

PolicyPennings by Daryll E. Ray & Harwood D. Schaffer

Grain export embargoes: Are they preventable?

Russia's Thursday, August 5, 2010 announcement banning grain exports, primarily wheat, sent shock waves through the grain markets. The stated cause of the embargo was the drought and unusually high temperatures being experienced in Russia's grain areas. Prime Minister Vladimir Putin is quoted in an August 5, 2010 New York Times article by Andrew Kramer as saying, "We need to prevent a rise in domestic food prices, we need to preserve the number of cattle and build up reserves for next year."

As a result of the heat and drought, the projection for the Russian grain harvest is 70 million tonnes, down from 97 million tonnes a year earlier—a 28 percent decline. Domestic grain consumption in Russia is about what they expect to produce this year. In addition, last year Russia exported 21.4 million tonnes and held 24 million tonnes of grain in year ending stocks.

The Russian embargo could be a boon for farmers in the US, where the 2009 year ending wheat stocks were 26.5 million tonnes, equal to 44 percent of production. Farmers in Australia and Argentina could also capture some of the exports that would have gone to Russia.

The reaction to the embargo has fallen into five categories: 1) delight on the part of producers in countries that hope to capture some of Russia's export customers this year, 2) discussions about global warming and the vulnerability of our food supply to unusual weather patterns, 3) the need for genetically modified crops to deal with drought and an increasing world population, 4) dismay over governmental interference in global markets, and—you may want to be sure you are sitting down for this one—5) a tentative call by the Financial Times, London, for a "strategic grain reserve to absorb shocks" <http://www.ft.com/cms/s/0/1ae7c962-a316-11df-8cf4-00144feabdc0.html>.

In this column, we want to take a pass on the first three and focus on the last two.

The concern of global traders is that we will see a repeat of 2008, when there were food riots in over 25 countries and a number of countries placed restrictions on the export of grains. The concern is that such action interferes with the price signals farmers need to increase their production.

Quoting again from Kramer's New York Times article, "Kingsmill Bond, chief analyst at Troika in-

vestment bank in Moscow...said, 'grain is an emotive issue; you want to make sure you have sufficient supplies.'" When it comes to food, most world leaders will give priority to their countries' citizens over exports every time. To do otherwise is to risk a change in government, by force or by the ballot box.

At the same time, focusing exclusively on the impact on global trade implies a belief that if grain is not available in one country, due to some problem, there will always be other countries with grain to sell. In 2008, we saw that it is possible to experience a demand surge in one major producing country and production problems in two or more countries all in the same year, resulting in tight supplies.

That brings us back to the discussion of grain reserves and their importance in ensuring a stable supply of grain when countries experience either a surge in demand or a shortfall in production. With an adequate strategic grain reserve—this may actually be a set of national grain reserves held by both major exporting and major importing nations as well as an international emergency grain reserve for food-insecure countries—prices will shift demand away from grain-short countries and toward countries with adequate supplies, thus reducing the need for embargoes.

As the Financial Times said, "the crisis of 2008 was the first...upheaval...[in grain markets in] 30 years. To face a second so soon should be a wake-up call. It would be irresponsible to expect the benign conditions of the past to return."

We don't make a practice of including links to our previous columns, but this is one of those times when we feel compelled to do so. Our column # 403, published April 18, 2009 and entitled "How to really disrupt international agricultural trade, now and in the future," discusses the inevitable trade interferences that arise from countries' universal and overpowering desire to take care of their own first, <http://www.agpolicy.org/weekcol/403.html>.

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