

# War in Ukraine underscores the need for a system of national and regional crop reserves

For as long as we have been writing this column—and well before that—we have talked about the importance of the role of the public holding of reserve stocks of grains, oilseeds, and crops that compete with them for land as a key element of an agricultural policy that protects farmers when prices are low and consumers when supplies are low and prices spike upward.

While the discussion of agricultural commodity stockholding programs went out of fashion with the adoption of the 1996 Farm Bill (remember how successful that was in supporting farm prices?), we have persisted. In recent years we have worked with the Texas Farmers Union in developing a farm bill proposal that includes governmental holding of reserves of storable farm commodities.

Before going any further, let's look at how stockholding programs generally work. The government implements a farm loan program in which farmers can take out non-recourse production loans from the US government using the crop's production as collateral, based on historic production records.

The limit of the loan is a function of a loan rate (price per unit of production) and historic yields of the crop for that production unit. The loan rate provides a floor under the price of the crop.

It is called a non-recourse loan because the government does not have recourse to attach the farmer's other assets in the case of prices that are below the loan rate when the loan comes due or a crop failure.

In the US, if the farmer forfeits the crop to the USDA, the Commodity Credit Corporation (CCC) takes ownership of the crop and becomes responsible for the cost of storing the crop.

So, what does the CCC do with the crop? It holds the commodity until the price reaches a release price that is above the full cost of production. When the release price is reached, those purchasing that commodity can buy it from the CCC. This puts in place an effective ceiling for the price of the relevant crop for consumers of that crop.

When these policies were first instituted, the focus was on the US. To keep CCC stocks from getting too large, the US developed various programs to make these stocks available to address hunger and food shortages elsewhere in the world. At times, these programs worked to the disadvantage of farmers in recipient countries.

We have also seen the US dominance in various crop markets begin to wane as farmers in countries like Brazil, Argentina, and China began to develop and use the kinds of crop technology that once was the sole province of US farmers.

These two factors forced us to rethink the issue of stockholding programs. The conclusion that we came to was the need for a dispersed international crop reserve that would protect prices for farmers around the world while making regional stocks available to address crop production shortfalls elsewhere. The stocks held by major producing countries would come into play if regional reserves were not adequate to address a particular production shortfall.

With the growing consensus on climate change and the negative impacts it could have on agricultural production, we saw how a dispersed international crop reserve could address a new challenge facing both farmers and consumers.

But there was a rationale that we hadn't even imagined until recently: war. We hadn't given war any thought at all until Russia attacked Ukraine. In response, we looked at the impact war between the two countries could have on export markets, thus our columns on production and trade of wheat, corn, soybeans, and cotton.

But still nothing jelled in our minds until we read a couple of paragraphs in Thomas L. Friedman's "Ukraine Is the First Real World War" column in the New York Times (<https://tinyurl.com/22avb5as>).

Friedman wrote: "Russia and Ukraine are key suppliers of wheat and fertilizer to the agricultural supply chains that now feed the world and that this war has disrupted. A war between just two countries in Europe has spiked the price of food for Egyptians, Brazilians, Indians, and Africans.

"And because Russia is one of the world's biggest exporters of natural gas, crude oil, and the diesel fuel used by farmers in their tractors, the sanctions on Russia's energy infrastructure are curbing its exports, causing gasoline pump prices to rise from Minneapolis to Mexico to Mumbai, and forcing farmers as far away as Argentina to ration their diesel-powered tractor usage or cut fossil-fuel-rich fertilizer usage, jeopardizing Argentina's agriculture exports and adding further to soaring world food prices."

It is a double whammy for those on the edge of hunger around the world. We have both the loss of exports from the two countries and the potential for reduced production elsewhere.

For those who can afford it, higher prices are an inconvenience. But for the food insecure and those living on the ragged edge, higher prices can be a death sentence.

A dispersed set of regional food reserves could alleviate much of the additional hunger-related deaths. Reserves are designed to address transitory food availability problems. Grain reserves will not address the issue of chronic hunger; that requires a different set of solutions.

We just never thought about war as one of those transitory problems. And, for us that is the rationale for a system of national and regional crop reserves, meeting both the challenges we have thought of—local/regional weather events—and those like war that aren't even on our radar screen.

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