

FAO REPORT TO THE WTO COMMITTEE ON AGRICULTURE 2012

1. This is the contribution of FAO to the annual monitoring exercise of the WTO Committee on Agriculture. This Report draws in large part on the November 2012 issues of the FAO *Food Outlook* and the Agricultural Market Information System (AMIS) *Market Monitor*. As in previous years, the focus of FAO's Report 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, FAO reports on developments in food price volatility and on market trends in basic foodstuffs, as well as on the first year of operation of AMIS.

I. FOOD IMPORT BILLS

2. Relatively lower international prices and freight costs, together with lower volumes of cereal purchases are predicted to reduce global expenditures on imported foodstuffs in 2012. The 2012 forecast for global food import bills is set at US\$ 1.14 trillion, 10 per cent lower than the record level of last year (Table 1). The global food import bill is likely to be marked by strong to moderate falls in the cost of most foodstuffs compared with 2011. In absolute terms, the largest declines are in vegetables and fruit (US\$ 27 billion reduction) and cereals (US\$ 24 billion reduction), with important reductions in the value of imports also foreseen for dairy products (US\$ 14 billion), sugar (US\$ 12 billion) and vegetable oils (US\$ 11 billion). The only foodstuffs not expected to have decreasing import costs are oilseeds, which are set to rise by 10 per cent (or US\$ 7 billion), and fish which will increase by 3 per cent (or US\$ 3 billion).

3. Much of the reduction in the food import bill in 2012 has stemmed from lower international quotations. The extent of price declines is expected to be more than sufficient to offset the impact of a foreseen expansion in the quantity of trade for most commodities, the notable exception being cereals, for which there could be a 5 per cent contraction in the volume of trade. In 2012, wheat and maize trade volumes are expected to be down sharply from 2011 levels.

4. The decline in the import bills of developing countries is expected to be driven mostly by higher cereal production (reducing dependence on high-priced grains in world markets). This situation differs from the two recent price-surge periods (2007/2008 and 2010/2011) when the cereal bills of developing countries spiked due to a combination of higher import volumes and international prices. Many of the most economically vulnerable nations are likely to face reduced import bills, with annual falls of the order of 12 per cent foreseen for the LDC group as a whole. With improved production, particularly for cereals, and sustained import volumes at lower costs, many countries should experience an increase in food availability in 2012. However, with lower international prices for key export commodities, such as sugar and tropical beverages, the terms of trade in food and agriculture for some commodity dependent developing countries may deteriorate.

5. On the other hand, looking forward, the cereal import bills for the two groups of countries (the LDCs and NFIDCs) that are the target of the *Marrakesh Ministerial Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net*

Food-Importing Developing Countries, are expected to amount to approximately US\$ 10.5 billion and US\$ 20.5 billion respectively in 2012/2013 period (see Annex Table), which are slightly higher than in previous 2011/2012 period.

6. Food aid represents a small proportion of total cereal imports at 8 and 0.6 per cent for LDCs and NFDICs respectively, continuing a downward trend from the early 2000s when food aid represented 24.4 and 3.7 per cent of total cereal exports respectively. The per unit import costs are forecast to be higher at US\$ 416 per tonne on average, in 2012/2013 period.

Table 1: Forecast of food import bills, US\$ billion

	World		Developed		Developing		LDC		LIFDC		Sub-Saharan Africa	
	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012
TOTAL FOOD	1257.5	1135.7	784.8	709.1	472.7	426.7	34.2	30.2	215.2	200.6	43.9	38.7
Vegetable and Fruits	217.4	190.4	165.1	144.6	52.3	45.8	2.9	2.6	20.3	17.8	3.1	2.7
Cereals	180.4	156.6	80.1	70.7	100.4	86.4	10.7	9.8	44.3	38.0	14.8	13.4
Meat	118.8	128.7	89.3	92.1	29.5	36.6	1.8	1.8	6.9	9.2	2.4	2.6
Fish	127.1	130.5	96.6	103.7	30.6	26.8	0.7	0.6	8.9	7.8	3.3	3.1
Dairy	87.9	73.9	56.6	47.3	31.4	26.7	2.0	1.6	10.7	9.3	2.8	2.3
Vegetable Oils and Animal Fats	112.3	100.5	50.7	44.9	61.6	55.6	6.5	5.7	38.5	34.8	5.5	4.8
Oilseeds	73.4	80.5	26.3	26.8	47.1	53.7	0.4	0.6	38.9	45.3	0.3	0.4
Sugar	60.7	48.3	32.1	24.8	28.6	23.6	4.3	3.4	14.1	11.8	4.2	3.3

Source: FAO, 2012

II. AGRICULTURAL MARKET INFORMATION SYSTEM (AMIS) – ONE YEAR ON

7. The Agricultural Market Information System (AMIS), a G20 initiative to enhance food market transparency and to encourage coordination of policy action in response to market uncertainty has been operational since September 2011. Hosted by FAO, the AMIS Secretariat has ten member organizations, with, FAO, IFPRI, IFAD, OECD, UNCTAD, the UN High Level Task Force, the World Bank, WFP and WTO and most recently, the International Grains Council, as members.

8. AMIS has succeeded in delivering several important results in its first year of operation and has gradually assumed a key role as a provider of independent market analysis and outlook as well as being a platform for effective policy dialogue. The contribution of AMIS in providing information and in facilitating exchange among representatives of key producing countries helped in ensuring an appropriate response to the implications of the US drought during the summer of 2012, indicating that the AMIS initiative can play an important role in promoting market stability.

9. AMIS's Global Food Market Information Group, which met in February and October 2012, brings together technical experts from participating countries to promote an exchange on the current market situation and outlook and is set to become the primary source of regular, reliable, accurate and timely information on supply and demand of individual countries, as well as prices of the AMIS crops¹. Furthermore, the Information Group will facilitate the timely collection of national policy developments that could impact on the market situation and outlook. Regular exchange with countries has also helped in identifying capacity building needs and areas for better collaboration.

¹ AMIS brings together all the major producer countries of agricultural commodities and currently covers four crops: wheat, maize, rice and soybeans.

10. Apart from serving participating countries, AMIS also reached out to the broader public to promote a better understanding of international grains markets. In its first 12 months, AMIS introduced several information products to provide comprehensive overviews and in-depth analyses of relevant market developments and trends. The launch of the AMIS database was a particularly important milestone. Based on agricultural statistics provided by participating countries, the AMIS Market Monitor, first released in August 2012, reviews the global market situation on a monthly basis and informs of any developments that could result in market disturbances.

III. MARKET TRENDS FOR KEY CEREALS

11. According to the latest Food Outlook report (published on 8 November), world wheat production is estimated to fall below the 2011 record level, trade in wheat in 2012/2013 is expected to decline because of lower feed use and high international prices, and world stocks are expected to stay at stable levels. World maize production is expected to decline significantly because of a poor crop in the United States, while trade in 2012/2013 is expected to decline because of higher world prices. World rice production is expected to remain the same as last year, and trade to remain stable. World soybean production is set to rebound in 2012/2013 and trade is expected to expand. The detailed annual developments are below:

- (a) Wheat: FAO's latest forecast for wheat production in 2012/2013 season is 661 million tonnes, which is 5.5 per cent lower than last year's level. This low level reflects in large part, the impact of severe drought in Eastern Europe and Central Asia. This situation has led to higher international prices since the beginning of 2012/2013 marketing season in July. Although in October weaker trade activity combined with generally favourable winter wheat planting conditions in the Northern Hemisphere countries alleviated the pressure on prices, the expectation of export restrictions being imposed in Ukraine has caused upward pressure. The benchmark US wheat values averaged US\$ 373 per tonne in October, 6 per cent up from July and almost 24 per cent higher than in the same period last year. World wheat trade in 2012/2013 is forecast to reach 135 million tonnes, 8 per cent lower than the previous period. Global consumption of wheat is expected to reach 479 million tonnes, 1.1 per cent higher than previous year. World wheat stocks are forecast to fall to 167 million tonnes by the close of crop season in 2013, 12 per cent lower than the opening level. Based on the ending stocks and global utilization, the world wheat stock to use ratio could drop to 24 per cent from 27.5 per cent in previous period, which is second lowest level since 1980.
- (b) Coarse grains: FAO's latest forecast for world production of coarse grains is 1.13 billion tonnes, 2.5 per cent lower than the previous year. This decrease is attributed to the severe drought in the United States and Europe. In spite of some declines in recent weeks, international prices of maize followed an upward trend from the beginning of the current season in July until it peaked in late August to early September, and then drifted lower in October. The upward price movement closely followed repeated downward adjustments to production prospects in the United States as crop conditions worsened due to the severe drought. Unfavourable prospects for wheat production in the CIS countries also provided support to maize market prices, given the region's importance as a leading supplier of feed wheat to world markets. In October, prices of major coarse grains fell slightly on early signs of demand rationing from the livestock and biofuels sectors and slowing trade activity, especially with regard to export pace from the United States. The benchmark US yellow maize averaged US\$ 320 per tonne in October, down slightly from September but US\$ 45 per tonne, or 16 per cent, but above the average price in October 2011. World stocks of coarse grains are forecast at 161 million tonnes at the end of season in 2013

season, 13 million tonnes less than the previous year. Thus world stock-to-use ratio is expected to be at its lowest level since 1980.

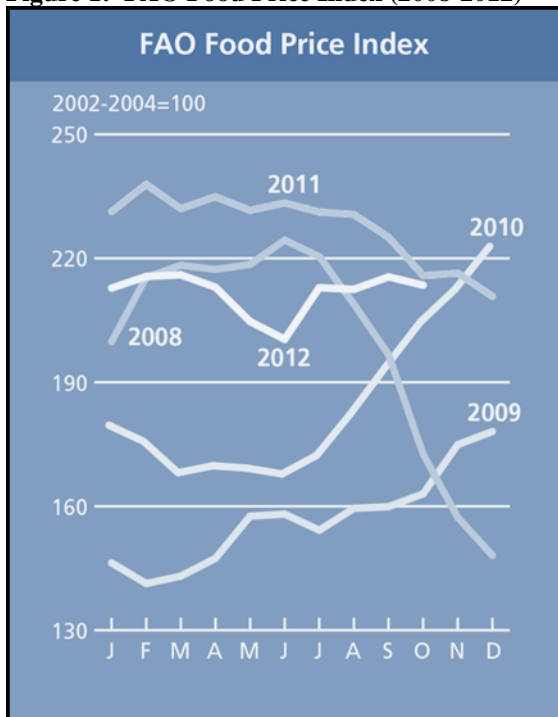
- (c) Rice: According to the latest forecasts, world rice production in 2012/2013 season is expected to rise to 486 million tonnes, 0.7 per cent higher than the previous year. The relatively modest increase from last year principally reflects large shortfalls expected in India and Brazil, as most of the other major producers are heading towards record crops. International rice prices were stable in the first four months of 2012, but have since shown a tendency to firm, caused by large government purchases and stock building in Thailand, and active buying by African countries and China. Nonetheless, between January and October, international rice prices were down 6 per cent year-on-year, amid abundant world supplies and prospects for good production outcomes in 2012. International rice trade is forecast at 37.5 million tonnes as high levels of supply in exporting countries intensify competition. Compared to 2012, world rice stocks are expected to rise 7 per cent to a new high of 170 million tonnes. Therefore, world stock-to-use ratio is forecast to increase to 35.5 per cent in 2013.

IV. FOOD PRICES

12. The FAO Food Price (FFPI) Index averaged 213 points in October 2012, down 2 points (1 per cent) from September (Figure 1). The decline is largely due to reduced international prices of cereals and oils/fats which more than offset increases in sugar and dairy prices while meat values remained unchanged (Figure 2). Food prices averaged 8 per cent lower during the first ten months of this year compared to the same period last year, resulting in the real food price index being lower in 2012 compared to the previous year (Figure 3).

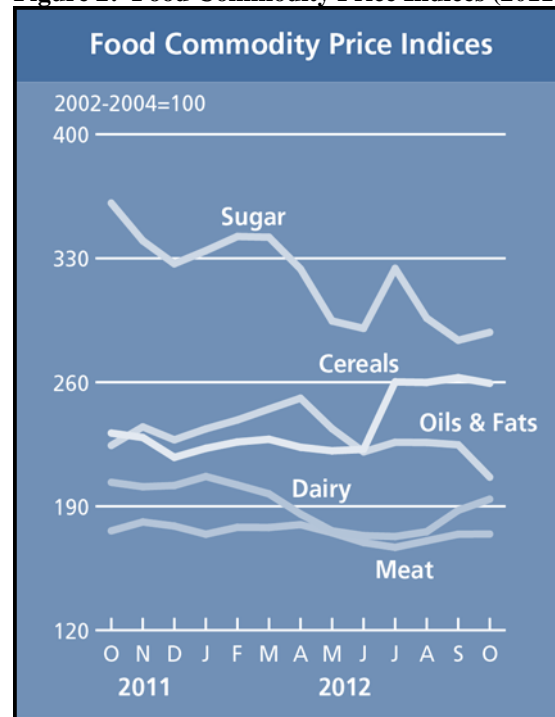
13. The FAO Global Food Consumption Price Index (Figure 4) tracks changes in the cost of the global food basket as portrayed by the latest FAO world food balance sheet. Representative international prices for each of the commodities or commodity groups appearing in the balance sheet are weighted by their contribution to total calorie intake. After reaching a record of 247 points in April 2011, the index has since exhibited substantial volatility. By October 2012 the index stood at 231 points, some 24 points above the level of June, when the index had fallen to a 20 month low. Volatile prices of cereals are behind these developments including the index's departure from the FFPI. Being consumption based, the index gives a much higher weight to cereals than does the FFPI, which derives its weights from trade.

Figure 1: FAO Food Price Index (2008-2012)



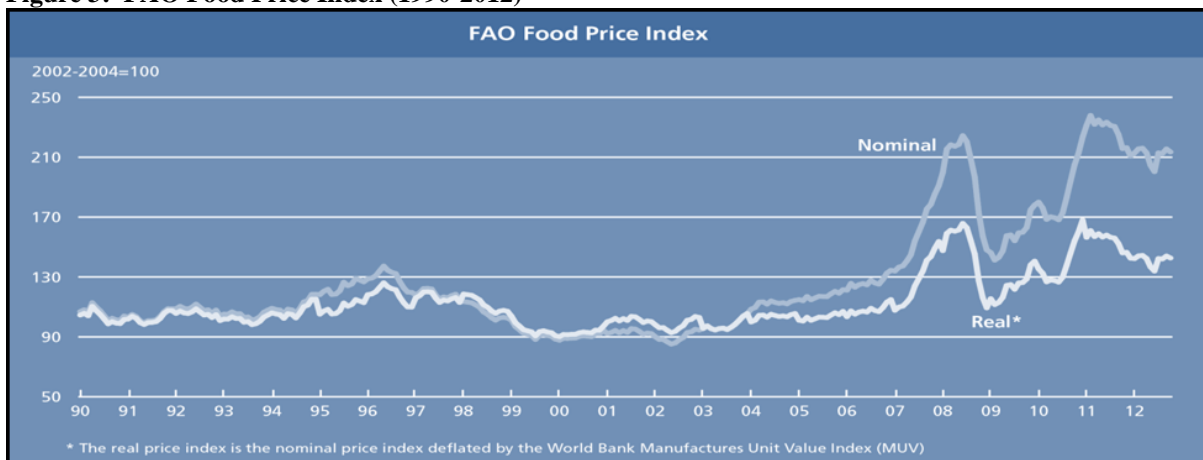
Source: FAO, 2012.

Figure 2: Food Commodity Price Indices (2011-2012)



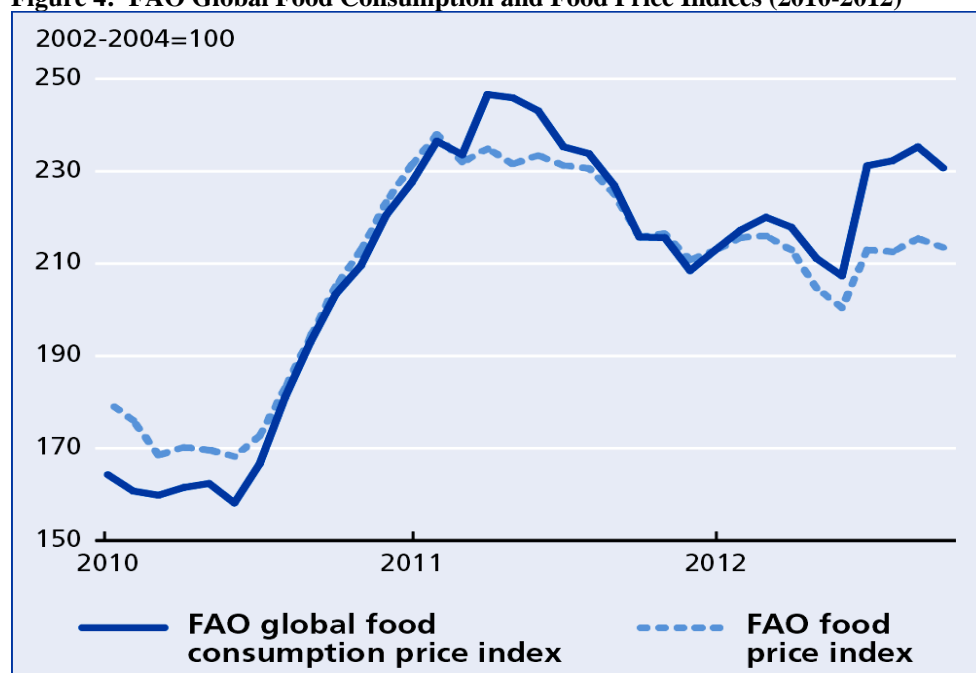
Source: FAO, 2012

Figure 3: FAO Food Price Index (1990-2012)



Source: FAO, 2012.

Figure 4: FAO Global Food Consumption and Food Price Indices (2010-2012)



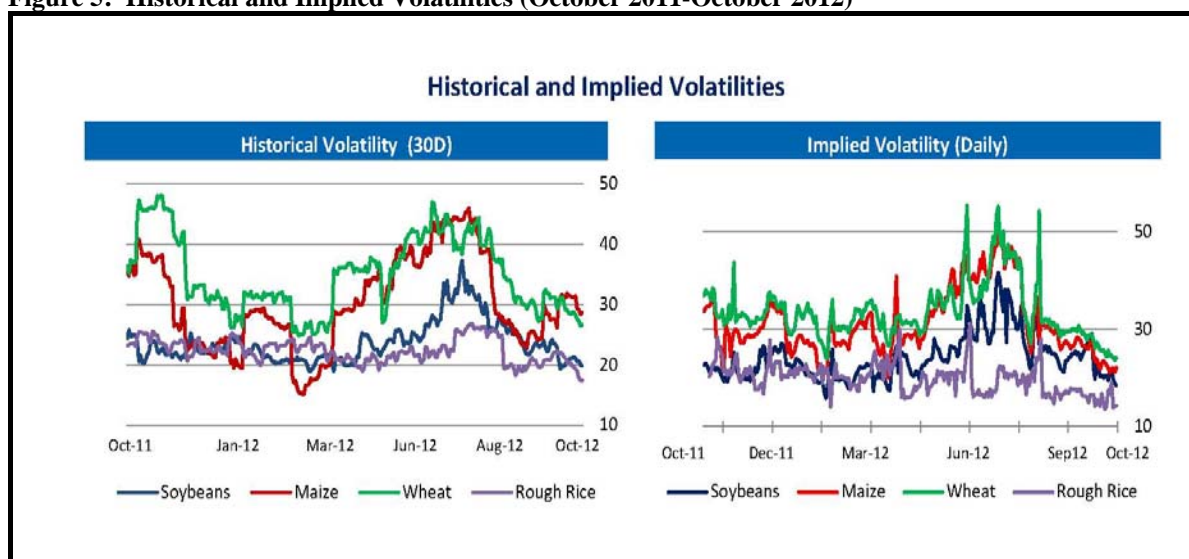
Source: FAO, 2012.

V. PRICE VOLATILITY

14. Historical price volatility of major crops (wheat, maize, soybeans, rice) indicates that volatility of wheat, rice, and soybeans was relatively low in the first quarter of 2012, while the volatility increased in summer months and decreased at the end of that October. Implied volatilities, which show the level of expected future volatility observed in CBOT options on future markets, displayed similar pattern (Figure 5).

15. Price volatility has significant implications for LDCs and NFDCs. Importing countries that face high prices experience deterioration in the balance of payments and public finance. High food prices can result in inflation and high import bills and cause current account balance deficits. Fiscal measures, such as cuts in import tariffs and in taxes on food, subsidization of food consumption, and risk management tools lead to increased budgetary costs. Since consumers in developing countries spend a significant portion of their total income on basic foodstuffs, there are also longer term impacts on the poorest and most vulnerable such that spending is switched to less nutritious foods and away from other basic needs.

Figure 5: Historical and Implied Volatilities (October 2011-October 2012)



Source: AMIS Market Monitor, Number 3, November 2012.

References: AMIS (2012). AMIS Market Monitor, Number 3, November 2012. <http://www.amis-outlook.org>.
FAO (2012). World Food Situation, FAO Food Price Index. <http://www.fao.org/worldfoodsituation/wfs-home/foodpricesindex/en/>
FAO (2012). Food Outlook, November, 2012.

Annex Table. Cereal imports of LDCs and NFIDCs (2000/01 to 2011/12) - Information as of October 2012													
	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12 (Estimate)	2012/2013 (Forecast)
US no.2 Hard Winter	128	127	161	161	154	175	212	361	270	209	316	300	365
% change over 2000/01-2002/03	-7.4	-8.5	15.9	16.0	11.0	26.6	52.7	160.6	95.1	51.1	128.1	116.4	163.3
Wheat ocean freight rates (US\$/tonne)													
From U.S. Gulf ports to:													
Egypt	15.0	15.0	16.7	37.0	46.5	31.9	50.3	86.2	42.9	43.2	40.1	43.3	36.5
Bangladesh	18.3	18.5	22.5	48.5	65.4	45.5	57.8	98.8	55.3	62.7	57.3	56.4	51.0
Rotterdam	13.1	11.0	12.5	28.3	34.5	20.8	32.3	71.8	38.6	35.0	28.2	24.8	18.3
Average	15.5	14.8	17.2	37.9	48.8	32.7	46.8	85.6	45.6	46.9	41.9	41.5	35.3
% change over 2000/01-2002/03	-2.3	-6.3	8.7	139.4	208.2	106.7	195.4	440.6	187.9	196.5	164.4	161.9	122.6

Source: FAO, 2012.