Canadian Foodgrains Bank Occasional Paper

Governance Options for an International Food Reserve

A reflection on the governance needs of an international reserve and a review of options drawn from existing institutions

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Canadian Foodgrains Bank
A Christian Response to Hunger

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Forward

In the wake of the 2007/8 and 2010-11 food price crises, the Canadian Foodgrains Bank, a partnership of all the major Canadian church-related development agencies, was alarmed at the realization that sudden food price spikes had the potential to make additional millions of people at least temporarily food insecure. Such price induced food crises can quickly overwhelm the total gains made by the recent decades of effort to reduce hunger in developing countries.

The many analyses which were made in the years following have underlined the complexity of factors which contributed to the crisis, but it is clear that some factors built on others and that it may be possible to address several of the causes by looking at a single aspect – the exceptionally low stock-to-use ratio for major cereals (i.e. low food reserve levels) in the period leading up to the crisis[1].

Accordingly, we saw the need to research the issue of public food reserves. Early in the post World War II period there were deliberate food reserve policies in place, initially as part of the International Wheat Agreement, and later as part of the domestic policies of the US and the European Community. In addition, many developing countries also maintained food reserves. All of these policies were changed in the 1980s; it was widely accepted at the time that such policies were no longer appropriate. Without prejudging the case, we have sought to re-examine the issue in the light of the 2007/8 and 2010/11 price spikes.

This report is the fourth in a series of discussion papers focussing on the use of an international food reserve as a policy instrument to strengthen food security. An increasing number of experts recognize that the changing nature of global grain production may call for the re-establishment of some form of international food reserve. However, the problem of how such a reserve could be governed to ensure that it behaves in a predictable and transparent fashion and does not become a tool giving export advantage to any one party is often raised, based on the experience of earlier large exporter reserves.

Sophia Murphy, an acknowledged authority on international politics of food and agricultural trade, has been asked to look at the existing international institutions whose mandates or functioning are comparable to those of an international food reserve and suggest what elements may apply to a future international food reserve. We are very pleased with the outcome and believe that it contributes to the ongoing search for new policy tools to deal with increasingly volatile and vulnerable global food systems.

Stuart Clark, Canadian Foodgrains Bank

[1] McCreary, I., Protecting the Food Insecure in Volatile International Markets, Canadian Foodgrains Bank Occasional Paper, March 2011.

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The author has been part of a lively exchange on the possible opportunities and limitations afforded by reserves for some years. This work reflects that learning, as well as wider experience of the multilateral system. In writing this paper, she would like to thank in particular Ian McCreary, whose paper for the Canadian Foodgrains Bank provided the model used here. She also thanks Paul Hagerman, for invaluable comments that added important elements to the paper and thereby gave the paper a sharper, more concise structure. Finally, the author would like to thank Stuart Clark, who commissioned and then provided comments and ideas for several iterations of the paper. Stuart has been a friend and colleague for many years. Reserves is just one of the areas on which the author has been privileged to work with him and in this, as on so many other issues, she has not just learned a lot but also enjoyed the learning. Thank you all. Any errors are of course the author's alone.

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Governance Options for an International Food Reserve

Introduction

The Canadian Foodgrains Bank has commissioned two previous discussion papers on the possibility of establishing an international food reserve as a tool to increase resilience in the global food supply and to moderate the excessive volatility that has accompanied the increasing frequency of low global stocks. This is a third. One of the objections raised to the proposal of an international food reserve is the difficulty of conceiving of a governance mechanism where the activity will generate a global public good but must be funded by a smaller group of parties, particularly as there is a risk that the reserve could be used to gain market advantage for one or more of the funders. The likely funders may also include the home countries of the dominant grain exporters to world markets.

There are some precedents for institutions paid for by a few that provide public goods for all. For example, the World Food Program provides an effective short-term response to food emergencies in developing countries (a public good) that is supported by donors who are not the recipients of this assistance. In the case of an international reserve, there would be benefits would be for all countries, though not all interests in all countries. The challenge is that the greatest need for less volatile prices in international markets lies with some of the smallest importers, both in volume and in value terms. These are countries with scant foreign exchange and poorly performing agricultural sectors that have increased their dependence on food imports dramatically over the past twenty years.

The following paper identifies the basic functional characteristics of an international food reserve and identifies some of the most important interests that would be affected by the creation of international grain reserve. The paper then examines other international institutions that provide global public goods paid for by contributions from a limited number of donors to see how the establishment of a reserve might be managed. The paper considers how different institutions manage decision-making and accountability to a variety of constituencies. It also looks at possible models of funding. The paper concludes with some final thoughts on next steps.

Some features of an International Grain Reserve

This paper builds on the concept of a grain reserve set out by Ian McCreary in a Canadian Foodgrains Bank paper in 2011. [2] The international reserve proposed is a tool to increase the reliability of the food supply in international markets and to moderate the excessive volatility that has accompanied the increasing frequency of low global stocks. It is not a price control mechanism. It is also distinct from the emergency reserves that have been proposed by West Africa, the World Food Programme (WFP) and others. An emergency reserve holds food against domestic, or sometimes regional, shocks, when an unexpected or prolonged shortfall in supply or some kind of disruption to the local distribution system

[2] Ian McCreary, Protecting the Food Insecure in Volatile International Markets, 2011. http://foodgrainsbank.ca/uploads/Food%20Security%20Price%20Volatility%20and%20Policy%20Responses-%20final%20-%2025%20March%2011.pdf

(the movement of food from areas of surplus to areas where there is demand) leaves people at risk of famine. The emergency reserve is a safety net for supply shortfalls.

The kind of international reserve explored in this paper is instead intended to stabilize international markets by keeping a minimum stocks-to-use ratio of grain available, in a transparently and accountably run reserve. By ensuring that a known supply is available to the market at all times, an important precondition for volatility—that of uncertainty as to future supply—can be eliminated. An international reserve would maintain a minimum level of grain in the reserve much as a bank keeps a minimum reserve of funds to be able to function. Acquisition and release of stocks would be governed by clearly written, predictable and transparently implemented rules, to ensure against the reserve creating confusion on commercial markets.

2. Some of the Interests in International Grain Markets

a) The countries that dominate trade

Production for international grain markets is heavily concentrated in a few large exporting countries. Just eight countries account for 84 percent of all wheat exports (the United States and Canada are first and second largest respectively).[3] Maize is even more concentrated by country of origin: in 2009, the United States exported some 47.8 million tonnes of maize. The next largest exporter, by volume, was Argentina, which exported just 8.5 million tonnes. The top five exporters of milled rice provide approximately 80 percent of production for international trade, while the top five exporters of paddy rice provide more than 85 percent for international markets (two countries, India and the United States, feature in both the top five lists).[4] Production for export is not only concentrated, it is also a relatively small share of total global production. Rice is the least traded, with roughly 7 percent of rice crossing an international border. Wheat is the most heavily traded food grain, at 17 percent. The biggest wheat importers are not countries that face serious food security threats: in order of largest to smallest as measured in both volume and value terms, they are Algeria, Italy, the EU, Japan, Spain, Brazil and Iran.

Governments have not historically made competition a priority in their regulation of commodity markets. Instead, most have either operated a state-owned company, or worked with a small number of dominant private firms, as has been the case in the United States. Either way, intervention in staple food markets has been the norm rather than the exception, with food reserves an important tool in governments' repertoire. China has held food reserves more or less continuously for more than 1000 years.

Trade liberalization in food markets is a relatively recent project. It was a policy shift that was actively sought by the few large multinational grain traders. A number of agricultural economists, and over time a number of international organizations, too, lent support to the idea. Among governments, the idea of

[3] These and following production and trade statistics are all from FAOSTAT, accessed between March and May 2012. The eight largest exporters (from largest to smallest) are the USA, Canada, EU (excluding internal trade), Australia, France, Russia, Germany and the Ukraine.

[4] The top five exporters of milled rice are Thailand, India, Pakistan, Viet Nam and the United States. The top five exporters of paddy rice are the United States, China, Argentina, India and Italy. Rice in particular shows a significant variation depending on the quality of rice so the value and volume of exports are not well matched. The countries listed are by volume, not value, of exports.

reducing or eliminating the role of the public sector in agriculture was first taken up by what is known as the Cairns Group (because they first met in Cairns, Australia). The Cairns Group was composed of both industrialized and industrializing countries with large agricultural surpluses to export, but neither the money nor the wish to intervene in markets as heavily as both the United States and the European Union were doing at the time (the 1980s), in particular by the use of export subsidies. The Cairns Group wanted to increase the volume of agricultural trade and to secure a larger share of international markets for their exporters. Eventually, with some exceptions, the United States and, more reluctantly, the European Commission, reduced their control over the prices, production and trade of agricultural commodities.

The governments of the major agricultural exporters continue to resist translating public policy concerns into trade rules. This has made most of them, though not all, unreceptive to the proposal for the establishment of an international grain reserve, which they fear would "crowd out" the private sector. These countries also say it would be too expensive to fund a reasonably sized reserve, and that political agreement on the rules of operation would be too hard to agree. But the strongest resistance comes from the unwillingness to do what agricultural economists believe the private sector should be doing instead: holding stocks against the possibility of supply shortfalls.

b) The countries that depend on trade

It would be a mistake to conflate the amount of grain a country imports with the importance of that grain for the food supply. From a food security perspective, many of the much smaller importers are far more dependent on international markets than bigger importers such as Italy or Japan. These low-income net-food importing countries are vulnerable; they lack the foreign currency reserves that would enable them to just pay more when prices spike. In 2008, the WFP launched an emergency appeal saying the organization needed 40 percent more money just to maintain their usual programmes because grain prices had risen so much and so fast. The first to lose in this situation are the poor in low-income net-food importing developing countries (LINFIDCs). But ultimately the costs ripple out in important ways to the affected country as a whole, as children get pulled out of school, productive resources are sold or over-used in attempting to meet short-term needs, and entrepreneurs adopt risk-adverse strategies because unstable and high prices make long-term investments too difficult. LINFIDCs are highly dependent on stability in international markets but have neither the economic means nor the political clout to force the necessary changes to market rules.

Many of these countries are caught in a vicious circle of increasing population size, stagnant incomes, and unstable and only slowly improving agricultural productivity. This has pushed them into ever-greater dependence on international markets for their food supply. In turn, international markets have gone from several decades of relative glut and low prices, to the current situation of much higher and persistently volatile prices since 2007.

It is especially this group of countries that is of concern to the international community, both because of the human suffering their populations face, and because of the cost and limitations associated with post-crisis interventions. Donor countries provide much of the money governments in these countries have at their disposal for investment. The lion's share of the cost of an international reserve might fall on donor countries, most of which are cutting their overseas assistance budgets. But these same countries are also those that receive the requests for help when disasters hit, so there are compelling arguments to be made for donors to support less expensive interventions that limit the likelihood of disaster and allow people and their communities to be more resilient. For the low-income countries involved, a market system that protects their public interest is much preferable to relying on bilateral and multilateral donor support to try to repair the damage wrought by high and unstable food prices.

c) Grain traders

Private sector grain traders, not countries, are at the heart of international grain markets. Twenty years ago, there were a number of state or parastatal trading companies that were active importers and exporters of grain, including BULOG in Indonesia, and the Australian and Canadian wheat boards. Today, those state trading companies have by and large been dismantled or curtailed. The last of the big state wheat traders—the Canadian Wheat Board—lost its export monopoly in 2012. Big private traders are already poised to take over its business. Four multinational firms—Archer Daniels Midland (ADM), Bunge, Cargill and Louis Dreyfus—are estimated to control 75-90 percent of the global grain trade.[5] Glencore, better known for its dominant role in metals and minerals trading, has emerged as a fifth dominant firm in agricultural commodities production and trade.

The dominance of this small number of private firms reduces transparency in international markets. Grain contracts are highly sensitive commercial secrets and there is little transparency about the scale or scope of the companies' operations. Economists criticize public grain reserves for "crowding out" private sector grain holding (the private companies will not hold stocks if the public sector is doing so). Yet the 2007-2008 food price crisis suggested that the private sector is not holding stocks anyway, even when there are no public stocks to speak of. Stocks are expensive. From a trader's perspective, they are not a useful investment. As long as traders know as much or more than their competitors and can keep ahead of the market movements, volatility means profits for traders. It is a risky but lucrative business, and the multinational traders are well placed to know more than just about anyone else about the direction and degree of fluctuations that prices may take in the coming months. Their customers, particularly low-income net-food importing developing countries, have far less capacity to assess trends, particularly in an unstable market.

With the dissolution of state trading and the lack of interest in stocks from the dominant traders, carry-over stocks are at historically low levels. Some end-users, such as the food processing and meat companies, do hold stocks. But they are for private use and are not available to the market. Liberia's experience during the 2007-2008 food price crisis highlights the risks of a purely market based system from a public policy perspective: when prices started to climb rapidly during the crisis, the company that Liberia had contracted to deliver grain broke the contract and sold the grain to a higher bidder elsewhere. The example highlights the great failing of markets in relation to human needs: the market will sell to the highest bidder, regardless of whether that means the lower bidder then starves. In today's globalized markets, that pits some very unequal bidders against one another. Simply put, Liberia cannot compete with the new and increasing demands on food grains, and the land that grows those grains. And the private firms that dominate trade have no reason to care about Liberia's food security—their purpose is to increase profits by selling to the highest bidders.

[5] Oxfam GROW paper, 2011.

d) Farmers Large and Small

Many large-scale farmers' organizations, especially in Europe, were hostile to the negotiations on agriculture under the Uruguay Round. By the time the agreements were completed in 1994, however, the international forum for associations of larger farms, known then as the International Federation of Agricultural Producers (IFAP), had agreed to support the passage of the Agreement on Agriculture.

Nonetheless, volatility is uncomfortable even for large-scale producers, who must make expensive production investments months ahead of any outcome, relying on one of the great remaining uncontrollable forces—weather—to determine their final profit. In rich countries, farmers have various kinds of programs to help protect their investments, from publicly subsidized crop insurance, to direct payments from the government, to disaster relief programs when drought or floods strike. This helps enormously to increase farmers' interest in trading and to look for the possibility of higher prices that comes with less public regulation. There are costs, too, however, and not just to the public purse that provides the income security measures. For example, higher and less stable prices mean higher transaction costs on futures markets and larger hedging requirements from the end users of grain, such as food processors.

Small-scale producers, especially in poorer countries, have little or none of the public support available to many farmers in richer countries. Small-scale producers grow most of the world's food.[6] They are also among the world's most vulnerable people, subject to a high incidence of poverty and hunger. Small-scale producers are affected by international markets as sellers of grain, as agricultural wage labourers (many small-scale producers supplement their livelihoods by working on other farms), and as consumers: most small-scale producers are net food consumers at certain times of year.

The effects of the food and subsequent financial crises in international markets in 2007-2008 were felt everywhere, from Nepal to Malawi to Guatemala. The countries that were relatively less affected were larger agricultural producers, who responded by imposing limits on their exports and calling on national food reserves to reduce volatility in domestic markets (countries such as India and China). Data reviewed in the 2011 *State of Food Insecurity* Report published by FAO suggests farmers in countries such as Thailand, with relatively large and equitable land-holdings and well developed international markets, did well from the higher prices. But small-scale producers in poorer countries did not have the capital they needed to invest in expanding production. A large jump in input prices, especially fertilizer and oil prices, made such expansion still more difficult. Small-scale producers' extremely limited market power necessarily gives them a very different perspective on risk and price volatility than larger commercial enterprises.

e) Consumers Rich and Poor

The effects of high and volatile grain prices on consumers depends to a large degree on the percentage of the household budget that is spent on food, as well as the relative importance of unprocessed foods, especially grains, over processed foods. In developed countries, food price increases were in large part attributed to higher oil prices. In poorer developing countries, food imports are mostly of basic grains,

[6] ETC Group (2009), "Who Will Feed Us?" Communiqué Issue 102. http://www.etcgroup.org/sites/www.etcgroup.org/files/ETC_Who_Will_Feed_Us.pdf

and high commodity prices translate more directly (though not in a simple relationship) to higher food prices. The average Canadian spends something like 15 percent of their household budget on food (though there are significant disparities among consumers within rich countries that should not be lost sight of). In Burkina Faso, that amount is closer to 80 percent. Clearly there is far less room for volatility in Ouagadougou than in Ottawa.

Agricultural economists such as Peter Timmer, looking at experiences of development at the national level and over time, argue that stable food prices are an important public good for both consumers and producers.[7] One dimension of this is psychological: food security is in part about *feeling* food secure. This is not trivial—expectations are a crucial feature of economic decision-making. A grain reserve eliminates some degree of uncertainty in markets, allowing economic actors, including consumers, to take risks and make investments in other areas of the economy, knowing the price of food is predictable.

f) Reconciling the interests

Modern technology, from satellite monitoring to instant communications, has increased the possibility of greater transparency in grain markets. On the other hand, the deregulation of commodity futures markets (particularly since 2000), the increasing concentration of market power in agricultural commodity markets, and the marked shift away from holding public stocks in countries around much of the world, have pulled in the opposite direction. These latter changes have increased uncertainty as to levels of available and expected supply. Increasingly unpredictable weather and a sharp increase in weather-related natural disasters (both floods and droughts), widely thought to be linked to climate change, have also generated volatility; less certain weather means less certain production, as exemplified by this year's drought in the United States, with forecasts saying only 31 percent of the corn crop is good or excellent.[8]

The international reserve could protect a vital public interest if it can smooth out price spikes created by supply and demand shocks, and speculation, in international food markets. The reserve would provide some large and important benefits to countries that are neither low-income nor food insecure (such as more predictable demands on foreign exchange and reliable supplies for processors). But it would also provide invaluable service to some of the world's poorest countries, and people. The larger and relatively richer importing countries can provide both a possible source of funding for the reserve, and political support for the idea in multilateral negotiations.

For exporting countries, too, there is some advantage in offering customers a stable market. One visible effect of the 2007-2008 food crisis was to trigger a very significant increase in private investment in land abroad, as users of agricultural commodities, whether for food, feed or fuel, showed a loss of confidence in international markets to provide what they needed at an affordable price. If agricultural exporters want to maintain or expand global commodity trade, they need to reassure their customers they will have supply, no matter the short-term setbacks. That requires a reserve. It is not clear the private sector, though it has an interest in a stable and rules-based trading system, is able or willing to invest in

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[7] Peter Timmer, "Managing Price Volatility:Approaches at the global, national, and household levels." Paper for the Stanford Symposium Series on Global Food Policy and Food Security in the 21st Century. May 26, 2011

[8] http://www.reuters.com/article/2012/07/18/us-usa-drought-crops-idUSBRE86H0MP20120718

reserves to improve stability. Certainly, such an investment would more likely be oriented to protecting higher profits than in supporting an affordable food supply.

3. Decision-making

Were an international reserve to be established, what might its decision-making structure look like? How would the interest of the most likely funders (big importers and exporters) be reconciled with the needs of smaller but very vulnerable states? What existing examples could the creators of a reserve learn from?

A grain reserve would need to reflect the different interests in agricultural commodity markets. It might decide, however, that not all voices are equal. Typically commodity agreements have favoured the larger traders over other countries. They are the ones that pay all or most of the associated costs of the association. For an international reserve as envisaged here, however, giving the largest contributors more political power is problematic. The proposed reserve would not be a private or commercial association, but a mechanism intended to provide a public good. The countries that are most dependent on international markets, and most vulnerable to high and volatile prices, would need to have a strong voice in the running of the reserve, to ensure their interests were served.

It is established political theory and practice that society as a whole can benefit from services that most directly affect only a few, for example transportation that links rural and urban areas, or public provision of unemployment insurance. Perhaps less well articulated is the importance of allowing recipients of such services a voice in how such services are delivered. At the global level, the principle is far less clearly enshrined, although the work of United Nations is largely rooted in this thinking. Certainly, the voice of beneficiaries is rarely accorded the weight given to those who pay for the services. There are few examples of international institutions that give governments a voice in governance structures according to what the country has at stake rather than according to their economic or political might. One example, albeit not formally incorporated, is that of the Small Island States (SIS) in context of the climate change negotiations. The SIS have made themselves a politically necessary part of any attempt to come to a wider agreement despite their relatively small size and lack of political weight. The G33 in the context of the agriculture negotiations at the WTO is another example of a group that gives political voice to vulnerable but economically less powerful countries.

Among non-governmental actors, clearly both civil society organizations (CSOs) that are active on food security and the private sector that makes up the vast majority of international agricultural commodity markets are both important to consider. Arguably, however, the private sector ought not to have a role in the governance of the reserve, in order to protect against conflicts of interest. The market power of the dominant grain traders and the largest food companies makes it important to protect the space for public interest objectives to be met. In both cases, the CSOs and the associations of private sector interests might be important to ensure the accountability and effectiveness of the reserve, but they may not necessarily require a place at the decision-making table for the reserve to work well.

The Bretton Woods Institutions

Two instances of global governance that favour richer countries over poorer are the Bretton Woods Institutions or BWIs: the World Bank (WB) and the International Monetary Fund (IMF). In both institutions, the Governing Board (composed of all member states) meets just once or twice a year. Day to day management is left to an Executive Board, which comprises 25 Executive Directors (EDs), who are permanently in Washington and who work full-time in that capacity. They are the heart of decision-making in both institutions. In both institutions, the EDs appoint the President.

The biggest donors have most power. Only eight counties have their own ED (US, Japan, Germany, France, UK, China, Russian, Saudi Arabia). All the other member countries "share" an ED; that is, the other 17 EDs represent multiple countries on the Executive Board. The larger a country is, the larger its share of the voting rights exercised by the ED in question.

The BWIs have faced significant criticism over the years for their lack of accountability to the communities affected by their policies and programs. An international grain reserve dominated by exporting countries, or even by the largest exporters and importers together, would run a similar risk of not respecting the concerns of the poorest net-food importing countries.

Other Examples of Weighted Voting: UNCTAD and IFAD

Other institutions in the multilateral system use weighted voting systems, too. The UN Conference on Trade and Development (UNCTAD) worked for many years with a system of regional groups defined in large part by geography, but also, at least in its first incarnation, reflecting the political realities of the Cold War and the way those politics played out in the Global South and in Eastern Europe. The International Fund for Agriculture and Development (IFAD) also uses country groups to weight its voting. IFAD's Executive Board, which oversees IFAD's operations and approves the programme of work, is comprised using a list system. There are eight members and eight alternates from List A (primarily OECD members); four members and four alternates from List B (primarily OPEC members); and, six members and six alternates from List C, broken up as two members and alternates from each of the three regional subdivisions (C1 is countries in Africa; C2 is non-OECD Europe, Asia and the Pacific; and C3 is Latin America and the Caribbean).[9] The large role granted to OPEC members is a reflection of the role that organization played in the founding of IFAD and in financing its continuing operation.

A grain reserve might consider groups that allowed smaller, poorer importers and exporters a voice, perhaps by bringing them together as their own group, or finding ways to combine them with other, larger, powers but in such a way that their voices are not drowned out. There are middle-sized developing countries such as the Philippines that have shown a lot of interest in the question of reserves and that could play a leadership role in supporting smaller, poorer states in the establishment of an international reserve as they have done in the Agreement on Agriculture negotiations by articulating proposals for changes to the rules to better serve the needs of net food importing countries.

The World Trade Organization

WTO governance lies somewhere between the BWI model, which explicitly favours the richest countries with more voting power and does not allow non-governmental constituencies a say, and the UN system of one country-one vote and a more adaptive attitude to non-governmental organizations' role in decision-making. The WTO does not quite have universal membership, but the 155 member countries

[9] http://www.ifad.org/governance/ifad/ms.htm

are many and diverse. Formally, each country has a vote. In practice, the organization works through consensus. Each country could theoretically hold up agreement, but in practice, the most powerful states have much greater chance of having their way. Small economies are really only effective at the WTO when they work in groups, whether as regions, as with the African Group, or by shared level of development, as with the least developed countries (LDCs), or in groups that mix regions and countries with different levels of economic power, such as the G33 that sought provisions to protect producers in food-importing countries in the Doha negotiations on agriculture.

The WTO's policies towards NGOs have evolved over its 17-year history from a refusal to engage directly with NGOs (a decision taken by the General Council in 1996) to a position of relative transparency today. Many documents are now posted on-line for public access. NGOs with permanent offices in Geneva can obtain a pass that allows them access to the WTO building (much as NGOs in status with the UN can obtain a pass to enter the UN offices). The WTO organizes regular press and NGO briefings and posts meeting summaries (and background documents) on-line as well. The WTO Dispute Settlement Body has begun to accept *amicus* briefs[10] from NGOs and to allow observers to attend some of their hearings.

The International Grains Council

The International Grains Council is the body that in several practical ways seems the likeliest candidate to administer an international grain reserve. It is an organization dedicated to the grain trade, and in the past has had an explicit mandate to provide for stable prices. The IGC is governed by the Grains Trade Convention, which member governments update periodically (most recently in 1995). In the 1949 version, article 1 said the IGC was, "to assure supplies of wheat to importing countries and markets for wheat to exporting countries at equitable and stable prices." A lot has changed since, and on the IGC website today, the given objective is simply to ensure market transparency.[11]

The IGC meets twice a year. Decisions are taken by consensus where possible. Each member is designated as an importer or exporter depending on which aspect is the larger component of its grain trade. The Chair and Vice-Chair of the IGC are elected annually, and the positions rotate between the importers and the exporters (if an importer is Chair, the Vice-Chair is chosen from the exporters). The IGC also administers the Food Assistance Convention (formerly the Food Aid Convention), which only includes countries that donate food aid. The Grains Trade Convention is negotiated among 25 rich and middle-income countries plus the EU.

Formalizing Non-Governmental Participation: ILO, UNAIDS and the CFS

One of the oldest multilateral experiments with formal multi-constituency governance is the International Labour Organization, or ILO. Founded in 1919 as an outcome of the Treaty of Versailles (which formalized the end of the First World War) the ILO was the first specialized agency to become a part of the UN system when the UN was founded in 1946. The ILO has a tripartite governance structure,

[10] An *amicus* brief is an argument submitted for the court's consideration that does not come from any of the parties with legal standing in the dispute, but from parties that are recognized to have knowledge that can usefully be brought to bear on the case at hand.

[11] The fact the G20 found it necessary to create a new structure in 2011, the Agricultural Market Information System or AMIS, suggests this objective of market transparency is not fully satisfied (or, as some analysts suggest, that AMIS is redundant, but a politically safe action as compared to attempting to re-regulate market structures).

composed of governments, employers and workers. The employers are organized through the International Organization of Employers and the workers largely through the International Trade Union Confederation, or ITUC, reflecting civil voices.

A much more recent example is UNAIDS, the inter-agency programme of the United Nations that coordinates work on HIV/AIDS. The Programme Coordination Board (PCB) of UNAIDS reflects its relative youth (launched in 1996) and to some extent the very specific nature of its mandate. The PCB includes 22 government representatives, who are chosen from regional groups and periodically renewed.[12] There are also 10 UN co-sponsors on the board,[13] and 5 civil society organization (CSO) representatives (one per UN-defined region), each with a designated alternate. [14]

The most recent example of a UN institution with a formal place for CSOs is the UN Committee on World Food Security (CFS), following its reform in 2009. The CFS has seats for CSOs on its Advisory Group, which brings together the governments delegated to manage the CFS – known as the Bureau – with a wide variety of constituencies, including representatives from UN agencies and other UN bodies, international agricultural research institutions, international and regional financial institutions, private sector associations and philanthropic foundations. Of all these constituencies on the Advisory Group, the CSOs have the greatest number of seats.

In practice, not all governments are comfortable with the space that civil society is invited to occupy at the CFS, in particular when the committee turns to negotiations. In the short history of the CFS to date, CSO voices have been granted a seat and a voice, but ignored in some of the outcomes unless a good number of governments already agree with the CSO position. The CFS is a new experiment, and it is to be expected that it will take some time for this new way of working to become more comfortable.

How might CSOs work with an international grain reserve ? On the one hand, CSOs play a very large role in rural development and food security, as well as in disaster relief programs. Within developing countries, they are a critical and active voice for programs that better serve the needs of vulnerable and hungry populations, one of the target groups that would benefit from more predictable, stable food prices. On the other hand, if the reserve is working as a complement to existing markets, it might make more sense to minimize the role of non-governmental actors. In part, this issue links to the question of how to work with the private sector.

Given the generally unfavourable response of the private grain traders and food processing companies to the idea of publicly held grain reserves, their participation can be expected to be in tension with the public policy objectives for the reserve. There are private sector interests that would very much like more stable and predictable prices, too. But they are not as powerful as the voices that are resistant to the idea. Clearly, the reserve would need to work with the private sector, as they own the granaries, the rail cars and barges, and handle the grain. They would be buyers, and likely sellers, of the grain in the reserve. Nonetheless, as with food aid, the relationship could be contracted through terms set by the

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[12] The chart available here: shows who has held a seat on the PCB when and for how long. http://www.unaids.org/en/media/unaids/contentassets/documents/pcb/2011/PCBMembership96-2012.pdf

[13] The 10 are UNHCR, UNICEF, WFP, UNDP, UNDPA, UNODC, ILO, UNESCO, WHO and the World Bank.

[14] The term CSO explicitly refers to civil society organizations, which is a broader term than the more traditional non-governmental organization or NGO.

governors of the reserve, without giving the private sector a decision-making voice in determining the rules themselves.

While formal seats for NGOs in decision-making in the multilateral governance system are rare, there are other ways in which non-governmental actors engage with these institutions. At the UN's founding in 1945, a formal place was created for non-governmental organizations. Over time, CSO access has evolved to be open to more kinds of organizations and to grant more access to intergovernmental decision-making.

Trade ministries have historically paid a lot of attention to the interests of commercial trading firms, although also to organizations of commercial farmers and to some extent to trade unions. Very little attention has been paid to other affected groups, such as small-scale producers. A public grain reserve ought to respond to all affected constituencies but there are many ways to structure consultation and decision-making. In the case of UNAIDS, the role of the NGOs in the PCB is in recognition of the importance of NGOs in all aspects of the work related to HIV/AIDS. The role of CSOs at the CFS is, in turn, a way of recognizing that food security is not only a governmental objective but a wider project for society as a whole.

The grain reserve is not intended as a programming and national policy organization, however, which means transparency and CSO access to meetings and documentation might prove sufficient to meet the need for responsiveness without attempting to establish a complex governance structure that blends government and CSO, and that opens difficult questions about the extent of an appropriate role for the private sector.

4. Funding

Budgets are critically important to any institution. One of the first and most used arguments against establishing an international reserve is the question of how to pay the cost of it. A well-run reserve will be able to keep operational costs low if it can execute well-timed and orderly rotation of its stock. Nonetheless, there will inevitably be running costs, as well as significant start-up costs in the creation of the initial reserve. On the other hand, there are also savings to consider. The uncertainty created by volatile prices forces traders and processors to spend more money on hedging strategies. Producers are forced to make more conservative investments, and buyers, too. For donors, the cost of intervening in a crisis is many times greater than the cost of prevention, and the cost of rebuilding household food security once lost is also much more complex than creating measures to protect against its loss in the first place. An international food reserve can prevent neither a drought nor a famine. But as Ed Clay and colleagues at ODI point out in a paper on risk management, countries that suffer from domestic food crises when international markets are stable fare much better than those that have the misfortune to suffer a drought or flood in years of high international prices (as Bangladesh did in the early 1970s).[15] A more stable international market makes it cheaper and easier to help countries that are in need.

[15] Ed Clay, Sharada Keats and Piet Lanser (Sept. 2011), "Incorporating global food price spikes into the risk management agenda," ODI. London. UK.

The World Bank raises the money it lends from both commercial banks and investors and from donor governments' public finances. It then both lends and grants that money to governments and the private sector, mostly in developing countries. Each of the 180 member governments owns equity shares in the Bank. The World Bank is composed of two parts: the IBRD (International Bank of Reconstruction and Development) and IDA (or International Development Assistance). IBRD obtains most of the funds it lends by issuing bonds to individuals and private institutions in more than 100 countries. For the reserve, this model could not cover core operating costs, but it is possible that the right to trade in the grain held in reserve (to ensure stock rotation) is something that the reserve could run as a commercial operation, or at least make sufficiently attractive to private traders to cover some share of operating costs.

The operations of the International Grains Council are financed by annual contributions from the members. The contributions are assessed according to members' share of world grains trade. The budget in fiscal 2011/12 was set at £1.71 million. Members pay because they see a direct benefit for their national interest in belonging. It is possible to argue exporters and importers alike would benefit from an international reserve, but for now, the exporters are not persuaded they should bear any of this cost. This is a position that will have to change if an international reserve is to be created.

The World Food Programme does not raise its money by the usual UN system of assessed contributions paid by member states. Its funding comes entirely from voluntary donations, mostly from governments. Sixty or so governments contribute in any given year, either in cash or in-kind, which comes as either food or the physical wherewithal to purchase, store and distribute food (warehouses, kitchens, trucks, etc). WFP also has a corporate giving programme, which seeks cash or in-kind contributions from private corporations. Individuals can also make donations. There is no core WFP budget – instead, 7 percent of programme funding is earmarked to cover operational costs. A 2011 assessment of WFP by the UK Department for International Development (DFID) says two thirds of WFP's budget is spent in the countries with the greatest humanitarian need.[16] The same evaluation says donors earmark 92 percent of WFP's programme budget. This leaves WFP almost no leeway to develop programmes with recipients independently of donor priorities, although clearly the money is getting to the intended destination, which is encouraging.

The WFP's financial arrangement presumably encourages responsiveness (at least to donors) and accountability (again, principally to donors). The WFP must continuously make the case for its existence. But it raises questions for WFP's ability to engage in longer-term planning and programming. And it also raises questions as to how the interests of recipient countries are taken into account, as few if any of which number among the 60 or so regular donors. Of course, the WFP is committed to providing recipient countries with what they need, but it would be foolish to ignore the political constraints they must deal with when there is conflict between donor and recipient country interests.

UNAIDS raises its money within the UN system and the World Bank. The UN agencies raise their money from member governments and then reallocate a share of their funds to coordinated work on HIV/AIDS through UNAIDS. The UNAIDS total budget was approximately US$484 million in 2009. Typically, the UN is funded in part by contributions from every member state based on the economic size, and in part by additional funds, raised from donor governments. More recently, private philanthropy and corporations

[16] http://www.dfid.gov.uk/Documents/publications1/mar/wfp.pdf

are playing a more direct role in funding UN programs, creating new tensions and raising new questions as to accountability, as the UN moves out of the post-War state-only model of global governance.

It is hard to say much more without a clear idea of what it might cost to operate a reserve. Nonetheless, there are a variety of models available that seek funding from richer countries for the benefit of poorer countries. The premise is partly ethical, but also often made in self-interested terms, given that richer countries also have an interest in a politically stable world, in which refugee and immigration flows are not exacerbated by civil wars or the failure of states to protect their citizens' fundamental rights, including the right to food.

5. Further Considerations and Concluding Thoughts

An international reserve does not make sense in isolation. It needs to be anchored in a broader set of food security objectives. As such, funding for a reserve can be seen as one component of a larger strategy in which other interests might more clearly be served. Volatile prices are an expense—a tax of sorts—on business. Just as businesses buy insurance, it makes sense to at least consider requesting millers and bakers and food processors of all kinds to contribute to the cost of keeping their supply costs stable.

Meanwhile, a number of governments spend money on international development assistance. They could instead look at investing in forms of regulation that would allow development objectives to be met in other ways. The IMF has been able to create an important level of financial stability for the world, despite important criticisms of some of its policy choices. The international reserve can be presented in a similar light: its objective would be to preserve the stability of international trade in certain basic food grains. For that purpose, it would have rights to buy, sell and store grain according to some clearly defined and transparently monitored parameters. The benefit would be to reduce both the immediate likelihood of increasing the number of people who live in hunger, as happened during the price crisis in 2007-2008, but also to allow the kind of long-term stability than can assist a whole country to make the transition out of poverty, as for example was possible in Indonesia between 1960 and 1980.

A grain reserve would not be like a specialized programme such as UNAIDS, in which there is a clear and universally acknowledged public interest in the programme, and the programme itself is relatively small. Instead, the reserve would seek to carve out a space for the public interest from mostly private markets, in which a few powerful economic interests are dominant. These interests are those of a relatively small handful of countries that produce grain for export and an even smaller number of firms that actually handle the trade. Yet even within the countries where the grain originates, there are different perspectives on the problem. While the agricultural ministries tend to focus on opportunities for commercial export, often rural development ministries (as in Brazil) and ministries of foreign affairs, which must pay attention to the political stresses that price spikes give rise to in other countries, are more willing to accept lower potential profits in exchange for greater stability. D. John Shaw's history of post-War food security describes how this tension has persisted between the US Department of Agriculture and the US State Department (which handles foreign affairs) for more than fifty years.[17]

[17] D. John Shaw (2007), *World Food Security. A history since 1945.* Palgrave MacMillan. UK.

It is also true, if lamentable, that it can be easier to raise money when disaster strikes than to invest in measures such as a reserve, which has no public profile to speak of. Yet governments can make the case to their electorate on the grounds of cost savings, by reducing expenditures on disaster relief. In richer countries food is a relatively small item in the household budget and consumers are not as sensitive to price changes as they are in developing countries. Nonetheless, food inflation has affected many richer countries in recent years, linked to increases in the price of oil, in part, but also to higher prices for food and feed crops. The case for a reserve in the face of less predictable weather and generally higher food prices than has been the case for many years might prove easier to make than governments expect.

The trade-off for richer countries is whether they want to spend money to support such stability or wait to spend in humanitarian interventions that seek to contain hunger. Perhaps more difficult to discern but also important is the question of their obligation to protect and promote the right to food. Governments have multilateral and national obligations to protect access to food for everyone. The market alone, even flanked by safety nets, is not adequate to the task when the price shocks are too large. With the United States now expecting their poorest grain harvest since 1956, there are profound questions for governments to consider in how far they want to go in protecting commerce in the face of potentially devastating outcomes for people living in poverty that must buy their food in markets that operate without reserves.

The next steps depend first on governments making a more concerted statement of interest in possible models for organizing, funding and operating the reserve. The CFS opened the door on this inquiry in the outcomes to the food price volatility negotiations at the 2011 session of the committee, but no action has since been taken. The paper has discussed some of the many different interests in establishing a possible reserve. While there are clearly many practical obstacles to the implementation of a reserve, the idea merits much more serious consideration than governments have allowed until now. A number of organizations and academics are looking closely at the experiences of reserves and the possibilities for their operation in the context of today's markets and with today's technologies.[18] This work should be encouraged in the face of unstable supply and obvious market failures in international markets. The situation warrants more open debate and experimentation, and acknowledgment that the existing markets are not adequate.

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[18] IATP (2012) *Grain Reserves and the Food Price Crisis, Selected Writings from 2008-2012*, IATP. USA.