

Food Reserves: A Key to Addressing Price Variability, Food Security and Even Trade

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Important Functions of Reserves

- **Mitigate short-term supply disruptions and sudden demand spurts**
 - **Community/local level**
 - **National/regional/continental levels**
 - **Global level**
- **Stabilize world prices**
 - **For consumers on high end**
 - **For farmers on low end**

Reserves Counterarguments

- **Commercials argued they would provide reserves**
 - Government “interference” not needed
- **Not to worry**
 - Free trade will guarantee availability from one country or another
- **Too expensive**
 - Procurement and storage costs are too costly
- **Requires a large physical stock**

Argument Analysis

- **Assertions not always true**
 - Commercials have no incentive to hold stocks
 - Supply disruptions can affect more than one supplier in a given year
 - One has to compare costs of storage against a no-reserve alternative
 - Presence of reserve stocks calms market behavior
- **Overriding Issue: Countries view food as a national security issue**

Basic Reserve Objectives

- **Prevent consumer price/quantity crises as experienced in 2008 AND producer price crises as in the late 90s**
- **Is NOT to fix prices**
- **But to work with the market to ameliorate impacts of extreme price fluctuations**
 - **Food availability/food prices**
 - **Severe economic disruptions**
 - **Environmental damages**
- **Reserves facilitate—not impede—trade**

Reserves Are Not a New Idea

- **Egypt**

- 1750 BC
- Biblical story of Joseph and Pharaoh
- 7 fat years followed by 7 lean years

- **China**

- Beginning in 54 BC
- Had its ups and downs over period of 2,000 years
- “Constant Normal Granary”
- China currently holds large stocks for domestic needs

US Experience

- **United States**
 - 1929-1996 AD
 - Federal Farm Board – stock holding in attempt to stabilize price
 - Commodity Credit Corporation
 - Stabilize price
 - Ever Normal Granary
 - Manage supply
 - Factors that brought reserves into disrepute
 - Inconsistent management or mismanagement by those who did not believe in rationale for reserves and price stabilization
 - Dumping of excess on world market

Institutional Mechanisms

- **Community/local reserves**
 - **Traditional family-level risk mitigation**
 - **Individual storage in shared facility**
 - **Could include micro-lending**
 - **Build up of stocks to withstand normal weather variation – each farmer leaves a portion of production in facility each year if possible**
 - **Local governance via cooperative structure**
 - **Coordinated with other communities**

Institutional Mechanisms

- **National/regional/continental reserves**
 - **Multiple sources for food emergencies**
 - **National and regional federations of cooperatives working together**
 - **Means of coordination of local food reserves for interchange and support**
 - **Governance based on cooperative principles**

Institutional Mechanisms

- **Stabilize world supply and prices**
 - Responsibility of major producers and exporters to adjust production needs
 - Residual suppliers
 - Institutional framework
 - Politically independent
 - Create International Reserve Board made up of National/Regional chairs with a chair to serve as public face
 - Legitimated by UNCTAD or FAO

Reserve Implementation

- **Develop at a pace consistent with market realities**
 - Slow when prices are relatively high
 - Faster pace when prices are sliding
- **Size of the reserve (corn, wheat & rice)**
 - Not huge relative to world grain production (100 to 170 million metric tonnes??)

Reserve Implementation

- **Cost (corn, wheat & rice)**
 - Initial “filling” of the reserve would be the major cost (15 to 25 bil. \$US ?)
 - Revolving nature of the reserve—buy “low” and sell “high”—creates potential for self-financing in part over time
 - Annual operating expenses for storage, handling, interest, etc. (3 to 5 bil. \$US ?)

Reserve Implementation

- **Initial contributions to a global reserve**
 - Exporting countries
 - Others (grains, money, in-kind ??)
- **Location of global reserve**
 - Good distributional infrastructure; politically stable
 - Convenient to likely destinations

Reserve Implementation

- **Governing body would:**
 - Determine which commodities would be in the reserve (grains, also oil crops, dairy, coffee??)
 - Establish upper and lower price benchmarks for each commodity
 - Define the size and location of each commodity reserve
 - Coordinate reserve entries and exits
 - Negotiate short-term production limits when reserve is full—used as last resort only

Additional Comments

- **From caveman to the present:**
 - **First things first: Secure food to survive (also water)**
- **Last couple of years we re-learned that:**
 - **“FOOD RULES”:** Countries quickly take drastic measures to protect/secure food supplies
 - **With total free trade—same would be true**

Additional Comments

- **We must have a reserve stock system as a component of a food security program**
- **We need a system to make food available to the one billion currently experiencing chronic hunger**
- **Oversupply is the long term problem that will plague farm prices**
 - **In addition to reserves we must institute a mechanism for supply control among major producers and exporters**

Additional Comments

- **We always want to have an overcapacity in food production**
 - **The challenge is to manage that capacity in order to meet the need of the world's citizens**
- **Supply management tools including reserves have been called “the failed policies of the past,” but in reality are essential components for ensuring food security and stability for the world's population**

Thank You

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needy children and spouses of victims of the Sept. 11 terrorist attacks.

LMA President Patrick Goggins said, "All across America, in 43 states, our member businesses do

Senate ag committee resists pressure to adopt House Farm Bill

The House of Representatives adopted the Farm Security Act of 2001 on Friday, Oct. 5, by a vote of 291-120. The approval came after Representative Boehler-Kind amendment to shift \$19 billion dollars from commodity programs to conservation programs, and one to limit payments to \$150,000-per-person on all crop based subsidies.

With the adoption of this farm bill legislation by the House, attention shifts to the Senate Ag Committee. This committee is being pressured to use the House bill as its base document, making adjustments, if necessary. The pressure comes from those who believe that the agricultural community needs to grab the additional \$73.5 billion above the baseline that was made available in the 2001 budget resolution.

However, the authorizing budget resolution says these additional monies would be available only if the budget projections did not require dipping into the Medicare or Social Security Trust Funds. By early September, the slowdown of the economy and the tax cut had significantly reduced the surplus to what some were projecting to be a razor thin margin. In the aftermath of the events of Sept. 11, the Medicare and Social Security "lock box" was not given a moment's consideration as \$40 billion was granted to New York for damage caused by the terrorists and for fighting the war on terrorism. Congress then voted \$15 billion to bail out the airline industry. Billions more undoubtedly will be needed to execute the war against terrorism. And, the administration is talking about an additional economic stimulus package that could be as large as \$100 billion. Undoubtedly the lid of the lock box will be wide open when all is said and done.

All of this spending leaves agriculture's additional \$73.5 billion in question. It would appear that the thinking in the House is that agriculture better make its claim as quickly as possible before the lock box is closed again or a cap is put on the deficit. Judging

from statements by Sen. Richard Lugar, the leadership of the Senate Ag Committee sees things quite differently. As a result the Senate committee leadership while it is under pressure from commodity groups to adopt the House bill, does not think that the committee has to rush its work on the farm bill. They don't feel the necessity to rush because they will be any different five months from now than they will be four weeks from now.

They are continuing on the course they set before the Sept. 11 attacks on the World Trade Center and the Pentagon. From all accounts, the farm bill that the Senate is working on will have many provisions that look quite different from the House bill.

Intertwined in all of the discussion and action are a number of major questions that will have to be answered before a final version of the farm bill is approved.

- Will the budget for agriculture be the \$96.5 billion baseline or will it be \$170 billion, including the additional \$73.5 billion conditionally authorized in the budget resolution?
- Will Congress impose a \$150,000 proposal that payment limit like the House?
- How widely will the payments under the farm bill be distributed? Will they be concentrated in the heartland or will the coasts see a larger portion of the money than in the past?
- Closely tied to the previous two questions is the role conservation will play in the farm bill. Will or will it be a green payment related program that encourage conservation in all regions of the country and on all sizes of farms?
- Yes, a House bill has been passed. But in mid-October, the leadership of the Senate has no interest in the wholesale adoption of the House's version of the farm bill. The Senate intends to have its say, thank you very much!

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