CONCLUSIONS AND IMPLICATIONS

10

10.1 Summarizing the approach and findings

Many developing countries perceive that import surges in many agricultural commodities have harmed profits and market shares and led to the collapse of some import competing sectors. Whether or not these perceptions were founded remained unanswered. Questions were also raised on what one should do to compensate for the losses or to avoid the alleged injuries. The responses to the surges, from partial to full import restrictions to protect the import competing sector often lacked rigorous analysis that justified their implementation. More importantly, it was unclear whether the observed injuries originated solely from the import surge or from other causes. There was therefore a need to examine the evidence of an import surge to increase the understanding of its causes and impacts and to draw implications of how the surge can be dealt with. Responding to such a need was the purpose of the set of investigations that this book synthesizes.

This book specifically delved into the theoretical and WTO legal framework on how to identify import surge and its sources and on how to measure its impacts. It also outlined some, not all, of the actions to correct the distortions that the import surge may create. The framework was then employed to analyse import surge in selected developing countries' import competing sectors to gather evidence in an attempt to identify the import surge's occurrence, its sources and impacts, and actual measures that government and private sectors have taken. The investigation relied both on basic statistical methods and interviews with stakeholders.

The first part of this book covers the theoretical concepts of and legal framework governing responses to import surge. It highlighted, in particular, the vagueness of the definitions and terminology of import surge and injuries the surge potentially causes. An import surge is commonly known as a sudden and short-lived increase in import but has no standard definition as to its exact duration and threshold (or trigger point). Both domestic and foreign factors can lead to an import surge and often the combination of these factors becomes important as the main cause. An import surge is often seen as a negative event but it can also have positive consequences. Its consequences can be measured through the changes in the values of indicators such as price; production volume, market share and profit; and employment. Governments and private sectors have in theory various tools to deal with import surge and its impacts; these tools range from immediate import restrictions to long-term investment in technology to improve competitiveness and productivity. The first part of this book also devotes an entire chapter that addresses the methodological challenge in defining and identifying import surge, its sources and its impacts. An FAO framework to guide import surge studies is presented.

The second part presents the import surge evidence from the FAO country case studies. The case studies showed that import surges did occur in these countries for a variety of reasons. These included both domestic causes (such as fledging productivity, lack of competitiveness, trade and market reform policies, weak institutions and market failures) and foreign causes (such as dumping of products). These findings, however, do not support a widely–held prejudice that trade liberalization itself is a major cause of import surge, although trade liberalization was one out of many contributors to the surges.

The extent of the consequence of import surges also varied widely across products and countries and the perceptions over the impacts were also mixed among various stakeholder groups. While import surges caused minor or no decline in profit or market shares in some cases, they provoked the collapse of the entire sector in other cases. Similarly, while small- scale producers were feeling harmed by import surges, others such as large-scale producers, processors, traders and especially consumers, claimed benefits from the import surges. This observation raised difficult political economy dilemma over responding to (e.g. preventing) the surges. The studies were inconclusive about the surge's full impacts and externalities. The case studies also revealed the difficulties in distinguishing the injuries caused by import surges from those inflicted by other sources; this confusion about which factor really contributed to the injuries complicated the determination of the appropriate responses to import surge.

Governments' reactions to import surges also varied greatly across countries and across sectors; they ranged from complete or partial import bans and raising tariffs in a few cases to, surprisingly, inactions in many cases. A lack of response appeared to have reasons and interpretations, including the inability to counter market force which harmed producers but favoured processors and consumers. Nevertheless, governments and import competing sectors have been increasingly aware of the need to foster long-term strategy to spur productivity and competitiveness as one of the best ways to reduce the negative impacts of import surges on small-scale producers.

10.2 Implications: what can be learned from the case studies?

10.2.1 No single approach for the study of import surge

There is no unique approach to the identification of import surge, its sources and its impacts because of the heterogeneity of the sectors and countries. Developing countries vary greatly and the sectors within a country also have different stakes with regard to import surge. But as in the case studies reported in this book, the combination of statistical analyses and direct interviews with various stakeholders seems to be a reasonable way to study import surges.

10.2.2 Institutions, productivity and competitiveness are key to prevent surge

Open economies with strong market and market institutions, and sectors equipped with risk management tools, are able to adapt more easily to the fallout from import surge. Similarly, for sectors where consumers value product variety, a competitive domestic sector may survive the sudden surge in import. On the contrary, weak and uncompetitive domestic sectors lose out fast to import surge. Improving productivity and competitiveness in the import competing sector remains the best way to fend off the fallout of an import surge on producers. The evidence put forth in the case studies indicated that low productivity and lack of competitiveness made the domestic sector vulnerable to the import surge phenomenon.

10.2.3 Need for a full account of import surge consequences before intervention

The case studies showed that a holistic approach will be needed for responding to the import surge. Unless a full account of the impacts on all agents (producers, consumers, etc.) and related sectors is undertaken, it is difficult to make an informed judgement about whether to respond or not to surge and to what extent and how.

10.2.4 Need for clear political economy and priority setting

The handling of an import surge stems from the political economy that sets priority of whom to protect first. No single measure is going to satisfy all stakeholders but if fighting poverty in rural areas is, for instance, the priority, then finding ways to help small-scale farmers deal with the surge could be the right action. If the priority is to avoid the sudden disruption of local production which may entail the losses of local jobs and livelihoods of the majority of poor producers, then the safeguard measures are indeed justified.

10.2.5 On the trade off between pursuing agricultural market and trade liberalization reforms (openness), and protecting import competing sector: is it really an issue?

Import surge has been allegedly perceived as a symptom of the setback of the trade liberalization process and often left governments in developing countries wondering whether the process should be stopped and reversed in order to protect the import competing sector. But based on these case studies reported in this book, import surge cannot always be used as an excuse to stop market and trade liberalization and protect domestic industries for at least three reasons. One reason is that the surge does not originate solely from trade liberalization but from a host of factors including weather conditions, low level of productivity, etc. Thus, halting trade liberalization alone may not alter the incidence of the surge. The second reason is that although import surge hurts some stakeholders, trade openness may actually strengthen some of the links in the sector's value chain (e.g. processing, consumption, trades) so that protecting the sector when import surge occurs may squander these opportunity gains. A third reason is that safeguard measures against short-lived import surge are not sustainable and may not protect and hide the sector's lack of efficiency and competitiveness indefinitely; the trade liberalization and reforms may expose rather than cause the inefficiencies of the import competing sector. For these reasons the need for safeguard measure against import surge should be viewed and used as they are intended to achieve as temporary and necessary measures to prevent the sudden disruption of domestic production and the disastrous impacts on domestic farmers and workers. The safeguards are not conceived to counter trade flows indefinitely.

10.3 How do these findings square with other studies?

The literature on agricultural import surge in developing countries has been scarce but some organizations (Christian Aid, World Bank, Oxfam) have performed a number of studies to raise awareness of the consequences of the import surges on domestic sector. Annex 11.1 summarizes some of these studies and findings. Although the methods employed to examine import surges differ, the findings are similar to those reported earlier especially on analysing the responses to the surges. However, some of these past studies put too much emphasis on the role of trade policies and domestic market reforms as being the main responsibility for import surges and attributing the injuries to import surges, while the case studies reported in this book went steps further and identified other major causes of the surges.

10.4 Moving forward: import surges in the current context

10.4.1 Trade monitoring and capacity and rigorous analytical framework

Monitoring and analysing the consequences of import surges is important, and so more resources should be devoted for this purpose. It is important that developing countries set up trade monitoring and build market and trade capacity for more effective and better policy-making and for information sharing between government officials and private sectors. All the case studies showed problems with analytical framework for dealing with import surges. Therefore, improvements are needed along with the search for more reliable data.

One example of quantitative information that is often missing when policy-makers are weighing on what to do with import surges has been the impact of surges on employment. Perfect mobility of labour between sectors does not often apply especially for workers in food processing and manufacturing. While rice farmers out of business may switch with some ease to grow, for example, potatoes or peanuts, recently-fired dairy workers may not be immediately prepared to develop the skills required in tobacco manufacturing or fishing industries. Such stickiness of the labour market hinges on the overall employment cost of the import surges to justify the use of safeguards but requires thorough analyses. The literature provides numerous techniques for *ex ante* analysis that can be fine-tuned for specific country situations and allow timely and appropriate responses to import surges.

10.4.2 Poverty and food insecurity

One way to make interventions related to import surges effective is to focus directly on integrated measures towards the development goals of reducing poverty and achieving food security in developing countries. A single measure on import surge may compromise at least one of these two goals. If, even for a short period, the surge can relieve hunger and bring required nutrients to poor consumers but will put poor farmers out of business, the decisions on whether to allow or stop import surges depend on the government's main priority. The difficulties lie in defining the priorities (beneficiary groups, the benchmark on prices and volume) and can be seen from the examples of the different suboptimal reactions of developing countries' governments to the 2006-9 sharp swings in food prices. Some governments may have overreacted while others did not intervene at all, but whatever their decisions were the government may have unknowingly harmed their intended beneficiary. One then can agree that if safeguards are to be implemented to counter import surges, some accompanying measures may be needed in the form of compensation for the most vulnerable persons on the losing side (e.g. poor urban consumers). The only caution is that policy-makers need to be aware that both the safeguards and the series of accompanying measures are temporary tools that cannot be sustained if used indefinitely against market force.

APPENDIX 10.1
EXAMPLES OF OTHER IMPORT SURGE STUDIES

1. Study by the Association of World Council of Churches related Development Organisations) (APRODEV) partners, 2003-04

Cameroon and West Africa – chicken parts: at a meeting in Brussels between NGOs and European Union officials in June 2005, APRODEV presented a 170-page research document prepared by a Cameroonian partner organization on the impact of massive frozen poultry imports from the European Union into Cameroon and West Africa. The document mentioned that Frozen chicken imports into Cameroon had increased by 2 100 percent in just six years, amounting to 60 percent of local consumption. At the same time, local production fell by 38 percent between 2000 and 2003 alone and many producers (92 of the 100 studied) had to abandon the activity as the price of chicken meat fell due to imports.

According to the document, imported chicken has caused unemployment for 111 000 people. Another case discussed was meat infected by salmonella and other dangerous microbes and up to 85 percent of the sample tested was found to be unfit for human consumption. The study also found that local maize and coarse grain farmers (as the main chicken feed) were harmed by the decline in the sale of local poultry. The APRODEV document also blamed home country customs administrations for corruption. For example, in 2003, total imports amounted to 22 000 tonnes while the authorized official quota was not higher than 8 500 tonnes.

In discussions with European Union officials and business circles, all agreed that there is a problem, and did not dispute the destructive nature of this trade. However, there was a lack of clarity on all sides about the sources of the problem and what to do about these.

2. Studies by Action Aid (the Gambia) (Ceesay and Jagne [2000] and Ceesay, Njie and Jagne [2005])

The Gambia – poultry (Ceesay and Jagne, 2000): the study reports that there was unfair competition between subsidized imports from the European Union and local production of poultry. The impact is shown in terms of reduced market prices that undermined competitiveness and profitability. This further led to business closures and job losses. The analytical content of this study is very weak when it comes to presenting injury indicators and establishing a causal link between imports and injury. The study also recommends tariff protection for the local poultry industry.

The Gambia - poultry meat and eggs (Ceesay, Njie and Jagne, 2005): this repeat study undertaken five years after the previous one is somewhat more detailed. The focus is on three types of poultry producers, backyard, small- to medium-scale and large-scale commercial. It also surveys hotels, supermarkets and other outlets and discusses aspects of consumer preferences. It finds that imports of poultry meat into the Gambia have increased while tariffs declined. The cost of production of local poultry is found to be markedly higher than that of imported meat, which is said to have been "dumped" in view of the subsidies in the European Union. Injury indicators reported include price undercutting and business closures.

3. Cases reported in a Christian Aid document (Christian Aid, 2005)

Senegal - tomato industry: prior to trade liberalization that began from around 1994, Senegal had a thriving tomato industry and had become the twenty-third largest tomato producer in the world. Producers sold tomatoes to state-owned tomato-paste factories. As tariffs were lowered and Senegal's tomato paste factories were privatized, the industry took its toll as imports of subsidized tomato paste from Europe surged. The tomato paste factories stopped buying local tomatoes as it was cheaper to convert imported triple-concentrate tomato paste into double-concentrate paste for local sales. With imports soaring from 221 tonnes in 1993/94 to 4 600 tonnes only three years later, the prices received by farmers fell from XOF 50 to about XOF 25 a kilo during this time. By 1996/97, local tomato production had fallen to only 20 000 tonnes, from 73 000 tonnes in 1990, with other negative effects.

Senegal - poultry industry: growing urban demand has over time led to the development of semi-industrial poultry farms and supply industries around major cities. By 2000, these farms were already producing around a third of the country's total poultry meat, with smaller traditional farms supplying the remaining two-thirds. All this changed in 2000, when the Government lowered tariffs on imported chicken parts from 60 to 20 percent, as part of tariff adjustments related to WAEMU and the country's SAP. The effect was an eleven-fold increase in the volume of chicken meat imports between 1999 and 2003, three-quarters of it from the European Union and mostly in the form of frozen chicken parts, which sell for as little as half the price of the local equivalent. As a result, chicken prices depressed in Senegal and local chicken production dropped by a third, leading to around 2 000 job losses, closure of seven out of every ten chicken farms in Senegal, and a huge negative impact on small farmers. The collapse of the chicken industry has also cost many of Senegal's maize farmers their livelihoods.

Ghana – tomato industry: between 1993 and 2003, there was a staggering 628 percent increase in processed tomato imports into Ghana. In 2003, 27 000 tonnes of prepared European Union tomatoes entered Ghana, at a cost of EUR 25 million in lost foreign exchange, and overtook the market for locally processed tomatoes and further depressed the expansion of the domestic tomato-processing industry. Imports have also shifted consumer tastes in favour of imported tomato paste, filled with additives, which threatens future growth of the local industry. There is a consensus among stakeholders that two policy measures will be needed to help the infant tomato-processing industry take off, tariff protection and production support. The SAPs most probably will prevent the former measure. The influx of tomato paste from Europe is of particular concern because local processing can provide a safety valve for the fresh tomato market when there is a glut, the excess can be canned or made into concentrate to save it from perishing. This is of great importance to Ghana's large number of poor tomato farmers who, in spite of a lack of firm links into the processing and marketing chain, still grow tomatoes.

Ghana - poultry industry: Ghana imports more than 30 percent of total European Union frozen chicken exports to West Africa. With reduced tariffs under SAPs and WAEMU, West Africa as a whole has seen an eightfold increase in European Union chicken imports. Between 1993 and 2003, there was a 144 percent rise in the already high level of poultry meat imports into Ghana. Although consumers are dissatisfied with the quality of the imported meat, most of them eat imported meat because it is significantly cheaper than locally produced and processed chicken. Locally grown broilers are sold at Ghanaian Cedi (GHC) 28 000 (Pounds Sterling [GBP] 1.60) per kilo, whereas poultry imported from the European Union costs only GHC 16 000 (92 pence) per kilo, less than the local cost of production. As a result of these developments, the livelihoods of some 1 000 registered and many more unregistered small-scale poultry farmers are said to be now under threat, and already there are signs that the industry is collapsing. The National Poultry Farmers' Association estimates that tariffs would need to be in the region of 80 percent (bound level being 90 percent), four times their current level, to allow local producers and processors to compete fairly with European Union imports.

4. OXFAM studies on dairy products, rice and maize (OXFAM, 2002, 2003 and 2004)

This study reports three cases of the effects of import surges, along with an analysis of the causal factor, which is the European Union dairy policy that generates "surges" on account of domestic and export subsidies.

Dominican Republic – whole milk powder (WMP): national dairy consumption doubled in the 1990s and the rising demand has largely been met by imports while domestic production has been stagnant. The volume of dairy imports more than trebled during the 1990s, reaching 325 million litres in 2000. The European Union accounts for a major proportion of the imports. According to the study reported in the document, the price of European Union milk powder imports systematically undercut the local price of fresh milk by 25 percent, in part because of the European Union's export subsidies. The Dominican Republic was then the fifth most important market for European Union WMP exports. Around 10 000 farmers are estimated to have been forced out of business during the past two decades, in spite of considerable investment in the dairy sector by the Government and the industry itself. Most of the dairy farmers are small scale and suffer from poverty and food insecurity.

Jamaica – milk powder: trade liberalization in the early 1990s resulted in domestically produced fresh milk being pushed out of the market by subsidized European milk powder as the major input for the Jamaican dairy processing industry. The volume of subsidized European Union milk powder exports to Jamaica more than doubled during the 1990s. This had devastating consequences for local milk producers, many of whom are women running their own businesses.

Kenya – milk powder: the dairy sector in Kenya employs more than 600 000 small-scale farmers and accounts for around 10 percent of total Gross Domestic Product (GDP). The country is self-sufficient in milk production, but in 2001 Kenya experienced a surge in imports of European Union milk powder and butter. These products were imported by dairy and food processing companies, including multinational companies, at cheap (subsidized) prices. As a result, dairy and processing companies lowered the prices they offered to local producers for fresh milk to a level below domestic cost of production. After a lobby campaign by the Kenya Dairy Board, the Government agreed to double dairy import tariffs in order to protect local producers. The concern remains nevertheless that these short-term and ad hoc responses will not solve the recurring problem facing Kenyan dairy farmers.

Honduras – the *arrozazo* (rice scandal): the story began in 1991 when Honduras decided to drastically reduce rice import tariffs to make up for shortages from a drought. Imports naturally surged as needs were large, but there was no revival in production and so imports continued to rise. By 2002, rice production had fallen to 7 521 tonnes, equivalent to a reduction of 86 percent since 1991. Rice import amounted to 145 441 tonnes in 2002, the equivalent of 95 percent of consumption, compared with approximately 5 000 tonnes in 1989. The OXFAM study presents the analysis covering the reasons for the surge and importantly the injury side also. Producer prices plunged more than 28 percent in just one year, and continued until 1994 to a record low. As a result, areas under rice cultivation fell markedly. Quantified injury indicators include the sharp reduction in the farming households (from about 25 000 in the 1980s to about 2000 at present) and large-scale loss in direct and indirect jobs.

This case is somewhat similar to that of rice in Haiti. What is not clear in both cases, however, is what prevented the revival of the rice farming? In the SA, a situation like this would be known as "material retardation", imports prevented the revival of the industry following a shock.

Mexico – maize: OXFAM has argued that NAFTA has been responsible for a surge in United States maize exports to Mexico and that it contributed to the decline in the real producer price of maize, with hardships for maize farmers (OXFAM, 2003). This study first analyses maize subsidies in the United States as the source of the dumping. It was claimed that the resulting flood of imports has resulted in an increase in poverty of the 15 million Mexicans who depend on maize as a source of income.

5. World Bank: do cheaper imports undercut domestic price? (World Bank, 2004)

Mexico – maize: the impact of NAFTA on the Mexican agricultural sector, notably on poor maize farmers, has attracted considerable attention in the literature. Rather than a case of an import surge in the classical sense, these concerns are more about worsening trends in production in the face of rising imports, i.e. a case of longer surges. There are accounts of the loss of hundreds of thousands of agricultural jobs in Mexico. The *World Bank Trade Note* no. 18 (World Bank, 2004) looks at this issue by asking whether the removal of restrictions on maize imports suddenly drove down the producer price of Mexican maize toward the cheaper United States export price at the cost of Mexican maize production and poor farmers?

What may be relevant for the import surge case studies is the cointegration analysis of the United States-Mexican maize prices. Using monthly maize producer prices for the two countries, the authors find that Mexican maize prices fluctuated in tandem with United States prices before and after NAFTA and the margins that separated the prices in the two markets were virtually constant. If NAFTA had been the culprit of declining prices to poor farmers, one would see the evidence that imports were driving Mexican prices even closer to the United States price, which they did not.

The study notes further that Mexican maize farmers were afflicted by a severe decline in the purchasing power of maize, but this was a trend that pre-dated NAFTA by a decade or more. Moreover, there was no negative impact on the other injury indicator, Mexico's volume of maize production actually rose after NAFTA in 1994, and primarily because of the efforts of farmers, mainly poor and subsistence, producing rainfed maize. This is the type of sequence of reasoning that one finds in the subsidies dispute, notably on "non-attribution" issue. As in the subsidies disputes, these are very difficult matters to settle analytically.

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