

Grain Reserves, Volatility and the WTO

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Is volatility a bad thing?

- Depends on where you sit (producer, trader or consumer)
- Depends on your time frame (can you wait for next harvest?)
- Depends on your capacity to cope with risk (can you cope if the rise or fall is more than x%?)
- Depends on what you see as problems (access to food; increased productivity; lack of private sector investment; poor environmental management, etc.)

What should be done about it?

- Is is a market problem or a public policy problem or both?
- Should policies treat symptoms (eg. safety nets) or causes (eg. build roads) or both?
- Is the response for emergencies only, or to shift the terms of trade?

Emergency Reserves

- Clearly sensible to anticipate shortfalls, particularly in regions prone to deficits
- Panic is politically dangerous and expensive
- Can be structured to encourage investment in local production, storage and distribution
- Immediately suggests regional, if not global, coordination

Price stabilizing

reserves

- Less clarity on whether and how to proceed – level, grains involved, purchase and release policies, etc.
- Many failed attempts
- YET, volatility is not just a problem when there are emergency supply shortfalls

What can reserves do?

- Create a space for the public interest
- Facilitate support of a price floor and ceiling
- Limit speculation and hoarding
- Correct a basic market failure (demand is inelastic; supply is uncertain)
- Smooth out volatility over time and space
- Complement or substitute for private sector
- Contribute to an emergency reserve

Why do Reserves Fail?

- They are not easy to get right
- Poor oversight and accountability
- Multiple and incoherent objectives
- Inadequate funding
- They don't solve chronic hunger, creating tensions for the government

What challenges do reserves face?

- Securing a budget
- Need for trained and accountable staff and independent oversight
- A better informed, better financed & politically powerful competition
- The belief global trade is an alternative solution

Trade and reserves

- Both are primarily supply responses
- Neither necessarily addresses productivity
- Neither directly addresses chronic hunger

it better?

- Trade curbs volatility (larger supply pool)
- Trade privatizes storage costs (cheaper)
- Trade is extremely responsive to demand
- Trade is constantly adapting and adjusting (nimble)

So why not just trade?

- world markets are volatile too: supply is concentrated (by country and firm) and world market share can be relatively small
- Leaves unsolved the issues linked to public investment in agricultural productivity, storage and distribution
- Suppliers are not entirely reliable

some considerations

- Financing a reserve
- Governing a reserve
- Conditions for price interventions
- Managing physical stocks

Financing a reserve

- *De minimis*
- Blue box and land set-asides
- Green box and public stockholding
- Rules designed for rich country problems

Governing a reserve

- State Trading Enterprises
- Learning from central banks
- Government procurement
- AoA focus on government rather than private sector distortions

Changes to the AoA

- Give explicit pre-eminence to the universal human right to food
- Allow price bands under multilaterally agreed norms
- Acknowledge need to stimulate production
- Acknowledge weaknesses of the private sector in many developing countries

Changes to the AoA (2)

- Tackle concentrated market power in global commodity markets
- Recognize limitations of free-trade economics as they apply to agriculture
- Allow multiple policy responses to build surplus production capacity that are not necessarily employed

Next steps

- A number of countries have put in place more independent central banks -- what lessons for a reserve?
- How can new communications and information technologies be deployed?
- How will this debate link to climate change and the increased uncertainty around existing production technologies?