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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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
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...

Coef. Of variation (UNCTAD food price index)
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.
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**

- 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.
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
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