



Stabilizing Agriculture Markets

WHY WE NEED FOOD RESERVES

The recent food price crisis had devastating consequences for world hunger. During the peak of the crisis, from March 2007 to March 2008, the global price of rice increased 74 percent (most of that in a few weeks); the price of wheat more than doubled, rising 130 percent during the same period. Prices in local markets also rose dramatically.¹ More than 100 million people joined the ranks of the hungry, and although the numbers are now down from their peak, FAO estimates there are 925 million people living in chronic hunger today—well above the pre-crisis estimates of 875 million.

Food prices have risen sharply again in 2010 in local markets in South Asia and in parts of sub-Saharan Africa,² even though global harvests are at near-record levels. While farmers, traders and consumers all know that prices will fluctuate, it is the degree of volatility that is new, and the level of uncertainty around where trends are headed.

With hunger a persistent threat and extreme price volatility re-emerging, food reserves have received renewed attention in the global food security dialogue. Declarations issued by world leaders at the G-8 and G-20, as well as the 2009 Food and Agriculture Organization Summit on World Food Security have recognized the importance of food reserves. But there has been little movement beyond the rhetoric.

Why food reserves make sense

Food reserves are an ancient idea, responding to inherent characteristics of agriculture, particularly the presence of relatively constant, inelastic demand coupled with a much more variable short-term supply. Unregulated agricultural markets tend to produce a pattern of many years of declining prices interrupted by short, sharp upward spikes. Those price spikes cause a lot of distress to poor consumers, and only help farmers with a crop to sell when prices are high. Over time, the price spikes harm farmers by encouraging excessive investment in

production, which in turn aggravates long periods of depressed prices. Food reserves can lessen the unwanted consequences of unstable agricultural markets.

Food reserves can be a valuable tool for improving access to, and distribution of, food. They can support farmers by helping them to predict their markets, and by countering concentrated market power downstream from production. They can contribute to local, national and regional markets, where resources are lacking. Reserve stocks can compensate for shortfalls in foreign currency (which make imports difficult), offset supply shocks or spikes in demand, and facilitate humanitarian response to food emergencies. Reserves can also help countries cope with climate change and its impact on food production and supply.

Reserves can be set up along different, but potentially complementary, lines:

- **FOOD EMERGENCY RESERVES** are intended to guarantee availability in situations of extreme weather or other disasters. Such reserves can help protect the most vulnerable populations.
- **PRICE STABILIZATION RESERVES** buy commodities when prices are low to reduce supply and sell when prices are high to keep prices in check. This can help protect farmers' incomes and mitigate the effect of steep price rises on consumers.

Why were food reserves abandoned?

Over the past 20 years, many governments around the world have either abandoned or dramatically curtailed reserve programs. There are several challenges:

1. BUILDING A RESILIENT AND EFFECTIVE GRAIN RESERVE IS NOT EASY. Reserves cost money. They also (by definition) distort markets and involve guesswork that does not self-correct, as a market might. If a reserve is poorly managed, it can exacerbate food security problems.

2. ECONOMIC ORTHODOXY IS AGAINST MARKET INTERVENTIONS. The profound shift in global economic policy starting in the early 1980s emphasizes keeping government intervention in markets to an absolute minimum. A public grain reserve falls squarely in the territory of “bad ideas” for those who do not trust the government to get economic management right.

3. RESERVES HAVE TO OPERATE IN VARIED SOCIAL, POLITICAL, GEOGRAPHICAL AND ECONOMIC CONTEXTS. Patterns of land distribution, dietary choices, the condition of the country’s transportation and storage infrastructure, as well as how a country is connected to its neighbors and world markets, are all directly relevant to how best to structure a reserve and in determining where it might be most effective. There is no simple blueprint for a generic reserve.

4. RESERVES DEPEND ON TRANSPARENT AND ACCOUNTABLE GOVERNANCE. A reserve needs to be both well designed and well governed. Good people, properly trained and paid, strong oversight, clear rules and a well-functioning independent judiciary are essential. It takes time and money to establish this oversight.

5. BIG AGRIBUSINESS IS BETTER FINANCED, BETTER INFORMED AND POLITICALLY POWERFUL. The resources and market information available to large agribusiness firms exceed that of most governments—particularly the governments of developing countries. The corporations involved in the grain trade play a vital role in many public policy interventions for food security, including shipping and delivering food aid. An effective system of grain reserves needs to protect its public policy space but work with the private sector: not an easy balance to achieve.

Why food reserves are making a comeback

The food crisis highlighted the inadequacies of relying on the market as the only strategy to address increasing uncertainty and volatile prices in agricultural markets. In addition to the age-old reasons mentioned above, which still hold true, there has been a marked renewal of interest in grain reserves for other reasons, including: countries’ concern to maintain at least a minimal level of food security; the increasing incidence of food emergencies (linked to climate change, water scarcity, wars and natural disasters); the uncertain commitment to global markets exhibited by several key agricultural

exporters during the most recent food crisis; and, the failure of the private sector to meet public needs in relation to stockholding and stock management.

In the face of uncertain production, not least linked to climate change, governments need to support local and regional food production strategies. A reserve can create a kind of guaranteed market that encourages investment in agricultural production and distribution systems. They can encourage innovation, including adaptation strategies in the face of climate change. Food security depends on a healthy mix of trade and own production; many of the poorest countries are far too dependent on uncertain imports to protect their people from hunger. Reserves can be part of the solution.

References

1. For more information on the food price crisis, see the IATP factsheet, “The Global Food Price Crisis” at <http://www.iatp.org/tradeobservatory/library.cfm?refID=104147>.
2. See “Food Price Watch,” World Bank, May 2010. Available at http://siteresources.worldbank.org/INTPOVERTY/Resources/335642-1210859591030/Food_Price_Watch_May2010.pdf.