Food reserves in developing countries: Trade policy options for improved food security

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Structure of this talk

1. International policies and the G20 agenda
   - Limitation of biofuels mandates?
   - A multilateral grains agreement?
   - International stockpiling?
   - Enhanced futures markets regulation?

2. National policies for small LICs
   - The food balance
   - Commercial policy
   - National food stockpiles
   - The balance between trade and stocks

3. The role of the WTO
International policies: biofuels and multilateral contracting

Reduce biofuels mandates and subsidies:
I have not been persuaded that biofuels demand was more than one of a number of contributory factors to grains price movements over 2007-11. Elimination of subsidies would be helpful, as would mandate flexibility.

An International Wheat Agreement (IWA) style arrangement:
The four active IWAs, starting with that of 1949, were based on multilateral contracting. IWA exporting members guaranteed assured supplies of wheat subject to a maximum price while importing countries guaranteed purchases subject to a minimum price. These depended on wheat trade being largely inter-governmental and worked well so long as prices were not very volatile. They would not function in current market conditions.
International policies: stockpiling

a) It is difficult to make the argument that private sector stockholding is suboptimal at the world level, at least in maize and wheat where risk can be offset on futures markets.

b) The major falls in grains stocks up to 2005 were in China. Outside China, stock-consumption levels were fairly stable at least to 2010. Would Chinese stocks have been available to the rest of the world? Are we sure that the reported Chinese stock changes reflect movements and not changes in counting conventions?

c) Public storage crowds out private storage – if stocks are seen as inadequate, it would be better to provide enhanced private incentives.

- My view is that Chinese stocks were important in shielding world markets from the growth in Chinese demand over 2000-06. Higher world stocks in 2007 would have reduced the 2008 spike and perhaps also have reduced volatility.

- Now is not the right time to consider a stock rebuilding programme.
International policies: futures market regulation

a) One concern is that trend-following speculators (non-commercial traders) can generate bubbles.

b) There is mixed evidence on whether the 2007-08 price spike was a bubble phenomenon. In work for UNCTAD, I found little evidence of bubbles in grains although I found a small bubble for soybeans and soybean oil in 2007. Others have found stronger and more widespread evidence of bubble.

c) There is stronger evidence that index investors, who invest in the range of commodities for portfolio diversification, were important drivers of all commodity futures prices in 2007-08. There is much weaker evidence that they continue to be important.

d) Non-commercials provide liquidity for hedgers. The econometric evidence supports the view that both index providers and money managers (hedge funds) are volatility reducing. Commercials increase volatility as they seek to protect themselves.

➢ Prohibition of index trading and/or a transactions tax are both likely to increase, not reduce, volatility and to make hedging more costly.
National policies: the food balance

We need to distinguish between
a) net food exporters
b) net food importers
c) Countries which are generally self-sufficient but which need to import in the event of a bad harvest.

The staple grain is also important
• the world maize (corn) and wheat markets work efficiently and price transmission is good, particularly in maize
• the world rice market is inefficient with low transmission; commerce remains dominated by intergovernmental transactions.
• Market-based policies work best for those grains where markets function well.
Commercial policy

• Asian rice producing countries have used commercial policy over many decades to stabilize prices to domestic consumers.
• Historically, the main instruments have been variable rate export taxes and procurement for national stockpiles.
• In exporting countries, these policies have redistributed from producers to consumers and from the countryside to the cities.
 We cannot reasonably expect governments to abandon these policies. The better approach will be to subject their use to WTO disciplines. These should push for variable rate export taxes in place of quotas or export bans (i.e. tariffication) and should also aim to cap these tax rates.
National food security stocks

• Even if private sector storage is adequate at the global level, it is unlikely to be adequate in many developing countries – limited futures market access plus policy risk since governments cannot credibly commit not to intervene.

• Stock management is technically difficult and best managed by the private sector, perhaps on behalf of government.

• In much of Africa, public storage has almost completely crowded out private storage. In Asia, interventions have been “at the margins of the private marketing system” (Timmer, 2010).

• Gouel has looked at the optimal balance between trade and stockpiling for a small country. In general countries should both trade and operate a national stockpile.
National policies: trade *versus* stocks or trade *and* stocks

- Starting from around 1985, the multilaterals pushed trade as a superior instrument for food security than national food security stocks.
- Stocks were seen as costly and often poorly managed.
- Gouel’s work shows that trade and stocks should be seen as complementary, not alternatives. Destocking is valuable when the world price is high; storage is attractive when it is low. In the converse cases, importing/exporting are more attractive.
- Countries which are generally net exporters should permit exports when they have a good harvest and the world price is high.
- Storage is more attractive for countries where transport costs impose a high wedge between import and export parity prices. Improved infrastructure can contribute to food security.
Export bans make everyone worse off

From Prof Christopher L. Gilbert.

Sir, Professor Jack Winkler (Letters, FT.com, May 16) is correct that it may sometimes be rational for individual commodity exporters to introduce export controls in times of high world prices in order to insulate their domestic consumers from these prices. However, this is rational in the sense that the “confess” or “defect” strategy is also rational in the famous “prisoners’ dilemma” game. In following narrowly defined self-interest, both prisoners make themselves worse off.

Similarly, in world trade, the single-minded pursuit of self-interest is likely to make all countries worse off. In the case of export bans, this results from the increased volatility of what becomes a residual world market together with increased counter-party risk in international contracting.

The outcome will be a costly and unnecessary increase in self-reliance. The weakest suffer most – witness Haiti and the Philippines in the 2008 world rice market.

The role of global institutions, such as the WTO, is one of balancing legitimate self interest against the requirements of an efficiently functioning and just system for world commerce. I encourage the FT to stand firm in its commitment to these ideals.

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