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CONCEPT NOTE OF THE MINISTERIAL MEETING ON LONG-TERM COMMODITY PRICE TRENDS AND SUSTAINABLE AGRICULTURAL DEVELOPMENT Rome, 3 October 2016

1. The theme of this year's Ministerial meeting is 'Long-term Commodity Price Trends and Sustainable Agricultural Development'. After a succession of agricultural commodity price surges between 2008 and 2012 and the concern that international markets were becoming excessively volatile, markets have now become calmer and prices have declined. The conventional wisdom is that, in the long-term, real commodity prices would follow a declining trend interrupted by periodic and sudden surges.
2. Declining agricultural commodity prices coincide with the beginning of efforts by the international community towards the realization of the 2030 Agenda for Sustainable Development and achievement of the Sustainable Development Goals (SDGs). The theme of the meeting will provide an excellent opportunity for ministers to share their views and experiences on important questions regarding the relationship between commodity prices and development, food security, poverty, trade and agricultural productivity and sustainability.
3. The role of agricultural commodity prices is fundamental for sustainable development, especially for countries that depend on agricultural exports and/or in which agriculture is a large sector of the economy. Prices and price movements have an important role in determining incentives for the allocation of resources and adoption of productivity-enhancing technologies as well as implications for income distribution, especially in developing countries with large agricultural sectors. Abrupt and unexpected changes in agricultural commodity prices require close attention by policy makers.
4. Since the price surge of 1974–75 until the beginning of the 2000s, agricultural markets were characterized by declining real prices. This downward food price trend was thought to be detrimental for hundreds of millions of poor farmers in the developing world. Low and progressively declining prices for agricultural products were thought to result in lack of investment in the sector, low productivity, and hence lower incomes with negative implications for smallholders, food security, poverty and rural economy. Indeed, between 1980 and 2010, the rate of growth in the yield of the

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major crops declined. Growth in wheat and rice yields fell from 2.5–3 percent per year to around 1 percent. Maize yields showed annual growth of slightly less than 2 percent.

5. The 2007–08 commodity price surge and the subsequent sharp increases in food prices, together with a prolonged period of high volatility, gave rise to concerns about the negative effects on the food security and nutrition situation of the poorest – especially the urban poor, the net food buying households and the landless – who may spend as much as 75 percent of their income on food. The international community joined forces to find short- and long-term solutions to promote food security, better nutrition and sustainable agriculture.

6. The conclusion from those two price “episodes” is that agricultural prices could be too low to spur investment, or too high to ensure adequate food and nutrition for all.

7. More than 100 developing countries depend on primary commodities, and particularly agricultural commodities, for the bulk of their export earnings. For these countries, developments in world markets impact on their economic growth and development, as well as food security, the incomes of family farmers and the rural sector in general. For instance, the secular decline of primary commodity prices together with sudden unpredictable surges present significant challenges for commodity-dependent developing countries. Furthermore, many of these countries are also net importers of food, and hence buyers as well as sellers on world markets, which makes them more vulnerable to sudden changes in commodity prices.

8. Currently, although the price level in global agricultural markets is higher than that prevailing in the 1990s, a long-term declining trend in agricultural prices may have policy implications for agricultural development efforts, especially within the context of the 2030 Agenda. In this environment, policy makers find themselves in search of policies to accomplish the multiple objectives of sustainable development. There may not be such a notion as the ‘right price of food’. For the urban poor, a low food price is right. A female smallholder who can expand her production and generate more income for her family, prefers a high price. A policy maker may find it difficult to aggregate the price preferences of the urban poor and the female smallholder.

9. The long-term trend behaviour of agricultural prices and the periodic price surges have a determining effect on agricultural development, the transformation of the rural economy, trade and, for many countries, on broader economic growth. This calls for institutions that could respond to different market price environments, and policies that can provide coordinated stimuli to the sector. Agriculture, with its links to food security and nutrition, health, rural development and the environment relates to many SDGs. It is important that Ministers of Agriculture and Trade discuss these important issues, as well as the related policies within the context of the 2030 Agenda for Sustainable Development.

10. Productivity growth that protects natural resources should drive the efforts towards the achievement of the SDGs. Prices shape the environment in which investments and technology and its adoption will promote productivity growth sustainably. High food prices can stimulate investment from the private sector and the farmers themselves, while in an environment of low prices the role of government in facilitating investment as well as research and extension services becomes even more central. This is also true for policies that promote technologies for productivity growth, especially in sectors characterized by small family farmers.

11. Agricultural prices also shape trade and thus can have significant effects on export revenues and the balance of payments for those countries that depend on commodity exports. Trade policies are crucial in maintaining appropriate price incentives to ensure sustainable productivity growth. Excessive price volatility blunts investment, as it increases risk and makes the provision of agricultural insurance necessary. Social protection mechanisms have been very effective in lifting the poor from hunger during periods of high prices. They are also very relevant in periods of low prices and can facilitate investment, if well-targeted to poor smallholders.

12. The discussion of policies and measures that facilitate sustainable agricultural development in the context of long-term price trends has many dimensions. Although the ‘right price’ of food cannot be determined, a country can form institutions that implement the right policies at different price levels. Ministers might wish to give their own national perspectives on experiences and policies in the context of long-term price trends and price changes.

13. There are four sets of broad questions that Ministers might wish to consider in sharing their views and experiences:

- 1) What are the implications of long-term declining agricultural price trends and the periodic price surges on agricultural development, incomes, food security and nutrition and trade? What difficulties do they pose for governments and policy makers?
- 2) What types of policies, measures and mechanisms are needed by the agricultural commodities sector in the context of long-term declining prices for countries to realize their sustainable development objectives?
- 3) How effective are current institutions and policies in providing a coordinated approach to agricultural development in the context of global agricultural price levels and increased volatility?
- 4) What should institutions and policy arrangements be expected to deliver, and how can they be strengthened to create appropriate incentives and contribute towards the realization of the 2030 Agenda?