The blue box revisited

In continuing our discussion of blue box agricultural trade policies under the World Trade Organization (WTO), we begin by reviewing several critical concepts from last week's column.

Using the words of the WTO, the blue box "is the 'amber box with conditions'—conditions designed to reduce distortion. Any support that would normally be in the amber box, is placed in the blue box if the support also requires farmers to limit production."

We then looked at the worst-case scenario that could take place under a production-limiting policy: a country limits production in a year when world production of the production-limited crop and its substitutes fall far below the crop's typical annual usage. The result of this scenario is a spike in prices that has a negative effect on the world's poorest of the poor, increasing the number of people who suffer from bouts of hunger and the risk of death.

This week, we turn our attention to the second-worst-case scenario: even though, in response to low prices, a country limits production under a blue box policy, world production increases driving prices even lower. In this scenario, the objective of the blue box policy—reducing production and increasing prices—is not met and farmers worldwide continue to experience the impact of lower prices.

So, if simply limiting production under a basic blue box policy cannot protect consumers from high prices under the conditions of the worst-case scenario and cannot protect producers in the case of the second-worst-case scenario, is there any way to design a blue box policy that can protect both consumers and producers?

We believe there is.

First, apart from any given set of agricultural trade policies, the needs of the world's 800+ million people who suffer from undernutrition and the risk of death must be addressed. After spending nearly half a century of talking about eliminating hunger in the world, concrete actions by world leaders is long overdue.

The problem of hunger is not one of production! The world currently produces enough food to adequately feed every child, woman, and man in the world. Rather, the problem is one of distributing that production in a way that eliminates malnutrition and hunger and that problem will not be solved by tinkering with trade policy.

Instead world leaders need to live up to their responsibility to implement policies based on the Right to Food, a human right that has been recognized by most nations in the world.

Second, no nation is going to implement blue box policies during a period when production is tight and prices are high. Implementing blue box policies—and here we are primarily talking about grains and oilseeds—only make sense when supplies exceed demand and prices are below the full cost of production.

To increase prices and protect against the worst-case scenario, the initial step is not to reduce production, but rather for a nation—generally a nation that is both a major producer and a major exporter of the low-price commodity—to segregate from the market a sufficient quantity of the commodity that is in "oversupply." By adequately reducing the oversupply, the blue box policy implementing nation can cause the price to increase above a pre-determined level.

At the same time, the quantity of the commodity that has been segregated from the market (reserve stocks) serves as protection against the previously-described worst-case scenario.

But, one cannot go on forever segregating additional stocks from the market. The size of an adequate reserve that is designed to protect against a two-year downturn in production needs to be determined.

Once that point is reached, production needs to be addressed and that is the point at which support policies that limit production need to be implemented. For the basic agricultural commodities, the most common way to limit production is to implement an acreage reduction program.

Establishing both a reserve stock program and an acreage reduction program provide the basic elements of a blue box policy that takes both worst-case scenarios into account. Such a policy prescription ensures that consumers have access an adequate supply of basic agricultural commodities to meet typical usage levels while protecting farmers against long periods of low prices.

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