



National Grain and Feed
Association



North American Export
Grain Association

1250 Eye Street, N.W., Suite 1003, Washington, D.C., 20005-3922
NGFA: (202) 289-0873 NAEGA: (202) 682-4030

July 22, 2008

The Honorable George W. Bush
The White House
1600 Pennsylvania Ave. NW
Washington, D.C. 20500

Dear Mr. President:

Recently there have been increased calls for the development of a U.S. or international grain reserve to provide priority access to food supplies for Humanitarian needs. The National Grain and Feed Association (NGFA) and the North American Export Grain Association (NAEGA) strongly advise against this concept and consider it an ill advised response to today's unprecedented agricultural market situation.

The idea of large scale food "reserve" programs to circumvent market responses is not new. Artificial stockpiling of grain, like artificial restrictions on trade, has consistently been proven to be misguided government policy. Reserve stock policies contribute to inefficient use of government funds, depressed market prices for producers, and an impediment to market adjustment when relative shortages and surpluses develop. A modest program of stocks for humanitarian and emergency needs, such as through the Bill Emerson Humanitarian Trust and positioning inventories of food for identified humanitarian efforts from the competitive marketplace should remain as the U.S. government's only role in stockholding. As suggested by others, a far more efficient and effective method for relief of those in need during difficult times would be a monetary trust held in reserve to purchase commodities when needed.

The U.S. federal government during the 1970's and much of the 1980's had a major role in determining the appropriate stockpiles for grain in the U.S., providing annual incentive payments to producers for storing grain under the "Farmer-Owned Reserve." Past experience with this program makes it clear that government held strategic inventory of grain is not a reasonable response to the food security concerns. The USDA program ended up costing the federal government almost \$1 per year for every net bushel added to total stocks. Economic analysis conducted during that time demonstrated that government storage replaced some of the grain stored in private hands, forcing private stocks downward. The reduction in stockholding by the private sector meant that the incentive payment for the reserve bushel was only contributing approximately ¼ of a bushel of grain to total carryout stocks. A similar policy in today's markets would result in a similar market reaction, and make such a program prohibitively expensive to achieve its goals.

Stock reserves have a documented depressing effect on farm prices that is a disincentive to innovation, productivity gain, increased production and effective market response. The fact that the reserve stock exists would be a known market factor, contributing to less risk that buyers might confront any significant price run-up, and resulted in less aggressive market bidding for the grains. These programs also have the detrimental impact of inhibiting market adjustments. An artificial reserve program that will not let price send unencumbered signals to market participants reduces the ability of the marketplace to self-correct in the most responsive and timely way on both the supply and demand sides of the market.

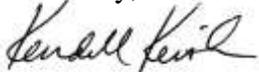
Compared with a U.S. reserve, the complications and inefficiencies of a “global reserve” would only be compounded. How would the stocks be held? Who would contribute and at what rate? How would decisions on release of stocks be made? What grains and oilseeds would be included? The potential for corruption and unintended counterproductive consequences on market fundamentals would be significant.

The most efficient methods to address food security of major commodities are to increase production and facilitate international trade. While technology has enhanced yield dramatically and is likely to continue to improve productivity, the fourth largest “crop” by acreage in the U.S. is idled farmland – mostly under the Conservation Reserve Program (CRP). Getting more of this land back into production would greatly enhance the ability of U.S. producers to meet the ongoing demand of the global marketplace for both commercial and humanitarian needs. Immediate as well as long term increases in the amount of food and funding available to meet demand in all markets can be achieved by increasing market access through reductions to and elimination of import and export trade barriers.

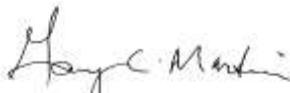
Again, we encourage you to reject calls for the establishment of an international or national grain reserve that would emulate the failed grain reserve policies of the past. The U.S. should focus on expanding international trade, maintaining a healthy Emerson Trust, continuing its leadership in international food aid efforts and bringing additional U.S. farm land back into production to in response to global food needs.

Thank you for your consideration.

Sincerely,



Kendell Keith, President
National Grain and Feed Association



Gary C. Martin, President and CEO
North American Export Grain Association

cc: The Honorable Ed Schafer, Secretary of Agriculture
The Honorable John D. Negroponte, Deputy Secretary of State
The Honorable Henrietta H. Fore, Administrator, U.S. Agency for International Development and Director of United States Foreign Assistance
The Honorable Josette Sheeran, Executive Director, World Food Programme