



FAO REPORT TO THE WTO COMMITTEE ON AGRICULTURE 2016

SUBMISSION BY FAO

The following submission, dated 1 March 2016, is being circulated at the request of the Food and Agriculture Organization (FAO).

This report presents the contribution of FAO to the annual monitoring exercise of the WTO Committee on Agriculture (CoA). The report draws in large part on the latest issues of the FAO *Cereal Supply and Demand Brief* (February 2016), the Agricultural Market Information System (AMIS) *Market Monitor* (February 2016) and the FAO *Food Outlook* (October 2015). As in previous years, the focus of FAO's report to the CoA is on developments in the cost of imports of basic foodstuffs, highlighting in particular trends in food import bills of the Least Developed and Net Food-Importing Developing Countries (the LDCs and NFIDCs, respectively). In addition, it reports on developments in food price volatility and on market trends in basic foodstuffs, as well as on the fourth year of operation of AMIS.

1 FOOD IMPORT BILLS

1.1. The global value of imported foodstuffs is projected to drop to a five-year low in 2015. At USD 1.09 trillion, the world food import bill in 2015 would be almost 20%, or USD 262 billion, below the revised level for 2014, which had reached a record high of USD 1.35 trillion.

1.2. Several factors have contributed to bringing the cost of importing food sharply down in 2015. First and foremost, international prices for many commodities have declined substantially, bringing unit costs down. Freight rates, which are expected to remain below last year's levels in spite of their rising in recent weeks, are also likely to contribute to a year-on-year decline in costs. In addition, the abundance of supply for many commodities in the major importing countries has lowered international demand. Imports have also been deterred due to weakening national currencies against the US dollar.

1.3. The global commodity import bills set to undergo the largest absolute declines in 2015 are those for cereal-based foodstuffs and dairy products, which are likely to fall by around USD 44 billion (24%) and USD 40 billion (40%), respectively. Considerably lower quotations compared with last year, especially in the case of dairy products, are driving bills of these food groups down, compounded by contractions in import demand. The annual decline in world expenditures on imported meat, at USD 29 billion or 19%, is also noteworthy, driven again by the combination of lower unit costs and smaller volumes. The global sugar bill could fall to a 9-year low of USD 33 billion, while a sizeable contraction is also expected in the cost of importing vegetable oils, mostly due to lower quotations.

1.4. While the bills of all foodstuffs look set to fall in 2015, global import costs of fish, vegetables and fruit and tropical beverages are showing some resilience. Exporters of these US dollar-denominated commodities have keenly met sustained global demand, facilitated by the weakness of their own currencies vis-a-vis the dollar.

1.5. The propensity at the world level for substantially lower import bills in 2015 encompasses many of the most economically vulnerable nations, such as those in the groups of Least Developed Countries (LDCs) Low-Income Food-Deficit Countries (LIFDCs), and those geographically situated

in sub-Saharan Africa. Indeed, their food import bills appear set to decline by more than the global average, with falls ranging between 22 and 23% among these country groups.

1.6. As for LDCs, lower bills would not necessarily come at the expense of volumes, as imported food quantities could rise above the previous year's levels, in contrast to the global trend. This is because shortfalls in the production of staples in many of these economically disadvantaged countries have led to procurement on the global marketplace to meet domestic needs. But this brings with it a severe burden on foreign exchange reserves, especially when international purchases are required to be paid in US dollars. Although the strong US dollar is generally beneficial to net merchandise exporters who can pay for food imports, it can prove onerous to many of the most vulnerable countries which are net importers of basic necessities, notably foodstuffs.

Table 1: Forecast import bills of total food and major foodstuffs (USD Billion)

	World		Developed		Developing		LDC		LIFDC		Sub Saharan Africa	
	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015
TOTAL FOOD	1,346.0	1,084.7	796.9	653.7	549.1	431.0	41.9	32.1	86.0	67.2	47.3	36.8
Vegetables and Fruits	235.4	223.7	168.0	159.6	67.5	64.1	4.1	3.9	10.7	10.2	3.9	3.7
Cereals	178.5	135.1	80.0	62.3	98.5	72.8	12.1	8.9	20.4	15.9	14.1	11.2
Fish	144.6	129.7	97.7	91.7	46.9	38.0	1.3	1.4	4.0	3.5	3.9	3.4
Meat	177.1	144.0	115.5	94.0	61.6	50.0	3.5	2.6	4.4	3.8	4.5	3.3
Dairy	99.8	59.5	61.1	36.2	38.7	23.3	2.5	1.5	4.9	3.0	2.9	1.8
Vegetable Oils and Animal Fats	98.5	73.5	43.4	31.5	55.2	42.0	6.1	4.7	19.2	14.5	5.6	4.0
Oilseeds	86.0	68.0	26.0	18.6	60.0	49.4	1.2	1.2	2.2	1.9	0.9	0.7
Sugar	49.7	32.9	25.5	16.7	24.2	16.2	4.3	2.5	6.6	4.0	4.0	2.8
Tropical beverages	109.3	93.3	82.2	70.2	27.1	23.1	2.1	1.8	4.4	3.7	2.2	1.8

Source: FAO (2015).

2 THE AGRICULTURAL MARKET INFORMATION SYSTEM (AMIS)

2.1. The Agricultural Market Information System (AMIS), a G20 initiative to enhance food market transparency, reduce price volatility and encourage coordination of policy action in response to market disruptions was launched in September 2011. Hosted by FAO, the AMIS Secretariat has ten member organizations: FAO, IFPRI, IFAD, OECD, UNCTAD, the UN High Level Task Force, the World Bank, WFP, WTO and the International Grains Council (IGC).

2.2. During its fourth year of operation, the AMIS Secretariat used the relatively calm situation in international commodity markets to further consolidate and strengthen the AMIS initiative. To this end the Secretariat continued its regular dialogue with national focal points for the submission of commodity balances; trained participants of the second and third cycle of the AMIS Exchange Programme; and visited selected countries to establish closer collaboration with partner institutions. These efforts produced several positive outcomes, most notably a special event on the "Food Market Outlook: An AMIS Perspective" during the October 2015 meeting of the Global Food Market Information Group, which was led by AMIS participating countries.

2.3. The Secretariat also advanced on other crucial fronts such as the estimation of stocks positions, the identification of volatility drivers and the compilation of forward-looking market indicators. Highlights include the organization of an expert workshop on improving stocks and utilization measurement in China; the design of a statistical model to detect regime changes in volatility; the launch of the AMIS Policy Database in October 2015 and a workshop hosted by IFPRI on early-warning indicators.

2.4. Important progress was also achieved in the area of capacity development. For example, AMIS helped promote the use of computer assisted personal interviewing techniques in Thailand

and fostered the development of crop cutting surveys in the Philippines. Other capacity development activities moved to implementation stages in Bangladesh, India and Nigeria.

2.5. The Secretariat also devoted substantial efforts to improve its outreach, for example by expanding its main report, the AMIS Market Monitor, and completely redesigning the web presence of the initiative. In addition, all webpages now apply a responsive design, meaning that they can be viewed easily on different devices such as desktop computers, tablets and smartphones.

3 MARKET TRENDS FOR KEY CEREALS

3.1. According to the latest AMIS Market Monitor (February, 2016) and Food Outlook (October, 2015), world cereal production in 2015 stood at 2.531 billion tonnes, around 30 million tonnes below the 2014 record. Early prospects for 2016 cereal crops are mixed, partially influenced by the prevailing El Niño-associated weather patterns. Under current expectations, wheat production will achieve a new record, at 736.8 million tonnes and coarse grains will decline by 31 million tonnes to 1.302 billion tonnes from last year's high. However, unfavourable weather conditions have lowered prospects for 2015 rice production, which is now forecast at 491.8 million tonnes, down 0.5% from 2014. Based on the latest forecasts for production and utilization, world cereal stocks by the close of crop seasons in 2016 are forecast at 642.4 million tonnes, 2.5 million tonnes (0.4%) above their already elevated opening level. Wheat will account for the biggest increase, followed by maize, while rice stocks are forecast to decline by 3%. This year's abundant supplies have resulted in continued declines in international prices for all cereals. The lower prices are not expected to stimulate trade for wheat and coarse grains, as the major cereal importing countries are holding large supplies, causing import demand to decline and the total cereal trade to contract by 2% to 368 million tonnes in 2015/16, while rice trade is predicted to rebound by 1.5% in 2016 to 45.4 million tonnes.

3.2. **Wheat:** FAO's latest forecast for wheat production in 2015 (736.8 million tonnes) is slightly higher (0.5%) than the previous year. The production gains are mostly on account of higher outputs in Australia, China, Morocco, Turkey, Ukraine and the United States. World wheat trade in 2015/16 (July/June) is set to contract to 151.5 million tonnes, 5 million tonnes (or 2.7%) below the 2014/15 level. The reduction will be mainly attributed to weaker import demand in North Africa and Asia, namely Morocco, the Islamic Republic of Iran and Turkey. World wheat inventories are forecast to reach 210.7 million tonnes by the end of seasons in 2016, their highest level in 13 years. Large supplies continue to push international wheat prices sharply below their previous year's levels and falling to their lowest levels in more than five years.

3.3. **Coarse Grains:** FAO's latest forecast for world production of coarse grains stands at 1.302 billion tonnes in 2015/16, about 31 million tonnes or 2.3% below the record of last year. Maize production is forecast to reach around 1.004 billion tonnes, about a 2.7% decline from the previous year. By contrast, world barley production is forecast at 144 million tonnes, up slightly from 2014. World trade in coarse grains in 2015/16 is projected to decline to 171 million tonnes, down 2.7% from the 2015/16 record level, largely due to lower imports by several countries in Asia, namely China, Indonesia and Islamic Republic of Iran. Based on the latest forecasts for global production and utilization, world stocks of coarse grains in 2015 are forecast to rise to 265.1 million tonnes by the close of the crop seasons, 1.2% above their opening levels and their highest level since 1986/87. Large stockpiles, slowing demand, an appreciating US dollar and large supplies of feed wheat from the Black Sea region, have helped to keep downward pressure on export prices.

3.4. **Rice:** According to the latest figures, world rice production is forecast at 491.8 million tonnes in 2015/16, 0.5% lower than the previous year due to unfavourable weather conditions. International trade in rice is predicted to rebound by 1.5% in 2015/2016 to 45.4 million tonnes, almost matching the 2014 record. Rice inventories ending in 2016 are forecast to decrease for the first time in eleven years. However, their volume is projected to be sufficient enough to cover a third of the 2015/16 projected rice consumption.

4 FOOD PRICES

4.1. The FAO Food Price Index averaged 150.4 points in February 2016, down almost 3 points (1.9%) from December and as much as 29 points (16%) below January 2015 (Figure 1).

Among the sub-indices, sugar and dairy decreased the most, followed by cereals, oils and meat. The US dollar's appreciation continued to weigh on international commodity prices. The real food price index in 2016 dropped almost 12 points or 9.6% compared to 2015 (Figure 3).

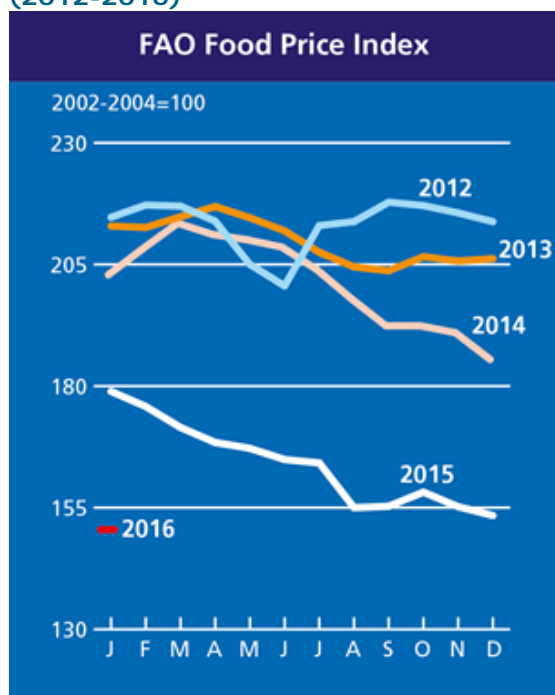
4.2. The FAO Global Food Consumption Price Index (Figure 4) tracks changes in the cost of a global food basket as portrayed by the latest FAO world food balance sheet. Representative international prices for each of the commodities or commodity groups appearing in the balance sheet are weighted by their contribution to total calorie intake. The index has fallen almost uninterruptedly since March 2014, losing considerable further ground in recent months. The overall decline is less pronounced when compared to the FAO Food Price Index (FPI). This is because international prices of foodstuffs that carry a much higher weight in trade than typical consumption have fallen at a much greater pace (most notably livestock products and especially dairy).

5 PRICE VOLATILITY

5.1. International price volatility can have serious implications for LDCs and NFIDCs that depend on imports to meet their domestic food needs, through a deterioration in their balance of payments, public finance and harming consumers who spend a large portion of their income on food purchases. However, historical and implied price volatilities of major crops (wheat, maize and soybeans), indicate that volatility has been on a downward path since July 2015, with levels of volatility having fallen around 50% by the end of 2015.

5.2. Historical price volatility of major crops (wheat, maize and soybeans) indicates that volatility was higher for wheat and maize but lower for soybeans year-on-year (Figure 5, upper panel). Implied volatility, which measures the level of expected future volatility, observed in Chicago Board of Trade options on futures markets, was higher for all three commodities, even though actual price levels did not exhibit large variances over the past six months. (Figure 5, lower panel).

Figure 1: FAO Food Price Index (2012-2016)



Source: FAO (2016).

Figure 2: Food Commodity Price Indices (2015-2016)

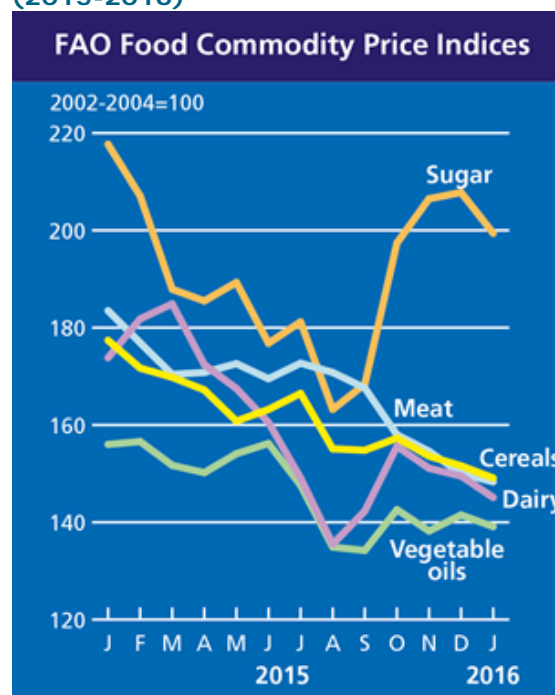
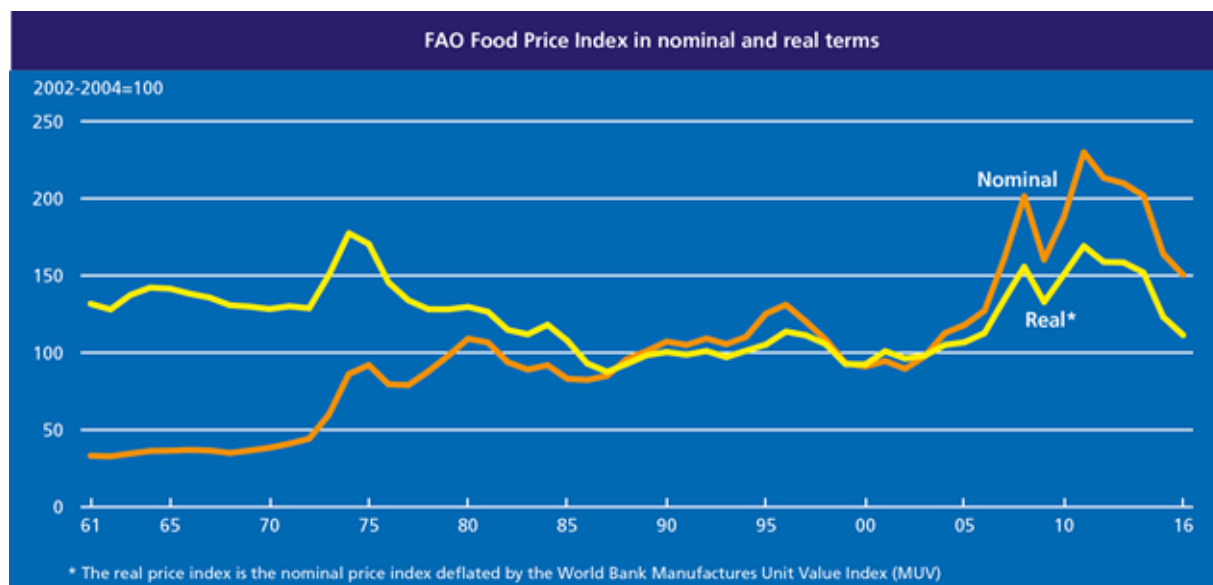
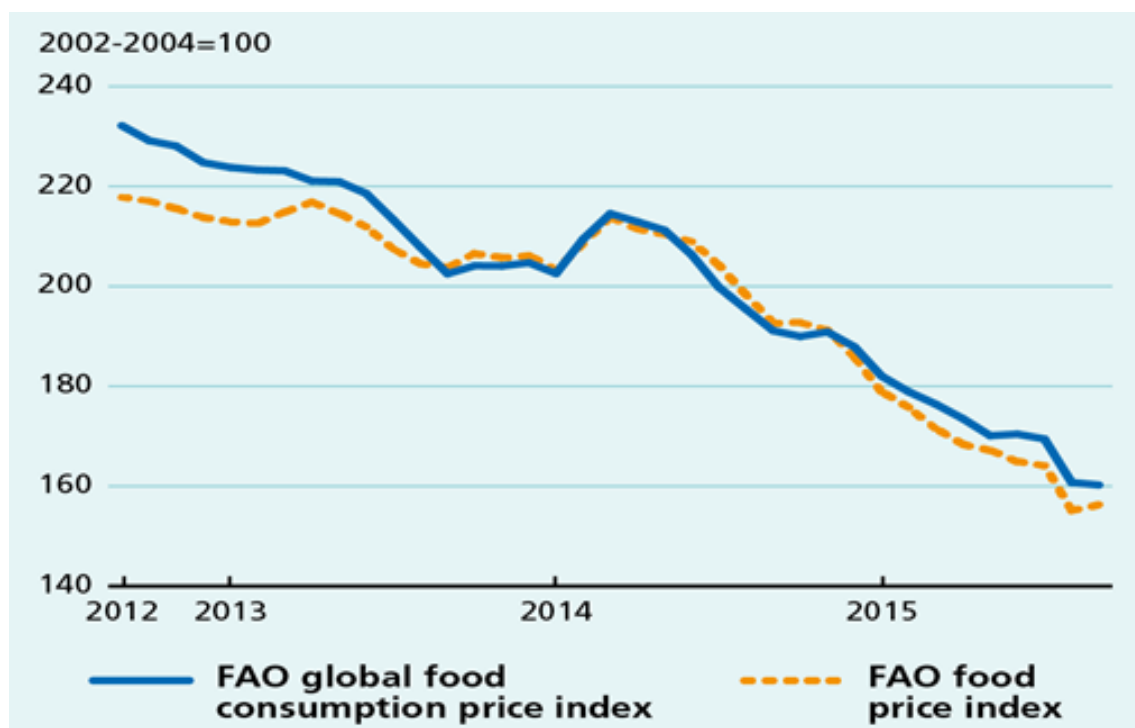


Figure 3: FAO Food Price Index (1961-2016)



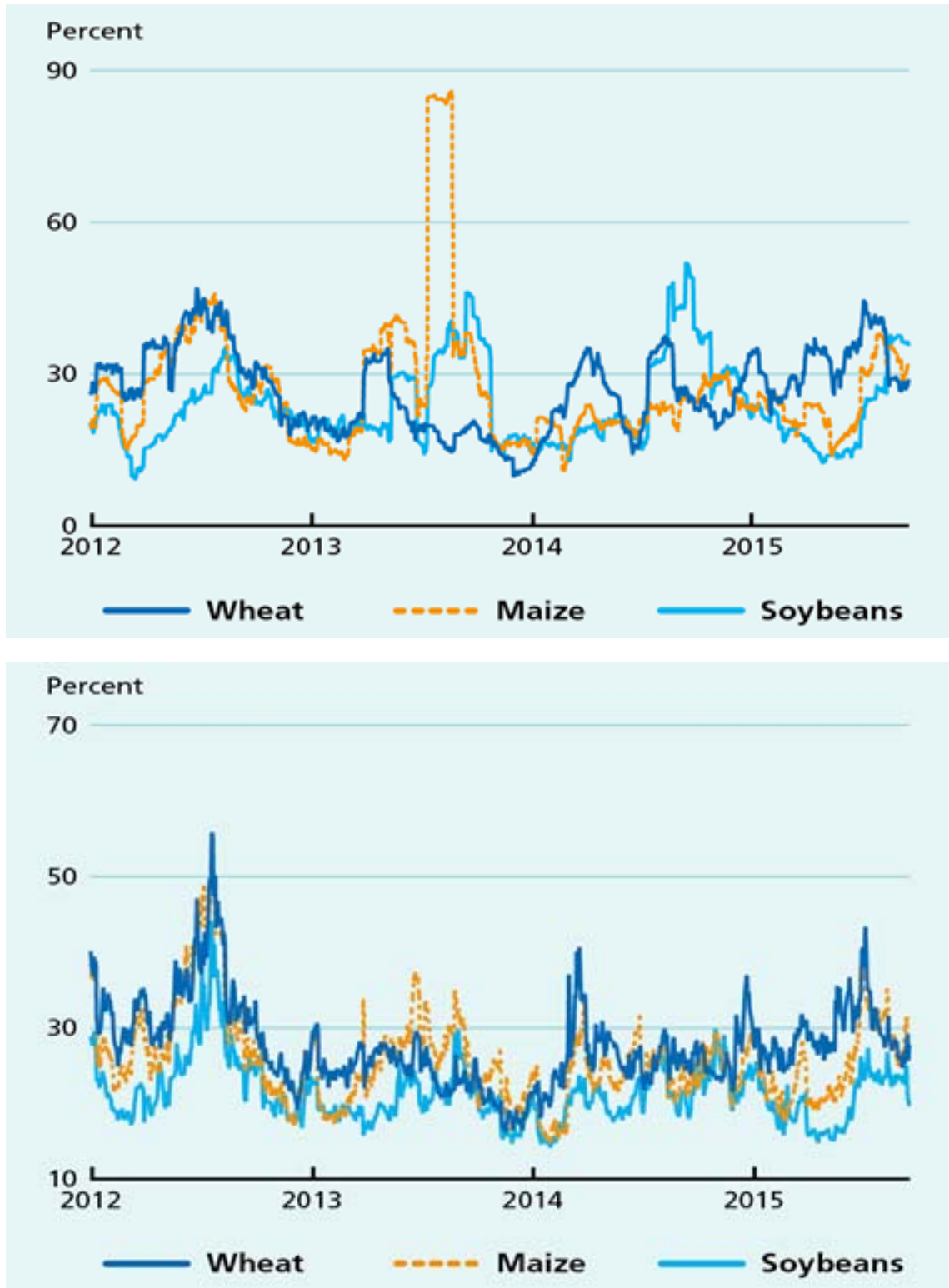
Source: FAO (2016).

Figure 4: FAO Global Food Consumption and Food Price Indices (2012-2015)



Source: FAO (2015).

Figure 5: Historical and Implied Volatilities (2012-2015)



Source: FAO (2015).

References

- AMIS. 2016. AMIS Market Monitor, February 2016. <http://www.amis-outlook.org>
FAO. 2015. Food Outlook, October, 2015.
FAO. 2016. Cereal Supply and Demand Brief, February 2016.
<http://www.fao.org/worldfoodsituation>

ANNEX

Cereal imports of LDCs and NFIDCs (2003/2004 to 2015/2016) - Information as of February 2016

	2003/ 2004	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011	2011/ 2012	2012/ 2013	2013/ 2014	2014/ 2015 (Estimate)	2015/ 2016 (Forecast)
Import Bill (USD million)													
LDCs	3,704	4,218	4,417	5,943	10,679	7,769	7,698	10,669	10,646	11,203	11,075	10,288	8,953
NFIDCs	6,714	7,620	7,561	9,636	18,794	15,037	11,625	17,839	19,890	18,881	18,702	16,265	13,567
LDCs & NFIDCs	10,418	11,838	11,978	15,580	29,473	22,806	19,322	28,508	30,536	30,084	29,777	26,553	22,519
% change over 2000/01-2002/03	28.9	46.4	48.1	92.7	264.5	182.1	139.0	252.6	277.7	272.1	268.3	228.4	178.5
Total volume imported (000 tonnes)													
LDCs	19,123	20,611	20,934	20,830	21,983	24,924	26,476	26,355	25,783	25,309	29,657	30,783	30,627
NFIDCs	34,338	39,524	38,810	37,889	44,697	49,025	44,793	48,708	52,479	46,885	56,118	57,738	55,433
LDCs & NFIDCs	53,460	60,135	59,744	58,719	66,680	73,949	71,269	75,063	78,262	72,194	85,775	88,521	86,060
% change over 2000/01-2002/03	-0.6	11.8	11.0	9.1	23.9	37.4	32.5	39.5	45.5	34.2	59.4	64.5	59.9
Food aid (000 tonnes)													
LDCs	3,638	3,187	2,533	1,855	2,316	3,660	3,231	2,594	2,788	1,487	1,148	1,148	1,148
% of total imports	19.0	15.5	12.1	8.9	10.5	14.7	12.2	9.8	10.8	5.9	3.9	3.7	3.7
NFIDCs	550	496	364	301	327	485	505	385	491	250	198	198	198
% of total imports	1.6	1.3	0.9	0.8	0.7	1.0	1.1	0.8	0.9	0.5	0.4	0.3	0.4
LDCs & NFIDCs	4,188	3,683	2,897	2,156	2,643	4,145	3,736	2,979	3,279	1,737	1,346	1,346	1,346
% of total imports	7.8	6.1	4.8	3.7	4.0	5.6	5.2	4.0	4.2	2.4	1.6	1.5	1.6
Commercial imports (000 tonnes)													
LDCs	15,485	17,424	18,401	18,975	19,667	21,264	23,244	23,761	22,995	23,822	28,509	29,635	29,479
NFIDCs	33,788	39,028	38,446	37,588	44,370	48,540	44,288	48,324	51,988	46,635	55,919	57,539	55,235

	2003/ 2004	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011	2011/ 2012	2012/ 2013	2013/ 2014	2014/ 2015 (Estimate)	2015/ 2016 (Forecast)
LDCs & NFIDCs	49,273	56,452	56,847	56,563	64,037	69,804	67,532	72,084	74,983	70,457	84,429	87,175	84,714
% change over 2000/01-2002/03	0.2	14.8	15.6	15.0	30.2	41.9	37.3	46.6	52.5	43.2	71.7	77.2	72.2
Per unit import cost (USD/tonne)													
LDCs	193.7	204.6	211.0	285.3	485.8	311.7	290.8	404.8	412.9	442.6	373.4	334.2	292.3
NFIDCs	195.5	192.8	194.8	254.3	420.5	306.7	259.5	366.2	379.0	402.7	333.3	281.7	244.7
LDCs & NFIDCs	194.9	196.9	200.5	265.3	442.0	308.4	271.1	379.8	390.2	416.7	347.2	300.0	261.7
% change over 2000/01-2002/03	30.0	31.3	33.7	76.9	194.8	105.7	80.8	153.3	160.2	177.9	131.5	100.1	74.5
Wheat export price (USD/tonne)													
US no.2 hard winter	161	154	175	212	361	270	209	316	300	347	318	266	217
% change over 2000/01-2002/03	16.0	11.0	26.6	52.7	160.6	95.1	51.1	128.1	116.4	150.5	129.2	91.9	56.6
Wheat ocean freight rates (USD/tonne)													
From U.S. Gulf ports to:													
Egypt	37.0	46.5	31.9	50.3	86.2	42.9	43.2	40.1	43.3	34.4	36.8	32.8	34.6
Bangladesh	48.5	65.4	45.5	57.8	98.8	55.3	62.7	57.3	56.4	50.3	52.8	44.2	38.1
Rotterdam	28.3	34.5	20.8	32.3	71.8	38.6	35.0	28.2	24.8	19.8	21.3	13.2	12.6
Average	37.9	48.8	32.7	46.8	85.6	45.6	46.9	41.9	41.5	34.8	36.9	30.0	28.4
% change over 2000/01-2002/03	139.4	208.2	106.7	195.4	440.6	187.9	196.5	164.4	161.9	119.8	133.3	89.6	79.5

Sources: FAO (2015) and FAO (2016).