PolicyPennings by Dr. Daryll E. Ray

Nothing intensifies food security concerns like food unavailability

One cannot talk for very long about international trade in grains and oilseeds without being reminded of the soybean embargo of 1973 and the Russian grain embargo of 1980 and their long term impact on U.S. agricultural exports. In a previous column, we talked about the impact of the embargo on Japan's investment in the Brazilian soybean industry, particularly in the Cerrados.

In the late 1960s with government stocks growing, we saw the deliberate elimination of stocks become a matter of U.S. farm policy. Just at the moment we reduced the stocks to the bottom, the U.S. experienced a surge in exports and the price rose dramatically. On June 27, 1973, the Nixon administration imposed an embargo on the export of U.S. soybeans. Seven years later, the Carter administration imposed an embargo on the Russians after their invasion of Afghanistan. The former, resulting from inadequate stocks to meet the needs of customers, has often been cited as the impetus for the growth of the Brazilian soybean industry while the second, using food as a weapon of foreign policy, has been blamed for the subsequent fall in U.S. grain and seed exports. In addition general embargos are currently in place for countries like, Cuba, Iran, Libya and North Korea.

In a year like this one, with tight carry-over stocks, not unlike 1973, and a market that has seen the running of both the bulls and the bears, it makes sense to revisit those events and see if there are lessons that can be learned. This is especially true given the increased importance of international trade and international trade negotiations that have the potential to shape the agricultural policy landscape in the U.S.

Without the embargo, we would argue that Japanese money might not have flowed into the Cerrados and the growth of the Brazilian soybean industry might have proceeded at a slower pace. Undoubtedly the Cerrados would have been developed, but without Japanese development money and technology, it might have taken a longer time.

We should never forget that importing countries take the issue of food security very seriously. To draw on John F. Kennedy, it appears that Japan and many other countries are willing to "pay any price, bear any burden, meet any hardship" in order to ensure an adequate supply of food for their populace. Many nations consider food security in the same way that the U.S. considers military security. One of the interesting sidelights to the story of Japan and Brazilian soybeans is that in the end the Japanese still get the bulk of their soybeans from the U.S. It appears that the Japanese were less looking for a new supplier than an insurance policy. But what an impact Japan had nonetheless.

It seems to us that we run the risk of reliving all this in the future. With the extremely low ending stock levels following last year's crops, that possibility could have been a reality this year had the weather severely battered the yields of crops being harvested this fall. We lucked out. But one of these times we may not be so lucky.

Grain and oilseed producers may not see a problem here. Sky-rocketing crop prices seems like a good thing to crop producers. Yes, but. The but is that it reinforces the food security concerns that so often trump the economic considerations of countries faced with supporting domestic production or importing cheaper food from us.

There is nothing that intensifies the food security concerns of our export customers more than learning that their presumably dependable supplier of staples is fresh out.

If the U.S. and other suppliers are indeed fresh out, investments in increasing agricultural production world-wide would explode. And about five years or so later, U.S. crop farmers would find the world drowning in grain and lowest prices they have ever seen posted on the wall of their local grain elevator. Land prices that increased wildly when prices accelerated would also crash causing the inevitable financial catastrophes.

We dodged the bullet this year but a look back at history suggests that eventually snake eyes will be rolled. A well-designed Farmer-Owned-Reserve program could go a long way to lessen the severity of a multi-year production short-fall or demand explosion.

Crop farmers could benefit handsomely from the "high" prices they would receive when they sold grain out of <u>their</u> reserve when release triggers were hit. But they would likely be spared from the commodity and land price crashes a few years later. The benefits to domestic grain users, food consumers, as well as our export customers are obvious.

It just makes sense to us to have a stock program that is considered on par with the importance of other risk management programs/considerations for agriculture.

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Originally published in *MidAmerica Farmer Grower*, Vol. 21, No. 40, October 1, 2004