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COMMITTEE ON COMMODITY PROBLEMS

Seventieth Session

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FAO'S WORK PROGRAMME IN TRADE AND MARKETS UNDER THE REVIEWED STRATEGIC FRAMEWORK

Executive Summary

The Committee on Commodity Problems (CCP) plays an important role in shaping the priorities for FAO's work in the area of trade and markets by providing guidance and input for the formulation and implementation of the Organization's Programme of Work and Budget (PWB) and Medium Term Plan (MTP). This document introduces the Reviewed Strategic Framework 2010-2019, the related Medium-Term Plan 2014-17 and the Programme of Work and Budget 2014-15. It provides an overview of FAO's achievements in the area of trade and markets in the 2012-13 biennium, analyses major trends and emerging issues that will influence FAO's work and activities in trade and markets and lays out the priority areas of FAO's work in these domains in 2014-17.

Action sought from the Committee

The Committee is invited to:

- Advise on the trends and emerging issues identified as part of the global development context; and
- Highlight the main priorities for work in the area of trade and markets that should be taken into account in the review and implementation of action plans and programmes to achieve FAO's Strategic Objectives.

Queries on the substantive content of the document may be addressed to:
Boubaker Ben Belhassen
Secretary of the Committee on Commodity Problems (CCP)
Email: boubaker.benbelhassen@fao.org

I. Introduction

1. The 38th session of the FAO Conference in June 2013 approved the Reviewed Strategic Framework 2010-19, the Director-General's Medium-Term Plan 2014-17 and the Programme of Work and Budget 2014-15 (MTP/PWB)[1]. The Strategic Framework includes FAO's Vision, the revised Global Goals, the five new Strategic Objectives, as well as a sixth objective on technical quality, knowledge and services and the cross-cutting themes of gender and governance (see Annex 1 for the main components of FAO's Results Framework). The MTP/PWB sets out the results framework with outcomes, outputs and measurable indicators of achievement. The FAO Conference emphasized that the five Strategic Objectives represented those areas of work on which FAO will focus its efforts in support of Member Nations and welcomed their cross-cutting nature, which will enable the Organization to work in a multi-disciplinary and integrated manner.

2. Priority areas for FAO's work in trade and markets have been informed by:

a) FAO's reviewed Strategic Framework and new Medium-Term Plan which contains the Strategic Objective results frameworks for organizing the response to priorities;
b) the Secretariat's analysis of major trends and issues likely to influence FAO's work in trade and markets during the medium term, 2014-17; and
c) guidance from FAO Governing Bodies, including the CCP itself, and the Regional Conferences, which identify region-specific needs in the context of FAO's Strategic Objectives and build on FAO Country Programming Frameworks.

3. FAO's results-based approach is underpinned by a distinct set of targets and indicators at three interlinked levels of results – Strategic Objectives, Organizational Outcomes, and Outputs[2] to enable monitoring and evaluation. This framework will strengthen FAO's corporate reporting from the 2014-15 biennium onwards. While the results framework cannot be applied in the review of achievements in 2012-13 (see Section III), it will inform the shaping of priority areas of FAO's work in trade and markets.

4. This report is divided into three substantive sections:

a) Section II provides a brief overview of FAO's achievements in the area of trade and markets in the 2012-13 biennium;
b) Section III highlights the major trends and emerging issues at the global level that will influence FAO's work in trade and markets over the medium term; and
c) Section IV identifies the priority areas of FAO's work in trade and markets in 2014-17, and how this work is integrated in the new Strategic Objectives.

II. Achievements in 2012-2013

5. FAO's work on trade and markets during the 2012-13 biennium focused on seven key areas of work that contributed to the achievement of Strategic Objectives G, H and I, and which was guided by previous sessions of the CCP.

6. FAO's work on global market information, monitoring and analysis, including regular updates of countries' supply and demand balances and of developments in international food prices was further strengthened in 2012-13. In its capacity as host of the Agricultural Market Information System (AMIS) Secretariat, FAO collaborated with nine member organizations and entities to strengthen this G20 initiative by launching AMIS Statistics, which offers a unique tool to compare and download key

[1] C 2013/7 Reviewed Strategic Framework, C 2013/3 MTP/PWB, and C 2013/REP paragraphs 96-110
[2] CL 148/3 Adjustments to the PWB 2014-15, paragraphs 40-70 and PC 115/2 Progress on MTP 2014-17, Annexes 1 and 2

market data from different sources, and the AMIS Market Monitor, representing a joint assessment of the current market situation and short-term outlook and featuring data and analysis from FAO, the Group on Earth Observations Global Agricultural Monitoring (GEOGLAM), the Organisation for Economic Co-operation and Development (OECD) and the International Grains Council (IGC). FAO has organized annual meetings of the AMIS Rapid Response Forum, which has helped to ensure regular exchange of market information and to foster policy dialogue among participating countries, aimed at averting market disruptions and coordinating action.

7. FAO's work on medium-term outlook and analysis has been further developed and strengthened in collaboration with the OECD. The 2012 edition of the annual *OECD-FAO Agricultural Outlook* contained a feature chapter on “Achieving sustainable agricultural productivity growth” which contributed to the global debate on improving productivity growth in light of rising concerns for food security and sustainability. The 2013 edition focused on “Feeding China: prospects and challenges in the next decade” and was produced in close collaboration with Chinese institutions which benefited from capacity development activities provided by FAO. The report is launched annually by FAO Director-General and OECD Secretary-General in a joint press conference.

8. Regular assessments of the food supply, demand and market situation were provided through the Global Information and Early Warning System (GIEWS) products, including regularly updated country briefs, Food Outlook published bi-annually, Crop Prospects and Food Situation produced quarterly, and the Global Food Price Monitor. The GIEWS “Food Price Tool” for monitoring and analysing food price trends in developing countries was updated on continuous basis. Crop and Food Supply Assessment Missions (CFSAMs) were undertaken in eight countries in 2012-13, and capacity building on food balances for decision making and policy analysis was provided in six countries.

9. At the multilateral level, FAO continued to support more effective engagement of countries in trade related debates and negotiations through the provision of analyses, capacity development and roundtable events. Under the REU Regional Initiative on Agrarian Structures, countries were assisted in understanding the implications of accession to the WTO for their domestic agricultural policy options. Reflecting the increasing importance of intra-regional trade and of regional trade agreements, FAO strengthened its support to member countries and regional economic communities, resulting for example in the establishment of an Agricultural Trade Policy Advisory Forum in Eastern and Southern Africa. FAO has also supported multi-stakeholder partnerships for sustainable commodity production and trade, notably the World Banana Forum, with the 2nd Global Meeting involving more than 200 participants from the private sector, civil society organisations and governments.

10. FAO continued to lead work and policy dialogue on the impacts of food price volatility and on mechanisms to mitigate its negative consequences. Ministerial meetings were held in October 2012 and October 2013, providing a high-level policy forum for ministers to exchange views and country experiences on issues surrounding food price volatility. In July 2012, FAO organized a high-level event on "Food price volatility and the role of speculation", with the participation of the President of the Dominican Republic and FAO Director-General. In parallel, country level fora were supported in Senegal, the Sudan and Uganda to facilitate the identification of appropriate measures to offset the impacts of food price volatility and to introduce risk mitigation measures at the country level.

11. A synthesis of FAO’s case study and analytical work on the determinants of, and constraints to, smallholder participation in food markets was published in the widely cited “Smallholder integration in changing food markets” report, which has been used in analysing value chain developments with a view to ensuring smallholder market integration. Intergovernmental commodity group (IGG) forums have been convened to coordinate international actions for product market developments that enhance smallholder growers’ income and food security. Examples include the establishment of scientific tea residuals standards under the IGG on Tea.

12. FAO responded to member countries’ demands for assistance to evaluate the impacts of climate change on markets and trade and to support mainstreaming of climate change adaptation into

market development strategies. In Kenya, for example, FAO supported the development of a new strategy for a climate-compatible tea sector. At the global level, FAO initiated a programme to generate policy-relevant evidence, build partnerships and facilitate knowledge exchange on climate change impacts on agricultural supply, food security and trade.

13. FAO participated in the development of the *Principles for Responsible Agricultural Investment that respect Rights, Livelihoods and Resources (PRAI)*, together with the International Fund for Agricultural Development (IFAD), the World Bank and the United Nations Conference on Trade and Development (UNCTAD), and the *Principles for Responsible Investment in Agriculture and Food Systems*. This support is underpinned by continuing research which generated normative lessons on trends and impacts of foreign investment in developing country agriculture.

III. Trends and emerging issues

14. Many of the issues which have been addressed by FAO’s work on trade and markets in 2012-13 will continue to be matters of policy concern and high priority in the next biennium. Developments in global agricultural commodity markets and in international trade are increasingly affected by multi-stakeholder governance mechanisms and agreements. FAO has a critical role to play in informing the evolution of these mechanisms and agreements to ensure that they are compatible with countries’ national trade strategies, policies and measures in pursuit of their food security objectives.

15. In July 2014, the UN Open Working Group (OWG) on Sustainable Development Goals (SDGs), after almost 18 months of work, released its proposal for a set of SDGs for consideration by the General Assembly at its 68th session. The document contained 17 goals and 169 targets. Under proposed goal 2 - "End hunger, achieve food security and improved nutrition, and promote sustainable agriculture", the underlying targets included two targets related to trade and markets. These are: target 2.b. "correct and prevent trade restrictions and distortions in world agricultural markets, including the parallel elimination of all forms of agricultural export subsidies and all export measures with equivalent effect in accordance with the mandate of the Doha Development Round"; and target 2.c. "adopt measures to ensure the proper functioning of food commodity markets and their derivatives, and facilitate timely access to market information, including on food reserves, in order to help limit extreme food price volatility". Furthermore, proposed goal 17 on means of implementation and global partnership included targets on international trade.

A. Understanding changing patterns of trade and their implications

(see CCP 14/2, 14/3, 14/4, 14/5)

16. Since the mid-2000s there have been significant increases in agricultural trade and significant changes in the patterns of trade. These include rapid increases in the quantity and cost of food imports to net food importing developing countries (NFIDCs) and to least developed countries (LDCs); the emergence of some regions, particularly Latin America, as major net exporters of unprocessed agricultural commodities; and the transition of other emerging countries such as China to significant net import status in commodities that they had traditionally exported. Commodity export dependency was declining up to 2000 as countries diversified their production but then increased again, especially in Africa and Latin America, with the so-called “recommoditization” of exports in favour of unprocessed commodities rather than value-added forms.

17. Some countries have particular concerns relating to perceived risks of growing reliance on regional or global markets for sourcing food staples at prices compatible with domestic consumer needs. This has resulted in efforts to increase food self-sufficiency and increased management of trade and of domestic production sectors, for example through long term trade agreements between governments, often with the participation of government trading organizations. Another consequence

has been increased foreign direct investment (FDI) in the agricultural sector of developing countries, most controversially through large-scale land acquisitions and long-term leasing.

18. Producers are linked to traders, processors, retailers through increasingly sophisticated national and international value chains. However, while production is often concentrated in the hands of smallholders, processing and trade tend to be controlled by small numbers of transnational corporations. Smallholders in low income countries are often marginalized with limited participation in value chains and typically receive only a small share of the revenues deriving from their commodities. Growing trade flows have been associated with an increased occurrence and spread of diseases and of product adulteration resulting in increased imposition of regulations and restrictions which can represent technical barriers to trade. Variability in implementation of such regulations can be a contributing factor to changes in the patterns of trade, with trade diversion to less restrictive importers resulting.

B. Increasing importance of crafting international agreements reflective of market evolutions

(see CCP documents 14/5, 14/Inf/6)

19. New and existing international agreements and mechanisms need to recognize the changes in commodity markets and the new market realities and circumstances if they are to continue to play a valid role in facilitating the development of trading systems that enable countries to access new market opportunities, while alleviating their concerns related to reliance on trade to satisfy their food needs. To shape and implement such agreements, the requirements of countries at different levels of development stages need to be better understood and acted upon to improve international trading systems and countries’ capacity to participate in these systems on more beneficial terms.

20. While the agreement at the 9th WTO Ministerial Conference in Bali in December 2013 provided new impetus to multilateral trade negotiations, the role of mega-regional agreements such as Trans Pacific Partnership and of regional trade agreements is likely to become increasingly prominent in determining trade patterns and trading opportunities in the future. In crafting such agreements, the need for differential treatment of countries now receives greater recognition. Both importing and exporting countries need flexibility to implement specific and different national trade strategies, policies, legislation and measures to ensure that they benefit from international trade.

C. Ensuring market transparency, functionality and stability

(See CCP documents 14/2, 14/3)

21. International food markets appear to be calmer than in recent years, but price volatility and mechanisms to limit price spikes continue to be matters of concern and to figure high in international policy debates. While price volatility fell in 2012 and 2013, weather anomalies and events are expected to become more frequent and more intense as a result of climate change, so the current period of calm may not persist. Constant and strengthened monitoring and assessment and improved understanding of short-term market developments remains critical both to ensuring immediate food security needs are met and to promoting improved coordination and coherence in policy responses to market shocks and disruptions.

22. The food price hikes in recent years attracted global attention but also provoked a broader debate on aspects of market behaviour and governance, transparency and stability, the regulation of derivatives markets, the possibility of active market stabilization, and reform of international trade rules. This has resulted in a shift in policy from the interventionist price support and market stabilization towards enhancing market functioning and transparency through the provision of market data and information. The focus has been on improving the timeliness and quality of the data and making the monitoring and outlook work more informative. This requires enhancing the commodity

databases, improving the indicators for market conditions, emphasizing salient aspects of commodity market developments, identifying new emerging issues, and assessing the implications of policy changes.

23. To better incorporate consideration of longer term developments, projections that provide an objective, unbiased, science-based and timely guidelines for decision makers and a reference point for policy-focused debates and scenarios are required. As more countries increase their reliance on global agricultural trade they are looking for tools to support their strategic planning processes to facilitate adaptation of economic integration strategies, trade and commercial policies to the new international trading environment.

IV. Priorities for work in 2014-17

24. The following identified priorities for FAO's work in trade and markets in 2014-17 have been developed on the basis of the trends and emerging issues described in Section III and referenced below under each Strategic Objective. They indicate those actions where FAO can play a pivotal role in line with its comparative advantage in order to contribute to the effective achievement of the new Strategic Objectives. The Committee's views and guidance are sought regarding these priorities and FAO's work programme on trade and markets more generally.

25. By definition, the majority of FAO's work on trade and markets contributes directly to the achievement of Strategic Objective 4: Enable more inclusive and efficient agricultural and food systems. There are, however, important contributions to each of the five Strategic Objectives as summarised below.

A. Strategic Objective 1: Contribute to the eradication of hunger, food insecurity and malnutrition

26. Improving systems for monitoring and responding to changing food security situation is a key role for FAO. In relation to trade and markets, FAO will need to maintain and strengthen its role on information, analysis and monitoring of food supply, demand, prices and food security situation at all levels, and to improve the dissemination of information through enhancements to web pages and other outreach means. A new web page on food price monitoring and analysis, including an improved version of the GIEWS Price Tool in five languages, would facilitate more effective dissemination of data, information and analysis. Increased attention needs to be given to the delivery of capacity building on market analysis and reporting using the adapted version of the GIEWS Price Tool at country level.

B. Strategic Objective 2: Increase and improve goods and services from agriculture, forestry and fisheries in a sustainable manner

27. Climate change is expected to result in shifts in relative levels of agricultural productivity and production patterns due to its differentiated impacts across regions. Changes in patterns of production could significantly affect trade flows, with far reaching impacts on global food security. Work in this area should seek to gain a better understanding of the likely impacts of climate change on agricultural markets and trade patterns.

28. With its ability to draw upon expertise in climate change adaptation and in trade and market analysis, FAO is ideally placed to lead much needed improvements in the knowledge base on the implications of climate change for changes in patterns of trade. FAO will support governments and relevant stakeholders in utilizing this generated knowledge to develop climate-adaptation policies that integrate trade and inclusive growth, including mechanisms to facilitate the transition to sustainable value chains utilizing market instruments such as carbon certification and sustainability standards.

FAO should continue to explore the development of multi-stakeholder, more inclusive partnerships for sustainable commodity trade.

C. Strategic Objective 3: Reduce rural poverty

29. As highlighted during the sixty-ninth session of the CCP, increased engagement of smallholder producers in agricultural markets is key to raising productivity and reducing poverty in rural areas. Countries require assistance to formulate appropriate policy support to facilitating greater levels of participation in markets and to ensure that markets provide remunerative opportunities for smallholders. In supporting countries, FAO should build on its analyses of the determinants of smallholder integration in markets, giving greater priority to facilitating countries' use of this knowledge in ensuring that domestic market developments are compatible with greater and more remunerative participation of smallholders.

30. FAO should also assist member countries in mainstreaming trade and market opportunities and concerns into poverty reduction and decent rural employment strategies and programmes.

D. Strategic Objective 4: Enable more inclusive and efficient agricultural and food systems

31. Several major areas of work on trade and markets contribute to enabling more inclusive and efficient agricultural and food systems.

32. FAO's market information, analysis and outlook work is established as the global reference point but needs continuous maintenance and development, for example to improve the estimation of supply-demand balances for all significant agricultural commodities and improved estimation methods of the various market components, and especially stocks. FAO will strengthen its activities to be a centre of excellence and a global reference point in agricultural commodity monitoring and outlook, especially from a global food security perspective.

33. FAO plays a leading role in further enhancing inter-governmental and inter-agency collaboration on analysis and policy coordination, while at the same time enhancing information services through AMIS and similar platforms. It can foster information sharing and dialogue among concerned market participants regarding evolving market developments and required adjustments in trade and market policies to facilitate coordinated international actions.

34. FAO will increase its level of support to member countries to ensure that they are better able to participate effectively in the formulation of trade related agreements and mechanisms at the multilateral, regional and bilateral levels, given the increasing importance of these agreements in governing trade and developments in regional and global markets. The support will be provided through analysis of the implications, particularly on food security, of changes to existing trade agreements and the formulation of new agreements; developing capacities in better incorporating country specific requirements in trade agreements; and in supporting fora aimed at generating greater understanding of key issues related to trade agreements. FAO will also seek to strengthen the use of global market projections in informing the formulation of trade agreements. FAO will support countries and their regional economic communities in ensuring greater coherence in the development of national agricultural strategies and regional trade agreements.

35. Greater attention will also need to be given to building on synergies between FAO's activities supporting agreements on agricultural trade rules and its activities supporting agreements on Sanitary and Phytosanitary standards and regulations to promote implementation of these agreements in a way that ensures that countries are not excluded from the benefits of trade.

36. FAO's Intergovernmental Commodity Groups (IGGs) will need to reform to ensure their continuing relevance to contemporary commodity issues and to enhance their roles in capacity

development and international cooperation to enhance smallholder producers' income and food security.

37. FAO has a commitment to provide assistance and policy advice to strengthen and improve decision making in agricultural investment through support to the FAO-OECD Guidelines on Responsible Business Conduct in Agricultural Supply Chains. There will also be a need to participate actively in the dissemination and application of the Committee on World Food Security (CFS) Principles for Responsible Investment in Agriculture and Food Systems with governments, the private sector, civil society and other relevant stakeholders.

E. Strategic Objective 5: Increase the resilience of livelihoods to threats and crises

38. In assisting the identification of, and response to, crisis situations FAO, through its Global Information and Early Warning System (GIEWS) will need to meet new demands for capacity development on crop and pasture monitoring using remote sensing products, in particular in the use of the Agriculture Stress Index System (ASIS) at national and sub-national levels.

39. In addition to providing regular information and early warning at the global, regional and country levels, new developments in GIEWS, including a web-based dynamic dashboard for viewing and undertaking basic analysis with the Country Cereal Balances Sheets System and indicators for identification of food price anomalies, require further strengthening. Similarly, increased attention needs to be given to improving food security indicators and making them more timely and meaningful and to strengthening vulnerability analysis by assessing the impact of weather events, economic shocks and natural and man-made disasters on production and household food security.

F. Objective on technical quality, knowledge and services

40. The work and resources under this objective aim to achieve three outcomes: a) quality and integrity of the technical and normative work of the Organization; b) quality and integrity of the data produced and analyzed by the Organization; c) quality services, coherent strategy and approaches to work on governance and gender equality and women's empowerment across the Strategic Objectives.

41. FAO will maintain the *OECD-FAO Agricultural Outlook* as the global reference for medium-term projections and market analysis for the agricultural sector. The analytical functionality of the Commodity Simulation Model (COSIMO) will be improved to enable the analysis of emerging issues and developments in global agriculture and to provide scenario results that are relevant to decision-makers in member countries. FAO Members will be supported to become more involved in the generation of the baseline and the identification and analysis of emerging issues and to be enabled to use the modelling framework.

42. FAO will continue to synthesise contemporary debates on key issues pertinent to global commodity markets and trade through its Flagship publications, such as the State of Agricultural Commodity Markets (SOCO).

43. FAO will service and support the CCP to conduct periodic reviews and assessments of agricultural commodity markets and trade and advise on the overall medium- and longer-term work programme of the Organization relating to trade and markets, with a view of maintaining a balance between the market and outlook work and the policy work as recommended by the Committee at its 69th session in 2012. The CCP should also play an essential role in driving a global policy agenda in the area of commodity markets and trade.

V. Points for Consideration by the Committee

44. The Committee on Commodity Problems (CCP) plays an important role in shaping the priorities for FAO's work in the area of trade and markets by providing guidance and input for the formulation and implementation of the Organization's Programme of Work and Budget (PWB) and Medium Term Plan (MTP). Accordingly, the Committee is invited to:

a) Advise on the trends and emerging issues identified as part of the global development context;
b) Highlight the main priorities for work in the area of trade and markets that should be taken into account in the review and implementation of action plans and programmes to achieve FAO's Strategic Objectives.

Annex 1: FAO Results Framework – Main Components

FAO's vision
A world free of hunger and malnutrition where food and agriculture contributes to improving the living standards of all, especially the poorest, in an economically, socially and environmentally sustainable manner.

The three Global Goals of Members:

- eradication of hunger, food insecurity and malnutrition, progressively ensuring a world in which people at all times have sufficient safe and nutritious food that meets their dietary needs and food preferences for an active and healthy life;
- elimination of poverty and the driving forward of economic and social progress for all, with increased food production, enhanced rural development and sustainable livelihoods; and
- sustainable management and utilization of natural resources, including land, water, air, climate and genetic resources for the benefit of present and future generations.

Strategic Objectives

1) Contribute to the eradication of hunger, food insecurity and malnutrition
2) Increase and improve provision of goods and services from agriculture, forestry and fisheries in a sustainable manner
3) Reduce rural poverty
4) Enable more inclusive and efficient agricultural and food systems
5) Increase the resilience of livelihoods to threats and crises

Additional objective
Technical quality, knowledge and services

Cross-cutting themes

- Gender
- Governance

Core Functions

1) Facilitate and support countries in the development and implementation of normative and standard-setting instruments, such as international agreements, codes of conduct, technical standards and others
2) Assemble, analyse, monitor and improve access to data and information, in areas related to FAO´s mandate
3) Facilitate, promote and support policy dialogue at global, regional and country levels
4) Advise and support capacity development at country and regional level to prepare, implement, monitor and evaluate evidence-based policies, investments and programmes
5) Advise and support activities that assemble, disseminate and improve the uptake of knowledge, technologies and good practices in the areas of FAO's mandate
6) Facilitate partnerships for food security and nutrition, agriculture and rural development, between governments, development partners, civil society and the private sector
7) Advocate and communicate at national, regional and global levels, in areas of FAO's mandate

Functional Objectives

- Outreach
- Information Technology
- FAO Governance, oversight and direction
- Efficient and effective administration