

Grain Reserves: Solution to Food Insecurity and Market/Price Instability?

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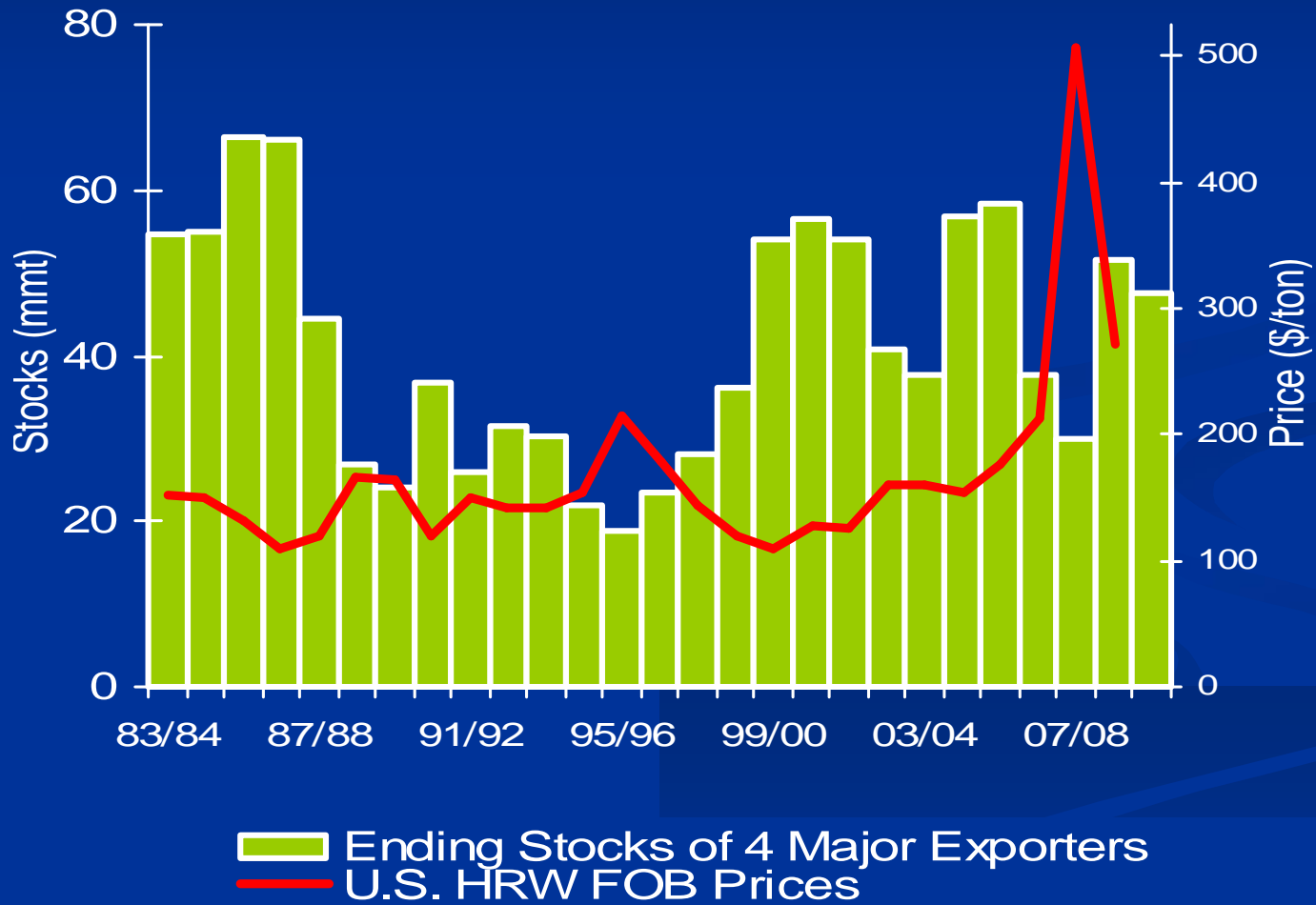
Office of Global Analysis

Foreign Agricultural Service/USDA

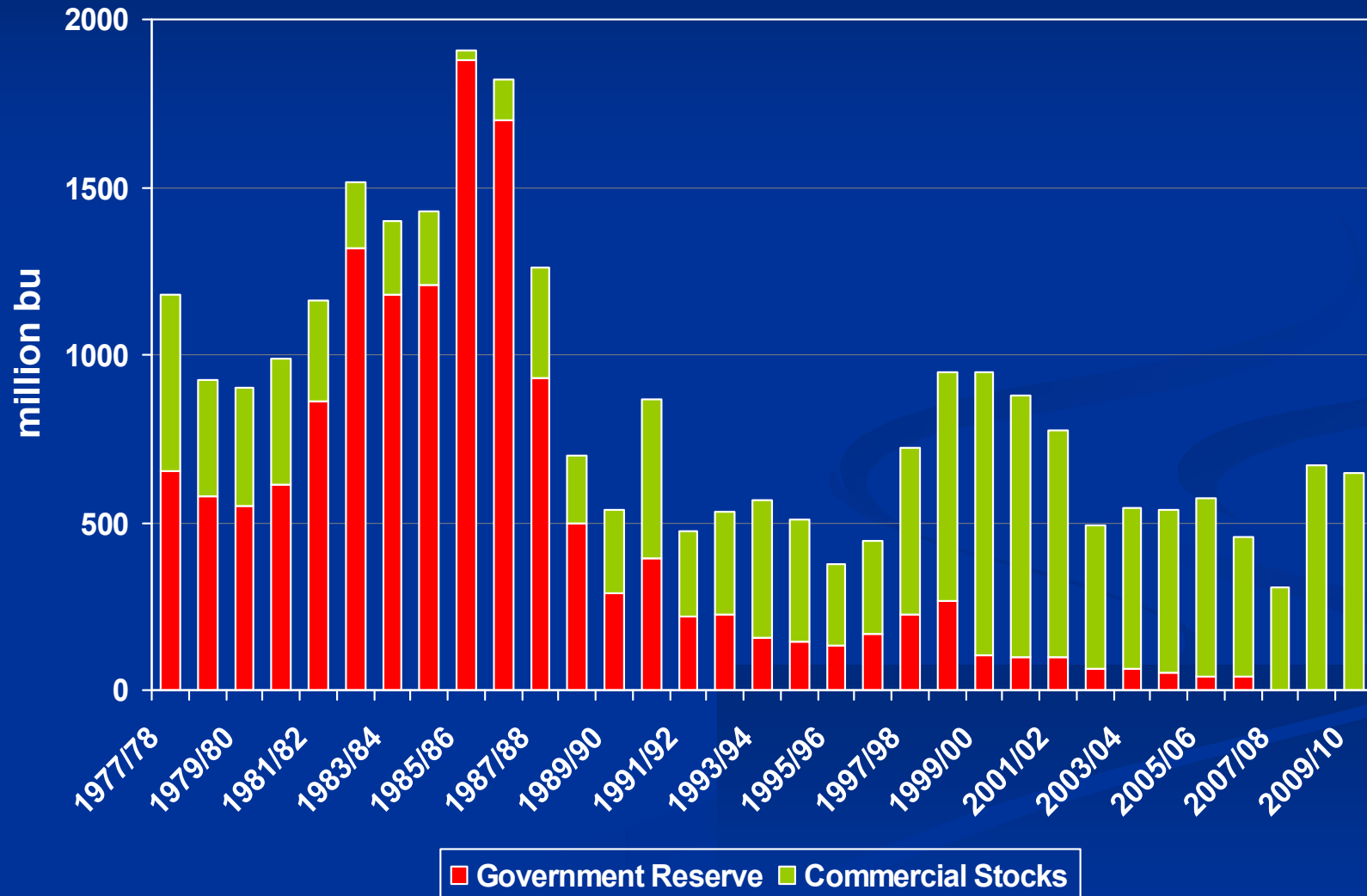


World price responds to major exporters' stocks

Wheat price and stocks



U.S. Wheat: Government Stocks Buildup in the 1980s

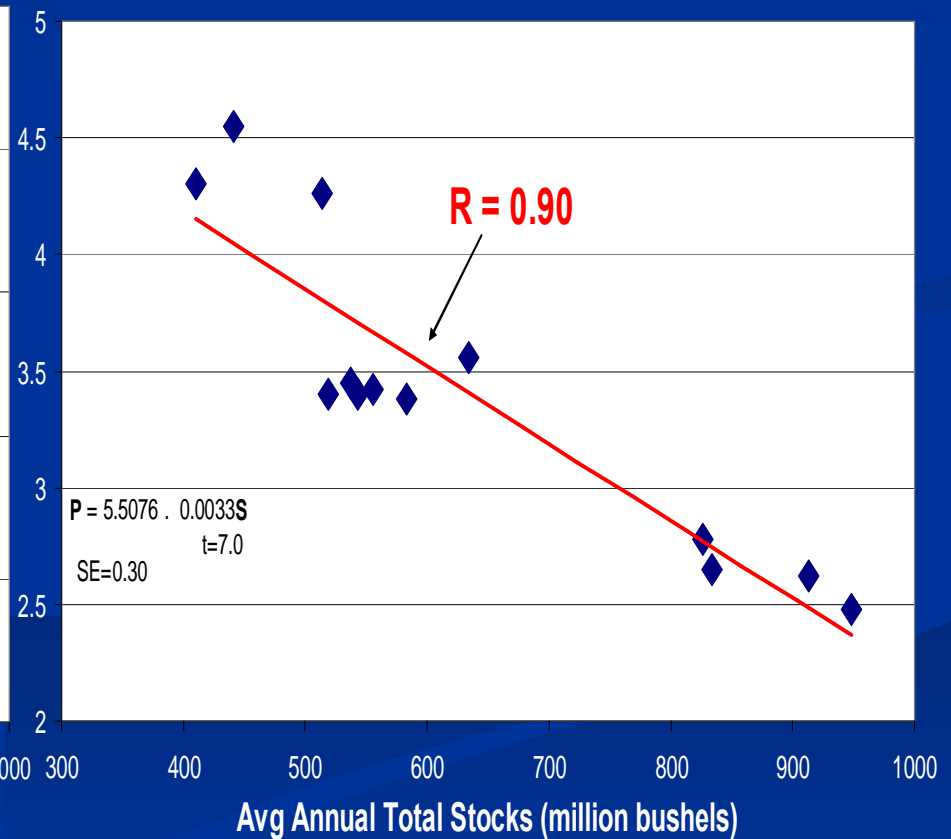
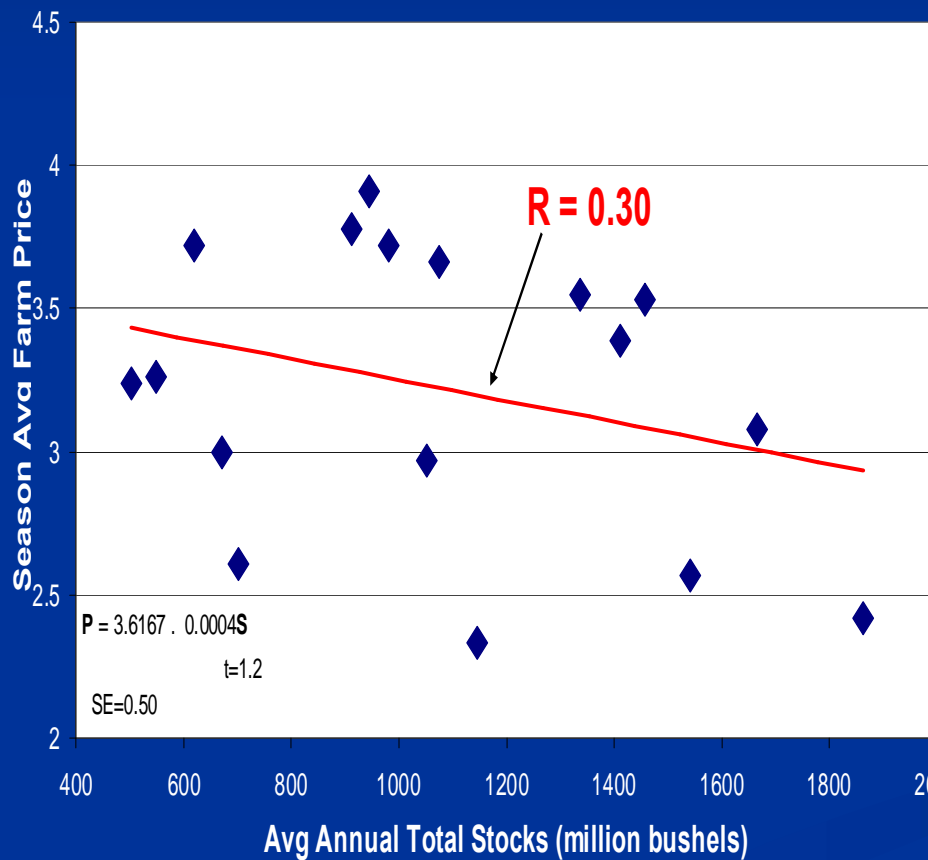


Government Reserve Distorts Normal Stocks-to-Price Relationship

\$/bu

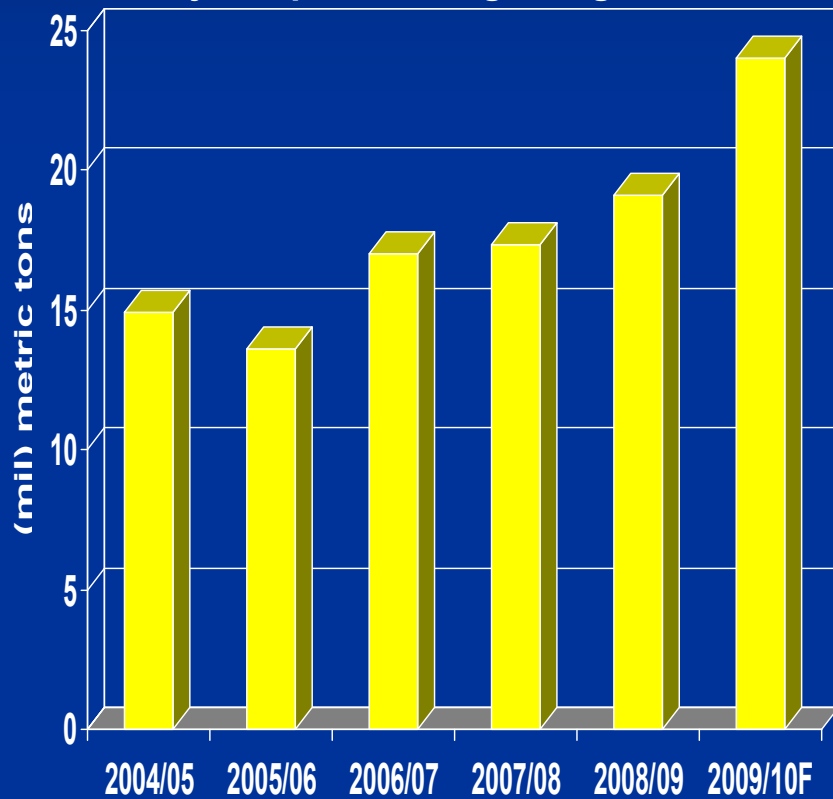
1977-1993 Large Gov't Reserve

1994-2006 Nearly No Gov't Reserve

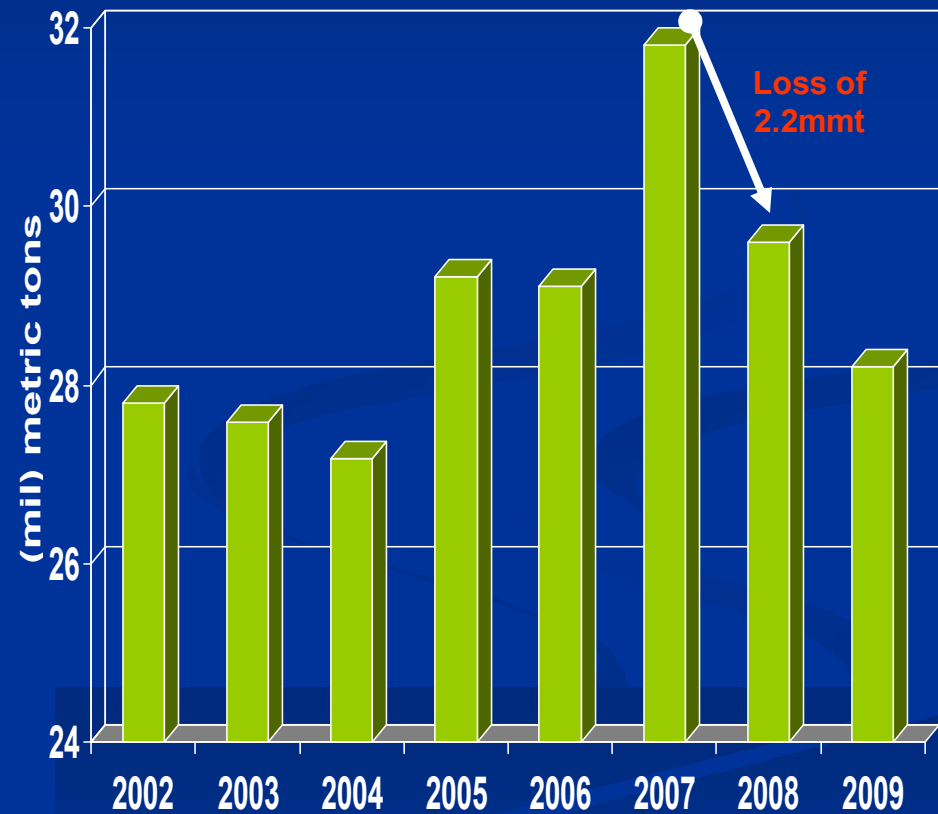


Lesson from 2008 rice price crisis: Ample stocks no match for trade restrictions

Major exporters' beginning stocks



World Trade



Pros & Cons of An International Coordinated Reserve

PROS

- **Short term price floor for producers**

CONS

- **Cost and management issues**
- **Location concerns**
- **Slow transactions**
- **Distorts normal market price signals**
 - **Creates more short term demand, i .e., higher prices**
 - **Overhang market in long term, dampens prices**
- **Doesn't address root causes of food insecurity**
 - **Lack of production incentives**
 - **Poor infrastructure**

Alternatives To Consider

- Grain stocks entail high fiscal costs with difficult management and governance issues, while the benefits [for food security] were unclear.+. **World Bank**
- *Alternative*: financial reserve for purchasing inputs
- Other ***Non-market distorting*** tools to consider:
 - Financial and physical hedging (World Bank)
 - Weather index insurance
 - Catastrophe bonds
- Improve market linkage and infrastructure
 - Price transmission
 - Transportation