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COMMITTEE ON COMMODITY PROBLEMS

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THEMES FOR THE NEXT EDITION OF THE STATE OF AGRICULTURAL COMMODITY MARKETS

Executive Summary

At its 71st Session in 2016, the Committee on Commodity Problems "agreed that the production cycle of SOCO be aligned with the CCP cycle and recommended that the theme form the subject of substantive discussion in the CCP sessions". This document presents three proposed themes for the next edition of the report, for consideration by the Committee.

Suggested action by the Committee

The Committee is invited to consider and advise on the proposed themes for The State of Agricultural Commodity Markets 2020, for further consideration and decision by the Director-General.

The Committee may wish to propose additional themes for discussion and further consideration.

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

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I. Introduction

1. At its 71st Session (4–6 October 2016), the Committee discussed The State of Agricultural Commodity Markets (SOCO) and agreed that its production cycle be aligned with the CCP cycle. The Committee also recommended that the theme of the report form the subject of substantive discussion in the CCP sessions.

2. The State of Agricultural Commodity Markets 2018 focused on Agricultural Trade, Climate Change and Food Security and was launched on 14 September 2018, in line with the Committee's decision to align the production cycle of this flagship publication with the CCP sessions. Prior to the this edition, SOCO's edition covering the cycle 2015–2016 was entitled "Trade and Food Security: Achieving a Better Balance". Previous reports have addressed the following themes: Food Prices and the Food Crisis (2009); and Agricultural Trade and the Doha Round (2006). In 2004, SOCO discussed broad issues related to agricultural trade and markets, including terms of trade, food import bills, export earnings and long-term trends.

3. This document presents three proposed themes for the next edition of the report, which will be published in 2020: (i) Agricultural global value chains: measurement and policies; (ii) Agricultural trade patterns: A foresight analysis; and (iii) Innovations in inclusive agricultural markets.

II. Agricultural global value chains: measurement and policies

4. Today's globalized economy is increasingly shaped by global value chains (GVCs). GVCs, particularly in the agri-food sector, can provide an entry point for producers in the developing world to participate in international markets. This, in turn, is critical to economic development, especially for developing countries with large agricultural sectors. The emergence of GVCs can have a profound impact on agricultural markets, prompting structural changes in international agricultural trade. Tighter vertical coordination between producers, processors and retailers, both in the form of contractual arrangements or within integrated firms, have resulted in efficiency gains. With the rise of multinational enterprises (MNEs), GVCs have become more and more consolidated, most visibly in the food retail sector, but with repercussions along the entire chain.

5. GVCs offer tremendous potential for development. Increased export-led demand for high value agri-food products presents an opportunity for low-income countries to expand and diversify exports. This offers prospects for labour-intensive production systems with high intrinsic value to evolve as part of GVCs, thus contributing to poverty reduction. Participation in GVCs also results in technology and capital transfer, promoting productivity, improving compliance with standards and reducing transactions costs. However, GVCs also carry risks, especially with regard to the bargaining power of small family farmers and rural workers compared with MNEs.

6. The policy environment is critical for a country to realize the development potential of GVCs. Based on evidence on the participation of developed and developing countries in agricultural GVCs, as well as on specific commodity case studies, discussion on GVC impacts and related policy implications can provide significant insights on the potential for small farmers' market integration, economic growth, investment in agricultural processing and the structural transformation path of developing countries.

7. With a view to examining current trends in global agricultural markets, an analysis of international trade through the lens of GVCs, potentially presented by The State of Agricultural Commodity Markets 2019–2020, would be timely. Recent research has attempted to generate insights into the role of policy factors for GVC participation.¹ Though further analysis would be an ambitious

¹ Greenville, J., Kawasaki, K. and Beaujeu, R. (2017), A method for estimating global trade in value added within agriculture and food value chains, OECD Food, Agriculture and Fisheries Papers, No. 99.

exercise, it would also significantly add to policy discussions. Such an analysis would focus on a number of both developed and developing countries, assessing GVC income decomposition and measuring the domestic and foreign content of domestically produced final goods.

III. Agricultural trade patterns: a foresight analysis

8. Since the beginning of the twenty-first century, world agricultural markets have evolved significantly. Between 2000 and 2016, world agricultural trade increased more than threefold in value, with its composition and pattern following the changes in demand and the emergence of new agricultural exporters and importers. The increasing importance of emerging economies has been a major development in global agricultural markets since 2000. Developing countries are also increasingly participating in international markets. Trends in agricultural trade have been driven by economic growth, deeper market integration and the lower cost of moving products, but also by improvements in market access. Analyses suggest that since the 1990s, the reduction in most favoured nation (MFN) tariffs has been as a result of the 1995 WTO Agreement on Agriculture, bilateral and regional trade agreements, unilateral policy changes and tariff reductions, but also of ‘locking’ in applied tariff rates.

9. In the future, structural changes in international trade are likely to accelerate due to a number of drivers, additional to economic growth, population increases and increased demand. First, climate change will affect the comparative advantage of agriculture across regions. Second, increased demand for high quality, nutritious and safe food – as a result of changing dietary habits, food safety hazards, and increasing awareness of ethical and environmental aspects – is likely to lead to more stringent food standards. Third, improvements in, and adoption of digital technologies are likely to strengthen market integration and reduce trade and transaction costs.

10. Finally, the proliferation of Regional Trade Agreements (RTAs) is likely to continue. The United Nations Conference on Trade and Development (UNCTAD) estimates that for the 2007–2012 period, the annual growth rate of agricultural trade being conducted within RTAs was more than double that outside RTAs, indicating that the architecture of international trade is changing. Deeper and larger ‘plurilateral’ RTAs, such as the Trans-Pacific Partnership (TPP), the Transatlantic Trade and Investment Partnership (TTIP) and the Regional Comprehensive Economic Partnership, indicate a general trend in trade agreements that goes beyond tariff reductions, which may also reflect the underlying risks of excluding some developing countries.

11. Addressing future trends and challenges for agricultural trade ought to be based on evidence and analysis. In 2020, The State of Agricultural Commodity Markets could take the form of a foresight analysis, building on this year’s work on climate change, trade and food security, and discussing the likely impact of additional drivers on trade patterns. This proposed work will provide a systematic and coordinated attempt to assess the medium- and long-run future of agricultural markets and trade, building around emerging issues, identifying key drivers that are likely to have a major influence on the sector and assessing their impact. Its broad objectives will be to raise awareness and set priorities for policy makers and research, create a shared strategic vision and reduce uncertainty.

IV. Innovations in inclusive agricultural markets

12. Most analyses on agricultural development underline the significance of integration of family farmers in markets. Lack of access to markets due to poor infrastructure, missing credit and insurance markets, and little capital mean that most farmers in developing countries choose to produce mainly for their own consumption. In Kenya, for example, small farmers sell just 25 percent of the production

and consume the rest in-house. In mountainous Nepal, the proportion of agricultural production sold in markets is estimated at just 12 percent of their production.²

13. The policy recommendations on ‘Connecting Smallholders to Markets’ adopted by the Committee on World Food Security (CFS) in its 43rd Session, highlighted the importance of markets linked to local, national, and regional food systems as the most remunerative for small farmers and beneficial for food security and rural economies. CFS also invited all stakeholders to document experiences and lessons from using these recommendations and facilitate follow-up by mapping, assessing and promoting exchange of experience in some key areas, such as methodologies for data collection, food safety and public procurement programmes.³ There are many innovations in markets that are driven by the private sector, but also by governments and civil society. Nevertheless, evidence on market innovations is scarce and not organized – most publications recite the constraints small family farmers face and present general policy prescriptions.

14. The State of Agricultural Commodity Markets 2020 could potentially arrange, analyse and present previously non-systemized evidence on market innovations, such as public sector procurement mechanisms, private sector inclusive business models, community-supported initiatives and market mechanisms supported by civil society. The analysis would focus on how market participants are connected in such innovative market models to strengthen market integration, as well as on the potential gains in terms of farm income increases, employment, food security and nutrition. Additional insights would be gained regarding the transparency of these markets, and innovative financing modes that harness private capital for job creation and inclusive growth.

² FAO, 2017. Small Family Farms Dataportrait, FAO, Rome. <http://www.fao.org/family-farming/data-sources/dataportrait/farm-size/en/>

³ Committee on World Food Security. 2016. Report, Forty-third Session ‘Making a Difference in Food Security and Nutrition’.