



## TRADE POLICY BRIEFS

FAO SUPPORT TO THE WTO NEGOTIATIONS AT THE 12TH MINISTERIAL CONFERENCE

### PUBLIC FOOD STOCKHOLDING: OBJECTIVES, EXPERIENCES AND MAIN ISSUES

#### KEY MESSAGES

- Public stockholding programmes typically aim to achieve different food security objectives, such as reducing vulnerability during emergencies, price stabilization, and supplying domestic food distribution programmes.
- In practice, it can be difficult to distinguish between different types of stocks as countries implement both producer- and consumer-oriented policy measures that aim to achieve multiple objectives simultaneously.
- In assessing market price support related to the procurement of stocks, it is important to distinguish between the economic and the WTO concepts, and to consider the implications of exchange rate fluctuations and inflation.

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#### Objectives and types of public food stocks

Public food stockholding (PSH) refers to the procurement, storage and release of food stocks by governments through state-owned enterprises or other public agencies. It has been an important part of agricultural policy in many countries, targeting, in particular, products that are prevalent in national diets and therefore provide a large proportion of the overall dietary intake.

Countries tend to maintain one or more of three generic types of food stocks (Figure 1), but in practice, the distinctions between these can be difficult, with countries attempting to achieve several objectives simultaneously.

A combination of domestic agricultural support and trade policy measures are often used to implement or reinforce the main functions of PSH programmes. These include, for instance, market price support linked to procurement of stocks, import barriers to maintain minimum procurement prices, consumer support/social safety net measures for the release of stocks at subsidized prices, and export subsidies for the release of stocks on the world market.

These measures can have both positive and negative impacts on agricultural markets. For instance, guaranteed market outlets can prevent distress sales by farmers at low prices in places where storage infrastructure and risk management instruments are lacking. Likewise, food distribution at below-market prices can be an important form of safety nets and social protection for the most vulnerable consumers. Moreover, ample food stocks can have stabilizing effects on global markets. For instance, during the COVID-19 pandemic, abundant global food commodity stocks have contributed to calming markets and bringing renewed attention to the role of public stock programmes for food security. However, programmes that aim to provide high prices for producers and low prices for consumers face trade-offs and may end up achieving only one goal at the expense of the other, or incur an unsustainably high fiscal cost. Depending on the scale of operations, PSH programmes can also affect traded volumes

and world prices, with potentially negative implications for producers and consumers in other countries. Therefore, PSH programmes need to be carefully evaluated in each specific context *vis-à-vis* other possible policy options for achieving the same or similar objectives.

Figure 1: Types and objectives of public food stockholding programmes

<b>EMERGENCY STOCKS</b>
To <b>reduce the vulnerability</b> of consumers to supply disruptions or food price shocks in emergencies.
<b>BUFFER STOCKS</b>
To <b>stabilize prices</b> within the domestic market to <b>avoid excessive volatility</b> (the policy focus is on both consumers and producers).
<b>STOCKS FOR DOMESTIC FOOD DISTRIBUTION / AID</b>
To <b>promote physical and economic access to adequate quantities of food</b> for certain target population groups.

#### Public stockholding and market price support in the WTO Agreement on Agriculture (AoA)

As countries implement these programmes in different ways, PSH has become one of the most difficult agricultural negotiation issues at the World Trade Organization (WTO). In particular, there are ongoing discussions concerning Members' different interpretations of the variables in the formula utilized to calculate market price support (MPS).

The WTO AoA stipulates that while governments have the right to acquire and sell food at administered prices, the difference between such prices and the "external reference price" must be reflected in their calculation of Aggregate Measure of Support (AMS) as "market price support".<sup>1</sup> The rules<sup>2</sup> for its calculation are as follows:

<sup>1</sup> Paragraph 3, and footnote 5 of Annex 2 of the AoA.

<sup>2</sup> Paragraph 8 of Annex 3 of the AoA

## MPS = (applied administered price - fixed external reference price) x eligible production

The **fixed external reference price** (or FERP) is the international f.o.b. price in the 1986-88 period for a given commodity, and the **eligible production** is the quantity of production that is "eligible" to receive the price support provided through the applied administered price.

The areas of different interpretations regarding MPS include: (i) the base period used for the calculation of the FERP, an issue that is particularly relevant for those WTO Members that acceded the WTO after 1995; (ii) the currency in which both the FERP and the administered prices are expressed; and (iii) the adjustment of the FERP for inflation. Moreover, there are different approaches regarding the definitions of the eligible production and the value of production (VoP). The latter is not directly linked to the MPS calculation; however, it is an important variable in determining the threshold for reporting support known as *de minimis*.

## Trends in administered prices versus world prices

It is important to distinguish between the WTO measurement of MPS, which as explained above, is based on a historical reference price (FERP), and the economic concept of price support, which is commonly expressed as the difference between the producer price and the *current* world market price. For instance, a rise in nominal prices due to inflation would yield a higher MPS under WTO rules, even when no economic

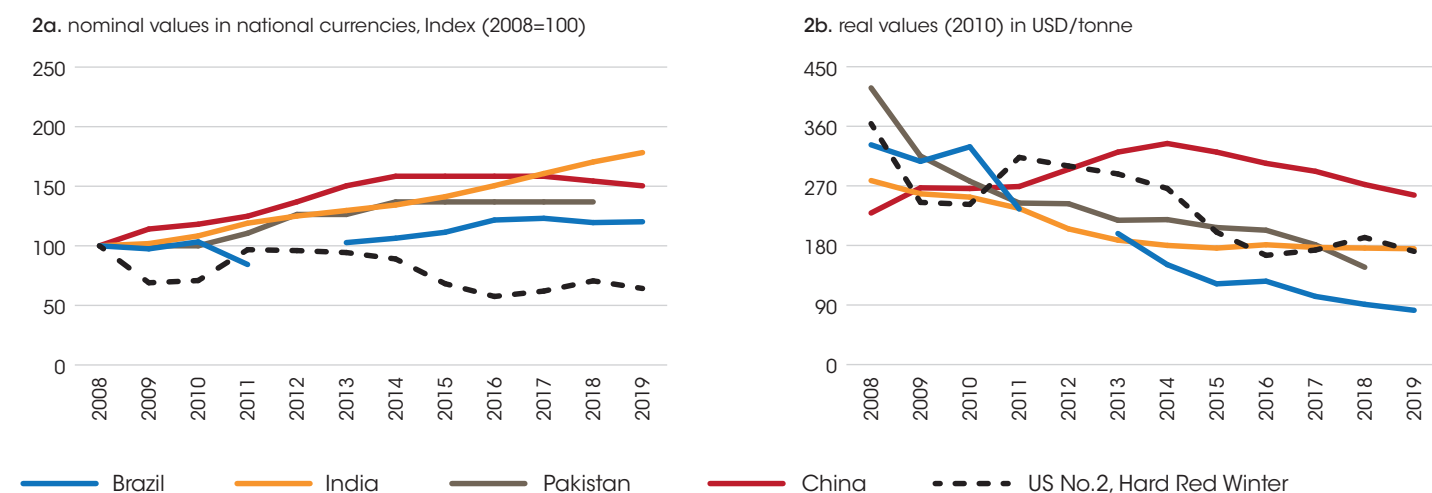
benefits accrue to farmers. Using examples of administered prices for wheat implemented by Brazil, China, India and Pakistan, for illustrative purposes, Figure 2 shows the effects of both exchange rate fluctuations and inflation on the price gap between domestic prices under PSH programmes and international prices. When expressed in national currencies (panel 2a, indexed nominal values), administered prices in all four countries trended upward between 2008 and 2019, opposite to the indicative international price (US No.2 Hard Red Winter). When expressed in USD and adjusted for inflation (panel 2b), administered prices followed the trend of the international price and even dropped below it in some years.

## Actions to address key challenges:

- ▶ Build a common understanding of the role of PSH programmes in achieving food security through open dialogue and exchange of experiences;
- ▶ Identify the implications of public stockholding programmes and related policy measures on producers, consumers, government budgets and global markets, and evaluate these measures against alternative policies and measures in each context;
- ▶ Ensure that the policy measures adopted towards achieving national food security objectives do not undermine food security objectives in other countries.

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**Figure 2: Trends in selected administered and international prices of wheat**



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