iisd

Commodity Revenue Stabilisation
SUPPLY MANAGEMENT

International Institute for Sustainable Development

Thursday, March 29th, 2007

Geneva

Presentation by Thomas Lines

Definition of supply management

Purpose:

- To control the supply of a commodity relative to its demand, in order to influence the price

Understanding of mechanisms:

1. The use by public authorities of mandatory quotas on production or trade, or buffer stocks;

   OR, MORE WIDELY:

2. Any mechanism which aims to control or manipulate the quantities supplied on a market, whether operated by commercial, public or other bodies. It suffices that they must have influence over the market.

Methods of supply management

Under the wider definition just given:

1. Direct control of production
2. Export quotas
3. Land set-aside
4. Manipulation of stocks
   - private or public
5. Minimum purchase price
6. Border tariffs

Drivers of supply management

1. Commercial
   - producer-driven
   - buyer-driven
2. Public or cooperative
   - national, producer-driven
3. Public - international
   - producer-driven
   - paternalistic
   - producer-consumer agreement

What has worked?

Examples:

- Prolonged success has been where SM took the simplest forms and its agents had the greatest market power.
  - E.g. diamond and aluminium markets, modern supply chain management
- UK deficiency payments (to 1972)
- Canada's "SM5" system
- International Coffee, Tea and Tin Agreements (over 23-29 years)

What has partly worked?

Examples:

- State marketing boards in developing countries
- EU Common Agricultural Policy
- OPEC
- International Tin Agreement and aluminium cartel: collapsed in exceptionally weak markets

What has not worked?

Examples:

- Association of Coffee Producing Countries
- International Cocoa Agreement

Why was supply management cut back?

- Return of free-market thinking in 1980s
- Political problems within the agreements
  - E.g. size of quotas in the ICA
- Failure to respond flexibly to technical challenges
  - E.g. ITA, Alcan reference price, ICA
- Difficulties in enforcement
  - E.g. free-riding, competition from other commodities
- Financial constraints in stock-based systems

Technical requirements for success of SM

1. A coherent market
2. A competent administration
3. Control of trade with non-SM area
4. Tactical flexibility
5. Compatible policies for competing products

Political requirements for success of SM

1. Ability to exert power over the supply chain
2. Underlying solidarity among leading participants
3. Farmers' influence over the SM system
4. A swing producer (helps)
5. Exploit the wider politics of the market

New ideas and considerations

- Preference for production quotas
- Preference for tradeable quotas
- Manipulate forward and options contracts

The wider role of supply management

- Underlying issue is one of power:
  - Who controls the market or supply chain?
- Strategic tasks that SM can help with:
  - Dilute corporate control of buyer-driven supply chains
  - Build up the countervailing power of producers and poor producer countries