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COMMITTEE ON COMMODITY PROBLEMS

Seventieth Session

Rome, 7-9 October 2014

IMPORT SURGES AND SPECIAL SAFEGUARD MECHANISM

Executive Summary

Recognising the potential risks associated with surges in levels of food imports, trade negotiators have agreed to the establishment of a special safeguard mechanism to assist developing countries in managing these risks as they open further to trade. Since the initial negotiations on the design of the mechanism, the global market context has changed significantly, and with it, the nature of import surges. These changes are symptomatic of the need to revisit elements of trade agreements to ensure that they reflect new market realities.

Suggested action by the Committee

The Committee is invited to take note of and discuss the findings of the study and to consider the following recommendations for follow-up action:

- further assistance should be provided to developing countries in understanding the implications of increasing food imports in the context of higher global food prices;
- analysis should be undertaken to better understand the effects of the changing global market context on different components of multilateral trade agreements; and
- dialogue on appropriate trade policy actions in the face of increasing imports, particularly when associated with potentially disruptive effects, should be supported.

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I. Introduction

1. The Committee last considered the incidence of surges in volumes of commodity imports to developing countries in its 66th Session[1]. In that Session, Members agreed that an improved understanding of the phenomenon of import surges can provide a useful contribution to the design of a Special Safeguard Mechanism (SSM) as part of a multilateral trade agreement.

2. As with the Uruguay Round of World Trade Organization (WTO) trade negotiations, the initial years of the Doha Round of negotiations took place during a period of historically low agricultural market prices with an agenda of promoting reform to trade and related agricultural support policies to ensure a more open and less distorted global trading environment. At the same time, it was recognized that greater openness to trade can expose developing country agriculture sectors to market instability, whereby further price depressions, associated with significant increases in import volumes, were deemed to be particularly harmful, depressing incentives for investment into domestic market development by private sector actors with limited recourse to risk management instruments. To address such concerns, the WTO Hong Kong Ministerial declaration[2] called for the establishment of a new Special Safeguard Mechanism (SSM) for use by developing countries. Negotiations on the modalities of an SSM have been particularly difficult, with some countries arguing for the mechanism to be effective and easy to use, but others concerned that without significant constraints, the SSM could be used in ways that unnecessarily disrupt trade.

3. Since the 66th Session of the CCP, global agricultural markets have changed significantly. In 2006, global food prices, although rising, were still considered to reflect a situation of excess supply and depressed prices. In the intervening years, prices have risen significantly and remain, in aggregate, at twice their levels during the 1980s, 1990s and early 2000s. While prices have increased significantly, perhaps allaying concerns related to price depressions; less well recognized is that import volumes to food importing developing countries have also increased rapidly since the early 2000s.

4. The changing global market context, therefore, creates a very different scenario with respect to expectations regarding the incidence and impact of surges. In turn, this raises questions as to how the relevance of, and potential recourse to, an SSM might have been affected. To assist member countries in addressing such questions, the Secretariat has revisited and updated its previous analyses[3] on import surges[4].

II. Identifying import surges

5. The term "import surge" has been used to highlight two types of potential shocks to domestic agriculture sectors which may arise from increased openness to trade: (i) significant increases in

[1] The Sixty-sixth Session of the CCP considered document CCP 07/11 "Import surges: Analysis, Preliminary Findings and Lessons Learned". The Committee's conclusions are reported in document CL 132/6 paragraphs 34-39.

[2] WTO (2005) Hong Kong Ministerial Declaration. WT/MIN(05)/DEC. 22 December 2005.

[3] FAO (2005) A special safeguard mechanism for developing countries. FAO Trade Policy Technical Notes on issues related to the WTO negotiations on agriculture. No. 9. FAO, Rome; FAO (2006) Import surges: What are they and how can they be identified? FAO Briefs on Import Surges. No.1. FAO, Rome.

[4] A fuller analysis is contained in FAO (2014) Import surges and the Special Safeguard Mechanism Revisited. FAO Trade Policy Technical Notes on issues related to the WTO negotiations on agriculture. No. 15. FAO, Rome. May.

volumes of imports from one year to the next; and (ii) depressions to domestic market prices that may result from increased connectivity to global market prices. As the previous FAO analyses demonstrated, import surges can be the result of factors internal to the domestic economy, such as domestic production shortfalls due to climatic events, or can also be the result of external market factors, with the latter potentially disruptive to domestic agriculture. The analysis summarized in this paper examines the incidence of surges, but it should not be taken as implying that all surges will necessarily have negative impacts, or that a safeguard remedy is likely to be applied in all identified cases.

6. There is no agreed definition of an import surge or of a methodology for assessing and measuring import surges. The definitions tend to be based *inter alia* on different thresholds, with an import surge said to have occurred when the actual imports surpass that threshold. However, the selection of the threshold can have a significant effect on the determination of the existence of an import surge.

A. Volume surges

7. Following the definition used in the document CCP 07/11, Table 1 records the number of surges identified using a three-year moving average plus 30 percent (MA3+30 percent) across commodity groups and time.

Table 1. Identified import surges for 15 major food commodity groups in 103 developing countries (MA3+%)

	Total	Ten-Year Periods			Five-Year Periods	
	1984-2013	**1984-1993**	**1994-2003**	**2004-2013**	**2004-2008**	**2009-2013**
Maize	504	196	189	119	73	46
Rice	470	186	192	92	54	38
Wheat	271	108	87	76	43	33
Bovine meat	663	208	238	217	142	75
Ovine meat	553	152	201	200	139	61
Pig meat	741	217	306	218	145	73
Poultry meat	732	228	291	213	126	87
Butter	548	178	182	188	112	76
Cheese	536	140	210	186	118	68
SMP	594	130	223	241	125	116
WMP	487	105	199	183	104	79
Palm oil	409	190	176	43	35	8
Rapeseed oil	303	148	128	27	9	18
Soybean oil	352	177	152	23	13	10
Sunflower oil	275	76	147	52	30	22
Total	**7438**	**2439**	**2921**	**2078**	**1268**	**810**

Note: Calculation for 103 countries. Number of identified surges = cases where actual volume exceeds a threshold defined as a three year moving average plus 30 percent.

8. The highest incidence of surges occurred in meats (bovine, pig and poultry all with incidences of greater than 20 percent of possible cases[5]), to a slightly lesser extent in dairy products (all greater than 15 percent), ten percent or lower in most oilseeds, and with a mixed pattern in cereals. As reported in CCP 07/11, a higher incidence of import surges was observed in 1994-2003 than in 1984-1993 (mainly meat and dairy), while in the remaining groups there was a reduction in incidence (mainly cereals and oilseeds). By contrast, all but two of the commodity groups (butter and skim milk

[5] The number of possible cases is equal to the number of countries, multiplied by the number of years in the period. For example, in the period 1984-2013 it is 3090 per commodity.

powder or SMP) saw a falling incidence, often significant, from the period 1994-2003 to 2004-2013. Looking at the last decade (2004-2013), it is observed that the incidence of surges in all commodities (except rapeseed which was already low) fell significantly in 2009-2013 when compared to 2004-2008, with total surges in 2009-2013 at approximately two-thirds of the 2004-2008 level.

9. A comparison of the incidences reported in Table 1 with the incidence under a threshold of the moving average of the previous three years' imports, plus one standard deviation (MA3+1sd), demonstrates the importance of the definition of the threshold level in identifying surges (Table 2).

Table 2. Identified import surges for 15 major food commodity groups in 103 developing countries (MA3+1sd)

	Total	Ten-Year Periods			Five-Year Periods	
	1984-2013	**1984-1993**	**1994-2003**	**2004-2013**	**2004-2008**	**2009-2013**
Maize	568	181	202	185	106	79
Rice	779	249	287	243	123	120
Wheat	649	205	218	226	138	88
Bovine meat	900	266	297	337	187	150
Ovine meat	618	168	209	241	151	90
Pig meat	963	237	355	371	201	170
Poultry meat	1066	270	371	425	200	225
Butter	635	191	206	238	136	102
Cheese	806	191	285	330	172	158
SMP	586	141	208	237	113	124
WMP	545	126	210	209	119	90
Palm oil	525	173	210	142	78	64
Rapeseed oil	220	121	77	22	7	15
Soybean oil	394	162	174	58	33	25
Sunflower oil	246	65	121	60	31	29
Total	**9500**	**2746**	**3430**	**3324**	**1795**	**1529**

Note: Calculation for 103 countries. Number of identified surges = cases where actual volume exceeds a threshold defined as a three year moving average plus one standard deviation.

10. The number of surges identified with the "MA3+1sd" threshold is higher and while the patterns across commodity groups and periods are similar to those observed with the MA3+30 percent, the extent to which the number of surges falls in the most recent five-year period is much less significant. The differing incidences can be understood by examining specific country/commodity examples. Typical of many of the analyzed country/commodity cases, imports of palm oil to Pakistan have risen relatively constantly since the early 1990s with very limited variation around the trend (Figure 1). As a result, the MA3+30 percent remains significantly above the actual level of imports and no surges are "identified".

11. By contrast, the MA3+1sd reflects the low level of variability in imports, maintaining a course similar to the import curve, but in "smoothing" the trend, it identifies a number of surges.

12. A different pattern is observed in imports of rice to Indonesia which have been more volatile with an increasing, albeit variable, upward trend to 2000 and then a declining trend, but with significant inter year variability during the 2000s. As a result, the MA3+1sd, reflecting this variability, now sits above the MA3+30 percent, which identifies the greater number of surges.

Figure 1 Palm oil imports – Pakistan (000 tonnes)

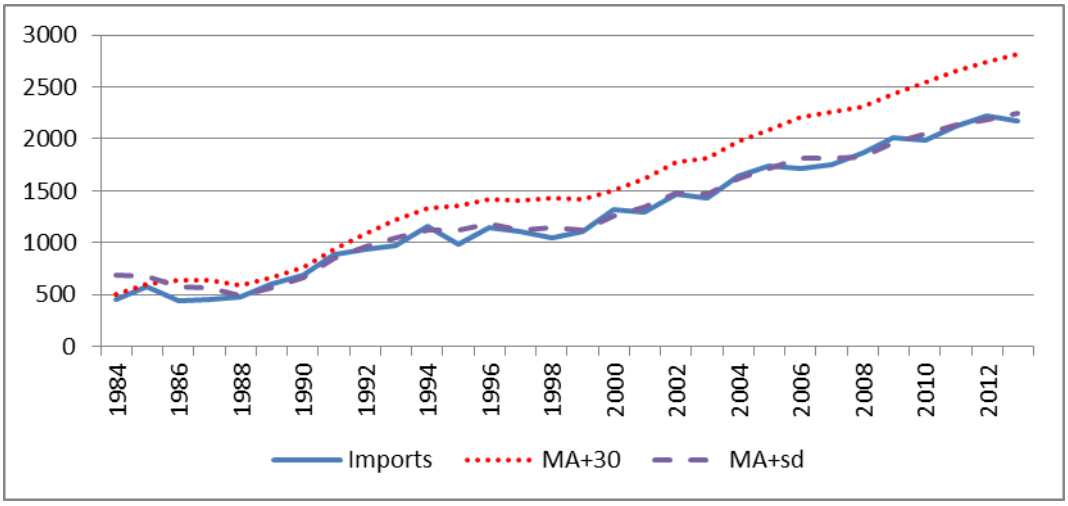
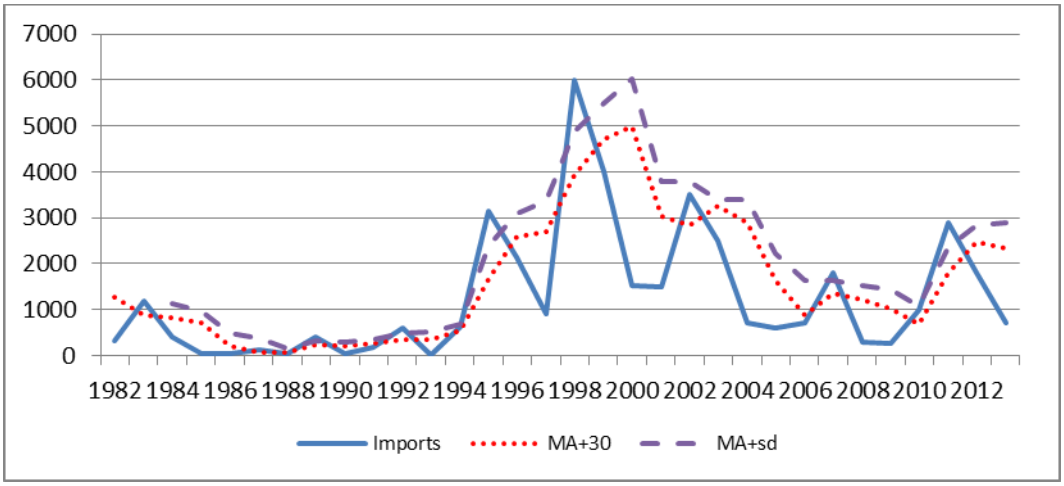


Figure 2. Rice imports – Indonesia (000 tonnes)



13. The analysis, using two different thresholds, is useful in demonstrating that the pattern of imports is a key variable in determining the incidence of surges under different threshold choices. Where imports are rising relatively constantly, the MA3+1sd is more sensitive to identifying surges, whereas for imports that follow a more variable trend, the MA3+30 identifies a greater number of surges.

14. The pattern of imports is also a determining factor in the analysis of the incidence of surges across different countries (Table 3). While it is the larger developing countries with relatively more mixed net trade positions, with respect to the different commodities, that tend to have the highest incidence of surge. It is also interesting to note that there is a lower incidence of surges in key net food importing countries such as Egypt and Indonesia and the high proportion of Island States, traditionally heavily reliant on food imports, falling into the category of below 60 surges during the 30-year period.

Table 3. Country classification in terms of incidence of surge (1984-2013)

100+	China, Ecuador, India, Kenya, Nigeria, Pakistan, Tanzania, Uganda, Zimbabwe
90-99	Bangladesh, Benin, Ghana, Madagascar, Malawi, Mali, Nicaragua, Rwanda, Togo, Venezuela, Zambia
80-89	Burkina Faso, Congo , Dominican Republic, Egypt, Haiti, Honduras, Indonesia, Korea DPR, Kyrgyz Republic, Mauritania, Mongolia, Mozambique, Nepal
70-79	Angola, Botswana, Burundi, Cambodia, Cameroon, Central African Republic, Chad, Côte d'Ivoire, Georgia, Guinea, Morocco, Myanmar, Niger, Peru, Senegal, Sierra Leone, Tajikistan, Tunisia
60-69	Albania, Guinea Bissau, Jordan, Laos, Philippines, Sri Lanka
Below 60	Armenia, Barbados, Cape Verde, Cuba, Djibouti, Dominica, Gabon, Jamaica, Lesotho, Maldives, Mauritius, Namibia, Papua New Guinea, Samoa, Solomon Islands, St Kitts & Nevis, St Lucia, St Vincent & the Grenadines, Swaziland, Tonga, Trinidad & Tobago, Vanuatu

15. The level at which the threshold is set also differentially affects the identification of surges across commodities and countries[6]. Table 4 confirms the fall in incidence, as the threshold is increased, but also reveals that the distribution of surges across countries becomes more concentrated as the threshold increases, with 16.2 percent of surges observed in the top ten countries (by incidence of surge) at the 140 percent threshold compared to 13.6 percent observed in the top ten countries at the 110 percent threshold.

Table 4.Concentration of surges at different thresholds

Threshold	Top 10%	Total surges	%
110	1371	10086	13.6
120	1107	7416	14.9
130	935	5884	15.9
140	791	4873	16.2

Table 5. Surges by country group and region

Group		Region	%
G33	76	Africa	79
SVEs	56	Eastern Asia	89
LDCs	77	Southern Asia	89
RAMs	74	Southeast Asia	74
NFIDCs	66	Caribbean	57
Total	**74**	**Total**	**74**

16. The average incidence of surges also differs across country groupings[7] and geographical areas (Table 5). It is notable that countries in the Small Vulnerable Economies' group (SVEs) observe

[6] WTO (2008) Revised Draft Modalities for Agriculture. TN/AG/W/4/Rev.4 6 December 2008 and WTO (2008) Revised Draft Modalities for Agriculture: Special Safeguard Mechanism TN/AG/W/7 6 December 2008 refers to thresholds of 110 percent, 120 percent and 140 percent in addition to the 130 percent applied in the analysis above.

[7] Given the sample of countries selected for analysis (NFIDC, LIFDC and LDC listed in 2004), the countries included in the groupings may not be fully representative of all countries in those negotiating groups.

significantly fewer surges on average, with the Caribbean as a geographical grouping also reflecting this lower average number. In addition, the relative sensitivity of the SVE group to the increasing threshold level indicates that although the incidence of surges identified is at a comparable level to the other country groups at low level thresholds, the proportion of surges observed in SVEs, drops off more rapidly when the threshold level increases. This suggests that the depth of the surges may be lower on average in this country group and, therefore, less likely to be defined as surges at the higher threshold levels.

B. Price depressions

17. The following figures for maize and beef clearly demonstrate that during periods of rising prices, the moving averages fall below the actual price line and that "price depressions" are identified only with a significant drop in prices (for example with maize in 2009), far less frequently than in the pre-2000 period. This suggests, however, that when prices are volatile, even around an increasing trend, a price trigger would remain a useful component of a safeguard mechanism.

Figure 3. Maize import prices

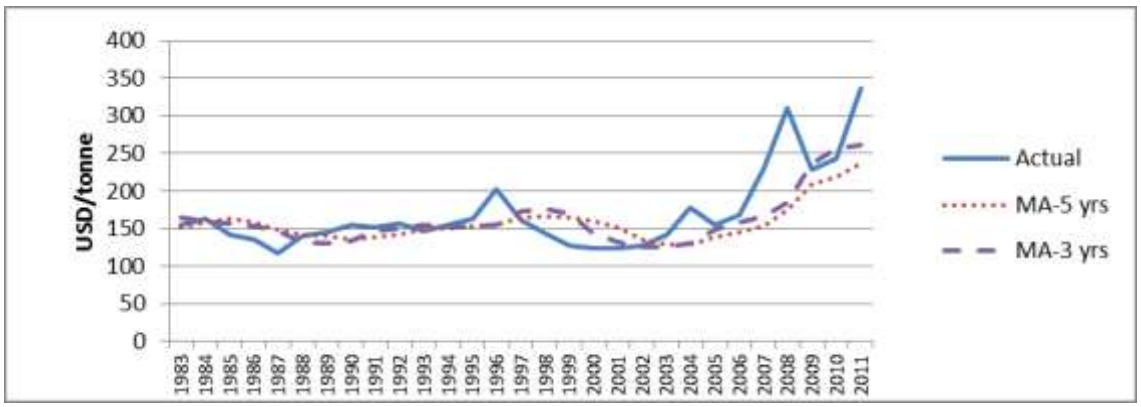
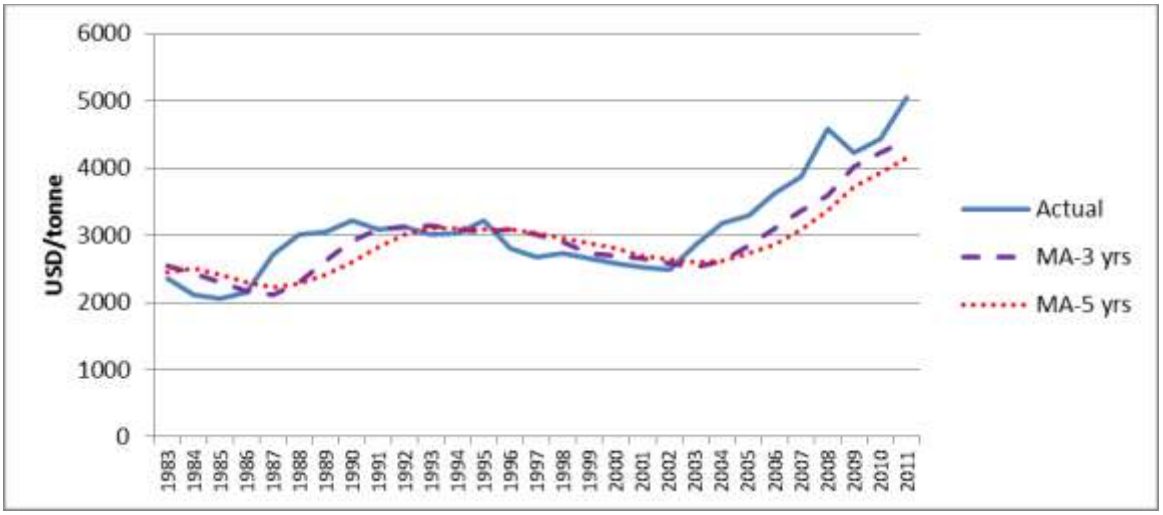


Figure 4. Beef import prices



18. With regard to the incidence of price depressions over time, there is a significant reduction in the number of identified depressions between 1983-2003 and 2004-2011. In comparison to the 102 incidences recorded in the 21 years to 2003, only four cases (wheat, butter, skim milk powder (SMP) and whole milk powder (WMP)) are recorded in the eight years between 2004 and 2011.

Table 6. Incidence of price depressions 2004-2011 compared to 1983-2003 (MA3*90% threshold)

Products	Total	1983-2003	2004-2011
Wheat	9	8	1
Wheat flour	5	5	0
Maize	5	5	0
Rice, milled eq.	8	8	0
Sugar, raw	7	7	0
Sugar, refined	6	6	0
Bovine meat	3	3	0
Ovine meat	5	5	0
Pig meat	7	7	0
Poultry meat	5	5	0
Butter	6	5	1
Cheese	4	4	0
SMP	7	6	1
WMP	3	2	1
Palm oil	7	7	0
Rapeseed oil	7	7	0
Soybean oil	6	6	0
Sunflower oil	6	6	0
Total	**106**	**102**	**4**

The total number of depressions identified in the MA3 case falls by more than half from 217 at the 100 percent threshold to 106 at the 90 percent threshold and then by almost half again to 62 at the 85 percent threshold. The declines for the MA5 are more gradual. The patterns are observed for most products represented in the table.

Table 7. Identified price depressions by commodity and threshold level

Products	100%		90%		85%	
	MA-3	MA-5	MA-3	MA-5	MA-3	MA-5
Wheat	17	15	9	8	6	5
Wheat flour	15	14	5	8	3	4
Maize	12	11	5	7	3	4
Rice, milled eq.	14	13	8	9	5	5
Sugar, raw	13	16	7	9	6	7
Sugar, refined	12	13	6	10	6	7
Bovine meat	13	13	3	3	0	1
Ovine meat	7	7	5	7	0	1
Pig meat	10	12	7	8	3	5
Poultry meat	12	13	5	8	2	3
Butter	14	12	6	7	3	7
Cheese	13	10	4	5	0	2
SMP	13	10	7	7	5	3
WMP	12	11	3	4	1	0
Palm oil	11	11	7	9	5	7
Rapeseed oil	10	10	7	7	5	6
Soybean oil	9	10	6	8	4	6
Sunflower oil	10	9	6	7	5	5
Total	**217**	**210**	**106**	**131**	**62**	**78**

Note: In the absence of comprehensive data sets, on domestic c.i.f. prices, it is not possible to undertake the analysis at the country level. Therefore, key international market prices are used as a proxy. These data are updated to 2011 using FAOSTAT data.

III. Implications for the design of an SSM

19. The incidence of "import surges" has changed significantly since the early 2000s, reflecting the change from a context of low and relatively stable prices to a new market context of higher and possibly more volatile prices. The incidence of volume surges has fallen significantly in all commodity groups and, on average across the 103 developing countries on which the analysis was based, and the incidence of price depressions has fallen to zero in most commodity groups between 2004 and 2011. While the sharp fall in the incidence of price depressions is unsurprising during a period in which prices rose significantly, the fall in the incidence of volume surges does not reflect a reduction in import volumes. Indeed, far from being the result of lower levels of imports (or lower rates of increases in imports) the reduced incidence of volume surges has been identified during a period in which imports of many commodities, by many food importing developing countries, has been increasing significantly, but at a more constant rate. Under such conditions, the relative importance of a volume trigger *vis à vis* a price trigger in providing the justification for the application of a safeguard remedy increases, while the rationale for cross-checks between increases in import volumes and price depressions becomes weaker.

20. The analysis also demonstrates the sensitivity of the incidence of surges to both the type of threshold and to the level of that threshold. A threshold based on a moving average plus a certain percentage is likely to be relatively insensitive to volume surges, where imports are growing relatively constantly, whereas one reflecting limited variability such as the MA3+1sd, maybe more effective. Confirming previous analyses, a number of incidences of price depressions appear to be more sensitive to the level of the threshold than does the incidence of volume surges. Such conclusions carry through to the design of the SSM in that the choice of the trigger level will significantly affect the effectiveness of the mechanism.

21. While introducing differentiation into the mechanism may be problematic, consideration could be given to the use of different trigger levels by country group. The analysis suggests that import patterns and hence the effectiveness of different trigger levels can differ quite significantly by country group. Given their relatively high reliance on food imports as a proportion of total consumption, even rapid increases in import volumes to some SVEs are unlikely to create significant deviations from the moving average, although the potential for negative ramifications can still exist. For such countries, a more sensitive (lower) volume trigger may therefore be appropriate.

IV. Suggested action by the Committee

22. In light of the changing incidence of import surges, the Committee may wish to note:

- the importance of considering the implications of changing global markets in formulating global trade agreements;
- the requirement for flexible safeguards compatible with the changing market environment;
- the particular difficulties faced by Small Vulnerable Economies in the face of increasing import volumes.

23. In terms of follow-up action, the Committee may wish to consider recommending that:

- further assistance be provided to developing countries in understanding the implications of increasing food imports in the context of higher global food prices;
- analysis be undertaken to better understand the effects of the changing global market context on different components of multilateral trade agreements;
- dialogue, on appropriate trade policy actions in the face of increasing imports, particularly when associated with potentially disruptive effects, be supported.