

**act:onaid**

*Impact of  
Agro-Import  
Surges  
in Developing  
Countries*



**Right to Food**



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# Abbreviations and Acronyms

AoA	Agreement on Agriculture
ACP	African, Caribbean and Pacific Countries
ACEF	Agricultural Competitiveness Enhancement Fund
ASEAN	Association of South East Asian Nations
BULOG	Badan Urusan Logistik (Indonesian Bureau of Logistics)
CIF	Cost, Insurance and Freight
COMESA	Common Market for Eastern and Southern Africa
DA	Department of Agriculture
ECOWAS	Economic Community Of West African States
EPAs	Economic Partnership Agreements
ERP	Economic Recovery Programme
EU	European Union
FAO	United Nations Food and Agriculture Organisation
FCI	Food Corporation of India
FTA	Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
GPMB	Gambia Produce Marketing Board
ICASEPS	Indonesian Center for Agricultural Socio Economic and Policy Studies
ICTSD	International Centre for Trade and Sustainable Development
IFIs	International Financial Institutions
IMF	International Monetary Fund
KCC	Kenya Cooperative Creameries Limited
KSH	Kenyan Shilling
LDCs	Least Developed Countries
QRs	Quantitative Restrictions
SAPs	Structural Adjustment Programmes
SPs	Special Products
SPS	WTO Agreement on Sanitary and Phyto-sanitary Measures
SSG	Special Safeguard Clause in AoA
SSM	Special Safeguard Mechanism
STEs	State Trading Enterprises
UK	United Kingdom
USA	United States of America
USDA	United States Department of Agriculture
WFP	United Nations World Food Programme
WTO	World Trade Organization



# Executive Summary

The rural poor and local economies of the developing world have had profound and devastating impact due to food import surges, which have been rising rapidly since the 1980s.

**Chapter 1** outlines the extent of import surges. According to the UN's Food and Agriculture Organisation, up to 12,167 import surges were recorded between 1980 and 2003 in 102 developing countries. On an average, each country experienced a major occurrence of nearly 120 import surges—a minimum 30% increase in volume over a previous three-year moving average. At any given time, there is a one-third likelihood that an import surge is occurring in each product and in each country. The worst affected have been the poorest developing countries. Even though Africa accounted for only 5% of global poultry trade, 50% of import surges in poultry occurred in that region. Developing countries used to be net food exporters. The situation has changed now and the poorest are affected the most. The cost of the food import basket for the Least Developed Countries (LDCs) in 2007 was roughly 90% more than it was in 2000, in contrast to a 22% increase for developed countries over the same period. The world's food import bill stood at \$745 billion in 2007, up by 21% from 2006. Developing countries foot \$233 billion of this bill. As a result of demand in biofuel production, rising prices of imported coarse grains and vegetable oils are expected to increase still further. The FAO has already warned poor developing countries that the ever-increasing cost of imported food is likely to result in cuts in food consumption, leading to increased incidence of malnutrition.

Import surges have taken place across all regions. **Chapter 2** provides a brief synopsis of the import surge cases studied both by the ActionAid and FAO. These include sugar and dairy in Kenya; rice, tomato paste and poultry in Ghana; rice in Gambia; poultry, rice and vegetable oils in Cameroon; rice and dairy products in Tanzania; poultry and vegetable oils in Mozambique; rice and poultry in Cote d'Ivoire; rice surges in Honduras, Indonesia and Nepal; tobacco and

onions in the Philippines; dairy in Sri Lanka and cotton surges in Brazil.

A variety of factors trigger food import surges. Domestic as well as external causes are outlined in **Chapter 3**. Domestic causes include trade liberalisation; the dismantling of marketing boards; shortfalls in domestic production; the elimination of support for domestic food crops and governments' prioritisation of exports; pressures from the financial institutions as well as exchange rate fluctuations. When Ghana reduced its rice tariffs from 100% to 20%, rice imports doubled. In Cameroon, lowering tariff protection to 25% increased poultry imports by about six times.

External causes of food import surges include dumping and the role of subsidies in exporting countries, particularly the US and EU; currency fluctuation in third countries leading to exports being diverted and dumped elsewhere; food aid; as well as changes in the policies of exporting countries. Highly subsidised EU chicken has in recent years wiped out 70% of Senegal's poultry industry. EU milk export has decimated tens of thousands of small farmers in Jamaica, Kenya, Sri Lanka, the Dominican Republic, etc. When India decided to de-stock its rice surplus, rice flooded into Nepal and Cameroon. When the Brazilian Real lost a third of its value against the US dollar in 2001, there was a sharp increase in Brazilian poultry exports. Cameroon saw poultry imports originating from Brazil increase by 885%. When the Russian Ruble fell against the dollar in 1998, the US, which had been the primary exporter of poultry to Russia, directed its poultry to third countries. Cameroon, which had not imported poultry from the US in 1999, imported 639 tons in 2000.

The economic and human costs of import surges are high. **Chapter 4** provides the details of several cases. Sugar imports skyrocketed in Kenya between 1984 and 2004. This had a devastating effect. From producers to processors, the entire sector became impoverished. Employment levels shrank by 79%. Due to retrenchment and factory



closures, 32,000 people became jobless. This does not include the farmers in the villages who were left stranded with no access to markets. Whole villages became “non-income” zones.

In Ghana, when rice imports increased by 80% between 1998 and 2003, the share of the domestic market local producers captured, declined from 43% in 2000 to only 29% in 2003. Some 66% of rice farmers registered negative net returns and many even abandoned their rice fields. Poverty has increased amongst food crop farmers.

The fivefold increase in Mozambique's vegetable oil sector led to the contraction of local production, which fell from 21,000 tons in 1981 to 7,000 tons in 2001 and 3,500 tons in 2002. Oil crushing factories closed down.

Milled rice imports more than doubled in Gambia from 33,680 tons in 1980-1981 to 74,000 tons by 2004-2005. The imports were a blow to the domestic rice sector. As a result, domestic production fell from 6.3% to 3.1%.

With the flooding of Indian rice into Nepal, farmers' incomes shrank by 40-50%. Many were pushed into debt as input costs increased and incomes declined. In some districts, 30% of rice mills closed.

In the course of embracing liberalisation, Brazil reduced its cotton tariffs from 10% to zero. Exchange rates were also high and imports were cheap. Between 1990 and 1993, lint import volumes increased six times. From 1992 to 1993, domestic production fell drastically and production contracted by nearly half. It has been estimated that in one state alone, Parana, from a total of 400,000 casual farm hands, 135,000 workers lost their cotton harvesting jobs.

Governments have responded in several different ways to import surges. Some have been forced by political pressures to take measures that are technically illegal under the WTO rules. **Chapter 5** provides examples of the range of instruments countries have used both legal and illegal under

the WTO including tariff hikes; quantitative quotas; import bans; and other import governance instruments. The Philippines has utilised its access to the WTO's Special Safeguard Clause in order to increase its tariffs on onions. Cameroon put in place a quota of 5,000 tons to block excessive imports of poultry. Indonesia has used a ban on rice imports during certain times of the year. Countries have also used non-tariff barriers - Indonesia bans poultry from the US on the grounds that the chicken has not been prepared according to Muslim standards. Honduras uses a very creative procurement regulation for rice. Millers are allowed to import paddy duty free, at volumes proportional to their purchase of local rice. However, this can only be done once all the domestically produced rice has been purchased by the millers.

**Chapter 6** concludes the report with recommendations for the Doha Round, particularly pertaining to the Special Safeguard Mechanism (SSM) proposed by the G33 group of developing countries. Such a Mechanism will allow countries to take import restrictive measures in times of surges. The recommendations include

- ◆ Should the Doha Round be concluded, the negotiations must include a Special Safeguard Mechanism (SSM) which is simple to use and quick to invoke;
- ◆ The SSM remedy must allow countries to use both increased tariffs as well as quantitative restrictions. Countries should be able to choose one or both of these instruments;
- ◆ The instrument should be available to all agricultural products of developing countries;
- ◆ State trading enterprises should be strengthened in order to manage imports, exports, determine prices and procure food from small producers;
- ◆ The SSM must allow countries use of both the volume and price triggers. Both these triggers are appropriate for different circumstances and complement each other;



- ◆ Measuring an import surge as a 25 or 30% increase in volume would not be a sufficiently effective tool to support small farmers. ActionAid proposes the following definition of a surge: “An import surge occurs when the volume of imports increases in real or absolute terms in a year to an extent which is detrimental to the domestic producers”;
- ◆ The price trigger remedy should be based on the difference between the import price and the trigger price.
- ◆ The Special Products instrument exempts certain products from tariff reduction in the Doha negotiations. It gives protection to sectors, which cannot compete in the greatly distorted world market or sectors, which are important for rural livelihoods. The Special Safeguard Mechanism deals with price declines and import volatility. Both instruments are complementary and necessary. They both have in common the protection of domestic and regional markets for local small farmers.
- ◆ Since in certain cases, the Uruguay Round bound tariff rate is insufficient to curb the import surge, the SSM should allow tariffs to be raised even beyond the Uruguay Round bound rate if necessary.
- ◆ In the past 25 years, the conditionalities of the IMF and the World Bank have been largely responsible for the liberalised trading environment and the resultant food import surges. Today, the same conditionalities are being locked in by regional common external tariffs, and worse still, by free trade agreements that are pushing the majority of tariff lines in food down to zero. International Financial Institutions (IFIs) conditionalities, regional common external tariffs and free trade agreements have to be revisited if we are to retain our policy space to use tariffs, quantitative restrictions and supports such as market boards, and reinvigorate domestic and regional markets so that local producers can have access to local markets.

The SP and the SSM, whilst they are instruments to be supported, must be complimented by additional policy tools if their objectives are to be realised: a mechanism to curb dumping; price supports; and other forms of supply management so that domestic markets are available to local producers and prices are stable.





# Besieged by Imports: Food Import Surges and the Farm Crisis in the Developing World

## INTRODUCTION

As negotiators lock horns in in-depth agriculture negotiations at the WTO and other trade negotiating fora, a silent yet rampant crisis is being fundamentally ignored. Food imports into developing country markets have risen rapidly since the 1990s. So overwhelming is the volume that certain domestic sectors in importing countries have been wiped out (e.g. Soya bean and cotton in Mexico)<sup>1</sup>. In other cases, the sector is left severely crippled. Thousands, even millions of lives have been affected. Farm jobs have been lost; agro-processing industries have closed down; indebtedness has increased; communities have been decimated; and suffering has escalated. As agriculture remains the mainstay of many developing countries' economies, the impact of import surges has been severe. It is the main source of employment, providing 40-80% of jobs. Since alternative employment in services or in the industrial sector is often not readily available, and certainly not in these large numbers, loss of employment in agriculture is often tantamount to increased poverty, food insecurity, and also the loss of access to essential services, such as education and healthcare.

When there has been an import surge in these commodities, certain areas that are economically dependent on a single commodity have been particularly affected. In Kenya, for instance, the import surge of sugar reduced in certain provinces that were economically sugar dependent into what a Kenyan researcher terms "non-income" zones,<sup>2</sup> with the result that poverty has been exacerbated.

## WHAT IS AN IMPORT SURGE?

The WTO's Agreement on Agriculture does not provide any explicit definition of import surge. A working definition of import surges can be found in Article 2 of the WTO's Agreement on Safeguards:

"When a product is imported into a country in such increased quantities, absolute or relative to domestic production, and under such conditions as to cause or threaten to cause serious injury to the domestic industry that produces like or directly competitive products."

As establishing 'proof of injury' or a threat of 'serious injury' is difficult, this definition severely limits the developing countries ability to invoke the Safeguard Agreement. In many developing countries, informal trade is high; and accurate, up-to-date trade data is not readily available.

Therefore, another definition that does not require prior 'proof of injury', which originated from the 64th Session of FAO's Committee on Commodities, is used commonly. It defines an import surge as a "20 percent (positive) deviation from a 5-year moving average of import volumes."

As mentioned earlier, however, since there is no unique agreed definition of import surge, in this study, we have used a working definition of import surge as a 30% positive deviation from a three-year moving average of import data and, alternatively, as one standard error above the moving average. This definition was first used by the FAO in its recent analysis of import surges in 102 developing countries for the period between 1980 and 2003. However, it is important to mention that the selection of benchmark threshold has a significant effect on the determination of the existence of an import surge; the number of cases is clearly greater when the threshold is lower.

1. Glipe, A. 2006, "Achieving Food and Livelihood Security in Developing Countries: The Need for a Stronger Governance of Imports", *Ecofair Trade Dialogue Discussion Paper No. 2*, December.

2. ActionAid Kenya, 2005, "Impact of Sugar Import Surges on Kenya".





## PREVALENCE OF IMPORT SURGES

The list of import surges that developing countries have suffered in recent years is almost unending. A FAO study of 102 developing countries found that they had undergone between 7,000 and 12,000 import surges<sup>3</sup> over a 23 year period.<sup>4</sup> Just to name a few examples, import surges have occurred in dairy, maize and sugar in Kenya; rice, poultry and tomato paste in Ghana; poultry, rice and vegetable oils in Cameroon; onions and rice in the Philippines; rice and Soya in Indonesia; maize, sugar and milk in Malawi; oilseeds in Mozambique; rice, dairy and maize in Tanzania; dairy, poultry and onions in Jamaica; oilseeds in India; onions, potatoes and dairy in Sri Lanka; tomato paste in Senegal; Soya beans and cotton in Mexico; rice and poultry in the Gambia; and rice in Haiti (numerous FAO and ActionAid case studies; Glipo 2006; Kwa 2002).

An earlier FAO study in 28 developing countries found that all of them had experienced repeated

surges in eight basic commodities<sup>5</sup> (a massive 1,217 cases in total). Alarming, *at any given time, there was a one-third likelihood that an import surge was occurring in each product and in each country.* It was also observed that the price slumps for primary commodities could linger for significant periods of time between 25 months (coconut oil) and 70 months (bananas).<sup>6,7</sup>

Since FAO, in the above studies used the definition of a surge as an increase of imports by 20% from a five-year moving average of import data, the figures mentioned underestimate the real injury caused. However, much smaller increases in imports have been shown to adversely affect local production and employment. For example, ActionAid's Nepal case study illustrated that rice farmers were already affected when imports were only 7-8% of the local consumption market.

The FAO table below highlights some cases of import surges, the extent of the surge and the injury caused:

Country / Commodity	Imports Increased by	Local Production Decreased by
Senegal- Tomato Paste	15 times	50%
Burkina Faso Tomato Paste	04 times	50%
Jamaica Vegetable Oils	02 times	68%
Chile Vegetable Oils	03 times	50%
Haiti - Rice	13 times	Small
Haiti Chicken Meat	30 times	Small
Kenya Dairy Products	"Dramatic"	Cut local milk sales
Benin Chicken Meat	17 times	Declined

Source: FAO 2003, "Some Trade Policy Issues Relating to Trends in Agricultural Imports in the Context of Food Security", Committee on Commodity Problems, CCP 03/10, 2003.

From the cases studied, it appears as if import surges cause greatest injury to the countries that have least economic wherewithal to resist the onslaught i.e. the poorest countries. A study on poultry import surges shows that although Africa accounts for only 5% of global poultry trade, 50% of import surges in poultry occur in Africa, with very substantial adverse impact on local industries.<sup>8</sup>

3. Covering 23 food groups, the FAO study found 7,132 surges using a 30% deviation from a previous three-year import average. If the WTO's Special Safeguard (SSG) method of calculation is used, the number is an alarming 12,167 surges.

4. FAO 2005, 'FAO Import Surge Project'. Working Paper No. 2, May. The tables illustrating the countries, products and frequency is available at [http://www.fao.org/ES/ESC/common/ecg/108226\\_en\\_Surge2Define.pdf](http://www.fao.org/ES/ESC/common/ecg/108226_en_Surge2Define.pdf)

5. Wheat, rice, maize, vegetable oils, bovine meat, pigmeat, poultry meat and milk

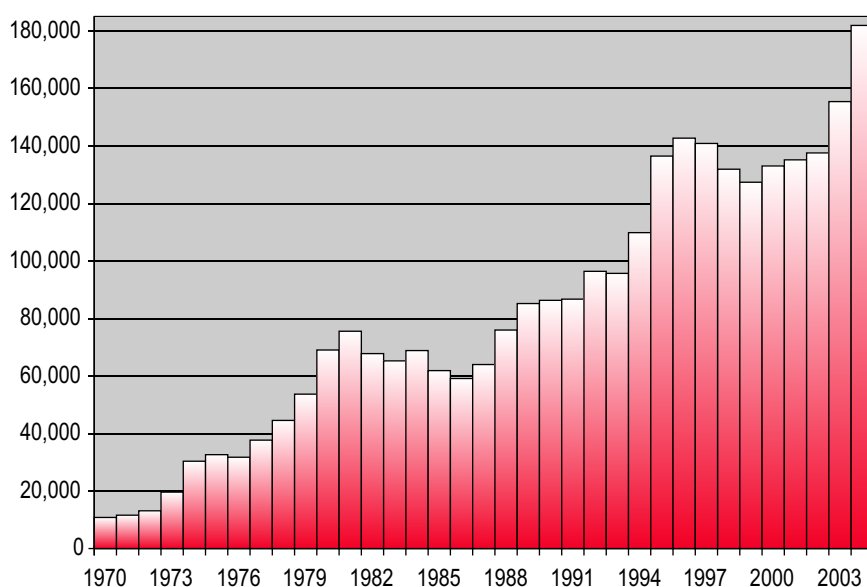


## MORE DEVELOPING COUNTRIES BECOME NET-FOOD IMPORTERS

There are other economic ramifications. More countries are moving from being net-food exporting countries to becoming food deficit or net food importing countries, deepening the current account deficits as countries' import bills increase, apparently without respite.

In the 1960s, developing countries had an overall agricultural surplus of about US\$7 billion. By the 1970s, imports had increased and the surplus had shrunk to US\$1 billion. By the end of the 1980s, however, the surplus had disappeared. Most of the 1990s and 2000s saw developing countries develop into net food importers. The deficit in 2001 was US\$11 billion. The poorest countries have been hardest hit by being net food exporters.

Figure: Developing Countries: Imports of agricultural and food products, 1970-2004 (US\$ millions in nominal terms)



Sources: Glipo, A. 2006, constructed from FAOSTAT figures

LDCs have seen their import bill rapidly increase. The cost of the food import basket for the LDCs in 2007 was roughly 90% more than it was in 2000, in contrast to a 22% increase for developed countries over the same period. The world's food import bill stood at US\$745 billion in 2007, up by 21% from 2006. Developing countries bore US\$233 billion of this bill. Rising prices of imported coarse grains and vegetable oils are expected to increase still further as a result of demand in biofuel production. The FAO has already warned poor developing countries that the ever-increasing cost of imported food is likely to result in cuts in food consumption, leading to increased incidence of malnutrition (FAO Newsroom 2007; Blas 2007).

*In all, the amounts spent on imports by developing countries have increased by 1,596% in nominal from 1970 to 2004. Figure 1 below provides a visual illustration of this phenomenon. In contrast, most African countries have not seen their export earnings increase significantly.*

There are multiple causes of import surges including currency fluctuations, elimination of supports to a sector, shortfalls in domestic production, food aid, third countries' de-stocking policies, direct or indirect export subsidies, etc. However, a principal reason for import surges has been the lowering of trade barriers and other liberalisation measures. This has occurred when countries take on the conditionalities imposed by the International Monetary Fund (IMF) and the World Bank at the time

6. FAO "No. 9. A Special Safeguard Mechanism for Developing Countries" Trade Policy Technical Notes on Issues Related to the WTO Negotiations on Agriculture. (No Date provided) [ftp://ftp.fao.org/docrep/fao/008/i5425e/i5425e00.pdf](http://ftp.fao.org/docrep/fao/008/i5425e/i5425e00.pdf)  
 7. FAO 2003 study measured an import surge as a 20% deviation from a five-year import average.  
 8. FAO 2007k "Commodities No. 1. Import Surges in Developing Countries: The Case of Poultry".



when loans are made - historically known as structural adjustment programmes (SAPs), or when countries make liberalisation commitments at the World Trade Organisation or other regional or bilateral free trade agreements.

The ability of governments to carefully regulate imports has been severely eroded especially through the process of structural adjustment, and today, also through free trade agreements. The danger in the WTO Doha Round, and even more so in the bilateral and regional free trade agreements (FTAs) being negotiated, is that developing countries are being pushed to lock-in their bound tariffs at or close to their applied rates in the case of the Doha Round,<sup>9</sup> or even below their applied rates in the case of the FTAs.

Although it is not in the negotiating mandate of Doha, the US has been aggressively pushing for 'new trade flows', i.e. tariffs to be lowered than the current applied rates. Institutions such as the World Bank have also advised many developing countries to push ahead with liberalisation in the Doha Round and in FTAs, even if this liberalisation is unilateral, since according to the Bank, this will reap efficiency gains.<sup>10,11</sup>

Such advice ignores the deep distortions in today's agricultural markets and trade, and the huge gap in production capacities between producers in the US, EU and a minority of the largest farmers in the developing world, compared to the majority of small subsistence farmers in low-income countries. Opening up markets pushes small and poor producers to compete on an uneven playing field with large producers and traders, including multinational corporations that are able to manipulate prices.<sup>12</sup> Furthermore, it subjects small farmers to competition with producers from the North where the agricultural sector has been well developed through decades of generous government subsidies. The open competition also disregards the damage that has already been

done to producers of developing countries as a result of low commodity prices over the last two-and-a-half decades. A major reason for this was the huge amounts of direct or indirect export subsidies provided by the US and EU, which brought down domestic prices across the developing world.<sup>12</sup> The subsidies were often provided for staple food crops resulting in major negative impact on these sectors in low-income countries.

## ABOUT THIS REPORT

This report summarises the findings of a series of case studies conducted both by the ActionAid and FAO on import surges.<sup>13</sup> Our attention was drawn to the problem when food imports began to increase sharply following the implementation of structural adjustment policies, and the Uruguay Round liberalisation commitments. At the same time, exports of developing countries either stagnated or increased only slightly. Preliminary studies already showed that as a result of the imports, within a single country, thousands of local producers could be displaced, and indirectly, tens of thousands affected. On a global scale, the impact is significant.

Therefore, in this research we set out to:

- i) Demonstrate, on the basis of ActionAid and FAO case studies, the prevalence of import surges and their disruptive social and economic impacts, particularly on poor farmers;
- ii) Highlight the causes of import surges - this is important so that the international community can formulate responses that adequately address the problem;
- iii) Examine how governments in various parts of the developing world have responded to import surges; and,
- iv) Develop recommendations on how to minimise the damaging impact of import surges.

09. The extent of this depends on countries' existing tariff structures.

10. Both the US and EU have refused to tackle the issue of agricultural subsidies in the bilateral and regional free trade agreements.

11. EurActiv 2007, 'EU-Africa Summit Fails on Trade', 10 December 2007, [http://www.euractiv.com/en/trade/eu-africa-summit-fails-trade/article-168988?\\_print](http://www.euractiv.com/en/trade/eu-africa-summit-fails-trade/article-168988?_print)

12. Vorley, B. 2003, 'Food, Inc. Corporate Concentration from Farm to Consumer', <http://www.ukfg.org.uk/docs/UKFG-Foodinc-Nov03.pdf>

13. Although this report draws heavily from FAO case studies on import surges, it is important to note that the conclusions reached are the interpretation of ActionAid alone.



# The Prevalence of Food Import Surges

Import surges in several food items are occurring concurrently in many countries, especially the poorest ones. Outlined below is a summary of some of the case studies conducted by the ActionAid and FAO.

## Kenya

### SUGAR

Kenya experienced significant increases in sugar imports after the liberalisation of sugar trade and the removal of price controls in the 1990s. Sugar imports increased from 65,000 tonnes in 1996 to 170,000 tonnes in 1998 to around 250,000 tonnes by 2001. Local production declined as a result of surges. Between 1995 and 2004, direct employment levels in the sugar sector shrunk by 79%. Over 32,000 people became jobless due to retrenchment and factory closures. Close to 160,000 households in sugar producing areas saw their incomes contract. Whilst imported sugar enjoyed 31% of the domestic market in 1998, by 2004 its share had risen to 41% of the domestic market (ActionAid 2005; FAO Kenya, 2006).

### DAIRY

During 1980-1990, the volume of milk processed locally increased from 179,000 tonnes to 392,000 tonnes, i.e. by more than 100%. The dairy industry was liberalised in 1992 weakening the (old) Kenya Cooperative Creameries Limited (KCC), a semi private milk processor and seller. Local producers found it difficult to sell their milk. Unable to compete, the old KCC finally collapsed in 1997. By 1998, local production volumes had fallen to as low as 126,000 tonnes. At the same time, milk powder imports rose from 48 tonnes to 2,500 tonnes (in fresh milk equivalent, 408,000 litres to 21 million litres) (FAO 2003; FAO 2006a). It is in fact extremely profitable for an enterprise to import dry milk powder and reconstitute it into

liquid milk for sale in Kenya owing to low costs of dry milk powder from the EU. This reconstituted milk can be sold at 20% below the domestic market prices of locally produced liquid milk. Therefore, the import of dry milk powder for reconstitution into liquid milk is a very attractive enterprise (FAO Kenya, 2006; ActionAid 2007). As a result, the influx of imported milk powder reduced demand by milk processors for local fresh milk. Small milk producers bore the brunt of this impact and Kenya's ability to diversify into processing activities was curtailed. The government revamped the KCC in 2003 and handed it back to farmers as a dairy cooperative. Since then, locally processed dairy products have increased substantially, reducing the need for imports (FAO 2007a; ActionAid 2007).

## Ghana

### TOMATO PASTE

Tomato paste imports (largely from the EU) started increasing in 1998, from 3,300 tonnes to 24,740 tonnes in 2003, an increase of 650%. In 2003, Ghana imported 27,000 metric tonnes of tomato paste at a cost of 25 million Euros from the EU alone. Imports took over the locally processed tomato market and depressed expansion of the tomato-processing industry. The share of local tomatoes fell from 92% of the market to only 57% during this period. Communities engaged in fresh tomatoes lost their employment and income. During the times when tomato paste floods the market, prices are so low that some farmers prefer to leave their tomatoes to rot in the fields. EU subsidies are a major cause for the low prices of imported tomato paste (FAO Ghana 2006; FAO 2007b; Christian Aid 2004).

### POULTRY

Local poultry production contracted sharply from the late 1990s to 2004. By 2004, production per annum had declined from 20-25 million in case of day-old chicks in the late 1990s, to only about 2-3 million, or 11% of former production levels. Concurrently, poultry imports increased by 144% endangering the livelihoods of 400,000 poultry



farmers. The large scale poultry farms have either closed down or are operating at levels far below their full capacity - 25% capacity for hatcheries, 42% for feed mills and 25% for processing plants. The main poultry exporters are the US and EU, followed by Brazil. Both the US and EU subsidise their poultry farmers through the provision of feed subsidies (e.g. the subsidies provided to corn and soy farmers). In 2003, the Ghana parliament approved an increase in poultry tariffs from 20 - 40%. However, this could not be implemented as a result of Ghana's obligation to be in step with the Common External Tariff of Economic Community of West African States (ECOWAS), and IMF pressure (FAO Ghana, 2006; FAO 2007b, Christian Aid, 2004).

## ◆ Cameroon

### **POULTRY**

Cameroon has experienced prolonged and persistent import surges. Poultry imports increased by nearly 300% between 1999 and 2004. The main sources were import surges from Holland and Belgium. However, the devaluation of the Brazilian Real by a third against the US dollar in 2001 and again by another one-third in 2002 saw Brazilian poultry imports into Cameroon increase by 885% and 117% respectively.

In Cameroon, for their convenience, many consumers and restaurants preferred buying processed imported poultry meat to live birds and whole chicken from local producers. The price of local poultry did not decline, but increased slightly. However, input costs, particularly the cost of maize and fuel, went up faster. Maize constitutes 60-70% of production costs. Similarly, the cost of feed for day-old chicks also increased. Thus net return to farmers was negative.

Hence, local poultry farmers experienced declining sales and profits. Some 92% of poultry farmers dropped out of the sector during 1999-2003. Some 110,000 rural jobs were lost each year from 1999 to 2003. Demand for poultry - about 62,000 tonnes - outstripped local production, which is about 15,000 tonnes. The imports are

estimated to be 35,000 tonnes a year. There remains a shortfall of 12,000 tonnes. Import tariffs in Cameroon were generally below 25% for poultry in early years of the import surge. In 2004, tariffs were raised to 42%. The WTO bound rate is 80%. In 2005, the Ministry of Livestock issued a ministerial order to restrict poultry imports to 5,000 tonnes. This has led to higher domestic poultry prices (FAO Cameroon, 2006).

### **RICE**

After the devaluation of the CFA franc in 1994, the Cameroon government implemented the Enhanced Structural Adjustment Facility of the IMF. As a consequence, government supports to the rice sector were removed. The fertiliser market was privatised. Fertilizer costs rose beyond the reach of many rice farmers and yields dropped. Rice import doubled from 152,000 tonnes to 301,000 tonnes between 1999 and 2004. The surge occurred in tandem with India's decision to lift export restrictions on rice, in order to reduce public stocks. In 2002, Indian rice exports increased from 2 million to 5 million tonnes, falling slightly to 3.5 million tonnes in 2003. In one year, Cameroon's imports of Indian rice increased eight-fold (from just below 8,000 tonnes in 2001 to over 60,000 tonnes in 2002). The local rice price has not increased even though the price of inputs is increasing. Small-scale producers reported unemployment, and a fall in income. There was a 4.2% dropout rate of rice farmers, and the rice cultivated area dropped by 31.2% between 1999 and 2004. In 2005, the government introduced a Value Added Tax on imported rice, increasing the 20% tariff rate to 39% (FAO Cameroon, 2006).

### **VEGETABLE OILS**

Imports of mainly palm oil and Soya oil increased by 360% from 7,280 tonnes to 33,944 tonnes during 1990 to 2004. The imports were mostly from Europe (Holland and Belgium), followed by Asia (Malaysia and Indonesia). Cameroon's vegetable processors experienced a 30% reduction in sale prices. They had to reduce their staff by up to 25%. They also saw a 40% drop in their sales volume with under-utilised material resources (FAO Cameroon, 2006).



## Tanzania

### RICE

In Tanzania, food markets were liberalised in 1994/5. This included the phasing out of the input subsidies, and the opening up of food markets to private traders. The single channel marketing system, under the control of the National Milling Company was abandoned. In 1997, food imports averaged 7% of the domestic market. By 2004, this was 13%. Rice imports increased by over 200% from 84,176 tonnes to 181,968 tonnes in 2004. As a result of lower prices and the competition with imports, there is no incentive by local producers to invest in the sector, which consequently, is not performing well (FAO Tanzania, 2006).

### DAIRY

Between 1997 and 2004, dairy imports in Tanzania doubled from 3,459 tonnes to 7,111 tonnes. The share of imported dairy products make up 5% of the domestic consumption. However, if calculated as a percentage of what is 'marketed' by domestic producers, the share of imports is substantial, at 35% in 2004. Between 1997 and 2002, the share of imports ranged around 20%, dipping sharply in 2003 (11%) before increasing to a peak of 35% in 2004. In the processed milk sector, imports provided almost 60% on the marketed volume in 2004, which means the average share of imports increased by 40% between 1997 and 2004 (FAO Tanzania, 2006, FAO 2007d).

## Mozambique

### POULTRY

Poultry imports rose from 1 million US\$ in 2001 to 5 million US\$ in nominal terms by 2005. Imports are mostly from Brazil and South Africa. In 2004, of the 38 million chickens consumed in the country, 14 million (or over one-third) were imported. Poultry is important for nearly 70% of rural households as they run backyard production of live birds. The currency appreciated by 25% against the US dollar in 2004 and by 14% against

the Brazilian Real, making imports much cheaper. The strong surge of imports in 2004 resulted in sharp price declines for local producers. Many small producers were unable to repay their debts. In response to industry complaints, the government passed legislation requiring importers to produce a certificate of origin. Trans-shipped poultry is no longer allowed and products with a shelf life of less than three months have also been banned (FAO Mozambique, 2006, FAO 2007e).

### VEGETABLE OILS

Imports of palm oil, measured in dollar value, grew five-fold between 2000 and 2004. Imports account for about 80% of the domestic vegetable oil needs. Presently, the local vegetable oil sub-sector does not seem capable of supplying the growing domestic demand resulting from the recent economic growth in the country. Bulk oil imports are also exempted from value added tax and import duties. This, together with a 20% appreciation of the Metical against the US dollar between 2002-2004, encouraged imports. Domestic oil crop production has declined. Production of local sunflower seeds peaked at 21,000 tonnes in 1981. In 2001, output was at 7,000 and this further declined to 3,500 tonnes in 2002. The acceleration of demise of the domestic oil crushing industry and the declining prices of domestically refined oil were some other injuries that occurred. The competition with imports means that there are disincentives to domestic oil crop production. Local oil producers are closing down operations or are operating at levels way below their full production capacity. All this creates increased need for imports, further weakening the domestic industry (FAO Mozambique, 2006, FAO 2007f).

## Cote d'Ivoire

### RICE

Between 1997 and 2004, rice imports increased at an annual rate of 6% from 470,000 tonnes to 715,000 tonnes. A big import surge was recorded in 2001 when imports reached 646,700 tonnes, a 47% increase from the previous year. Imports are mainly from Thailand, China and India. The price

of imported rice is below that of domestically produced rice. Rice has also become the main staple for both the rural and urban populations. Domestic production decreased by 7% in 2002 and by 49% in 2004, in comparison to 2001. Local production of substitute crops such as cassava, yam and plantain also decreased (FAO Cote d'Ivoire, 2006; FAO 2007g).

### **POULTRY**

Imports rose sharply between 1997 and 2004 from 1,815 tonnes to 17,226 tonnes in 2003, declining to 13,000 tonnes in 2004. Between 2001 and 2003, imports increased by more than 650%. Imports in 2005 were down to 6,300 tonnes after the government introduced a 1,000 CFAF/kg import tax. The large increase in imports in 2002 -2003 is related to the civil conflict which began in September 2002, and the subsequent decision of the government to allow for imports in order to prevent shortages. Between 1998 and 2003, production declined by 23%. Domestic prices for poultry fell between 2001 and 2003. Some 1,500 poultry producers ceased production during this time and around 15,000 jobs were lost (FAO Cote d'Ivoire, 2006, FAO 2007g).

## **Indonesia**

### **RICE**

The government took on IMF conditionalities during the time of the financial crisis in 1997. This included the overnight removal of import restrictions. The state trading enterprise, BULOG (Indonesian Bureau of Logistics), which until then had import monopolies on rice, sugar, wheat, wheat flour, Soya, garlic and other sensitive commodities saw its import monopoly removed. All applied tariffs on food items were brought down to a maximum of 5%. The applied tariff on rice was zero in 1998/99. During this time, rice imports hit 4 million tonnes, or 25% of total rice traded on the world market. Import dependence hit 11%. As the prices were very low, rice farmers had difficulties selling their rice in the domestic market. A tariff of 30% was introduced for rice and rice flour in January 2000. However, half of

imported rice in Indonesia is smuggled into the country. Importers also commonly under-invoice their imports, so the tariffs were ineffective, and did not prevent another import surge in 2002-3. In June 2003, a three-month ban on rice imports was implemented in order to avoid mismanagement at the border. This was again reinforced by Ministerial decree in January 2004. The import restriction or ban is placed a month before the main harvesting season and two months after that. The government's monopoly on rice import was also re-introduced. Since 2004, imports have drastically been reduced to only 195,000 tonnes in 2005. Poverty levels hit a high of 38% of the population during the 2002 rice import surge (compounding the effects of the 1997/98 financial crisis). In 2005, poverty levels were down to 35%, nearly comparable to the levels before the financial crisis of 1997 (ActionAid 2007).

## **Philippines**

### **ONIONS**

In the Philippines, tariffs on onions were reduced between 1999 and 2004, and the tariff rate quota for onions was eliminated in 2001. The applied tariff since 2001 has been reduced by 10% each year to reach its bound rate of 40% in 2003. For the ASEAN countries, the rate was set at 5%. The country has experienced an influx of cheap onions, mainly from China. Prices went down steeply and in 1999 and 2001, surges were experienced by the Philippines. In 1999, imports increased to 20% of local consumption, falling back to 12% in 2000 but escalating again to nearly 21% the following year.

Both in 1999 and 2001, the price of the local red onion was five times greater than the imported ones. Nevertheless, imports have influenced domestic prices. Farm-gate prices declined by more than 75% between 1999 and 2004, whilst input costs - fertilizers and pesticides has increased. The government responded by implementing special safeguard duties but only for six to eight weeks during each import surge. The



Philippines is one of 22 developing countries that has access to the WTO Special Safeguard following tariffication in the Uruguay Round (FAO Philippines, 2006; FAO 2007h).

### **TOBACCO**

In the Philippines, applied tariff on un-manufactured tobacco has been much lower than its bound rate of 50%. It was 20% in 1999-2000, which was reduced to 7% by 2002. The preferential tariff under ASEAN is only 3%. The volume of imports now exceeds local production. This has decreased market share of the farmers and has threatened their livelihoods. However, the surge is associated with quality difficulties affecting local tobacco. The imported leaf has been consistently more expensive than the locally produced leave. Injury experienced as a result of the surge has mainly been in the form of reduced market share. 2004 sales declined by 40% compared to the previous year. The government is exploring implementing safeguards for tobacco (FAO Philippines, 2006; FAO 2007h).

## **Nepal**

### **RICE**

Rice import surges occurred in 1994, 1996 and 2000, where imports rose by 175%, 55% and 800% respectively. Import quantities were at 24,500 tonnes in 1999 and 195,000 in 2000. The porous borders between Nepal and India, as well as the Nepal-India Trade Treaty, are widely seen as the causes of the surge. The duty charged is 10% on Indian rice entering Nepal. Indian rice is also cheaper than Nepali rice. The main reason for the 2000 rice surge is the de-stocking of public food grains reserves by the Food Corporation of India (FCI). The price per kilo of imported rice fell from US\$0.30 to US\$0.20 in 2000. Before the 1999-2000 rice surge, domestic retail prices of rice in Nepal were on the increase. However, prices stagnated and fell slightly in the three years following the import surge. Nepali districts bordering India were hit the hardest. In these areas, grain prices fell by 17.4%, as compared to the 12.4% fall in national grain prices. Between

2000 and 2001, there was also a slight decline (-2.8%) in the rice cultivated area. Cases of reduction in capacity of utilisation of rice plants and complete closure of businesses were also aplenty along the Southern belt (bordering India). In Morang and Sunsari districts, 30% of rice mills closed down between 2003 and 2004 (ActionAid, 2005).

## **Sri Lanka**

### **DAIRY**

Imported milk accounts for most of the milk consumed in Sri Lanka - up to 70% of consumption. Imports of milk powder have increased seven-fold in the last 25 years, from about 10,000 tonnes in 1981 to slightly over 70,000 tonnes in 2005. In contrast, supply from local production has expanded by less than 15%. Domestic production has therefore remained fairly static, whilst increased domestic demand has been met by higher imports. The large import volumes are due to low tariff rates. Whilst the tariff on milk powder is bound at 50%, applied rates are at 10% or less, in line with the government's policy to make milk powder 'affordable' to the consumers. Low world prices due to subsidised exports by the EU have passed through to the domestic market. The low prices and the porous border have undermined the ability of the domestic sector to increase production (FAO Sri Lanka, 2006; FAO 2007i).

Cases covered in the remaining chapters, and therefore not presented here, include rice in Ghana, the Gambia, Honduras; and cotton in Brazil.

## Food Import Surges: Domestic and External Causes

A variety of reasons cause food import surges, and often, uncovering the source is not easy, with several factors interacting contemporaneously. Nevertheless, understanding causality is important if the global community is to make inroads in reducing their frequency and the disruptions they cause to jobs and incomes of the rural poor, as well as the dislocation to agro-industries.

### Domestic Factors

#### TARIFF LIBERALISATION

Our research demonstrates that import surges have increased to a large extent in the past 20 years as a result of structural adjustment programmes (SAPs), WTO liberalisation commitments, and liberalisation through regional free trade agreements. The removal of quantitative restrictions (QRs)<sup>14</sup> was also part of the structural adjustment process, which was locked in by the Uruguay Round commitments in the WTO.

When tariffs were reduced from 100% to 20% in Ghana, rice imports rose by 200%. In Gambia, the implementation of the 1985 Economic Recovery Programme liberalising the rice sector saw a dramatic increase in rice imports from 38,000 tons in 1986 to about 101,600 tons in 2004. Imports now monopolise at least 38% of the domestic market. In Brazil, cotton imports increased, but at a reasonable pace when the tariff on cotton was maintained at 10% between 1988 and 1992. However, this changed dramatically when tariffs were cut to zero in 1992. By 1993, the volume of imports amounted to 501,000 tons. In Cameroon, the lowering of tariff protection to 25% saw poultry imports rise from 9,275 to 35,864 tons within six years from 1999 to 2004.

14. Quantitative restrictions are explicit limits, or quotas, on the physical amounts of particular commodities that can be imported during a specified time period, usually measured by volume but sometimes by value.

In Cote d'Ivoire, commitment under the WTO's Agreement on Agriculture led to the removal of quantitative restrictions on key agricultural products, especially rice. The lifting of QRs and the implementation of fairly low tariff rates in the mid to late 1990s (duties on all agricultural products were bound at 15% except for 25 tariff lines) were in part responsible for 6% annual increase in rice imports from 1997-2004, and consequent 40% reduction in domestic rice production.

Regional trade agreements have also played a part in the surge of imports. The Nepal-India Trade Treaty, reducing Nepal's rice tariff to only 10%, is in part responsible for the influx of Indian rice into the country in 1999-2000. Similarly, Ghana's commitment to ECOWAS for Common External Tariff and pressure from IMF prevented the country from raising the import duty on poultry from 20% to 40%, despite a parliamentary decision to do so.

#### DISMANTLING NATIONAL TRADING BODIES

Despite being challenged at times by internal problems including bad management, many state trading enterprises (STEs) in developing countries played a critical role in price stabilisation and the maintenance of rural incomes. They were often the sole import and export desk in the country for key staple crops. They also procured grain and crops from farmers at guaranteed prices, ensuring them a livelihood. In addition, STEs played a key distribution function, by channelling food to food deficit areas. Many of these state trading bodies essentially performed the task of supply management. They regulated internal supplies and prices by governing both imports and exports, as well as by controlling prices and supplies domestically.

With the implementation of structural adjustment programmes, many governments were pressured by the Bretton Woods institutions to either eliminate or greatly reduce the size and functioning of these state trading bodies, to the

point where they became ineffective. In particular, doing away with their “supply management” function - allowing private traders to freely import and export and reducing price support programmes - caused chaos in many markets. In Indonesia, dismantling BULOG, the state trading enterprise handling rice, and allowing private traders to import rice had a devastating impact. In addition, without the government stepping in to procure rice at reasonable prices, rice farmers were plunged into hardship following the import surge.

In Gambia, the rice import surge took place after the Gambia Produce Marketing Board (GPMB) - which used to be the coordinator, importer, wholesaler and transporters of rice - was privatised and the private sector assumed the job of rice importation.

In Ghana, rice imports increased 70% when the Ghana Food Distribution Corporation no longer procured rice from farmers in the 1998.

Similarly, in Kenya, milk imports surged when the Kenya Cooperative Creameries Limited (KCC) was weakened through the structural adjustment process in the early 1990s and small producers found it difficult to find a market for their produce.

### **SHORTFALL IN DOMESTIC PRODUCTION**

There are times when an import surge is simply a response to a shortfall in domestic production. The case of Kenya and its main staple, maize is an example. The country is prone to drought and the quantity of locally produced maize is frequently insufficient to meet domestic demand.

Production of maize in Kenya contributes about 28% to the gross farm output by the small-scale farmers in the country. The evaluations of the cost of imported maize in Kenya shows that maize imports by Kenya would be justified only when there are serious domestic production shortfalls. Under the normal conditions, domestic maize supply deficits in Kenya have continued to be

recorded ranging from 180,000 to 540,000 metric tonnes annually. The deficit in maize production has been bridged through both recorded and unrecorded cross-border trade.

The analysis indicate that Kenya has experienced serious surges in maize imports in the years 1994, 1997, 2000, 2001 and 2004. The surge level was over 60% in all these years. However, the maize import data used in the analysis include both commercial imports by local traders and relief food imports by the World Food Programme (WFP). Over the 2001-2005 period, WFP imports averaged 53.2% of total maize imports into Kenya, a factor that reflects the importance of relief food imports in Kenya. Estimates show that maize imports in Kenya have steadily increased from an annual low of 2.9 % to an annual high of 12 % of domestic consumption since 1988.

Reports demonstrate that periods of high producer prices actually coincide with the periods when there are internal commodity shortages and commodity imports are required. It also indicates that high levels of imports in a given year have normally been followed by lower producer prices in the following year. Even though not conclusive, this outcome suggests that the high levels of imports tend to depress domestic producer prices, which is an indicator of injury to the domestic economy because depressed prices tend to discourage local production.

In Kenya, the problems resulting from import surges are primarily attributable to the problems in the timing of the arrival of the imported maize into the country. The process of approving and sanctioning maize imports on concessionary terms (i.e. duty free) by the government on food security grounds lead to delays in the placing and processing of the orders for maize imports. This delay results in late arrivals of the imported maize, and the imported maize may actually arrive in the country when it is not really needed, especially if some improvements in local supply have occurred<sup>15</sup> (FAO Kenya, 2006).

15. It is for such reasons that ActionAid has been advocating that non-emergency food aid should be provided in cash for local and regional purchases rather than as commodities obtained for example from the United States, and shipped to developing countries. It is not uncommon that in-kind food aid has undercut local farmers' crop sales, especially when they arrive late, after a new harvest.



## **CUTTING SUPPORTS FOR DOMESTICALLY CONSUMED CROPS, PRIORITISING EXPORTS**

Under structural adjustment, governments were also beleaguered to either cut subsidies altogether or to maintain supports at low or negligible levels. For instance, input subsidies, fertilisers and sometimes access to credit were reduced, eliminated or simply never provided. This has reduced farmers' productivity and yields, often contributing to domestic shortfalls in production, and the need for imports. In a state of weakness and lack of government support, when competing with imports, domestic producers find it difficult to regain their previous market position, so that part of the market can remain permanently displaced by imports.

For example, in the Philippines, the import surge in tobacco reflected quality concerns. The industry, however, was unable to adjust to the changing market conditions and requirements, so that it has stagnated or declined further (FAO 2007j).

In many African countries, due to low government support to the sector, the local broiler operations producing perishable whole chickens have been unable to compete with the imports of cheaper frozen chicken pieces. Domestic production has stagnated and imports are filling the increased demand in the domestic markets (FAO 2007j).

In Ghana, the government shifted its priorities to exports in the 1990s channelling the public sector investments in rice towards subsidising floriculture and horticulture. This created immense difficulties for the rice farmers in Ghana. With the high costs of inputs, it has been difficult for farmers to compete with the surge of imported rice. The low level of domestic rice production has also been cited as a contributory cause of rice import surges. Ghana's population is growing at a rate of 2.7% annually. Local rice production has stagnated over the past few years and has not been adequate to feed the growing population (ActionAid 2006). If the government had channelled resources into the rice sector, rather than neglecting it, rice production may have been closer to demand levels, preventing the need for huge quantities of rice imports.

## **PRESSURE FROM THE INTERNATIONAL FINANCIAL INSTITUTIONS**

The pressure from the Bretton Woods institutions for countries to maintain liberalisation policies should not be underestimated. In Ghana, in 2003, the government wanted to raise tariffs on rice imports from 20% to 25%. This tariff increase was in place for four days before it was removed as a result of pressure from the IMF (Paasch, Garbers and Hirsch 2007).

The Indonesians were successful in raising the tariff on rice from zero to 30% in January 2000 following the import surge of 1999. However, this was only after rioting in the country over food prices, debating with the IMF in repeated meetings, and finally, lodging complaints against the IMF by the Indonesian trade minister (ActionAid & ICASEPS, 2007).

## **EXCHANGE RATES**

Exchange rate and financing policies also play an important role in influencing the timing and volume of imports.

The appreciation of the Cote d'Ivoire CFAF against the US dollar in 2002 and 2004, contributed to the stimulation of imports. Rice imports from the US doubled during this time, corresponding to the exchange rate appreciation. Interestingly, since the CFAF is pegged to the Euro, the price of poultry from Europe remained stationary, and imports of EU poultry also remained unchanged (FAO 2007g).

Similarly, the demise of small producers of cotton in Brazil in the late 1990s, illustrates the huge impact exchange rates and financing mechanisms can have on imports. In keeping with the wave of liberalisation policies, tariffs on cotton were brought down to zero by 1990. The exchange rate at the time was also very high, so that imports became cheaper. In addition, domestic interest rates were at an exorbitant 25% - 30% a year, making it very difficult for both cotton farmers and processors. In contrast, financing to facilitate the import of cotton lint was extremely attractive for

the textile agro-industries as interests ranged between 4% and 7%. The combination of these policies led to a six-fold increase in the import of lint between 1990 and 1993 (ActionAid Brazil, 2006).

## External Factors

### DUMPING: THE ROLE OF SUBSIDIES IN THE EXPORTING COUNTRY

The sale of commodities below their full cost of production into developing country markets, usually known as dumping, is a primary cause of import surges.<sup>16</sup> The dismantling of import controls in developing countries has of course rendered these economies vulnerable.

The extent of dumping by both the US and EU run very deep. The sectors, which are heavily supported, are also the commodities that are flooding other markets – rice, maize, soybeans (vegetable oils), cotton, dairy, and poultry.

The problem is that only a sliver of these supports are now categorised as export subsidies. Most subsidies are being shifted into the WTO's so-called 'non-trade distorting support' category, termed the 'Green Box' in WTO parlance. Whilst both the US and EU have staunchly shielded the Green Box from being subject to reductions in the current Doha Round, the WTO's own litigation system has already ruled that certain subsidies in the Green Box are highly trade distorting.<sup>17</sup> According to the Institute for Agriculture and Trade

Policy, in 2003, soybeans from the US were exported at 10% below their cost of production, corn at 10%, cotton at 47% and rice at 26% below their production costs. US subsidies to rice producers amounted to US\$ 1.3 billion for rice that cost \$1.4 billion to grow.<sup>18</sup>

Both the US and EU poultry exports have wiped out the domestic poultry production in various countries, particularly in Africa. Some 70% of the Senegal poultry industry has been lost in recent years due to EU chicken fed with subsidised grain.<sup>19</sup>

The situation in Ghana is even more acute. A billboard in Ghana, with an image of sizzling, succulent chicken legs reads, "American poultry. Quick and easy to cook. Healthy and delicious to eat".<sup>20</sup> With the US, EU and Brazilian poultry imports, local producers are now producing at 90% below their production capacity 10 years ago.

In the US, corn and soybean have been the two most heavily subsidised crops in the US commodity programmes. Around 55-65% of corn and 45-50% of soybean production go to the domestic livestock industry as feed, and feed costs account for 60-64% of poultry and egg costs.<sup>21</sup> Feed prices for poultry are estimated to be 21% below production costs. This has acquired the US broiler chicken industry cumulative savings of \$11.25 billion between 1997 and 2005.<sup>22</sup> Analyst Jacques Berthelot has estimated EU subsidisation of poultry at an annual average of 329 million Euros for the 1.043 billion Euros in EU poultry exports.<sup>23</sup>

16. The WTO, however, has a different definition for dumping, which is unfair for developing countries. Dumping is defined as the sale of a product in a third country below the sale price in the home country.

17. In the cotton case, the WTO's dispute settlement panel ruled that certain US Green Box payments did not belong there as they distorted production. In the dairy products case of Canada, the Appellate Body in 2001 also reported that 'The distinction between domestic support and export subsidy disciplines in the Agreement on

Agriculture would also be eroded if WTO members were entitled to use domestic support, without limit, to provide support for exports of agricultural products... If domestic support could be used, without limit, to provide support for exports, it would undermine the benefits intended to accrue through a WTO Member's export subsidy commitments' (WTO Appellate Body 2001 para 91, cited in Berthelot 2007).

18. Lawrence, F. 2005, 'Africa's Poorest Fight Hypocrisy and Vested Interests', 12 December, *The Guardian*.

19. Lawrence, F. *ibid*.

20. Soares, C. 2005, "How EU, US 'Dumping' Hurts West African Farmers", *The Christian Science Monitor*, 15 December.

21. Wise, T. 2005, "Identifying the Real Winner from U.S. Agricultural Policies", December, *Global Development and Environment Institute Working paper No. 05-07*.

22. Fatka, J. 2007, "Broiler, Hog Industries Save Billions from Corn", *Feedstuffs*, March 26, Issue 13 Vol. 79.

23. Berthelot, J. 2007, "The Agricultural Negotiations at the WTO: Mechanisms and Tricks", April, *Solidarite*.





Dumping of EU dairy products has also displaced small dairy farmers across the developing world from Kenya to Sri Lanka, to India, Jamaica and the Dominican Republic. In 2001, the EU supported its dairy sector to the tune of 16 billion Euros (40% of the value of EU dairy production).<sup>24</sup> The EU is the largest exporter of milk powder to the world market, accounting for 40% of all whole milk powder exports, 31% of skimmed milk powder exports and 20% of butter exports. Yet its export subsidy in dairy products in 2000 was as high as 1,090 Euros / tonne.<sup>25</sup> Even worse is the overproduction and dumping resulting from deliberate policies. There is an EU milk quota system regulating EU milk production. However, quota levels have been set at 10% higher than is required to meet domestic consumption needs. EU subsidies have depressed world prices, and these low prices pass through to the open markets of the developing countries', creating hardship for their dairy farmers. An Australian government study showed that if EU and the US dairy exports were halved, world prices would be between 17% and 35% higher.<sup>26</sup>

EU milk powder exports to Jamaica more than doubled in the 1990s, devastating the livelihoods of Jamaican farmers. According to data from the Jamaica Dairy Development Board, the number of dairy farms contracted by two-thirds between 1990 and 2004. Of the 753 dairy farms in Jamaica in 1990, only 254 farms were still in operation in 2004. Those that went out of business were predominantly the small and medium sized farms.<sup>27</sup> With access to cheap EU milk powder, dairy and processing companies in Kenya are offering local producers prices for fresh milk that are below their costs of production. The Dominican Republic, the fifth most important market for EU whole milk powder exports in 2000, has seen about 10,000 of the 30,000 dairy

farmers leave the sector in the last two decades.<sup>28</sup> The seven-fold increase in milk powder imports has also severely weakened the ability of Sri Lankan local producers to invest and increase their local production capacities.

The EU Common Agricultural Policy reform of 2003 did little to set right the distortions in dairy trade. Whilst domestic intervention prices for EU dairy producers will be lower, dairy producers will be compensated through decoupled direct payments. A United States Department of Agriculture (USDA) report expects that small dairy farmers in France will leave the sector as a result of lower intervention prices, however, their production quotas will be taken over by the large dairy producers and production quantity by 2007 is expected to be even higher than 2003 levels,<sup>29</sup> i.e. we can expect dumping to continue. Even as the EU has promised to phase out export subsidies in the current WTO Doha Round, hidden export subsidies are taking their place.

## CURRENCY FLUCTUATION IN THIRD COUNTRIES

When tariffs are down and borders are porous, even the exchange rates of other countries can lead to import surges. When the Brazilian Real lost a third of its value against the US dollar in 2001, there was a sharp increase in Brazilian poultry exports to a range of countries. African countries saw the sharpest percentage increase in their imports from 25,649 tonnes to 45,356 tonnes between 2000 and 2001. This trend continued into 2002 where Africa absorbed up to 73,769 tonnes of Brazilian poultry.<sup>30</sup> Cameroon was an unfortunate victim. Poultry imports from Brazil into Cameroon increased by 885% between 2000 and 2001. A further devaluation of the Real by 30% in 2002 saw imports increase by another 117% in Cameroon (FAO Cameroon Case Study, 2006).

24. Oxfam, 2002, "Milking the CAP: How Europe's Dairy Regime is Devastating Livelihoods in the Developing World"

25. Wholesale prices in the UK (one of the lower cost milk producers in Europe) were about 2,000 Euros/ tonne, in real terms.

26. ABARE Report, 2001, "Trade Liberalisation in World Dairy Markets".

27. Data cited in FAO Jamaica Case Study 2007 'Liberalization of the Jamaican Economy and the Impact of Import Surges on Dairy, Poultry and Onion Production', April 2007.

28. Oxfam, 2002, 'Milking the CAP: How Europe's Dairy Regime is Devastating Livelihoods in the Developing World'.

29. USDA Foreign Agricultural Service, 2005, "France Dairy and Products: Reportedly Butter Stocks at Dangerous Levels due to 2003 CAP Reform", GAIN Report No Fr5007.



When the Russian Rouble fell dramatically against the dollar in 1998, Russian poultry imports fell from 826,000 tonnes to 233,000 tonnes in 1999.<sup>31</sup> The US, then the primary exporter of poultry to Russia, directed its poultry exports to other countries, as well as to Cameroon, which led to an import surge in the country in 2000. Interestingly, the US exports of poultry during this time remained constant, declining by less than 1%.<sup>32</sup> From zero imports of the US poultry in 1999, Cameroon imported 639 tonnes in 2000. Imports from the US were only reduced when Russian imports increased (FAO Cameroon Case Study, 2006).

### FOOD AID

Food aid can also bring about import surges. Its negative implications can be particularly acute since such aid is not often well-timed and targeted. There is a well-known trend that food aid increases when world market prices are low. In contrast, recipient countries usually need this aid when world prices are high. Aid, therefore, corresponds with domestic market pressures in donor countries rather than to the needs of recipient countries.

Total food aid has varied quite considerably peaking at almost 17 million tonnes in 1992, and dipping to a low of about 6 million tonnes in 1973 and 1996. According to the FAO, cereals account for 90% of food aid, with the US providing 40% to 60% of it. In fact, over 25% of total rice imports into developing countries are channelled in the form of food aid (up to 1,463,061 tonnes in 2002 / 2003).<sup>34</sup>

In Tanzania, rice production was drastically reduced by drought in 2001. Food aid in the form of rice made up 7% -13% of total rice imports between 2000 and 2004. In Cameroon, rice food

aid approached 10% of rice imports in 2004. In Cote d'Ivoire, rice food aid hit 22% of rice imports in 1994.<sup>35</sup> It is for such reasons that ActionAid has been advocating that non-emergency food aid should be provided in cash for local and regional purchases rather than as commodities obtained for example from the United States, and shipped to developing countries. It is not uncommon that in-kind food aid has undercut local farmers' crop sales, especially when they arrive late, after a new harvest.

### POLICIES IN EXPORTING COUNTRIES

When import controls are removed, countries also become vulnerable to policy changes in third countries. The international rice price was significantly depressed when India and China 'de-stocked' their massive accumulation of rice between 2000 and 2003. India lifted its quantitative export restrictions and lowered the minimum export price of certain types of rice. This led to Indian exports of between 2 and 5 million tonnes in 2002 and another 2.5 million tonnes in 2003. The supply overhang was pushed onto the world market. World prices dropped by one-third between 1998 and 2002.<sup>36</sup> Many countries around the world were affected. The adjustment cost for instance, was transferred to West Africa. Price of imported rice into West Africa was at an all time low of US\$ 140 -US\$ 148 per tonne and these countries faced massive imports which depressed their domestic prices and rice sector. In Cameroon, for example, imports from India rose from 7,900 tonnes in 2001 to 60,300 tonnes in 2002. Nepal was also affected, with imported Indian rice falling from US\$ 0.30 per kilo to US\$ 0.20 per kilo. The districts bordering India were badly hit. However, half the world away, rice farmers in Honduras also felt the impact of low world prices, exacerbating the already difficult consequences they were facing after Hurricane Mitch in 1998.

30. Grethe, H. and Nolte, S. 2005, "Agricultural Import Surges in Developing Countries: Exogenous Factors in their Emergence", FAO Import Surge Project Working Paper No. 5, May.

31. Grethe, H. and Nolte, S. 2005, *ibid.*

32. Grethe, H. and Nolte, S. 2005, *ibid.*

33. Grethe, H. and Nolte, S. 2005, *ibid.*

34. Grethe, H. and Nolte, S. 2005, *ibid.*

35. FAO 2007I, 'FAO Briefs on Import Surges Commodities No. 2 Import Surges in Developing Countries: the Case of Rice'.

36. FAO 2007I, *ibid.*



### The Economic and Social Costs

When countries slacken their hold on import controls, by removing quantitative restrictions, tariffs, or by privatising trade in key commodities, they give up the ability to adequately regulate supply volumes in their countries. As such, they become extremely vulnerable to the fickleness of the world market which in turn is influenced by the vicissitudes of other governments of large producing countries and their policy priorities; weather conditions affecting supplies in these major producing countries; and even the whims of financial investors around the world.

✦ In this context, the US and EU domestic agriculture and their dumping effects easily filter through to the Sri Lankan, Filipino and Ghanaian small farmer. India's destocking exercise affects villages from Nepal to Cameroon. Brazil's financial disasters, reflecting their own vulnerability to the fancies of global currency investors, have a direct impact on poultry farmers in West Africa, wiping out their backyard operations, and impacting their ability to send their children to school or to afford health care.

The policies of major producing countries thus reverberate through all corners of the world. The ability of countries to defend themselves depends on the extent to which they have control over their borders. In this system, the small are very vulnerable as they sit on the receiving end of policy decisions by others. In turn, they would never have the same impact on the international market. Cameroon's rice farmers could not affect world market prices, neither could Sri Lanka's dairy farmers, nor Mozambique's poultry farmers.

### Depressing the Domestic Sector and the Social Costs

The effect of import surge in various cases on the domestic sector has been very similar. Often, there

is a loss of market share; depressed prices; and, also reduced production. There are also frequent negative consequences for related agro-industries, with serious implications for employment.

#### **KENYA'S NOT-SO-SWEET SUGAR IMPORT SURGE**

Some 6 million people in Kenya derive their livelihood from the country's sugar industry cane production, manufacturing, distribution every economic activity thus is around sugar cane. When imports skyrocketed from 1998 to 2004, employment levels shrank by 79%. About 32,000 people lost their jobs due to retrenchment and factory closures.

The factories were badly affected. They were unable to sell off their stocks because the market was already saturated with imported sugar. Rural towns whose economic activity centred on sugar suffered major shocks - these included Mumias, Sony, Chemelil, Nzoia and Western Kenya. Western and Nyanza provinces in particular were badly hit because sugarcane was the main source of employment there. The cotton industry had already collapsed, and sugar was the only remaining source of income. In these two regions, employment and wages dropped by over 70%, affecting 35,000 households. The government's survey in 2005 showed that 4.2 million people of Nyanza, i.e. 64.5% were living under the poverty line of one dollar a day. In the Western province, 3.2 million people, or 60% of the population lived below the poverty line.

The import surge had a devastating effect on the market share of the local processors and this in turn affected producers. The entire sector from the producers to the processors was in debt. Unable to sell their product in the local markets due to competition with the cheap imports, the milling factories became indebted and were not able to pay farmers when cane was delivered. As a result of non-payment to producers, producers' sugar yields declined sharply by as much as 30% to 40%. The monthly, weekly, or fortnightly payment from factories for cane was the major source of income for the majority of farmers in these

provinces. The delays in payment affected the entire rural economy. Protracted non-payment literally reduced these rural economies into 'non-income' zones, increasing poverty levels and contributing to persistent food insecurity.

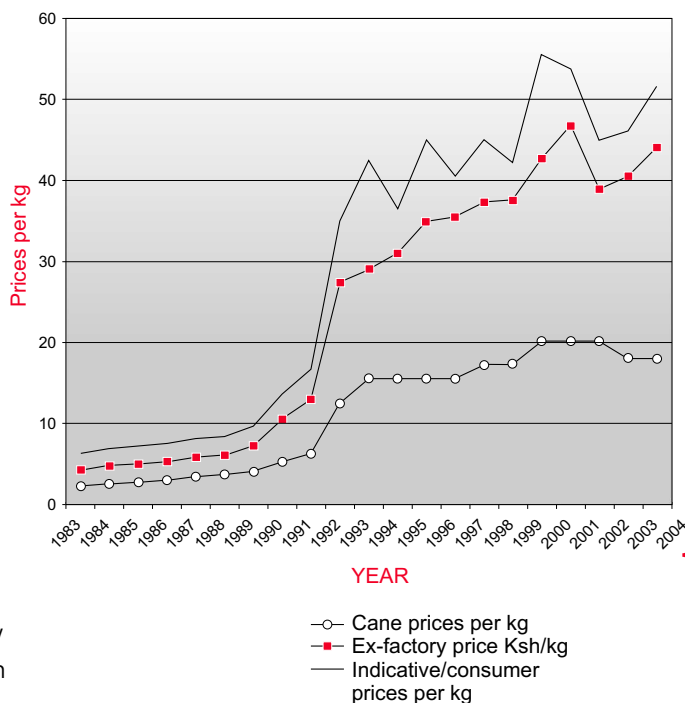
Farmers also lost their collateral. Sugarcane farming was collateral used by schools and hospitals. The school and community offered credit on the premise that when the cane is harvested, what is owed to them will be repaid. In addition, they lost the social services, which the sugar milling factories had provided. The Miwani sugar factory, which collapsed during this time, had supported three primary schools, one secondary school, and a hospital.

Over time, in Miwani, local sugar production simply collapsed. Most of the land that was used for sugarcane production some 30,000 acres lay fallow. The Miwani sugar mill was the oldest mill in Kenya, running on a capacity of 2,000 tonnes per day before the import surge. At the time, it was also the only mill that had the capacity to produce refined white sugar. It could not withstand the competition from imports, and was put into receivership in 2001.

During this period of import surges, contrary to conventional wisdom, consumers did not benefit from reduced prices. Between 1992 and 2005, both the ex-factory and consumer prices increased exponentially and moved in tandem. On the other hand, producer prices barely increased. In the immediate aftermath of the 2001 import surge, consumer prices dropped. However, this reduction did not last long. Consumer prices have increased faster, in relative terms, than domestic producer and farm-gate prices. The graph below compares the prices of sugarcane paid to producers over 20 years with the trends of ex-factory prices and consumer prices over the same period.

The graph shows that between 1992 and 2005, both the ex-factory and consumer prices increased exponentially and moved in tandem. On the other hand, producer prices barely increased. This gap is testimony to the fact that the sugarcane

Figure: Price Trends for 1983-2004 (ActionAid Kenya 2005)



producers have suffered serious marginalisation and that sugar producers are the most vulnerable group in the sugar value chain in Kenya.

Imported sugar lands in Kenya at Kenyan Shilling (KSh.) 23.30 CIF (cost, insurance and freight). After paying the relevant duties, importers sell the sugar to wholesalers at KSh. 48 and the consumer ultimately pays KSh. 63 - 76 per kilogram. Consumers did not benefit from cheaper prices during import surges. In fact the opposite is true, consumers paid more during periods of import surges than when there were no surges and the cost to the consumer was almost 50% more for one kilogram of sugar.

The main reason illustrated in the report for this anomaly has to do with the inefficiencies inherent in the administration of sugar import quotas that allow a cartel to monopolise the price and quantities and generate enormous economic rent at the expense of consumers and producers alike. The importer takes home the profits, approximately a margin of 45% - 49% (ActionAid Kenya 2005).

## **GHANA'S RICE FARMERS' CHILDREN GO HUNGRY**

Rachia Salifu finds the rice-growing season the most difficult time of the year. During the day she works in the fields with her baby on her back in temperatures that can reach 43C. In the evening there is not enough food for her five children so she listens to them cry with hunger, unable to help.

Ms. Salifu farms rice on one acre in the dusty village of Nyarigu near the northern border of Ghana and her story is typical of local rice farmers. Over the past three decades, Ghana's rice industry has collapsed. Farmers struggle to make a living and unemployed villagers flock to the cities.

In 2003, the US paid \$1.3 bn in rice subsidies to its farmers and sold the crop for \$1.7 bn, effectively footing the bill for 72% of the crop. Most of these subsidies go to big Arkansas rice farms. One company alone, Ricelands of Arkansas, was the recipient of US agricultural subsidies totalling \$490m between 1995 and 2003. In Accra's bustling market the effect of US imported rice is easy to see. Huge billboard ads for Chicago Star Rice stare down on hawkers.

Bags of imported rice reach the ceiling of Charles Yeboah's long narrow shop. He does not stock Ghanaian rice. "I can't sell it. The quality of the imported rice is so much better that even though it costs more, people buy it," he says. He also says that Ghanaian rice is only available for six months of the year. The poor quality of Ghanaian rice is no secret. Lack of government subsidies mean the farmers cannot afford to invest in any machinery to help with harvesting the rice. "We do not have a combine harvester. It is all done by hand," Ms. Salifu said.

Neither does the village have a mill. Sometimes the farmers lay the rice out on the road and let the cars run over the crop to separate the husk from the grain. Or they beat the crop in the fields with heavy sticks. Either way, the crop ends up broken and with stones in it. Many people come to Accra looking for work as the dwindling rice crop has resulted in high unemployment in the north.

Up in Nyarigu, Ms. Salifu says government subsidies would help the farmers to pay for plots, chemicals and water which would allow them to grow more rice for their families and to sell on the market, thus enabling the women to come back to jobs in the north.

Source: Moore, C. 2005, "Ghana pays price for West's Rice Subsidies", *The Guardian*, 11 April.

From the late 1980s into the 1990s, structural adjustment and liberalisation policies saw the government shift resources into development and export of non-traditional crops including horticultural products. This was, for instance, the centrepiece of the government's Accelerated Agricultural Growth and Development Strategy of 1996. Resources and attention shifted away from food crops to export-oriented crops. Incentives provided for food crops were removed. The cost of

inputs became very high for rice farmers. The state trading enterprise (Ghana Food Distribution Corporation), which used to offer guaranteed prices collapsed. Financing for rice farmers was also eliminated. Whilst commercial banks made 13.6% of their loans to the agricultural sector in 1993, this dwindled to 1% by 2004. Since the small holders did not have collateral, they could not access credit from commercial banks. In the early 1990s, supports provided through the Ghana

Irrigation Development Authority were also removed, adding to the hardship of poor farmers in both rice and vegetable production. Between 2002 and 2004, domestic costs of production was 140% higher than farm gate prices in Thailand.

Rice imports increased from 250,000 tonnes in 1998 to 415,150 tonnes in 2003, i.e. an increase of 70%. Domestic rice accounted for 43% of the domestic market in 2000 but this fell to 29% in 2003. Imported rice comes from the US (33% between 1998 and 2003), Thailand (30%), Vietnam (17%), China (12%) and Japan (8%). Rice importation is also a highly concentrated business only with five major importers accounting for more than 75% of imports (ActionAid Ghana, 2006; FAO 2007b).

Imported rice is usually cleaner and better packaged compared to locally produced rice. Since local farmers are often in need of instant cash, most of them sell their rice immediately after the harvest. The rice does not have sufficient time to cure before being milled, affecting its quality. Nevertheless, due to its superior taste compared to the imported varieties, most consumers would prefer the domestic rice if its quality could be improved, and if it could be made available all the year round.

The incomes of rice producers have been impacted due to high levels of imported rice. Based on an ActionAid survey conducted in 2005 in four districts, namely Ejisu Juaben, Tolon kumbungu, Bawku West and Gomoa with 202 farmers, 66% of rice farmers registered negative net returns from their rice production in 2002. In 2003, the high prices of imported rice resulted in 47% of local producers in the survey breaking even, with 19% registering negative returns. In 2004, the decline in imported rice prices again resulted in an increase in the number of local producers experiencing losses 66% (ActionAid 2006).

The high negative returns from rice production indicate the low and declining income levels for these producers. In addition, a high percentage of farmers - about 70% - use rice as the most important cash crop, which again indicates that the incomes of many farmers are declining. The rice study by ActionAid in Ghana recorded that rice was the main cash crop for 44% of male rice farmers and 46% of female rice farmers (ActionAid Ghana, 2006).

It is not only farmers who have been squeezed out, but also other players in the value chain - traders, millers, transporters, etc. According to the ActionAid study, "Many rice farmers abandoned their rice fields". Poverty at the national level has declined in the past two decades. However, poverty amongst food crop farmers has increased. (ActionAid Ghana, 2006; FAO 2007b).

"Our eyes are red, save our farms, save our livelihoods" was the song sung by both rice and poultry farmers in a peaceful protest outside the World Bank on 11 April 2005. John Akparigu, a rice farmer from the Upper East Region, presented a petition to the Speaker of Parliament. He appealed to the Parliament to be sensitive to issues of national interest such as the imposition of higher import tariffs on foreign rice and poultry. Akparigu alleged that for every plate of imported rice, 100 children are sent out of the class to the streets. Rice farmers as with other farmers, have been compelled to abandon their farms due to what farmers have termed 'the killing effects' of trade liberalisation.<sup>37</sup>

### **OBSTRUCTING THE GROWTH OF MOZAMBIQUE'S VEGETABLE OIL SECTOR**

Whereas the problems faced by Mozambique's vegetable oil sector cannot be attributed solely to the surge in imports, the five-fold increase in imports between 2000 and 2004 was nevertheless a huge blow to the domestic industry. In fact, the sector contracted as imports of palm, Soya and sunflower oil surged. Domestic production of

37. [www.ghanaweb.com/GhanaHomePage/News-Archive/artikel.php?ID=79568](http://www.ghanaweb.com/GhanaHomePage/News-Archive/artikel.php?ID=79568), "Plate of Imported Rice Sends 100 Children Out of School", 18 April 2005.

sunflower seeds peaked at 21,000 tonnes in 1981 and declined to 7,000 in 2001 and to a meagre 3,500 in 2002. Imports of vegetable oils included both imports of refined as well as bulk oil.

In Mozambique, smallholders undertake more than 99% of oilseed production. There are nearly 108,000 smallholder households and 497 medium-sized farm households growing oilseeds. With the introduction of Soya, the number of families involved in the sector may even hit 200,000. In addition, there are 900,000 families involved in the copra industry (nearly 5 million people) a substitute product that is also affected by imports of vegetable oils.

✦ The oilseed processing industry within the country is also stratified with the small processors relying on domestic raw materials, and the large processors relying on bulk oil imports. The government has also encouraged the import of bulk oil, by eliminating tariffs and taxes for refineries over certain gross revenue.

Importers of vegetable oil say that the imports are necessary since domestic production simply cannot meet the demand, nor are they able to meet quality expectations. The total domestic production is about 15,000 tonnes, whereas the estimated domestic demand is 35,000 - 45,000 tonnes. However, the small-scale processors see the imports as a threat to their very existence. They are of the view that the domestic industry cannot be properly developed if imports continue at the existing levels the industry can neither increase its production capacity, nor invest in innovation.

A closer examination shows that domestic prices are set according to refined oil import prices. Both have been on the decline and domestic producers say that their margins are continually being reduced.

The result has been that most oil crushing operations and small refining plants, which rely on domestic raw materials, have closed down, whilst the large refineries relying on imports have

intensified their operations. A local vertically integrated industry, which had a contract with 103 farmers' associations representing 3,600 people producing sunflower seed, stopped their operations. Until 2004, the industry was producing 60,000 litres of sunflower oil per month. The competition with cheap imported oil has made it unviable. Another closure was an oil crushing plant located in Manica province, which had capacity for processing 1,000 tonnes of oilseeds per year. The plant had operated successfully for 10 years, selling refined oil and oil cake to the local feed industry. It could not compete with the low cost oil imports.

Such closures automatically mean a reduction in area cultivated, unemployment and underutilisation of resources. Other domestic sectors of substitute or horizontally linked products are likely to also be affected by the imports e.g., copra producers, as well as the soap and bottle industries (FAO Case Study On Mozambique, 2006; FAO 2007f).

### **SQUEEZING PRODUCERS OUT OF THE LOCAL RICE MARKET IN GAMBIA**

The government in Gambia adopted the Economic Recovery Programme (ERP) in 1985. This led to the liberalisation of rice trade - import restrictions were lifted; the Gambia Produce Marketing Board, the sole importer of rice, was disbanded. Milled rice imports soared from 33,680 tonnes in 1980-81 to 74,000 tonnes by 2004-5. During this time, domestic paddy production declined from 42,700 tonnes to 13,200 tonnes by 2003-4. The country experienced a 52% surge of rice imports in 1990s, and a 50% surge again in 1997. As a result of the 1997 surge, the market share of domestically produced rice fell from 6.3% to 3.1% in 1998.

Imported rice was sold at the same price as locally milled rice. This was despite the fact that the locally produced product was of a better grade, had higher nutritional value and was more suited to local tastes.

Rice farmers interviewed in various villages said

that imports were directly responsible for inhibiting local production - that local rice was losing market share because imported rice was cheaper. This eroded incentives of the farmers to produce rice. The ability to sell in the domestic market has gender implications in Gambia. Women are almost exclusively responsible for rain-fed and tidal swamp rice. Men cultivate irrigated rice. Over 91% of upland rice fields and 96% of the total area cultivated under swamp rice are owned and managed by women. The government took action following the 1997 surge by doubling government investment in rice production. Production increased 57% in the three years following the surge. However, the area under rice cultivation had declined by approximately 5% (ActionAid Gambia, 2005).

### **CONSIGNING NEPALI RICE FARMERS TO POVERTY**

Until 1990 / 2000, when there was a large influx of imported rice from India, domestic retail prices were actually on the rise. However, following the import surge, prices fell in the following three years. Nepali districts bordering India felt the biggest impact. The Nepal-India Trade Treaty, smuggling along the Nepal/ India border, and India's 'de-stocking' exercise are widely seen as the causes of the import surge.

Nepali farmers were plunged into hardship compounding the difficulties people were already facing as a result of the unstable political situation at the time.

To begin with, rice farmers were already struggling. Input costs were on the rise - chemical fertiliser costs increased by 50%, and labour costs by 40%. Input costs make up on average 80% of the farmer's cash outlay. Together with declining prices, farmers' incomes were tightly squeezed.

Although imported milled rice was only 1.84% of local rice consumption before the surge, it hit 8.64% after the surge. The acreage planted to paddy fell from 1,560 thousand hectares in 2000 to 1,517 thousand hectares. Government data showed a 2.76% negative growth in rice planted

area in 2001/02.

Without proper government regulation of the domestic market, local traders were able to push out the domestically produced rice and replace it with the imported substitute in the local markets. Indian rice was cheaper to procure. Profit margins for traders selling India rice were therefore higher.

Nepali rice farmers found themselves increasingly being pushed into debt as input costs increased whereas incomes declined. Farmers said that their incomes shrank by as much as 40-50%.

Local milling factors were also hit. In the districts of Morang and Sunsari, up to 30% of mills closed down their operations. The remaining mills have had to reduce their output.

Whilst consumers have benefited from the contagion of Indian agricultural prices in Nepal, farmers have pointed out that 80% of the Nepalese populace are engaged in farming, and their protection is, therefore, more important (ActionAid Nepal, 2005).

## **Restructuring the Domestic Industry, Pushing Out the Small Players**

### **BRAZIL'S COTTON STORY**

In situations where the domestic sector gets squeezed, it is not uncommon that the small players become the sacrificial lambs and the large players in the industry cope, or even come out as the winners. This is the case of cotton in Brazil. Yet behind this apparent 'success', is the high toll on employment. Brazil was faced with several episodes of import surges through the 1990s, particularly between 1990 and 1993. Several factors brought this about. The wave of liberalisation through Latin America in the 1980s saw Brazil adopting the free market regime in its 1988 Federal Constitution. During this time, four factors led the profound transformation in the

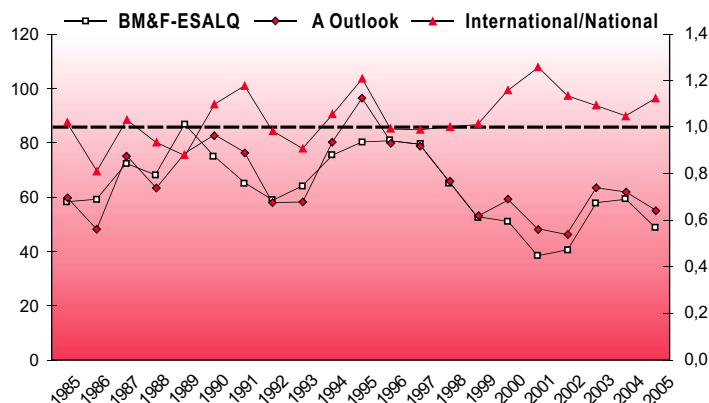


economy and agriculture was no exception; making way for the dominance of big capital within the sector: 1) vertical integration of the agro-industries of capital goods and farm inputs; 2) modernisation of farming based on subsidised rural loans; 3) financing of processing infrastructure used by the agro-industry; 4) transformation of the retail sector with the emergence and expansion of supermarkets.

Following the 1980s policy, full liberalisation policies were implemented abruptly. Tariff on lint cotton was reduced from 55% in 1988 to 10% in 1989, reaching 0% in 1992. According to the ActionAid 2006 study on cotton in Brazil, these policy changes generated 'enormous conflicts' in the cotton and textile sector. They lay at the heart of the crisis experienced by southern Brazilian cotton farmers in the 1990s.

By charting the monthly averages of the international prices of lint cotton between 1985 and 2005, we see that international prices of lint cotton oscillated between US\$ 60 cents/lb and a ceiling of US\$ 80 cents/lb. This fluctuation was caused by two main factors: subsidisation of US production, the world's largest supplier; and, Chinese purchases, the world's largest source of demand. When comparing the annual Brazilian domestic price and the international price averages of lint cotton, it becomes apparent that the international prices were on average lower than Brazilian prices in only six of the 21 years. In the last few years of the period studied, it becomes even more evident that Brazilian cotton is more competitive in the international market.

Trends in the Annual Averages of Lint Cotton in US\$ in the Brazilian Market (BM&F) and the International Market (Outlook) and Differences between Domestic and International Prices: 1985 - 2005



Sources: BM&F, ESALQ, Outlook Ltd. And Cotton World Markets and Trade

From the information above, it is clear that from the 1990s onward, Brazilian cotton was more competitive than international prices. Only in 1993, the first year in which Brazilian imports of lint surpassed exports, was the international price favourable. In successive years, price rises from December 1993 onwards, international prices hit US\$ 86.10 cents/lb in May 1994 and peaked at US\$ 115.70 cents/lb in May 1995. Prices subsequently fell to the level of US\$ 80.00 cents/lb until September 1997 when international prices started to decline over the following years. During this time, the surge of imports was gradually reduced until Brazil started exporting and becoming self-sufficient in cotton in 2001. A number of factors explain the import surges. These include the zeroing of import tariffs; changes in exchange rates and the high interest rates; and, favourable financing conditions for the repayment of imported cotton. The combination of these factors was potent.

Without the reduction of cotton tariffs from 10% to zero, the import surges would not have taken place. There would have been room for the domestic producers to continue production and domestic prices would have been consistently lower than international prices.



The exchange rate at that time was generally high, so that imports became cheaper. Bank interest rates were also exorbitant, up to 25%-30% a year, making it very difficult for both farmers as well as cotton mill processors. At the same time, financing facilities and loans for cotton imports were extremely attractive. Interest was between 4% and 7%. The combination of zero tariffs, high domestic exchange rates and enticing loan facilities for imports, was an enormous advantage for the textile agroindustries. In fact, they imported lint and were able to finance their working capital at costs far lower than those buying cotton or lint from the domestic market. It has been found that loan conditions created a difference in prices of nearly 15% in favour of the foreign product.

Between 1990 and 1993, the volume of lint imported multiplied six-fold from 86,000 to more than 500,000 tonnes. As a result, domestic production dropped dramatically. Between 1985 and 1993, there was a 56% drop in production levels. The situation was most dramatic for small cotton farmers in the South, who till today have not recovered. From 1992 - 1993, production contracted by nearly 50%. By 2003, the contraction was 89%, from 935,500 hectares in 1992 to 94,700 hectares by 2003. Cotton mills were nearly completely demolished overnight in the early 1990s. They could not compete with lint imports due to high domestic interest rates. Their disappearance left cotton farmers isolated and without the ability to sell their harvests. Many small and medium-sized cotton producers saw their seed cotton ferment and rot without being processed. Domestic production of lint cotton fell from close to 3 million tonnes in 1985 to about 1 million in 1993, to 823,000 tonnes in 1997.

The surge had a profound impact on employment and income. In the Southern state of Parana, 13,000 casual farm workers out of total of 400,000 lost their cotton harvesting jobs. It has been estimated that 200,000 families of permanent workers became unemployed. The state used to contribute to 50% of national production. Today, its share is less than 3%. In the Northeast, cotton employment in 1998 was just

15% of what it was in 1988. In Brazil as a whole, 34% of cotton workers (560,000) lost their jobs over the critical periods of import surge. It is believed that most of the landless rural workers who make up the land claim movements today come from cotton farming. Year 1993 saw the largest increase in imports. It is also the year when employment saw its greatest decline as domestic demand was directed externally and domestic production reduced by half.

The entire structure of cotton production underwent an upheaval overnight. The traditional structure, based on family production and small and medium sized establishments, absorbing a large number of permanent and temporary workers, completely collapsed. By the late 1990s, cotton production in the country recovered, but with a completely different structure. It has been taken over by large mechanised farms. A new map of national cotton production was drawn. The Southern regions never recovered. Production is presently in the Central Western part of the country, where the terrain allows for mechanised farming. Reflecting more conducive financial and credit market realities in the late 1990s, as well as the competitiveness of the big producers, imports fell by more than 10 times from 440,000 tonnes to 40,000 tonnes between 1997 and 2005 (ActionAid Brazil, 2006).

## National Government Policy Responses

Some governments have been propelled into action and have introduced legislation to address the economic and social crises caused by import surges. A few of the policy responses include tariff hikes; increased investment in the sector; price bands; and other forms of import restrictions.

### Tariff Hikes, Quantitative Quotas and Import Bans

Increasing tariffs is one of the most important instruments governments can use to stem the flood of imports. This may have resulted from exchange rate variations, subsidies from the exporting country, or simply unequal market power and cheaper production costs in the exporting country. However, several of the cases studied showed that tariff hikes alone were not sufficient to stem the flow of imports. In certain cases, the government concerned was pressured to take more stringent action by way of imposing bans or quotas.

#### **KENYA'S SUGAR SECTOR**

Kenya bound its agricultural tariffs at 100% when it committed to the WTO agreements in 1995. However, the applied tariff on sugar was only about 25% in 1999, down from 60% in 1992. As a result of the sugar surge between 2000 and 2001, the Minister for Agriculture invoked 'suspended duties' of 70% to be implemented over and above the 25% tariff. Similar suspended duties were also applied to maize, rice and milk. The total duty on sugar was 95% in 2000. However, the increased tariffs were clearly insufficient to buffer the domestic sector. In 2002, the government raised sugar tariffs to over 100% to about 123%. The government also invoked the Common Market for Eastern and Southern Africa (COMESA) Sugar Safeguard Protocol. The safeguard allows for Kenya to apply a quota on sugar imports, and to charge the 123% tariff once the quota has been filled in this case, the quota

was set at 200,000 tonnes. The request for the safeguard took one-and-a half years before it was implemented in 2003. The government had to first establish proof of injury caused to the industry.

The combination of the quota plus the high out of quota tariff has given the local industry some breathing space. It has been announced that Miwani - the milling company, which had closed down in 2001 - will be back in operation in 2007. The Mumias Sugar Company, as well as West Kenya are also back in operation, although five other state owned mills are still undergoing restructuring.

The tariff hikes, whilst important, are not a sufficient buffer. Those in the sugar industry are now worried that the COMESA tariff rate quota is due to expire in February 2008. The threat of being swamped again by imports is real and all the sugar companies are paying close attention to the issue of safeguards. There is presently increased pressure on the government to renegotiate an extension of the safeguard (ActionAid Kenya 2005, Communication with Angela Wauye from ActionAid Kenya, May 2007).

### Philippines' uses the WTO's Special Safeguard Clause

The WTO's Agreement on Agriculture's Special Safeguard Clause (SSG) was only made available to countries that converted their non-tariff barriers to tariffs in the Uruguay Round. As such, only 22 developing countries have recourse to the SSG. It was designed to be much easier to invoke than the WTO's general safeguard agreement, where countries must provide proof of injury. Such proof of injury is not required for the SSG.

Only six developing countries have actually invoked the SSG. They have done so only 5% of the total number of times they could have applied between 1995 and 2004.

The Philippines has invoked the SSG duty for onions. The SSG has been used, but only

intermittently since 2002, due to internal conflicts of interest between onion farmers and onion importers. As early as 2000, onion farmers had complained that the quantity of onion imports had increased and that it had adversely affected their income/livelihood. This phenomenon was particularly apparent in 2001 when local markets were flooded with imported onions. Producers alleged that the onslaught of cheap onion imports mostly coming from China (including those that entered the country illegally) had resulted in the lowering of prices of onions produced domestically. Farmers further expressed their concern regarding the timing of the entry of imports as they were usually brought in during harvest time or when the local produce had just been released from storages.

Since onions are a commodity eligible for special safeguards, the Department of Agriculture (DA) evaluated the petition of local onion farmers following the provisions on the application of trigger price and trigger volume mechanisms specified in RA 8800 (The Republic Act 8800 is a piece of national legislation that protects local industries through the provision of safeguard measures). Soon after the DA established the trigger price of onions in 2002 and found that it was breached, or that the CIF (cost, insurance and freight) import price of onions fell below its trigger price, *the government responded to the petition of onion producers and imposed an additional tariff, in the form of a price-based SSG duty.* The initial imposition of the special safeguard, however, was only in effect for one-and-a-half months from November 15, 2002 to December 31, 2002. Prompted by the request of importers, the measure was lifted, not because the established trigger was no longer breached, but mainly because there was an expected shortfall in supply of onions. Importers claimed that consumption requirements could not be met by domestic production alone. The SSG duty on onions was invoked a second time from December 18, 2004 to January 20, 2005, when farmers again requested for its re-imposition. At present, no SSG duty is in place for imported onions.

Some of the local onion farmers have been given financial assistance to be more competitive under the Philippines' Agricultural Competitiveness Enhancement Fund (ACEF)(FAO Philippine, 2006).

## **THE PHILIPPINES EXPLORES THE WTO'S GENERAL SAFEGUARD PROVISION ON TOBACCO**

The Department of Agriculture in the Philippines also received requests for the imposition of a safeguard from the local tobacco industry. Domestic tobacco farmers, through their national association, had requested for remedial safeguards against what they described as “tremendous increase in importation due to continuing tariff reduction and trade liberalization that is causing the industry to sell smaller quantities of tobacco and traders to buy at lower prices” (FAO Philippine, 2006).

The importation of un-manufactured tobacco was particularly high in 2004 compared to the earlier years. Producers noted that during that year, the volume of imported tobacco exceeded local tobacco production. This phenomenon was unprecedented. Farmers listed the injuries they endured as follows:

- (i) decreased margin of profit;
- (ii) limited markets resulting in lower production;
- (iii) difficulty selling off 12 million kilos of tobacco valued at 220 million pesos; and,
- (iv) decreased employment.

Since manufactured tobacco is not eligible for the special safeguard measure (SSG) under the WTO rules, the Department of Agriculture is exploring the possible use of the WTO's general safeguard provision. In order to impose an additional tariff or quantitative restriction under that provision, the DA is required to provide information establishing that tobacco importation had caused serious injury or threatens to cause serious injury to the local industry.

The tobacco farmers meanwhile continue to receive some support from the government through the National Tobacco Administration.

## **CAMEROON TRIES TO STEM POULTRY IMPORTS**

The near ten-fold increase in poultry imports in two years from 2001 - 2002 had such a debilitating effect on the domestic poultry industry that the government was moved to increase tariffs on poultry from 25% to 42%. This was done in December 2004. However, the measure was not sufficient to stem the flow of imports. In September 2005, the Ministry of Livestock imposed a quantitative restriction of 5,000 metric tonnes for poultry (FAO Cameroon, 2006; FAO 2007c).

## **CAMEROON'S ATTEMPTS TO REGULATE RICE IMPORTS**

The Cameroonian government, in order to stop the flood of imports of rice, signed a ministerial decision asking rice importers to buy a certain quantity of locally produced rice before importing. This was in the early 1990s. Importers, however, have not respected this regulation, and the government has not taken action (FAO Cameroon, 2006).

## **INDONESIA'S EXPERIMENTS WITH RICE**

Rice has always been a politically sensitive issue in Indonesia, contributing to political crises at various points in the country's history. Year 1998 was no different. As rice trade was liberalised owing to the IMF conditionalities at the time of the financial crisis, and 4 million tonnes of imported rice flooded the country, the country sank into political turmoil. From a zero tariff on rice, the tariff was raised to 30% in January 2000. However, imports were still flooding in - much of it was smuggled though. In order to deal with the difficulties at the border, the government finally imposed a complete ban on rice imports in 2003. The ban is still in place during certain periods of the year i.e., before, during and after the main harvesting season (ActionAid & ICASEPS, 2007).

## **Price Bands**

Price bands are a range of tariffs offering an upper ceiling and a floor level, which some governments have used to regulate tariff levels. They are usually based on a moving average of some external price. When the import price falls below the floor, surcharges are applied. Even though price bands are illegal within the WTO, some countries have used them at various points and they seem to have been quite effective.

### **BAN ON CHILE'S PRICE BAND**

Chile is a well-known case because of the dispute that was lodged against it by Argentina in 2002 for wheat and edible oils. Chile had supported its agriculture with the use of price bands on selected commodities, namely wheat, vegetable oils and fats, and sugar. On the whole, the country had rather low tariff levels - its bound rates were 31.5%. Occasionally, the applied price band led Chile to exceed its WTO bound rates.

The WTO Appellate Body ruled that the Chile band mechanism was similar to a variable levy and was unacceptable. The Appellate Body was concerned that international price developments would not be transmitted to the domestic market as a result of the band. In response, Chile modified its price band formula so that any resulting tariff (regular plus price band surcharge) would not exceed the bound tariff level (Valdes and Foster 2005).

### **HONDURAS' PRICE BAND ON RICE**

Honduras also dabbled quite successfully with price bands before the formation of the WTO in 1992. In response to the surge in rice imports in 1991, the government raised import tariffs to 25% and also set up a price band mechanism to buffer the domestic market from the fluctuations of the international market. The tariff band was between 20% and 45%, and was based on the price of Louisiana milled rice. A higher tariff within the band would be implemented if the external price was low, and a lower tariff applied when the Louisiana milled rice price was high. All in all, the

measure worked fairly well until the government relaxed importation following Hurricane Mitch in 1998. This led to a huge and damaging rice import surge into country (FAO 2007k).

## Increased Investments

Governments have sometimes responded to import surges by making their own domestic sector more competitive. Gambia increased its investment in the rice sector by 160% and this helped Gambian rice farmers stay in rice production. Between 1985 and 2005, the government commissioned five major rice development projects amounting to US\$ 44.369 million (ActionAid Gambia, 2005).

## Non-Tariff Barriers Standards and Licensing Requirements

Governments both in the North and South make use of a variety of non-tariff barriers when tariff hikes are seen as inadequate, or perhaps unacceptable. The developed countries often resort to sanitary and phytosanitary measures (SPS) i.e. food and health standards to block their borders. In fact, so frequently are these measures used by the US and EU that the FAO has even described such measures as a form of trade 'harassment'.<sup>38</sup>

### INDONESIA'S BAN ON CHICKEN

In 2000, the Indonesian government imposed a ban on chicken parts on the basis that imported chicken (for example, from the US) does not conform to halal standards i.e. produced in accordance with Islamic practices. The US, without success, has attempted to repeal the ban, insisting that the US poultry meets the requirements of halal certification.

### CHINA'S LICENSING REQUIREMENTS

Requiring importers to apply for licenses before they are able to import, is also sometimes used by countries trying to protect their market from import surges. China signed FTA with Thailand in October 2003. At the time, Thailand was a net exporter of fruit and vegetables to China. When the FTA was in place, Chinese fruit and vegetables flooded the Thai market, much to the surprise of Thai producers. Imports from China were up by 400% whereas Thailand's exports to China increased by 80%. Apparently at the Chinese end, the government had given few import licenses in advance to their traders. They also applied strict hygiene standards to Thai imports.<sup>39</sup>

## Regulation of Supplies

### HONDURAS REGULATES RICE SUPPLIES

The privatisation of the Honduran Marketing Board, which until 1990 had completely controlled the imports and exports of rice, contributed to the rice import surges of the 1990s. In 1999, following the second bout of rice import surge in the decade, the government raised the tariff on rice to the maximum rate i.e. 45%. But in addition, a surveillance system has been formed between the government, millers and rice farmer associations, known as the Convenio, so that rice can no longer be brought into the country on the whim of private importers, and that the supplies into the country are carefully regulated. The government in fact has imposed certain procurement rules. Millers are allowed to import paddy duty-free at volumes proportional to their purchase of domestically produced paddy once all the domestically produced rice had been purchased by the millers. According to the FAO, there is the perception that the Convenio, as well as the government regulation regarding imports, has allowed domestic production to slowly pick up, and the domestic sector to increase in competitiveness (FAO 2007k).

38. FAO 1999, *Symposium on Agriculture, Trade and Food Security: Issues and Options in the Forthcoming WTO Negotiations from the Perspective of Developing Countries*, Paper No. 3. "Synthesis of Country Case Studies", Geneva 23-24 September.

39. Ofreneo, R. 2004, "Free Trade With China: What's In Store for Small Farmers?", *The Manila Times*, 17 November.



## Recommendations and Conclusion

The current trading regime created by the international financial institutions (IFIs), the World Trade Organization (WTO), and also the bilateral and regional free trade agreements, has brought about a situation wherein food has been over-produced in some countries - the agricultural North, including the US, EU, Australia, New Zealand, Argentina, Brazil and Thailand. On the other hand, most other countries have become net food importers. In particular, low-income countries, previously food self-sufficient, are now dependent on food imports, including staples.

✦ The World Bank and the IMF have encouraged developing countries to liberalise even in the face of significant amounts of the US and EU subsidies. According to their logic, regardless of these subsidies, unilateral liberalisation by poor countries would be for their own benefit.<sup>40</sup> Producers are forced to become more efficient. Consumers too, are supposedly to gain from lower food prices (at least until the recent commodity price increases). The WTO's role, and the faltering Doha Round has been an attempt to lock in, as far as possible, what has been 'autonomously' liberalised under the IFIs. Today, regional and bilateral free trade agreements are pushing the majority of tariff lines down to zero in agriculture. Fierce attempts are also being made to get countries to liberalise investment, including the entry of supermarket chains.

This report illustrates that the impact of trade liberalisation on the poor has been catastrophic. There are many reasons why the logic of liberalisation has not worked for subsistence farmers:

- 1) There are historical imbalances and differences between the agricultural sectors of developed and low-income countries that

cannot be wished away. Putting the big and subsistence farmers on a level playing field, expecting that competition will create efficiencies, is simply unrealistic.

The majority of small developing country farmers, with very little land less than half or one or two acres can hardly be asked to compete with an American farmer with 1,000 acres, or a Brazilian farmer with 5,000 acres of land. Even more importantly, the services, facilities and infrastructure available to the poultry farmer in Holland, cannot be compared to those available to the subsistence poultry farmer in Ghana, where there may not even be proper roads for transportation, or processing facilities to support value addition. Compare for instance, the US government's expense of US\$ 647 million a year to maintain the navigability of the Mississippi River,<sup>41</sup> to an African subsistence farmer who dries her paddy on the road so that cars that drive by can perform the task of unhusking the paddy.

In the words of Sandra Polaski (2005) of the Carnegie Endowment for International Peace, 'Poor small farmers simply cannot compete on the world market with the giant players, especially as they usually do not have sufficient land, access to credit, water, technical assistance and other inputs. For any crop, it is more likely that there will be other countries, both developed and developing, that could produce at lower costs than subsistence farmers due to economies of scale, mechanization, superior inputs, climatic conditions, government subsidies and a range of other factors'.<sup>42</sup>

In her work "Winners and Losers: Impact of the Doha Round", Polaski (2006) illustrates that even if all developing countries' agricultural products were protected from liberalisation in the Doha Round, in an overall liberalised environment, low-income countries

40. Anderson, K. and Martin, W. 2006, *Agricultural Trade Reform and the Doha Development Agenda*, The World Bank.

41. Berthelot, J. 2005, 'The Green Box a Black Box which Hides the Gold Box', 9 December 2005.

would still face losses if the Round is concluded.

Her results run “counter to the commonly held view about the Doha Round, namely that agricultural liberalization benefits developing countries and therefore is key to achieving the development goals of the Round. In fact, agricultural liberalization benefits only a relatively small subset of developing countries”.<sup>43</sup> Those that would lose out include “many of the world's least developed countries (LDCs), including Bangladesh and the countries of East Africa and the rest of Sub-Saharan Africa”.<sup>44</sup>

- 2) The proponents of liberalisation have also argued that the poor benefit from liberalisation - since consumers would pay less for their food. This becomes a difficult argument to maintain, however, when majority of the population themselves are food producers and low prices of imported food translate into low prices for domestically produced food. Instead of benefiting the majority, living standards are reduced as the purchasing power of the people shrink. The local economy also contracts and the goals of broad based development become even more distant.
- 3) One of the assumptions made often with respect to free trade is that there is full employment. When imports flood the market, the theory assumes that people engaged in that sector can shift easily and automatically to another sector. This has not been proven in reality. The result of the food import surges documented in this report has been rural

unemployment (hence the strong stance taken by the G33 in the negotiations); increased rural poverty; rural-urban migration and poverty and slums in the urban areas.

- 4) There are several reasons why small farmers have found the international market difficult to access. One major impediment has been the requirement of very stringent standards, which are often out of sync with local realities and costly to adopt. In the concrete case of Uganda, meeting the food standards demanded by Europe, the main export destination outside the East African region has been a huge challenge. The government has attempted to provide support to farmers to obtain the EurepGAP standards. Despite the training provided to about 24 farms in recent years, only one farm (as of July 2007) had managed to attain certification.<sup>45</sup>

Another impediment to small farmers is the preference by the increasingly concentrated retail markets in Europe, the US and elsewhere to buy from only a few big producers, rather than a large number of small producers. Supermarkets in Europe have changed the way in which supplies of fresh fruit and vegetables have been procured. Horticultural produce is bought mainly from the big producers in sub-Saharan Africa. In 2006, there were 60% fewer small holders (defined as working on less than one hectare of land) from Kenya exporting fruit and vegetables to the United Kingdom (UK), compared to the number in 2002.<sup>46</sup>

- 5) Another challenge for subsistence farmers is the lack of financial wherewithal to withstand

42. Polaski, S. 2005, 'Agricultural Negotiations at the WTO: First, Do No Harm', Carnegie Endowment for International Peace, June 2005.

43. Polaski, Ss 2006, 'Winners and Losers: Impact of the Doha Round' by Carnegie Endowment for International Peace.

44. Polaski, S.006, *ibid*.

45. Personal communication with an official from the Ministry of Agriculture in Uganda, 7 July 2007, cited in Kwa, A. forthcoming, 'Falling through the Cracks: Uganda's Small Farmers and Trade Policy', EcoFair Trade Dialogue. According to the official, some of the difficulties include the fact that in order to meet the standards, farmers need cooling facilities such as refrigerated trucks to transport their produce; they also need to keep records at the farm level. An impediment for some farmers who are unable to read or write; they need to have certain standards of welfare for workers, such as the availability of toilets every kilometre, etc.

46. Temu, A. and Marwa, N. 2007, 'Changes in the Governance of Global Value Chains in Fresh Fruits and Vegetables: Opportunities and Challenges for Producers in Sub-Saharan Africa', South Centre Research Paper 12, June 2007.



big price fluctuations, a constant feature of the international market. This is particularly problematic when the export crops are not food crops. When small producers neglect their food crops and put their resources into export crops, farmers and their families are often faced with severe food insecurity when export prices plunge.

In the new environment of high commodity prices, the export market is particularly attractive. Yet the stakes are also higher. With staple food prices increasing significantly, costs are higher at the household level, and also at the national level. There are therefore tempting opportunities, but also very real threats if farmers are unsuccessful in their export experiments.

It is for these reasons that the domestic and regional markets are particularly important for peasant farmers who still make up the majority of farmers in the world. It is their most accessible markets. Yet the importance of these markets are often overlooked and undervalued by both farmers and national governments.

### **THE G33 AND THE DOHA NEGOTIATIONS**

The current policy measures which countries can take to guard against import surges and dumping so that domestic markets are available to local producers are clearly inadequate. The case studies highlighted in this report illustrate that when action was taken to curb imports, this was often after the fact, a rearguard response after injury had already been done. In many cases, the action taken may not even have been adequate in putting an end to the import surge.

Most countries affected by import surges did not invoke the WTO's Safeguard Agreement, the special safeguard measure, or any anti-dumping measures in order to protect themselves from

unwanted import surges and dumped imports. Both the WTO's Safeguard Agreement and the Anti-dumping Agreement require proof of injury. Providing clear evidence that injury has been caused by the import surge or dumping is often beyond the capacity of many low-income countries. The agricultural Special Safeguard Measure (SSG), a simpler instrument to implement, where the safeguard (higher tariffs or quantitative restriction) can be put in place quickly, is only available to 22 developing countries. Even so, only six developing countries have used it between 1995 and 2004.<sup>47</sup>

Does the enormity of the import surge problem exist on the radar screen of the international community? Given the crises caused by food imports, which are breaking out with alarming frequency, all around the developing world, are the current agricultural trade negotiations aiming to alleviate the situation? At the WTO, the G33 - a coalition of 46 countries has come closest to articulating these concerns.<sup>48</sup> The grouping, led by Indonesia, has done a signal task in highlighting the concerns of food security, rural livelihoods, and rural development, as well as the problem of food import surges. The Special Products (SPs) and Special Safeguard Mechanism (SSM) are the two main instruments the G33 is asking for.

From various quarters, objections have been made to the SP and SSM proposals because they are seen as instruments that limit exporters' access to developing country markets. These objections have emerged from certain developing countries that export; major economic players such as the US; institutions such as the World Bank; and in the latest twist, also the Chair of the WTO agriculture negotiations, New Zealand's Ambassador Crawford Falconer, in his draft modalities texts. In the light of countries' recent experiences with import surges and government responses, it is also important to question whether the measures the

47. Some countries may not have invoked SSG because there was sufficient tariff 'overhang' between the applied and bound rates, and they may simply have increased their applied tariff rates. On the other hand, others reported hesitance, as they did not want to be hauled to dispute settlement for wrongful application of the measure. In yet other countries, the producer groups suffering the injury simply did not have enough political clout to get the government to implement the safeguard. In addition, one of the lessons the SSG offers is that care has to be taken when negotiating any such agreement that the reference price is updated, so that it can actually be triggered! The SSG reference prices were pegged to prices in the 1980s and some of these prices were too low to be useful.

G33 has proposed will suffice in addressing the severity of the problem at hand.

### **THE IMPORTANCE OF TARIFFS FOR DEVELOPING COUNTRIES**

The tariff cuts proposed in the WTO's Doha Round are more ambitious than those in the last Uruguay Round. In the last round, developing countries were asked to cut their tariffs on average by 24%.

The tariff cuts in the current round are still being negotiated. The African, Caribbean and Pacific (ACP) countries have proposed tariff cuts of between 15% and 30%. However, the G20 has proposed deeper tariff cuts of between 25% and 40%. High tariffs would be cut by a larger percentage than low tariffs.

The current tariff structure of WTO developing country members is quite diverse, and similarly, this diversity applies to the large G33 coalition. There are some members that have bound their tariffs at very low levels, almost equivalent to their applied tariff levels and others that have much higher tariff bindings. Cote d'Ivoire has an average bound tariff of 15; Honduras 33; Indonesia 45; The Philippines 35; Dominican Republic 41; China 15; and, Sri Lanka 50. Countries with higher average tariffs include Kenya at 100; India 116; and, Nigeria 150.

Countries will be affected to varying degrees by the tariff cuts of the current Round. The level of impact depends on the degree of 'tariff overhang' available in countries' current tariff structure. Since the WTO negotiations would cut bound tariff rates, the existing difference, or tariff overhang, between the bound tariff rates and the applied tariff rates of Members becomes critical. Research by International Centre for Trade and Sustainable Development (ICTSD) found that in spite of the high bound tariffs, tariff cuts of 40% will affect Kenya's applied tariffs in sugar and rice. For the

Philippines, 12 categories of products will be affected where their current applied rates will have to be lowered. These include live animals; pork; poultry; onions and garlic; potatoes; etc. Both Cote d'Ivoire and China, where applied rates are practically at the same level as their bound rates, will see their applied tariffs lowered for the great majority of products.<sup>49,50</sup>

Given the vulnerability of developing countries to import surges, protecting their current applied rates and preventing them from being cut further in the Doha round of negotiations, is clearly an objective of many developing countries. In addition, many want to keep a certain level of tariff overhang in order to provide space to increase tariff levels in the event that market conditions in the years to come do change. In addition, for many countries, the number of import surges and the injury caused is already a telling sign that in fact, their applied tariffs are already too low. In order to safeguard their domestic production, many developing countries should in fact be looking at raising their current applied tariff rates.

Tariffs are critical since they are the last instrument that most developing countries have at their disposal to defend their agricultural sectors. This is especially so against the dumping that they face in the world market.

In contrast, for developed countries, tariffs; tariff rate quotas; non-tariff barriers by way of food standards; subsidies; and market consolidation along the production chain; are used in combination to protect domestic markets and distort the international markets.

48. *Antigua and Barbuda, Barbados, Belize, Benin, Bolivia, Botswana, China, Cote d'Ivoire, Congo, Cuba, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, India, Indonesia, Jamaica, Kenya, Korea, Madagascar, Mauritius, Mongolia, Mozambique, Nicaragua, Nigeria, Pakistan, Panama, Peru, The Philippines, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Senegal, Sri Lanka, Suriname, Tanzania, Trinidad and Tobago, Turkey, Uganda, Venezuela, Zambia, and Zimbabwe.*

49. *In fact, Cote d'Ivoire has a significant number of applied tariffs, which are currently higher than their bound tariffs.*

50. *As of the end of 2007, the agriculture negotiations are moving in the direction where most of the African countries will commit themselves to average tariff cuts of 24%. However, as negotiations are still on-going, this may not be the number that is settled upon.*

## THE G33'S SPECIAL PRODUCTS PROPOSAL

In order to protect farmers' "food security, livelihood security and rural development", the G33 has proposed gentler treatment for at least 20% of their tariff lines in the Doha Round and these would be designated as "special products" (SPs). According to the group, due to the diverse circumstances of countries within the coalition, countries themselves should self-designate the products that are to be classified as SPs. The grouping has come up with a set of "indicators" to guide countries in designating these products. The indicators reflect the food security, livelihood security and rural development criteria for SPs, which were agreed upon in the WTO's 2004 July Framework.

The coalition has proposed that for the 20% SP tariff lines, treatment should be as follows:

- ◆ half of the 20% of tariff lines, i.e. 10% of a country's total tariff lines will not be subject to tariff cuts;
- ◆ an additional 3% of total tariff lines will be exempt from tariff reduction under special circumstances such as low bound tariffs; higher proportion of low income and resource poor producers; high vulnerability in the sector, etc.
- ◆ 5% of a country's total tariff lines will be subject to 5% tariff reduction; and,
- ◆ the remaining 2% of tariff lines will be subjected to 10% cuts in tariffs.

The coalition has come under intense pressure over the past two years from various quarters interested in market access to relax their SP position.

## THE G33'S SPECIAL SAFEGUARD MECHANISM PROPOSAL

The Special Safeguard Mechanism is a very important issue for the G33. The group has repeatedly reiterated that the SSM is a different instrument from the SP. Whereas the SP is a long-

term exemption for rural development and food and livelihood security, SSM is a shorter-term mechanism - in place for about a year each time it is activated - to help developing countries cope with fluctuations in prices and import surges. What the SP and the SSM do have in common is the use of tariffs for the protection of the domestic and regional markets for local producers.

The SSM would include both volume and price triggers. The volume trigger is activated when the volume of imports of the product entering the customs territory of a developing member country exceeds a trigger level equal to the average annual volume of imports for the most recent three-year period preceding the year of importation for which data is available.

The price trigger is activated when the import price, at which a shipment of imports of a product enters a developing country, falls below a trigger price equal to the average monthly price for that product for the most recent three-year period, preceding the year of importation for which data is available.

The Grouping has emphasised the need for the mechanism to respond to the institutional capabilities and resources of developing countries, and hence be simple to implement. That is, there will not be a need to prove injury and causality. The remedy will take the form of an additional duty to be levied once a volume or price trigger has been activated.

The coalition has also stated that given the impossibility to predict changing market conditions, the instrument must be applied to all agricultural products, whether these are subsidised by their trading partners or not; and whether these are designated as SPs or not. (Those interested in market access are attempting to pressure the G33 to limit the SSM to products for which tariffs have been cut in this Round). It should also be an instrument that all developing countries can use.

## Policy Recommendations

1. Invoking the SSM should be simple and easy. In the case of Kenya, the COMESA safeguard took two years to be put in place. In the meantime, the small sugarcane producers were plunged into poverty. Therefore, in order to stem injury to the sector, speed and ease of implementation are critical.
2. The G33 proposal on the SSM to increase tariffs is inadequate to mitigate the problem of import surges. In certain cases, tariffs alone are insufficient, as illustrated by the Cameroon poultry case (FAO 2007c) where a quantitative restriction was necessary. The ban on rice in Indonesia is another example (Sawit and Lokollo 2007). The 30% tariff was insufficient and the government had to introduce a complete ban during certain seasons in order to maintain the livelihoods of local producers.

The SSM remedy should therefore include both the use of tariffs and quantitative restrictions (QRs). Countries should be able to choose one or a mix of both of these instruments according to what is most appropriate for their domestic conditions and needs. Implementing a QR is not a new concept in the arena of safeguards. It is one of the measures countries can take in the General Agreement on Tariffs and Trade (GATT) Agreement on Safeguards.<sup>51</sup>

3. SSM must be available to all the agricultural products and it should not be limited to a few products only. In addition, the number of SSM safeguards to be triggered at any one time will depend on the market situation. No limits should be placed on the number of safeguards that can be in place at any one time. In the FAO study of 23 'food groups' between 1980 and 2003 in 102 countries, literally hundreds of import surges were

recorded in each food group, amounting to between 7,132 - 12,167 import surges (depending on how the calculation of a surge is made). In addition, the causes of import surges, as seen earlier, are often beyond the control of importing countries. For example, the Russian rouble's fall leads to the flooding of US poultry in Africa; or the changing commodity and subsidy programmes in the US depending on the whims of domestic lobbies - depresses world prices and leads to import surges. When borders are liberalised, import surges can take place in any agricultural sector, and at an alarmingly high frequency.

Some non-G33 WTO Members, in the attempt to limit the applicability of the SSM have argued for the instrument to be available only to those products, which have undergone liberalisation in the current Round. However, this would fail to recognise the frequency of import surges that took place even without the liberalisation of the current Round.

4. State trading enterprises are extremely important for developing countries in terms of managing imports and exports, determining prices, procuring food from small holders, and distributing supplies to ensure food security. These institutions and their functions should be strengthened, not weakened under the WTO and other trade rules.

The dissolution or diminished role of STEs in Gambia, Ghana, Kenya, Indonesia and Honduras, to name only a few examples, contributed to import surges. In particular, the liberalisation of imports, that is, allowing private traders to import food, was a key factor. Also, the domestic sectors were often weakened when the services rendered by these STEs were either eliminated or severely limited, e.g. their price support and procurement functions.

51. In the GATT Agreement on Safeguards, countries are allowed to impose a QR, although they normally should not reduce the quantities of imports below the annual average for the last 3 representative years for which statistics are available, unless justification is provided that a different level is necessary to prevent or remedy serious injury.

5. Both the volume and price triggers are necessary for developing countries. At times, one may be more appropriate than the other. For example, when the import price is very low, even if there is no surge in import volume, the cheap imports can cause injury by depressing domestic prices and hence affecting livelihoods. At times, increased import volumes may be desired, but only at a price level that does not harm domestic producers. In these scenarios, a price trigger is important.

At other times, however, the price trigger may not be the appropriate instrument and the volume trigger is required. Prices can actually be stable or may be on the rise, even in the face of import surges (e.g. milk prices in Sri Lanka), but the domestic sector is weakened and marginalised, unable to expand and respond to a growing domestic market, which is captured by imports. In this context, the volume trigger is important. Countries, therefore, need access to both these instruments.

6. Whereas the SSM must be easy to invoke, a number of volume triggers and an escalating series of remedies (as in the case of the SSG) need not be complicated to implement. For the SSG, the lower the level of imports on a domestic market, the higher the trigger volume would have to be before a remedy kicks in. The G33 has suggested a similar mechanism. However, if a single trigger / single remedy is sought, as the Agriculture Chair Falconer has proposed in his 25 May 2007 paper, what would the trigger level be? For developed countries in the SSG, it is as low as 5% above the normal import volume. For developing countries and the SSM, the trigger level can be the volume of the preceding three or five years (Whichever is lower). Import volumes larger than the three- or five-year average can lead

to the SSM kicking in.

In the SSG, when imports capture more than 30% of the domestic market, the base trigger level is equal to 105% of the average volume of the preceding three years for which data is available. If the import level is greater than 10% but less than or equal to 30%, the base trigger level equals 110%. If the 'normal' import volume is less than or equal to 10% of the domestic market, then the trigger level is 125%. (The Chair, Crawford Falconer claims, in his 25 May 2007 paper, that the SSG has a default trigger of 125% of imports compared to the previous three years is therefore inaccurate and misleading).<sup>52</sup>

Exactly how the trigger level is set is important, because it can determine whether or not a country is able to invoke a safeguard and the differences can be great. The 2005 FAO study showed that if a 30% increase in volume is used as the trigger, 7,132 surges were identified over a 23-year period. In comparison, if the SSG method using a number of triggers and corresponding escalating remedies is employed, 12,167 import surges were recorded.<sup>53</sup>

A trigger level of 25%, as the Chair has suggested for the SSM would in many cases have paralysed the domestic sector and wiped out local producers. In the case of rice in Nepal, an import surge of 7%-8% was already sufficient to devastate the local economy.

During the course of this research, ActionAid has come to realise, therefore, that the definition of an import surge used at the start of this project "30 percent positive deviation from a three-year moving average of import data" - would not be effective in supporting small farmers affected by import surges.

52. WTO 2007, "Communication from the Chairman of the Committee on Agriculture, Special Session, Second Instalment", May 25. [http://www.wto.org/english/tratop\\_e/agric\\_e/chair\\_texts07\\_e.htm](http://www.wto.org/english/tratop_e/agric_e/chair_texts07_e.htm)

53. FAO, 2005, *ibid*.



7. All developing countries, to a greater or lesser extent, struggle with monitoring and trade surveillance, particularly when entry points for imports are many; are administratively impossible to accurately monitor; and when informal trade is high. For these reasons, government records of imports are almost always below the actual import levels. Therefore, where data is unavailable or inaccurate, governments should be allowed to invoke the SSM when it is perceived that the domestic sector is being threatened. In such circumstances, ActionAid proposes the following definition of an import surge *“An import surge occurs when the volume of imports increases in real or absolute terms in a year to an extent which is detrimental to the domestic producers”*. National governments will have the final say over when and whether 'detrimental impact' has impacted the producers.
8. The price-based trigger can be the average of the import price for the last three or five years, whichever is higher. The remedy should be based on the difference between the import price and the trigger price. The lower the import prices relative to the trigger, the greater the additional duty that can be imposed.
9. Both the SP and the SSM are critical instruments for developing countries. The two instruments serve different but complementary purposes. The SP is meant to protect sectors which are unable to compete in the distorted world market and which are important for food security, livelihood security and rural development purposes. Keeping in mind that developing countries have 40% to over 80% of their population in agriculture, this is a major issue for developing countries, hence the size of the G33 coalition. If the EU, with 4% of their population in agriculture can ask for 4% of tariff lines to be designated as sensitive, developing countries should have a percentage of their tariff lines designated as SPs that is higher than their percentage of population involved in agriculture.

In contrast to the SP, the SSM provides a mechanism to mitigate vulnerability to risks of price depression or production displacement.

10. The SSM should also allow tariffs to go beyond the bound Uruguay Round tariff rates when it is clear that these bound rates are insufficient to protect domestic producers, especially when imports are very much cheaper. The sugar case in Kenya, where tariffs have had to go beyond the 100% Uruguay Round bound rate in order for the safeguard to be effective illustrates its importance.
11. The liberalisation policies of the World Bank and the IMF must be revamped. On average, developing countries have an applied agricultural tariff rate of 13%, whilst developed countries have an average applied rate of 14%. Developing countries' low applied tariffs are largely due to structural adjustment policies of the World Bank and the IMF. For small farmers to be able to sell in their domestic markets, these tariffs have to be raised. Contrary to the World Bank and IMF prescriptions, countries should have the ability to use tariffs, quantitative restrictions and marketing boards to provide a domestic market on which their small farmers can easily access.
12. Today's bilateral and regional free trade agreements must also be revisited. For example, in the Economic Partnership Agreements (EPAs) between the African, Caribbean and Pacific (ACP) countries and the European Union, tariff lines for 80% or more of trade are being reduced to zero over a number of years. At the same time, the EU has refused to reduce its agriculture subsidies in the EPA negotiations. The safeguard provisions, if they are present in these agreements, are also weak - either by being limited to a small range of products, or countries are only able to invoke the safeguard for the first few years after the agreement has been signed. Yet, the situation



of deeper liberalisation in the face of continued trade distortions (in terms of EU subsidies; and the very different situations between small farmers in Europe and those in developing countries) will only increase the number of import surges in the near future. Rather than an emphasis on export markets, domestic and regional markets should be made available to subsistence farmers.

13. The regional arrangements between developing countries have also been responsible for the very low applied tariffs for agriculture and the consequent import surges. For most African regional groupings, the maximum applied external tariff is 20% or 25%, with a significant number of tariff lines between 0% to 10%. In contrast, Japan's import tariffs on rice are more than 400%. Canada, the EU, Japan and the US keep tariff peaks of 350%- 900% on food products such as sugar, rice, dairy products, meat, fruits and fish. Their tariffs for the main agriculture products are thus much higher than those of the poorest developing countries. If the welfare and standard of living of their subsistence farmers are to be enhanced, the common external tariffs of regional groupings should be raised.

## Concluding Note

This report has documented many cases where food import surges has triggered or exacerbated rural unemployment, food insecurity and poverty. In order to alleviate the rural crises across the developing world, and to promote broad based development, ActionAid proposes the following recommendations:

- ◆ Should the Doha Round be concluded, the negotiations must include a Special Safeguard Mechanism (SSM) which is simple to use and quick to invoke;
- ◆ The SSM remedy must allow countries to use both increased tariffs as well as quantitative restrictions. Countries should be able to choose one or both of these instruments;
- ◆ The instrument should be available to all agricultural products of developing countries;
- ◆ State trading enterprises should be strengthened in order to manage imports, exports, determine prices and procure food from small producers;
- ◆ The SSM must allow countries use of both the volume and price triggers. Both these triggers are appropriate for different circumstances and complement each other;
- ◆ Measuring an import surge as a 25% or 30% increase in volume would not be a sufficiently effective tool to support small farmers. ActionAid proposes the following definition of a surge: "An import surge occurs when the volume of imports increases in real or absolute terms in a year to an extent which is detrimental to the domestic producers";
- ◆ The price trigger remedy should be based on the difference between the import price and the trigger price.

- ◆ The Special Products instrument exempts certain products from tariff reduction in the Doha negotiations. It gives protection to sectors, which cannot compete in the greatly distorted world market, or sectors, which are important for rural livelihoods. The Special Safeguard Mechanism deals with price declines and import volatility. Both instruments are complementary and necessary. Both have in common the protection of domestic and regional markets for local small farmers;
- ◆ The SSM should allow tariffs to be raised even beyond the Uruguay Round bound rate if necessary, since in certain cases, the bound Uruguay Round tariff rate is insufficient to curb the import surge; and,
- ◆ In the past 25 years, it has been the conditionalities of the IMF and the World Bank, which have been largely responsible for the liberalised trading environment and the resultant food import surges. Today, these same conditionalities are being locked in by regional common external tariffs, and worse still, by free trade agreements that are pushing the majority of tariff lines in food down to zero. Both IFI conditionalities, regional common external tariffs and free trade agreements have to be revisited if we are to retain our policy space to use tariffs, quantitative restrictions and supports such as market boards, and reinvigorate domestic and regional markets so that local producers can have access to local markets.

Additional policy tools, whilst they are instruments to be supported, must complement the SP and the SSM, if their objectives are to be realised.

If we are to help farmers such as Ms. Salifu in Nyarigu, Ghana, and feed her malnourished children, we would be much more careful before we slash tariffs yet again either at the WTO, in free trade agreements or through our regional common external tariff regimes. We would want to carefully govern our imports so that they do not displace domestic production nor marginalise

local farmers. We would want to ensure that Ms Salifu has a local market where she can always sell her rice. We would want to enable her to diversify, and raise chickens or vegetables, and also have the local markets in those products available and accessible. We would carefully monitor whether food imports have been subsidised green, blue or amber (WTO subsidy categories) the colour is irrelevant and affects small farmers in the developing world in the same way by depressing domestic prices. Such imports would not be allowed into the country. We would also use quotas (both for domestic production and imports) as certain developed countries do in order to manage supplies and prices. Thus ensure that the domestic market is stable, prices are fair and constant, and small farmers such as Ms. Salifu can be assured of a stable and decent income.

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ActionAid International is a unique partnership of people who are fighting for a better world - a world without poverty.

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ActionAid works in Asia, Africa, the Americas and Europe to fight global poverty and tackle the injustice that causes it. This report highlights the impact of agro-import surges in the developing world. It highlights problems faced by poor communities, who are losing out in domestic and foreign markets and having their right to food compromised. The report also proposes safeguard measures in trade rules to avoid agro-import surges in developing countries.