



The State of Agricultural Commodity Markets *IN BRIEF*

Trade and food security: achieving a better balance between national priorities and the collective good



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A local market in Gambia, part of an FAO project aiming to improve livelihoods and food security through increased agricultural productivity, marketed output and incomes of farmers.

Introduction

The relationship between trade and food security 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 post-2015 sustainable development agenda – and trade is one of the means for achieving this goal.

As patterns of consumption and production continue to evolve, global trade in agricultural products is expected to continue to increase over the coming decades. Trade will increasingly influence the extent and nature of food security across all regions of the globe. 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 needed to ensure that trade results in enhanced food security.

The linkages between trade and food security have been subject to intense debate, at the national and global levels, and have become central to many trade-related discussions and negotiations. A key challenge that pervades these discussions 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. *The State of Agricultural Commodity Markets 2015* aims to reduce the current polarization of views on the impacts of agricultural trade on food security, and how agricultural trade should be governed, to ensure that increased trade openness can benefit all countries. By providing evidence and clarity on a range of topics, the report seeks to contribute to a more informed debate on policy choices and identify required improvements in the policy processes within which these choices are made.

The changing nature of agricultural trade

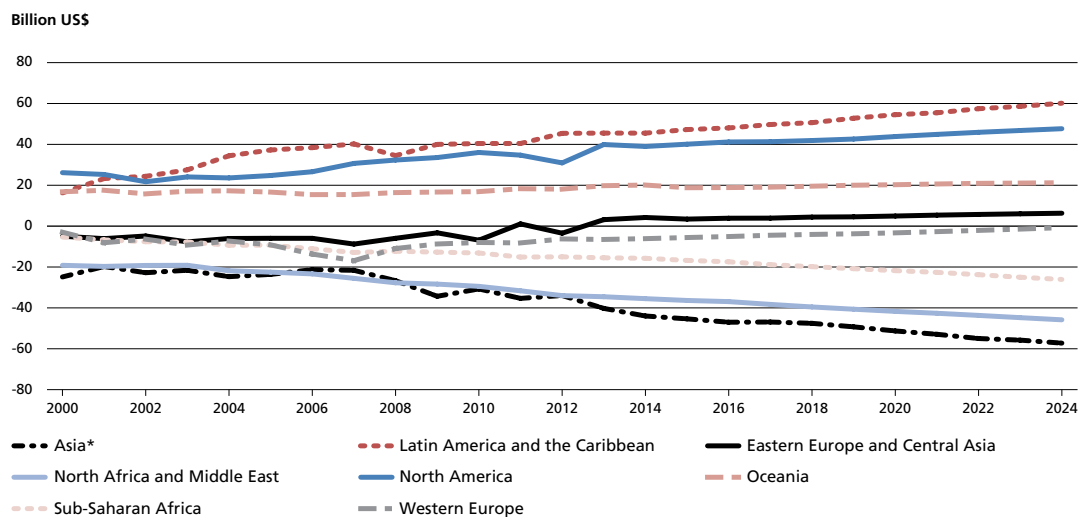
Key message 1 Global trade in food products continues to expand rapidly, but the structure and pattern of trade differs significantly by commodity and by region. Key drivers of production and demand, including trade and related policies, shape these patterns in different ways, with potentially important implications for food security.

Global trade in food and agricultural products has grown almost three-fold in value terms over the past decade and rates of growth are projected to continue to rise, with some regions increasing net exports and others increasing net imports.

The structure of trade differs significantly by commodity and by region and will continue to evolve. Increasing incomes, populations

and urbanization in developing countries are contributing to changes in lifestyle and diets that affect the patterns of trade flows between countries, as well as the composition of that trade. Further developments in the architecture of global trade are affected by the emergence of global value chains, increasing intra-firm trade, and the proliferation of bilateral and regional trade relations.

Evolution of net trade in agricultural products by region, 2000–24



Notes: Net exports of cereals, oilseeds, sugar crops, meats, fish and dairy products evaluated at 2004–06 constant international reference prices. Data from 2014 onward are projections.

*“Asia” covers all Asia except for Central Asia and includes Southeast Asia, South Asia, and East Asia (including China).

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

Key message 2 Greater participation in global trade is an inevitable part of most countries’ national trade strategies. However, the process of opening to trade, and its consequences, will need to be appropriately managed if trade is to work in favour of improved food security outcomes.

Understanding the dynamics of agricultural trade is key to understanding the potential implications for food security.

As food imports have increased, many countries have become concerned about the reliability of global markets as a source of affordable food. While opening to trade increases food availability in importing countries and exerts downward pressure on

consumer prices, it also brings with it potential risks. Although global markets tend to be less volatile than domestic markets, greater reliance on international markets can leave countries vulnerable to the actions of trading partners and to short-term market shocks, both those resulting in tighter supplies and increased consumer prices, as well as those resulting from surges in imports and consequent depressions in producer prices.

Trade and food security: conceptual linkages

Key message 3 Trade affects each of the four dimensions of food security: food availability, access, utilization and stability. The interaction of trade with these dimensions is complex and depends on a variety of underlying factors, producing great differences in country experiences and making it difficult to ascertain a generalizable relationship.

Trade affects many of the economic and social variables that ultimately determine a population's food security and nutrition status – including growth, incomes, poverty levels, food prices and government budgets. Trade affects 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 all four dimensions of food security to different degrees.

Countries engage in trade under different circumstances and at different levels of development. Trade has direct implications for food security because in most countries imports

constitute an important part of total food supplies. While competition with imports can have disruptive effects on local producers, it can also stimulate productivity-enhancing changes and innovations in domestic production and associated supply chains. Exports can contribute to poverty reduction if export revenues improve the incomes of low-income populations.

Evidence of the impacts of trade on food security is limited and, where it does exist, it generally suggests that the impacts are mixed. Trade in itself is neither an inherent threat to, nor a panacea for, improved food security and nutrition, but it can pose challenges and risks that need to be considered in policy decision-making.

Possible short-, medium- and long-term effects of trade on the four dimensions of food security

	Possible positive effects	Possible negative effects
Availability	<p>Short term</p> <ul style="list-style-type: none"> Trade boosts imports and increases both the quantity and the variety of food available. <p>Medium-to-long term</p> <ul style="list-style-type: none"> The resulting specialization can lead to increased production of food through efficiency gains. Greater competition from abroad may trigger improvements in productivity through greater investment, R&D, technology spillover. 	<p>Medium-to-long term</p> <ul style="list-style-type: none"> For net food-exporting countries, higher prices in international markets divert part of production previously available for domestic consumption to exports, potentially reducing domestic availability of staple foods. For net food-importing countries, domestic producers who are unable to compete with imports are likely to curtail production, reducing domestic supplies and foregoing important multiplier effects of agricultural activities in rural economies.
Access	<p>Short term</p> <ul style="list-style-type: none"> For net food-importing countries, food prices typically decrease when border protection is reduced. Imported food and input prices are likely to decrease. <p>Medium-to-long term</p> <ul style="list-style-type: none"> In the competitive sectors, incomes are likely to increase as the result of greater market access for exports. The macroeconomic benefits of greater trade, such as export growth and inflow of foreign direct investment, support growth and higher employment, which in turn boost incomes. 	<p>Short term</p> <ul style="list-style-type: none"> For net food-exporting countries the domestic prices of exportable products may increase. <p>Medium-to-long term</p> <ul style="list-style-type: none"> Employment and incomes in sensitive, import-competing, sectors may decline, with some producers transitioning out of agriculture. Unequal distribution of gains may occur through enclave developments in export crops to the detriment of broad-based smallholder food crop production.
Utilization	<p>Short term</p> <ul style="list-style-type: none"> Greater variety of available foods through imports may promote a more balanced diet and accommodate different preferences and tastes. <p>Medium-to-long term</p> <ul style="list-style-type: none"> Food safety and quality may improve if exporters have more advanced national control systems in place or if international standards are applied more rigorously. 	<p>Short term</p> <ul style="list-style-type: none"> Greater reliance on imported foods is often associated with an increase in consumption of cheaper and more readily available foods that are high in calories and low in nutritional value. <p>Medium-to-long term</p> <ul style="list-style-type: none"> Prioritization of commodity exports diverts land and resources from traditional and indigenous foods, which are often superior from a nutritional perspective.
Stability	<p>Short term</p> <ul style="list-style-type: none"> Imports reduce the seasonal effect on food availability and prices to consumers. Imports mitigate the likelihood of shortages resulting from local production risks. <p>Medium-to-long term</p> <ul style="list-style-type: none"> Shallow versus deep markets: global markets are less prone to policy- or weather-induced shocks. 	<p>Short term</p> <ul style="list-style-type: none"> Assuming obligations with regard to trade policies may reduce the policy space to deal with short-term market shocks. Vulnerability to changes in trade policy by exporters, such as export bans. <p>Medium-to-long term</p> <ul style="list-style-type: none"> Sectors at earlier stages of development may become more susceptible to price shocks and/or import surges.



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Trade affects the four dimensions of food security: food availability, access, utilization and stability. Fruit and vegetable vendors at a city market in Cairo, Egypt.

Key message 4 The relationship between the level of engagement in trade and food security is influenced by the way food markets work, by the ability and willingness of producers to respond to the changing incentives that trade can bring, and by the geography of food insecurity, each of which needs to be accounted for in the formulation of trade policy interventions.

Competition issues in agriculture affect the purchasing power of the poor and the level of agricultural production through their influence on prices and price transmission; the availability of inputs; production volumes; and the level of investment in rural infrastructure. The scale of production, the structure of value chains, government regulation and entry barriers in marketing channels, and the activities of parastatals or state trading enterprises all play a role. The extent to which smallholder family farmers are able to participate in markets is also a crucial determinant of food security.

Many consumers have benefited from the lower costs and larger variety of products resulting from the emergence of highly competitive supermarket supply chains. However, producers face increased pressure to supply higher-quality

goods at lower prices, and the investments and organizational adjustments needed may be challenging for many small farmers and processing firms.

Trade can also affect agrarian structures through the creation, transformation and destruction of markets. Some criticisms of open trade relate to potentially negative impacts of market liberalization on the agrarian structure, such as the expansion of larger and more industrialized farms reducing productive and income-generating opportunities for smallholders and increasing the competitive advantage of large firms. In assessing these issues, it needs to be recognized that agrarian structures are far more complex than the dichotomy between industrial agriculture and family farms.

Trade and related policy supportive of food security

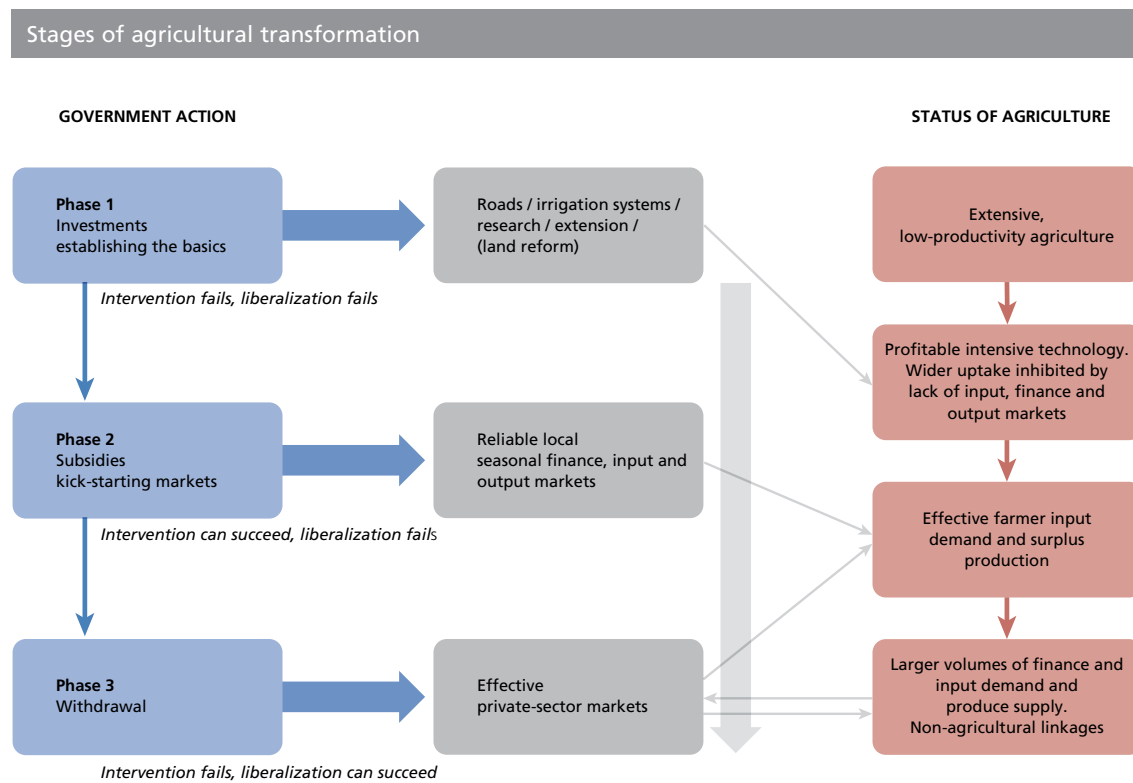
Key message 5 Trade and related policy objectives address different dimensions of food security, will differ across countries, and will change over time. The appropriateness of alternative trade policy options is largely determined by longer term processes of economic transformation and the role of the agriculture sector within these.

The objectives of trade and related policy interventions should be paramount in determining their appropriateness, and in informing their design. Policy-makers need to be cognisant of these changing policy objectives and establish mechanisms for adjusting policies accordingly.

Thinking in terms of the four dimensions of food security can assist in differentiating among country contexts. For example, the distribution and location of food-insecure populations can affect the balance between policy objectives focused on increased production and rural incomes, and those focused on securing cheaper food for urban populations. The level of economic development of a country also matters. In countries with underdeveloped agriculture

sectors, productivity enhancement objectives are likely to be more important initially because of the significant multiplier effects that are generated through increases in agricultural productivity. As the economy develops and the gap between urban and rural incomes widens, income support tends to become a more important objective. In more mature economies, the objectives of trade and related policy reach far beyond agricultural production and food security.

Perceptions that some policy instruments currently used in developed countries have been problematic should not be used as the main argument against their use in other countries with sectors at different levels of development and with different policy objectives.



Key message 6 Episodes of food price spikes are important for their potential negative impacts on food security. Geopolitical and weather uncertainties, as well as government responses, are likely to exacerbate these episodes in the future, with increasing potential for disruptions to trade flows. The likelihood of price spikes, even if episodic, needs to be factored into longer-term decisions related to the management of trade in food and agricultural products.

Policy-makers' objectives need to consider both the short-term management of trade and markets, and longer-term economic and social development. Policies to address short-term, transitory food security concerns are different from those designed to promote the sustained agricultural productivity increases needed to reduce food insecurity over the longer term, and may not be complementary. Balancing short-run and longer-run objectives is vitally important as they can have conflicting implications for food security.

In the context of food security, attention is often focused on the use of trade policy to pursue short-term objectives such as those addressing the impacts of market shocks and the resulting changes in trade flows and prices that consumers and producers face. Moving beyond static, short-term considerations and positioning the debate in the perspective of longer-term dynamics of structural transformation in growing economies has significant implications for the development

and use of trade policies compatible with improved food security.

In a longer-term perspective, using phased approaches to policy reform rather than introducing radical changes in trade and related policy is important to ensure stability in the types of interventions made. Trade reforms should also be considered as part of broader policy packages aimed at achieving sustainable development goals, including eradication of hunger, food insecurity and malnutrition. The possible implications of changes in trade policies for the different productive sectors, including agriculture, and the fiscal space for providing vital public-sector services and safety nets to address food security concerns, should be taken into account.

A pragmatic approach focused on context specificity will help ensure that trade policies are tailored to the specific agriculture and food security conditions and strategies of different countries.



Towards improved governance for trade and food security



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Rome, FAO headquarters – 2014 Ministerial meeting on Governance and International Commodity Markets.

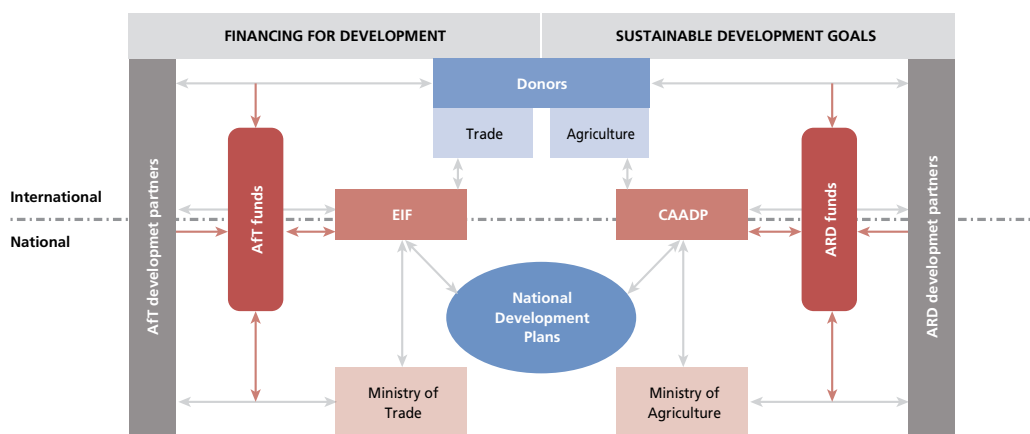
Key message 7 Trade and food security concerns can be better articulated in the multilateral trading system through improvements to the World Trade Organization’s Agreement on Agriculture. However, the right balance needs to be struck between the benefits of collective action brought through disciplines 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 WTO Agreement on Agriculture (AoA) provides the basis for improved articulation of trade and food security concerns in the governance of the multilateral trading system. However, while it has been argued that the AoA provides developing countries with sufficient policy space to address food security issues, measures of policy space rarely distinguish between space that is available and space that is relevant to the specific country.

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 post-2015 development agenda. This recognizes that the achievement of common goals is subject to a consideration of the varying capacities, realities and development progress of different countries.

Key message 8 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.

Governance of agriculture and trade planning processes in least-developed countries in Africa



Notes: Aft = Aid for Trade; ARD = Agriculture and Rural Development; CAADP = Comprehensive Africa Agriculture Development Programme; EIF = Enhanced Integrated Framework for Trade-related Technical Assistance.

Source: Adapted from E. Canigiani and S. Bingi. 2013. Connecting food value chains in Africa. *GREAT Insights*, 2(5). July-August 2013. Maastricht, Netherlands, European Centre for Development Policy Management.

Addressing weaknesses in the governance of the “processes” that guide policy discussion and decision-making in trade and agriculture will help in reconciling multiple views, objectives and trade-offs. Trade and food security governance have suffered from weak connections among these 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 capacity 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 trade-related strategies and investment 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,

different stakeholders, different development partners and different sources of financial support. Poorly articulated linkages between these processes have resulted in partial strategies and the inefficient use of resources.

Building synergies between agriculture and trade-related policy-making processes will increase policy coherence for food security. It will assist in reaching agreement on common and shared objectives and priorities across sectors and in identifying the mix of policies and financing packages most appropriate for achieving them.

Policy processes and related debates affecting trade, trade policy and trade agreements therefore urgently need improved consideration and reconciliation of the links between policy space, structural transformation and resource mobilization if the significant opportunities that trade can deliver for improved food security are to be realized.



The State of Agricultural Commodity Markets, published biennially, aims to present commodity market issues in an objective and accessible way to policy-makers, commodity market observers and stakeholders interested in agricultural commodity market developments and their impacts on countries at different levels of economic development. It is intended to raise awareness of the potential impacts of these developments on the livelihoods and food security of individuals across the globe, as well as on the economies of countries that depend on commodity exports for a significant part of their export earnings or on food imports for a substantial share of their food supplies.

To see the full report go to: <http://www.fao.org/3/a-i5090e.pdf>