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# The issues of commodity price volatility in BRICS countries' trade policy

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# The relevance of the topic

- **Evolution from the colonial legacy of exclusive reliance on primary commodity production and trade;**
- **Commodity based economy:**
  - Volatility in the commodity prices;
  - Fluctuations in rates of economic growth.
- **Price volatility effects commodities market**
  - Producers' revenue variability resulting from fluctuations in output price;
  - Threats to the government and exporters of primary commodity-producing developing countries:
    - For governments:
      - Complicating budgetary planning;
      - Jeopardizing attainment of debt target.
    - For exporters price volatility:
      - Increases cash-flow variability;
      - Reduces collateral value of inventories.
- **Sustainable agriculture is the main concern for all BRICS countries:**
  - Effective tool to address the poverty;
  - MDGs achievement.

# The Challenge

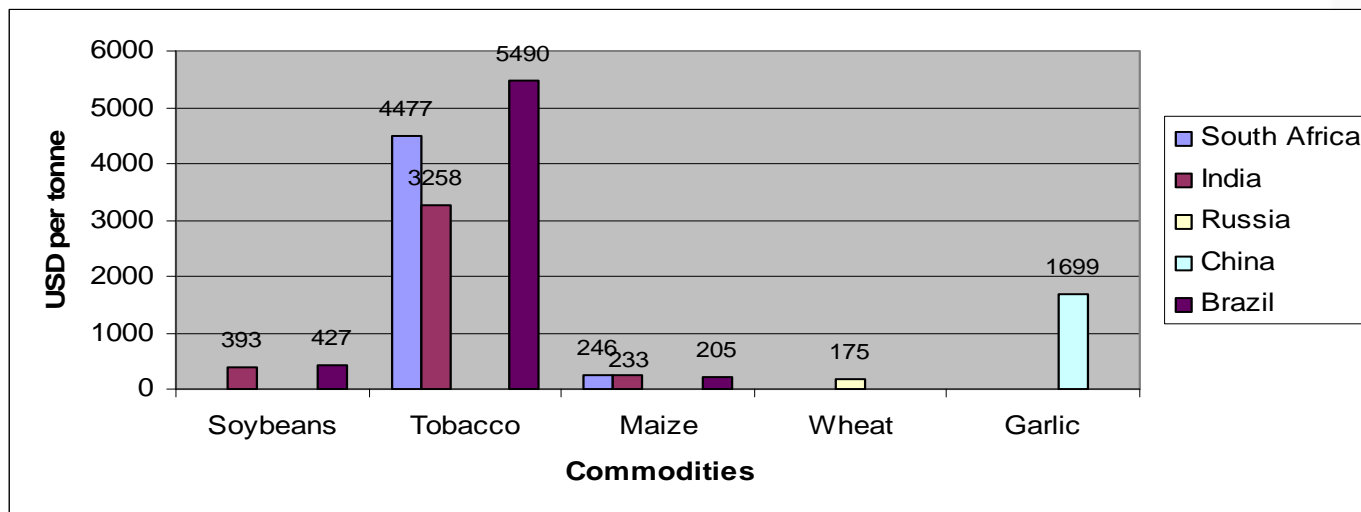


# BRICS Export and Import Flows (USD million)

	<b>Brazil</b>	<b>Russia</b>	<b>India</b>	<b>China</b>	<b>South Africa</b>
<b>EU (27)</b>	21.8/21.2	52.2/38.3	18.8/12.1	19.7/12.7	26.1/32.1
<b>China</b>	15.6/ 15.1	5.1/15.7	7.9/11.8	N/A	11.4/14.3
<b>Japan</b>	3.6/4.7	4.1	N/A	7.7/12.7	9.0/5.3
<b>USA</b>	9.7/14.2	/4.5	10.7/	18.0/	9.9/7.3
<b>Ukraine</b>	N/A	5.8/5.6	N/A	N/A	N/A
<b>UAE</b>	N/A	N/A	12.4/8.8	N/A	N/A
<b>Belarus</b>	N/A	4.5/	N/A	N/A	N/A
<b>Turkey</b>	N/A	5.1/	N/A		N/A
<b>Republic of Korea</b>	4.7	N/A	N/A	4.4/9.9	N/A
<b>Hong Kong, China</b>	N/A	N/A	4.3/	13.8/	
<b>Argentina</b>	9.3/8.0	N/A		N/A	N/A
<b>Saudi Arabia</b>	N/A	N/A	/5.8	N/A	/4

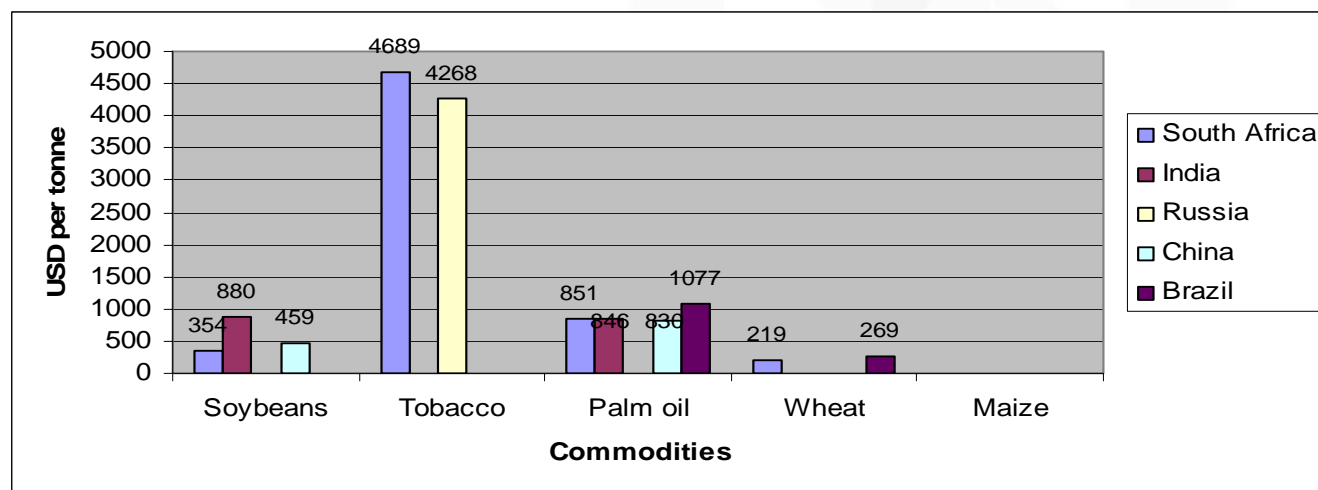
Source: WTO data base

# Key commodity export and import flows in BRICS



Export flows

Import flows



# The factors of commodities price volatility in BRICS

- Oil price;
- Inelastic demand and supply;
- Unstable agricultural production;
- Specific nature of agricultural planning process;
- Speculations at the commodities markets
  - Deregulation in the US in derivatives markets in 2000;
  - Significant increase in commodity index investment.
- Currency exchange rate;
- Trade structural changes;
  - Agricultural goods production changes;
  - Subsidies and other forms of support in agriculture sector;
- Variability of production + climate change;
- Policy and panic.

# BRICS Trade Policy Developments (Fact sheets)

- China: still high degree of governmental interference:
  - Increase of minimum support price of white wheat (Oct-2010);
  - Fighting inflation (Feb-2011);
  - Combating drought damages (Mar-2011).
- India: high degree of governmental interference:
  - Food subsidies (Jul-2010);
  - Creating additional storage capacity for food grain (Mar-2011).
- South Africa: international markets orientation:
  - Increasing the volumes of trade in commodities in time of crises:
    - *short-term variability in agricultural prices in international markets is not found to be higher than domestic markets.*
- Brazil: substantial reduction of the governmental support:
  - Rural credits reduction;
  - Price and income fluctuations reduction.
- Russian Federation: long-term agriculture support increase:
  - import substitution;
  - Variable subsidies;
  - WTO commitments.

# Measures directed at tackling the price volatility and supporting food security

- **Purposes of the measures to tackle the volatility:**
  - Short and in long-term commodity price volatility reduction;
  - Elimination of the price volatility effects.
- **The main instruments:**
  - Domestic and international trade regulation;
  - Fighting speculations at the agricultural markets;
  - Biofuels policy;
  - Transparency and predictability;
  - Forecasting agricultural production.
- **Measures to mitigate the impact of price volatility:**
  - Emergency reserves at the national and regional levels;
  - Safety-nets;
  - Market-based risk management;
  - International policy coordination.



# Building BRICS collective approach to tackling the issues of price volatility

- **Agriculture ministers' meeting (2010, 2011), BRICS summit (2009, 2010, 2011, 2012).**
- **Action Plan 2012-2016 for Agricultural Cooperation of BRICS Countries:**
  - Cooperation to stabilize commodities markets with joint information database on trade among BRICS countries;
  - Providing access to production of the poorest nations;
  - Trade and investment promotion;
  - Strengthening technological, innovation, scientific cooperation;
  - Reducing negative effects associated with climate change.
  - Commitments within IOs;

# Conclusions and Recommendations

- New role of BRICS in the world economy:
  - Stabilizing the international trade flows;
  - New instruments to address price shocks.
- The need to tackle the root causes of price volatility;
- More efficient and effective safety nets in social protection systems:
  - Support targeted and cost effective safety nets;
  - Support effective, market-based risk management options.
- Emergency Humanitarian Food Reserves.
- Increasing investment in small scale production.
- Access to information and market transparency:
  - Support improved monitoring, Early Warning Systems in vulnerable developing countries and regions.
- Mitigating risks of food and nutrition insecurity.
- In short term international trade may be used as a price stabilisation strategy in case of supply shocks.



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# Thank you for your attention!

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