

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

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Food Reserves Public Briefing
Brussels, Belgium
June 1, 2010

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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

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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**

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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**

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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**

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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

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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

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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

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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

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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

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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??)

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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 ?)

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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

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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

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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

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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

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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**

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Thank You

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