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Issue Briefing Paper

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Title THE NEED FOR A U.S. FOOD SECURITY RESERVE

PROCUREMENT SECTION
CURRENT SERIAL RECORDS

BACKGROUND

A major concern of the United States and of all nations is for people to have enough to eat. There are an estimated 500 million malnourished people living in developing nations--nations with chronically low income and inadequate transportation and storage facilities.

Although world food production has increased, the gains in the developing countries have been largely used up by rapid population growth. Food production in many countries remains exceedingly vulnerable to weather, insects and disease. Distributing food to areas of greatest need within developing countries is the weakest link in the international food chain.

Millions of people in the poorest countries, on the lowest rung of the economic ladder, can scarcely afford subsistence diets. Consequently, continued food aid to the developing countries is needed to correct food imbalances and counteract the cyclical nature of world and local production.

The developing world must increase food production, reduce population growth rates, distribute income more equitably and develop marketing systems to move food supplies to areas with severe food deficits.

The United States and other developed countries can help achieve these goals. The incentives are economic, political and humanitarian. The food security reserve is an important part of this effort.

HISTORY OF U.S. FOOD AID

The United States has been the major source of food aid to developing countries over the past 25 years. During that time the United States has provided more than \$27 billion worth of commodities but at an uneven and erratic pace.

During the 1950's and 1960's, food aid was used largely to remove surplus crops from the market. Then, between 1973 and 1975, when grain was in short supply, the United States cut back its food assistance to meet commercial demands and help relieve inflationary food price pressures. Furthermore, since food aid was extended on a year-to-year basis, it was impossible for developing countries to plan for the most effective use of food aid over a long-term period.

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To eliminate these shortcomings in the food aid program (Public Law 480), the Carter Administration has proposed legislation to create a food security reserve. The secretary of agriculture would be authorized to establish a reserve stock of wheat of up to 4 million metric tons solely to meet urgent food needs in developing nations during times of tight world supplies. However, under certain conditions up to 300,000 tons of wheat could be donated in any fiscal year to developing countries suffering a major disaster.

USDA would designate 4 million tons of the wheat it would expect to acquire as a result of assuming contracts cancelled by the suspension of sales to the Soviet Union, as a food security reserve. Thus, there would be no initial budget outlay because funds have already been allocated for the purchase of this wheat by the Commodity Credit Corporation.

FUNCTION OF THE PROPOSED FOOD SECURITY RESERVE

The reserve would help guarantee the United States will be able to meet priority food assistance needs of developing countries. The reserve would also make the United States a dependable food aid supplier in years of short supplies instead of only in years of plenty.

The devastating impact of circumstances that prevailed from 1973 through 1975 on U.S. food assistance programs could have been largely alleviated by a security reserve. During that period of short supplies, the United States sharply reduced its P.L. 480 wheat shipments--from 6.4 million tons in FY 1972 to 1.4 million tons in FY 1974.

Total P.L. 480 shipments of grain and grain products fell from 9.1 million tons in 1972 to 3.3 million tons in 1974. As grain supplies dwindled, the U.S. government was not able to program the grain needed for the food assistance.

The decline in P.L. 480 shipments came at a time when needs of the poorer countries were particularly acute because those countries were unable to compete for limited grain supplies in high-priced world markets.

With a food security reserve, the United States would be better able to meet commercial demand at home and abroad as well as overseas food aid commitments. The reserve would greatly reduce the risk of having to choose between limiting commercial export sales or sharply cutting back on P.L. 480 shipments to food deficit developing countries during periods of tight supplies.

The United States would use the wheat in its security reserve only for P.L. 480 functions and then only when adequate amounts of wheat are not available in commercial markets, as determined by criteria spelled out in P.L. 480 legislation. This would insulate the security reserve from the marketplace and prevent the stored wheat from depressing commercial grain prices.

Reserves would be used to provide emergency food assistance to developing countries that can not meet their minimum food requirements through their own domestic food production plus commercial imports.

A portion of the reserve--up to 300,000 tons--could be used in any fiscal year to meet urgent humanitarian relief requirements resulting from major disasters. This authority would be used only when commodities could not otherwise be provided, either through a reallocation of available funds or through supplemental funding, and therefore would provide a larger quantity of P.L. 480 shipments than would otherwise be possible under existing program authorities. Replenishment of this reserve would create additional demand for domestically produced wheat.

A WHEAT-ONLY FOOD SECURITY RESERVE

The reserve would be limited to wheat because in emergencies, people can substitute wheat for other food and wheat is relatively inexpensive to buy and store. But because of climatic conditions in wheat-producing areas around the world, wheat production is highly susceptible to sharp fluctuations in production. From the beginning, wheat has been the foundation of the U.S. foreign food assistance programs.

WHY 4 MILLION TONS OF WHEAT?

In most years, the United States will program about 6 to 7 million tons of grain for P.L. 480 use. A 4 million metric ton wheat security reserve would, therefore, be adequate to provide continuity of food assistance for at least one year, even under extreme circumstances. A more likely need would result from a series of poor crops such as occurred from 1973 through 1975. During that period, P.L. 480 shipments of grain and products made from grain decreased sharply with the most dramatic decrease involving wheat:

Year	Wheat and Wheat Products	All Grain and Grain Products
FY 1972	6.4 million tons	9.1 million tons
FY 1973	4.1 million "	6.5 million "
FY 1974	1.4 million "	3.3 million "
FY 1975	3.4 million "	4.3 million "
FY 1976	3.9 million "	5.0 million "

As part of the negotiations with other countries toward a new world food aid agreement, the United States has made a commitment to provide a minimum annual food aid flow of 4.47 million tons of grain. However, because P.L. 480 legislation limits food aid shipments to the amount of commodities available in excess of quantities needed for domestic use, commercial exports and adequate carryover stocks, the administration believes that without an adequate security reserve, the United States cannot maintain even this minimum level during a period of tight domestic supply.

In May 1973, the United States projected a P.L. 480 program of 4.53 million tons of wheat for fiscal year 1974. However, with wheat in short supply and no government reserve, shipments to countries fell far short of the program objectives. Food aid to Bangladesh dropped from an anticipated 500,000 tons to 72,000; to Pakistan from 500,000 tons to 58,000; and to Columbia from 120,000 tons to 62,000. Other developing countries experienced similar cutbacks.

A PERSPECTIVE ON U.S. FOOD AID

In addition to the humanitarian aspect of the program, U.S. food aid has materially benefitted the U.S. economy and the economies of recipient countries. A number of food aid recipients have become commercial markets for U.S. farm exports.

While the volume of wheat shipments to developing countries has grown by more than a fourth since the early 1960's, the percentage that has moved on a commercial basis has grown from less than 10 percent to about 85 percent. Two-thirds of all wheat exports during 1961-65 were under food aid programs, compared with 10 percent in recent years.

A USDA study revealed a relationship between foreign per-capita incomes and growth in U.S. exports. When incomes rise in foreign countries, low-income people are likely to spend a large part of their increased earnings for more and better food. In India, for example, when the average family's income rose by \$1, more than half the increase went for food and fiber.

An examination of 12 countries, all of which received significant amounts of U.S. food aid, showed their commercial imports of U.S. farm products have increased almost twenty-fold--from \$500 million to more than \$9 billion--since 1954-55 when the U.S. food for peace program began.

The countries are Japan, Spain, Poland, India, Pakistan, Indonesia, South Korea, Egypt, Italy, Yugoslavia, Israel and Zaire. A continuous, reliable base of food aid leads to commercial markets for the United States.

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