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Sophia Murphy

## The Power of Food Reserves

By Ben Lilliston

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Make no mistake, the food reserve—a tool as old as food production itself—is a powerful idea. Most people think it's just common sense. The idea is simple: put some food aside in times of plenty to ensure there is enough in lean times. But [a meeting](#)

we co-organized with ActionAid in Washington, D.C., last week, revealed how strongly this common sense idea challenges the free market ideology that permeates our global food system.

IATP's Sophia Murphy succinctly explained how reserves help address market failures that have plagued both farmers and consumers: "Reserves are really about how to make the market do its job better. They can put a floor or ceiling on prices in the face of monopolistic or oligopolistic markets."

We decided to organize the food reserve meeting for two main reasons: 1) the failure of agriculture markets is just too glaring to ignore. The FAO [announced last week](#) that the world's hungry has now reached 1.06 billion people; 2) countries, regions and international institutions are re-examining agriculture policy, particularly the role reserves might play to stabilize food systems.

Our first session gave an overview of the global issues around food reserves. Sophia pulled from an [IATP report](#) released last week outlining four main reasons food reserves are being considered: 1) to correct market failures; 2) to smooth volatile prices; 3) to complement and regulate the private sector; 4) for emergencies. Sophia also discussed the limitations of food reserves when it comes to addressing global hunger: reserves will not solve poor agriculture production which plagues many countries, or address chronic (as opposed to short-term) hunger that is often tied to people simply not having money to buy enough food.

The failure of global food markets has created a ripe political moment to assess reserves. "There is a new awareness among governments that food really matters—and a sense among governments that they've lost a lot of the tools that they've had when food is not available," Sophia told participants.

Chris Moore, at the [United Nations World Food Program](#) (WFP), reported that both donor and recipient countries are seeking advice from the agency on best practices for running food reserves. The WFP, the world's largest food assistance agency, is already using a variety of food reserves. Moore described reserves in Haiti and other Central American countries, community cereal banks in Cameroon and the Sahel region of West Africa, and a multi-partner national grain

reserve system in Mali. The WFP is working with West African countries to assess a regional system to help multiple countries coordinate national stocks.

For countries assessing whether a reserve is the right tool to use, Moore outlined a series of key questions: What do we want reserves for? What other options have been tried? Can you ensure the reserve is well-managed? What transparency rules are in place? Can a regional group integrate reserves and food security needs across borders? And finally: How can reserves fit within a path toward food security?

Hui Jang, of the USDA's [Foreign Agricultural Service \(FAS\)](#), had a starkly different view on reserves. The FAS's mission is to expand U.S. agriculture exports. She argued that reserves distort relationships between supply and demand. And that the existence of a reserve does not guarantee stability. She cited the recent price spike in rice, even though many Asian countries had been building up their reserves for several years. Despite the reserves, countries stopped exporting and prices shot through the roof. Countries will undermine an international or regional reserve system because they will act in their own interest in times of crisis, Jang reported.

Instead, she proposed a financial reserve where countries struggling with hunger could purchase grains and inputs (seeds, fertilizer, machinery, chemicals and the hiring of consultants to boost production). In addition, she proposed a series of other tools to help poor countries like adding futures markets, catastrophic bonds, improved infrastructure and crop insurance.

Jang's presentation follows the strong support for technological fixes (particularly biotechnology) to address global hunger pushed by her boss, USDA Secretary Tom Vilsack, at the newly minted [National Institute for Food and Agriculture](#), and Bill Gates at the [World Food Prize](#) meeting last week.

But the growing consideration of food reserves around the world indicates that most aren't holding their breath for the next technological quick fix. Many see the market failures we are experiencing in agriculture as structural and ultimately requiring government intervention to ensure that everyone has enough healthy food to eat and farmers are paid a fair price.

## **How other countries and regions are using food reserves as a tool**

In a bow to the power of markets, the U.S. removed the last traces of its grain reserve program in the 1996 Farm Bill. The result have been damaging across the board, with increasing volatility in agriculture markets—along with big swings in farm subsidies from year to year. But other countries see the continuing value of food reserves and are using them in creative ways to serve a variety of different purposes.

Celso Marcatto, of ActionAid Brazil, described the role of the state-controlled food company CONAB. While plagued by mismanagement in its early years, Brazilian President Luiz Inácio Lula da Silva instituted a series of reforms beginning in 2003 to refocus its mission. CONAB's purpose is two-fold: to ensure there is enough food in times of crisis and to help stabilize markets to limit speculation. In 2006-07, CONAB helped stabilize the corn market through the release stocks. In 2008, despite the dramatic spike in global prices for rice, CONAB's reserve program helped to stabilize prices within Brazil. "It was possible for Brazil to pass through the food price crisis without suffering too much," said Marcatto.

CONAB also helps run the Brazilian Procurement Program, known as PAA. The program purchases food from smallholder farmers and donates it to social organizations addressing people in need. The program also works with smallholder farmer organizations to help them set up their own reserves. The result is more stable prices for smallholder farmers and greater food access for those who are hungry.

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Ian McCreary, a former member of the Canadian Wheat Board and now with the [Canadian Foodgrains Bank](#), relayed the history of the international wheat agreement, which was launched at the end of World War II and included 47 countries. While there were certainly bumps, the agreement was largely successful until it was finally broken in 1969. McCreary said the wheat agreement offers some important lessons in looking forward, particularly the importance of good governance and accountability. Ultimately, we must ensure that stocks aren't used to punish other countries as the U.S. did in the mid-1980s when it released its wheat stocks onto the global market and devastated other wheat producers around the world, according to McCreary.

McCreary had three recommendations for food reserves moving forward: 1) they should be commodity-specific; 2) they should be nation- and region-specific, and governance must be strong in those areas; and 3) there needs to be international disciplines to ensure that hardships are not externalized on other countries.

"We have to have a mixture of intervention engaged not as a cleanup factor, but to take the rough edges out of the marketplace. The process of reserves fits within that context," said McCreary.

Saliou Sarr, of the [West African Farmers' Network \(ROPPA\)](#), sees food reserves in an entirely different context. ROPPA is a network of 16 countries. His region's challenge is to increase their own food production to feed their people, and reduce their dependency on aid from other countries. Sarr pointed to a confluence of factors contributing to hunger in the region, including: the lowering of food stocks in the U.S., Europe and China; structural adjustment programs pushed by the World Bank that discouraged public investment in agriculture; and limitations on the use of tariff protections imposed by the World Trade Organization.

In response to the food crisis in the region, ROPPA has taken multiple approaches to food stocks, including public stocks, stocks at the farm level and at local food banks. In public stocks, their experience has been troubled, undermined by political mismanagement. But local food banks have been more successful in Mali, Niger and Burkina Faso. There, a committee at the village level buys grain during harvest when prices are low. Then, they use collective storage, and sell it to families in need throughout the year at a price that is affordable. This model has been limited because of the lack of production capacity. Right now, they are exploring food reserves at the village and family level, to work alongside greater access to credit and seeds, to help build production and ensure there is enough food.

"We think a good mastery of the management of stocks at the world level should include capacity building for production, active policies that give priority to internal markets, and reinforce regional integration," said Sarr. "People can have sovereignty with regards to their food supply."

## **Proposals for how food reserves might work in a global context**

Details matter. This was clear in discussions about food reserves at a [meeting last week](#) we organized with ActionAid. How food reserves are run, by whom, and with what purpose, are all critical factors in determining whether a reserve is successful.

There is increasing interest in food reserves at the local, regional and international levels as a way to help better manage our food system. We heard two proposals about how institutions might best manage the details of food reserves.

Dr. Daryll Ray, of the [Agricultural Policy Analysis Center](#) at the University of Tennessee, outlined two central functions of a reserve: 1) to mitigate short-term disruptions or sudden demand; and 2) to stabilize world prices for consumers and farmers.

Ray pointed out that while critics have pointed to the costs of reserve programs, the costs of not having a reserve program can be enormous; including factors often not calculated by economists such as hunger, poverty, loss of food security and political destabilization. Ray suggested that poor management had unfairly given reserves a bad name. "We need to delineate between the concept of the reserve and the way it's administered," said Ray.

Food reserves can be useful at multiple levels, according to Ray. At the local level, families often use reserve concepts through traditional canning and freezing. But there are also different options for farmers, communities and local governments to store food in a shared facility. At the national and regional levels, reserves can be coordinated through governments and federations of cooperatives.

At the international level, with a goal toward stabilizing world supply and prices, Ray proposed an institutional framework similar to how the U.S. Federal Reserve operates. It would be politically independent, composed of regional chairs, and ultimately legitimized by the UN Commission on Trade and Development (UNCTAD) and the Food and Agriculture Organization (FAO).

"Food reserves are just one component of a food security system," said Ray. "We also need to look at production, infrastructure and increasing the purchasing power of people who are hungry."

Robin Willoughby of [Share the World's Resources](#) discussed food reserves within new efforts at the multilateral level to address a failed global food system. He emphasized that the context for reserves is very important. Food reserves are designed for a number of purposes, including: 1) to stabilize prices; 2) for humanitarian reasons; 3) for export promotion through regional trade blocs; or 4) to mitigate speculation.

He pointed out that there are severe institutional constraints to putting together a global food reserve. Global institutions have a patchwork of overlapping mandates with no obvious place to oversee such a system. And many of the most important actors (including smallholder farmers) are excluded from global discussions.

Because of these constraints, Willoughby proposed a Global Food Security Convention. It would encompass a new vision for food and agriculture that is based on human rights and multilateral cooperation. It would be based on three pillars: legal (human rights); political (inclusive and democratic); and technical (implementation).

## **Food reserves within the context of the U.S. and Mexico**

One of the political challenges in talking about food reserves, at both the national and international level, is that they are too often dismissed as a tool that has failed. Of course, food reserves have seen success and failure. And because many reserves have been mismanaged, agriculture economist Dr. Daryll Ray reminds us, "We need to delineate between the concept of the reserve and the way it's administered."

Roger Johnson, President of the [National Farmers Union](#), addressed this political obstacle at a meeting we organized with [ActionAid](#) on food reserves last week. "At this point in history, we've entered an era that government is looked upon as the problem, not the solution. And that the private sector should be in charge of everything, including food aid."

"There is this sentiment that reserves are an old idea," said Johnson. "Nobody wants to talk about an old idea. The other side will say, 'we tried that, it didn't work.'" But he believes that there is a new political opportunity to gain wider support for reserves, and that could involve emphasizing the benefits for consumers and the disadvantaged of the world.

"Reserves accomplish a lot of the same things whether you are a farmer or consumer," said Johnson. "The predictability in pricing is a good thing for both. It is essential for lesser developed countries. If they are going to become more developed, the most common way to grow is through agriculture."

Larry Mitchell, former CEO of the [American Corn Growers Association](#), emphasized the national security implications of not having a food reserve. "Our current reserve is in the hands of multinational corporations," said Mitchell. "We are one short crop away from being at the mercy of their benevolence. We need a public option for food."

"This is pretty scary to me," said Mitchell. "When we went to war in March 2003, we had less than a day's worth of corn and soybeans. The impacts of a reserve are well-past hunger. It is also an issue of national security. I know why we are at war in the middle east. I don't know who we'll be going to war with when we need food."

Mitchell compared the deregulatory effects of the 1996 Farm Bill on agriculture to the repeal of the Glass-Steagall Act in 1999 on the banking industry. He emphasized the need to return to sound food management through a food reserve. A new reserve system could include more than just traditional grain and would benefit both the livestock industry and the emerging bioeconomy.

"Most farmers I know are willing to give up \$7 corn if they can get a consistent and guaranteed \$4, and a proper food reserve can help us accomplish that," said Mitchell.

Victor Suarez, IATP board member and director of the National Association of Rural Commercialization Enterprises in Mexico, highlighted the urgent need for government intervention in agricultural markets, not only to address the food crisis, but also as a counterweight to big agribusiness companies.

"When we start talking about strategic food reserves what we're really talking about is state intervention into the market," said Suarez. "Markets are not self-regulating, particularly with regards to food. There's always been a need for organized societies to prevent risks. In Mexico, when food prices rise, the free market logic is that people simply stop eating. One thing we have learned is that organized small farmers cannot confront alone organized monopolies. It is in no way a free market."

Instead, Suarez stressed the need for people and governments to work together to address the breakdown in the global food system—because we all are affected.