FAO EXPERT MEETING ON STOCKS, MARKETS AND STABILITY
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BACKGROUND, SCOPE AND OBJECTIVES

The recent experience of three price spikes in five years highlighted the vulnerability of markets to supply shocks when stock-to-use ratios are low. The resulting "excessive" price volatility was associated with lower stock levels that were not "adequate" to cushion the impact of shocks although defining "excessive" and "adequate" is not easy and reliable stocks data are scarce. In the last few months, recovering production and stock levels appear to have calmed markets. These developments have focused a lot of analytical attention on the relationship between stocks and prices and on low stocks as at least a necessary condition for volatile prices. They have also revived interest in the question as to whether active manipulation of stocks can be used to stabilize prices.

The relatively high levels of global stocks accumulated as a result of correspondingly high levels of policy support in most OECD countries diminished as policy reform progressed. Although accumulated to some extent incidentally, these high stock levels arguably helped restrain price volatility. However, discussions of policy responses to recent price volatility have emphasized measures to enhance market transparency or social protection rather than stockholding. Since the 2007-8 high price episode, interest has grown in more active accumulation of stocks as an element of national or regional food security strategies either as emergency reserves to meet temporary shortfalls in food supplies or to stabilize prices. It is the latter objective that is the main concern of this expert meeting.

There already were a number of operating schemes either at national or regional level before 2007-8, notably for rice in Asia, and there have been proposals for new schemes since. Some NGOs have advocated buffer stocks to stabilize world markets although such schemes have tended to be dismissed on the basis of the well-documented but not necessarily still relevant shortcomings of the old international commodity agreements. Some of these ideas have gained some political traction. The Committee on World Food Security has been rather ambivalent on stocks. Its High Level Panel of Experts 2011 report on *Price Volatility and Food Security* concluded that a minimum level of world *physical* stocks was a sufficient condition to avoid price spikes and called for international coordination of stocks perhaps along similar lines to the oil stocks coordinated by the IEA. At the same time it acknowledged the practical difficulties involved in managing world stocks for price stability. However, it argued that buffer stocks "should be a part of an optimal food security strategy" at national level. FAO more generally has a longstanding interest – since the 1950s when it explored the implementation of some of Keynes' ideas with Kahn and Kaldor - in the potential contribution of buffer stocks to limiting short-run price volatility. The 2012 World Bank review of national and regional experiences, *Using Public Foodgrains Stocks to Enhance Food Security*, concluded that while public stocks could contribute to addressing short-term emergency needs they have not been an effective instrument to contain price spikes. Similarly, the international organizations' 2011 report to the G20, *Price Volatility in Food and Agricultural Markets: Policy Responses*, rejected the use of buffer stocks to stabilize prices as costly and ineffective although it did see a role for small-scale food security emergency reserves to assist the most vulnerable.

While the relationship between stocks and prices obviously implies that stockholding can impact on price volatility, the record suggests that exploiting that relationship through buffer stock schemes is problematic. There are concerns on grounds of cost but also on operational issues and effectiveness. The investment costs of establishing a buffer stock and the costs of market operations are significant although some savings might conceivably be achieved where a scheme is based on coordination of existing stocks. Continuing budgetary costs of market operations and trading losses incurred can also be significant and can be difficult to control where borders are open. Operational problems include physical losses to stocks, the possibility of rotation decisions having unintended impacts on prices, and the difficulty of judging the need for interventions and their timing so that the interventions themselves are not destabilizing or adding to market uncertainty. In regional and international buffer stocks differing national interests can lead to collective action issues and tensions in governance. As recent WTO discussions have shown, some stockholding arrangements might be seen as trade-distorting support under the existing rules.

This expert meeting is intended to explore these and related issues surrounding the relationship between stocks and prices, the extent to which that might be exploited to reduce price volatility at national, regional or global levels and the practical and institutional problems which would need to be overcome for such efforts to be successful.