
Global food reserves

Framing the context for a new multilateralism

The issue of food reserves has received renewed attention from policymakers following the dramatic spikes in grain and oil prices since late 2006. In June 2008, the prices of basic foods on international markets reached their highest levels for 30 years, causing widespread chaos in many developing countries and pushing millions of people into chronic hunger. With cereal stocks-to-use ratios at a record low in 2008 (the second lowest level in 30 years), many governments reacted against the high cost of food imports by restocking national grain reserves, and in some cases by imposing temporary export bans or export taxes on staple food grains. Although agricultural commodity prices have since declined to 2007 levels, the structural problems underlying the volatility in international food prices remain.¹

This paper sets out to provide a conceptual framework for how food reserves can be discussed as a potential policy response to the global food crisis and as part of a longer-term strategy to achieve universal food security.

Food reserves: The wider context

The recent dialogue on the institution of food reserves for both price stabilisation and emergency response measures are a welcome development. However, the context in which a system of reserves is discussed remains critical. Rather than being employed as a method to stabilise market prices in the hope of maintaining the current international trade system, reserves should be used as part of broader reforms to tackle the issue of import dumping, to raise productive capacity in developing countries, as well as to address inefficient food aid policies.

Supply management and humanitarian response

Food reserves can play an important role in addressing some of the reform aims outlined above. Policymakers should approach the issue of strategic food reserves with a two-pronged strategy; firstly, as part of a multilateral supply management framework, and secondly to address critical food shortfalls in humanitarian emergencies. The two issues are distinct, and as such the discussion and implementation of food reserves should be separated for the two purposes.

A global convention on food security

Share The World's Resources recommends that governments and civil society initiate a Global Convention on Food Security to create a framework for the implementation of food reserves. Such a Convention should include input from developing countries and disparate actors from the food system, including farmers' organisations, civil society groups, business interests and consumers. The Convention should create a binding human rights framework to promote, protect and realize the Right to Food.

**Share
The World's Resources**



The threat of world food price inflation returning has pushed the issue of reserves to the top of the political agenda, with several proposals being put forward for a system of globally-managed food stocks. High-level discussions on the issue have already taken place in 2009 at the G8 Agriculture Ministers Meeting,² the United Nations General Assembly,³ and the newly convened World Grain Forum held in Russia.⁴ The current proposals for an internationally coordinated approach to stock management have two broad goals in mind: to address the imbalance between supply and demand which contributed to recent price volatility, and to tackle the need for reliable emergency food supplies.

Food reserves to manage supply

Experts suggest that international agricultural and trade policies in many of the major exporting countries, especially the United States and the European Union, promote the over-production of staple commodities. Such excess output, encouraged by subsidies and decoupled payments to export businesses, can flood poorer country markets at artificially low prices. This influx of cheap imported goods creates unfair conditions in market competition with local farmers, often leading to land displacement, a loss of income and the destruction of local economies. With farming or rural labour providing the economic base for most of the poor and hungry, the 'dumping' of food products is especially detrimental to poverty reduction efforts. At the same time, governments of developing countries come under intense pressure from international institutions to scrap their own tariffs and subsidies as part of free trade rules.

As part of a strategy to address these trade issues as well as to prevent a repeat of the global food crisis, policymakers should seriously consider a system of supply management to stabilise international commodity prices. Through a globally coordinated network of food reserves, governments could set a dynamic price band to protect both farmers and consumers. If prices fall below a determined level, national governments or a multilateral agency could enter the market and purchase excess production. This measure should prevent a fall in farm revenue from a minimum desired level. By releasing stocks in the event of a price spike, a mechanism of this kind can also protect consumers in food-deficit or importing countries from a sudden rise in staple food prices.⁵

Globally coordinated

While the operationalization of strategic reserves will depend on country-specific requirements, a possible method to utilize agricultural supply management would be to promote the reinstatement of national reserves and link them to a global coordination agency. With input from both importers and exporters, an executive board or committee could set a target price band that balances the interests of importers and exporters, as well as farmers and consumers. Governments would then implement supply management measures nationally and report to a monitoring body.⁶

Governments could also consider the establishment of a single global reserve to pool stocks for supply management purposes. Such a reserve could then be linked to a global coordination agency, purchasing or releasing stocks to keep prices within a pre-determined band. This method would allow governments to coordinate and share resources, and could prove more cost effective than a series of national reserves.⁷

Government controlled

In certain circumstances, basic forms of speculation and hedging by private actors can help to achieve price stabilisation through regulating supply. However, perverse incentives may exist for private storage operators in times of a food emergency. During a period of tight supply or a price spike, operators may wish to buy up commodities to increase price levels.

Ultimately, private actors will respond to the price signals of the market and the profit motive rather than broader food security goals. There is little incentive for private participation in any system of storage without heavy government subsidization. For these reasons, governments that use strategic food reserves may wish to discourage private sector control over supply management policies.⁸

Other policy mechanisms

Policy mechanisms on the international level to stabilise commodity prices can only be one part of a broader strategy of supply management. Effective supply management would also require that governments take appropriate measures on a national level. Governments should consider other domestic policies such as promoting farmer-owned reserves, instituting loan-rate mechanisms, and encouraging acreage set-asides as effective ways to manage production incentives.⁹

Humanitarian reserves: rapid response

The prime function of a strategic food reserve is to provide a first line of defence in the event of a food emergency, which could include floods, droughts, pest attacks, bad weather, or man-made events such as war and violent civil disorder. A system of internationally coordinated humanitarian reserves could significantly improve food security in times of a catastrophic shortfall in supply by reducing the need for short-term ad hoc fundraising. While UN agencies and humanitarian agencies do excellent work to supply food during emergencies, the effectiveness of their response to crises can be diminished by the time taken to appeal for contributions, purchase food from international markets and negotiate delivery.¹⁰

Centrally coordinated

For the successful operation of a global humanitarian reserve, it remains essential that an independent and non-partisan agency should own, manage and control the physical stocks and/or a cash reserve. The World Food Programme (WFP) would appear to be a logical choice to run such a response system given its proven record in administering similar food stockpiles.¹¹

There is also serious merit to suggestions for the creation of a new UN-based International Food Security Agency that could amalgamate the expertise of the WFP, FAO, IFAD and other related food and agriculture bodies.¹² This central agency could provide the analytical underpinning needed for successful interventions by giving early warnings of food security emergencies, suggesting an appropriate response that would aid rather than undermine local production capacity, and organising and mandating the release of reserves.

Location

Strategic physical reserves should be located near food insecure areas or close to calamity prone regions. The World Food Program has previously suggested that Mombasa in Kenya would be an appropriate location for such a storage site in East Africa.¹³ The establishment of regional reserves in East Asia near countries that are currently experiencing higher levels of weather-related events such as cyclones could significantly increase reaction time to local or national food emergencies.¹⁴

Physical stocks and cash reserve

Due to the prohibitive storage costs of physical commodities, any humanitarian response system should incorporate strategically placed reserves and a cash fund that the WFP or a centralised UN agency could manage and disperse as needed.¹⁵ Governments should donate staple commodities and relinquish sovereignty over their use to the central agency. In this way, multilateral cooperation as well as the pooled expertise of humanitarian actors could be utilised in times of crisis.

The agency could use a cash fund to replenish stocks as needed, ideally utilising best practice methods of locally and regionally procured commodities (LRP). The operating agency could also use such a fund towards meeting the cost of transportation and storage of commodities. In this context, the optimal split between cash and physical reserves deserves further consideration and research.

Political and economic constraints

Although the current political landscape seems to favour the creation of humanitarian reserves, there are serious constraints to the design and implementation of any broader policy framework that includes multilateral supply management or international trade regulation.¹⁶

Major industrialised countries and food exporters maintain a strong interest in the current agriculture and trade architecture that allows the artificial lowering of prices and access to markets in poorer countries. The United States in particular has maintained a policy position of expanding commodity exports in the hope of propping up prices to its own domestic farmers.¹⁷ Trade competitors such as the European Union have followed suit by using tools such as subsidies and decoupled direct payments, with the aim of lowering prices for its own export goods.¹⁸

Supply management instruments such as international reserves could limit the effectiveness of these concealed export subsidies. By setting a price floor on selected commodities, reserves or buffers could create an effective barrier to major industrialised nations exporting at below the cost of production. However, self-interest appears to dictate that neither the US, nor other agricultural export countries, would wish to undermine a structure that benefits their domestic business interests in the name of global food security.

Entrenched opposition from Northern countries has characterised previous attempts to implement supply management policies or holistic reforms to the food and agriculture architecture. For example, UNCTAD-inspired International Commodity Agreements that governments instituted in the 1970's were progressively dismantled following a lack of support from the United States and under pressure from other major industrialised powers.¹⁹

Alongside political barriers, there are also possible institutional and legal constraints to the creation of supply management tools on both the national and international level. Under the WTO Agreement on Agriculture, the legal position of supply management tools such as strategic reserves appears contentious.²⁰ For example, analysts suggest that Japan circumvented the WTO rules on competition by establishing the East Asia Emergency Rice Reserve on the basis of trade facilitation, rather than as a regional buffer for supply management.²¹

Another criticism of stock programs is the issue of cost. Evidence suggests that previous experiments with reserves proved to be prohibitively expensive for governments.²² This outlay could be particularly problematic for poorer countries. However, the high initial expenditure of establishing (or reinstating) reserves could possibly be clawed back through net income gains to farmers and foreign reserve currency through improved trade terms.

In industrialised countries, the cost of maintaining small physical reserves to manage supply would provide less budgetary strain than many of the current subsidy programmes. Under the US Farm Bill, for instance, government payments to farmers are estimated to run to over US\$20 billion a year.²³ Experts suggest that with effective supply controls, the price of commodities could rise by 23-30 percent, while government payments to provide support to farmers should fall significantly.²⁴

Holistic reforms needed

Global reserves, as part of either a humanitarian or supply management strategy, are not a panacea to end world hunger or raise prices at the farm gate. Without wider changes in agricultural and trade policy, it remains unlikely that either form of reserve would make a significant impact on global food security. For example, without amendments in policies that promote ever-expanding levels of food production by the US and EU, multilateral supply management tools would inevitably fail. Due to current over-production levels stimulated by these subsidies and direct payments, storage costs would soon become prohibitive.

Wider reforms should be angled towards the interrelated aims of providing universal food security through reliable supply, alleviating poverty in the developing world to facilitate access to food, and allowing poorer countries the policy space they need to set their own development path. In short, global reserves are necessary but not sufficient mechanisms to achieve broader food security and development aims.

As part of the discussion on global food reserves, there remains an urgent need to re-examine the WTO Agreement on Agriculture. Analysts suggest that the lowering

of tariffs and trade barriers has critically undermined the ability of poorer countries to defend national food security goals and the income of small-scale farmers.²⁵ While supply management tools could help to prevent the dumping of exports on developing country markets, chances of success remain slight without a wider reform to trade rules.

Rather than a goal of stabilising markets to impose further rounds of trade liberalisation on poorer countries, the ultimate aim of reform should be a shift in power from the big players in the food system, toward the needs of developing countries and small farmers that constitute the majority of the poor and hungry. Supply management to regulate prices could be a key first step in this process by helping to increase the power of small producers, and in reducing the monopolising influence in the market of big processors and retailers.²⁶

Furthermore, the need to improve the productive capacity of farmers in the South remains essential to realising global food security goals. Wealthier governments must commit to an unprecedented transfer of material and intellectual resources from rich countries to poor countries, involving significant investments and financial support for public goods in the South.²⁷ Supply management mechanisms could have the subsidiary impact of facilitating the transfer of productive capacity from the agricultural North to the South.²⁸

International cooperation is clearly required to stabilise prices in world commodity markets, as well as to establish a system of coordinated emergency reserves. But if we are to create a world in which food insecurity is no longer a reality, a deeper shift in values has to take place within the global economy, from one based on pursuing national self-interest to one which prioritises the development of poorer countries, and especially the concerns of the most vulnerable within countries.

Toward a global convention on food security

Any move towards the creation of a multilaterally coordinated reserve system would likely need the adoption of a new international treaty and legal regime. STWR believe that sympathetic governments, UN agencies, civil society groups and farmers' organisations should push for a Global Convention on Food Security to discuss a framework for strategic reserves as part of broader changes in international trade and agriculture policies. As the most inclusive multilateral forum, such a framework should be housed under the auspices of the United Nations.

One of the key concerns with the current Group of Eight proposals for global food reserves and other suggestions toward institutional reform remains the lack of involvement from developing countries and civil society groups. Such a democratic deficit has also characterised a number of other institutional structures addressing food and agriculture issues such as the World Trade Organisation, the Food Aid Convention and the more recent UN High-Level Task Force on the Global Food Crisis.

A new Global Convention on Food Security could be an effective method to initiate a broad, more inclusive and multi-sectorial international dialogue on food and agriculture policies. This framework should include input from various actors in the system, including food-deficit and food-surplus countries, as well as non-state actors such as farmers' organisations, environmental groups, business interests and consumers. Negotiators could initiate a Secretariat body to facilitate input from these disparate groups.

Rather than the existing paradigm that promotes ever-expanding international trade as a means to achieve food security, any Convention should provide a multilateral human rights framework to address food and agriculture issues. Representatives could construct a binding legal regime that promotes the Right to Food, recognises the need for poorer countries to set their own agriculture and trade policies, and promotes truly sustainable development.

While such a vision for global food security may seem ambitious and visionary, there exists a notable precedent. In 1943, forty-four like-minded governments met in Hot Springs, Virginia, and affirmed that government intervention was central to

guaranteeing the human right to adequate food. The agency that they created through this meeting, the UN Food and Agriculture Organisation, was to help governments to guarantee a basic minimum standard of living for all citizens as well as to build diversified, farmer-orientated domestic agriculture systems around the world.²⁹

STWR and other civil society groups are calling for a new framework to define the specific conditions under which global food security can be prioritised in international agricultural and trade policy.³⁰ Based on the ideals of cooperation and inclusiveness, a coordinated network of local, national and regional reserves can form a key part of these discussions.

References

1. FAO (2009)
 2. The G8 Leaders Statement on Global Food Security, Final Declaration: Agriculture and Food Security at the Core of the International Agenda, 20 April 2009
 3. UN General Assembly, Interactive Thematic Dialogue of the UN General Assembly on the Global Food Crisis and the Right to Food, 6 April 2009
 4. See President of Russia Dmitry Medvedev, 'Opening Address at World Grain Forum', 6th June 2009
 5. Wright (2009) and Lytton (1997)
 6. See Ugarte (2009) for an excellent discussion of this possibility.
 7. Wright (2009)
 8. Williams and Wright (1991)
 9. Ray et al. (2003) and Ponson Jr et al. (2002)
 10. Maxwell (2006), FAO (2006)
 11. Aragon et al. (2008)
 12. See ETC Group (2009) for an excellent discussion of similar possibilities
 13. Government of Kenya, 'Mombasa Ideal Host for Regional Food Reserves, WFP Envoy Says', Press Release, 18 May 2009
 14. Williams (2009), and Aragon et al. (2009)
 15. IFPRI (2009) suggest that 300,000-500,000 metric tonnes of basic grains would be an appropriate amount.
 16. See Reuters (8 June 2009) and Christiaenson (2009)
 17. Analysts show a gradual shift away from market management by supply side instruments to 'demand stimulation' through exports following the 1985 US Farm Bill and the 1996 US Farm Bill. See Ponson Jr et al. (2002), and Ray (2004)
 18. Ray (2004)
 19. See B.L. Gardner (1985); C.L. Gilbert (1996); C.L. Gilbert (2005); Peter Robbins (2003). For an earlier discussion of the merits of ICAs, see William E. Haviland (1963)
 20. Christiaenson (2009).
 21. Dano and Peria (2006)
 22. US\$100 million a day according to some experts. See (Ponson Jr et al. (2002) and Wright (2009)
 23. Ray et al. (2003) illustrates that total expenditure on farmer support actually increased following the 1996 Farm Bill, without a related rise in farm income, or export activity.
 24. Ray et al. (2003) suggest that soybean prices could increase by 23 percent, and corn and wheat by nearly 30 percent that US government could possibly halve their subsidy payments to US\$10 billion with effective supply management measures.
 25. Murphy (2009)
 26. Kwa (2007)
 27. Christiaenson (2009)
 28. Ugarte and Dellachiesa (2005)
 29. Lehman (1996)
 30. Spieldoch (2008). IATP also initiated the push for a Global Convention on Food Security in 1996 that resulted in the signatories of over 1,200 civil society groups. See Lehman (1996) and Lehman (1999)
- ## Bibliography
- Corazon T. Aragon, Flordeliza A. Lantican, Ma. Eden S. Piadozo, The United Nations Must Manage Global Food Reserve, UN Chronicle: New York, June 2008
- Joachim von Braun and Maximo Torero, Implementing Physical and Virtual Food Reserves to Protect the Poor and Prevent Market Failure, IFPRI Policy Brief Vol. 10, IFPRI: Washington DC., February 2009
- Joachim von Braun, Justin Lin and Maximo Torero, Eliminating Drastic Food Price Spikes – a Three Pronged Approach for Reserves, IFPRI: Washington DC., March 2009
- Carlo Carfiero, Eugenio S.A. Bobenrieth, Juan R.A. Bobenrieth, Brian D. Wright, Empirical Relevance of the Competitive Storage Model, UC Berkeley: Berkeley, 2009
- Luc Christiaenson, Revisiting the Global Food Architecture: Lessons from the 2008 Food Crisis, UNU-WIDER: Helsinki, September 2009
- Gamani Corea, Taming Commodity Markets, Manchester University Press: Manchester, 1992
- Elenita Dano and Elpidio Peria, Emergency or Expendency? Study of Emergency Rice Reserve Schemes in Asia, Joint Publication of AFA and AsiaDHRRRA, 2006
- Peter O' Driscoll, Part of the Problem: Trade, Transnational Corporations, and Hunger, Center Focus, Issue 166, March 2005
- ETC Group, Message for Madrid: All Road Maps Lead to Rome, ETC Group: Ottawa, Canada, January 2009
- Christopher L. Gilbert, International Commodity Agreements: An Obituary Notice, World Development, Vol.24, No.1, pp.1-19, 1999
- Christopher L. Gilbert, International Commodity Agreements, in William A. Kerr (et al.), Handbook on International Trade Policy, Edward Elgar: Cheltenham, UK, January 2005
- Government of Kenya, 'Mombasa Ideal Host for Regional Food Reserves, WFP Envoy Says', Press Release, 18 May 2009
- William E. Haviland, International Commodity Agreements, Canadian Trade Committee: Canada, 1963
- Timothy Edward Josling, An International Grain Reserve Policy, Washington DC, 1973
- Aileen Kwa, Rethinking the Trading System, Paper Prepared for the Friedrich-Ebert-Stiftung Foundation, Berlin, June 2007
- John Lynton-Evans, Strategic Grain Reserves Guidelines for their Establishment, Management and Operation, FAO: Rome, 1997
- Karen Lehman, Once in a Generation: The Search for Universal Food Security, Institute of Agriculture and Trade Policy (IATP): Minnesota, 1996
- Karen Lehman, Plan of Action to Achieve Universal Food Security, Institute of Agriculture and Trade Policy (IATP): Minnesota, 1999
- Denis Olson, G. Ton and J. Berthelot, Towards Food Sovereignty: Constructing an Alternative to the World Trade Organisation's Agreement on Agriculture, Institute of Agriculture and Trade Policy (IATP): Minnesota, 2003
- John C. Ponson Jr., Oral Capps Jr., and C. Parr Rosson III, Introduction to Agricultural Economics, Third Edition, Pearson Education: New Jersey, 2002
- Daryll Ray, Daniel G. De la Torre Ugarte, Kelly J. Tiller, Rethinking US Agricultural Policy: Changing Course to Secure Farmer Livelihoods Worldwide, APAC, the University of Tennessee, 2003
- Daryll Ray, Agricultural Policy for the Twenty-First Century and the Legacy of the Wallaces, APAC, Published lecture, University of Iowa, 2004
- Daryll Ray, Food Security, Food Sovereignty and Agricultural Profitability, Presented at Board of Directors Meeting, National Farmers Union, Washington DC, 2003
- Reuters News, 'Global Food Reserve Idea Faces Huge Obstacles', 8 June 2009
- Peter Robbins, Stolen Fruit: The Tropical Commodities Disaster, Zed Books, 2003
- Daniel Maxwell, Global Trends in Food Aid, Expert Opinion Paper for the Khartoum Forum on Food Aid, June 2006
- Sophia Murphy, Free Trade in Agriculture: A Bad Idea Whose Time Is Done, Monthly Review, August 2009
- Sophia Murphy, The Global Food Crisis: Creating an Opportunity for Fairer and More Sustainable Food and Agriculture Systems Worldwide, EcoFair Trade Dialogue, No.11, October 2008
- Alexandra Spieldoch, The Food Crisis and Global Institutions, Foreign Policy in Focus, August 2008
- Alexandra Spieldoch, Global Food Responsibility: The European Union and the United States Must Chart a New Path, Institute for Agriculture and Trade Policy and the CIDSE Food, Agriculture and Sustainable Trade Group, May 2009
- Steve Suppan, Food Sovereignty in the Era of Trade Liberalization: Are Multilateral Means Feasible?, Institute for Agriculture and Trade Policy (IATP), Minnesota, 2001
- Bill Vorley, Food, Inc. Corporate Concentration from Farm to Consumer, UK Food Group: London, 2003
- Daniel G. De la Torre Ugarte, The Role of Supply Management in an International Framework, Presentation at the Goethe Institute, Prague, 4 March, 2009
- Daniel G. De la Torre Ugarte and Alejandro Dellachiesa, The Limits of Trade Liberalization in Agriculture and the Search for an Alternative Framework to Benefit Countries in the South, APAC, University of Tennessee, November 2005
- Jeffrey C Williams and Brian D Wright, Storage and Commodity Markets, Cambridge University Press: Cambridge, UK, 1991
- Brian Wright, International Grain Reserves and Other Instruments to Address Volatility in Grain Markets, World Bank Policy Research Working Paper, World Bank: Washington DC., August 2009
- UN Food and Agriculture Organisation, Functions of a World Food Reserve: Scope and Limitations, FAO: Rome, 1956
- UN Food and Agriculture Organisation, State of Food and Agriculture 2006 – Food Aid for Food Security?, FAO: Rome, 2006
- UN Food and Agriculture Organisation, The State of Agricultural Commodity Markets 2009, FAO: Rome, 2009

Global food reserves

Framing the context for a new multilateralism

October 2009

Researched and written by Robin Willoughby and Adam Parsons.

About Share The World's Resources

STWR advocates for governments to secure basic human needs by sharing essential resources such as water, energy and staple food.

As an NGO with Consultative Status at the Economic and Social Council of the United Nations, we work to influence policy in areas such as international trade, finance and agriculture.

Our publications provide analysis on key global justice issues, and explain how and why economic sharing can end poverty and promote international peace and security.

The website presents a selection of the latest international news, articles and videos on a wide range of critical issues including globalisation, climate change, corporate power, alternative economics and people's movements.

You can find us on Facebook and Twitter, or sign up to our newsletters.

Contact details

Share The World's Resources (STWR)
PO Box 52662, London N7 8UX, United Kingdom
Phone +44 (0) 20 7609 3034 Email info@stwr.org Website www.stwr.org

STWR is a not for profit organisation registered in England, no.4854864

Designed by StudioBlackburn www.studioblackburn.com

**Share
The World's Resources**

