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Role of Supply Management in an International Framework

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Agricultural Policy Analysis Center

University of Tennessee

Presented at the International Roundtable

The Global Food Crisis, one year on. How to achieve food security for all?

Goethe Institute, Masarykovo Nabrezi 32, Prague 110 00

March 4th, 2009

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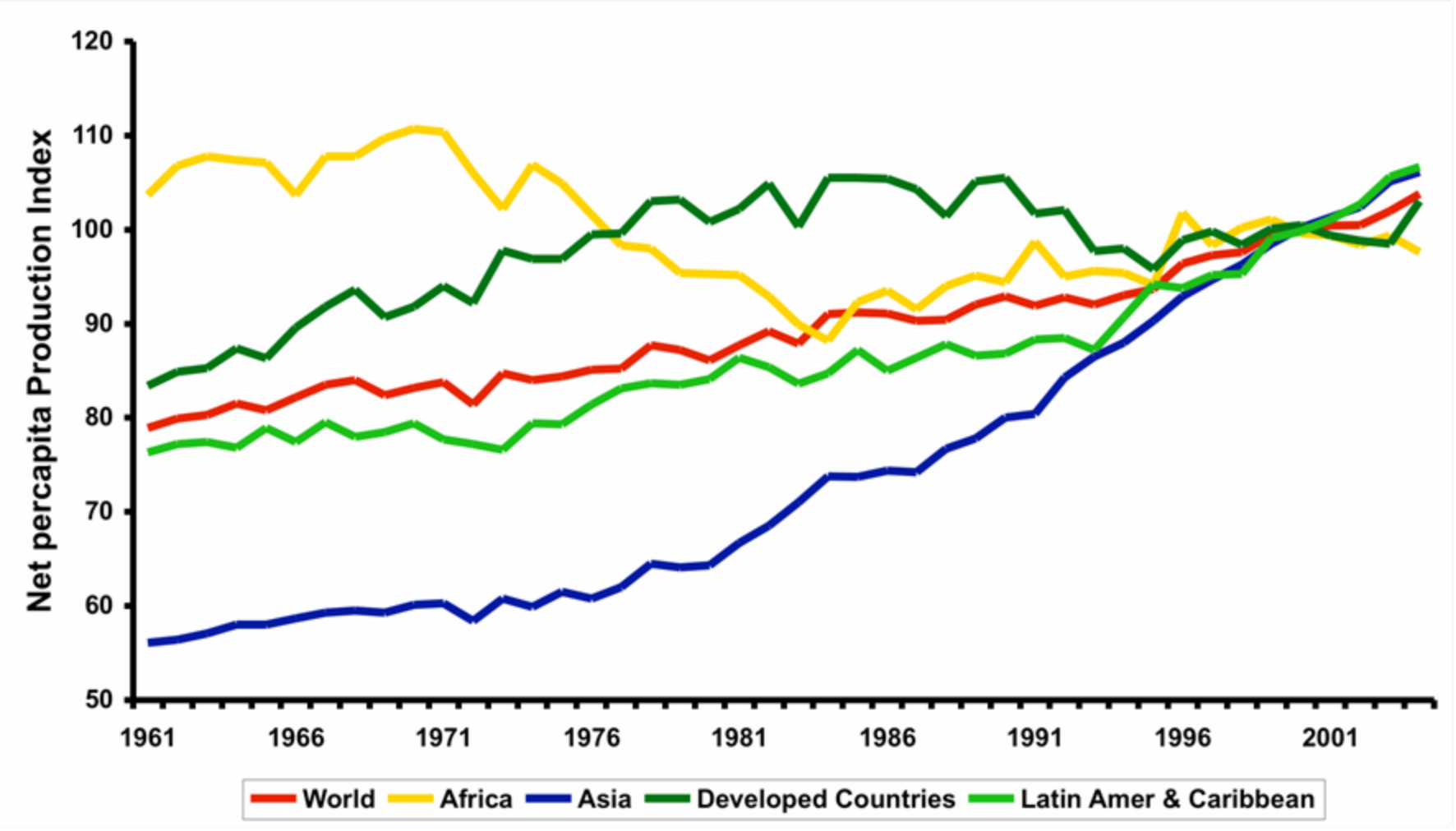
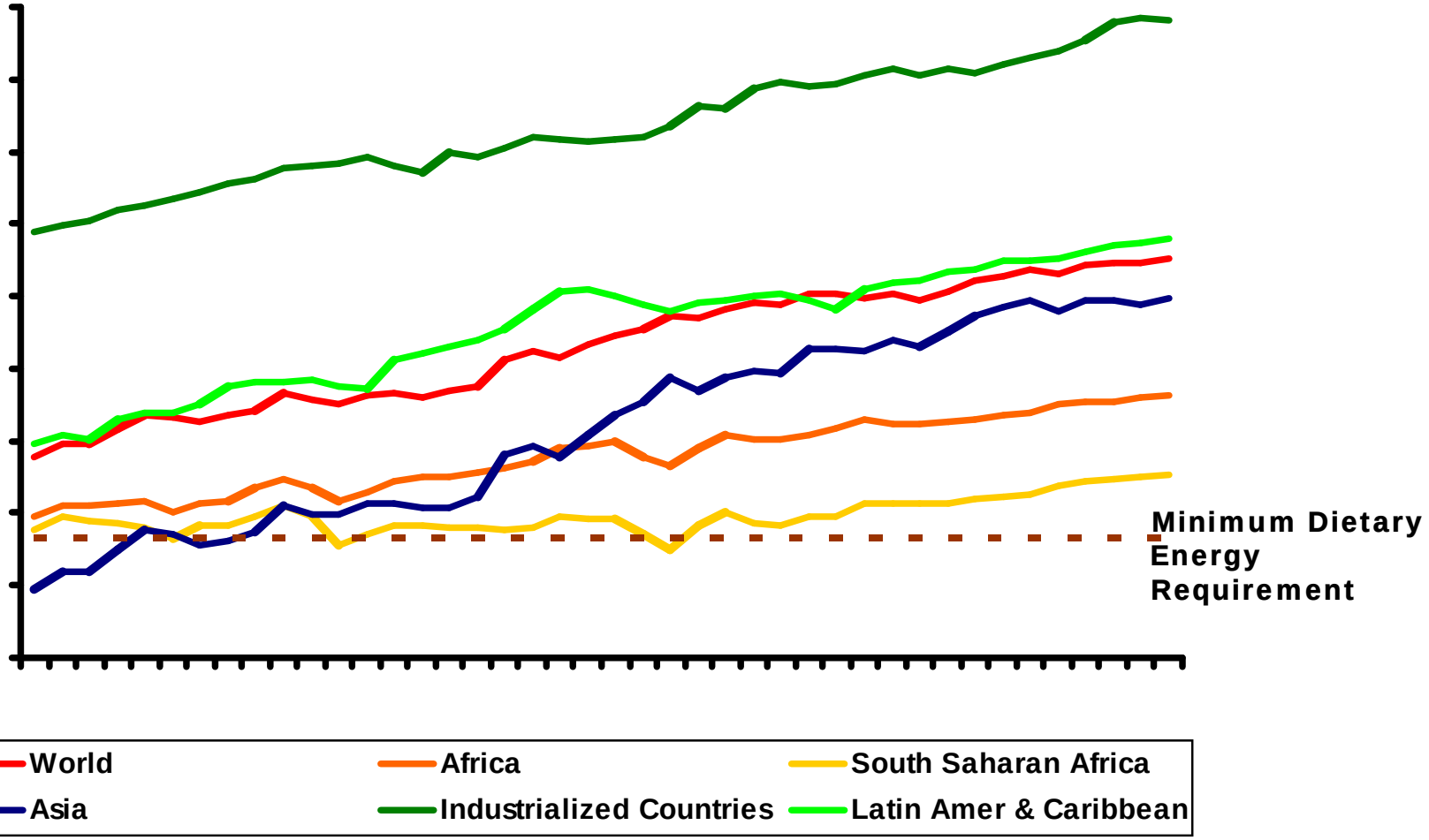
Agricultural Production by Selected Country Groups



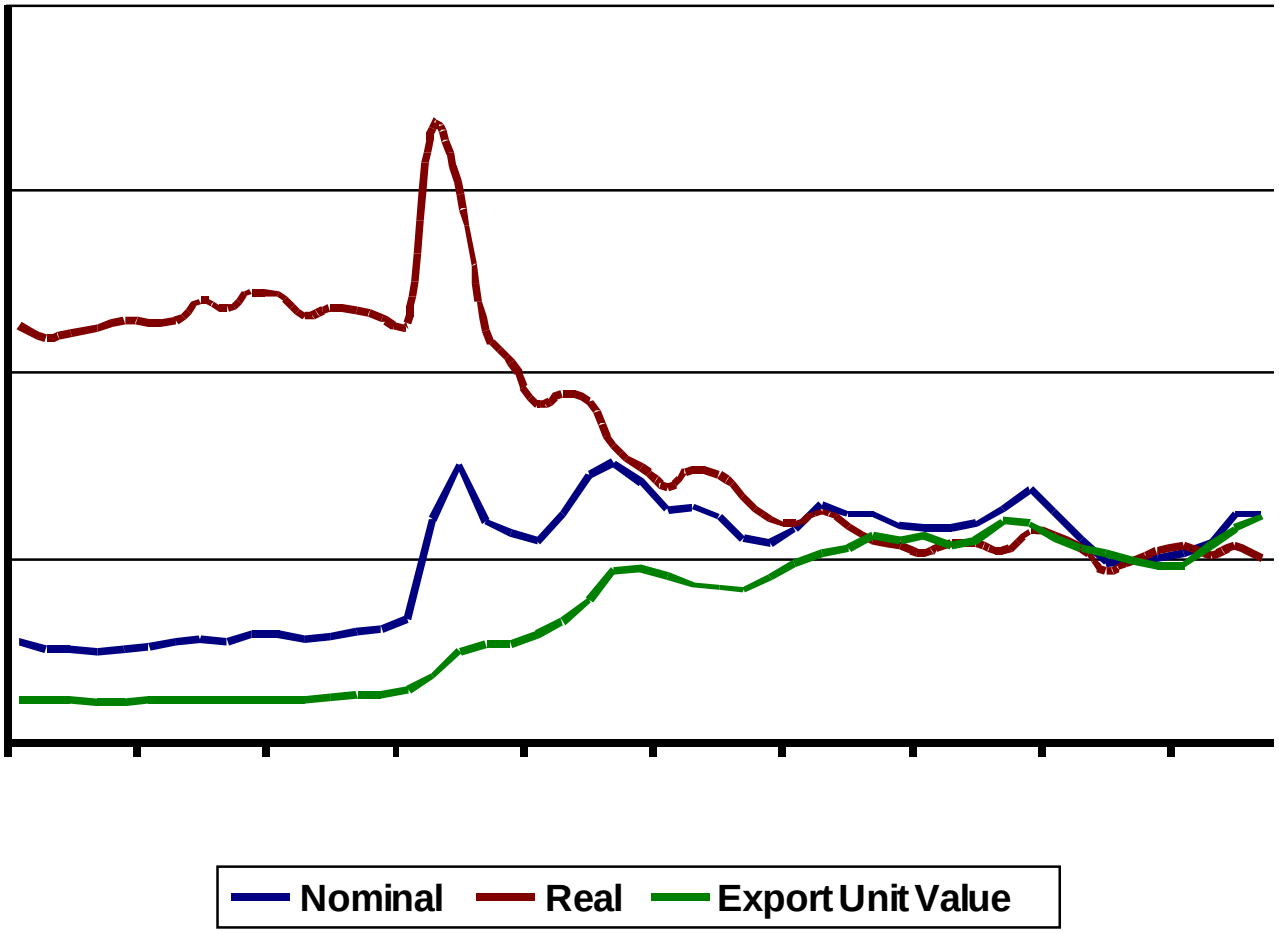
Source: FAOSTAT 2005

Food:
A Global Production Problem ?



Source: FAOSTAT 2005

Agricultural Commodity Prices

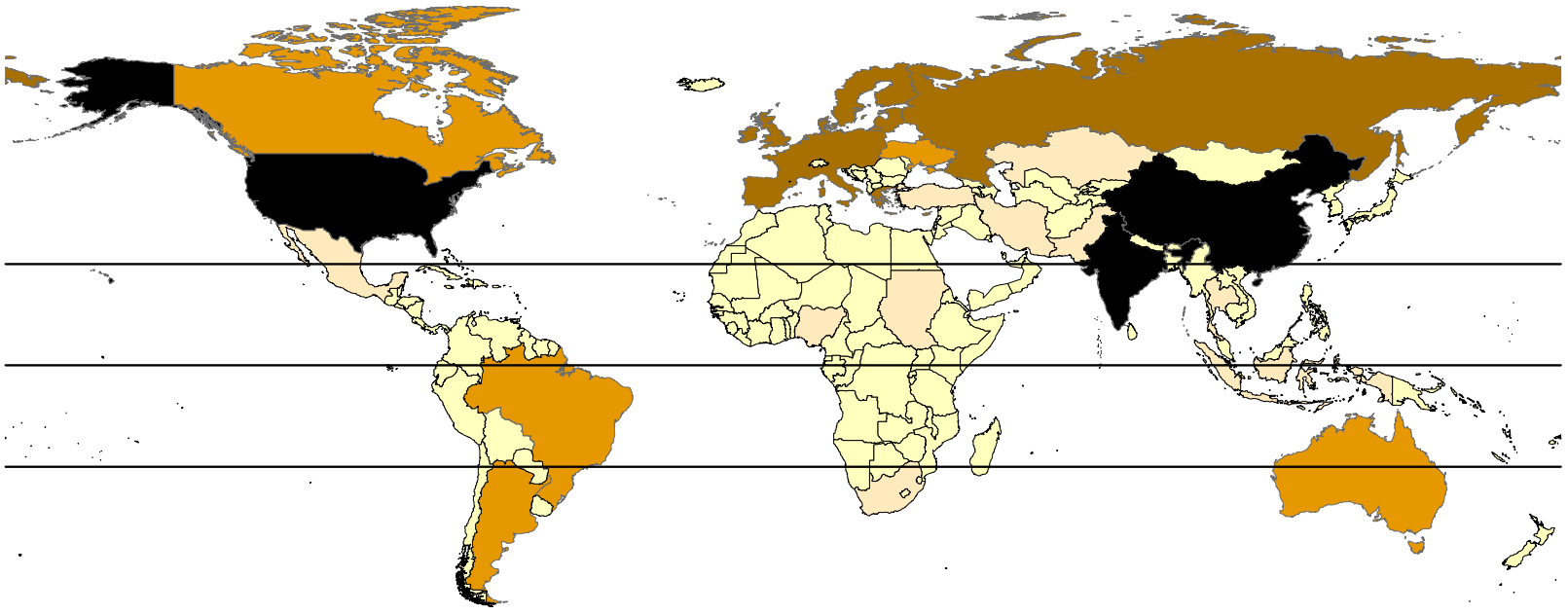


Source: IMF

Agricultural Geographic Base

- Land availability and quality
- Climate
- Water resources
- Topography
- Location

WORLD ARABLE LAND DISTRIBUTION, 2003



Arable land (million hectares)

- No data
- 0 - 10
- 10 - 30
- 30 - 59
- 59 - 123
- 123 - 176

Overcoming Geography

- Investment in transportation and distribution infrastructure
  - Transform land into economic asset
- Investment in research
  - Increase land productivity
  - Manages climate and water impacts
- Farmer's support policies
  - Expands land base & adoption of technology

Selected public research intensity ratios, 1976-95

	Expenditures as % of GDP		Expenditures per capita		Expenditures per economically active agricultural population	
	1976	1995	1976	1995	1976	1995
	(percent)		(1993 International dollars)			
Developing Countries	**0.44**	**0.62**	**1.5**	**2.5**	**4.6**	**8.5**
Developed Countries	**1.53**	**2.64**	**9.6**	**12**	**238.5**	**594.1**
WORLD	**0.83**	**1.04**	**3.3**	**4.2**	**12.9**	**17.7**

Sources: Pardey and Beintema (2001)

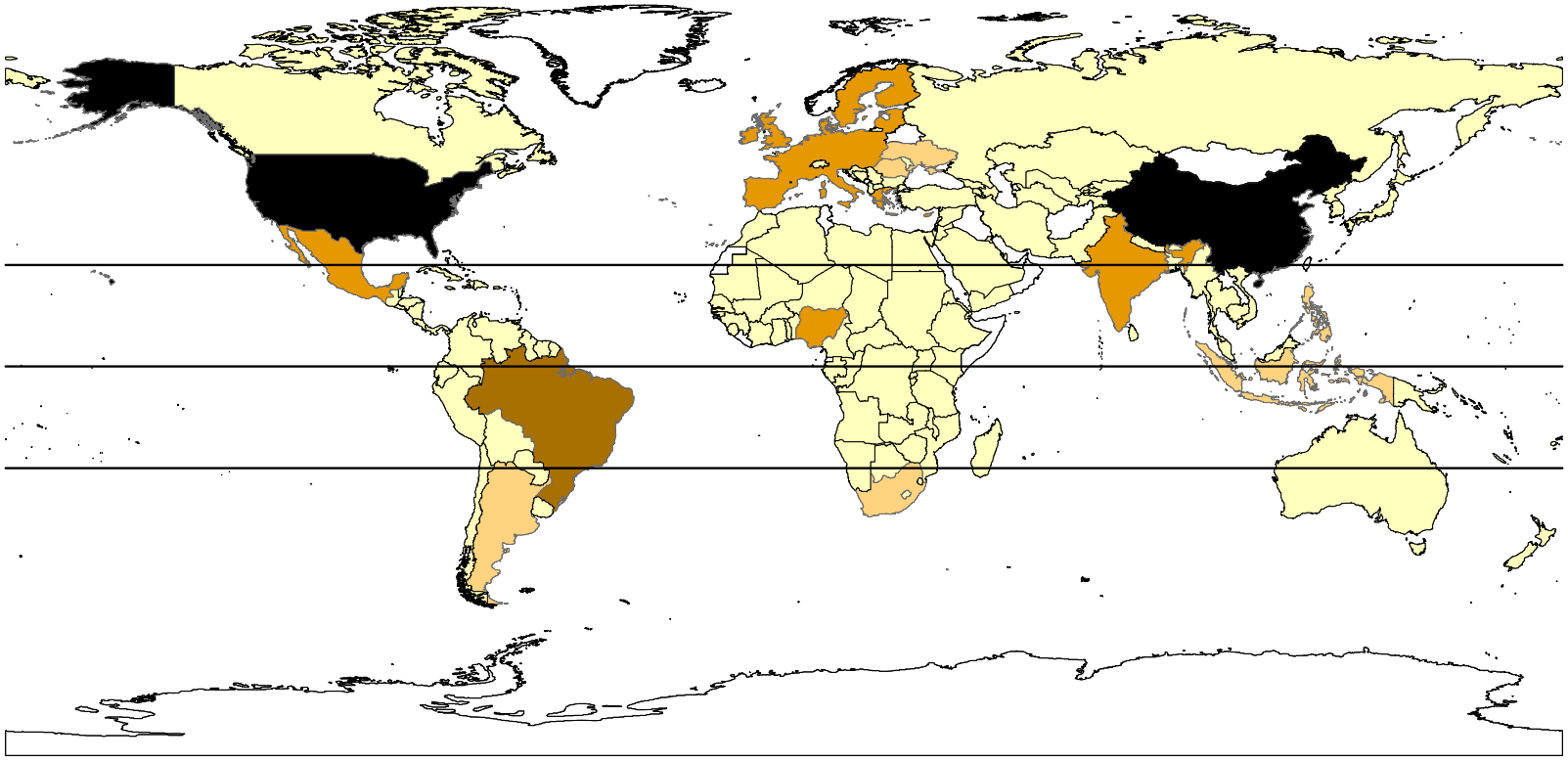
A Pattern unfolds

- Cropland, investment in research, infrastructure, and/or in farmers' support are concentrated in:
  - Agricultural North (Argentina, Australia, Brazil, Canada, EU, USA),
- Production capacity is the determinant factor of Agricultural production

A Look at Cereals and Oilseeds

- Largest potential to transfer resources from *Agricultural North* to South
- Agricultural North: Argentina, Australia, Brazil, Canada, EU, USA
- Cereals represent 67% of arable land in Africa (53% in 1961)

CORN PRODUCTION DISTRIBUTION



PLANTINGS HECTARES, 2003

- No data
- 1,0 - 1,6 million hectares
- 1,6 - 3,3 million hectares
- 3,3 - 7,7 million hectares
- 7,7 - 12,9 million hectares
- 12,9 - 28,7 million hectares

Any Alternatives?

- Begin by looking at Agriculture way it is, not the way it should
- Focus on int'l mechanisms that could effectively transfer resources from the Ag North to the South
- Investment in productivity, infrastructure, institutions in the South

Nature of Crop Markets

- **Little self-correction on the demand side**
  - Low farm price does not mean lower consumer's price
  - Low prices do not induce people to eat more
- **Little self-correction on the supply side of Ag North**
  - Technology expands output faster than population and exports expand demand
  - Farmers tend to produce on all their acreage
  - Few alternate uses for most cropland
  - Farmers exit agriculture, cropland does not
- **Market failure**:
  - Lower prices/revenues do not solve the problem
  - Tendency to use production capacity to the fullest

Managing Production Capacity in the Ag North

- Concentration of production/exports in Ag North as an advantage
- Manage and reduce utilization of productive capacity in Ag North
- Result is higher world prices
- South: Free Rider

Free Riding in the South

- Countries in the South take advantage of higher prices
- Supply response in the South
- Effect is to transfer higher prices and higher volume to the South
- Complement with investment in infrastructure, research, and institutions

Multilateral Framework for Supply Management

- Identify countries that dominate world markets
- Multilaterally agree on crops specific targets to keep prices within a desirable range
- Each of the above countries implements its own mechanisms to achieve targets
- Monitoring and verification
- Review system performance

Domestic Elements of Supply Management

- Long-term mechanisms
- Short-term annual adjustment mechanism
- Fine tuning mechanism

Concluding Remarks

- Distort markets in the right direction

www.ecofair-trade.org

Thanks

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APAC

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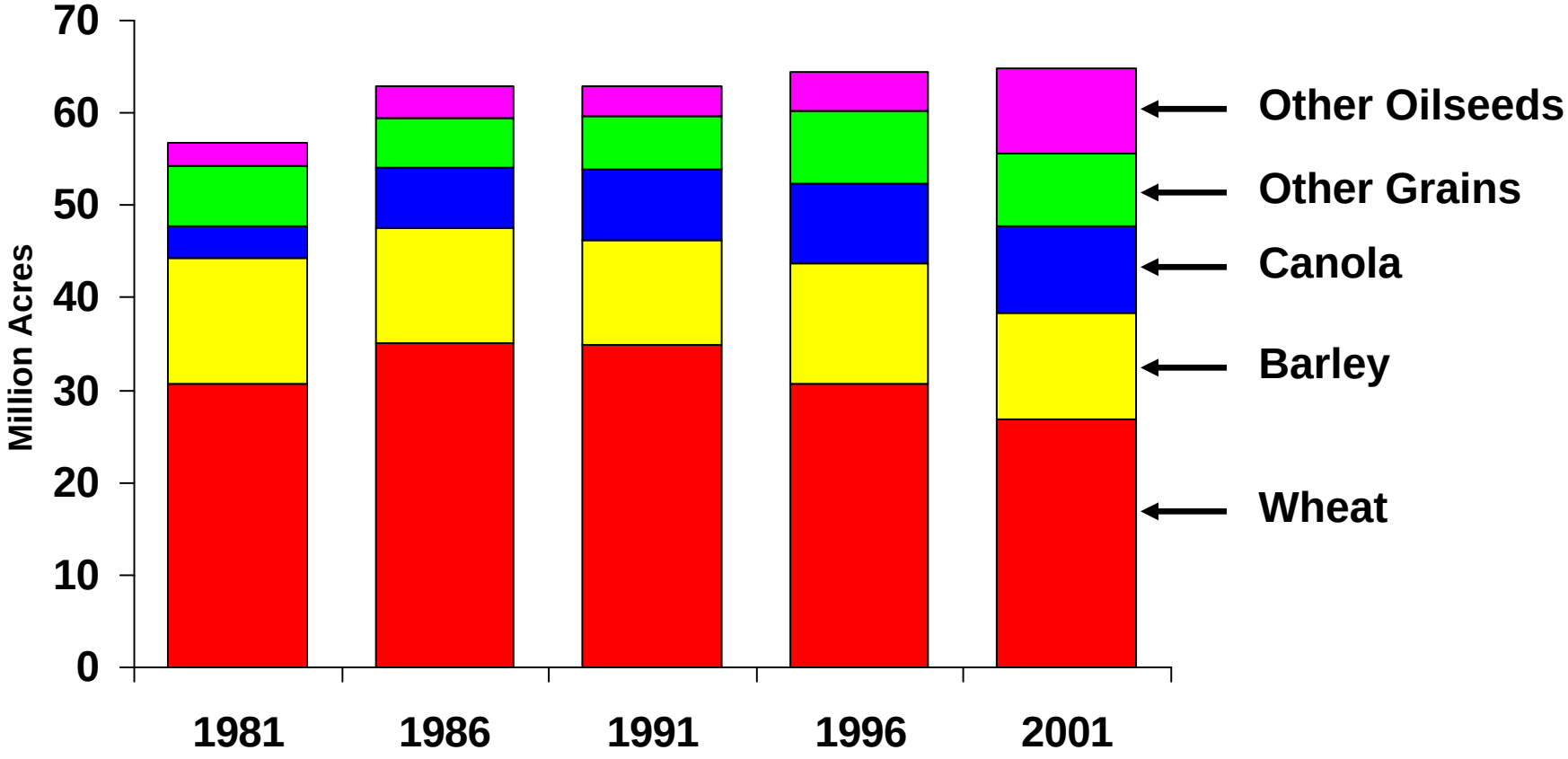
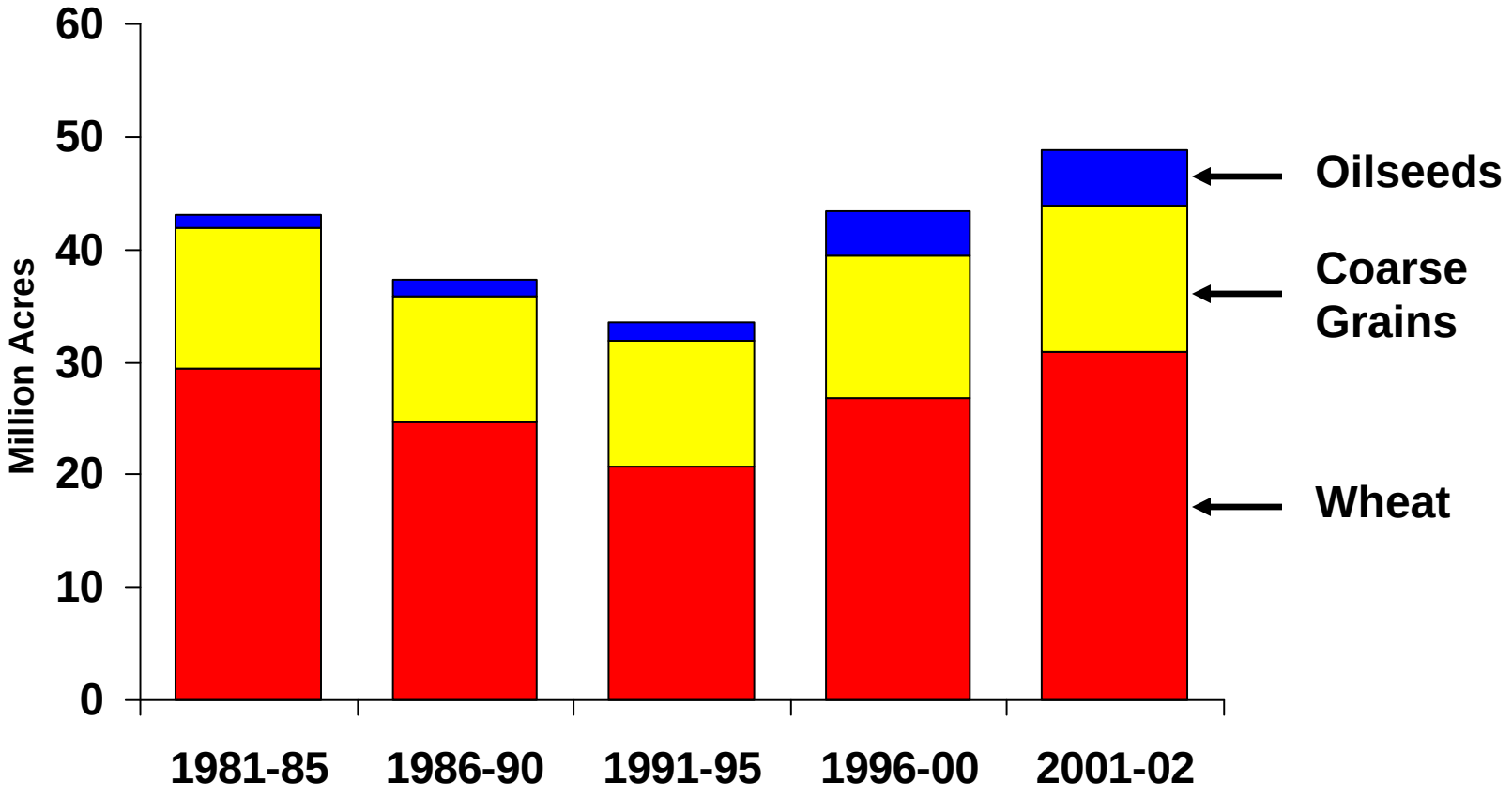
Canada: Farmland Planted

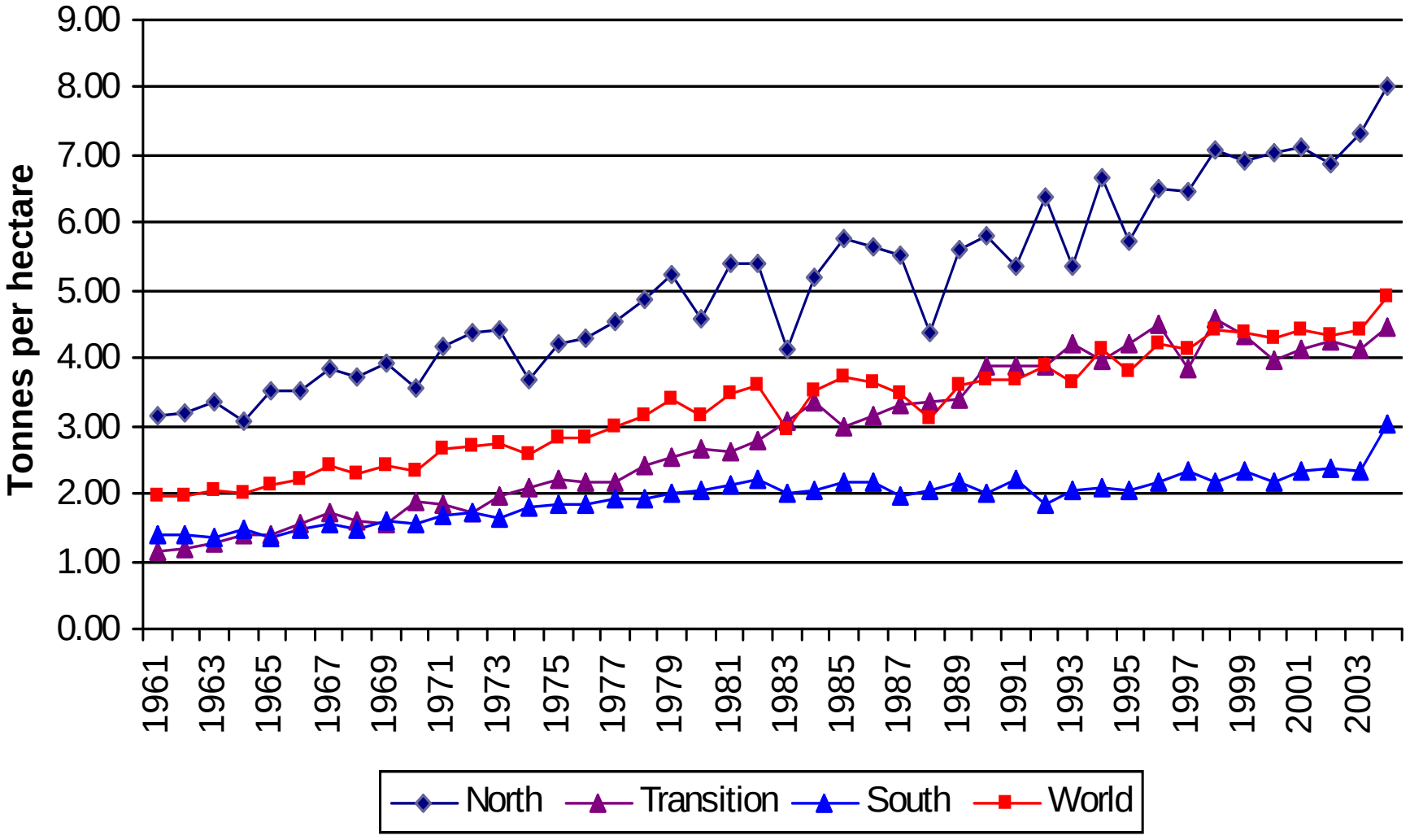


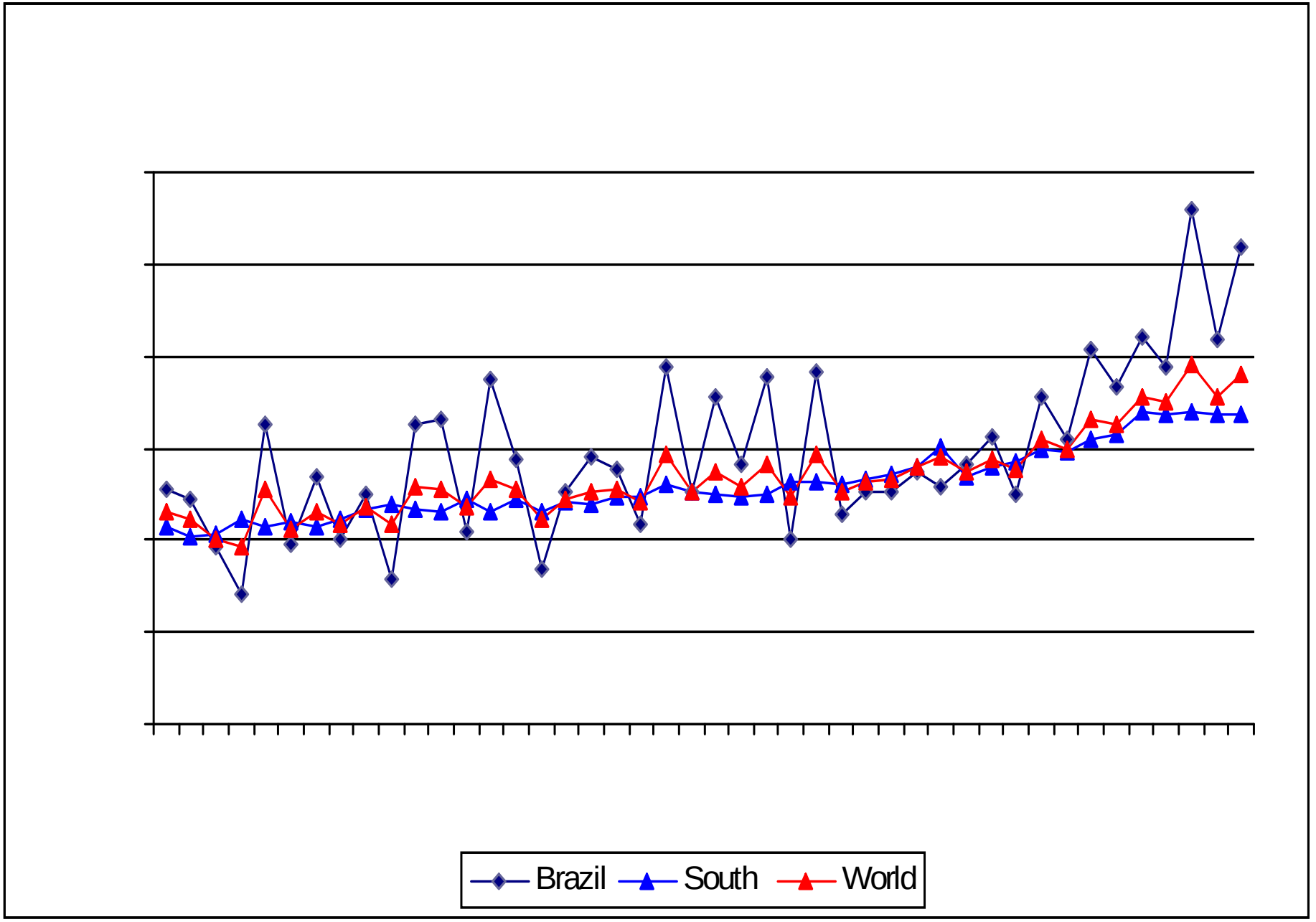
- Canada reduced subsidies in 1990s
- Eliminated grain transportation subsidies in 1995
- Crop mix changed, total acreage remained flat

Australia: Farmland Planted

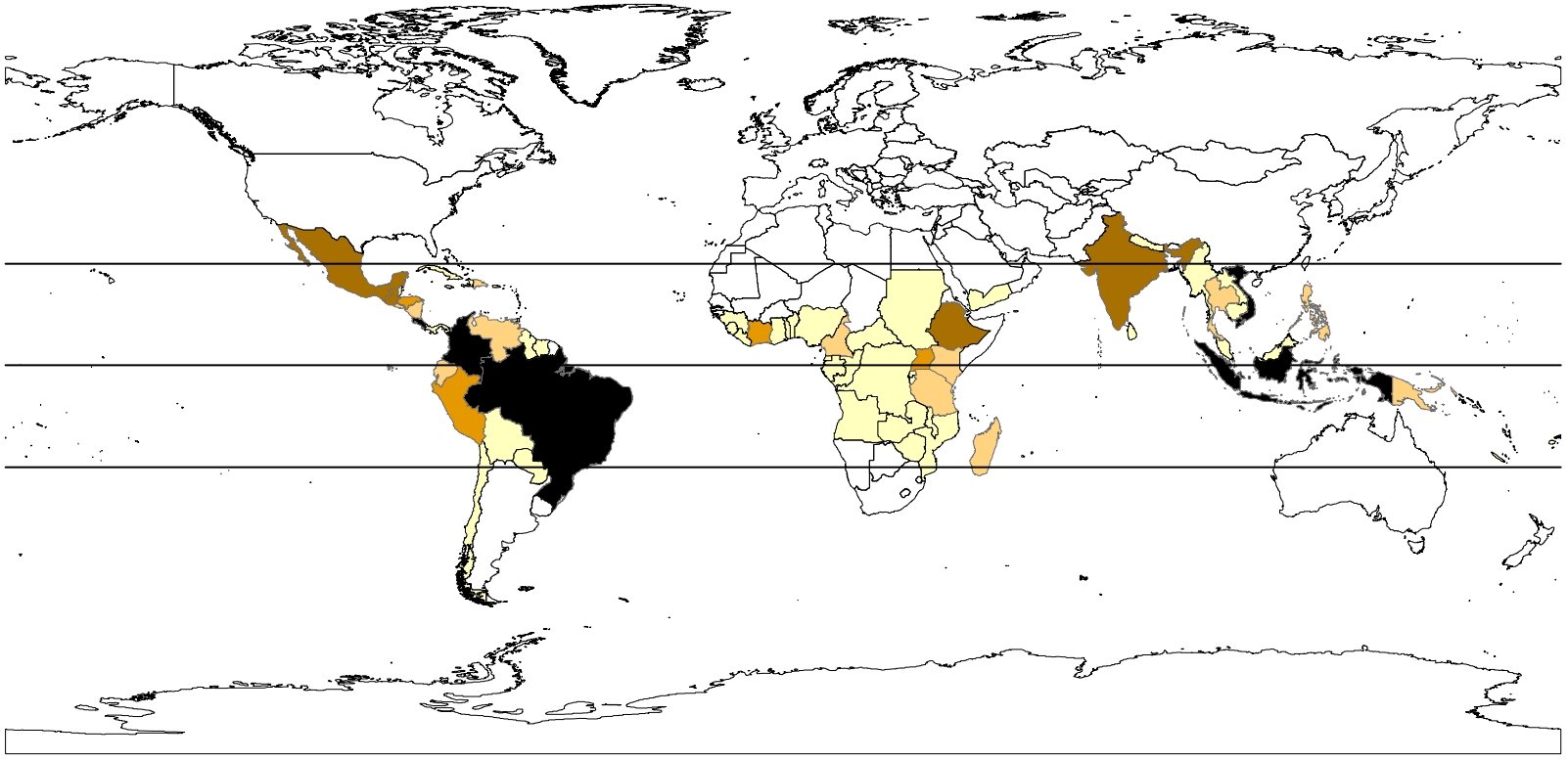


- Australia dramatically reduced wool subsidies in 1991
- Acreage shifted from pasture to crops
- All the while, prices declined


Tonnes per hectare
9.00
8.00
7.00
6.00
5.00
4.00
3.00
2.00
1.00
0.00
1961
1963
1965
1967
1969
1971
1973
1975
1977
1979
1981
1983
1985
1987
1989
1991
1993
1995
1997
1999
2001
2003
North
Transition
South
World


Brazil
South
World

COFFEE PLANTING DISTRIBUTION



PLANTING HECTARES, 2003

- No data
- 1 - 40,000 hectares
- 40,001 - 110,000 hectares
- 110,001 - 186,000 hectares
- 186,001 - 310,861 hectares
- 310,862 - 1,970,010 hectares