa
- **Among net exporting regions,** Latin America leads, followed by North America
- **Trade growth is expected to continue, with some regions becoming increasing net exporters and others increasing net importers**



Composition of commodity trade by region

Changing patterns of consumption and food use are driving changes in the composition of trade globally, with exports of agricultural commodities increasingly concentrated in a few countries and regions, while imports are more dispersed.

- **Global consumption tends towards value-added products**, driven by increases in incomes, population and urbanization in developing countries
- **Growing demand for course grains** is driven by the demand for animal feed and biofuel production in developed countries

Projected trade balance, 2023 (volume of net exports, thousand tonnes)

	Cereals			High Value Commodities				
	Wheat	Rice	Coarse Grains	Beef	Poultry	Vegetable Oils	Sugar	Dairy
Africa	-44 987	-18 052	-22 851	-877	-2 192	-8 775	-11 684	-4 061
Asia and Pacific	-49 963	21 083	-63 999	-2 105	-5 234	5 447	-17 342	-10 749
Europe	45 788	-1 368	30 402	-1 110	877	-2 366	-591	6 409
Latin America & Caribbean	-7 074	-1 192	21 795	3 341	3 677	8 362	38 337	-2 187
North America	46 206	2 419	53 574	42	4 710	235	-4 511	3 620
Oceania developed countries	18 329	299	4 154	2 224	57	-386	3 636	10 114

Net Import Status

Net Export Status

Linkages between trade and food security

Trade affects each of the four dimensions of food security: availability, access, utilization and stability



Availability

The availability of sufficient quantities of food of appropriate quality supplied through domestic production or imports

Access

The access by individuals to adequate resources for acquiring appropriate foods for a nutritious diet

Utilization

Utilization of food through adequate diet, clean water, sanitation and health care to reach a state of nutritional well-being

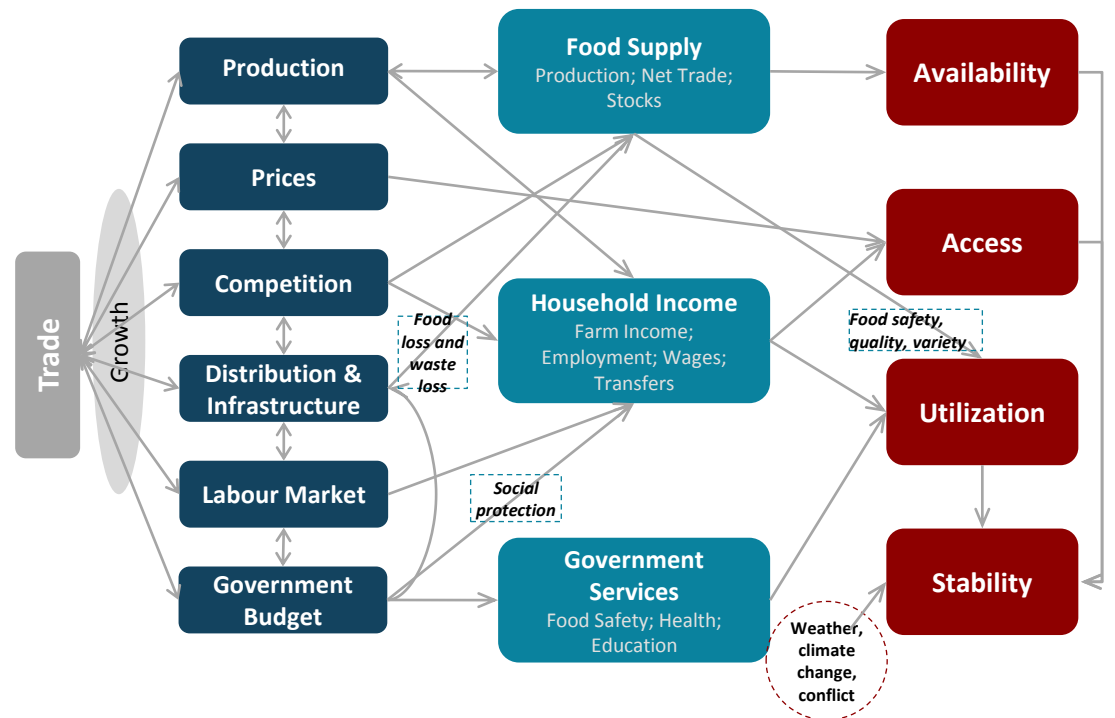
Stability

Access to food at all times, without risk of sudden shocks or cyclical events disrupting access

Linkages between trade and food security

The links between trade and food security are inherently complex, with several channels of interaction affecting the different dimensions of food security simultaneously.

- **Immediate effects on:** food production, total supply, prices, employment and government revenues
- **In the longer run, effects on:** competition, marketing, infrastructure, value chain development, investments.



Legend:

- Economic variables directly affected by trade
- Economic variables indirectly affected by trade
- Food security dimension
- - - Endogenous intervening factors
- - - Exogenous intervening factors

Impacts of trade on food security and nutrition

Trade can have both positive and negative effects on each of the four dimensions of food security. The short and long-term impacts potentially working in different directions can make it difficult to determine a generalizable relationship.

	Short term	Medium to Long Term
Availability	<ul style="list-style-type: none"> Trade boosts imports and increases the quantity and variety of food available 	<ul style="list-style-type: none"> Food production may increase due to greater specialization, and productivity improvements may be triggered by greater competition
	<ul style="list-style-type: none"> Trade may decrease the domestic availability of crops in net exporting countries 	<ul style="list-style-type: none"> In net food-exporting countries, domestic availability of staples may decline, as production is diverted toward exports; in net food importing countries, some producers are likely to curtail production, forgoing the multiplier effects of agricultural activities in rural areas
Access	<ul style="list-style-type: none"> Food and input prices are likely to decrease for net food importing countries 	<ul style="list-style-type: none"> Incomes would rise in competitive sectors, due to greater market access, and growth and employment would be supported by export growth and inflow of FDI
	<ul style="list-style-type: none"> Domestic prices of exportable products may increase for net food-exporting countries 	<ul style="list-style-type: none"> Incomes may decline in import-competing sectors, with some producers transitioning out of agriculture. Also, unequal distribution of gains may occur due to enclave developments in export crops to the detriment of broad-based smallholder food crop production

Possible positive effects
 Possible negative effects

Impacts of trade on food security and nutrition

Trade can have both positive and negative effects on each of the four dimensions of food security. The short and long-term impacts potentially working in different directions can make it difficult to determine a generalizable relationship.

	Short term	Medium to Long Term
Utilization	<ul style="list-style-type: none"> Greater variety of food available may promote a more balanced diet 	<ul style="list-style-type: none"> Food safety and quality may improve if international standards are applied more rigorously
	<ul style="list-style-type: none"> There may be greater consumption of food that is cheaper, high in calories and low in nutritional value 	<ul style="list-style-type: none"> Prioritization of commodity exports may divert land and resources from traditional and indigenous foods, which are often superior from a nutritional perspective
Stability	<ul style="list-style-type: none"> Imports mitigate likelihood of shortages resulting from local production risks 	<ul style="list-style-type: none"> Global markets are less prone to policy- or weather-induced shocks
	<ul style="list-style-type: none"> Countries may be more vulnerable to changes in trade policy by exporters, such as export bans 	<ul style="list-style-type: none"> Sectors at earlier stages of development may become more susceptible to price shocks and import surges

Possible positive effects
 Possible negative effects

Trade for improved food security and nutrition

There is a need to look beyond short-term policy interventions and their possible short-term consequences. Achieving longer-term food security requires policies that promote sustained agricultural productivity increases, with consideration to the level of economic structural transformation in an economy and the role of agricultural commercialization.

STAGES OF AGRICULTURAL TRANSFORMATION

	Earlier	Later
STATUS OF AGRICULTURE	<ul style="list-style-type: none"> • Largely non-commercial production • Fragmented input and output markets • Limited risk management instruments 	<ul style="list-style-type: none"> • Commercialized production • Functional input and output markets • Adequate risk management instruments
GOVERNMENT ACTION	<pre> graph LR P1[Phase 1 Investments establishing the basics] --> P2[Phase 2 Subsidies kick-starting markets] P2 --> P3[Phase 3 Withdrawal] </pre>	
DOMESTIC SUPPORT POLICY	<ul style="list-style-type: none"> • Government incentives have a critical role providing access to finance and input and output markets at low cost and low risk, to allow farmers to generate a surplus 	<ul style="list-style-type: none"> • The use of interventionist approaches can become increasingly detrimental; instead, it is important for governments withdraw from market activities and allow the private sector to take over.
TRADE POLICY	<ul style="list-style-type: none"> • For a defined period of interventions to promote productivity-enhancing private investment, trade policy can help reduce production risks and provide the stability needed for producers to react positively to the incentives. 	<ul style="list-style-type: none"> • In more mature economies, where input, credit and output markets function more efficiently, it may be appropriate to liberalize agricultural trade policy to release further agriculture growth potential.

Key messages

- 1. Food markets are calm and more stable, but we should remain vigilant. Importance of market transparency.**
- 2. Declining commodity prices should not affect agricultural investment or policy direction.**
- 3. Trade affects each of the four dimensions of food security. It is one of the key MoI for the SDGs.**
- 4. Role of trade varies enormously with characteristics of the country (stage of development, economic and landholding structure, degree of integration of farmers into GVC, etc.). Trade rules should recognize this.**
- 5. Goal should be to balance between short-run and long-run objectives so that expansion in agricultural trade supports national and global food security efforts.**

THANK YOU!

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