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# COMMITTEE ON COMMODITY PROBLEMS

## Seventy-first Session

Rome, 4–6 October 2016

### THE STATE OF AGRICULTURAL COMMODITY MARKETS (SOCO) 2015–16: TRADE AND FOOD SECURITY

#### Executive Summary

The relationship between trade and food security and nutrition is attracting increased attention on both the trade and the development agendas. The eradication of global hunger by 2030 is a key goal in the new 2030 Agenda for Sustainable Development, and trade is one of the means for achieving the Sustainable Development Goals (SDGs). As patterns of consumption and production continue to evolve, global trade in agricultural products is expected to continue to increase over the next decade, with substantial implications for the extent and nature of food security across all regions of the globe.

In this setting, the 2015–16 issue of *The State of Agricultural Commodity Markets (SOCO)* takes the view that the appropriateness of alternative trade policy options is largely determined by longer term processes of economic transformation and the role of the agriculture sector within these. Moreover, making trade policy work for food security will require addressing weaknesses in the governance processes of agriculture and trade policy-making and strengthening the synergies among these processes at all levels.

#### Suggested action by the Committee

The Committee is invited to take note of and discuss the content and key messages contained in this document, and to consider the following recommendations for follow-up action:

- the need to strengthen both the human and institutional capacities of developing countries, to better undertake analysis of the implications of trade and related policies for achieving longer-term food security and nutrition objectives;
- provision of further assistance to developing countries to facilitate policy dialogue for improving alignment and coherence between agricultural development strategies and trade-related frameworks and policies; and

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- provision of further assistance to developing countries to engage in regional and global trade and trade-related processes, to ensure that these processes are coherent with and supportive of countries' pursuit of food security objectives.

The Committee may also wish to provide guidance as regards the desirability of linking the production cycle of SOCO to the CCP cycle. The theme to be addressed by future editions of SOCO could be the subject of substantive discussion in the CCP Sessions.

*Queries on substantive content of the document may be addressed to:*

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## I. Introduction

1. The relationship between trade and food security and nutrition is attracting increased attention on both the trade and the development agendas. The eradication of global hunger by 2030 is a key goal in the new 2030 Agenda for Sustainable Development – and trade is one of the means of achieving this goal.

2. As patterns of consumption and production continue to evolve, global trade in agricultural products is expected to continue to increase over the coming decades, and to influence the extent and nature of food security and nutrition across all regions of the world. The challenge, therefore, is how to ensure that the expansion of agricultural trade works for and not against, the elimination of hunger, food insecurity and malnutrition. This challenge has been at the forefront as governments struggle to negotiate the changes to the current global agreements on agricultural trade, which are needed to ensure that trade results in enhanced food security.

3. The linkages between trade and food security and nutrition have been subject to intense debate at national and global levels, and have become central to many trade-related discussions and negotiations. The different interpretations of concepts, approaches and methods of analysis have resulted in a polarized policy debate, with trade being perceived as a threat by some and an opportunity by others. A key challenge that pervades these debates is the compatibility between measures intended to address national food security concerns on the one hand, and their effects on the food security of trading partners on the other.

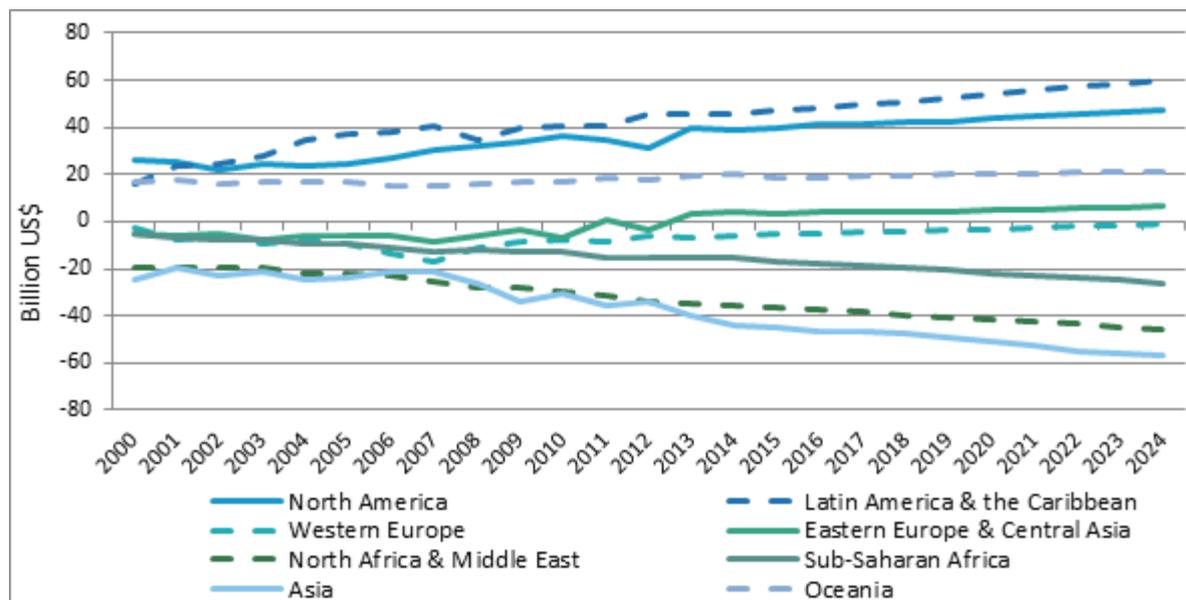
4. *The State of Agricultural Commodity Markets (SOCO) 2015–16* aims to reduce the current polarization of views on the impacts of agricultural trade on food security and on the manner in which agricultural trade should be governed to ensure that increased trade openness is beneficial to all countries. The report argues that shifting attention from the pros and cons of specific policies towards addressing weaknesses in the governance processes of agriculture and trade policy-making will improve identification of required policy space and its appropriate use. Strengthening these processes requires building synergies to increase policy coherence for food security, to enable governments to balance priorities in the design of trade policies, and to improve their compliance with regional and global trade frameworks.

## II. The changing nature of agricultural trade

5. 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. Global trade in food products is expected to continue to expand, with some regions becoming increasing net exporters and other increasing net importers, as depicted in Figure 1.

6. Global consumption tends towards value-added products, driven by increases in incomes, population and urbanization in developing countries, while the growing demand for coarse grains is driven by greater demand for animal feed and biofuel production in developed countries. The composition of trade is evolving such that exports of agricultural commodities are increasingly concentrated in a few regions, while imports are more dispersed. Moreover, the structure of trade, which differs significantly by commodity and by region, is expected to continue to evolve, affected not only by market fundamentals, but also by developments in bilateral and regional trade relations, intrafirm trade and global value chains.

**Figure 1. Evolution of net trade in agricultural products by region, 2000–24**



Source: FAO and OECD. 2015. OECD-FAO Agricultural Outlook 2015 – 2024. Paris, OECD Publishing.

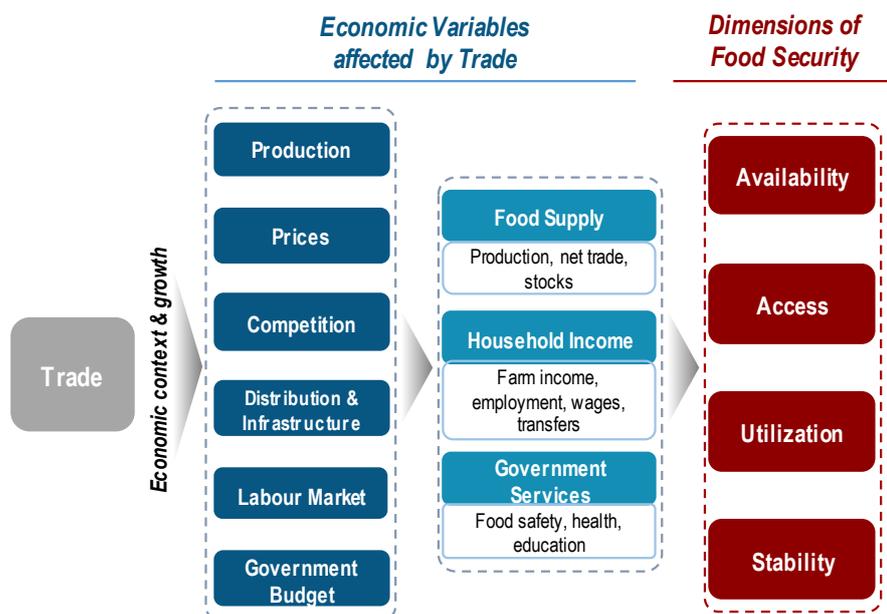
7. Over the next ten years, real prices are expected to continue on their long-term downward trajectory. Food prices have declined from their peak level in 2011. In particular, two years of abundant supplies put further downward pressure on prices of cereals and oil seeds. Going forward, productivity growth – helped by lower input prices – is projected to outpace slowing demand increases. However, experience shows that such a declining trend is periodically interrupted by periods of high and volatile prices, which can be exacerbated by geopolitical and weather events including Climate Change, posing a major threat to food security.

### III. Relationship between trade and food security

8. The links between trade and food security and nutrition are inherently complex, with several channels of interaction simultaneously affecting the different dimensions of food security: availability, access, utilization and stability. Trade affects a number of economic and social variables such as market structures, infrastructure development, the productivity and composition of agricultural output, the variety, quality and safety of food products, and the composition of diets. Changes in these variables affect, to different degrees, all four dimensions of food security.

9. Trade can have both positive and negative effects on each of these dimensions, affecting different economic and social variables in the short, medium and long terms. The short and long-term impacts potentially working in different directions, the overall effect of trade on the different pillars of food security can be heterogeneous.

*Figure 2. Trade and the four pillars of food security: channels of interaction*



10. A number of underlying factors affect the way in which trade interacts with food security outcomes, ultimately determining whether the impact is positive or negative. These factors include: the functioning of domestic food markets; the ability and willingness of producers to respond to changing incentives; and the participation of smallholders in markets. Trade policy interventions need to take into consideration the various underlying factors that influence the linkages between trade and food security.

11. The complexity of the channels of interaction between trade and food security produces great differences in country experiences, making the overall impact largely context specific. SOCO 2015–16 takes the view that trade is neither an inherent threat to, nor a panacea for, improved food security and nutrition, but it poses challenges and risks that need to be considered in policy decision making.

#### **IV. Trade and related policy supportive of food security and nutrition**

12. Trade policies are only one of the many categories of policies that can affect the flow of trade. Producer- and consumer-oriented measures can be equally important because of their direct effects on national production levels and the indirect effects that changes in national production can have on trade flows and global markets. Price policies (that introduce a gap between domestic prices of inputs and outputs and those that would prevail in the absence of such measures) can be particularly important, but as they can be designed and implemented in different ways, can have quite different impacts.

13. The objectives of trade and related policies address different dimensions of food security and nutrition, they differ across countries, and will change over time. There is no single most “appropriate” policy instrument. The objectives of policy interventions should be paramount in determining the appropriateness and in informing the design of trade-related policy.

14. Often, debates related to trade and food security focus on the short-term impacts of market shocks, and the resulting changes in trade flows and prices that consumers and producers face. However, it is important to look beyond short-term policy interventions and their possible short-term consequences when assessing their effectiveness in achieving food security objectives.

15. For example, a period of high and volatile food prices in 2007-2008 prompted a number of short-term policy responses, due to waning confidence in global markets as a reliable source of affordable food. In order to mitigate the negative effects of the increasing cost of food on poverty and hunger, many of the trade policy responses focused on restricting exports (in net exporting countries) or reducing import barriers (in net importing countries) in order to ensure sufficient domestic supplies. However, while such policies may help to achieve short-run national objectives of increasing food availability and lowering food prices, the potential negative impacts of these policies in the medium to long-run, both at the national and global level (such as disincentives for farmers due to an uncertain policy environment, upward pressure on world prices due to tightening of the balance between demand and supply, and exacerbation of uncertainty and volatility in food markets), can significantly undermine any short-term gains.

16. Instead, positioning the debate in the perspective of longer-term dynamics of structural transformation that characterize the development pathways of most countries can have significant implications for the development and use of trade policies compatible with improved food security. 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.

17. In a standard view of structural transformation, countries at low levels of development start from a position of having a large, non-commercial agriculture sector that accounts for a large proportion of their gross domestic product (GDP), and an even larger proportion of employment. In this setting government incentives have a critical role in kick-starting productivity improvements, i.e. providing a larger number of farmers with access to finance and input and output markets at low cost and low risk, to allow them to generate surplus for markets as a business decision.

18. 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. On the other hand, in more mature economies, where input and output markets function more efficiently, there are adequate risk management instruments, and agricultural production is largely commercialized, the use of interventionist approaches can become increasingly detrimental. Instead, it may be preferable for governments to withdraw from market activities, allowing the private sector to take over, and liberalizing agricultural trade policy to release further agriculture growth potential. Taking this longer term perspective, the question is not whether, but when and how countries should open their agriculture sectors to greater competition.

19. In this context, the appropriateness of alternative trade policy options is largely determined by longer-term processes of economic transformation and the role of the agriculture sector within these. This calls for a shift in emphasis from the analysis of short-term policy reactions to shocks to longer-term policy approaches focused on taking advantage of the opportunities and reducing the risks associated with greater openness to regional and global agricultural markets. In this perspective, understanding the specific country context is fundamental in defining how agricultural trade can be supportive of food security.

## **V. Strengthening global, regional and national policy processes for food security**

20. The contribution that trade can make to a country's food security is partly determined by the disciplines that apply to other countries' policies, but also by the "policy space" that the country itself is granted under the World Trade Organization (WTO) rules. In the Agreement on Agriculture (AoA), specific flexibilities are provided to developing countries to help them pursue their food security goals. However, there is continuing debate on the level of flexibility available to countries.

21. The right balance needs to be struck between the benefits of collective action brought through disciplines on the use of trade policy and the policy space required by developing countries, the

identification of which needs to be informed by specific country-level needs. The debate on finding a balance between ensuring that countries are not restricted in their use of policies in the pursuit of national food security concerns and at the same time, that they “do no harm” to third countries resonates with the ongoing dialogue on “universality and differentiation” in the 2030 Agenda for Sustainable Development. This recognizes that the achievement of common goals is subject to a consideration of varying capacities, realities and development progress of different countries.

22. Trade and food security and nutrition governance have suffered from weak connections among these policy making processes at all levels. These weaknesses have compounded the lack of coherence among trade-related priorities and approaches and have made it difficult to provide a global framework for guiding national-level action. Ultimately, this has affected the capacities of countries to formulate coherent trade policies and strategies that are supportive of improved food security. The example of least-developed countries in Africa is emblematic. In these countries, agriculture and food security and nutrition and trade-related strategies and investments plans are generally framed in two separate processes, the Comprehensive Africa Agriculture Development Programme (CAADP) and the Enhanced Integrated Framework (EIF), which involve different ministries, stakeholders, regional bodies, development partners and sources of financial support. Poorly articulated linkages between these processes have resulted in partial strategies and missed opportunities to take advantage of market opportunities.

23. Shifting attention from the pros and cons of specific “policies” (i.e. instruments for achieving overarching sectoral objectives) towards addressing weaknesses in the governance “processes” that guide policy discussion and decision-making in trade and agriculture (i.e. the interactions and competing forces that set these overarching sectoral objectives) will help in: reaching agreement on common and shared objectives and identifying the mix of “policies” that are appropriate for achieving these objectives; identifying relevant policy space and its appropriate use; increasing coherence and predictability of policies; and reconciling national and global food security objectives.

24. The 2030 Agenda for Sustainable Development places significant emphasis on both food security and nutrition and international trade. While food security and nutrition is clearly identified as part of the SDGs under Goal 2 (End hunger, achieve food security and improved nutrition and promote sustainable agriculture), trade is included among the means of implementation (MoIs), which encompass not only financial resources and technology transfer for implementing the SDGs but also the structural reform of international financial and trade architectures. While the specific linkages between trade and food security and nutrition are not clearly articulated in the SDG framework, the fact that there are trade-related targets under a number of goals provides scope for strengthening the role of trade in addressing such fundamental issues as economic growth, inequality, sustainable development and food security and nutrition.

25. Ultimately, the capacity to realize the transformative potential of the SDGs also depends on delivering on the commitments of the Finance for Development (FfD) process, clarifying the role of the MoIs, and the resources associated with them, which in turn is linked to the ongoing reform of Overseas Development Assistance (ODA). The new vision taking shape among donor countries places trade at the core of international cooperation, with donors transforming aid relations into trade relations, with the recognition that trade and related policies can play a major role in creating the enabling conditions for facilitating structural transformation. Debates on trade, trade policy and trade agreements will therefore need to move beyond technical issues, to improved consideration and reconciliation of the links among policy space, structural transformation and resource mobilization if the opportunities that trade can deliver for improved food security are to be realized.

## VI. Suggested action by the Committee

26. In light of the significant emphasis placed on trade as a means of implementation in the 2030 Agenda for Sustainable Development, the Committee may wish to note the following key messages of SOCO 2015–16:

- a) trade and related policy must be formulated as part of a broader package of policies, and must prioritize long-term structural transformation objectives over short term political or commercial interests;
- b) a pragmatic approach focused on context specificity will help ensure that trade policies are better tailored to specific agriculture and food security and nutrition conditions and strategies of different countries; and
- c) making trade policy work for food security and nutrition requires policy-makers to balance competing objectives and improve coherence between agriculture- and trade-related policy making processes, which in turn requires leadership and political commitment.

27. In terms of follow-up actions, the Committee may wish to consider the following recommendations for follow-up action:

- a) the need to strengthen both the human and institutional capacities of developing countries, to better undertake analysis of the implications of trade and related policies for achieving longer-term food security objectives;
- b) provision of further assistance to developing countries to facilitate policy dialogue for improving alignment and coherence between agricultural development strategies and trade-related frameworks and policies; and
- c) provision of further assistance to developing countries to engage in regional and global trade and trade-related processes, to ensure that these processes are coherent with and supportive of countries' pursuit of food security objectives.

28. The Committee may also wish to provide guidance as regards the desirability of linking the production cycle of SOCO to the CCP cycle. The themes to be addressed by future editions of SOCO could be the subject of substantive discussion in the CCP Sessions.