

The Extent and Impact of Import Surges on Developing Countries

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Outline

- Import surges – what are the issues?
- Analyzing import surges – An FAO multi-country, multi-commodity study
- Some general insights

There is no unique and accepted definition of an import surge - Different methods reveal different numbers of surges

| | Moving 3 year average (30 percent deviation) | | SSG volume trigger | |
|-----------------------------|---|--------------------|--------------------|--------------------|
| | Total no. of cases | Percent occurrence | Total no. of cases | Percent occurrence |
| All food commodities | 7 132 | | 12 167 | |
| <i>of which:</i> | | | | |
| Coarse grains | 402 | 17.9 | 704 | 32.9 |
| Total cereals | 217 | 9.7 | 731 | 34.1 |
| Total meat | 443 | 19.7 | 530 | 24.7 |
| Total milk | 287 | 12.8 | 530 | 24.7 |
| Total veg. oils | 430 | 21.1 | 810 | 41.8 |

Some difficulties with the methods

■ Food aid

- Often difficult to identify consignments that are food aid, or trade on highly concessional terms
- The frequency of commercial import surges is greater than that of total imports.

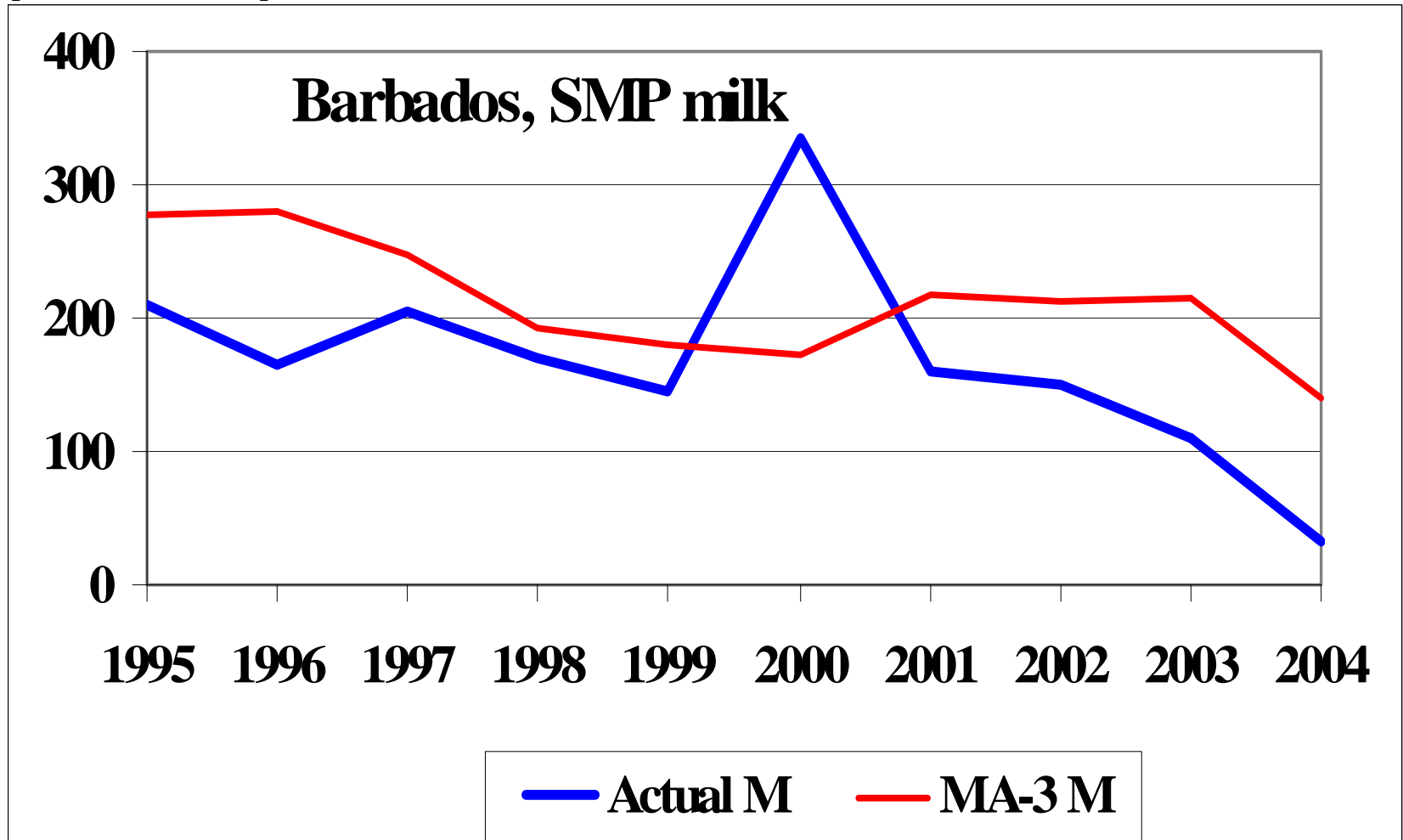
■ Net imports

- Number of surges based on net import data greater than number based on gross imports.
- Probably because import surges are often accompanied, especially in emergency situations, by a reduction in the export of the same product.

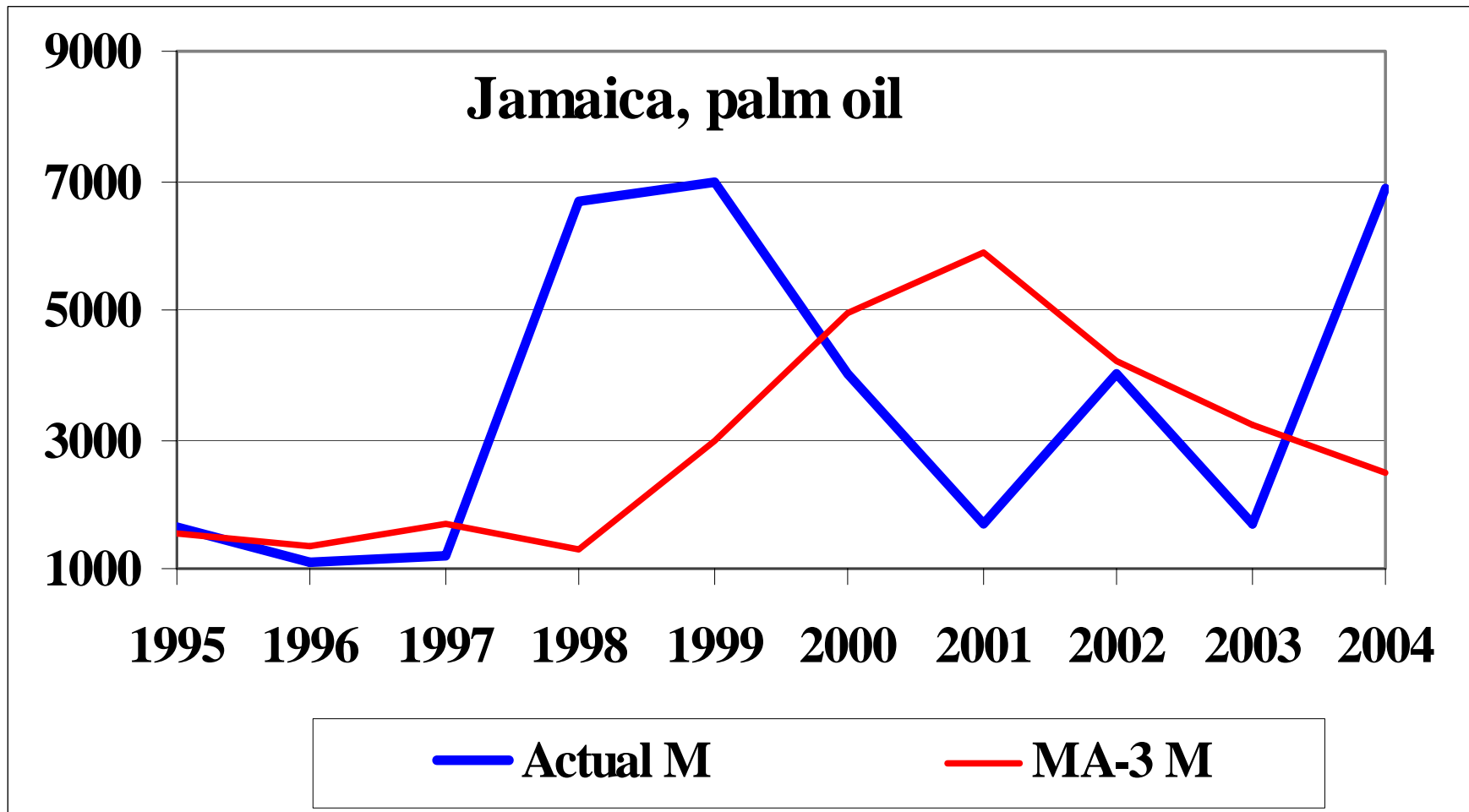
■ Identification of short term surges vs longer term trends of rising imports

- Need different types of responses

Pattern 1- falling or flat trend, 1-2 spikes (tonnes)

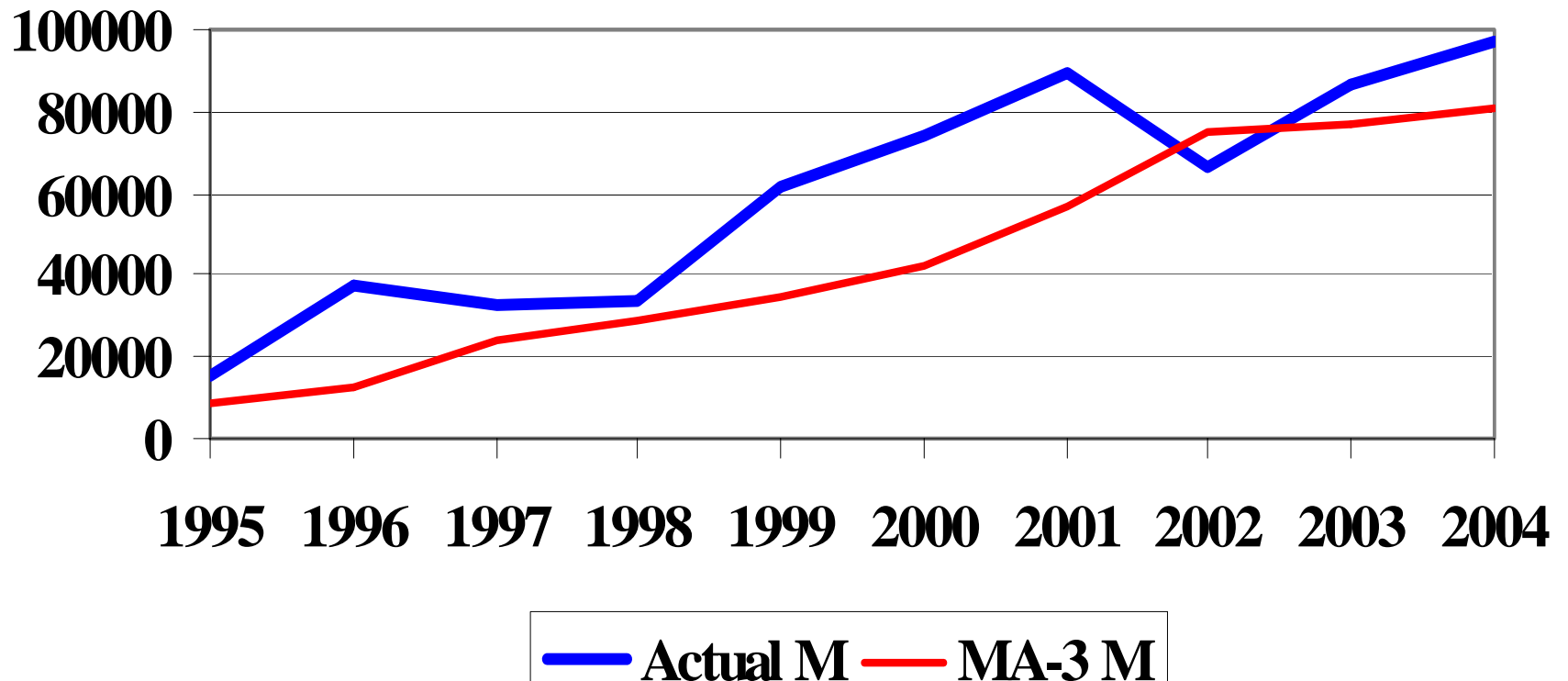


Pattern 2- some spikes, fluctuations around some average level (tonnes)



Pattern 3 – steady, strong positive trend (‘000 tonnes)

Honduras, rice

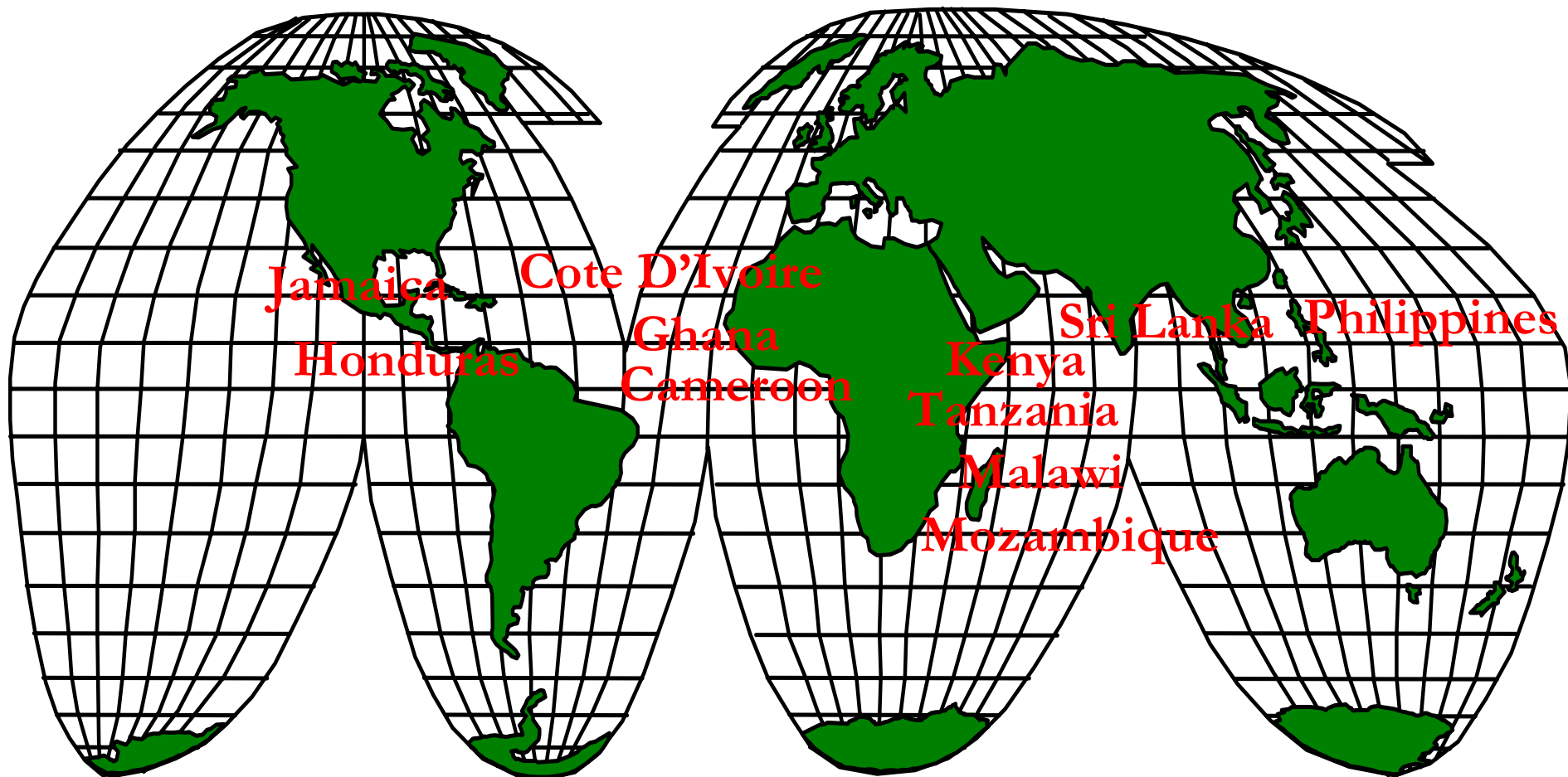


Surges in some agricultural imports have increased since the mid-1990s

| | Percent occurrence | | |
|----------------------|--------------------|----------|-------------|
| | Total | Pre-1995 | Post-1994 |
| Wheat | 9.9 | 11.5 | 7.7 |
| Rice | 18.2 | 18.8 | 17.3 |
| Sugar | 22.9 | 19.7 | 27.5 |
| Poultry meat | 22.7 | 20.7 | 25.5 |
| Skim milk dry | 16.9 | 14.0 | 21.1 |
| Soybean oil | 19.5 | 19.0 | 20.2 |
| Tomato paste | 16.8 | 12.7 | 22.7 |

Import surges over the 1980-2003 period calculated for 102 developing countries.
30% deviation from 3 year MA.

FAO Import Surge Study



Commodity coverage: Poultry, Rice, Sugar, Dairy products, Maize, Onions, Tobacco, Vegetable Oils

Analyzing import surges

Analytical standards for injury investigation

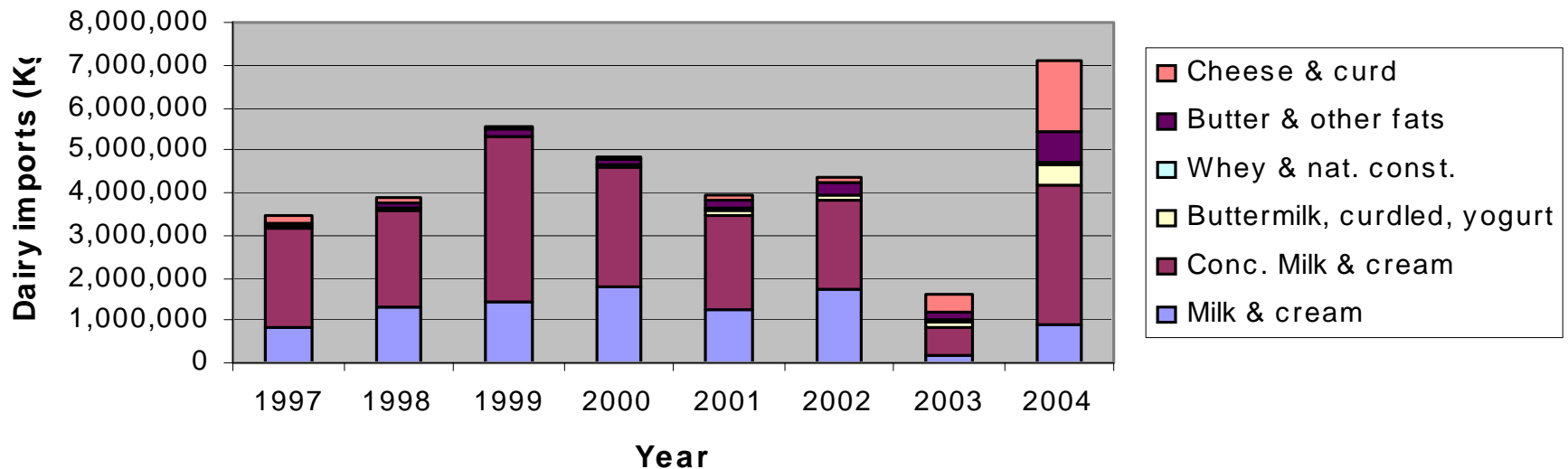
- Surge – proof that a surge has occurred/ is occurring
- Cause – determine contributing factors
- Injury – establish extent to which the domestic industry is injured on the basis of relevant indicators
- Causation – demonstrate that injury has been caused by surge in imports
- Non-attribution – identify and account for other injurious factors.

1. Identification of surges

■ Annual import data

- Increasing trend reflected in most countries for most commodities at aggregate level
- But, the incidence of surges needs to be analyzed at the disaggregate product level and associated with stakeholder perceptions and government responses

Fig 22: Dairy imports by product



1. Identification of surges (cont)

■ Stakeholder perceptions

- Differ widely both by scale of producer and by level in the supply chain
- Government vs. producer/processor perceptions

■ Government responses

- Cote d' Ivoire - 1000 FCFA/kg tax on poultry in 2005
- Tanzania – Suspended duty of 25% on dairy products 2000. In 2001-2002, reduced to 20% on some lines, abolished on others

2. Causes: External factors

■ Non-policy specific

- International market shocks which lower prices
 - Russian market collapse in 1999 caused poultry product import surges into third markets (Jamaica, many African countries)

■ Policy specific in major markets

- Exporter release of stocks
 - India's 2002 policy decision to lift export restrictions on rice contributed to lower world prices and rising rice imports in some developing countries.
- Export subsidies
 - Sudden large increases in subsidies
 - Selective targeting of markets (EU beef subsidies in the late 1990s targeting West African markets).

Causes: Internal Factors

■ Domestic Production

- Climatic - Maize in Malawi, Kenya, Tanzania
- Limited production capacity – poultry in Cote d'Ivoire, veg oil in Mozambique, rice in Ghana

■ Changes in trade policy

- Lowering tariffs (& elimination of NTBs) due to SAPs, WTO commitments, regional and bilateral agreements

■ Domestic market liberalization

- Elimination of subsidies for inputs resulting in changing competitive position of domestic industries.
- Partial liberalization – eg Kenya dairy infrastructure retained by state which remained sole supplier of skimmed milk

Causes: Internal Factors (cont)

■ Foreign Direct Investment

- Investment in supermarkets, hotels leads to increased demand for processed agricultural products (dairy, poultry) – often sourced from country of origin of FDI

■ Exchange rate shifts

- Appreciating currencies in conjunction with lower tariffs led to rapidly rising poultry imports in many CFA countries (Senegal, Cameroon)

■ Changing consumer preferences

- Usually occur over time. But one time shocks can prompt rapid preference changes - frozen poultry in Africa.

3. Injury Indicators

- Share of the domestic market taken by increased imports
- Price competition
 - Seasonal and spatial
- Changes in:
 - The level of sales
 - Production
 - Productivity
 - Capacity utilization
 - Profits and losses
 - Employment

Market share

- Market share needs to be clearly defined.
- Often a surge can affect certain market segments but not others
 - The share of imports in total consumption can be relatively insignificant - less than 5 percent for dairy products.
 - But if the market is calculated as “marketed” domestic production plus imports, the share of imports increases significantly to >20%.
 - For market segments where competition is most intense, the share can be much greater. For processed milk the share of imports increases to 40 percent.
- Domestic production is often unable to maintain share of growing market

Price competition

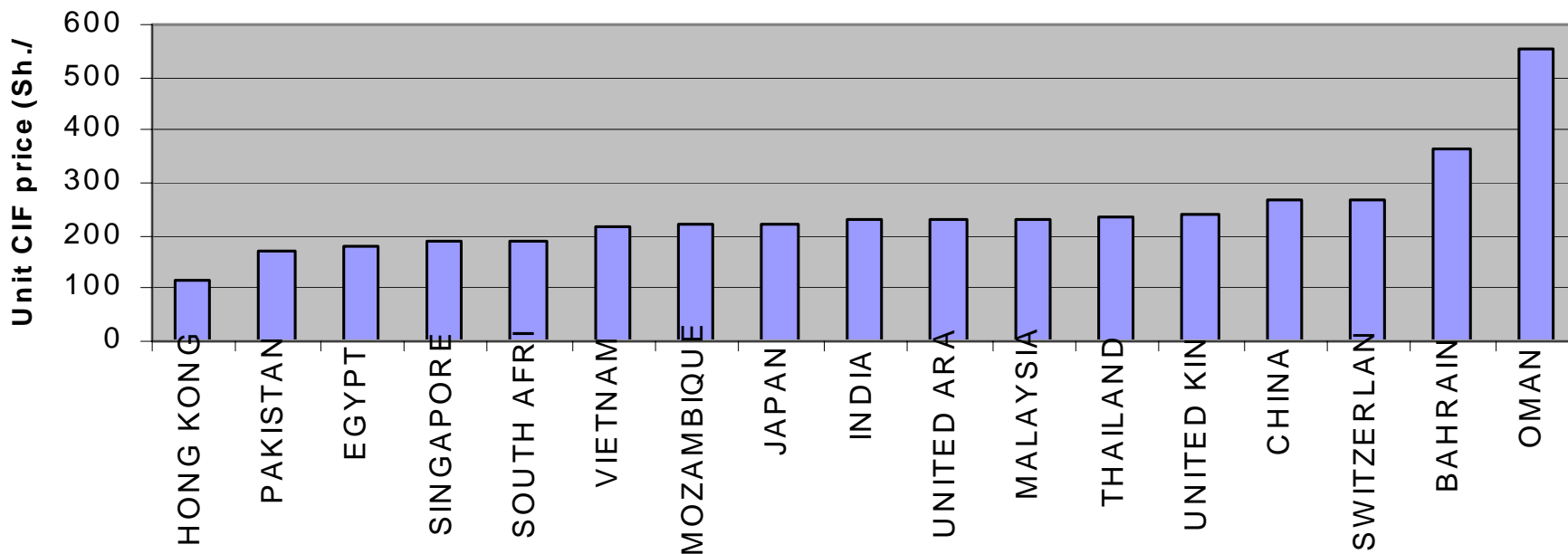
■ Domestic prices

- Philippines - declining price of domestically produced onions
- Tanzania and Kenya - dairy producer prices remained constant

■ Import prices

- Can be problematic given the wide range of unit import values recorded from different sources and reflecting different qualities.

Fig 22: Unit price for imported broken rice by source (Jan 2003-Jul 2005)



Other indicators

- Mozambique - vegetable oil processing operations closed down. Oil extraction from domestic raw materials ceased.
- Cote d'Ivoire - poultry output declined 2/3rds 1998 – 2004; 1,500 producers out of business, 15,000 jobs lost
- Ghana - Reduced capacity utilization in poultry processing to 25%
- Jamaica – collapse of onion production

4. Causation

- Correlation analysis is insufficient
 - identify the relation between *movements* in imports and *movements* in injury factors
- Time series analysis
 - Tanzania – some evidence of causality from import volumes to domestic prices

5. Non-attribution analysis

- Need to ensure that all other relevant factors have been analyzed
 - Input costs
 - Activities of strategic grain reserves
 - Food aid

Insights from the study

- Causes of surges are often internal to the country
 - Trade remedies still needed
 - Don't restrict safeguard mechanisms to subsidized imports
- Stakeholder perception of injury differs by role in the market
 - Level of injury dependent on location of competition in the market or chain
- Need to analyze surges and impact at disaggregate product level
- Evidence of injury is often anecdotal
- Causality is very difficult to establish
- Analysis is complicated by lack of available data (prices/trade statistics/production information)
- **Trade surveillance systems need to be enhanced**
 - Capacity building

Further information

- Six Import surge issues briefs
- Eleven Import surge country briefs
- Four Import surge commodity briefs
 - <http://www.fao.org/es/esc/en/41470/110301/index.html>
- Eight Import surge working papers
 - http://www.fao.org/es/esc/en/99982/110594/highlight_108226en.html