
Fact Sheet

Why does the world need food reserves?

Food prices rose sharply in 2008 and are expected to reach a new peak this year. These erratic changes in prices have pushed millions of people into the ranks of those who go hungry and have reversed decades of progress in the fight against hunger. Given the sensitivity of international markets to supply and demand, low levels of grain stocks are a good predictor of rising prices that can place global food security at risk. The three main price spikes on world cereals markets over the past 50 years have coincided with low stock-to-use ratios.

What are food reserves?

Food reserves are stocks of grains (such as wheat or oilseeds) that are managed at the community, national, regional or even international level. Food reserves have existed in varying forms, and with varying levels of success, throughout history. They can serve a number of purposes: to protect against emergency food shortages, to help stabilize food prices, or to restore confidence in markets by guaranteeing adequate food availability. Ultimately, they respond to a fundamental problem in agricultural markets: while food supply may vary, demand does not.¹

Food reserves that are held for the purpose of stabilizing food prices are called buffer stocks. The idea is to buy supplies of grain at harvest time when stocks are abundant and prices are affordable, and then release these stocks onto the market in the hunger season when low-levels of supply threaten to push prices upwards. The entity administering the buffer stocks seeks to ensure that food prices do not fall below a certain level (for producers' sake) or exceed a ceiling price (for consumers' sake). When managed well, accompanied by early warning systems and timely triggers, buffer stocks can help insulate countries from food price fluctuations in international markets, and reduce the impact of natural disasters, supply shocks and seasonal price fluctuations on food security.

Food reserves can play an integral role in longer-term food security strategy. For example, sourcing food for reserves locally can boost local food production and improve rural incomes. When farmers know that they can sell their harvests for a decent price even when demand is low, they have more incentive to invest in increasing their productivity. Public procurement schemes can also be specifically designed as a means of supporting women smallholder farmers.

¹ Strategic Grain Reserves in an Era of Volatility (Institute for Agriculture and Trade Policy, October 2009)

Why can't the market keep food prices under control?

Food and agricultural markets have become increasingly integrated, but also increasingly volatile, over the past two decades. As the 2008 food price crisis proved, the market on its own is unable to protect millions of people from going hungry when food prices rise out of reach, and poor countries may not be able to buy food on international markets in times of shortages to ensure sufficient availability at home. Most rich countries rely on grain stocks held by private companies. However, the profits of private actors depend on buying low and selling high, while a publicly controlled buffer stock pays above market to producers and sell below-market to consumers to avoid price fluctuations. Uncertainty about existing levels of private stocks can also create artificial fears of scarcity, which lead to panic purchasing of grain which can then push prices up.

What is Oxfam's position on food reserves?²

Oxfam has long supported community grain banks as local savings and credit institutions that double as a mechanism for ensuring food availability. Producers “deposit” into the grain banks a portion of their harvest, which serves as collateral for loans and can be redeemed when prices make purchasing food prohibitive. Such grain banks have proven successful in diverse circumstances, particularly in communities not well integrated into national markets.

National government-run food reserves have also been successfully used in countries across the world. When they are well managed, food reserves can help stabilize prices and increase food security. When combined with other measures, they can also support productivity gains in domestic smallholder farming, reduce rural poverty and enhance national food security by reducing dependence on international markets.

However, because maintaining them is costly and running them is not a simple matter, food reserves have gone out of fashion. Under pressure from the IMF, most countries dismantled their public stocks in the 1990s. Oxfam believes the baby was thrown out with the bathwater.

Oxfam believes that developing countries – especially those that depend heavily on food imports – should consider holding food reserves at the community, national or regional level. Ideally such reserves should be integrated into broader food security strategies and efforts to support sustainable smallholder agriculture. Building transparent public food stocks is not about replacing the private sector's role in the food system, but about protecting against market failures and ensuring that the poorest consumers always have access to food that is affordable. Price bands can be set so as not to discourage private trade.

² Preparing for thin cows: Why the G20 should keep buffer stocks on the agenda (Oxfam International, June 2011)

How can we ensure that food reserves work well?

Managing buffer stocks is a tricky business. Holding food reserves can be logistically difficult and costly to operate, especially when there is a need to absorb losses or rises in production costs. And when they are not released on time, buffer stocks can be ineffective at stabilizing food prices. Food reserves can also be subject to political manipulation which both discredits the scheme and reduces its effectiveness.

Buffer stocks need to be transparent, follow clear rules with regard to procurement and release of stocks onto the market, and adapt quickly to market changes in order to effectively contribute to food security. Governments in developing countries should facilitate the participation of civil society and farmers' organizations in the governance of buffer stocks to build confidence and accountability. Donors and international institutions, on the other hand, can provide valuable technical and financial support to developing countries that wish to build up reserves or improve their effectiveness.