# Proposals and ideas to deal with global agricultural staple food market volatility and ensure food supplies to developing countries

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Discussion note 16-02-2011

Many proposals have been made in the few two years or so in response to the 2007/08 food price spikes. These can be classified as those involving storage, information and co-ordination of storage and market information, and trade facilitation – storage and trade to some extent are substitutes.

## 1. Proposals involving storage

### 1.1 An emergency reserve for food aid

The International Food Policy Research Institute (IFPRI) has proposed a physical emergency reserve of about 300,000 to 500,000 tonnes of grain, decentralized and located at strategic points in or near developing country regions. The WFP would manage this reserve and use it solely for humanitarian and emergency response. To cover the cost of restoring the grain, an emergency fund accompanied by a financing facility would be attached to this

### 1.2 Internationally coordinated grain reserve

One of the problems any food crisis similar to that of 200708 is that many importers are shut out of the international markets not only for lack of resources, but for lack of physical supplies available for purchase. Also many international contracts are not honoured. This clearly creates a crisis of confidence, and it is maintenance of confidence in world markets that is needed to avert spikes.

One of the main causes of the recent food price spike was the low ratio of stocks to use. Von Braun, Lin and Torero (2009) have proposed that there be a UN agreement internationally where countries would hold public stocks in addition to any private storage as a percentage of annual use. The proposal would be an agreement by a group of a few important world grain market participants that would include members of the G8+5 as well as major grain exporters such as Argentina, Thailand and Vietnam. The members would commit to hold specified amounts of publicly owned grain reserves, in addition to those held by the private sector.

These stocks would then be released onto the world market when a price spike was forming, and according to directions by a "high level technical commission" appointed by the group on a permanent basis.

The proposal structure in principle looks similar to the principle of the International Monetary Fund (IMF), which collects monetary reserves from its members and releases them to financially stressed members when needed. The IMF members have agreed on rules of release and replenishment, and it is the credibility of these rules that have maintained confidence in the financial markets over time. Would it be possible to obtain such an agreement for basic food commodity markets? Rules that could be considered involve the amounts of reserves contributed by members, the types of situations or events when reserves would be available to participating members, the types of members that would participate and would be eligible to draw supplies from the system, the rules for replenishment of supplies

withdrawn, etc. For instance it could be stipulated that withdrawals would have to be made by a country to meet emergency domestic food market problems, and not to any private market participant. All of these issues could be resolved at a technical level, as they have been resolved at a financial level for the IMF.

As discussed above the idea is quite different than the idea of commodity agreements which were much in fashion during the 1970s and 1980s, and which have been plagued by the problems of agreeing on price bands for market stabilization, as well as on the rules of operation of the attendant buffer stocks.

The idea of internationally coordinated basic commodity stocks could evolve into a global food security stock, that could be utilized to supply some extraordinary needs of members under some extreme but well specified circumstances. It needs to be further studied from this perspective,

**5.3 National and regional stocks**

The major advantage of owning national food stocks is that they can be deployed fast to defuse a crisis. Thus, any policy of national stockholding for strategic or other purposes must be accompanied by clear rules as to how the stocks are to be managed and by whom. For instance, while a policy to support a minimum price level will result in stock accumulation, and this has happened with EU CAP policies in the past, there must be some limits concerning how much is to be accumulated, and under what conditions will the accumulated stocks be released and how. This is, however, where most national stock policies fail or are inadequate. The reason is that the objectives of stock policies are vague (eg. To maintain price stability or prevent price spikes) and do not prescribe specific rules for management.

A way out of this impasse, and in case a national emergency stock is deemed appropriate, would be for the participating countries to specify in detail the conditions under which stocks would be accumulated, as well as the conditions for release, and also specify the specific areas of the commodity market targeted. If, for instance there is a pocket of vulnerability to food price spikes, then a stock policy could be aimed at making sure that this part of the market is supplied at adequate prices and up to a limit.

Concerning regional stocks the problems of national stock holding are compounded by the fact that policies must be coordinated in some way, so as to prevent one country taking advantage of another. One way is to have a unique agent managing the stocks on behalf of the group of regional participants. Another is to have coordination of policies vis a vis national stocks. This is a problem when individual participants in a regional stock have different policy objectives. It is this feature that has prevented many initiatives on regional reserves in Africa and Asia, for instance from becoming realities, beyond token actions.

**1.4 Virtual reserves**

The idea of this policy, proposed by von Braun and Torero (2009), is to avert speculative bubbles caused by hoarding and speculation in basic food commodity markets, namely to avoid price spikes of the type that occurred in 2007-8, or earlier.

The basic motivation is first that the actual trading in a commodity is influenced by the price signals in organized exchanges. This is because many of the physical traders utilize the exchanges for pricing decisions based on the prices of futures contracts, or hedge their physical transactions with futures and options in the organized exchanges. The second motivation is that a lot of the price spikes in commodity markets are the result of speculative long trading in organized commodity exchanges, especially with the recent advent of commodity funds, and may lead the market prices to be “irrationally” high. The proposal is to counteract such long speculative trading with “naked” short selling (namely not backed up by any physical commodity stocks) by an outside agency, so as to prevent prices from spiking.

The virtual reserve would be implemented as a coordinated commitment by the member countries (the Club), which may consist, for instance, of the G8+5 plus some other major grain-exporting countries (such as Argentina, Thailand, and Vietnam).. Each country would commit to supplying funds, if needed, for intervention in the futures market. The fund would normally consist not of actual budget expenditures, but of promissory financing by the members. These funds would be drawn upon by a high-level "Technical Commission" only when needed for intervention in the futures market. At that stage they would become actual budget expenditures.

Virtual reserves may be useful in another way in increasing physical stocks, rather than managing futures markets. The idea would be to interfere in organized commodity markets when the stocks and prices are low, to obtain a long position, much like the commodity funds do. Such positions would mimic the establishment of a physical stock, but with much lower cost and could be rolled over to maintain a given size of stock, and could be liquidated when prices exceeded certain limits. The advantage would be that they would be much more economical than a physical stock. Nevertheless, a stock of this type, just as any other stock, would have to be combined with specific purposes, such as for instance to ensure export commitments to vulnerable

**2. Proposals for information and coordination**

One of the lessons of the recent commodity price bubble was that many governments and private agents acted in response to imperfect information, and overreacted, causing a bubble over and above what could be justified by the fundamentals. This seems to have been the case in past commodity upheavals. Hence it would appear that enhanced information could help all agents in making more rational decisions, and thereby averting crises.

There are three kinds of information that are relevant in this context. The first refers to information about physical supplies and stocks. While information on production and trade is available, albeit imperfectly, information on available stocks is not. It is this latter information, however, which may make a difference in agents' responses to the market developments. This is however, an area that has been neglected. While stock information is imperfect, given the large number of market agents holding inventories, it maybe possible to make reasonable estimates, at least for major market participants. Given the global public good nature of this information, the logical the natural agency to collect and disseminate such information should be an international multilateral one. In addition, countries should make a commitment to provide timely such information, which would be to the benefit of all. This is clearly an area that merits further support, and in addition it maybe very cost effective, as it may make all market participants more aware of a more comprehensive market picture.

The second type of information refers to domestic market developments in a range of commodity trading countries. Such information is relevant as it dictates the countries demand for import or supplies of export quantities. However, apart from some developed countries, such information is not generally widely available, sometimes not even to the governments of the countries concerned, with the consequence that these governments may make decisions about their domestic markets and polices that maybe destabilizing. The recent rice crisis is a clear case in point, as it was induced by policy responses to inadequate information.

The third type of information that seems underprovided is information on public commodity related policies. Again such information may help governments make more rational decisions by considering the types of policies applied or envisioned by others and avoiding costly overreactions.

**3. Proposals related to trade facilitation**

### 3.1 Protocols for international collaboration should there be disruption to imports

### 3.2 Institution to assure the availability of physical supplies when markets are tight.

This could take the form of a grain market clearing arrangement, whereby international supply contracts could be registered through a network of organized exchanges, thus guaranteeing contract enforcement.

### 3.3 Prevent export bans

Probably under the WTO, exporting countries could pledge not to apply export bans or prohibitive taxes for exports under any situation.

### 3.4 Food import financing facility

Purpose is to allow low income countries to buy staple imports when price rises drive up costs. Would provide access to finance when cost of staple imports rises substantially, via guarantees to export financing banks.