



# **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 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*
- ◊ *UFT, 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*
- ◊ 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

- ◊ Trade ~~does it~~ <sup>stabilize</sup> ~~the~~ <sup>the</sup> ~~supply~~ <sup>supply</sup> pool)
- ◊ Trade privatizes storage costs (cheaper)
- ◊ Trade is extremely responsive to demand
- ◊ Trade is constantly adapting and adjusting (nimble)

# So why not just

- ◊ world markets are *trade?* relative to  $\infty$ : 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*

◇ *Deminimis*

◇ *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*
- ◊ 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 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?