

IDENTIFYING IMPORT SURGES AND THEIR CAUSES IN DEVELOPING COUNTRIES

7

7.1 Overview of the identification process

The analytical approach spelled out in the previous chapter was implemented to identify an import surge and determine its likely effects in selected developing countries. This chapter summarizes the findings in the FAO studies of the identification of import surges and their sources to provide insights on the incidence of import surges in developing countries. Table 7.1 summarizes the results of the investigation in the selected countries and highlights that both internal (e.g. supply shocks) and external sources (e.g. dumping in the international market) have been reported as the source of the surges. (Insert Table 7.1 here)

The three annexes (Annex 7.1, 7.2, 7.3) at the end of this chapter offer additional illustrations based on early cross-country studies on import surges especially on specific commodities such as dairy products and poultry.¹

The analysis in the FAO country case studies follows the methods and instructions presented in Chapter 5, and these instructions were adjusted to match the data and resource availability in each country. Two main groups of methods of identification of import surges are employed. The first identification method consisted of comparing the import volume with a three-year moving average and defined an import surge as a 30 percent positive deviation of

import volume from the three-year moving average². The second group of identification method consists of comparing the volume and value of imports with the trigger volumes and prices calculated on the basis of the SSG provisions of the WTO AoA, even as the trigger level varies across countries.³ Analysts sometimes relied on the comparison of the ratio of imports with consumption or production over time, though this method is least used.

Besides, the determination of the sources of agricultural import surges relied on correlation analysis between the import volumes and the sources of import surges when data were available. But in many cases the lack of reliable information often precluded rigorous analyses on the determination of the import surge's sources and of the share of responsibility of each individual source leading to the surge. This is the reason why the process of identifying the import surges and their causes had to rely on, or be corroborated by, the information from the stakeholders' interviews.

¹ More illustrations can be found in De Nigris (2005), Grethe and Nolte (2005).

² The choice of the volume and time thresholds may have a significant effect on the determination of the existence of an import surge. Indeed, previous FAO analysis used a five-year moving average, which was found to generally increase the number of import surges (by better smoothing out data series compared with a three-year period. Needs further explanation).

³ These provisions allow countries to apply safeguard measures in case imports exceed a specific trigger level, related to the actual level of average imports over the preceding three years, to the share of imports in domestic consumption, and to the growth in domestic consumption.

TABLE 7.1
Sources of import surges in selected countries

Countries	Commodities	Demand shock	Supply shock	Trade policy reforms (trade liberalization)	Domestic Market liberalization	Fluctuation of exchange rate	Food aid	Distortions from abroad (e.g. dumping)	Other sources (mentioned by stakeholders)
Cameroon (1999-2004)	Poultry			yes		yes			
	Rice			yes		yes			
	Vegetable Oils			yes		yes			
Côte d'Ivoire (1996-2004)	Rice			yes	yes	yes			lacking infrastructure, civil strife
	Poultry			yes	yes	yes			lack of infrastructure civil strife
	Sugar			yes	yes	yes			lack of infrastructure, civil strife, porous border
Ghana (1998-2004)	Rice		yes			yes		yes	porous border
	Poultry		yes			yes		yes (subsidy on feed)	
	Tomato paste		yes			yes		yes	
Honduras (1991-2005)	Rice		yes		deregulation (abolition of the marketing board)		yes	yes (lower world prices)	
Jamaica (1980-2005)	Dairy					yes		yes	elimination of subsidies on imported inputs; lack of investment in production
	Poultry					yes		yes	
	Onions							yes	

	Dry milk powder	yes			yes								compliance to regional trading arrangement
Kenya (1973-2003)	Maize			yes									cross-border (undocumented) trade, untimely import
	Sugar		yes										cross-border (undocumented trade), untimely import
	Dairy		yes										
Malawi (1980-2004)	Maize	yes		yes									
	Sugar												
Mozambique (2001-2004)	Poultry meat		yes (AI)	yes (tariff reduction)	yes			yes			yes (stock of Brazilian poultry in Saudi Arabia)		underinvoicing of import
	Vegetable oils		yes	yes (tariff reduction)	yes			yes	yes (monetized food market)				
Philippines (1999-2004)	Onions		yes	yes	yes			no			yes (low priced onion from China)		lack of infrastructure, high transaction costs
	Tobacco		yes	yes	yes								lack of infrastructure, high transaction costs
Sri Lanka (1985-2005)	Dairy products		yes, increased feed price	yes (tariff cuts especially for milk powder)							milk subsidizing OECD		civil strife increased feed price
	Dairy	x (FDI)		x									
	Maize			x									
The United Republic of Tanzania (1997-2004)	Rice			x									

7.2 Incidence of import surges in selected countries

7.2.1 Cameroon: poultry, rice, vegetable oil

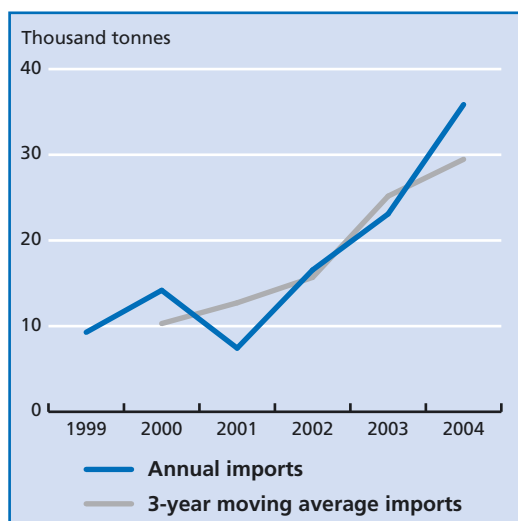
Cameroon experienced prolonged and persistent surges for poultry, rice and vegetable oil imports. From 1999 to 2004, poultry meat imports into Cameroon had trebled (Figure 7.1). This was despite a drop in 2001 due to the government ban on meat import from Europe because of dioxin contamination. During the same period, while domestic rice production remained fairly stable, the importation of rice doubled from 152 000 to 301 000 tonnes. Besides, vegetable oil imports increased from 7 280 to 33 944 tonnes. The occurrence of import surges, confirmed through data analyses, was supported by an informal survey of various stakeholders. While government officials and traders had not viewed poultry meat import trends as harmful for the country, the poultry farmers and their association considered the poultry meat import as the root cause of their production and marketing problems, especially the declining sales and profits. For vegetable oils, stakeholders shared the same concern that import surge had been harming the domestic sector. Rice

producers were also worried but they attributed the actual problems facing rice production and marketing in the country to the lack of clarity in the government policy in the sector. Rice productivity had been declining as the liberalization of the sector and the limited access to inputs was often cited as its cause.

7.2.2 Côte d'Ivoire: rice, poultry, sugar

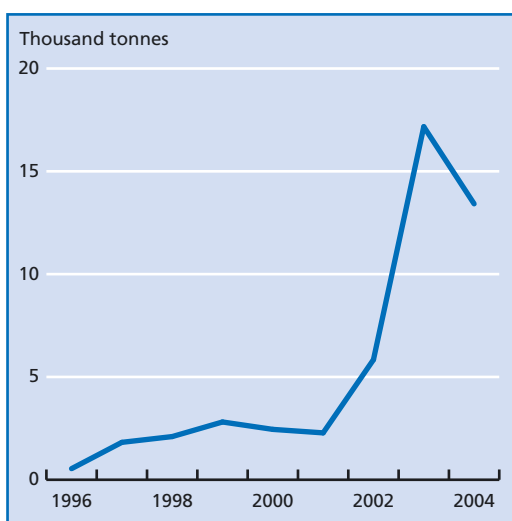
Statistical analysis, based on a 30 percent positive deviation from a three-year moving average, showed that rice imports surged in 1997, 1998, 2001 and 2002. Import surge in rice attracted considerable attention in Côte d'Ivoire due in part to stakeholders' concerns that the increases in imports had adversely affected domestic industry and competitiveness (Government of Côte d'Ivoire, Direction des statistiques douanières). Between 1997 and 2004, rice imports increased at an annual rate of 6 percent, from 469 667 to 715 379 tonnes. A significant surge in rice import was recorded in 2001, where imports reached 646 700 tonnes, a 47 percent increase over the previous year. Côte d'Ivoire imported rice from Thailand (28 percent on average of total imports between 1997 and 2003), China (20 percent) and

FIGURE 7.1
Cameroon poultry meat import



Source: Government of Cameroon

FIGURE 7.2
Côte d'Ivoire poultry meat imports



Sources: Direction des statistiques douanières

India (16 percent). Nearly 90 percent of imports consisted of broken rice, with imports doubling from 15 to 30 percent broken rice in five years.

Poultry imports rose sharply from 1 815 tonnes in 1997 to 17 226 tonnes in 2003 before declining slightly to 13 000 tonnes in 2004 (see Figure 7.2). Between 2001 and 2003, imports increased by more than 650 percent. The identification of import surges, based on deviations from a three-year moving average, showed that surges for poultry occurred in 1997, 1998, 1999, 2002, 2003 and 2004. Imports in 2005 were down to 6 300 tonnes after the Government introduced a XOF 1 000 /kg import tax.

Import surges for sugar were mainly restricted to refined sugar and other sweeteners. Imports of refined sugar grew by 15 percent annually between 1996 and 2003, while imports of raw sugar declined from 5 500 to 27 tonnes in 2003. Based on a 30 percent deviation from a three-year moving average, sugar import surges occurred in 1998 and 2002. Disaggregated figures showed that while both refined sugar and raw sugar imports contributed to the 1998 surge, imports have been dominated since then by refined sugar. Imports of raw sugar began to decline in 1998, mainly as a result of the rise in domestic production following some renewed investment in the sector. The sugar sector has been regulated through administered prices and an import surcharge (*taxe de péréquation*) levied to prevent imports entering at prices below the reference price (the value of the reference price was established at about the XOF 354 226 (the equivalent of USD 609 per tonne in 2003).

7.2.3 Ghana: poultry, rice, tomato paste

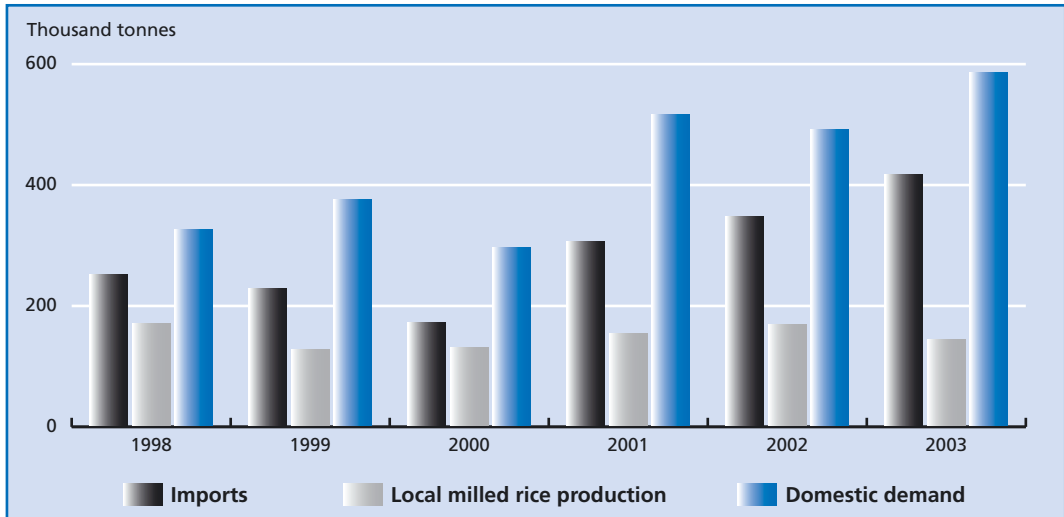
Based on volume triggers under the SSM, poultry import surges occurred in 2001 while based on a 30 percent deviation from a three-year moving average, surges occurred also in 2002 and 2003. National poultry inventories according to Ministry of Food and Agriculture of Ghana (MOFA) figures showed a 52 percent increase, from 17 to 26 million birds over the same period, while meat production increased by 66 percent from 13 000 to 21 000 tonnes. However, some stakeholders in the poultry industry were concerned that these official figures were highly inflated, and could not be useful in assessing the impact of import surges on domestic markets.

Similarly for rice, based on the methodology established in WTO for the implementation of SSG against disruptive import surges, volume triggers, based on a three-year moving average were exceeded in 2002. Over the study period, a significant rise of imports was noted, from almost 250 000 tonnes in 1998 to 415 150 tonnes in 2003, an increase of nearly 70 percent. Local output in milled rice equivalent stagnated around 150 000 tonnes per year in the study period. Figure 7.3 shows rice production and import. Domestic rice accounted for 43 percent of the domestic market in 2000, but this fell to 29 percent by 2003. Ghana imported rice from the United States (33 percent on average of total imports between 1998 and 2003), Thailand (30 percent), Viet Nam (17 percent), China (12 percent) and Japan (8 percent). Rice importation has been a highly concentrated business with five major importers accounting for more than 75 percent of imports. Stakeholders noted that this industry concentration increased further between 1998 and 2004.

Tomato paste can be considered a "like product" to other tomato products, including canned and fresh tomatoes, and its importation can have direct impacts throughout the tomato sector. Domestic tomato paste production was reinitiated in 2004 when the Wenchi Tomato Factory (one of three such factories that had been closed and placed under divestiture) reopened. Many factories were closed as a result of structural reforms of the late 1980s.

Official data indicate that tomato paste imports to Ghana stagnated during most of the 1990s, but started to rise from 1998. Between 1998 and 2003, imports increased sevenfold from 3 300 tonnes in 1998 to 24 740 tonnes (Figure 7.4). The identification of import surges based on deviations from a three-year moving average showed that trigger volumes were breached in 2000 and 2002. Trigger volumes, as calculated under SSG methodology, were exceeded in 2000, 2001, 2002 and 2003. The market share of local tomatoes fell from 92 to 57 percent during the study period. Major exporters of tomato paste to Ghana from 1999 to 2003 were Italy (36 percent), China (16 percent), United States (8 percent), Spain (7 percent), Turkey (7 percent), Greece (6 percent) and Portugal and Chile (5 percent each). Exports from Italy have been supported by European Union export refunds of EUR 45/tonne

Figure 7.3
Ghana rice production, imports and consumption

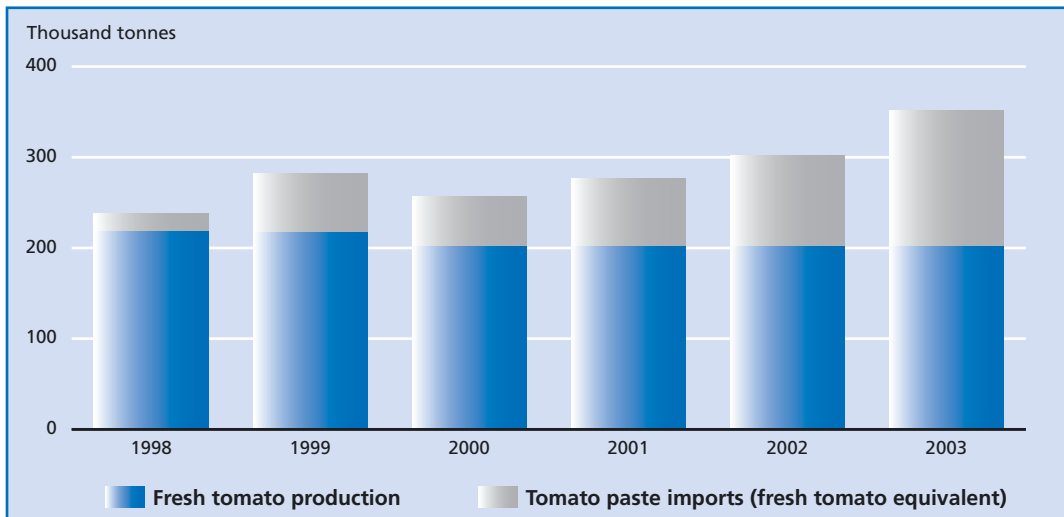


Source: Statistics and Research Department (SRID) of MOFA, Ghana Ports and Harbour Authorities (GPHA)

in 2001 (about 10 percent of wholesale prices of tomato products during the period). Export refunds maintain low import prices which may maintain prices below production costs, thus inhibiting the ability of domestic producers to respond to market

growth. Growth in local fresh tomato production fell from 215 000 to 200 000 tonnes during the review period. However production data in Ghana is poor as data published by MOFA appears to be estimates only since 2000.

FIGURE 7.4
Ghana tomato production and imports



Sources: Ghana's Ministry of Trade and Industry and Ministry of Food and Agriculture.

7.2.4 Honduras: rice

Import statistics from government sources clearly revealed two different import surges: the first one was relatively short lived and lasted one year in 1991. The second one was prolonged and lasted six years from 1995 until 2001. Stakeholders and policy-makers shared the view that the surge of 1991 was so harmful that the damage it caused to farmers could not be overcome in subsequent years.

7.2.5 Jamaica: dairy, onion, poultry

A common perception among stakeholders is that various commodities experienced import surges during the 1990s, notably onions, poultry and dairy products. However, proof of such surges was difficult to obtain through official statistics, because either these underestimate actual trade flows due to illegal imports, or because the commodities were incorrectly classified by importers to avoid higher duties. Nevertheless, official data confirmed that onion imports surged twice for periods that lasted between three and five years each. For poultry, they showed one surge in 1996 following several years of

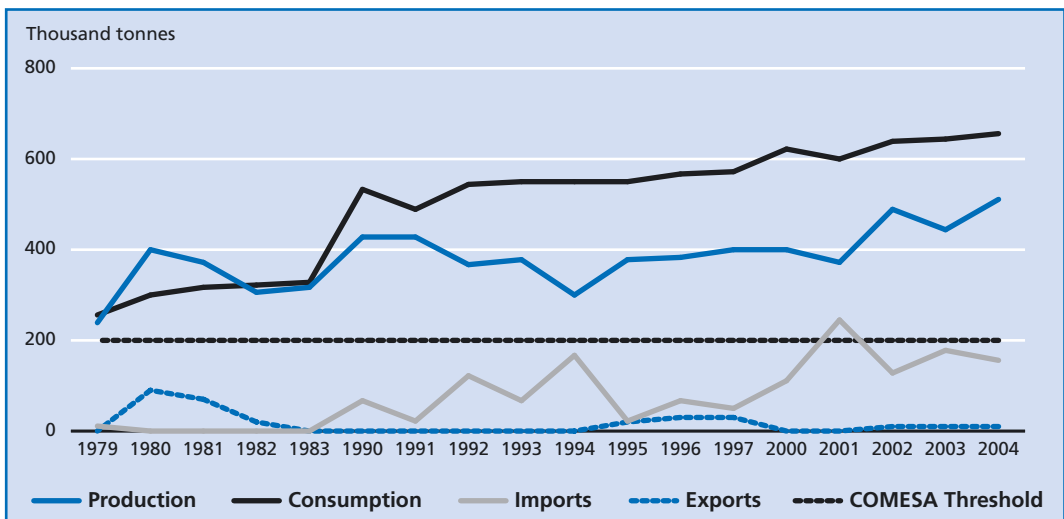
reduction after a period of relative stability. For dairy products the data indicated that imports increased gradually over a number of years. While this growth can be recognized over a long time series, peaks could be easily identified.

7.2.6 Kenya: dry milk powder, maize, sugar

Two categories of dry milk powders, namely dry whole milk powder and dry SMP, were examined. Dry milk powder in general accounted for 44 percent of Kenya's total volume and value of milk imports which include also milk cream, infant milk, butter and raw milk. Dry milk powder is a substitute product to raw liquid milk produced and marketed domestically. Data on imports of dry milk powder from 1990 to 2002 show that increases in import occurred in the mid-1990s and from 1998 to 2001. Between 1995 and 2002, imports exceeded the previous three-year moving average by at least 30 percent in 1995, 1998, 1999 and 2000.

Sugar imports in Kenya increased from about 65 000 tonnes in 1996 to about 170 000 tonnes in 1998 and to 250 000 tonnes in 2001. Significant import surges took place in 2001, 2003 and 2004, possibly coinciding also with the rise in unrecorded cross-border imports.

Figure 7.5 Kenya sugar production, consumption and trade



Source: Kenya Sugar Board (KSB) Yearbook, 2005.

For maize, a deficit in the domestic supply of maize had been recorded since the late 1990s. The deficit has been between 180 000 and 540 000 tonnes annually. The shortfall of maize supply in the country has been met through both recorded and unrecorded cross-border trade. Officially reported maize imports have been increasing from an annual low of 3 percent to an annual high of 12 percent of domestic consumption, reflecting the low levels of domestic production. Kenya experienced particularly serious surges in 1994, 1997, 2001 and 2004 when imports exceeded the previous three-year moving average by at least 30 percent.

7.2.7 Malawi: dairy (fresh and dry whole milk), maize, sugar

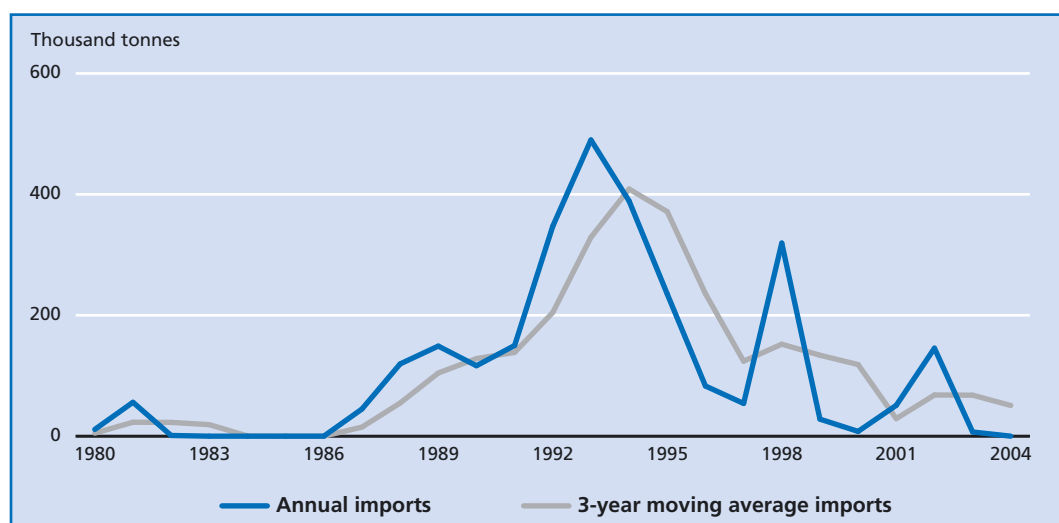
There were 10, 8 and 5 surges in maize, sugar and milk respectively between 1980 and 2004. Official statistics on trends in fresh whole milk in Malawi showed that imports of fresh whole milk started at about 1 800 tonnes and were on five occasions at least 30 percent higher than the three-year moving averages. Since the 1990s imports have been less than the threshold except in 2002 where imports reached about 4 000 tonnes. For fresh whole milk,

there were only three import surges in dry whole milk between 1980 and 2003. In 2001, South Africa accounted for 51 percent of dry whole milk imports, followed by Zimbabwe (11 percent), Malaysia (10 percent), New Zealand (8 percent) and Australia (7 percent). Recently, in 2003, most of the imports came from Australia (32 percent), South Africa (21 percent) and New Zealand (20 percent).

Figure 7.6 summarizes the maize import surge in Malawi. There was an increasing trend for maize imports between 1986 and 1993, and all imports except in 1990 rose above the previous three-year moving average. Between 1994 and 1997, there was a decreasing trend, with all imports falling below the threshold (the 30 percent positive deviation of imports from a three-year moving average). Imports above the threshold occurred in 1998, 2001 and 2002. But all in all, between 1980 and 2004, there were ten cases in which actual imports of maize were 30 percent above the three-year moving average.

For sugar, there have been eight import surges between 1980-2004, when actual imports were 30 percent higher than the three-year moving average. Seven of these surges occurred between 1990 and 2004. Most of the sugar imports originated from Zimbabwe facilitated by the bilateral trade

FIGURE 7.6
Malawi maize imports



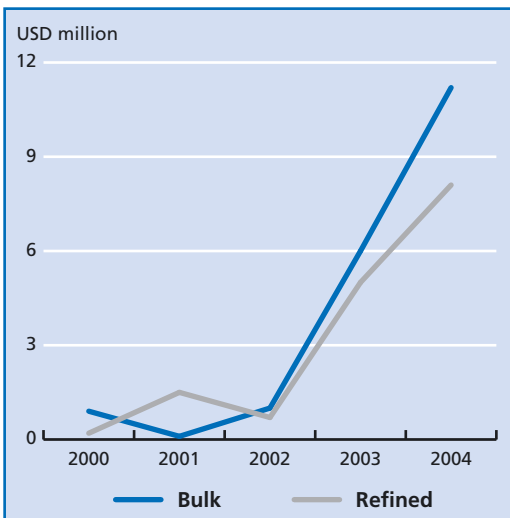
agreement of 1995. In 2002, Zimbabwe accounted for 71 percent of Malawi's sugar imports, followed by Italy (19 percent) and Kenya (9 percent).

7.2.8 Mozambique: poultry and vegetable oil

In Mozambique's poultry sector, official data indicated a sudden surge in imports of both frozen and refrigerated whole chicken into the country during the 2002-2005 period. Imports of refrigerated whole birds rose progressively between 2001 and 2004 and then declined; however, frozen whole chickens, 90 percent of total poultry imports, increased quite rapidly, peaking in 2005 with imports valued at more than USD 5 million. This is up from about USD 1 million worth of products imported in 2003. Brazil and South Africa were the major suppliers of imported poultry products. The chicken market in Mozambique has always been divided into two segments, one for live chickens (produced either by small or large operators) and the other for frozen chickens (mainly imported). Of the 38 million chickens consumed in Mozambique in 2004, 14 million, i.e. more than a third, were imported, while 17 million originated from backyard hens and 7 million produced by local commercial farms.

Data on vegetable oils remain patchy but there was evidence of a rapid and pronounced rise of bulk and refined vegetable oil import during 2002-04 (Figure 7.7). In 2004, vegetable oil imports represented about 81 percent of the domestic vegetable oil consumed in Mozambique. Of these, 45 percent consisted of industrially refined oil from crude oil imports and the rest was directly imported as refined oils. Palm, sunflower and soybean oils, both in crude and refined forms, are the main product types entering the country. Palm oil, in particular, accounts for about half of the total imports. Between 2002 and 2004 the total value of palm oil imports grew about five-fold in the country; this is perceived by stakeholders as clear evidence of a surge. Although no data on import volumes was compiled by Mozambican customs, proxies computed on the basis of international prices confirmed that palm oil purchases on international markets had a remarkable growth in the period of analysis. The pattern has been one of a steady growth in the United States Dollar value of imports while palm oil prices actually experienced a declining trend between 2002 and 2004. Detailed information on other vegetable oils was not available, but qualitative information from stakeholder interviews revealed significant growth of imports of refined sunflower oils as well. As such, the domestic market had essentially been supplied with imports. The small market share of local vegetable oil products consisted largely of less valued raw materials such as copra which is mostly produced, processed and marketed at the regional level. Major suppliers of bulk vegetable oils to Mozambique were Argentina, Indonesia, Malaysia and South Africa, which together accounted for an approximate 60 percent share of vegetable oil imports in 2004.

Figure 7.7
Mozambique vegetable oil imports

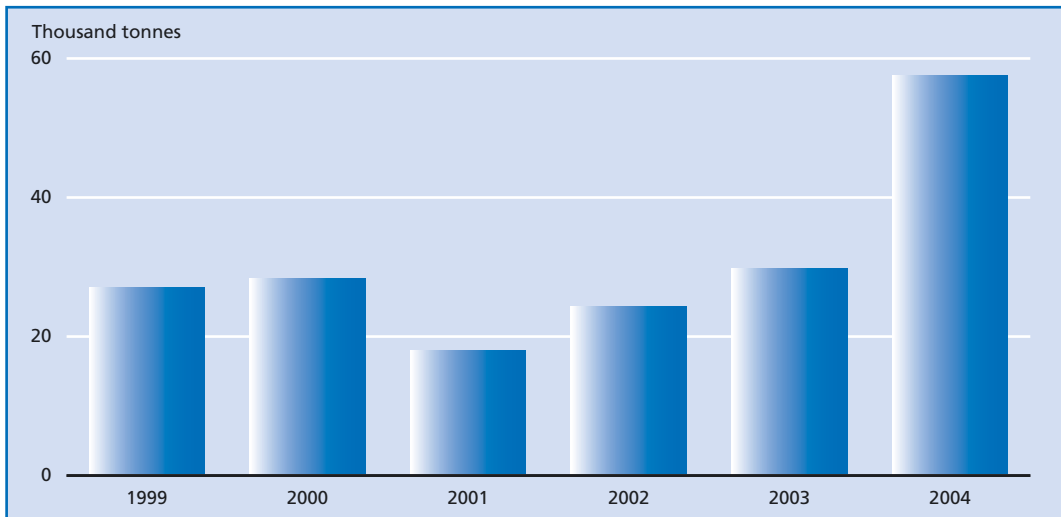


7.2.9 Philippines: onions, tobacco

The volume of onion imports fluctuated during the period, with sharp increases occurring in 1999, 2001 and 2003 over the previous year. Around 60 percent of the onion import was from China.

Onion imports relative to domestic consumption increased sharply in 1999 and 2001. While the average ratio was around 7 percent on average in the early 1990s, it rose to 12 percent in both years. Similarly, the ratio of imports relative to production

FIGURE 7.8
Philippines tobacco imports



Sources: Government of the Philippines.

also increased in 1999 and 2001 to more than 20 percent. Based on the trigger level methodologies defined under the AoA, volume breached the trigger level only in the year 2001, and price breached the trigger level in all the years for the period 1999-2004.

In the case of tobacco, during 1999-2004, imports were fairly stable except in 2001 when imports were reduced and in 2004 when a large increase in import of about 57 300 tonnes took place (see Figure 7.8). The Philippines imported more than 30 percent of its total onion imports from Brazil and more than 20 percent from China.

The year 2004 was also a critical year in terms of the ratio of imports to consumption which approached 65 percent compared with about 45 percent in the previous year. The ratio of imports to domestic production also increased significantly in 2004, with imports exceeding domestic production for the first time in recent history by nearly 20 percent. Based on trigger level computations, the volume trigger was breached in 1999 and 2004. However, there was no indication of import surge based on the trigger price computation. Interestingly when raw (non-manufactured) tobacco is disaggregated further according to the Harmonised System (HS) code, the price went below the trigger level for the subcategory

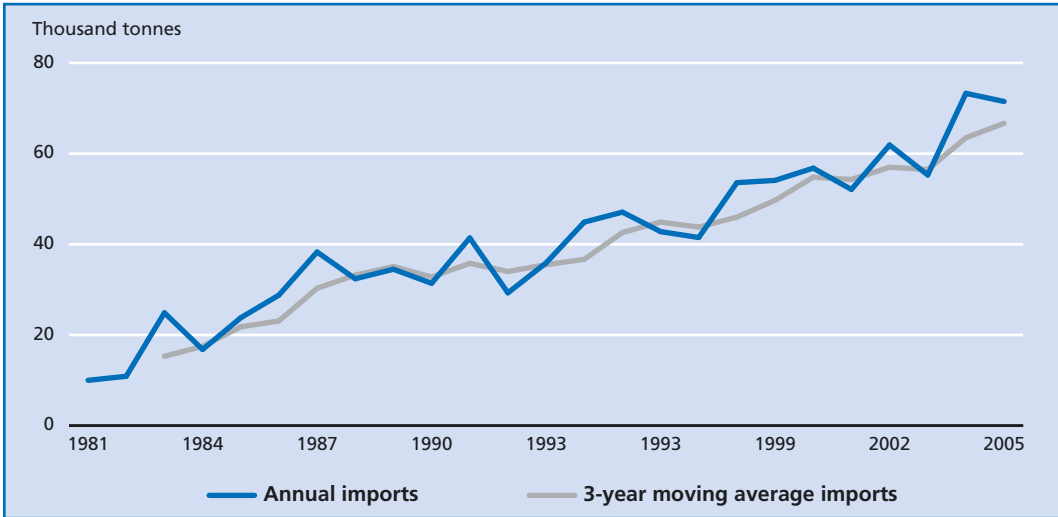
of 'tobacco not stemmed/ stripped' in all the years from 1999 to 2002.

7.2.10 Sri Lanka: dairy

Official data summarized in Figure 7.9 show that annual imports of milk powder have more than doubled in 20 years from 30 000 tonnes in 1985-87 to 67 000 tonnes in 2003-05. This is equivalent to an average growth rate of 4.6 percent per annum over the entire period. The rate of growth in imports of milk powder accelerated after 1995 - from 4 percent per annum during 1985-94 to 4.9 percent per annum during 1995-2005. If imports had increased after 1995 by the same trend rate observed during the 1985-94 period, the volume of imports in 2003-05 would have been 40 000 tonnes, whereas actual imports amounted to 68 000 tonnes, or 70 percent more than the trend level. There is a tendency to associate this acceleration with the implementation of the Uruguay Round AoA although other factors might have been also at play.

Actual import levels and three-year moving averages of imports show that actual imports exceeded the three-years moving average import levels by 10 percent or more in 12 out of the 21 years

FIGURE 7.9
Sri Lanka milk powder imports



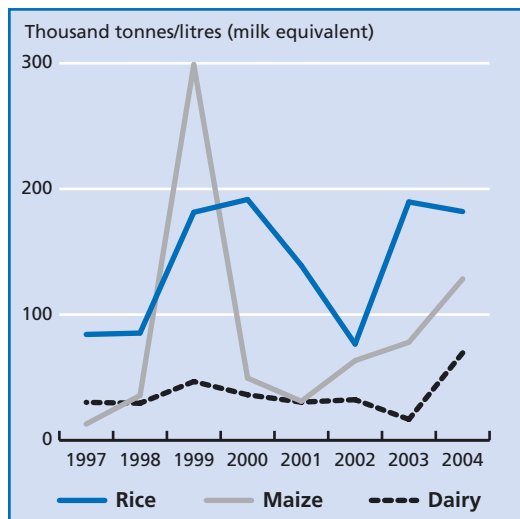
covered. In seven of these 12 cases (1985-87, 1991, 1994, 1995 and 2004), imports exceeded the three-years moving average levels by 25 percent or more. These could be taken as the surge episodes. For Sri Lanka, the ratio of imports to apparent consumption (domestic production plus net imports in terms of fresh milk equivalent) increased from about 20 percent in 1981 to about 50 percent in 1985 and remained in the 50 to 60 percent range until 2001 after which it increased to over 70 percent. Between 1985 and 2005, milk imports (primarily milk powder) increased sevenfold, while the supplies from local production expanded by less than 15 percent.

7.2.11 The United Republic of Tanzania: dairy, maize, rice

Figure 7.10 depicts import trends of dairy, maize and rice in the United Republic of Tanzania. Between 1997 and 2004, imports of dairy products had more than doubled from 3 459 tonnes to 7 111 tonnes; also rice import had doubled and reached 190 000 tonnes in 2004. Maize imports fluctuated between 13 000 and 298 000 tonnes but significant import surges were recorded in 1999 and in 2004. It is noted that in some cases, in order to identify an import surge and specify for which product it occurs, disaggregating the

product groups such as maize, rice and in particular dairy, was needed. Otherwise, the aggregate data would mask the change in product composition. In the large sector like the dairy sector for example, there was a notable change in the product composition

FIGURE 7.10
The United Republic of Tanzania - dairy, maize and rice imports



Source: Government of the United Republic of Tanzania

of the United Republic of Tanzania's dairy imports. In 1997, dairy imports were dominated by milk and cream (92 percent of imported quantity), but the share of these products decreased to 59 percent in 2004 as imports of cheese (24 percent) and butter (10 percent) increased, and contributed to the surge of dairy imports in 2004. Analysis of surges at the aggregate level would have failed to identify surges in subproduct categories such as higher value cheeses if associated with concomitant, but slight, reductions in larger subproduct categories such as milk powder. Similarly, in the late 1990s, milled paddy rice dominated total rice imports. By 2004, broken rice had become the most important category.

7.3 Internal causes of import surges

7.3.1 Low productivity and lack of competitiveness in the domestic sector

Low productivity and lack of competitiveness marred the growth of the agriculture sectors in many developing countries in the case studies. The domestic sectors could not keep up with raising demand or deal with major shocks such as inclement weather conditions. Therefore, import surges were no surprise in the face of frequent shortages. In Honduras, for instance, rice production and in particular the available supply in the market, even under favourable climate conditions, could not match the quantity demanded. Moreover, elimination of input subsidies like the case of the dairy sector in Jamaica exposed the lack of competitiveness and vulnerability of the sector once the support was lifted, and prompted an import surge. In the United Republic of Tanzania's dairy sector, high energy costs contributed to reducing competitiveness of the processed commodities and was a potential source triggering the increases in import volumes.

In the United Republic of Tanzania, rapid growth in poultry imports also revealed the weaknesses of the domestic processing industry in competing with imported products, particularly in situations where there has been a rapid growth in demand for semi-processed and processed quality products by supermarkets and hotels, which the local industry has failed to supply. It was found that imported products were primarily sold in cities, where the import shares were much higher.

7.3.2 High production risks with lack of management tools

Inclement weather conditions (such as the hurricane Mitch in Honduras and drought spells in Kenya), and outbreak of animal diseases (e.g. Avian Influenza) exposed the vulnerability and weakness of the domestic sectors in many developing countries. But there was also a lot of uncertainty in input access (energy, water and other input prices) adding to the risks linked to the natural causes. The lack of management tools to respond to the disaster or mitigate the agricultural production risks prompted food import almost in all the developing countries in the case studies.

7.3.3 Trade policy reforms

The reforms following the Uruguay Round have led to erosion of trade barriers in many countries and have been confirmed as one of the most important sources of import surges in the case studies. Many import competing sectors such as onions and tobacco in the Philippines, poultry meat production in Mozambique, dairy in Sri Lanka and poultry, rice and vegetable oil in Cameroon faced import surges in part because of the rapid lowering of tariffs on these commodities. Likewise, Kenya appears to have experienced significant increases in sugar imports after the liberalization of its sugar trade and the removal of price controls in the country in the 1990s.

7.3.4 Trading arrangements

Various commitments in regional or bilateral trading arrangements include significant reduction in tariffs and export from low cost countries also led to import surges from their trading partners. This was the case for sugar import to Kenya and Malawi from Zimbabwe, and the United Republic of Tanzania respectively. Regional trading arrangements such as the COMESA, SADC and EAC have imports on various commodities such as sugar, dairy and vegetable oils in these countries.

7.3.5 Domestic market reforms and policies

For many staple foods, especially food grains, and for vegetable oils, some developing countries such

as Cameroon, Côte d'Ivoire and Honduras have considerably reduced the levels of consumption tax or value-added tax, which led to a higher demand and hence larger imports. Reduction of price control such as in the case of sugar in Kenya also led to increased imports. Moreover, deregulation and dismantlement of the marketing boards in many developing countries (rice in Honduras, and rice poultry and sugar in Côte d'Ivoire) led to higher domestic prices (uncontrolled), and invited cheaper import products.

7.3.6 Exchange rate movement

Many developing countries that adopted a flexible currency regime have experienced appreciation of their currencies as the economy stabilized over the years. Many countries in Sub-Saharan Africa experienced such currency appreciations which make import more attractive. The SAP also reduced fiscal and current account deficits and this increased the value of local currencies relative to trading partners.

7.3.7 Demand shocks

Sudden increases in demand for both raw and processed agricultural products due to, for instance, a jump in the growth of foreign investment or tourism industry, prompted an increase in import, and this has been mentioned for countries such as Kenya and the United Republic of Tanzania for poultry and milk powder.

7.3.8 Other internal causes

Civil strife

Many of the case study countries experienced political instability with some of them enduring long years of civil strife and wars (e.g. Côte d'Ivoire, Sri Lanka) that disrupted the domestic production. These events forced the migrations of people and livestock and disrupted input delivery and output markets. Productivity was further depressed and as a result imports increased.

Debt

For the rice sector in Honduras, for instance, the substantial fall in domestic production and the

subsequent increasing substitution by imports under the new market environment of the years that followed was attributed in part to farmers' inability to repay the debts incurred in 1991.

Lack of infrastructure and weak institutions

The degradation of infrastructure and lack of institutional support have encouraged agricultural import surges in many developing countries. As an example, inability to control the long and porous border in countries such as Mozambique and Sri Lanka made the entry of illicit and undocumented imports permanent, especially during the period of political unrest. Indeed, investigation revealed that uncontrolled but long borderlines made undocumented trade or underinvoicing possible for many countries such as Kenya, Mozambique and the United Republic of Tanzania. The import surge was then more likely to arise especially when farmers across the borders wanted to get rid of their surpluses and sell at higher prices.

7.4 External causes of import surge

7.4.1 Mixed views for the effects of OECD production and export subsidies on import surges

Policies in third countries or in the countries' immediate trading partners are among the exogenous factors that led to reductions in prices in international markets and contribute to surges in imports. Production and export subsidies in OECD countries have been blamed for disruptive impacts on trade, with the burden of adjustment being transferred from producers in rich countries to those in poor countries, but these subsidies, especially export subsidies have been continuously declining, both in absolute terms and as a share of the value of trade. The Uruguay Round limited the use of export subsidies for the first time, but actual expenditures were well below the established limits. In 2002 expenditures for export subsidies amounted to about USD 3 092 million, 24 percent of the WTO ceiling. The European Union accounts for about 90 percent of the expenditures on export subsidies worldwide. Other countries providing subsidies include Switzerland (about 6 percent) and

the United States (about one percent). The exception is the dairy sector where subsidies have remained high and supported approximately one-third of OECD global shipments, lowering international prices.⁴ Still, some stakeholders reiterated on many occasions (e.g. rice and tomato paste in Ghana; rice in Honduras; dairy in Jamaica and Sri Lanka) that subsidies from OECD countries have remained as one of the triggers for import surges into the developing countries. It is noted that in Jamaica's poultry production, for instance, stakeholders identified input subsidies from main suppliers like Brazil or the United States as one of the causes of the import surge. OECD policies affected import trend in developing countries, but how much they contributed to the import surges remained difficult to assess.

7.4.2 Food aid

The investigations revealed that in Honduras, Mozambique and Sri Lanka, food aid was at least correlated with the occurrence of import surges. Food aid accounted for a significant share of food imports of developing countries and food aid, or the provision of selected food commodities free-of-charge or under highly concessional terms, is provided in response to requests by governments and aims at alleviating problems of a humanitarian nature. Therefore, its causes and impacts are of a different nature from commercial imports. Nevertheless, food

⁴ In terms of the importance of subsidies relative to the value of trade, they are greatest for butter (40 percent), and somewhat lower for SMP and cheese and other milk products (between 6 and 11 percent). The largest provider of dairy export subsidies has been the European Union. In periods of excess dairy product supplies, or weak demand, export subsidies exacerbate price depression and may channel trade to markets which have relatively open access conditions. As export subsidies/tonne increase substantially when markets turn down, they can potentially lead to import surges. Over the 2000-04 period average European Union export subsidies for dairy products ranged, as a share of world prices, from 132 percent for butter to 28 percent for SMP. Whether subsidy-induced import surges result in injury requires analysis of impacts on producers and consumers at the individual country level. Subsidies depress commodity prices and can lead to higher levels of imports, though they are not very likely, in general, to contribute to surges due to their low level in relation to total trade values and to the infrequent changes in their rates.

aid, by supplementing commercial imports, could reduce local producers' incentive and could be a source of import surges, especially after the food aid programme had been suddenly stopped.⁵ The timing, targeting and distribution of food aid are important to avoid adverse impacts on competing domestic industries.

7.4.3 State trading

In some exporting countries where external trade is controlled by STE, either through direct trading or through licensing to ensure stability of domestic supplies of basic staple foods, sudden changes in the policies of such agencies have had very strong effects on world markets and on the markets of major trading partners. For example, in 2002 the Food Corporation of India adopted a new export/import policy that included lifting export restrictions and lowering minimum export prices for certain types of rice. This led to a rise in India's exports from about 2 million tonnes to around 5 million tonnes in 2002. Imports of rice from India rose sharply in a number of Asian countries including Sri Lanka, and also in some African countries. There was also a considerable decline in import unit values during this period.

7.4.4 Currency devaluation

Exports from a country experiencing devaluation become relatively less expensive thus encouraging larger imports to many destinations. For instance, Zimbabwe's currency depreciation (making import from Zimbabwe cheaper) in the 1990s led to the increase in sugar export to Malawi.

7.4.5 Some remarks on export credits

Export credits may contribute to surges in imports but the investigation on the selected developing countries revealed that export credit plays little or no role in causing agricultural import surges. As discussed in Chapter 3, Section 3.3, the reason is that most export

⁵ There is also a clear tendency for food aid to be more abundant in periods of low world market prices, in contrast to the situation during periods of high prices when food aid receiving countries are relatively more in need.

credits are granted to OECD destinations and not to developing countries. During 1995-98, 60 percent went to OECD countries compared with 9 percent for Net Food Importing Developing Countries and 0.2 percent for LDC.

7.5 Interactions and combination of causes

As in nearly all cases the investigation of the sources of import surge in developing countries relied much on interviews with all stakeholders and the results showed that import surge appeared to be generated not by a single source but by a combination of many sources. One important example is the combination of the liberalization of the domestic market and the reduction in tariff as these policies were part of the economic reform package in developing countries in the 1990s. It is therefore not a surprise that these policies jointly contributed to the rise in import, at least for some time between the early 1990s and 2004, in many developing countries including those selected for the case studies. Similarly, import surges triggered by a domestic supply shortfall due to, for example, harsh weather conditions, were common in countries with porous borders. Another example is that of import surges triggered by the growth in demand, exacerbated by the weakness of the domestic production. The latter is the case for Senegal's and the United Republic of Tanzania's poultry sectors

where the domestic processing industry was too weak to respond to the rapid growth in demand for processed products by supermarkets and hotels. The combination of factors complicated the estimation of the share of responsibility for each cause of import surge, especially because data for statistical analysis were not available.

7.6 Conclusion

The investigation of the causes leading to import surges in developing countries indicated that contrary to the prejudices, market reforms and trade liberalization did not stand alone as the main trigger of import surges. Other sources within the sectors or the countries and those from abroad may have individually or collectively triggered import surges. For many developing countries, their porous borders and uncompetitive domestic sectors made the surge more likely to occur. The plurality of sources of import surge implies the interactions of causes triggering the surge, but it may also imply some correlations among some of these sources. Identifying the share of the share of responsibility of each source requires additional and more accurate information, but the method to be used can be similar to the one used in the non-attribution analysis (discussed in Chapter 5) that differentiates among the sources of the observed consequences (injuries) of several shocks (including import surge) on the market.

APPENDIX 7.1

IMPORT SURGE CASES REPORTED IN FAO COUNTRY CASE STUDIES

(FAO, 2000 AND FAO, 2003B)

Jamaica – poultry cuts: the import of poultry meat has often surged in the past decade, often to the detriment of the poultry sector. There have been several calls from the industry for AD or similar actions. In response, import reference prices were established for customs valuation purposes - in 1993/94, and the duties on leg quarters were levied on the basis of the average c.i.f. price of USD 0.52 per pound.

Jamaica – sugar: as with poultry cuts, Jamaica also faced difficulties in regulating the import of sugar. In response, the Government set reference import prices on the basis of five-year moving averages of world market prices, at about USD 0.20 per pound initially in 1995 and slightly more in later years.

Jamaica – beef: there have been incidents with beef imports, when in 1998 the Jamaican beef farmers' association complained that local production was being hurt by imports of ground beef used for McDonald burgers, despite the 40 percent tariff. Farmers complained that the export of the beef was subsidized and called for higher duties.

Sri Lanka – onions: some vegetable producing subsectors, notably onions and potatoes, have been found to be highly vulnerable to import surges. In 1999, an import surge of onions and potatoes resulted in a decline in cultivated area of these crops, affecting the livelihood of approximately 300 000 persons involved in their production and marketing. The immediate possibilities for affected farmers to turn to other crops are limited. Consequently, the economic effects of import liberalization in this sector have been significantly negative.

Côte d'Ivoire – palm oil: prior to the Uruguay Round, import surges were responded to with specific duties, notably on certain meats and dairy products to

countervail the negative impacts of export subsidies and reference prices. With WAEMU and CETs, two temporary tariffs were designed to protect products from losses generated by the adoption of CET and by the vagaries of world prices. These tariffs were the *Taxe dégressive de protection* (TDP) and the *Taxe conjoncturelle à l'importation* (TCI); the TDP concerns mainly industrial and agriculture-based industrial products, whereas the TCI deals with agricultural products, in addition to the agriculture-based industrial products. The TCI is implemented when the c.i.f. price of the eligible product is lower than, or equal to, the trigger price level. It is designed to dampen the impact of the erratic movements of world prices of certain products and fight against dumping practices.

In May 2001, the import price of raw palm oil products fell from USD 671/tonne in 1998 to USD 310/tonne in 2000 and to USD 250/tonne in the first trimester of 2001. It was estimated that Côte d'Ivoire producers' loss of competitive edge versus Malaysian imports was around 22-29 percent owing to a 50 percent reduction of export taxes by Malaysia in order to reduce its large stocks. The TCI was triggered. It was estimated that this would reduce farmers' loss of farm gate price by 75 percent, keeping it at XOF 18.5/kg instead of XOF 15/kg. The case study also showed that while there were several "surge-like" imports, the data on net imports do not show these as there was a considerable amount of re-exports.

Illustrative cases of import surges and effects collated in 2003 FAO paper prepared for Committee on Commodity Problems (FAO, 2003a)

Senegal – tomato paste: imports of tomato paste by Senegal increased fifteen-fold, from an annual

average of 400 tonnes during 1990-94 to roughly 6 000 tonnes in 1995-2000. Between the same periods, average annual production fell 50 percent from 43 000 to about 20 000 tonnes. The post-1994 liberalization of tomato paste imports, coupled with European Union export subsidies, is blamed for the dramatic rise in imports and the negative impact on production. A similar phenomenon has been observed elsewhere in the region.

Burkina Faso – tomato paste: the import of tomato paste increased fourfold between 1990-94 and 1995-2000, from 400 tonnes to 1 400 tonnes, while tomato production fell by 50 percent from about 22 000 to 10 000 tonnes.

Jamaica - vegetable oils: Jamaica has experienced pronounced import surges of vegetable oils since 1994. Average annual imports during 1995-2000, at 29 000 tonnes, more than double the volume in 1990-94. Between the two periods, production fell by 68 percent to 5 000 tonnes.

Chile - vegetable oils: as in Jamaica, average imports of vegetable oils rose from 58 000 tonnes in 1985-89 to 173 000 tonnes in 1995-2000. Over the same period, average domestic production declined from 54 500 tonnes in 1985-1989 to 25 200 tonnes.

Haiti – rice: imports of rice increased from an average annual level of about 17 000 tonnes (milled equivalent) in 1984-89 to 226 000 tonnes in 1995-2000, a thirteenfold increase. The decline in production in the corresponding periods, however, was modest, from about 84 000 to 78 000 tonnes.

Although it is difficult to estimate the extent to which production would have increased if not for the massive imports, analysts believe that imports played a major role in negatively impacting rice production.

Haiti - chicken meat: Average import in 1985-89 was 500 tonnes, but increased more than thirtyfold by 1995-2000. In contrast, domestic production stagnated and actually declined, from 7 200 to 6 500 tonnes.

Kenya - dairy products: the Kenyan case presents a good example of the link between the surge in the import of dairy products and domestic production of milk. During 1980-90, the volume of milk processed rose steadily from 179 000 to 392 000 tonnes, i.e. by more than 100 percent (Kenya Dairy Board). From 1990 onwards, the volume processed fell dramatically, to as low as 126 000 tonnes of milk in 1998. At the same time, the imports of milk powder rose from 48 to 2 500 tonnes (in fresh milk equivalent, 408 000 litres to 21 million litres). The influx of the imported milk powder, as well as other dairy products, depressed the demand by milk processors for fresh local milk. Small milk producers in particular bore the brunt of the impact. Also, Kenya's ability to diversify into processing activities was undermined.

Benin - chicken meat: in Benin, chicken meat imports had increased seventeenfold by 1995-2000 from the 1985-89 annual average of about 1 000 tonnes. During this period, growth in domestic production remained stunted and rose only modestly from 25 000 to 27 000 tonnes.

APPENDIX 7.2

POTENTIAL CAUSES OF POULTRY MEAT IMPORT SURGES

Poultry import surges can, similar to those for other commodities, be generated by either domestic or external actors. Examples of domestic factors include production shortfalls, tariff reductions, or exchange rate movements. Others, however, can be a result of temporary exogenous shocks, either market or third country policy-induced changes which result in a sudden downward shift in international poultry prices. Examples of third country policies include those linked to sudden changes in export subsidies, export credits or the use of poultry as food aid by exporting countries. Non-policy and market specific import surge-related shocks can result from sudden currency devaluations in large poultry exporting or importing countries or supply or demand shocks which result in sudden changes in international prices. In general, poultry meat import surges should be able to be explained by either external factors in the context of policy or market shocks or domestic factors which change the competitive position of the local industry.

Domestic factors

Trade reform, as a pervasive influence changing the conditions of access to markets obviously has far reaching effects on competition between imported and domestically produced products as tariffs are reduced. For example, in Senegal, **tariff reductions on chicken**, in the context of a regional trade agreement, led to higher imports over the 2000-03 period. The growth in imports was rapid since tariff reductions were implemented in a context of **appreciating exchange rates**, thus accentuating the price wedge between imported and domestic product, and poultry imports rose fourfold to account for nearly one-quarter of domestic consumption. A general opening of economies under **regional trade agreements** combined with **structural adjustment requirements** of the donor organizations, limit

countries from increasing applied tariffs, even if significantly below bound rates reported to the WTO. In the case of Ghana, as in Senegal, a lowering of tariffs led to a fourfold import rise over the 2000-05 period. The Ghana Poultry Farmers' Association led a successful campaign to increase tariffs on poultry imports from 20 percent to 40 percent in February 2003. However, the new tariff rate could not be implemented due to conflict with other protocols and government obligations, particularly within the ECOWAS subregion.

In the case of the United Republic of Tanzania, the growth of supermarkets, driven by changing consumer preferences and supported by **foreign direct investments (FDIs)**, has fuelled a rapid growth in poultry imports, albeit from a small base. The United Republic of Tanzania has been the leading destination for FDIs in Sub-Saharan Africa during the last decade and larger poultry imports were the result of considerable multinational investments in hotels, supermarkets and food services. These increases occurred in a context of **changing consumer requirements** for processed poultry products and **inadequacies in the domestic processing industry**, as products destined for tourists and upper segments of the market (an important target market of the food service industry) have been increasingly supplied by the imported product. In other cases, **domestic market reform** which results in **sudden change in production costs** affecting the short-term competitiveness of the local industry can lead to sudden surges in imports. An example of the latter is the case of Ghana where feed costs reportedly doubled over the 2000-05 period, lessening the competitiveness of local broiler industries. **Irregular importing practices**, such as that of underinvoicing consignments to avoid paying full duties, can also contribute to import surges, particularly when tariffs are very high and price differentials between domestic and local products provide incentives for these types

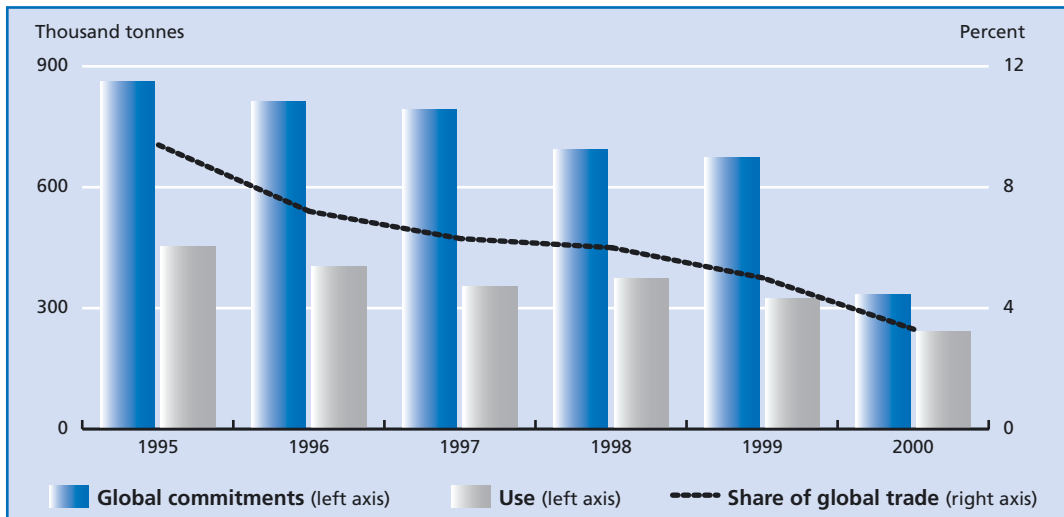
of practices. Strong import growth can also be induced by **civil strife** in neighbouring countries, with increased imports in one country being transhipped, formally or informally, into the neighbouring country as a result of declining production or reduced import capacity induced by port closures.

External factors

Third country policy developments which influence prices could include large changes in export subsidies, food aid or export credits. The last two, however, are infrequently available for poultry products. Some of the policy/market driven factors which could potentially damage local suppliers in developing countries would more likely stem from international market developments which induce sharp declines in world commodity prices. The commonly cited factors influencing poultry markets are developments in major poultry exporting/importing countries which could dramatically change supply availabilities. These include large production increases; financial crises in major importing countries which cause sharp reductions in imports and prices and trade diversion; and animal disease outbreaks which can dramatically influence short-term consumption and price patterns.

The African press had given considerable coverage to the damaging impact of **subsidized poultry** in their markets but the actual poultry export subsidy worldwide has declined over the years (see following figure). Of the approximately 15 countries which include export subsidy commitments for poultry in their WTO schedules, the European Union, the world's third largest poultry producing area, accounted for 70 percent of the global West Africa Share of consumption. Production accounts for only 3 percent of global poultry trade. But over ten years, imports have increased fivefold with imports as a share of consumption rising to nearly 30 percent of the subsidy commitment ceiling in 1995. With most of the other countries exporting less than their ceiling, actual export subsidy utilization by the European Union accounted for between 90-100 percent of global use. In the United States, the Export Enhancement Programme was used explicitly for subsidizing whole bird exports to Middle Eastern markets; however, it has not been operational since 1999. Currently, about 1 percent of the value of international trade in poultry meat is subject to export subsidies. While a large percentage of European Union poultry products are shipped to Africa, the European Commission precludes the use of export restitutions for all African

FIGURE A7.2-1
Poultry export subsidies



countries, with the exception of Angola. Moreover, the list of products eligible for refunds is limited to whole poultry and chicks, with refunds for poultry cuts only available for exceptional reasons (for example, the recent outbreak of AI in Europe). All traders are required to provide a proof of destination in order to benefit from export refunds. In general, any use of export subsidies which are stable over a period of time should not normally result in price and trade volatility. Normally the level of export restitutions tends to vary with world market prices; thus, the increase or decrease of a specific subsidy level should, on the margin, result in a changing market share by the subsidizing country.

A market shock in a large importing market resulting in significant declines in internationally traded poultry products can cause country specific import surges in third countries, with potential damaging impacts on emerging industries. The 1998 financial crisis in the Russian Federation is an example of this type of market shock. The August 1998 devaluation of the Russian rouble resulted in a dramatic decline in meat imports, particularly of chicken leg quarters. The collapse of the Russian Federation's position as the world's largest poultry meat importer, accounting for one-quarter of global imports, led to significant international market price impacts, particularly for leg. These include countries from Eastern Europe, in particular, the Czech Republic, Hungary and Romania, a region which accounted for nearly 30 percent of total allowable subsidies in 1995, followed by Central and South America. Brazil is the key recipient of a subsidy ceiling of 96 000 tonnes which was never used due to financial constraints. Meanwhile, the ceiling for subsidized poultry meat from the United States accounted for nearly two-thirds of its total meat subsidy allocations and 4 percent of the global allocation. The United States has not subsidized poultry exports since 2001. The European Union ships approximately 1 million tonnes of fresh/chilled/frozen poultry products, valued at over USD 1 billion, to more than 150 markets around the world with three-quarters of these shipments destined for the Russian Federation (23 percent), Middle Eastern markets (27 percent) and developing countries in Africa (26 percent). Export refunds are granted

only to products destined for Angola, Bahrain, Iran, Iraq, Jordan, Kuwait, Lebanon, Oman, Qatar, the Russian Federation, Saudi Arabia, the United Arab Emirates and Yemen. The immediate impact of the Russian devaluation was a precipitous decline in leg quarter prices in the United States, in the last quarter of 1998. United States prices fell by more than one half with the f.o.b. export value of United States chicken to the Russian Federation dropping by 32 percent to USD 487/tonne in 1999. In Ghana and Haiti, consequently, imports in 1999 more than doubled as c.i.f. prices dropped by 10-20 percent while local dependence on imported products rose to nearly three-quarters of domestic consumption. In both Ghana and Haiti, imports continued to rise after 1999, leading to the issue of whether one-time shocks in imports can inflict long-term damage on local industries. Other external factors which could contribute to import surges include **triangular trade flows through free trade zones in third countries**. In the case of Mozambique, it is claimed that triangular trade patterns (Brazil/United Arab Emirates/Dubai/Mozambique) led to sudden surges of chicken imports as stores in Dubai were filled with shelflife sensitive products which needed to be moved quickly. Similarly, in the United Republic of Tanzania, increased poultry imports were sourced from The United Arab Emirates' Dubai, which as a free trade port is becoming an important transit point for poultry. While Africa is not one of the targeted zones for the European Union subsidized poultry, the United Arab Emirates is a recipient of European Union subsidized products which could be repackaged and transhipped to other markets. **Animal disease**, in particular zoonotic diseases such as AI, can result in dramatic changes in consumption and trading patterns and in prices. In late 2005 and 2006, a sharply lower poultry consumption in major import markets led to stock build-ups and prices which dropped by nearly 50 percent in a six month period. While some developing countries have also experienced similar consumption shocks due to disease outbreaks or to escalating concern about human health, these lower international prices could induce speculative activity by traders and short-term import surges in developing countries.

APPENDIX 7.3

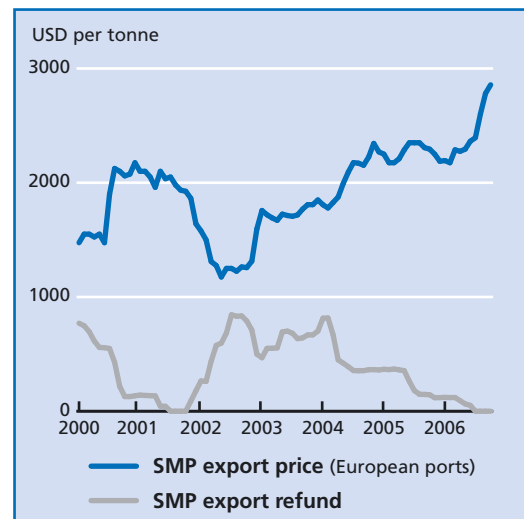
POTENTIAL CAUSES OF DAIRY IMPORT SURGES IN DEVELOPING COUNTRIES

External market factors

Domestic income and price supports contributed to increased production levels and the build-up of surpluses that spilled over into world markets; this was particularly true of the European Common Agricultural Policy (CAP) before 1990 when the European region's exports comprised over half of world trade. It has also been the case under various Farm Bills of the United States with stocks of the Commodity Credit Corporation being disposed of on world markets. Sudden changes in such policies are infrequent, and thus they are unlikely to result in short-term import surges. However, by lowering the level of world market prices, they affect longer run conditions of competition for industries in other countries. Agricultural policy reforms since 1992 in the European Union have helped to reduce excess supplies. Recent increases in international prices reflect this evolving market situation and in particular the CAP reforms of 2003.

Export subsidies are one of the policy instruments most often blamed for import surges and disruptive impacts on dairy product trade. In recent periods of excess dairy product supplies, or weak demand, export subsidies have exacerbated price depression as export subsidies/tonne increase substantially when markets turn down (see following figure); consequently, it is at such times that the potential for import surges is the highest. The largest provider of dairy export subsidies has been the European Union, which supplied about 25, 35, 20 and 30 percent of trade in butter, cheese, SMP and whole milk powder, respectively in the 2000-2004 period. European Union subsidies for these products averaged between 121 percent of world prices for butter to 25 percent for SMP. However, policy reforms and higher world prices have led to reductions in 2005 and particularly in 2006 (see the following figure and table) Historically, the United

FIGURE A7.3-1
SMP Export Price (European Ports) and SMP Export Refund (2000-2006)



Sources: European Commission (2007).

States also provided export subsidies under its Dairy Export Incentive Program (DEIP), but this has not been used since 2004.

The 1998 currency devaluation in the Russian Federation, which was then the largest dairy product importer, caused its imports of butter and cheese to be reduced by half. This reduction, along with larger export supplies from Australia and New Zealand, and the Asian financial crisis of 1997-98, contributed to a drop in international dairy market prices of over 30 percent. Another significant price decline, of nearly 40 percent in 2002, was caused by increasing global supplies that coincided with a world economic slowdown.

TABLE A7.3-1
European Union Export Refunds for SMP and whole milk powder (WMP), annual averages

	SMP Refunds	WMP Refunds
	USD/tonne	USD/tonne
2000	459	791
2001	78	539
2002	611	979
2003	626	1 095
2004	482	1 007
2005	233	722
2006 *	35	597

* SMP refund set to zero since mid-June 2006

Note: Yearly averages of export refund rates determined by the European Commission, in consultation with the Milk Management Committee which is composed of the Union's Member States. Conversion of original rates expressed in Euro to United States Dollar at exchange rate on 15th of prevailing month.

Domestic factors

Low national tariffs mean that domestic dairy sectors must compete at usually low distorted international prices. Some countries which undertook structural reforms following the International Monetary Fund (IMF) directives in the 1980s and early 1990s exposed their domestic sectors to artificially low international prices, while others implemented low tariffs in order to favour the import of low cost supplies to benefit domestic consumers. As a result, in countries with constraints to domestic production and marketing, industries have failed to develop; and demand growth has been mostly met by increased imports. As illustrated by the country case studies, this is a common problem. The examples of Jamaica, Malawi and Sri Lanka fit this situation with underdeveloped dairy industries, insufficient investments to adapt to newer technologies and large and increasing imports that often represent a rising share of the domestic market.

Multilateral trade liberalization is usually gradual and therefore does not result in abrupt and large surges of imports. Country case studies reveal that in many instances, WTO-imposed tariff reductions have involved very gradual tariff declines negotiated on the basis of bound tariff levels, which were unlikely to have contributed to import surges; moreover, applied tariff rates have typically been well below bound rates. In some cases, applied tariff levels have been decreased unilaterally or according to regional trade arrangements, such as in the case of some African countries.

Facilitating the onset and persistence of import surges of dairy products are the **relatively high cost structures of local production** beset by various structural, organizational (including processing and storage constraints) and resource constraints. These unfavourable conditions can potentially translate the incidence of a one time shock in imports into longer-term injury inducing stagnation or reduction of production of dairy products while supporting the expansion of imports of competing products.

Inadequate marketing and transportation infrastructure continues to constrain dairy development. In much of the developing world, dairy production remains largely confined to informal traditional markets, and linkages to international markets remain weak. Above all, linkages to domestic urban markets, where demand is rising quickly, are also often limited leading to increasing reliance on imported supplies.

Variation in national exchange rates can have a direct impact on the prices of imported goods. Mirroring the effects of devaluations in third countries, appreciating national exchange rates make imports more attractive and affordable to domestic consumers. The appreciation of the Franc CFA (the currency for the Communauté Financière Africaine) vis-à-vis the United States Dollar influenced trading patterns for dairy products in some case study countries.

Growth of **foreign direct investment**, for example in supermarkets, tourist hotels or airlines, has led to changing patterns of food procurement and increased

imports of selected dairy products or frozen poultry meat. However, in volume terms these trade flows are relatively small.

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