



# PART 3

SELECTED IMPORT SURGE  
PAPERS FROM THE FAO  
COUNTRY CASE STUDIES

# ANNEX I

## THE EXTENT AND IMPACT OF DAIRY PRODUCTS(DMP), SUGAR AND MAIZE IMPORT SURGES IN KENYA

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### 1. INTRODUCTION AND BACKGROUND

#### 1.1 Background and the rationale for the case study

Agricultural production in Kenya, comprising both crops and livestock produce, is an important sector in the country's economy because it accounts for about 25 percent of Kenya's GDP and supports the livelihoods of about 80 percent of the country's population. Farmers in Kenya undertake mixed enterprises, and many of them keep some livestock (especially dairy animals) alongside crop farming wherever the agro-ecological conditions permit.

Kenya, like most other developing countries, is concerned about steadily increasing food imports, which are generally referred to as food import surges, and their impact on agricultural development in the country. In the 1994 Uruguay Round of the international talks and negotiations for an Agreement on Agriculture (AoA), an import surge is defined as a situation in which imports exceed a given threshold, as determined by certain established period values, that causes or threatens to cause serious injury to the domestic (i.e. importer country's) economy.

The food import surges phenomenon has attracted considerable attention in recent years. There have been increasing reports of the developing countries experiencing surges in the import of various food products, especially since the mid-1990s, and often with reported negative effects on local production and economy. Several such cases were reported in a number of country case studies undertaken by

different institutions, including the FAO and several national and international civil society organizations. Many of those cases have focused on experiences with the implementation of the Agreement on Agriculture (AoA)--14 case studies in FAO 2000, 23 case studies in FAO 2003, and two country case studies in 2004.

This case study is part of an FAO project whose end goal is to document and analyze the capacity of the developing countries to identify, analyze and respond to import surges. The study specifically aims to: (i) document a surge or increase in imports; (ii) investigate the reasons for the surge; (iii) identify the injury impact, both on the local industry and other related sectors; and (iv) determine causality mainly through the elimination of other potential contributors to the injury indicators.

The various FAO case studies are informed primarily by examining the trends in the imports of some selected food commodities in a number of selected developing countries over the last one decade. The choice of the food commodities to be included in the case studies was influenced by the significance of the different commodities in the economies of the selected countries and the fact that the imports of those commodities in the selected countries have been increasing in recent times. For this reason, the case study in Kenya focuses on the imports of maize, sugar and dairy products (dry milk powder). The three commodities are key agricultural commodities in Kenya in terms of their significance in supporting food security and rural livelihoods in the country. Therefore, it is important that the extent and impact of the imports of these commodities on Kenya's economy are appropriately analyzed and well understood.

## 1.2 The study process

The study involved the identification of the import surges and the reasons thereof, with special focus on the understanding and documentation of the injury to the domestic economy, if any, including its causation and non-attribution. The study utilized both qualitative and quantitative survey methods.

### 1.2.1 Qualitative surveys

On the qualitative side, interviews were held with the various stakeholders to the import surges, including government officials, farmers and farmers' associations, importers/traders/food processors, research institutions and civil society/Non-Governmental Organizations where feasible. Accordingly, the people/institutions mentioned hereafter were interviewed.

- (i) In the case of the Kenya's dairy Industry, the Institutions/People Interviewed included the Kenya Cooperative Creameries Limited (KCC) General manager, a Director of Spin Knit Dairies Ltd ("Tuzo" Dairy Brand), Chairman and Sales manager for Githunguri Dairy Farmers Cooperative Society Limited (a farmers' cooperative society that is also involved in Dairy Processing), officials of Kenya Dairy Board, including the Managing Director, Director and Assistant Director of Livestock Development in Kenya, Head of Development Planning and Information Services Department in the Ministry of Livestock and Fisheries Development in Kenya and Managing Director of Eldoville Farm and Food Processors.
- (ii) In the case of Kenya's Maize Industry, the People/Institutions Interviewed included the Ministry of Agriculture officials, including the Permanent Secretary for the Ministry of Agriculture in Kenya, the officials of the National Cereals and Produce Board in Kenya (NCPB), including the NCPB Managing Director, the Chief Executive Officer for the Cereal Growers Association (CGA) of Kenya, and some participants at the Regional Grain Summit for Eastern and Southern Africa that was recently held in Nairobi, Kenya (11–13 October 2005).

- (iii) In the case of Kenya's Sugar Industry, the People/Institutions Interviewed included the Ministry of Agriculture officials, including the Permanent Secretary for the Ministry of Agriculture in Kenya, the officials of the Kenya Sugar Board in Kenya (KSB), including the KSB Acting Managing Director, and a number of Sugar Industry Stakeholders who attended the National Consultative Workshop that was organized under the auspices of Actionaid Kenya Country Program under the team leadership of Mr. Peter Kegode in Nairobi, Kenya, on 22<sup>nd</sup> August 2005.
- (iv) Some general stakeholders to food import surges and some selected researchers were also interviewed, and these included: (a) a number of people who had attended a National Dissemination Workshop on the Assessment of the Effects of Economic Partnership Agreements (EPAs) that had been organized by the Kenya Institute of Public Policy Research and Analysis (KIPPRA) in Nairobi, Kenya, on 1<sup>st</sup> November 2005, under the Auspices of the Ministry of Trade and Industry through the Kenya-European Union Post-Lome Trade Programme (KEPLOTRADE); and (ii) senior officials of the Kenya Federation of Agricultural Producers (KENFAP).

### 1.2.2 Quantitative survey: focus on the types of data collected

On the quantitative side, efforts were made to (i) collect and analyze trade statistics for the selected commodities (i.e. products whose imports are under investigation), and (ii) to identify Government Policies and Measures that affect imports of both the products in question as well as the "like" and "competitive" products and how these policies have developed over time, particularly since 1995, when some of the Uruguay Round (UR) agreements started being implemented selectively, in order to be able to provide an assessment of how these measures, or changes thereof, might affect import trends.

The Government Policies and Measures that affect the imports of both the products in question as well as the "like" and "competitive" products are varied and include taxes (e.g. tariff measures and other taxes and duties), import licensing and other non-tariff barriers, import restrictions (e.g. seasonal import bans, tariff

quotas, etc), trade remedy measures (e.g. special safeguards, or any other WTO general trade remedy measures), imports by State Trading Enterprises, and standards and technical requirements (e.g. SPS and TBT measures).

The aim of characterizing the imported products into whether they are “like”, “competitive” or “substitutable” products<sup>1</sup> in relation to the domestic products was to identify the various market participants who could be affected by an import surge of a specific product through a determination of the linkages between the imported product and the affected participants.

Given that price is the central mechanism by which markets are integrated or linked, efforts were also made to try and obtain longer term price series, especially monthly price series where possible, in order to be able to trace the effects of world market prices on local industries. The focus in the collection of price statistics was thus on the farm-gate (producer), wholesale and retail prices, identified on the basis of the markets in which the imported product competes with the domestic product, and/or where the prices of substitute products may have been affected. An evaluation of the production cost structure for the commodity under investigation and the internal handling and transportation charges was also undertaken in order to be able to better understand the nature of competition between domestic and imported products.

### 1.3 Analytical methodology for the identification of import surges

Measuring the impact of import surges on local economies is a difficult task that requires sound, in-depth analyses. In fact none of the reported cases of food import surges in developing countries quoted in the preceding paragraph have been based

on rigorous studies that meet the stringent WTO analytical procedures and criteria for the reported food imports to qualify to be treated as surges. In the case of Kenya, Oxfam studies on the imports of dairy products, rice and maize into Kenya suggest that the import surges for the three identified products may have been injurious to the domestic economy (Sharma, 2005). However, Sharma (2005) is quick to point out that these case studies in Kenya fall short of the standard needed to prove an injurious import surge under the WTO safeguards dispute cases.

Despite the methodological controversies in the determination of whether or not a given level of food imports constitutes an import surge, there is a concern that the problems associated with food import surges will intensify in the coming years as tariffs are further reduced while the developing economies lack alternative forms of safeguards for farmers. It is for this reason that the phenomenon of food import surges is fuelling growing concerns in developing countries such that most of them are not comfortable with undertaking further trade liberalization without putting some safeguard measures in place.

In the Kenyan case study, the identification of an import surge is undertaken using a methodology that is proposed and discussed in FAO (2005). According to that methodology, an import surge is said to occur whenever the level of imports in given year exceeds the moving average for the last three years by at least 30 percent. Mathematically, this approach implies that a surge will be said to have occurred if the outcome of  $\mathbf{A}$  divided by  $\mathbf{B}$  and multiplied by  $\mathbf{100}$  and then reduced by  $\mathbf{100}$  is greater than 30, where  $\mathbf{A}$  = Average Level of Imports in a given year and  $\mathbf{B}$  = Moving Average Level of Imports over the Previous Three Years in relation to the given year. For the purposes of determining the “moving averages” for the last two most recent observations, one can get an average for each of the two figures by adding each figure to the previous two entries and then getting the average.

## 2. FOOD IMPORTS AND IMPORT SURGES

### 2.1 Introduction

This case study necessarily depends heavily on the official or recorded food imports that enter the

<sup>1</sup> Under the Subsidies and Countervailing Measures (SCM) Agreement: “like’ product is interpreted to mean a product which is identical (i.e. alike in all respect to the product under consideration, or in the absence of such a product, another product which, although not alike in all respects, has characteristics closely resembling those of the product under consideration.) . In contrast to the technical nature of the word substitutable, the interpretation of the word competitive is based on economic reasoning, from the demand or consumer side. Evidence on elasticity of substitution is useful.