3. Agricultural Market Regulation: Elements to Elaborate Proposals

Henri Rouillé d'Orfeuil, CIRAD

Summary

Agricultural market regulation involves the objectives that human societies and governments set for themselves in regard to their agricultural systems. If the aim is to obtain food as inexpensively as possible and, incidentally, to free farm labor for employment in other economic sectors, one must then accept the eviction of a large majority of peasants in Africa and Asia. If, on the contrary, the aim is to avoid peasant hemorrhages, the agricultural and food "world war" waged through the widespread placing of farmers in competition with each other must be ended. In this case, in the absence of an invisible hand, very visible hands must enforce the general interest and universal rights. The challenge is to work so that on all geographic scales and in all regions of the world, the systems of governance are or become enlightened and responsible.

Beyond the debate on the reasonableness of public intervention in markets, it is therefore important to formulate proposals on intervention methods and the precautions to take. These proposals address several aspects: (A) the fight against price volatility in agricultural markets; (B) the distribution of value added throughout the agrifood value chain; (C) the management of temporary and structural imbalances; (D) the actions to negotiate to stabilize international agricultural markets; and (E) the factors limiting the political bodies' power to intervene and the risks of corruption linked to these bodies' actions.

The Fight Against Agricultural Market Volatility

To ensure that public intervention is transparent and predictable, we propose considering **price bands or ranges** for each product. The bands are defined by a floor under which prices become unacceptable for farmers, and by a ceiling above which prices become unacceptable for consumers. The distance between the floor and ceiling must be fairly wide, not too rigid, and not too far removed from international fluctuations to avoid outside pressure caused by an excessive price gap so as to limit the cost of intervention and adapt to unpredictable changes.

The public authorities should intervene on three levels:
- **act as mediator, or even referee, between the actors** concerned by the agricultural market so that the price band is the result of a negotiation and, if possible, a compromise between the actors before each crop year;

- **prevent the price from falling below the floor** by increasing demand and lowering the food supply through the use of **stocks, exports, import restrictions, diversification to non-food uses, social policies targeting people suffering from hunger, and supply control measures in the case of structural and lasting over-supply; and**
- **prevent the price from rising above the ceiling** by lowering demand and increasing supply through the use of **de-stocking, export restrictions, imports, lowering the flow of agricultural products to non-food uses, and encouraging production in the case of structural and lasting under-supply.**

The Search for Greater Equity in How Value Is Shared Throughout the Agrifood Chain

To improve proper market operation and ensure greater equity between groups of actors in the agrifood chain, the authorities could **foster commodity chain organization and help actors get better organized and defend their interests.** This calls for **information and training actions, support for professional organization, and a better credit system.**

Managing the Short Term (and Temporary Imbalances) and the Long Term (and Structural Imbalances)

The gap of several months between production decisions, the agricultural product harvest and food consumption introduces factors of uncertainty in how markets operate. Price bands are a valuable tool to lower this uncertainty because they guarantee the transparency and predictability of public interventions, provided the public authorities do indeed intervene in the ways that they promised to do.

It is also difficult to know whether an unpredictable event is accidental or if it marks the start of a long-term trend, in other words whether temporary (infra-annual) supply/demand imbalances are a manifestation of structural (pluri-annual) imbalances. This is why it is appropriate to have tools that make it possible to regulate supply and demand over periods of time longer than one production cycle, either through storage capacity or the regulation of foreign trade:

- **Stocks** are indispensable, at least over a one-year period, to take into account the seasonal nature of harvests and the daily nature of food consumption. But other types of stocks are indispensable. The volumetric calibration of the stock must in this way differ according to whether the stock is a food and strategic reserve, or serves to offset the seasonality of agricultural production, withstand unpredictable shocks (natural, economic, military, etc. disasters) or intervene in the market.

- **International trade** is justified but on the condition that it is regulated in function of the needs of the markets of arrival and departure for the products traded. This implies reviving the first definition of trade, in the sense of contracts between countries with shortages and countries with surpluses, and turning one's back on market integration. International trade will only contribute to the stability of national markets if the national authorities have the policy space they need to intervene in their markets when they no longer regulate themselves or regulate themselves poorly.

- The **growth and flexibility of non-food markets (agrofuels for example)** could be powerful stabilizers for agricultural markets. Conceived as an agricultural market adjustment variable, the production of ethanol or alcohol must be a light industry decentralized in cooperatives (or even an activity integrated into other farming activities) rather than a heavy industry as it is currently.

- **Supply control** (fallow lands, forest replanting, quotas, reorienting production systems, etc.) is a prospect to consider in the case of structural over-production if one wants to limit the cost of agricultural policy and avoid the collapse of prices.

- **Contractualization between individual producers or their cooperatives and the first processors** is also a path to provide farmers with predictability as long as there is a commitment on price levels in the contracts. But this path raises questions: can all producers and all products be the subject or object of a contract with an industrial partner? Do the public authorities or courts have the means to enforce these contracts?
- The **development of futures markets** equals a form of contractualization with financial actors, even though the timeline for futures markets is often too short to meet farmers' need for security.

Cleaning Up International Markets

A political authority needs to define a form of economic, environmental and social specifications. Global governance is not currently able to do this, and it is on the national level that the real or potential authority to fight agricultural price volatility is found. For the international level, several lines of action are proposed:

- **Organize international consultation on trade:** the aim is to **return to a contractual vision of international trade.** The residual share of non-contractual trade, linked to the difficulty of precisely planning national food needs, could be highly volatile but would no longer destabilize the world food market.

- **Organize global consultation to set the volume of an international stock** (different from national reserves) that could be used to stabilize the market, and negotiate the division of tasks among the countries organizing storage and supplying the stock.

- **Organize an international program to fight hunger and malnutrition** around measures that enable the "solvabilization" of the people concerned: economic re-integration, financial aid or targeted food aid (modeled on the Brazilian "Zero Hunger" program).

- **Develop commodity chains around new uses for agricultural products to absorb surpluses.** The new products should be able to be conserved easily, correspond to less essential uses than food, be worth less than food products but worth enough to avoid discouraging their production, and have low fixed production costs. An **international research and development program on decentralized agrofuel production** could be launched to this effect.

Improving the Capacities for and Quality of National Governance and Fighting the Possible Corruptions Linked to the Expansion of their Policy Spaces

While a growing share of experts and government leaders admit that agricultural market regulation is needed, doubts remain as to the public authorities' real power and fears exist as to the risks of corruption. The rigor with which public interventions are implemented, the objective and predictable conditions that trigger these actions, and the democratic control of leaders and their actions are decisive to ensure the credibility of market regulation policies. This implies:

- **Increasing national authorities' "policy space":** we must **review agricultural and food trade agreements,** in priority those of the WTO, and **reexamine the conditions** that apply to the blunt opening of markets. We must also **improve the quality of statistics,** the **capacities to analyze market evolutions** and **administrations** (**customs services, fiscal administrations, law enforcement agencies, storage infrastructures,** etc.).

- Avoid the risks of corruption (insider trading, clientelism, preferential treatment, etc.) linked to public product purchase or sale decisions, auctions, allocation of import or export permits, production quota transfers, etc. The parries are known: transparency in decision-making and implementation processes, press freedom and freedom of association, promotion of the state and the rule of law, strengthening professional organizations or unions, and more generally strengthening participatory democracy extending representative democracy.