Public Stockholding, LDCs, and Food Security

Joseph Glauber, IFPRI
Valeria Piñeiro, IFPRI
2 May 2024

Source: Reuters
Who hold public stocks?

- A 2018 report by the FAO points out that while several countries had reduced or eliminated public stockholding programs following structural adjustment measures and market liberalization in the 1980s and 1990s, PSH programs regained momentum following the food price spikes of 2007/08.

- More recently, stocks have again been an issue during the market uncertainty caused by the COVID-19 pandemic and the war in Ukraine.
Public stockholding as a trade issue

- PSH has been a point of contention since 2012
- Not controversial during DDA talks in mid-2000s (at least compared to SSM, market access, domestic support, etc.)
- With rising prices in late 2000s, price support calculations pushed some countries towards de minimis limits
- Bali Decision (2013): “interim” solution for PSH
Price support component of PSH

During the Uruguay Round negotiations, members agreed that PSH programs could be considered as non-trade distorting (and hence exempt from discipline), provided that stock purchases were at current market prices (as opposed to administered prices).

Under the provisions of Annex 3 of the Agreement on Agriculture, market price support is calculated as the gap between a fixed external reference price and the administered price, multiplied by the quantity of eligible production.

\[
\text{Market Price Support} = (\text{Administered Price} - \text{Fixed External Reference Price}) \times \text{Eligible Production}
\]

For most countries, the fixed external reference price (FERP) is based on a 3-year average price between the years 1986-1988.
After remaining mostly flat over the period 1985-2005, prices began to rise following the biofuel boom and food price crises 2007/08 and 2010/11.

Average monthly price levels for wheat, rice and corn (maize) since January 2005 have been over twice the average level during the 1986-88 base period.
• With rising prices, some countries raised administered prices to “keep up” with market prices.
• Price gap between administered price and FERP (eg, 1986-88 average for India) grew larger
• CTAMS for specific commodities approached (and exceeded in some cases) de minimis levels.
• Only 33 countries have bound AMS (NFIC: Jordan, Morocco, Tunisia, Venezuela; no LDCs)
Technical fix

- Nothing in negotiating history suggests that the base period for establishing FERP cannot be changed.
- Technical fix: update to a more recent period or base on a moving average of prices.
- Should fix be applied for all MPS or just for PSH?
Should PSH support be exempted from AMS disciplines and shielded from DSB challenges?

- Concerns for programmes where PSH support distorts production and trade
- Need for recourse against potential adverse trade effects of PSH programmes
- Exempt PSH support only in cases where exports and stock levels are minimal?
- Exemption only for LDCs and NFICs?

<table>
<thead>
<tr>
<th>Country/commodity</th>
<th>Exports as share of global exports</th>
<th>Exports as share of domestic production</th>
<th>Stocks as share of global stocks</th>
<th>Stocks as share of domestic production</th>
</tr>
</thead>
<tbody>
<tr>
<td>China corn</td>
<td>0.0</td>
<td>0.0</td>
<td>68.7</td>
<td>76.6</td>
</tr>
<tr>
<td>China rice</td>
<td>3.7</td>
<td>1.4</td>
<td>61.5</td>
<td>75.8</td>
</tr>
<tr>
<td>China wheat</td>
<td>0.4</td>
<td>0.6</td>
<td>50.0</td>
<td>101.4</td>
</tr>
<tr>
<td>India rice</td>
<td>38.4</td>
<td>16.0</td>
<td>19.4</td>
<td>27.2</td>
</tr>
<tr>
<td>India wheat</td>
<td>2.5</td>
<td>5.0</td>
<td>6.8</td>
<td>17.7</td>
</tr>
<tr>
<td>Indonesia rice</td>
<td>0.0</td>
<td>0.0</td>
<td>1.9</td>
<td>13.7</td>
</tr>
<tr>
<td>Philippines rice</td>
<td>0.0</td>
<td>0.0</td>
<td>1.6</td>
<td>23.8</td>
</tr>
</tbody>
</table>

Shares based on 3-year average over 2020/21-2022/23 marketing years
Table: Joseph Glauber • Source: USDA PSD database, 12 January 2024
Concluding comments/recommendations

- PSH remains contentious, much of the controversy caught up in a broader debate over what constitutes trade distorting support.

- Technical solutions regarding issues like defining the base period for establishing a fixed external reference price are relatively “simple”
  - The FERP should be updated and tied to moving average of past prices
  - The update should be applied more broadly to the AMS calculations for price support (but this will be more contentious).

- Price support under the PSH should remain subject to discipline, particularly for Members where PSH programmes are large relative to domestic production or where a country is a net exporter (eg, India rice).