

'Free Market' reforms made food reserves vanish even before drought

by William Engdahl

The world is without adequate food security to face the double crisis this year of widespread drought and unprecedented locust infestations. But even before drought began to threaten, world reserve stocks of cereals had dropped to what even the international monitoring agency, the Rome-based U.N. Food and Agriculture Organization (FAO), regarded as the "danger line." Anticipated huge shortfalls have thrown power into the open arms of a tightly-knit group of approximately five or six multinational cereals trading companies, in much the same way that the 1979 disruption of petroleum supplies allowed seven large multinational firms to manipulate world price rises for oil to unheard-of heights of \$40 per barrel—up from around \$2.50 only six years before.

The cushion is gone

Cereals inventories include wheat, coarse grains such as high-protein soybeans, and rice. These grains can be stored up to seven years without serious damage under proper conditions. Since they are the linchpin for world food supply, they are considered the most important reserve to ensure against catastrophes of weather or wars. Most governments use a baseline level of reserve stocks equal to 25% of annual cereals production as adequate levels. The FAO calls cereals stock levels of 17-18% the "minimum required for world food security," in order to avoid major dislocations in the world food supply.

As of the end of May, the FAO had calculated an already alarmingly low level of world cereals "ending stocks" by the end of the 1988-89 harvest year. It estimated world cereals production at 1,674 million tons, against global consumption of 1,727 million tons. Previous ending stocks would therefore be drawn down for the second year in a row, leaving only 330 million tons for the entire world. This would be at the threshold level of 18.5% of consumption, "a level close to the minimum FAO considers necessary to safeguard world food security," states the May 30 official FAO *Food Outlook*.

According to a spokesman for the FAO's Global Early Warning System on Food and Agriculture in Rome, "Now, with the U.S. drought, we must revise our estimates." Back in May, the FAO had estimated 279 million tons for the U.S. cereals harvest. It now calculates that even an immediate end to the drought in North America would cut that to perhaps 230 million tons, "which would bring world ending stocks down to 16.5-17%. This is below the minimum required."

The problem with even these FAO calculations, is that

they rely on the U.S. Department of Agriculture's extremely low damage estimates. Damage is currently estimated at 14%, but according to U.S. national farmer organizations, it is far worse, ranging from 30-50% loss depending on the crop, even assuming immediate and adequate rainfall levels. This would drop world cereals stocks to the record lows of the early 1970s, 14.5%, or even as low as 11%, assuming a 50% harvest loss figure in the United States.

According to the FAO and leading European grain experts, the world "surplus" of cereals, subject of much heated media rhetoric, was never an alarming "glut." At the highest levels, after the record harvest of 1984-85, world cereals stocks never reached more than 1% above the "adequate" level of 25%. For the past two years, they have been sharply falling below that level.

In 1974-75, the FAO records show that world cereals ending stocks dipped to panic lows of 14.5%. A world food crisis was declared. The FAO held a World Food Conference in Rome to discuss the crisis.

In every harvest since the mid-1970s, the world has never had anything approximating a cereals glut. It has been, as one European grain trader admitted, a crisis of "underconsumption, not overproduction." The global debt crisis and oil price inflation of the late 1970s simply forced millions of world cereals consumers in Africa, South America, and elsewhere to starve as they were unable to pay for imports. The multinational trading companies responded to their "market loss" by forcing unprecedented changes in the world's most productive agricultural regions to tighten supply to levels dangerously close to the annual consumption. Government reserve stocks have been sold off in recent months at hugely subsidized prices to private conglomerates such as Cargill. Now those companies are holding onto their stocks, as market prices soar globally. Official USDA statistics show that, for the past three years, a record 92 million acres—equal to the entire arable acreage of France and Spain combined—have been idled through U.S. government "set-aside" or "acreage conservation" programs.

The great Russian grain robbery

In 1972-73, a scandal of immense dimensions erupted when it was discovered that certain multinational trading companies had exported almost every grain of reserves, at huge U.S. taxpayer subsidy, to the Russian state grain monopoly, Exportkhleb. The origins of the current cereals sup-

ply crisis trace to this period. Under the 1972 U.S.-Soviet Grain Agreement, negotiated by then-Secretary of State Henry Kissinger, Russia became the largest buyer of grains on international markets. This corresponded to a shift in Soviet policy: Instead of slaughtering their cattle herds to compensate for frequent harvest shortfalls, they turned to importing grains and continued building their vital beef herds. Ironically, over the past decade and a half, the United States appears to have reverted to precisely the opposite policy, with the USDA policies encouraging record levels of premature slaughterings of U.S. breeding herds, herds which will require decades to rebuild to sufficient quality.

In 1972-73, Exportkhleb imported an astonishing 19 million metric tons of grains from the United States alone, primarily from Cargill and Continental Grain. This represented fully 75% of all grain traded commercially in the world that year. Because of the generous government subsidies which Dr. Kissinger arranged, the scandal was dubbed by the press "The Great Grain Robbery." The government claimed "poor information," and the companies claimed ignorance. From that point until today, the Russians have claimed control of world cereals trade as the largest international buyer, changing the face of world food supply control in tandem with the large multinational grain trading conglomerates with whom they have dealt since 1972.

And today, Henry Kissinger sits on the Board of the Cargill Corp. of Minneapolis.

Bank Failures

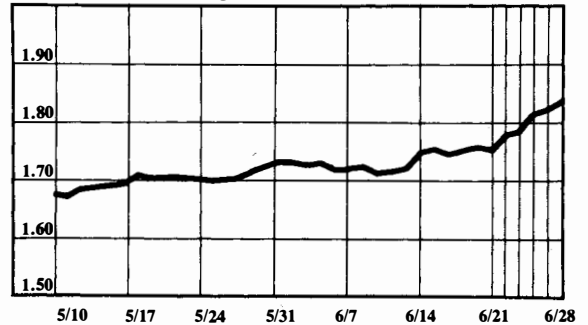
On June 17, the **Liberty Bank of Seattle**, in Seattle, Washington went bankrupt. It had assets worth \$19 million. The **Bank of Westminster**, in Westminster, Colorado, was closed on the June 22. Three other banks in Texas also failed in the week ending June 24. Two smaller banks in Texas, the **Tri-Cities Bank and Trust** in Glenn Heights, with assets worth \$9.6 million, and the **Texas National Bank** in Victoria, worth \$12.5 million were closed that week, as well as the **North-west Bank and Trust** of Houston, with assets totaling \$100.9 million.

On Wednesday, June 29 the **Claiborne Bank and Trust Company** in Homer, Louisiana, with total assets of about \$12.6 million, was closed. The **Republic National Bank** of Norman, Oklahoma, with total assets of about \$27.2 million was closed on Thursday, June 30. Two other Texas were also closed on Thursday, the **First National Bank** of Sherman Texas, with total assets of about \$25.2 million and the **Mercantile Bank and Trust** of San Antonio, Texas, with total assets of about \$82.3 million.

Currency Rates

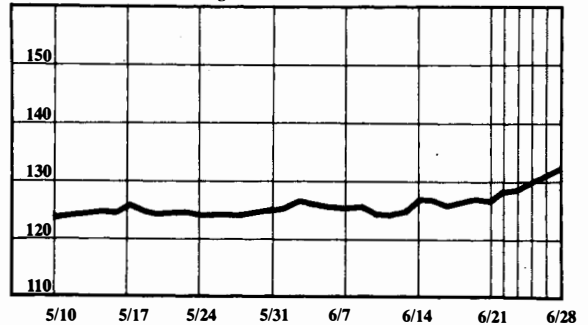
The dollar in deutschemarks

New York late afternoon fixing



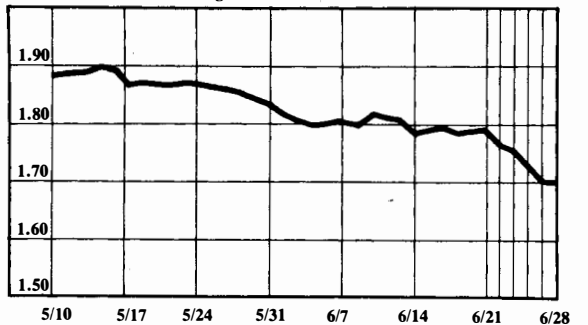
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing

