

## **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

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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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