The Gulf Food Import Dependence and Trade Restrictions of Agro Exporters in 2008

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Introduction

Gulf countries are heavily dependent on food imports. This dependence will rise due to population growth and declining domestic agriculture. Naturally, the export restrictions of food exporters in the wake of commodity price hikes in 2008 have been an issue of great concern to them. They reacted by building up strategic food storages and announced agricultural investments abroad, mostly in developing countries that have food security issues of their own (e.g. Sudan, Ethiopia). The stated aim is to gain privileged bilateral access to food production and reduce the exposure to market failure like the food price hikes and export restrictions of 2008.

This paper argues that agricultural investment in developing countries can only form one segment in a Gulf strategy for food security. In order to attain food security, bilateral approaches are not the only solution. GCC countries will need to rely on open and affordable global food markets anyway - in order to get the food they do not necessarily need to grow it. They have a vital interest that international food markets stay open and should participate in international endeavors to make them more efficient and reliable.

The International Food Policy Research Institute (IFPRI) has been suggesting that an international food reserve could make food markets less volatile and prevent overshooting of prices. Beside a smaller physical storage, a virtual storage in an international fund could intervene in markets to cool speculative exuberance if necessary.

This paper first illustrates the food security predicament of Gulf countries and how they have reacted to it with international agricultural investments. Secondly it discusses the food price hikes and export restrictions of 2008 that worried the Gulf countries so much. Thirdly it outlines the Gulf's import requirements in different food items. Fourthly it maps out import dependences of Gulf countries by country. Here it focuses on wheat and rice which are of crucial importance for food security as they form about 40 percent of the Gulf people's diets. Finally it discusses proposals for an international food reserve that could make food markets more reliable and prevent a wave of export restrictions from happen again.

The Gulf food security predicament and international agro-investments

To understand the Gulf's concerns about food security one needs to take a detailed

look at its food import dependence and how it has developed historically. The Arab countries witnessed an "exploding food gap" in the 1970s due to population growth and higher per capita income in the wake of the oil price bonanza. This food gap and the import dependence that came with it were regarded as a strategic liability, also because there had been Western threats of curbing such food trade in retaliation to the Arab oil boycott.[1] Failed plans to establish an international food reserve and the US food embargo against the Soviet Union in the wake of the Afghanistan invasion also showed the Gulf countries the highly politicized and strategic nature of global food markets. This nourished an outspoken wish for self sufficiency and reduced reliance on imports.

Initial plans to develop Sudan as a bread basket for the Gulf fell by the wayside and especially Saudi Arabia embarked on an ambitious course of "prudent self-sufficiency", as it put it in its five years plans. In the 1970s it started a massive expansion of subsidized agriculture, especially wheat and livestock production, that relied heavily on non-renewable reserves of fossil water. Wheat production skyrocketed from less than 3,300 tonnes in 1978 to over 3.9 million tonnes in 1992, making Saudi Arabia the world's sixth largest wheat exporter at that time.[2] However, overexploitation of resources and sinking water tables already led to a significant reduction of Saudi wheat subsidies in the 1990s and an ensuing decline of production. In 1996 Saudi wheat exports ceased, but production remained on self sufficiency levels until 2007 before the Saudi government decided in 2008 to phase out wheat production by 2016.

Nowadays Saudi Arabia and other Arab Gulf countries face a major dilemma: Their cereal cultivation is in decline because of depletion of water resources, while the population will rise from below 40 million to nearly 60 million in 2035, Saudi Arabia's headcount alone will increase form 26 million to 39 million over the same period. The need for food imports will grow dramatically; even today they already meet 60 percent of total demand.[3] Saudi Arabia's dependence is still smaller than its Gulf neighbors' due to its considerable agricultural sector, but it will rapidly catch up once its wheat production has been phased out.

As a reaction GCC countries have tried to gain direct access to agricultural production by investing in agricultural projects abroad and acquiring long term rights to land either by outright purchases or via long term leases. From Brazil to the Philippines to Kazakhstan or Ethiopia, there have been discussions about potential agricultural investments. Memorandums of understanding between governments have been drafted and first projects have been announced.

Saudi Arabia and Qatar have the most institutionalized approaches of the GCC countries. The King Abdullah Initiative for Saudi Agricultural Investment Abroad (KAISAIA) Saudi Arabia tries to spur government sponsored private sector investments, while the Qatar National Food Security Programme (QNFSP) prefers invest-

1 David E. Spiro, *The Hidden Hand of American Hegemony: Petrodollar Recycling and International Markets* (Ithaca/ London: Cornell University Press, 1999), 26.

2 Alan Richards, John Waterbury, *A Political Economy of the Middle East,* (Boulder: Westview Press, 1998), 160.

3 Twenty Seventh FAO Regional Conference for the Near East, Doha, March 13-17, 2004, 6, available at: *ftp://ftp.fao.org/unfao/bodies/nerc/27nerc/J1655e.doc*. Population figures from UN World Population Prospects: The 2006 Revision Population Database, available at: *http://esa.un.org/unpp/* .

ments in already existing agricultural companies instead of acquiring land rights and building up farming operations from scratch.

There has been a preference for countries that are geographically close and offer logistical advantages, such as Sudan and Pakistan. Established political channels and cultural ties have also played a role in choosing such locations. However, these countries are net food importers themselves and have rapidly growing populations like most other targeted countries in Africa and Central Asia. Their potential role as a major provider of food export is, therefore, questionable. Natural endowments of these countries also vary considerably. In Central Asia and Pakistan, there is a physical water shortage - withdrawals of renewable water are higher than replenishment rates and the full potential of irrigation has been largely achieved. Many countries in East Africa, on the other hand, have only an economic water shortage. Mozambique or Tanzania would be cases in point. Once large-scale investments in infrastructure have been undertaken, their vast untapped water resources could be used for agriculture.

Global food price hikes and export restrictions by food exporters in 2008

Prices for maize and wheat doubled between 2003 and 2008. Although prices have come down in the second half of 2008 they are still 30-50 percent above their averages in the 1990s. Speculation in soft commodities increased sharply between 2007 and 2008 and contributed to the food price hikes (see Table 1), but there are good arguments that we are rather at the beginning of a structural price shift to the upside than at the end of just another speculative bubble.[4]

Table 1 Growth in the Volume of Globally Traded Grain Futures and Options, May 2007-May 2008

Commodity	Growth in Traded Volume (%) Futures	Options
Maize	0	13
Soybeans	40	69
Soybean Oil	46	69
Wheat	17	45
Rice	48	41

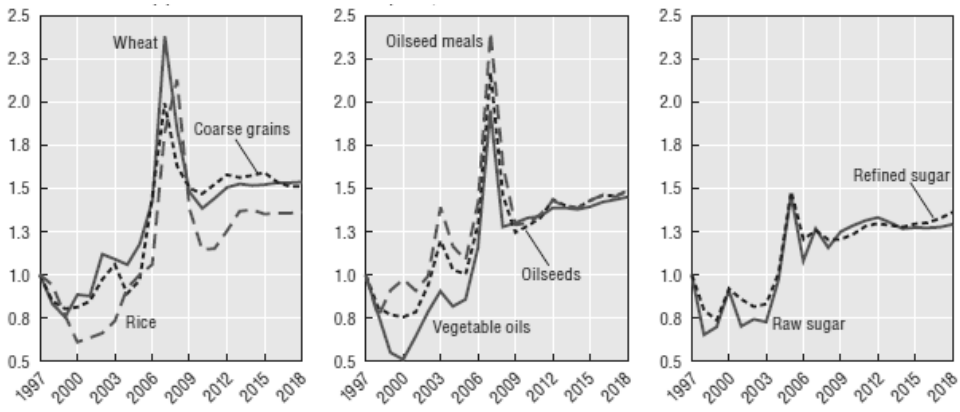
Source: Chicago Board of Trade 2008, quoted in Joachim von Braun, Maximo Torero, "Implementing Physical and Virtual Food Reserves to Protect the Poor and Prevent Market Failure," IFPRI Policy Brief Vol. 10, Washington DC., February 2009.

4 *The Economist*, "Green Shoots - No Matter How Bad Things Get, People Still Need to Eat", 19 May, available at: *http://www.economist.com/business/displayStory.cfm?story_id=13331189* ; J. von Braun, Food and Financial Crises: Implications for Agriculture and the Poor, Washington DC, International Food Policy Research Institute (IFPRI), Food Policy Report No. 20, available at: *http://www.ifpri.org/PUBS/agm08/jvbagm2008.asp* .

On the demand side price increases have been underpinned by population growth, more meat oriented diets in emerging markets due to income growth and a rising demand for biofuels. On the supply side the oil price hike has made input factors more costly (e.g. machinery fuel, transportation, fertilizer) while the regional occurrence of water stress and the impact of climate change on agricultural production in certain regions (e.g. Africa, Latin America) weigh heavily. Overall, the FAO's goal to increase global food production by 40 percent until 2030 and by 70 percent until 2050 is a formidable challenge and cannot be taken for granted.[5] OECD and FAO expect food prices in the coming decade to remain considerably above their former long term averages, although a return to the overshooting of prices in 2008 is not on the cards (see Figure 1).

The rising need for food imports in the GCC comes at a time when the exportable agricultural surplus worldwide is strained, as food markets are tight and stockpiles are at historic lows. The price hikes of 2008 led to a number of bread riots in countries like Mexico, Haiti, Egypt and Indonesia and many exporter countries implemented export restrictions (see Map 1). Export tariffs on wheat were implemented by Argentine, Kazakhstan and Russia, all significant players in global wheat exports. Other countries reduced restrictions on imports: Morocco, for example, cut tariffs on wheat imports from 130 percent to 2.5 percent; Nigeria cut its tax on rice imports from 100 percent to just 2.7 percent. Rice exports were curbed by Egypt, Vietnam, Cambodia, China and India, while Thailand the world's largest rice exporter sold 650,000 tons of rice from state stocks at subsidized rates thus signaling acute concerns for domestic food security that might have led to export restrictions at a later stage as well. Although the Indian export ban did not apply to Basmati rice variants, which the Gulf countries mainly import, it was particularly worrying, as India is the most important rice exporter to the Gulf.

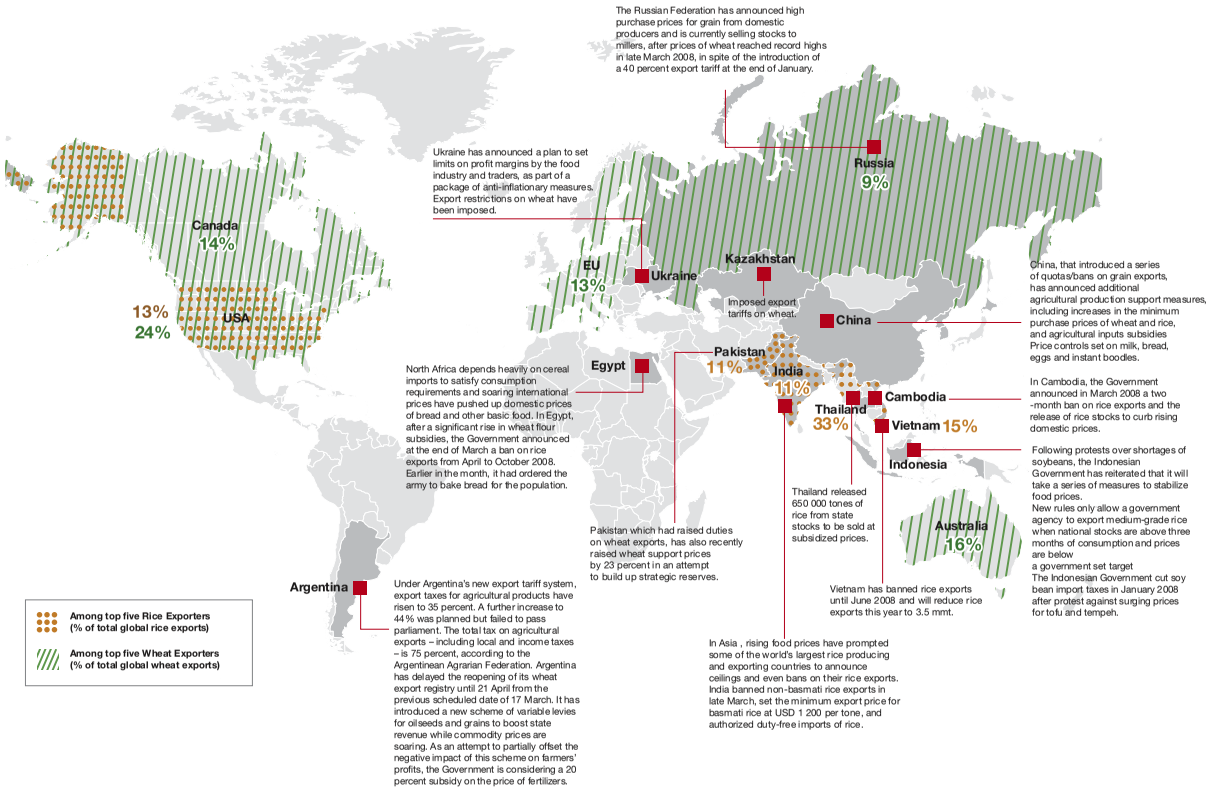
Figure 1 Outlook for world crop prices to 2018 index of nominal prices, 1997 = 1



Source: OECD-FAO, Agricultural Outlook 2009-2018, Paris, 2009

5 OECD-FAO, *Agricultural Outlook* 2009-2018, Paris, 2009, 62.

Map 1 International agricultural restrictions and policy measures



Sources: USDA, FAO, news agencies, Gulf Research Center (GRC)

Most of these export restrictions have been lifted in the meantime as food markets have become less strained. While they were motivated by concerns for domestic food security, the situation was in hindsight not as bad as to justify an internationally uncoordinated policy response. Like in global energy markets multilateral coordination is necessary in the future and could encompass exchange of market intelligence and storage solutions.

Especially in the rice market price developments in 2008 were heavily influenced by export restrictions and not so much by fundamentals of supply and demand. Rice is particularly prone to market volatility. Only a small share of its overall production is traded, while it has huge strategic importance for food security in Asia, where about 90 percent of world wide rice is produced. The global rice market is also very segmented along different quality grades and significantly different from the global wheat market, where the export share of overall production is larger, concentrates on fewer countries (US, Canada, Argentine, Australia, EU and lately Russia) and is controlled by a small number of agricultural trading houses (André, Bunge, Cargill, Continental, Dreyfus) and the wheat boards of Australia and Canada.[6]

The export restrictions shocked food importers like the Gulf countries, but their benefit for the respective exporting countries was doubtful as well. In the short-term export restrictions can reduce risks of food shortages in the exporting country, but they make the international market smaller and more volatile. On the consumer side they can lead to panic buying, while on the producer side they dampen the incentives to invest in agriculture and expand output. Thus, they can also have detrimental effect for the agricultural sector in the exporting country in the longer run.

Gulf import dependence by food item

As can be seen from Table 2, Gulf import dependence is particularly pronounced in cereals, most notably wheat and rice for human consumption and barley as feed for livestock. The last available data by the Arab Organization for Agricultural Development (AOAD) is from 2006 when Saudi Arabia was still an exception as its subsidized wheat program made it self sufficient in this item until 2008. In the meantime however it has started to import meaningful quantities as well as it has decided to phase out wheat production by 2016. In other GCC countries, cereal cultivation is largely non-existent and import dependence already close to total as of today, especially in the case of rice. In other food items such as meat, poultry, oil seeds, fruits and vegetables import dependence is also substantial, although self sufficiency ratios are higher and can reach 50-75 percent. In fact self sufficiency ratios in fruits and vegetables are likely to be maintained on higher levels if agriculture is switched to these more value added crops and water saving technologies like green houses and drip irrigation are used more frequently. Qatar is also exploring the possibility of domestic agriculture with water from solar based desalination.

6 Dan Morgan, *Merchants of Grain* (New York: Viking Press, 1979); J. M. Antle, V. H. Smith (ed.), *The Economics of World Wheat Markets* (New York, Wallingford: CABI Publishing 1999).

Table 2 Food self sufficiency of Gulf countries and Sudan in 2006 (%)

	Countries						
	Saudi Arabia (2007)	Kuwait	Qatar	Bahrain	Oman	UAE	Sudan
Cereals (total)	23.44	3.88	3.12	-	1.19	0.86	80.07
Wheat and flour	97.56	0.16	0.02	-	0.77	0.02	32.28
Maize	8.69	0.54	7.08	-	-	-	103.86
Rice	-	-	-	-	-	-	57.50
Barley	0.41	3.91	37.08	-	6.73	-	-
Potatoes	101.55	73.73	0.32	0.10	18.59	7.53	99.97
Polses (total)	0.00	-	-	-	-	11.46	76.50
Vegetables (total)	77.66	72.68	18.72	17.97	53.22	37.38	99.89
Fruits (total)	64.50	17.78	22.42	23.51	75.41	53.14	98.46
Sugar (refined)	-	-	-	-	-	-	88.42
Fats & oils (total)	0.42	0.02	-	-	-	-	120.96
Meat (total)	55.58	30.96	20.07	44.18	28.24	20.18	100.09
Red meat	48.44	71.38	25.18	71.23	20.60	6.77	100.10
Poultry meat	58.28	18.84	16.24	23.19	31.92	25.97	99.80
Fish	43.96	36.25	99.12	110.06	165.41	74.45	104.66
Eggs	104.18	63.53	28.52	42.29	79.87	38.66	99.87
Milk & Dairy prod.	27.98	14.83	7.49	6.03	88.57	17.48	98.34

Source: Arab Organization for Agricultural Development: Arab Agricultural Statistics Yearbook, Vol. 27, 2007 and Vol. 28, 2008, available at: *http://www.aoad.org*

With the end of the self-sufficiency illusion and continuous population growth imports will rise. Wheat and rice imports are of crucial importance as they constitute around 40 percent of dietary energy consumption in GCC countries (see Table 3). Wheat is of particular importance with a share of 24 percent to 30 percent of dietary intake. The wheat and sugar consumption rates of Gulf countries are also high in international comparison.

Table 3 Share of main food items in total dietary energy consumption (%), 2003-2005

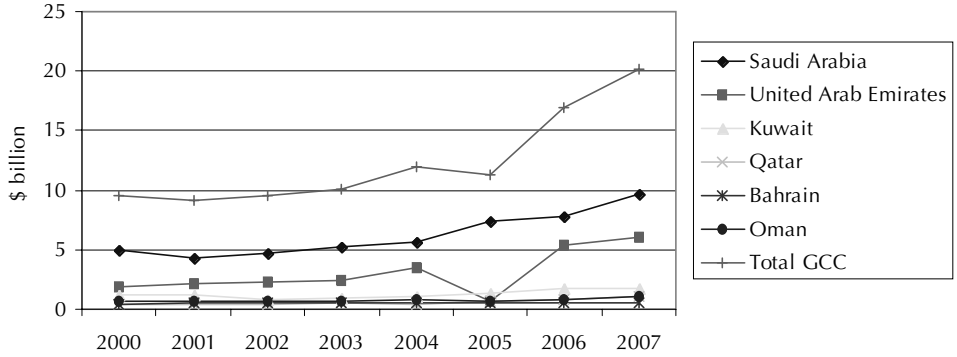
	Wheat	Rice	Sugar
Saudi Arabia	28	11	10
UAE	30	14	12
Kuwait	24	16	11
India	21	32	7
USA	16	2	9

Source: FAOSTAT

The US Department of Agriculture (USDA) estimates that Saudi Arabia will be the world's largest barley importer over the coming decade with a share of 35 percent (7-8.5 tonnes annually). Barley is needed as feedstock for the sizeable livestock industry of the country. Wheat imports will increase from self-sufficiency until 2007/08 to 3 million tonnes in 2018/19. Over the same period corn imports will increase from 2

7 USDA, Agricultural Projections to 2018, February 2009, available at: *http://www.ers.usda.gov/Publications/OCE091/OCE091f.pdf*

Figure 2 GCC agricultural net imports ($ billion)



Source: FAOSTAT, TradeSTAT database as of January 22, 2010, available at: *http://faostat.fao.org/site/535/default.aspx#ancor*

tonnes to 3.3 tonnes and rice imports will increase from 0.96 tonnes to 1.53.[7] On a GCC level food net imports started already to rise in 2004/2005, well before the pronounced food price hikes of 2007/2008 (see Figure 2). They reached $20 billion in 2007 and the share of agricultural imports in total merchandise imports ranged from 5 percent (Qatar, Bahrain, UAE) to 10 percent (Kuwait, Oman) and 13 percent (Saudi Arabia).

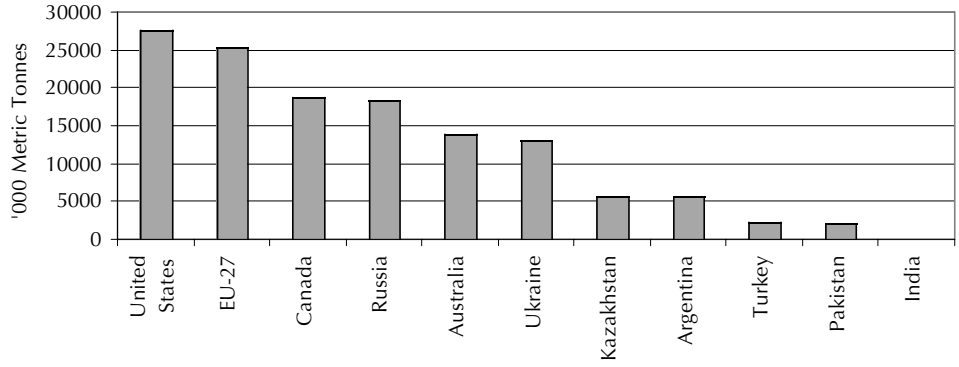
Gulf wheat and rice imports: countries of origin

The import profiles of GCC countries differ considerably from internationally dominant export countries (see Figures 3 and 4). They reveal a strong reliance on India and Pakistan for rice, while the two major exporters worldwide the, US and Thailand respectively, are underrepresented. With growing import needs a greater diversification of countries of origin will be warranted. Australia and Canada are now the major wheat exporters to the GCC countries, while the two largest global exporters, the US and the EU are underrepresented.

Currently, the GCC countries rely to over 50 percent on India and over one third on Pakistan for rice imports, with Thailand and USA accounting for above 5 percent each (see Figure 5). India is still a net food exporter, although it increasingly develops food security issues. In the 1990s productivity gains of the Green Revolution leveled out and lagged behind population growth for the first time since the 1960s. Pakistan is already a net food importer, faces a severe physical water shortage and has implemented export restrictions in 2008 for reasons of food security. The US share in GCC rice imports is mostly attributable to Saudi Arabia which imported 12.5 percent of its requirements from there in 2007; otherwise all GCC countries show a fairly similar distribution of countries of origin of their rice imports.

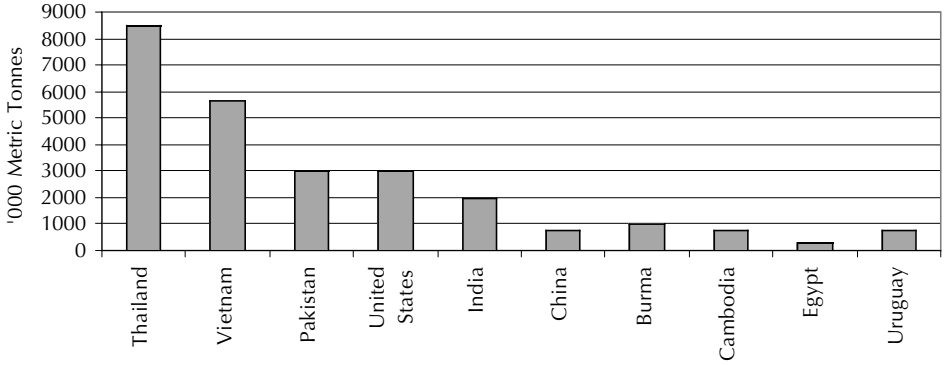
GCC wheat imports come from a wider variety of countries of origin and show greater variation between each country over the years. Australia and India used to be the most important suppliers with mostly 30-40 percent shares each. While Australia has kept this standing, India's wheat exports have plummeted since 2005/2006 and

Figure 3 Major global wheat exporters, 2008/2009



Source: USDA

Figure 4 Major global rice exporters, 2008/2009



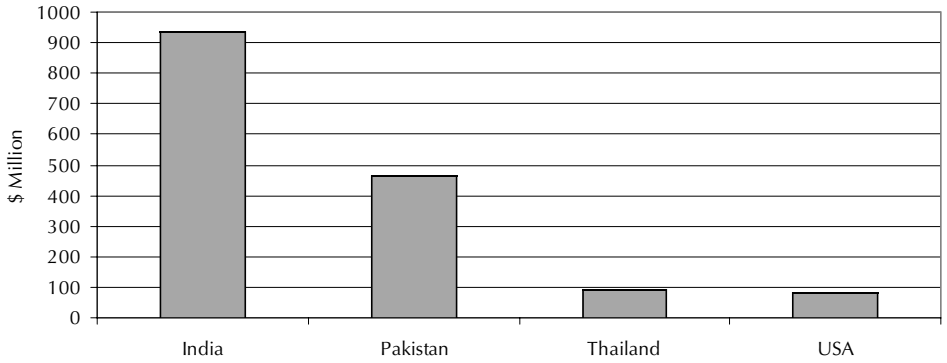
Source: USDA

had to be replaced. Alongside their growing role in international wheat markets, Russia and Kazakhstan have gained market share in the Gulf over recent years. Canada has also been a stable wheat supplier albeit with a smaller share than Australia of around 15 percent on average (see Figure 6).

Iran's sizeable share is mainly attributable to Oman, which all over sudden imported 52 percent of its wheat requirements from there in 2007. In 2008 Iran again contributed a similarly large amount to the Oman's imports (Trademap statistics for 2008 are thus far are only available for Oman, Qatar and the UAE, but not for Qatar, Saudi Arabia and Kuwait). This comes as a surprise as Iran is a food net importer itself, although in good years it has considerable self sufficiency in grains. However, it had to import half of its wheat requirements in 2008/2009 due to a drought and became

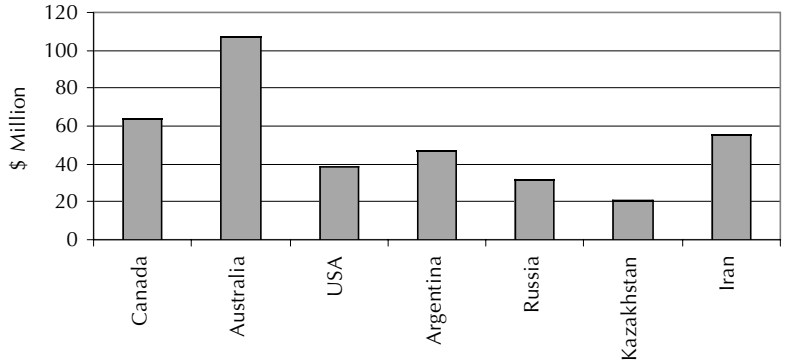
8 US Department of Agriculture, *Grain: World Markets and Trade Circular*, Series FG-04-09, April 2009, available at: *http://www.fas.usda.gov/grain/circular/2009/04-09/grainfull04-09.pdf*; USDA, Foreign Agricultural Service, IRAN: 2008/09 Wheat Production Declines Due to Drought, *Commodity Intelligence Report*, May 9 2008, available at: *http://www.pecad.fas.usda.gov/highlights/2008/05/Iran_may2008.htm.*

Figure 5 Major rice exporters to the GCC countries in 2007



Source: International Trade Center, Trade Map Statistics, as of January 22, 2010, available at: *www.trademap.org*

Figure 6 Major wheat exporters to the GCC countries in 2007



Source: International Trade Center, Trade Map Statistics, as of January 22, 2010, available at: *www.trademap.org*

the world's largest wheat importer with 8.5 million tones during this period.[8] Thus, its major contribution to Omani wheat imports might have been a one time off event, although Iran recently stressed that it wants to return to wheat self sufficiency in 2009/ 2010 and import needs have only been temporary due to the recent drought.[9]

Saudi Arabia did not import any meaningful quantities of wheat until 2008, but will do so increasingly as wheat production is phased out by 2016. In terms of its rice imports Saudi Arabia relies mostly on India from where it imports mainly Basmati rice. Variants of US and Thai rice are less popular. The Kingdom receives about two thirds of its rice from India and 73 percent of these shipments are Basmati variants. It purchases on average about 60 percent of Indian Basmati harvests, which are mainly grown in the Punjab region. The rest goes to the UK (18 percent), the UAE (9 percent), Kuwait (7 percent) and other countries (6 percent).[10]

9 "Iran hints at return to wheat self-sufficiency," *The Peninsula*, May 24, 2009.

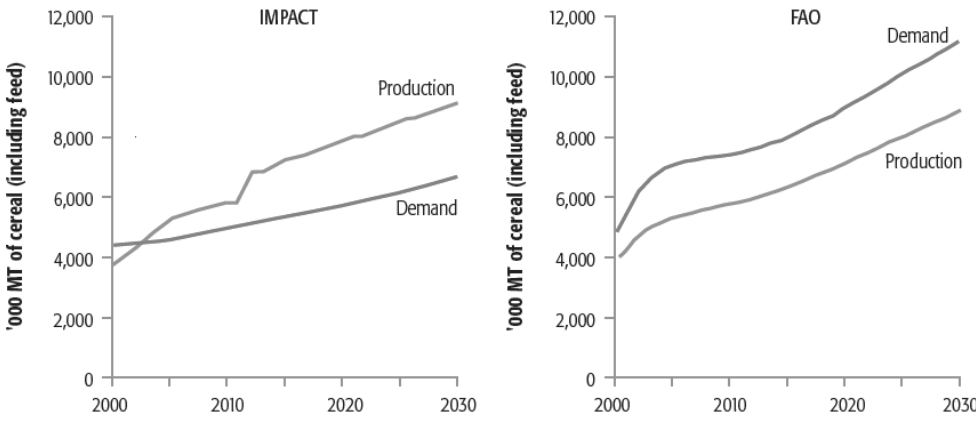
10 John Sfakianakis, "Eating into the Economy. Food Price Inflation in the Kingdom," Saudi British Bank, Research Report, Q2 2008, 17.

Would an international food reserve help to keep markets open?

Gulf countries reacted with three kinds of measures to the global food price hikes in 2007 and 2008: a) Increase in food subsidies or price controls, b) building up of strategic food storages and c) agricultural investments abroad. Price controls and subsidies may have helped to alleviate the impact on vulnerable segments of the population in the short run until markets returned to more normal levels, but they are hardly a suitable and efficient means to ensure food security in the long run. While oil-rich Gulf governments can afford the fiscal burden that comes with subsidies they may consider gradually replacing them by more targeted approaches of direct aids to needy segments of the population. The decision for strategic food reserves and agro-investments abroad on the other hand are of a more long term nature. So far these measures have not gone very much beyond the planning stage, but in as far they signal an effort on part of the Gulf countries to solve the food crisis on a national and bilateral level they would need to be enhanced by a component of international cooperation to be successful.

While agro-investments can be part of an emerging Gulf food security strategy, they will not be able to secure all the Gulf's needs and it is hardly conceivable that such investments can be successful as exclusive bilateral procurement projects. In good times they are more successful if embedded in an overall development of agriculture in the targeted countries and the world at large, thus taking full advantage of available marketing options. In bad times it is unlikely that export of crops could be guaranteed by troops and ring fencing of farms. Sudan for example ranks very highly on the agricultural investment agenda of Gulf countries, however it is a net food importer at this stage and the World Bank assumes that even under optimistic assumptions the country will only be able to produce a limited agricultural surplus (see Figure 7).

Figure 7 Sudan's potential as bread basket for the Gulf countries is uncertain



Source: Authors. Adapted from IFPRI, 2008; FAO, 2008d.

Source: World Bank, "Improving Food Security in Arab Countries," Washington D. C., January 2009
Note: IMPACT study of IFPRI and FAO study assume similar development of production but differ with regards to Sudan's consumption

Hence, reliance on international markets and established food exporters is here to stay for the Gulf countries and the question arises how disruptions like the export restrictions of 2008 can be avoided. Reducing volatility of markets by improving their transparency and predictability would be an obvious answer. A multilateral storage and market information system could achieve exactly this, not unlike the International Energy Agency (IEA) in the case of oil, which was founded in the wake of the energy crisis of the 1970s.

The International Food Policy Research Institute (IFPRI) in Washington has suggested a three pronged approach to such an international food reserve:[11]

- A small physical food reserve for food emergencies. It would contain 300,000-500,000 tonnes of basic grains at strategic locations close to developing countries and would be managed by the World Food Program
- An internationally coordinated global food reserve to reestablish trust in global grain markets and to counter excessive hoarding at the national level, which would lead to a large and expensive total global reserve and a thin global grain market, which in turn would be prone to volatility and less able to react to unexpected supply and demand shocks
- An international fund that would function as a "virtual reserve" by intervening in futures markets to curb excessive speculation and keep prices roughly in line with their long run fundamentals

Gulf countries have discovered strategic storage as part of their food security strategy. Oman already has an operational storage for 3-4 months of basic food consumption, while Saudi Arabia and the UAE are in the process of setting up such a system. At this stage however these are isolated national efforts without connection to the producer countries and prevailing market conditions. It is this form of national storage that might cause the very volatility it intends to fight according to IFPRI, as such moves could lead to unnecessary and expensive storage, an inefficient global production system and thin grain markets if practiced widely internationally.

A multilateral storage system would link national storage solutions to a global coordination agency which would receive inputs from both importers and exporters. It then would set a target price band based on market expectations that balances interests of exporters, farmers and consumers. The ensuing implementation of supply management measures would be done nationally and reported to a monitoring body. Alternatively a single global reserve could be linked to a global coordination agency, which in turn would keep prices within the pre-determined band by open market operations. This solution could prove to be more cost efficient than a series of national reserves. A multilateral storage solution would cater to commercial markets and would be different from reserves being held for humanitarian aid, which have different goals and management strategies.[12]

11 Joachim von Braun, Maximo Torero, "Implementing Physical and Virtual Food Reserves to Protect the Poor and Prevent Market Failure," IFPRI Policy Brief Vol. 10, Washington DC., February 2009; Joachim von Braun, Justin Lin, Maximo Torero, "Eliminating Drastic Food Price Spikes - a Three Pronged Approach for Reserves," IFPRI, Washington DC., March 2009.

12 Robin Willoughby, Alan Parsons, "Global Food Reserves. Framing the Context for a New Multilateralism," *Share the World's Resources Report*, London, October 2009; Brian Wright, "International Grain Reserves and Other Instruments to Address Volatility in Grain Markets," World Bank Policy Research Working Paper, Washington DC., August 2009; John Lynton-Evans, "Strategic Grain Reserves Guidelines for their Establishment, Management and Operation," (Rome: FAO 1997).

An international food reserve raises the question, which institutions and countries will be responsible for it, how they will be held accountable and whether the corresponding market interventions are justified and successful. IFPRI proposes a "Club" of constituting members that could comprise the G8 + 5 (China, India, Mexico, South Africa, Brazil) plus some grain exporting countries such as Argentina, Thailand or Vietnam. IFPRI admits that agreement on arrangements might be difficult and could require a high level UN task force to sort things out. The Club countries would hold a certain share of reserves on the national level for intervention in spot markets and would issue promissory guarantees to the virtual reserve fund for interventions in the futures markets. They also would appoint the high-level technical commission, which would have full autonomy and decide on possible interventions. The technical commission would be assisted by a global intelligence unit which would advise on price forecasts, maintenance of the price band system and possible interventions. Ideally it would be tied to an existing institution with corresponding know-how such as FAO, USDA, IFPRI or the World Grain Council.

The market intervention and bureaucracy associated with an international food reserve would have been regarded by many as sheer heresy before the global financial crisis. Like elsewhere market failure has led to a reassessment of options. The IFPRI proposal is aware of possible problems; it opts for reasonably broad price bands and does not aim to eliminate price spikes and market dynamics in general. Its goal is only the prevention of speculative overshooting as witnessed in 2008. Furthermore, it builds upon existing capacities with national and international institutions and tries to keep costly physical storage at a minimum by introducing the idea of a virtual reserve and its intervention mechanism.

If successful, an international food reserve could make global food markets more transparent and reliable and less prone to volatility. By reestablishing trust in world food markets it could help to prevent a reoccurrence of export restrictions as have been seen in 2008. It would be in the best interest of Gulf countries to participate in the ongoing discussions and coordinate their plans for national food reserves accordingly. As Saudi Arabia is a member of the G20 it should aim to become a member of an international food reserve agreement if it became reality. Thus, it could actively promote the interests of Gulf countries in global food security considerations.

Conclusion

The food price hikes of 2007/2008 have led to a fundamental distrust in food markets in food producer and consumer countries alike and recourse to administrative measures, such as export restrictions or bilateral approaches of land acquisition. In order to avoid market failure and speculative overshooting, multilateral approaches to food security are necessary. Increasing agricultural production and productivity in developing countries and realizing fairer market conditions for them by reduction of US and EU agro-subsidies in the ongoing Doha round is one ingredient of such an approach. The Gulf countries could play a vital role here by coordinating their international agricultural investments with general development plans for agriculture on the national and international level such as the recent G8 initiative. An international food reserve is another important cornerstone of such a multilateral approach. By

improving transparency and reliability of markets it could help to avoid precipitate reactions as seen during food export restrictions in 2008.

About the author

Eckart Woertz is Program Manager of the economic department at the Gulf Research Center (GRC) in Dubai/ UAE and a Visiting Fellow at Princeton University. Formerly he has held senior positions in financial services companies in Germany and the UAE, amongst them Delbrück & Co. one of the oldest German private banks. His research interests include the political economy of the Middle East, financial markets and energy issues. Eckart contributes regularly to major international and regional newspapers and TV channels. He holds an MA in Middle Eastern Studies and a PhD in Economics from Friedrich-Alexander University, Erlangen-Nuremberg, where he conducted research about structural adjustment politics in Egypt.