

# *Strategic Grain Reserves in an Era of Volatility*

**Global Food Reserves: Facing the  
Hunger Challenge**

Washington, D.C. 15 October 2009

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# Outline

- “ What are we trying to do?
- “ How can reserves help?
- “ What can go wrong?
- “ What next?

# Something is different

We are in a new moment in discussions about food and agriculture

- . Food price volatility and underlying political weakness
- . Free trading exporters “blinked” at the edge of the precipice
- . Surge of interest from public health, local environmentalism, community organizing levels
- . From boring to fashionable

# Anything but complacent

Big, open and important debates taking place:

How to manage financial and commodity markets

Future trajectory of productivity gains

Water scarcity

Unstable climate

Uncertain financing

Use of land for energy crops

Use of land for food to export

Rising malnutrition

# Four reasons to build a reserve

1. Correct market failures
2. Smooth volatile prices
3. Complement and regulate private sector
4. Readiness for emergencies

# Why build a reserve?

- “ To correct a basic failure in agricultural markets: prices do not properly self-correct because food is not an optional purchase
- “ 2.3 billion people estimated to live on the margins (geographically, socially & economically)
- “ Markets cannot alone ensure access for all to a minimum of safe, nutritious and culturally appropriate food

## Why build a reserve? (2)

- “ To smooth out volatile prices over time and space
- “ Ancient and obvious solution to timeless problems in agricultural markets: supply 1-2/year; hungry 365 days a year
- “ Food is not optional; supply is uncertain
- “ Serve more remote areas with affordable food (and a market for their production)

# Why build a reserve (3)?

- “ To complement the private sector
  - . Can help to build capital and a safety net for more risky market activity in a largely subsistence production area
- “ To regulate the private sector
  - . Can put a floor and ceiling on prices in the face of a monopolistic or oligopolistic market
  - . Can help protect competitive markets



# Why build a reserve? (4)

- “ To prepare for food emergencies
  - . Natural disasters
  - . Wars
  - . Irregular and uncertain production (large year-on-year swings)

# The Limitations

- “ Reserves are a tool to manage short-term shocks; can contribute to but not solve
  - . depressed production
  - . chronic hunger (depressed consumption)
  - . disparities in relative purchasing power

# Moreover....

- “ Reserves cost money
- “ Reserves distort markets (in part, that is their purpose)
- “ Reserves require guesswork
- “ Reserves need accountable governance
- “ The competition is richer, better informed and politically powerful

i.e. the more a country might need  
a reserve, the less it is likely to  
have a government in a position to  
build one.

# The solution is not just national...

- “ There is a global responsibility to respond to the problems (world markets are thin but critically important)
- “ There are very important local initiatives already going on that should be supported

# Food emergencies

- “ Cash for purchases on world market
  - “ Local and regional stocks
  - “ Promises from donors to provide aid if needed
  - “ Mix of all three
- 
- “ Point is to have short-term help that stops the problem getting out of hand and buys time for longer-term strategy is that is needed

# Price stabilization

- “ Buy when prices are low and sell as prices rise (usually operating with a price band)
- “ Have to consider effects on other crops if coverage is not complete
- “ Needs arms length governance
- “ Costs money (though predictable and far less than an emergency poorly prepared for)

# What about trade?

- “ Roughly 10% of food crosses an international border
- “ World markets are not an aggregation of each country’s domestic market (e.g. roughly 7% of all rice; virtually no cassava, yams, plantains, etc)



# Trade is vital but limited

- “ Some countries now import 50% or more of their food
- “ The same problems that make a reserve sensible, make trade sensible as well (production does not respect geo-political borders)
- “ Similar market failures and distortions affect global markets, too

# And the WTO?

- “ The 1995 Uruguay Round Agreement on Agriculture, now under negotiation for review, prohibits or discourages a number of measures necessary to support a reserve
- “ The WTO wants no interference in the market; the reserve deliberately interferes in the market
- “ Reserves need some clear multilateral rules

# What next?

## “ Reserves operate in a context

- . Realization of the universal human right to food in a way that protects the right of future generations to meet their needs
- . Food and agricultural markets require public action to correct

# Objective: Food Security

## Four Elements

1. Supply
2. Distribution
3. Access
4. Nutritionally & Culturally  
Appropriate

# Reserves one part of the puzzle

- “ Reserves are a tool that can enhance orderly marketing; cannot function in isolation of other important policies
- “ Are not an answer to chronic food deficits or to chronic hunger

# What might a reserve include?

- “ Arms-length and accountable governance
- “ Policy flexibility
- “ A clear mandate + authority + means
- “ Some measure of financial independence
- “ A realistic understanding of what global markets can and cannot contribute