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(Food security) PS as response to excessive price volatility and the related WTO debate

By

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.
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and the related WTO debate

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1. Food security PS as response to excessive price volatility

2. WTO debate on PS
Methodology of the study

• commissioned by the European Commission (DEV-CO, now INTPA)

• aims to clarify the potential role of PS in enhancing food security in developing countries
  o look at the pathways through which PS can contribute to improving food security;
  o analyze the efficiency of PS compared to alternative tools;
  o investigate the complementarity and synergies between PS and other tools;
  o examine the implications of its recommendations on country compliance with current WTO rules

• based on:
  o an extensive review of the existing literature (both theoretical and empirical)
  o 10 case studies analyzing national or regional experiences in Africa, Asia and South America
  o an evidence-based, relativist (emphasis on the context) and pragmatic (emphasis implementation and governance issues) approach
What are FS PS?

FS PS are:
- stocks of food products important for FS (usually grains)
- held by a public entity

FS PS can exist at different scales
- Local (ex: Mali)
- National
- Regional (ex: ECOWAS, ASEAN+3)
- International (theoretically)

FS PS are widely used
Example: PS releases during the 2008 crisis (Demeket al., 2008)
- 15 Asian countries (out of 26)
- 13 African countries (out of 33)
- 7 Latin-American countries (out of 22)
How can PS contribute to improving FS?

- Uses of PS by governments to improve national FS
  - USE OF PS TO FIGHT AGAINST CHRONIC FOOD INSECURITY (food transfers)
  - USE OF PS TO MANAGE FOOD CRISIS (food transfers) (price stabilization)
  - USE OF PS PROCUREMENTS TO PROVIDE INCENTIVES TO FOOD PRODUCERS

- Effect of national PS on international markets (and global FS)?
How can PS contribute to manage «excessive price volatility»?

**Types of “excessive ΔP”**

- (1) Seasonal
- (2) Food crisis (national level)
- (3) Food crisis (international level)
The seasonal pattern of price is normal (it reflects storage costs, incl. credit and risk)

But the seasonal $\Delta P$ can be excessive:

- Prices often collapse during the post-harvest season (because of farmers’ limited access to formal credit)
- Prices may spike during the lean season (because of stock hoarding behaviours)

PS may contribute to smooth the excessive seasonal $\Delta P$

- by procuring grain during the post-harvest season
- by releasing grain (sales, distribution) during the lean season

Seasonality of sorghum producer price and consumer price in Mali

Source: FAO - MAFAP (2016)
Provide (emergency) food transfers to f.i. hh

→ Why not cash?

• because food price increases reduce the purchasing power of cash transfers

• because cash transfers may exacerbate the increase in food prices (⇒ ethical issue)
(2) PS and food price crisis (country level)

**Provide (emergency) food transfers to f.i. hh**

→ Why not cash?
• because food price increases reduce the purchasing power of cash transfers

• because cash transfers may exacerbate the increase in food prices (⇒ ethical issue)

**Contribute to mitigate $\Delta P$**

• Difficult for non-tradable good (huge quantities are required)
• Not very efficient for exporting countries
• Can be very effective for importing countries (jointly with import regulation, to manage import timelines)

![Graph showing the evolution of the wheat purchasing power of the cash transfers provided by Ethiopia's PSNP.](image1)

![Graph showing real rice prices in Indonesia.](image2)
Do national PS have a stabilizing or distabilizing effect on international markets?

- Controversional issue

- Several evidences suggest that PS are stabilizing, most of the time
  - The price-stock relationship
  - The role of panic imports (case of rice in 2008)
    - 50% export bans
    - 50% panic imports
  - The role of Japan WTO rice stock in ending the 2008 crisis
The price-stock relationship (case of wheat)

Source: FMI
The price-stock relationship (case of wheat)
The price-stock relationship (case of wheat)

Source: FMI, USDA PSD
Chronology of the 2008 crisis on the rice market

May 2008: US government indicates it will not oppose Japan's re-export of its WTO rice stock. Cambodia lifts remaining export restrictions.

June 2008: Japan announces it will release in the near future over 300,000 tons of imported rice. Philippines receive G-to-G offers from Thailand (600,000 t) and Vietnam (600,000 t).

50% : X bans
50% : panic imports

Source: Galtier (2020)
Conclusion
(take-away messages)

PS are very useful in some situations to manage excessive price volatility and improve national FS

Most of the time PS have a stabilizing effect on international markets

WTO rules send the wrong incentives:
- very restrictive for the building of PS (generally stabilizing for international markets)
- permissive for X bans or M subsidies (generally destabilizing for international markets)

WTO rules on PS are biased (they strongly overestimate the support provided by PS) but they can be easily corrected [2 additional slides]

Tank you for your attention

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1. Food security PS as response to excessive price volatility
Cost of FS PS (depending on their objective): the case of Indonesia

**FR used to hold permanently the domestic price above the international price:** cost = 0.5% of GDP

**FR used to avoid price collapses and spikes:** cost = 0.11% of GDP
2. Current WTO debate on food security PS
Stakes of the WTO debate

WTO disciplines on PS procurement

• PS procurement may provide support to farmers
• This support is bounded jointly with other non exempted DS
• Most of the time the maximum allowed level of DS is 10% of the VoP of the commodity considered

WTO rules on how to estimate the support provided by PS usually lead to strongly overestimate it

⇒ Compliance issue
⇒ Countries lack the policy space they need to build PS and fight against food insecurity
⇒ On-going initiative by more than 80 emerging and developing countries to change these rules
PS procurement price ($P_{PROC}$) = 125
Domestic price ($P_D$) = 110
Parity price ($PP$) = 100
Border price = 80

WTO FERP = 40

Support provided to the farmers who supply the PS agency
Support provided to the farmers who sell their production on the domestic market
Support calculated according to WTO rules

Quantity sold to the PS
Quantity sold on the domestic market
Quantity self-consumed by farmers
### Table 2 Support generated by China wheat public stockholding programme as notified (a), calculated according to WTO rules (b) and recalculated after removing the main biases in WTO rules (c)

<table>
<thead>
<tr>
<th>Year</th>
<th>$S_{\text{NOTIFIED}}$ (a)</th>
<th>$S_{\text{WTO}}$ (b)</th>
<th>$S$ (c)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>3.0%</td>
<td>12.1%</td>
<td>0.3%</td>
</tr>
<tr>
<td>2013</td>
<td>1.5%</td>
<td>18.2%</td>
<td>2.2%</td>
</tr>
<tr>
<td>2014</td>
<td>5.5%</td>
<td>21.7%</td>
<td>6.4%</td>
</tr>
<tr>
<td>2015</td>
<td>4.5%</td>
<td>22.4%</td>
<td>10.6%</td>
</tr>
</tbody>
</table>

Source: Galtier (2023)

The support is expressed in percentage of the production value of wheat (for China, it should remain below 8.5%)