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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**Global crop response to fertilizer, 1960-1995**

![Graph showing the relationship between N fertilizer (Tg/year) and N in crops (Tg/year) with the equation Y = 0.53X + 31.](source: Jan Goudriaan)
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*

• 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

- Production controls (acreage idling, farmer quotas etc.)
How to stabilize agricultural prices?

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   - 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 (price bands, variable 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
   - Production controls (acreage idling 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
     – *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
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.)

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*