

# The Need for and Challenges of Food Reserves

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# *The Need for Food Reserves*

- **Supply-Driven Disruptions**

- **Scope**

- Local – Affecting a limited area
    - Regional –
    - Global – Affecting one or more major producers

- **Causes**

- Crop-related weather - Sporadic
    - Natural Disaster - Occasional
    - Political Instability – Chronic

- **Result**

- Severe price bubble

# *The Need for Food Reserves*

- **Demand-Driven Disruptions**
  - **Unanticipated surge in demand**
  - **Usually only three or more per century**
    - Can occur in conjunction with supply disruptions
  - **Examples**
    - 1972-1973
      - Russia's entry into world grain markets
    - 2007-2008
      - Ethanol demand
      - Wheat crop failures in Australia and Eastern Europe
  - **Result**
    - Severe price bubble

# *Possible Functions of Reserves*

- **Local supply source of storable commodities for local disasters**
  - Local supply stabilization
- **Regional supplies for continental needs**
  - Regionally sourced food aid
- **Stabilize world supply**
  - Back-up supply for more widespread problems
- **Stabilize world price**

# *Our Recent Experience*

- **Demand surge (ethanol)**
  - **Coupled with wheat shortfall in Australia and Eastern Europe**
  - **Prices of storable agricultural commodities tripled**
    - Moderately increased food prices in global North
    - Added 250 million to 800 million already facing chronic hunger
  - **Results**
    - Food riots in over 25 countries
    - Protection of national food supplies via tariffs, taxes and embargoes

# *This Wasn't Supposed to Happen*

- **Commercials argued they would provide reserves**
  - Government “interference” not needed
- **Not to worry**
  - Free trade will guarantee availability from one country or another
- **Neither assertion true**
  - Commercials have no incentive to hold stocks
  - Supply disruptions can affect more than one supplier in a given year
- **Countries view food as a national security issue**

# *Historical Overview*

- **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

# *Historical Overview*

- **United States**

- 1929-1996 AD
- Federal Farm Board – stock holding in attempt to stabilize price
- Commodity Credit Corporation/Farmer Owned Reserve
  - **Stabilize price**
  - **Ever Normal Granary**
  - **Manage supply**
- Problems
  - **Inconsistent management or mismanagement by those who did not believe in rationale for reserves and price stabilization**
  - **Dumping of excess on world market**

# *Thank You*

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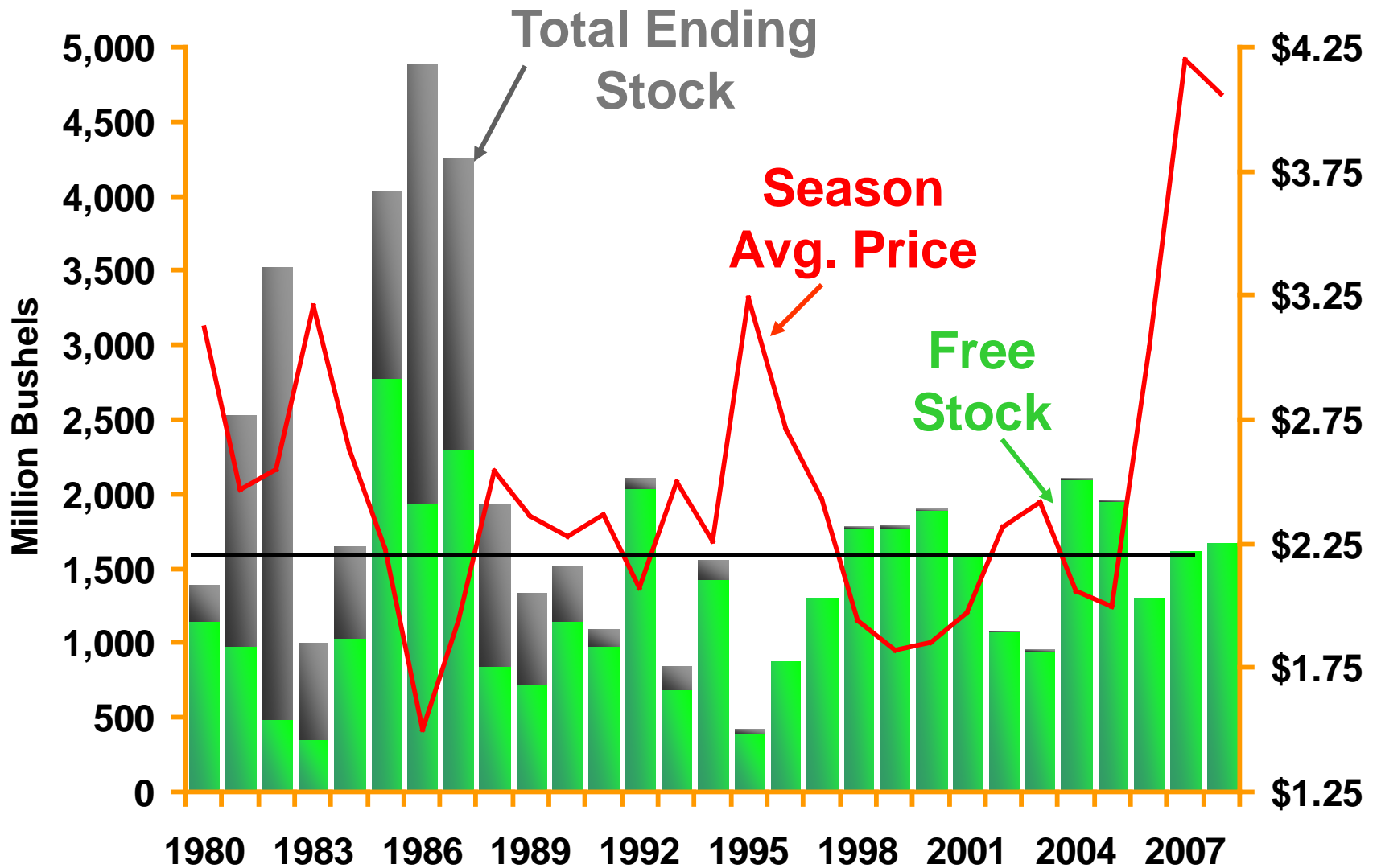
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# Historical Overview



# Weekly Policy Column

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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 representatives rejected a flurry of amendments including the 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.

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



## policy pennings

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- 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 a payment limit like the one 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 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!