



INSTITUTE FOR AGRICULTURE AND TRADE POLICY

Dr. David Nabarro
Special Representative of the UN Secretary General for Food Security and Nutrition
Coordinator of the UN High Level Task Force for the Global Food Security Crisis

March 31, 2010

Dear Dr. Nabarro:

The Institute for Agriculture and Trade Policy (IATP) welcomes this opportunity to submit comments to the High-Level Task Force in preparation for the upcoming review of the Comprehensive Framework for Action (CFA), to be held in Dublin 17-18 May, 2010. The CFA provides an important framework for laying out what steps must be taken to address the food crisis. Until donor countries fulfill their promises to re-invest in agriculture along the lines laid out in the CFA and under the guidance of the Committee on Food Security, efforts to resolve the food crisis will not be enough. IATP supports a strengthened CFA with the hopes that it will also create political will for the kinds of reforms needed.

IATP's recommendations touch on both the short and long-term strategies, and on the analysis and the related recommendations. The cause of the crisis still needs more attention and further explanation. We know more in 2010 than we did in 2008 about the short-term causes of the food price hike and the longer-term causes for the global decline in agriculture. This knowledge needs to be reflected in a revised CFA.

IATP respectfully requests that you consider our recommendations to strengthen the CFA document in three specific areas: financial speculation, trade and reserves. We also have two higher-level recommendations.

First, that the right to food be given its rightful place as one of the inter-governmental obligations that should frame all food security initiatives. The recently agreed Voluntary Guidelines to support the progressive realization of the right to adequate food in the context of national food security provide an invaluable document to support both government and intergovernmental agency interventions.

Second, that the CFA acknowledge and draw from the International Assessment of Agricultural Knowledge, Science and Technology for Development (IAASTD), whose final report was released in 2008. The report has the support of over 50 governments and a broad spectrum of intergovernmental agencies involved in food and agricultural policy. Its recommendations are vitally important if future policy is to take account of the constraints and opportunities for the realization of ecologically and economically viable food security.

Turning then to the three specific areas for recommendations:

1. Financial speculation

There are no international rules governing commodity markets, although there are non-binding “best practice” guidelines agreed by exchange members of the International Organization of Securities Commissions. Without enforced rules to prevent excessive speculation in commodity markets, agricultural futures and cash markets will remain vulnerable to index funds and non-agricultural market investments.

There were national rules in the United States, where many globally influential commodity exchanges are based, but these were relaxed by a series of exemptions and waivers starting in 1989. The rules that had limited the role of investors solely interested in speculative profit were effectively eliminated over the 1990s, leading to more than \$300 billion of financial speculation at the June 2008 height of the commodities bubble. The recent deregulation of commodity markets and the price level and volatility affects of financial speculation are not considered in the existing CFA analysis.

As the December report of FAO’s Food Price Index states, agricultural markets remain structurally vulnerable to developments in non-agricultural markets. Chief among these developments is what the UNCTAD Trade and Development Report 2009 calls the “financialization of commodity markets.” Regulatory exemptions, waivers and exclusions have enabled investment banks, hedge funds and other financial entities to drive up prices by betting “long” on futures contracts bundled into commodity index funds. As commodity prices began their historic collapse, index broker dealers also began to short sell against their index clients’ investments, exacerbating the price decline.

Binding rules are needed to prevent excessive speculation in commodity markets so that countries can effectively manage price and other market instrument risks. A crucial means to prevent excessive speculation is to limit the number of commodity specific futures and options contracts and to enforce national position limits by financial speculators.

The CFA should request that the FAO and UNCTAD form a task force to analyze which commodities are most vulnerable to excessive speculation. The task force should be given the mandate to develop model position limit rules for non-agricultural, as well as agricultural commodities and should work with UN members to use price risk management tools both for their import and export interests.

2. Agriculture and Trade

Trade has played its part in food security for thousands of years. There is no question but that trade will continue to play a vital role in the decades ahead. Yet, global trade as defined at the WTO is at best muddled and complicated, leaving it hard to make the right public policy choices. The framework for the Doha negotiations on agriculture builds directly on the Uruguay Round Agreement, itself the product of long and painful negotiations that started in 1986 and dragged on until the Marrakech Conference in 1994. So much has changed since then. A fair and equitable trading system should not only promote domestic production and stocks, but also food security objectives that link with appropriate regional markets rather than a single ‘international food market’.

The CFA provided a clear and important objective for food markets:

"Global efforts to improve food markets must therefore be consistent in supporting the goal of strengthening sustainable smallholder production and contribute to overall food and nutrition security."

Strengthening smallholder production and overall food and nutrition security is a big ask. How to do this is complicated and situation-specific. But the evidence related to the Uruguay Round and its implementation at the very least raises questions as to the benefits of applying rules designed to curb over-production and commodity-specific protectionism in a handful of rich countries to the now 153 members of the WTO. At this stage, the Doha negotiations are based on the Uruguay Round "pillars" but with dozens of new exceptions carved out. The result is both complicated and problematic.

At the least, as a consensus document reflecting a broad base of governmental and inter-governmental interests, the revised CFA should acknowledge that the Doha proposals now under discussion are not in and of themselves an answer to the food and agriculture challenges facing the majority of developing countries.

The CFA makes specific reference to the Marrakesh Decision aimed at helping net-food importing developing countries with the prices rises anticipated in the wake of implementation of the Uruguay Round. The decision is a failure. It was of no use in the 1996 food price spike, nor in the much more serious and widespread price spikes of 2007 and 2008. Dependence on food imports has grown markedly since the passage of the Uruguay Round agreements, and few developing countries are better able to afford these imports today than they were 15 years ago. A much stronger emergency financing mechanism is required, as in a transparent stock-holding policy to provide markets with the information they need to function as they should.

Other market failures at the international level are omitted altogether from the CFA. The CFA refers to the importance of an international food market, but fails to acknowledge that oligopsonies and oligopolies that are common in most international commodity markets. The market distortions such concentrated power gives rise to are not easily redressed. As a starting point, the CFA should acknowledge that markets are neither perfectly transparent nor open. There is a role for government intervention to ensure that markets function properly. If a state is troubled by corruption and the government undermines its own market institutions, it is highly unlikely that the private sector will be able to operate without some measure of complicity in the corruption as well. Moreover, government obligations to their populations to ensure food security require some level of interference with markets, particularly where markets are weak and many people live below the poverty line. There are pragmatic solutions to these problems that may well involve a mix of public and private market actors. It is best to avoid ideological prescriptions for how best a government should tackle the challenges they face.

3. Food Reserves

The CFA recommends that assessments be undertaken to look at how grain stocks and financial market instruments could reduce volatility in food markets. Yet little action has been taken since 2008. Reserves can contribute to strengthening food supply, access and distribution and country-level and regional infrastructure. They can support farmers by helping make prices more predictable and by redressing excessive market power among grain buyers. Reserves can ensure farmers receive a fair price. They can offset emergency situations and respond to supply shocks caused by pests or adverse weather, or spikes in demand. They can serve as buffer stocks to compensate for shortfalls in foreign currency reserves,

which may not be sufficient to guarantee the needed imports when domestic harvests fail. They can also stabilize markets and strengthen good governance through market transparency and price controls. In this light, we are recommending that the CFA call on governments to take this issue more seriously. They can do so in a number of ways:

- Lead efforts to establish an international commission on reserves, led by the FAO Committee on Food Security, to make recommendations on the establishment of coordinated reserves at the national and international levels.
- Renegotiate the Food Aid Convention, mandating that any new convention commitment structure recognize contributions to the stocking of regional food security reserves.
- Renegotiate agricultural trade rules so as to allow for countries to invest in the production and infrastructure necessary to support reserves.
- Increase investment, As donor governments mobilize investment in agriculture, reserves should be a central plank of their aid agenda.

Thank you for this opportunity to participate in the review of the CFA. We hope these recommendations are helpful in that process and look forward to a more detailed discussion with you and other stakeholders in Dublin in May.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Jim Harkness". The signature is fluid and cursive, with a long horizontal stroke at the end.

Jim Harkness, President