

# The Urgent Need for Strategic Reserves

## WHY DO WE NEED STRATEGIC RESERVES?

With corn prices hovering near \$8/bushel, and carryover stocks at dangerously low levels, both domestically and internationally, we are just one natural disaster away from catastrophe for our livestock industry and our own food security. In 1996, government-held and farmer-owned reserves were eliminated under the Farm Bill during the transition to a free market agricultural economy. This short-sighted decision has left America's food security in severe peril. A Strategic Grain Reserve akin to the Strategic Petroleum Reserve is urgently needed for several reasons:

1. **Ensure Viability of Our Livestock Industry.** Many agriculture and commodity groups are clamoring for stability in corn prices, a safety valve to ensure that corn doesn't reach \$9-\$10. Dairy farmers besieged by low prices also have to deal with speculative feed costs. While some commodity groups, such as the National Chicken Council, National Pork Producers Council and United Egg Producers, are arguing that we need to dismantle USDA's ethanol and conservation programs to stabilize corn prices, a far more responsible and sustainable approach would be to establish a grain reserve.
2. **Preserve Our National Security.** Few Americans realize that when our nation went to war in Iraq, we only had 5 hours worth of corn reserves. We only had 8 hours worth of soybeans and 11 days worth of wheat, but we had 30 days supply of petroleum in the Strategic Petroleum Reserve.
3. **Guarantee Stability to Farmers and Reduce Government Outlays.** Prior to the ethanol boom of the past few years, farmers had to endure low prices that did not meet their costs of production. Millions in taxpayer subsidies were needed to help make up for lost income. As recently as 2006, corn was selling for under \$2/bushel. Even with higher commodity prices, many farmers are still struggling with exploding costs of production. Farmers deserve a price that covers their cost of production, and strategic reserves would help to buffer against low commodity prices and dampen speculative markets.

## WHY ARE RESERVES SO URGENT?

### Dangerously Low Reserves

**Global Corn Inventories May Hit 37-Year Low:** According to Morgan Stanley, the wet weather that has **delayed planting in the U.S. may send global stocks to their lowest since the mid-1970's**, meaning higher costs for consumers and livestock producers (Bloomberg, 6/8/11).

### Price Stability Lacking

"U.S. futures for the crop rallied to an all-time high last week of **\$7.99 a bushel**, as worries grew that supplies would run short this summer, and would remain tight for at least another year...**whether the \$8 price level proves to be a ceiling could depend largely on weather, one of the few things that has been more volatile than the market itself**" (Barron's Online 6/12/11).

"**U.S. food prices are expected to stay high through 2012** because heavy rains and extreme flooding will likely cut the size of this fall's corn harvest...[M]ore expensive grain has led to food price increases this year...For all of 2011, the **USDA predicts food prices will rise 3 percent to 4 percent**" (The Associated Press, 6/9/11).

"Figures released on Wednesday by the UN's Food and Agricultural Organization show that costs for a range of basic commodities have now surpassed their peaks of 2008. With food accounting for a



large and volatile share of tight family budgets in the poorest countries, **rising prices are re-emerging as a threat to global growth and social stability**” (Financial Times, 1/5/11).

“A joint report of the U.N. Food and Agriculture Organization and the Paris-based Organization for Economic Cooperation and Development said the **risk of price volatility that has hurt farmers across the globe remains high**...The report predicts that **prices will be 20 percent higher for cereals and up to 30 percent higher for meat in the coming decade** compared to the past ten years” (The Huffington Post, 6/17/11).

## **EXPERTS AGREE: RESERVES ARE GOOD POLICY**

In a report issued by The Agricultural Policy Analysis Center, **inventory reserves are a key aspect of a blueprint workable agricultural policy reform**. They would “**reduce the occurrence and modify the size of price spikes for major commodities**” (“Rethinking U.S. Agricultural Policy: Changing Course to Secure Farmer Livelihoods Worldwide,” September 2003).

U.N. Special Rapporteur on the Right to Food, Olivier De Schutter, recommended that the development of regional storage facilities should be a priority for the G20. He wrote, “We may in fact move beyond storage facilities to the **establishment of food reserves, not just to allow the humanitarian agencies to respond to emergencies, but also to reduce price volatility across seasons**. Provided they are managed in a transparent and participatory way, **food reserves may be capable of smoothing prices between periods of good harvests and low periods, characterized by rising prices**” (The Guardian, 6/16/11).

Peter Timmer, of Harvard University, has pointed out that “mechanisms to increase crop growth rates and **global grain reserves will help stabilize food prices**.” Dr. Timmer [has] also underscored the **need for developed countries to achieve a balance between what they can provision locally and globally**. For instance, **earmarking a certain percentage of a country’s national grain reserves** for use in crisis situations could help improve food security worldwide” (The Connect U.S. Fund, 6/15/11).

IFPRI’s “High Food Prices” report notes “Low levels of stocks and ill designed public policies foster speculation by many actors...**Grain reserves could be used to prevent speculative attacks and correct for the misalignment** between the underlying physical market and the futures market” (International Food Policy Research Institute, May 2008).

Sofia Murphy, of the Institute for Agriculture and Trade Policy, recommends that the **WTO’s Agreement on Agriculture rules be amended** to establish a framework that “allows governments to develop policies that encourage surplus capacity to produce food, but that **keeps that surplus in reserve rather than fully exploited**” (“Trade and Food Reserves,” September 2010).

According to a Policy Report by FAO, IFAD, IMF, OECD and others, “**low stocks relative to use, and uncertainty about stock levels in some parts of the world contributed to the 2007/2008 price spike**.” These low stocks were caused by countries’ scrapping price supports and supply management in OECD countries (“Price Volatility in Food and Agricultural Markets: Policy Responses,” June 2011).

## **THE WAY FORWARD:**

NFFC will push Congress to include strategic reserves in the Commodity Title of the 2012 Farm Bill and will include such language in the updated Food from Family Farms Act.

