Grain Reserves

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APAC

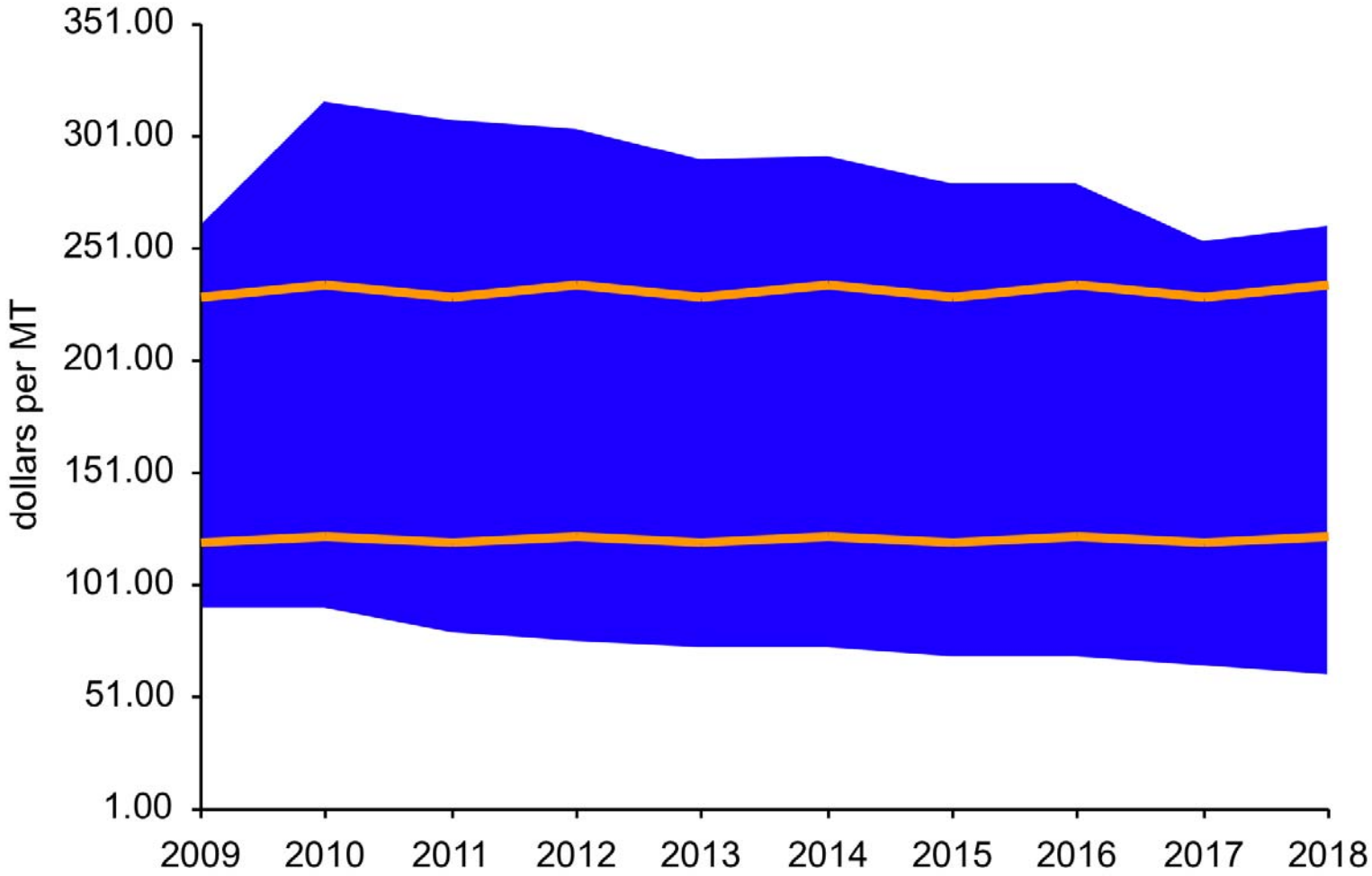
Food and Agriculture

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

Reserve Objectives

- **Prevent consumer price/quantity crises as experienced last summer 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**

Hypothetical Price Band for Corn



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 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**

Past Criticisms Not Valid

- **With freer trade staples will always be available if not from country A then B, C, or D**
- **Commercials will hold adequate stocks**
- **Reserve programs are too expensive**
- **Interferes with price signals—markets always know best**
- **Burden to agribusinesses if less output to service with inputs, transport, process, etc.**

US Experience

- **Had two major price explosions since WWII**
- **There would have been two or more price explosions had there not been a reserve**
- **Not having reserve/supply control program is THE reason prices were so low over the last decade**
- **Replacing reserve/supply control with payments reduced corn prices by $14 a ton and cotton prices by $280 per ton for a given stocks-to-use ratio**

Other Random Thoughts

- **The premise of WTO implies that maximizing agricultural trade should be countries' primary goal—ignoring countries' over riding need to adequately feed their people**
- **Trade is only one of several means to ensure ample food supplies at reasonable prices**
  - **WTO should levy sanctions for dumping on international markets but implicitly encourage—not interfere—with countries' policies to produce for themselves**
  - **WTO and supporting countries need to recognize that reserves facilitate—not impede trade**

Thank You

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requesting to be added to APAC's Policy Pennings listserv

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

policy pennings

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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 representatives rejected a flurry of amendments including the Boehiert-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 873.5 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 don't think the financial issues 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 896.5 billion baseline or will it be $170 billion, including the additional 873.5 billion conditionally authorized in the budget resolution?
- Will Congress impose a payment limit like the $150,000 proposal that was rejected by 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 conservation be tied to cropland related programs or will it be a green payment program that will 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!