Grain Reserves, Volatility and the WTO

Sophia Murphy
Institute for Agriculture and Trade Policy

www.iatp.org
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 it a market problem or a public policy problem or both?

◊ Should policies treat symptoms (e.g., safety nets) or causes (e.g., 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
Could private trade do it better?

- Trade reduces 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.
WTO rules & reserves: 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
Govern a reserve

- State Trading Enterprises
- Learning from central banks
- Government procurement
- A 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 \( A(2) \)

- 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?