

# Regulation of agricultural markets: *which role in a globalised economy?*

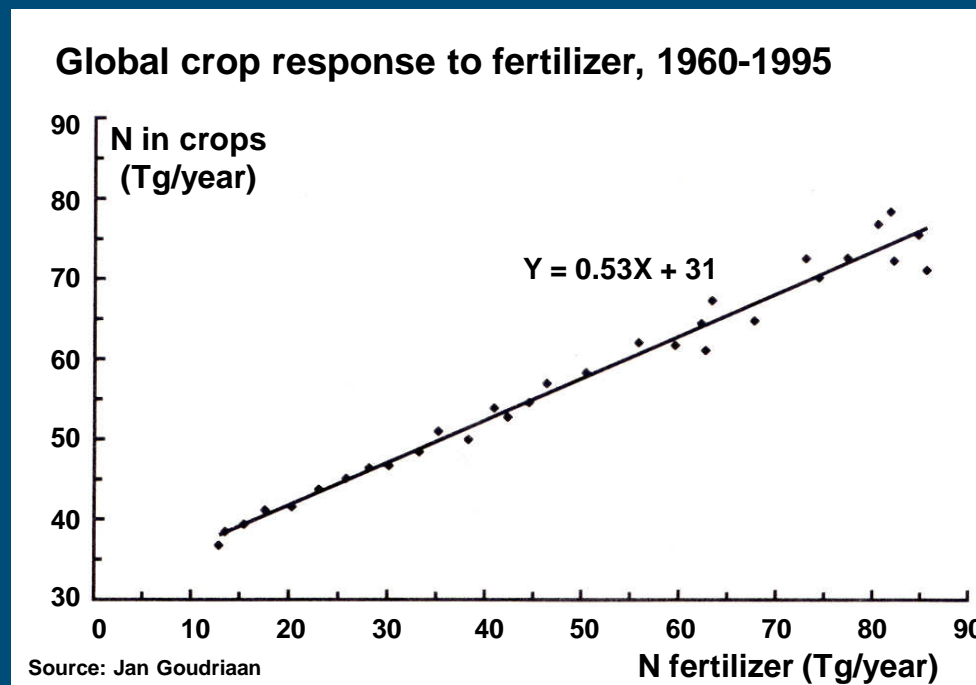
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# The situation

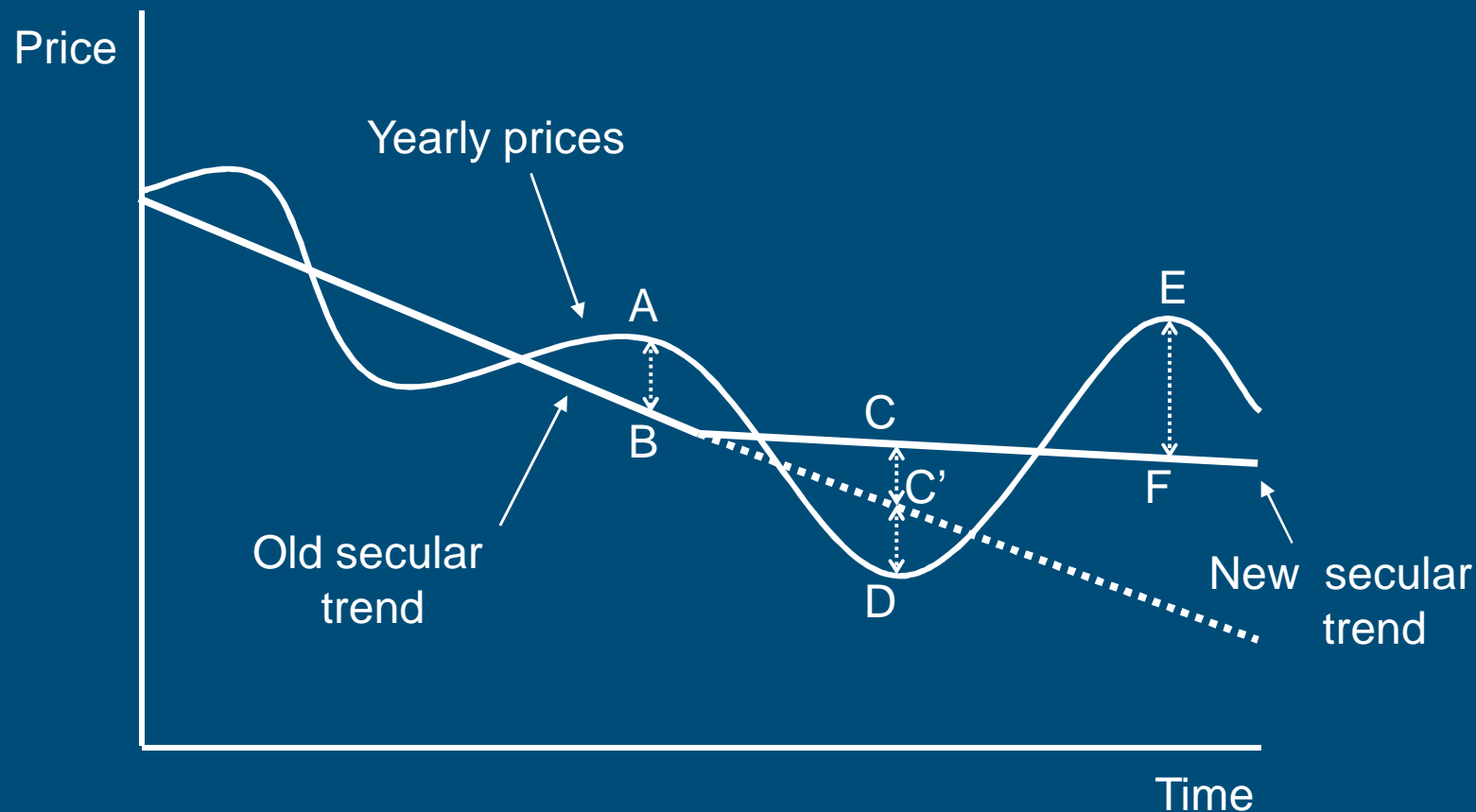
- Until now, price fluctuations have moved around a declining trend
  - *Not just decrease in cost price, also squeeze on farm incomes → poverty & hunger*
- The 2008 price peak was a fluctuation rather than a trend change
  - *Expected growth in food demand is lower than before*
  - *World agribusiness has sufficient room for increasing production*



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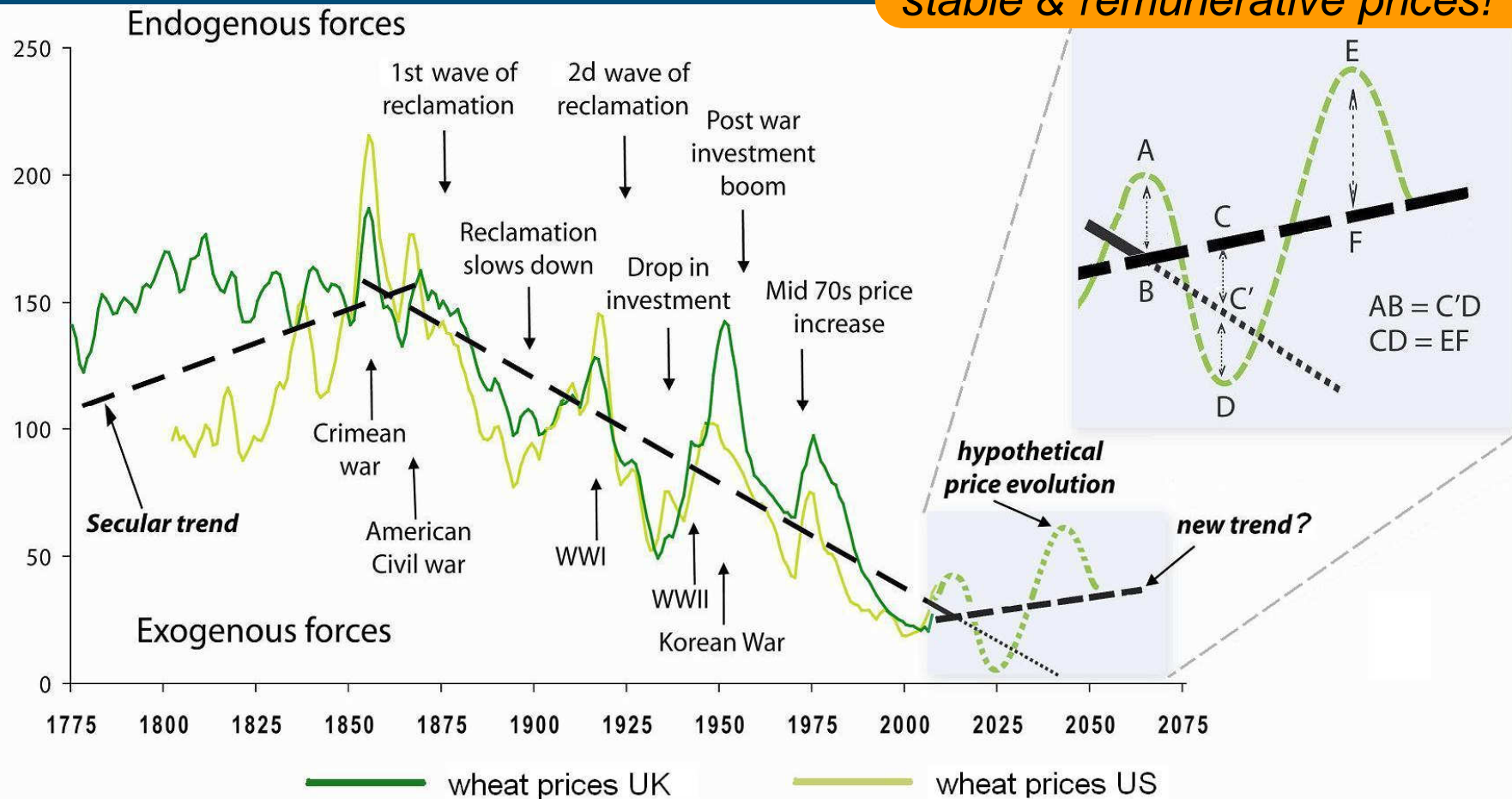
- Until now, price fluctuations have moved around a declining trend
  - *Not just decrease in cost price, also squeeze on farm incomes → poverty & hunger*
- The 2008 price peak was a fluctuation rather than a trend change
  - *Expected growth in food demand is lower than before*
  - *World agribusiness has sufficient room for increasing production*
- Will the trend change in the future?
  - *Costs of energy & phosphate will rise*
  - *Room for breeding higher yielding varieties is decreasing*
  - *Rising prices of fossil fuels → competition between biomass for food and non-food*
- So the world should prepare for greater scarcity
  - *Timely investment needed in human capital, infrastructure, research etc.*
  - *NB: focus should be on socially inclusive growth, not just growth in production*
- However, price fluctuations can hamper such preparation!

# Interaction of trend change & endogenous price fluctuation: *a worst case scenario*



# Interaction of trend change & endogenous price fluctuation: *a worst case scenario*

*Timely investment to avoid unnecessary price rises requires stable & remunerative prices!*



*How to stabilize agricultural prices?*

# 1. Unilateral measures (to be applied by countries or trade blocks of comparable countries in the frame of food sovereignty)

- Adjustable tariffs
- Buffer stocks
- Flexible agro-fuel policies
- Production controls (acreage idling, farmer quotas etc.)

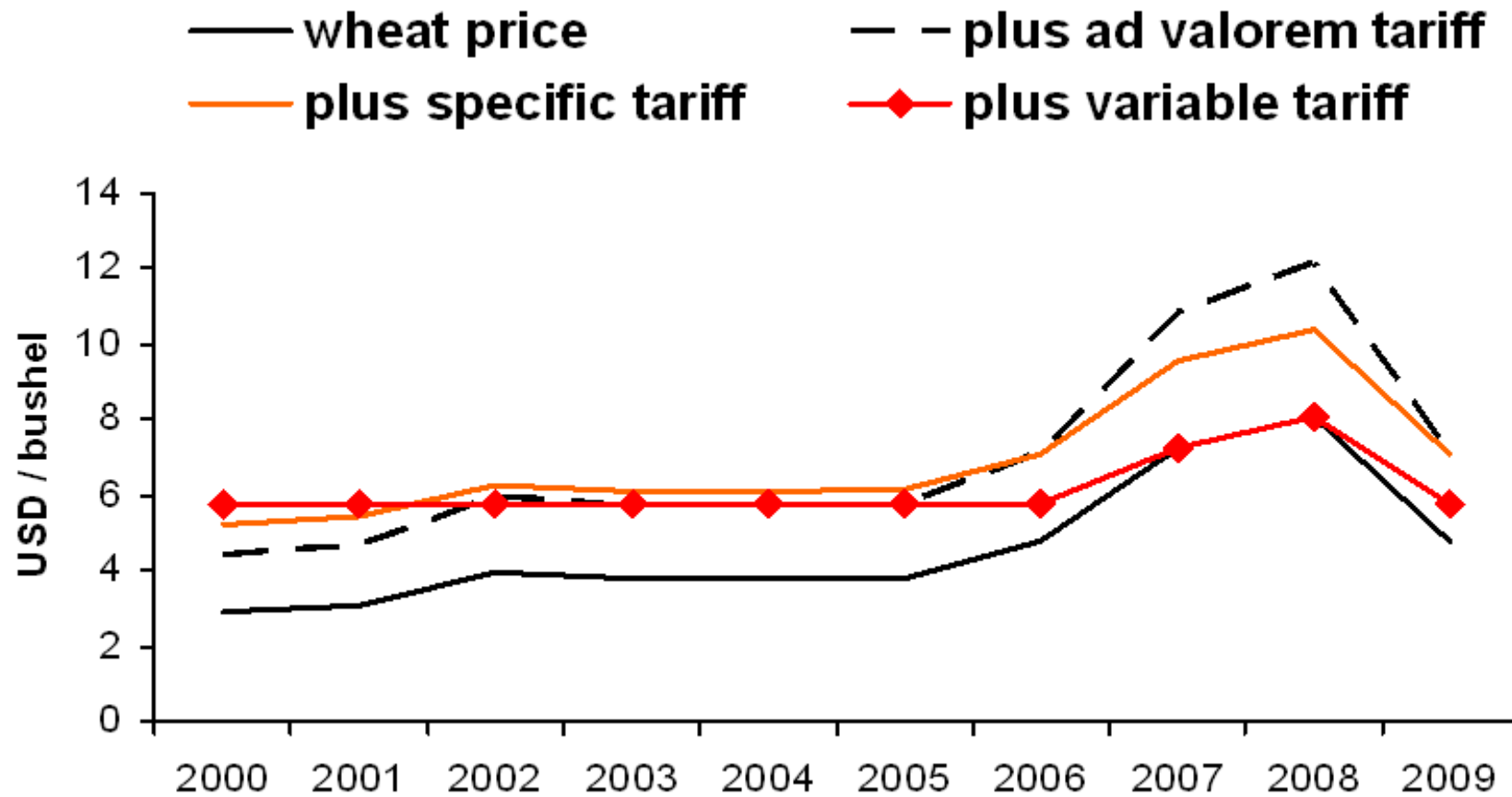
## *How to stabilize agricultural prices?*

# 1. Unilateral measures (to be applied by countries or trade blocks of comparable countries in the frame of food sovereignty)

- Adjustable tariffs
  - *Specific tariffs are better than ad valorem tariffs*
  - *They should be complemented by safeguard measures which are often sluggish*
  - *A better solution is adjustable tariffs*
  - *WTO has banned automatic adjustment. Yet semi-automatic adjustment remains possible if countries have high enough tariff bounds*
- Buffer stocks
- Flexible agro-fuel policies
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# 1. Unilateral measures (to be applied by countries or trade blocks of comparable countries in the frame of food sovereignty)

- Adjustable tariffs
- Buffer stocks
  - *Important to defend a price ceiling during local harvest failures and (together with an export tax) international price peaks*
  - *Important to “make the tariff effective” in remote areas*
- Flexible agro-fuel policies
- Production controls (acreage idling, farmer quotas etc.)

*How to stabilize agricultural prices?*

# 1. Unilateral measures (to be applied by countries or trade blocks of comparable countries in the frame of food sovereignty)

- Adjustable tariffs
- Buffer stocks
- Flexible agro-fuel policies
  - *Restrict or tax agro-fuel production when food prices exceed a ceiling*
- Production controls (acreage idling, farmer quotas etc.)

*How to stabilize agricultural prices?*

# 1. Unilateral measures (to be applied by countries or trade blocks of comparable countries in the frame of food sovereignty)

- Adjustable tariffs
- Buffer stocks
- Flexible agro-fuel policies
- Production controls (acreage idling, farmer quotas etc.)
  - *Needed if surpluses threaten to make the above measures ineffective*
  - *Needed to avoid rampant dumping by subsidization of exports*

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Problems:

- *These measures do not help exporting countries*
- *They can be thwarted by strong fluctuations in world markets*
- *Therefore, they should be complemented by multilateral regulation*

*How to stabilize agricultural prices?*

## **2. Multilateral regulation** (to keep world market prices within desirable price bands)

- Trade quotas
  - *Maximum export quotas and minimum import quotas (to be adjusted when world market prices rise or decline)*
  - *To be imposed on high-income countries and (somewhat later) middle-income countries, but not on low-income countries*
- International buffer stocks
  - *To be funded by a real Common Fund for Commodities as developing countries and UNCTAD proposed in the 1970s*
- Restrictions on agro-fuel consumption in high- and middle-income countries when international food prices exceed a ceiling

# Other important measures

1. *Introduce land reform in latifundia areas*
2. *Break the unsustainability spiral in poor countries*
  - Invest in rural infrastructure in poor areas
  - Protect farmers but support poor consumers by employment projects, school meals with home-grown foods etc.
3. *Invest in research for bio-refinery & ecological modernization*
  - Techniques that reduce emissions while increasing yields
4. *Don't subsidize bio-energy*
5. *Mitigate the growing claim on phytomass for animal foods*
  - Stimulate a shift from feedlot beef to pork, poultry & fish
  - Invest in research for meat substitutes that are attractive to consumers
6. *Create a global social security system to moderate population growth in poor countries*