



Report of the international agricultural seminar organised by the Collectif Stratégies Alimentaires (CSA), the Institute for Agriculture and Trade Policy (IATP) and Oxfam-Solidarity.



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INTRODUCTION

Reinstating reserves to increase food security and improve market regulation and producers' market power.

The food crisis was a wake-up call for political leaders and the international institutions and rekindled their interest in agriculture and storage systems. It is recognised that strategic food reserves could play an important role, but in practice few solutions involving storage are being examined.

The storage system is one of the oldest agri-food policy instruments there is. Grain stores of all sizes, ranging from individual family stores to reserves for entire states or regions have always attracted a great deal of attention, but recently a belief in international trade has detracted from policies based on the constitution and prudent management of reserves, which are criticised for being inefficient and costly. The aim here is not to invalidate either approach, but to restore the recognition of storage as one of the agri-food policy instruments that can help improve food security, market regulation the producers' market power.

Aim of the seminar

The aim of this seminar is to bring together producer organisations, NGOs, researchers and officials from governmental and international agencies to discuss the factors that are necessary to promote food reserves at various levels.

Report

The first section of this report attempts to summarise the presentations and immensely valuable discussions at the two-day seminar. It is a seminar report, not a comprehensive study on the subject of food reserves. Different avenues identified for the further exploration and actions relative to reserves are dealt with in the second part of the report.

Présentations originales et liste des participants

The original presentations are available on the CSA and Dakar Declaration websites at the following addresses : http://www.csa-be.org/?page=art-seminaire&id_mot=182&id_article=713, <http://www.dakardeclaration.org/>. The list of participants can be found at : http://www.csa-be.org/?page=art-seminaire&id_mot=182&id_article=715.

Thanks

We would like to thank everyone who contributed to the success of the seminar. We would also like to thank the proofreaders, and especially Nicolas Bricas for his instructive comments and additions.

I. FOOD RESERVES AS A MEANS OF STABILISING MARKETS, INCREASING PRODUCERS' MARKET POWER AND GUARANTEEING FOOD SECURITY

The objectives of food reserves

Two main types of reserves with different main objectives were identified :

Security reserves, intended to guarantee availability if supply suddenly drops, or demand rises. Such reserves can be used in emergencies to mitigate price explosions and protect the most vulnerable population groups.

Regulation reserves, intended to stabilise prices. An acceptable price range is established and intervention occurs when price fluctuations exceed the agreed limits. Market intervention in the event of surpluses or shortages helps protect farmers' incomes and mitigate the effect of steep price rises on consumers. However, as this type of storage involves interfering with prices it is politically less acceptable than security reserves.

It is important to differentiate between the different roles reserves can play and not to reduce one type in order to increase another (e.g. reduce the regulatory role to increase the emergency reserve role). Furthermore one has to bear in mind that in addition to the two main roles described above, reserves are a means of coping with seasonal fluctuations in supply and demand and of preserving seed for the next crop. The existence of reserves for these purposes must be remembered when considering storage at any other level. As will be shown in the following chapter, reserves fulfil different roles at different levels.

Reserves at different levels

Description, objectives and particular constraints

The local level

Individual family-level storage is a traditional, universal practice. Families store their own produce to cover their own food needs and to sell later on in the year. The practice is particularly common in areas where production is very seasonal.

Village or community reserves are constituted by pooling (a proportion) of individual family reserves. Setting up reserves at village level often necessitates technical and financial resources - usually to build the required infrastructure. Cooperatives can be a way for communities to manage their reserves themselves, and the concentration of production can increase the producers' bargaining power when it comes to marketing the produce. Coordination with other villages or communities can open up the way for new roles such as regulation and complementarity between villages.

The advantage of local reserves is that they are immediately accessible to the population and are made up of local products so that dietary habits are preserved, diversification is encouraged and dependency on products from outside the community is reduced. They can help reduce income fluctuation and thus make farms more resilient. It should be noted that women often play an important role in storage at the local level (in processing, for example).

In developing countries there are several major constraints affecting the constitution of local reserves:

- Insufficient production. The biggest challenge is therefore to increase production, and this is sometimes a necessity before reserves can even be considered. Increasing production means increasing productivity and improving the functioning of markets (institutional constraints, infrastructure, organisation of small producers, etc.).
- Unavailability of credit. Loans give producers the cash flow they need at harvest time (for repaying debts, social expenditure etc.) so that they do not need to sell off all their produce cheaply at a time when prices are low and then find that they are forced to buy food later when prices are high. There are various means of tackling this cash flow problem, which can impede family storage and aggravate the food deficit. They include the warrantage system or warehouse receipts*.
- Insufficient infrastructure (mainly for community storage).

The national level

As well as providing emergency protection, national reserves promote market stabilisation. They can also help establish price levels that act as an incentive for producers (encouraging investment) while remaining affordable for poorer consumers. They also provide an additional outlet for producers.

The extent to which they are able provide an additional outlet depends on how the national reserves are formed and especially on whether small farmers contribute or whether reserves are purchased on the world market. The extent of the role played by small farmers also raises the question of the interrelationship between local and national reserves.

National reserves have several limitations :

- The absence of clear, transparent rules on terms of access, the triggering of purchasing and sales, storage volume, distribution, etc. If a public storage system does not have such rules, private businesses - which can also play a role in storage - are not encouraged to enter the arena. The risks involved would be too high. This is what is known as a crowding-out effect. Of course, clear rules are equally necessary at regional and global levels.
- Government monopolisation of reserves for political purposes.
- A shortage of financial resources, jeopardising the durability of the venture. Partnerships with donors could help solve this problem, along with pressure on governments to prevent corruption.
- Exports of surpluses for sale on the international market (dumping).
- Potentially high costs (see chapter on public and private reserves).

* A system through which producers can deposit their harvested produce in a reliable warehouse until prices increase. In exchange they receive a receipt (indicating volume, quality and category) which they can use to obtain cash before the sale of the products (credit guarantee). One advantage of this system is that it makes trading more transparent, giving farmers better access to information about price levels.

The regional level

Food reserves at regional level allow for interplay between national and regional reserves to balance out situations where surpluses and shortages co-exist within the same region. Transparency or the monitoring of national reserves at a supranational level can help prevent their monopolisation by governments. Other potential advantages include lower costs than national reserves and price stabilisation thanks to a regional distribution system.

To function properly regional reserves require :

- Transparent governance based on cooperative principles
- The establishment of clear rules at regional level, rules which are established and assessed on a regular basis through participatory mechanisms.
- Good regional integration.
- A system providing information about available reserves and solidarity between countries.
- Harmonisation of quality standards for stored products (grain size, purity, origin, processing, etc.) and the observance of these standards by the different stakeholders. Such standards, which have to be guaranteeable and easily verifiable (quality grades), facilitate remote trading and make it possible to capitalise on regional complementarities.

The global level

The aim of food reserves at international level is to stabilise world markets or to constitute a reserve for international food aid. Of course, this level is the most complex and the hardest to manage. Consequently, and because it is feared that such reserves could be used for dumping, it is the level where consensus is weakest.

Besides their ability to stabilise world markets, international reserves have another advantage – they can facilitate the implementation of storage at the national and regional levels, and, if the right rules are in place, provide protection against dumping.

All of this requires international, independent and transparent governance, which would need to be vested in an international institution. A forum would have to be set up to agree on the basic rules and other aspects (price range, location, main contributor states, etc.). This requires a broader structure than the WTO can provide. The Committee on World Food Security which is part of the FAO is increasingly being cited as an appropriate body for this role.

There are several other issues pertaining to storage at regional and global levels :

- The type of products stored (linkage to dietary habits).
- The location of the reserves, which has to be practical for dealing with emergencies. Road transport infrastructure is a crucial factor. It is also important that the place where the reserves are held should be politically stable.
- The price limits beyond which the reserves are automatically triggered. An international price with adjustments for regional markets is a possibility. An information system and a multi-stakeholder panel are needed would be needed to establish the price range.
- The size of reserves. If reserves are too small they may fail to curb rising prices. However, the very existence of reserves can appease markets volatility.
- The contributions of different countries and regions to the regional and global reserves. There has to be agreement on who provides the reserves and how much each partner provides.

Complementarity, linkages and governance

The opening up of markets makes it difficult to manage national reserves in a way that stabilises prices. It is particularly hard for governments to intervene in order to maintain attractive prices for producers. Instability and extreme volatility on world markets increases poverty and malnutrition. The creation of international reserves is a means of tempering this instability. It should not be forgotten, however, that the volatility of domestic prices is often endogenous and that there is usually no correlation between the price of agricultural commodities and the price of subsistence crops on the national markets. Consequently the need will never disappear. Individual reserves ensure that local populations have access to food all year round, and continue to be the most accessible type of reserves in an emergency.

As can be seen the different levels of storage play complementary roles in safeguarding food security. The main challenge lies in the linkages between these different levels and the participation of small producers in the constitution and governance of the reserves.

Types of storage : public and private reserves

The problem with the public management of reserves is its cost, whereas reservations concerning the role of the private sector focus on the ability to achieve food security objectives.

With respect to these issues it is necessary to distinguish between two possible types of private reserves – farmers' individual reserves and reserves held by commercial companies. The former, unlike the latter, directly impact households' food security because the families have direct access to the reserves and because they provide an additional outlet for production, but they cannot stabilise prices. The latter could theoretically stabilise prices but practice this would contradict the common interest of all private reserveists in selling their products at the highest possible price. It is not always easy to establish the boundary between these two types of private storage. In many countries the merchants holding the reserves are farmers themselves, often ones with more capital than their neighbours.

Leaving the management of reserves solely to private companies means food security and market stabilisation objectives may not be met. Public reserves, on the other hand, are a means of regulation and countering speculation.

But public reserves have problems of their own, such as their possible expense. The reserves have to be collected in, the buildings have to be maintained and the products have to be replaced on a regular basis. This seems to militate in favour of private reserve management, for privately-run reserves can be more efficient (fewer losses due to better warehousing).

However, the overall cost of storage depends on how the reserves are managed. Thanks to price variability it ought to be possible to make them self-financing by buying produce when prices are low and selling when prices are high. A comparison of the Canadian and the US systems shows how decisive a role the management process plays.

All of this aside, public reserves should be considered as public goods, instruments providing an insurance policy or a safety net. Insurance is always expensive and sometimes, with hindsight, appears unnecessary. The cost of public storage should really be compared to the cost of an alternative without storage. In the USA, for example, storage costs have been very low in comparison with expenditure on agricultural schemes since 1996. The cost of the food crisis (caused amongst other things by historically low reserve levels) has been astronomical.

The combination of public and private storage is also possible. This can be done in a variety of ways, one of which is the combination of private warehousing and management with public ownership and regulation, a public-private partnership of the kind created in the US.

It should be noted that the choice between public and private sector applies not only the warehousing but also to the distribution of reserves. Distribution can be managed through the markets or take the form of direct distribution to the beneficiaries. A combined approach is also possible, e.g. market-based distribution combined with the observance of social criteria.

Types of storage : physical and virtual reserves

The advantage of virtual reserves is the absence of overheads (warehousing and rotation costs). This does not prevent virtual reserves from helping to counter speculative bubbles, but their usefulness still has its limits. They are of no avail in tackling price instability due to factors such as rising oil prices or booming demand for biofuels, for example. Virtual reserves cannot help in situations of real global shortage or over-production, and since they are only virtual and do not involve the withdrawal or release of real foodstuffs, they cannot improve food security. International cooperation on physical reserves remains indispensable.

Other flanking instruments

Storage systems will never be able to achieve the dual objective of ensuring food availability and stabilising the markets single-handedly. Storage has to be a component of a broader food security programme, combined with the following instruments:

- Variable tariff barriers that contribute to price stabilisation by curbing low-cost imports and only incur a surcharge when they are used.
- Volume management, so that reserves do not become too high. In production terms this means a supply management system for the main producer and exporting countries. On the trade side, minimum import quotas and maximum export quotas for the rich countries once a certain threshold has been exceeded could be considered. To tackle shortages a restriction could be placed on the use of biomass for non-food purposes.
- Monitoring cross-border flows to ensure that if prices rise in a neighbouring country the national reserves intended to guarantee food availability are not sold off at high prices across the border.

To these instruments we need to add a number of other factors which are essential to improve food security:

- Diversification of food production, particularly with regard to the production of both cash crops and food crops but also in the sense of using local varieties.
- The development of post-harvest preservation and processing techniques permitting the storage of fresh products (other than cereals) and therefore stabilising the prices of these products. This could also create opportunities for selling surpluses on a new market, currently inexistent for fresh products. .
- Encouragement of growth in the agricultural sector, for the benefit of the poor, through public investment in infrastructure.
- Research into ways to increase productivity sustainably.
- Setting up social security systems.
- Etc.

Risks associated with reserves

One major risk relates to security or emergency reserves. When shortages occur, activating huge transfers of low price foodstuffs (food aid reserves) instead of using national reserves of local food products means that local farmers' produce is undercut and their livelihoods threatened. There is also a danger that emergency reserves can "devalue" local products by introducing new dietary habits and creating a demand for commodities that will later have to be imported.

Other risks relate to reserve management. If reserves are released onto the market when prices are low they may depress them still further. Furthermore, an absence of clear rules regarding the release of public reserves will discourage private storage.

Reserves and the WTO

Annex 2 of the Agreement on Agriculture authorises security reserves, but price stabilisation as an instrument to promote development and growth is not permitted. The WTO does not allow its members to practice volume control and its rules incite other countries to abandon this type of management. Any domestic schemes interfering with prices or production volumes are considered to be trade distorting.

One of the underlying assumptions is that the free market guarantees food availability through international trade. The food crisis has shown this assumption to be false and it has to be remembered that incidents affecting supply can occur in several exporting countries at the same time. Furthermore, as we saw in 2008, in a crisis national food security will take precedence over trade.

Alternatives to reserves

There are proposals for alternatives to reserves at various levels. However, one needs to be aware of their limitations:

- The use of biofuels as a market regulation mechanism (assignment of cereals to biofuel production in the event of surpluses). One major limitation of this method of creating food security is that the biofuel production plants need to run at full capacity in order to be profitable, so they cannot respond by producing more if prices are low. As well as this, when prices are high (often as a result of high oil prices) it is difficult to scale down production, because these are the very times when alternatives to oil are most attractive (high demand). There is therefore a danger that food production would become a sub-product of a highly speculative energy production business.
- Insurance systems to prop up farmers' incomes, such as those under consideration by the EU. In order to work, these systems require huge government subsidies.

Some conclusions

The discussions revealed the importance of reinstating storage as an agri-food policy instrument contributing to food security, market regulation and more market power for producers. It is heartening to see that after twenty years of silence on this subject, storage is beginning to be discussed again. We must take advantage of the favourable context and feed the outcomes of our discussions into the broader debate on food security.

In a general sense we can observe that the emphasis in the debate on food security has shifted. Initially it focussed on ideological standpoints (being « for » or « against » regulation) but now it is concentrating on the technical, political and institutional feasibility of market regulation instruments, the necessity for which has been recognised. Another idea has also gained ground – realisation that there is no miracle solution and that a combination of measures is needed.

This is equally true of reserves, the possibilities and limitations of which both need to be acknowledged. Although they are essential, reserves cannot solve all the problems of price volatility and world hunger. Good multi-stakeholder governance including small farmers is essential to make them effective.

The different roles that reserves constituted for different purposes play and the different functions different stakeholders and levels of reserves perform must be recognised too. The interaction between stakeholders and levels is of crucial importance.

There is also a linkage here to the broader question of the relationship between the instruments used and the political objective pursued - a relationship which is not always transparent. It is crucial that policies should dovetail to meet the objective of eliminating hunger, and this raises issues regarding conflicts of interests between stakeholders.

Discussions between stakeholders must continue in order to identify and put forward realistic solutions to the different issues relating to reserves and food security throughout the world.

II. INITIATIVES OF INTEREST TO NGOS RELATING TO RESERVES AND FOOD SECURITY

Introduction

This second section, which is intended primarily for NGOs, draws on two particular parts of the seminar. The first was a plenary session with speakers from governmental and inter-governmental institutions, the aim of which was to identify reserve-related initiatives at different levels and gain a better understanding of their institutional contexts. This session then fed into a round table discussion between NGO representatives on future actions relating to storage and, more generally, on the stabilisation of agricultural markets, increasing producers' market power and improving food security.

The following governments and institutions provided input during the first (plenary) session: *Agence française de développement (the French Development Agency), the French Foreign and European Affairs Ministry (food security department), the Belgian General Directorate for Development, the Belgian Food Security Fund, the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), the Sahel and West African Club (SWAC/OECD), The Permanent Inter-State Committee for Drought Control in the Sahel (CILSS), UNCTAD (Commodities Unit), the Overseas Development Institute (ODI) and the Technical Centre for Agricultural and Rural Cooperation (CTA).*

The following people contributed to the discussion during the second (NGO) session: *Alexandra Spielloch (IATP), Willoughby Robin (Concern Worldwide), Dagmar Milerova Praskova (Glopolis - Prague Global Policy Institute), Sharada Keats (ODI), Gabriel Pons Cortès (Intermon Oxfam), Daryll Ray (APAC), Marek Poznanski (CSA), Victor Suarez (ANEC), Mathilde Douillet (FARM), Fanny Grandval (Inter-réseaux), José Osaba (World Rural Forum), Ambroise Mazal (CCFD-Terre solidaire), Sophia Murphy (IATP), Riza Bernabe (ASEAN), Philip Kiriro (EAFF), Thierry Kesteloot (Oxfam Solidarité), Ndiogou Fall (ROPPA), Tona Alexandre (MIT/Antwerp), Charles Akande (Canadian Dairy Poultry and Eggs).*

Summary of initiatives of interest to NGOs relating to reserves and food security

- Possibility of organising a side event at the 36th session of the CFS on 13 October 2010. The purpose would be to broaden and deepen the debate on market regulation issues, because the meeting itself will be on the broader theme of risk management. The NGOs have set up a steering committee to organise the event: CSA, Oxfam Solidarité, IATP, ROPPA, CCFD and AFA. For the ACP countries there will be a CTA briefing prior to October to inform stakeholders about the subject and suggest themes.
- Inviting the UN Special Rapporteur on the Right to Food to provide case studies and analytical information regarding the compatibility of the different initiatives aiming to create food security in developing countries with the WTO rules. Various initiatives could feed into this request.

- The French project in connection with the organisation of the G20 Summit in 2011 and the meeting of agriculture ministers which will probably be held in March 2011. A side event involving civil society is to be organised to coincide with an international governmental conference preparing for the G20 Summit. The goal is to put market regulation on the G20 agenda. The EU strategic framework to help developing countries meet the challenges of food security is supposed to be operational at the end of 2010. Work on the question of reserves could be fitted into this framework.
- The international appeal for a coordinated approach to food reserves. (See <http://www.iatp.org/tradeobservatory/library.cfm>).
- The reserves information system set up by the CILSS in the CILSS and ECOWAS states. Resource person : Amadou Konate (CILSS)*.
- A seminar in Africa in early September 2010 organised by the GTZ and examining the subject of price volatility with a focus on the following issues: food security, regional trade, reserves, insurance schemes, etc. Resource person: Franziska Junker (GTZ).
- The work started by the Sahel and West Africa Club on security reserves, and the SWAC forum at the end of 2010 (probably in Ghana), which will be on the same subject. The SWAC also invited the participants to suggest themes and provide examples of regional cooperation on food reserves. Resource person : Adeline Boro de Battisti (SWAC).
- The publication by the UNCTAD Special Unit on Commodities of a report entitled « The UNCTAD Commodity Report, » in 2011 which is a chance to put across some key messages.
- The forthcoming UNCTAD-ROPPA-ECOWAS regional capacity-building workshop (in which the CSA is also involved) which is organized in the frame of the All ACP Agricultural Commodities Programme (AAACP) funded by the European Commission. This workshop is scheduled for the summer of 2010 and will look at improving the functioning of the cereals market in West Africa. As part of this process UNCTAD is developing a multi-stakeholder, multi-donor approach. The workshop is an opportunity to address the issue of reserves. Resource person: Milasoia -Robson (UNCTAD).
- There will be a meeting on reserves with NGOs from Central America in Mexico in September 2010. The meeting is organised by the National Association of Campesino Marketing Enterprises (ANEC).
- The food security event that will take place in September 2010 in New York in connection with the 10th anniversary of the establishment of the Millennium Development Goals. The event is organised by the American and Irish governments and the subjects have not yet been decided so reserves could be on the agenda.

* Contact details for the resource persons listed in this section can be obtained from the CSA

Notes



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