Food Reserves and Global Trade Rules

Food Reserves: Stabilizing Markets, Investing in Farmers & Achieving Food Security

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Outline

1. Why a global dimension to the conversation?
2. What is the global conversation?
   – 2 components:
     • i) how does global affect other levels?
     • ii) what needs to happen globally?
3. Thoughts on the WTO rules
4. Looking ahead

Why is volatility in a global issue?

- Instability and extreme volatility in global markets deepens and extends poverty and malnutrition
- A piece of the puzzle, small but essential
- Countries are more integrated
- Currencies are convertible

Why is it a development issue?

- ODA for 2-3 decades has depended on deepening integration; ignoring domestic agriculture; relying on private sector efforts
- In that analysis, small-scale producers were equated with the poor
- That analysis now challenged (and contested): "small-scale producers feed the world"

What is the point?

- Contribution to the UHR to food
  - **Not** by putting food in people's mouths (or local shops)
  - By limiting harm that instability and volatility cause in world markets
  - Allowing longer-term investments, particularly in a period of environmental uncertainty and given need for new technologies

Trade and Reserves

- Both as old as recorded history
- Both exist in most countries
- Neither now does what is required for food security
- ➔ both could do more
- Can be complementary strategies

Is the WTO a problem?

- Une réponse de Norman – oui et non
- Logic is all about curbing spending, ending price support, reducing tariffs
- Nothing on investment; income from tariffs; rebuilding from disasters or war; taxing use of the natural resource base
- Can spend money but not manage quantities of food

What does the WTO allow?

- Spending. Especially for the South, but also for rich countries because they fudged their numbers.
- How can developing countries spend?
  - Article 6.2
  - *De minimis* exemptions
  - Annex 2 (green box)

Calculating Mali's *de minimis*

- GDP in 2009 = US$ 15.52 billion
- Agriculture's share of GDP = ~ US$ 7 billion (45%)
- *De minimis* allows spending of up to 10% of ag GDP on general support to agriculture
  - i.e. just under US$ 700 million
- In 2006, annual government revenues = US$ 1.5 b and expenditures = US$ 1.8 b
- The 2003 Maputo agreement commits AU countries to spend 10% of their national budgets on agriculture ➔ US$ 15 million

Crop specific support

- The *de minimis* also applies to each specific crop
- Question around new crops: *de minimis* allows spending on established sectors, but not to invest in a new (or neglected) crop

Processing

- WTO rules are ambiguous on processing (eg. ethanol is an agricultural good, but biodiesel is an industrial good – with different rules on subsidies and support)
- Public investment in a new product (eg. dried cassava) would face the problem that 10% of nothing = 0

Annex 2

- WTO does not like surprises – stocks as part of a national food security (or emergency) programme is less likely to attract attention that emergency measures
- “The volume and accumulation of such stocks shall correspond to predetermined targets related solely to food security. The process of stock accumulation and disposal shall be financially transparent. ”

Rich country spending

- If a global cereal reserve was established, it would involve the major exporters of the three cereals (rice, wheat, maize) + coordination with the countries big enough to affect the market (esp. China and India)
- These are a mix of developed and developing countries for WTO purposes, and face different constraints

Canadian Foodgrains Bank

- Observation that a stocks-to-use ratio of ~20% kept world wheat prices very steady for about 20 years
- Worked because Canada and U.S. kept stocks off the market (other exporters got a free ride)

Lessons from wheat 1950-1970

- (NB all very tentative)
- Prices are non-linear; small changes above or below certain thresholds can be catastrophic
- Global stocks matter
- Stocks do not have to cost a lot of money (especially relatively); but they will have a political cost
- Global coordination need not involve many parties

What does the WTO not allow?

- Volume controls (variable levies, quantitative import or export controls, tariffs on volume rather than value basis)
- State trading enterprises are heavily disciplined (and may be all but eliminated with Doha proposals)
  - Therefore how the reserve handles imports and exports matters; also the governance structure

Other WTO prohibitions

- Raising tariffs above the bound ceiling
  - most countries have "water" but not all, and not on all products
- Introducing any new "trade-distorting" support above *de minimis* levels

To Look at Further

- How do investment treaties affect the possibility of establishing local/national/regional reserves?
  - global agribusiness might argue price floors limit their profits
- Redesign WTO rules to focus on principles (transparent, predictable) rather than outcomes (no spending on X, lower tariffs, etc)

What does the global level offer?

- Possible forum for agreeing rules of procedure and operation (eg. minimum criteria for an "acceptable" or "desirable" reserves policy)
- Necessary level for a complete picture of food security
- Could facilitate the implementation of national and regional efforts
- Protect against dumping

What's involved in a global reserve?

- Excellent information and forecasting systems
- Regular meetings to assess demand and supply and change
- Expert, accountable and independent officials
  - Possible models from central banking systems?
- If the 3 major grains, relationship to other crops must be understood
- Consider environmental and social criteria for procurement

What should happen at the global level?

- Emergency stocks (not just money but food)
- A multilateral agreement on how reserves operate to institutionalize the agreed principles
  - transparent, accountable, arms-length governance, independent & reliable funding