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The impact of import surges: country case study results for Senegal and Tanzania

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ABSTRACT

Measuring the impacts of import surges is a difficult task, but simple case studies illustrate some of the fundamental issues. From the two case studies examined in this paper, it was found that the impacts vary markedly in different settings and for different commodities. Thus, for example, while the negative impact on Senegal's broiler industry came out clearly, import surges were not an issue in the case of dairy products. This was because dairy imports, although high, had increased steadily over a longer period of time and as a result the local industry had adjusted. In the case of Tanzania, some negative effects were found for the dairy sub-sector but only limited effects on poultry. In both countries, rapid growth in poultry imports also revealed the weaknesses of the domestic processing industry in competing with imported products, particularly in situations where there has been rapid growth in demand for further processed quality products by supermarkets and hotels which the local industry has failed to supply.

It was found that imported products were primarily sold in cities, where the import shares were much higher. Segmentation of urban and rural markets appears to be an important issue in assessing impact; it may be high in localized commercial markets, but much less in rural areas. This fact raises issues concerning the competitiveness of domestic producers in supplying growing urban markets, and in particular for further processed products. This observation needs to be more rigorously tested using econometric techniques.

In the literature, import surges are often associated with unfair trade practices, notably export subsidies. The case studies indicated that such a generalization may not be appropriate, and other factors are equally or more important, including reductions in tariffs and exchange rate movements. However, export subsidies may certainly be important. The trade data showed that in recent years both Senegal and Tanzania imported poultry products and powdered milk from the European Union (EU). While all milk powder products exported from the EU receive export subsidies, poultry exports to Africa - both whole bird and parts – have been largely unsubsidized. Africa is not one of the targeted zones for the EU restitution, although there may have been periodic shipments of subsidized cuts.

The results of preliminary work on this topic, while revealing, indicate that more in-depth analysis needs to be conducted at the level of individual countries reporting cases of import surges. In particular, one of the general observations reached in the course of this study was that there are very few analytical studies on the impact of import surges relative to the widespread concern on and interest in this issue. Consequently, the following topics would appear to be of priority for further research and analysis:

- More country case studies are desirable because the nature and magnitude of the impact of import surges depends very much on local specifics, the individual commodities, the resilience of local industries, and the level of market integration.
- One conclusion of the case studies, albeit somewhat tentative, is that the adverse impact of an import surge is limited to producers/processors in the major market or capital city. This conclusion is based on the argument that other markets are not well connected to the main market where imported products were sold. More in-depth analysis of the degree of inter-market integration is needed for assessing impacts in rural areas.
- Import surges are also blamed on both domestic and export subsidies granted in exporting countries, which lead to excess production that is disposed of in world markets. There is some truth here because import surges have been more common for certain food product groups, notably dairy and livestock products, sugar, and fruit and vegetable preparations. Given the widespread confusion, there is a need for clarifying the linkages between export subsidies and import surges at the global level.
- Similarly, in view of the lack of clarity in the literature, some statistical work towards defining what constitutes a "surge" in general and in different contexts (e.g. countries, commodities) would be useful. The overall economic impact of rising or surging imports, notably on consumer welfare gains and changes in government revenue, needs also to be assessed.

RÉSUMÉ

Mesurer les impacts des afflux d'importations n'est guère une tache aisée, mais de simples études de cas illustrent certains enjeux fondamentaux. Dans les deux pays à l'étude dans cet article, on a constaté que les impacts varient de façon significative en fonction des contextes et des produits. Ainsi, par exemple, si l'impact négatif sur le secteur des poulets de chair du Sénégal est ressorti clairement, les importations massives n'avaient aucune influence particulière dans le cas des produits laitiers. Ceci s'explique par le fait que ces importations, bien qu'élevées, avaient augmenté de façon régulière pendant une longue période, laissant le temps à l'industrie locale de s'adapter. Dans le cas de la Tanzanie, certains effets négatifs ont été observés pour le sous-secteur laitier, avec des effets limités, cependant, sur la volaille. Dans les deux pays, une croissance rapide des importations de volaille a révélé également les faiblesses de l'industrie de transformation nationale face à la concurrence des produits importés, en particulier lorsque la demande d'autres produits transformés des supermarchés et hôtels que l'industrie locale n'arrive pas à satisfaire augmente rapidement.

On a constaté que les produits importés étaient principalement vendus en ville où les d'importations étaient beaucoup plus élevées. La segmentation des marchés urbains et ruraux semble être un facteur important dans l'évaluation de l'impact; elle peut être forte dans les marchés commerciaux localisés, mais est nettement inférieure dans les zones rurales. Ce fait soulève des problèmes quant à la compétitivité des producteurs nationaux qui doivent approvisionner les marchés urbains en plein essor, en particulier en produits transformés. Cette observation doit être testée plus rigoureusement à l'aide de méthodes économétriques.

Dans les travaux publiés, les afflux d'importations sont souvent mis en relation avec les pratiques commerciales déloyales, notamment les subventions aux exportations. D'après les études de cas, une telle généralisation n'a probablement pas lieu d'être, et d'autres facteurs sont tout aussi importants – voire plus- comme les réductions des droits de douane et les fluctuations des taux de change. Cependant, les subventions des exportations ont leur importance. Les données sur le commerce ont montré ces dernières années que le Sénégal et la Tanzanie ont importé des produits avicoles et des produits à base de lait en poudre de l'Union européenne (UE). Si toutes les exportations de lait en poudre de l'Union sont subventionnées, celles de volaille vers l'Afrique –de volailles entières et découpées– ne l'ont guère été. L'Afrique n'est pas une des zones ciblées pour la restitution de l'UE, même s'il peut y avoir eu des acheminements périodiques de découpes subventionnées.

Les résultats des travaux préliminaires sur ce thème, bien que révélateurs, indiquent qu'il faut conduire une analyse plus approfondie au niveau des pays individuels signalant des cas d'importations massives. En particulier, une des observations générales relevées par cette étude était que les études analytiques sur l'impact des afflux d'importations relatif aux préoccupations et à l'intérêt grandissant sur ce sujet sont très rares. En conséquence, les thèmes suivants de recherche et d'analyse devraient être abordés en priorité:

- Il faut davantage conduire davantage d'études de cas nationales, car la nature et l'ampleur de l'impact des afflux d'importations dépend en grande partie des caractéristiques locales, des produits concernés, de la capacité de résistance des industries locales et du degré d'intégration du marché.
- Une conclusion des études de cas, encore que provisoire, est que l'impact négatif des afflux d'importations se limite aux producteurs/transformateurs du marché principal ou de la capitale du pays. Cette conclusion se fonde sur le postulat que les autres marchés sont mal connectés au marché principal où les produits importés sont vendus. Une analyse plus approfondie du degré d'intégration intermarchés est nécessaire pour évaluer les impacts dans les zones rurales.
- La responsabilité des afflux d'importations est également rejetée sur les subventions octroyées dans les pays exportateurs, aussi bien les soutiens internes que les subventions à l'exportation, qui donnent lieu à des excédents de production dont on se débarasse sur les marchés mondiaux. Il y a du vrai dans cette affirmation, illustrée par le fait que les afflux d'importations ont concerné davantage certains groupes de produits alimentaires que d'autres, notamment les produits laitiers et animaux, le sucre et les préparations à base de fruits et de légumes. Devant la confusion qui règne, il faut

éclaircir les liens existant entre les subventions à l'exportation et les afflux d'importations à l'échelle mondiale.

- De même, vu le manque de clarté dans les ouvrages et revues, il serait utile de disposer de statistiques sur la définition de ce que constitue un "afflux massif" dans des contextes généraux et différenciés (ex. pays, denrées). En outre, l'impact économique global de l'augmentation ou de l'afflux des importations, notamment sur les gains pour le consommateur et les recettes des gouvernements, doit être mesuré.

RESUMEN

Determinar las repercusiones del auge de las importaciones es una tarea ardua, pero a través de simples estudios de casos se ilustran algunas de las cuestiones fundamentales. De los dos estudios de casos examinados en el presente documento se desprende que las consecuencias repercusiones varían considerablemente de acuerdo a. los diferentes contextos y productos. Así, por ejemplo, mientras eran evidentes las repercusiones negativas sufridas por la industria del pollo parrillero, en el caso de los productos lácteos el auge de las importaciones no constituyó un problema. Y ello debido a que, si bien representaron un volumen elevado, las importaciones de productos lácteos habían ido aumentando constantemente a lo largo de un período más largo, lo que permitió a la industria local ir ajustándose. En el caso de Tanzanía, se observaron algunos efectos negativos en el subsector lechero pero efectos limitados en el sector avícola. En ambos países, el crecimiento rápido de las importaciones de carne de ave de corral puso de manifiesto también la incapacidad de la industria procesadora nacional de competir con las importaciones, sobre todo en situaciones en las que la industria local no logró satisfacer la demanda de productos de calidad más elaborados para supermercados y hoteles.

Se observó que los productos importados se vendían principalmente en las ciudades, en las que los porcentajes de las importaciones eran mayores. A la hora de evaluar las repercusiones parece importante desglosar los mercados en urbanos y rurales, ya que los efectos pueden ser grandes en mercados comerciales localizados pero mucho menores en las zonas rurales. Este hecho plantea el problema de la capacidad competitiva de los productores internos para abastecer a los mercados urbanos en crecimiento, sobre todo si se trata de productos elaborados ulteriormente. Esta observación ha de verificarse con mayor rigor mediante técnicas econométricas.

En la bibliografía, el auge de las importaciones se relaciona a menudo con prácticas comerciales desleales, principalmente las subvenciones a las exportaciones. Los estudios de casos indicaron que puede no ser apropiada una tal generalización, ya que hay otros factores tanto o más importantes, como las reducciones arancelarias y las variaciones del tipo de cambio. Pero las subvenciones a las exportaciones pueden ser importantes, ciertamente. Los datos comerciales indicaron que en los últimos años tanto el Senegal como Tanzanía importaron de la Unión Europea (UE) productos avícolas y leche en polvo. Mientras todos los productos de leche en polvo exportados de la UE recibieron subvenciones, una gran parte de las exportaciones de carne de ave destinadas a África – tanto de ave entera como de las partes –no ha sido subvencionada. África no es una de las zonas previstas para el reembolso de la UE, aunque puede haber habido envíos periódicos de cortes subvencionados.

Aunque los resultados de trabajos preliminares realizados sobre este tema son reveladores, denotan la necesidad de análisis más profundos en los países en los que se registran casos de aumento rápido de las importaciones. En particular, una de las observaciones generales hechas en el curso de este estudio fue que los estudios analíticos sobre las repercusiones del auge de las importaciones son muy pocos en relación con las preocupaciones e intereses que suscitan. Por consiguiente, parecería que en ulteriores investigaciones y análisis habría que dar prioridad a los siguientes temas:

- Sería conveniente que se multiplicaran los estudios de casos porque el carácter y la magnitud de las consecuencias del auge de las importaciones dependen muchísimo de los datos locales específicos, de los distintos productos, de la elasticidad de las industrias locales, y del grado de integración en el mercado.

- Aunque de carácter un tanto provisional, una de las conclusiones de los estudios de casos es que los efectos negativos del auge de las importaciones se limitan a los productores/procesadores del

mercado principal o la ciudad capital. Esta conclusión se basa sobre el hecho de que los otros mercados no estaban bien conectados con el mercado principal en el que se vendían los productos importados. Para evaluar las repercusiones en las zonas rurales es menester un análisis más exhaustivo del grado de integración entre los mercados.

- El auge de las importaciones se atribuye también a las subvenciones, tanto internas como a las exportaciones, otorgadas en los países exportadores, que dan lugar a un exceso de producción que se vende en los mercados mundiales. Hay algo de verdad en esto porque el auge de las importaciones se ha dado con mayor frecuencia con algunos grupos de productos alimenticios, principalmente productos lácteos y pecuarios, azúcar y preparados de frutas y hortalizas. Dada la confusión que reina, es menester aclarar los vínculos que existen en el ámbito mundial entre las subvenciones a las exportaciones y el auge de las importaciones.
- Análogamente, en vista de la falta de claridad que se observa en las publicaciones, sería útil llevar a cabo un trabajo de estadística para definir en qué consiste un "surge" (auge, aumento importante) en general y en diferentes contextos (países, productos). También han de evaluarse las repercusiones del aumento o auge de las importaciones, principalmente en lo que atañe al aumento de bienestar social de los consumidores y a las variaciones de los ingresos gubernamentales.

CONTENTS

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1 INTRODUCTION

International trade, in basic foods in particular, has increased markedly during the past decade. This trend has been particularly notable for meat products which, with 7 percent annual gains over the 1990s, have been among the fastest growing commodities in world agricultural trade. Trade growth is expected to continue in the coming years with both positive and negative consequences for food security, particularly in some low-income, food insecure countries.

One concern has been increasing reports by many developing countries as well as civil society organizations that surges in food imports are disrupting local markets, with negative effects on prices, production and food security in rural areas. There have been increasing reports of many developing countries experiencing rising food imports, with negative effects on local markets. Import surges and associated negative effects, notably on farmers or other producers, is a sensitive matter, and hence the reporting of such episodes hits headlines. This phenomenon seems to be on the rise particularly since the mid-1990s, which is one reason why some observers relate this phenomenon to the opening up of domestic markets with the implementation of the WTO Agreement on Agriculture (AoA).

There is no unique definition of an import surge. The WTO Agreements on general trade remedy measures (i.e. anti-dumping, countervailing and emergency safeguard) refer to the concept of an import surge in a general way. For example, in Article 2 of the WTO Agreement on Safeguards the concept is defined as: "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". Thus, a surge is associated with some form of "unusualness", i.e. a significant break from some established trend. However, in the case of the Agreement on Agriculture (Article 5), there is a specific quantitative definition of the concept when current import volume and import price deviate from established base period values.

Several national and international civil society organizations have documented cases of import surges based on field work. Several cases of import surges were reported in the 14 country case studies conducted by FAO in 1999 and in follow-up, in 2004, FAO conducted two country case studies—in Tanzania and Senegal, to obtain a greater understanding of the impact of import surges in poultry meat and dairy products on local markets. In particular, in-depth country analysis needs to be conducted at the level of individual countries reporting cases of import surges to: i) determine from where and under what conditions the products causing the surges were imported; ii) analyse the impact of import surges on domestic agriculture in developing countries, and; iii) assess the capability of developing countries to respond to import surges, including consideration of alternative institutional mechanisms to allow them to apply appropriate safeguards.

The objective of this paper is to obtain a greater understanding of the impact of import surges on local markets. The study does not focus on a rigorous statistical analysis of trade data to verify cases of surges; rather two countries Tanzania and Senegal were selected based on concerns expressed about the domestic market impacts of changes in imports of poultry and dairy products. The paper identifies the developments in the imports of these products, examines the perspectives of various stakeholders and reviews the policy response of governments. In addition, it examines the effect of the surge/trend in imports on local industries. Information for the studies was collected by national consultants during the period September 2003 to February 2004. Data are drawn from various government sources, as well as from market price surveys and first hand interviews with government, researchers, industry, and market participants.

2 THE SENEGAL CASE STUDY

Food imports as a whole have been rising rapidly in Senegal. The total value has nearly tripled from 88 billion CFA francs in 1992 to 250 billion CFAF by 1999.[1] Several factors explain these trends, as will be noted later in the context of poultry and dairy products. The Senegalese government and various stakeholders have expressed concerns from time to time about these trends and occasional surges in view of the likely negative impacts on vulnerable domestic production sectors.

One reason for the growth in imports is the gradual reduction in import barriers with the successive implementation of various adjustment programmes. The economy became more open following the adoption of the UEMOA[2] tariff structure adopted and the common external tariff (CET). Tariffs have been progressively lowered for poultry meat in the context of the UEMOA agreement. For example, prior to April 1998, the applied tariff on poultry cuts was 55, which was progressively lowered to 30 in 1999, 25 percent in 2000 and finally to 20 percent in July 2002. Senegal has a WTO bound tariff of 30 percent on meat and dairy products, and has retained the right to apply up to 150 percent of "other duties or charges".

Reflecting the concerns about import surges, Senegal requested the WTO in December 2000 for a waiver to maintain a system of minimum reference prices[3] applicable to over 29 products, including poultry, and powdered and concentrated milk. This request cited competitiveness issues that are linked to the narrowness of the domestic market, the lack of efficient infrastructure, high costs of factors of production and lack of capability to resort to the general WTO safeguards.[4] This request was granted in 2002, but the WTO removed powdered milk from the final approved list of products.

2.1 Import trends and sources – poultry products

Senegalese imports of poultry have grown dramatically over the past decade, rising from 506 tonnes in 1996 to 16 600 tonnes in 2002. This growth, in conjunction with declines in domestic production, has increased the share of imports in domestic consumption from only 1 percent in 2000 to an estimated 19 percent in 2002 (Figure 1). The composition of these imports is predominantly frozen cuts (86 percent), supplemented by frozen carcasses (13 percent) and fresh meat (1 percent). About 62 percent of these imports came from the Netherlands and Belgium. Meanwhile, Brazil has rapidly expanded its market share to 24 percent, while the share of the United States and Canada fell from 15 to 2 percent between 2000 and 2003. Valued at approximately 10 billion CFAF in 2003 (US$18 million), the cost of these imports is estimated to equal the turn-over of local broiler production; in fact, the commercial broiler industry accounts for approximately 20 percent of total poultry production in Senegal, or 3.7 million birds.

Several explanations have been offered for the observed growth in imports, which has exceeded 50 percent annually since 2000. These include: i) the growth in consumer demand as incomes rose, particularly in urban areas; ii) relatively rapid liberalization of import restrictions, related to various adjustment programmes, WTO and perhaps very importantly, regional integration inside UEMOA; and iii) availability of inexpensive chicken cuts on the world market.

2.2 Import trends and sources – dairy products

Unlike the case of poultry products, imports of dairy products had been very high on a sustained basis for several years, with the exception of two years following the devaluation of the CFA franc (1994 and 1995). However, imports rose to near-record levels in 2002, reaching 240 000 tonnes (milk equivalent) which represents twice the national production of milk. Powdered milk (at 30 000 tonnes)

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[1] The devaluation of the CFAF in 1994-1995 implies a much slower growth in US dollar terms.

[2] Union Économique et Monétaire Ouest-Africaine. The Union was formed in 1994 and includes Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, Togo, Senegal and Guinea-Bissau.

[3] In the context of the WTO Agreement on Customs Valuation.

[4] Because Senegal opted to bind tariffs, without the "tariffication" route, in its WTO country schedule, it does not have access to simple-to-use Special Safeguard of the Agreement in Agriculture.

accounts for 75 percent of the value of dairy imports; cheeses account for 10 percent; liquid milk for 8 percent and butter for 5 percent. The total value of dairy imports, estimated at 31 billion CFAF (US$59 million), is three times higher than the value of poultry imports. France is the major exporter of milk powder to Senegal, contributing on average 42 percent of total imports. As a whole, the European Union contributed nearly four-fifths of the total milk powder imports.

With imports of that size relative to domestic production, the impact on domestic milk production is generally expected to be marked. However, interviews with various stakeholders and the analysis of the available data show that this was not the case. One important reason was that the small-scale dairy processing units have been taking advantage of the imported powder as raw material to produce fluid milk for Dakar and some other major urban markets. At the same time, because of high transport costs and lack of facility to transport fresh milk, domestic milk markets are most probably segmented, thus minimizing the effect of competition with imported milk powder.

2.3 Market impact and general observations

The market impact of imports on domestic industries differs between the poultry sub-sector and the dairy sub-sector. In the case of the former, large increases in imports over the past few years have severely impacted local broiler production. Strong competition with low-priced poultry parts resulted in producers exiting the industry or converting operations to layer production. In the dairy sector, on the other hand, imports have been consistently very high for the past decade and so do not seem to impair the development of an emerging local milk industry. Milk production in Senegal has remained fairly stable, averaging about 130 000 tonnes for over the decade of the 1990s. It is possible that domestic production could have grown in the absence of imports, but it is very difficult to test this hypothesis.

The traditional poultry sector, characterized by backyard operations of small producers who sell live chickens in local markets, appears not to be affected by rising imports. The apparent lack of substitutability between commercially grown broilers and these farm-grown chickens can be inferred from price developments in the industrial and local markets. Retail prices for broiler meat in Dakar declined rapidly in response to the fourfold growth in poultry imports since 2000 (Figure 2). This contrasts with retail prices for farm chickens which witnessed continued growth over the same period. Interviews with market agents and housewives reveal that consumers perceive a difference between the two products.

By contrast, the rapid growth of imported chicken cuts is reported to have adversely affected national broiler production, in particular the commercial broiler sector located in the vicinity of Dakar and in some secondary markets. Producer organizations state that approximately 70 percent of the broiler grow-out operations have closed. While this cannot be confirmed by official government production figures for poultry, data collected on the number of chicks marketed as input for broiler production activities indicate that the number of broiler chicks reared by the local farms declined by 30 percent between 2001 and 2003 (see Figure 3).

The overall economic impact on the sector of surging imports of low-priced chicken cuts was mitigated, in part, by the conversion of some broiler operations into laying chicken operations, with producers buying laying chickens for the production of table eggs. The production impact of these conversions can be observed in Figure 3, with the number of laying chickens bought for egg production nearly doubling between 1999 and 2002. The egg sector has become very dynamic, representing a turn-over of twice that of broiler production. Of particular interest in the development of this sector is the decision of the Senegalese government in mid-2002 to limit egg imports, citing sanitary issues linked to the importation of frozen eggs. At the same time, the government stopped imports between September and October 2002 in response to sanitary concerns related to frozen poultry meat. However, under pressure of import traders and other political authorities, poultry meat imports were resumed in November.

The crisis highlighted public attention to the underdeveloped and uncompetitive broiler industry, and on the need for a more efficient, professional broiler industry in Senegal capable of producing quality products. Also importantly, the crisis led to the formation of an institution, the Fédération Nationale des Producteurs Avicoles (FAFA) in 2001, which, through its efforts to unite producers' organizations, has transformed the poultry sector into one of the most organized in Senegal.

While declining international prices are often cited as a contributing factor to surging imports, this was not the case in Senegal. For example, Figure 4 does not show such a relationship between monthly import volumes of poultry meat and per unit export value of US chicken cuts, the most commonly used international reference price for chicken cuts. Meanwhile, the Senegalese average per unit import value for poultry remains higher than the average international price for chicken cuts, reflecting changes in the composition of imports (cuts versus whole birds) and the cost of transportation. This analysis does not show a direct linkage between imports and the use of export subsidies. While most of the Senegalese poultry imports originated from the European Union (EU), the EU eliminated restitutions for whole birds destined for Africa in 1998, while subsidies for chicken cuts were only authorised in two short periods since 1995.[5]

Consequently, it must be inferred that declining world prices and export subsidies do not appear to have played any role in the rapid growth of imports in Senegal, at least directly. Indirectly, however, even export subsidies targeted to other regions could have some effect on this region, e.g. through displacement effects or by containing increases in world prices. Analysing these linkages is beyond the scope of this paper.

An important factor influencing imports is exchange rate development. The steady appreciation of the CFAF vis-à-vis the US dollar, beginning in the first quarter of 2002, is likely to be a contributory factor to surging imports. The data show that the CFAF/US$ exchange rate was fairly steady prior to the beginning of 2002, averaging 733 CFAF/US$ during 2000-01. Compared with this level, the exchange rate was 560 CFAF/$ during the last quarter of 2003, an appreciation of 22 percent.[6] As the tariff rate was maintained, the currency appreciation meant that there was a significant erosion of the previous protective margin, thus creating strong incentives to import.

It is likely that exchange rate movements also stimulated increased imports of dairy products in 2002. However, the segmented nature of the market limited its impact on prices, both geographically and between products. Unlike the poultry industry, it seems that the local dairy sector adjusted smoothly to imports since dairy imports increased steadily over a longer period of time and domestic industry adjusted to the change. Market segmentation for various products, as well as quality issues, likely explain price differences among products. Moreover, some local products may be more expensive than imported products because of consumer preferences. Media coverage and stakeholder perceptions about milk product imports have been limited compared to those of poultry. However, concerns by local producers and processors led to the creation in September 2003 of the Fédération Nationale des Acteurs de la Filière Lait au Sénégal (FENAFILS).

Thus, overall, for Senegal, there were some clear reasons for the rising imports of poultry meat, notably the reductions in import restrictions and exchange rate appreciation. The study also showed that increased imports revealed the vulnerability of commercial farms. The vulnerability is manifested in lack of competitiveness of the industry, and for a variety of reasons that included poor management, limited access to credit, inadequate infrastructure leading to higher product perishability, poorly identified marketing opportunities and lack of organisation of the local market. The adverse impact

[5] Once between December 2001 to April 2002 and the other in October 2002 to April 2003. With the exception of January 2002, the restitutions were limited to Euro 50/tonne.

[6] Simple calculations using the average of the Brazilian and US poultry export prices show that Senegal would have required a tariff of 27 percent at the end of 2003 in order to maintain the nominal level of price protection existing in 2000-01 period. In other words, if there was a tariff of 20 percent in 2000-01, a tariff of 47 percent would have been required towards the end of 2003 to ensure the same level of protection. The required additional tariff would have been 31 percent if the poultry export price did not rise by about 4 percent during the two periods. This example also shows that the same nominal level of protection as in 2000-01 could have been maintained even with the currency appreciation if the world export price of poultry had risen by about 20 percent, versus the actual rise of only 4 percent.

was also magnified by the lack of industry preparation to the further opening up of markets in the context of the regional trade agreements.

3 THE TANZANIA CASE STUDY

The markets for food commodities in Tanzania have profoundly changed since the country adopted market-led policy reforms in the mid-1980s. Reforms in the exchange rate regime, liberalization of trade and price de-control have increased the quantities and types of food commodities imported, including livestock products. Escalation of imports in the mid-1990s has also been associated with further opening up of domestic markets with the implementation of the WTO Agreements.

Similarly to Senegal, the government and other stakeholders have expressed concerns that the increased imports of dairy and poultry products could displace domestically produced products. The government's concern about the impact of low-priced imports on local industries is revealed by various government policy measures (Table 1) that culminated in the passage of a bill in the National Assembly in February 2004, which seeks to protect the domestic industry from the dumping of cheap (and sub-standard) import products. Counter-arguments by supporters of freer trade point to the negligible effects due to very limited imported quantities and segmented markets of imported and local products.

It is in this context that this study examines the issue of strong import trends and import surges in poultry and dairy products. As with Senegal, the information for this analysis was collected during the period of September 2003 to February 2004.

3.1 Import trends and sources – poultry products

Tanzanian poultry meat imports have risen rapidly over the past six years, rising 81-fold, from 6 tonnes in 1997 to nearly 500 tonnes in 2002 (Table 2).[7] While only constituting one percent of domestic production, poultry farmers and processors have complained that rising imports have led to stagnating chicken prices in recent years. The domestic industry is also faced with a variety of constraints which include high production costs, poor quality feeds and high tax (20 percent) on feed inputs. Another important constraint is the lack of an organization representing the poultry industry. Unlike the dairy industry, there are no influential interest groups or NGOs supporting the poultry sector.

South Africa is the major source for poultry imports to Tanzania (Figure 5). However, a surge of the product came from the EU in 2001. Recently, the United Arab Emirates (UAE) has rapidly expanded its market share, which is attributed to the important transit point for commodities from the free port of Dubai. By type, the largest share of poultry imports are whole chickens, followed by chicken and turkey cuts. Unlike dairy, imported poultry products are mostly sold in major urban markets and tourist destinations where supermarkets and tourist hotels operate.

Much of the imported product is consumed in Dar-es-Salaam, the largest urban market. Assuming that 70 percent of the imported chicken (i.e. 350 tonnes) is sold in Dar-as-Salaam, where annual broiler production from commercial operations using improved broiler breeds is estimated at 510 tonnes per year,[8] imports would account for nearly 70 percent of this specific market share.

A general opening up of the economy, including under regional trade agreements (South African Development Community (SADC) and East African Community (EAC)), has stimulated increased imports, including from the region. Regional trading linkages have also been enhanced by increasing cross-border investment in Tanzania in the late-1990s/early-2000s by South African supermarkets, hotels, mining enterprises and financial institutions. The applied MFN tariff on poultry cuts is about

[7] There is a general consensus among stakeholders that recorded statistics on poultry imports are understated due to under-invoicing, tax evasion and informal cross border trade.

[8] Dar es Salaam has the largest number of improved broiler chickens (22 percent of national inventories), which translates into 127.6 tonnes of broiler meat from commercial operations using improved broiler breeds. Assuming a turn-over of 4 per year, 510 tonnes of broiler chicken is produced annually.

25 percent for most recent years, with the rate for the EAC products, at 5 percent, considerably lower. Similar preferential duties for SADC countries will be effective from July 2004. All these factors have contributed to increased product inflow in Tanzania from within the region.

In some cases, local hotels have policies emphasizing procurement of local chickens; however, widespread antibiotic use has resulted in samples of these local products sent to Kenya for laboratory testing, thus increasing the price of locally produced poultry. Sustained demand from urban retailers, juxtaposed with cyclical production linked to the rainy season, has led to a seasonal pattern of poultry imports, with the highest volume during the first six months of a year and a peak in June.

3.2 Import trends – the dairy sector

Dairy product imports by Tanzania increased 40 percent from 3 469 tonnes in 1997 to 4 869 tonnes in 2003. Prior to the imposition of a 25 percent suspended duty on imported milk (in addition to the 25 percent import tariff), dairy imports had reached 5 565 tonnes in 1999. Major imported dairy products are powdered milk (whole and skimmed) followed by concentrated and condensed milk and UHT (Figure 6). In addition, cheese, butter and yogurt are also imported. Such products are likely to compete with fresh milk sold in the market, particularly in Dar-es-Salaam and other urban centres.

According to customs statistics, in 2003 dairy products were imported from 27 countries with South Africa being the largest source (22 percent of the total), followed by Kenya (21 percent), Netherlands (14 percent) and Zimbabwe (8 percent). The EU, in aggregate, accounted for 20 percent of the total.

Dairy product imports declined in the early 1990s, attributed to structural changes in the dairy sector largely due the privatization of state companies. However, since 1997 the declining trend has reversed. According to some stakeholders, the increasing volume of imports is an influential factor affecting domestic prices of these products which have stagnated or slumped.

3.3 Market impact and general observations

Tanzanian imports of poultry and dairy products are negligible compared with the total volume of production. However, an analysis comparing the marketed share of domestic production in targeted urban and niche markets reveals that imports are significant and could have adverse effects on the growth of domestic production and processing industries.

Such concerns emanate from the fact that production and processing costs in Tanzania are relatively higher than in some of the trading partner countries and in some of the countries where imported products originate, including those where farmers are subsidized heavily. The problem is occasionally compounded by consumer preferences for imported products which are perceived as superior. Unlike Senegal, the growth in imports can not be attributable to exchange rate developments; the Tanzanian shilling has experienced a gradual and steady depreciation over the past six years.

In the case of the poultry sub sector, despite the seasonal nature of competition and general indications that imports have a minimal impact on the local market condition, chicken processors and urban broiler producers complain that imports are negatively impacting on domestic prices. They view imported products as a threat to the growth of the domestic processing industry. However, both industry and government stakeholders indicate that small broiler farmers have difficulties in accessing such niche markets as supermarkets and tourist hotels because of the difficulty in adhering to safety and quality standards. While there are three small poultry meat processing plants which produce standard cuts (breasts, wings, gizzards, drumsticks, etc.), there are no de-boning facilities to produce other meat products like chicken steak, chicken kebab, chicken samousa etc, which are the requirements of both tourist hotels and high-income consumers. It is these requirements that are being met through poultry importation.

Tanzanian consumers typically prefer to buy whole birds or live broiler chickens. Whole chickens from local broiler farmers are sold by small retailers who typically have one or two refrigerators and receive whole chicken meat regularly from farmers. Supermarkets, which are a relatively new phenomenon in Tanzania, are competing with small retailers as the former target households in the larger population areas. They are consequently importing more whole chickens than parts, while hotels import more chicken parts. The growth in imports clearly highlights the inadequacies in the domestic processing industry. With commercial broilers accounting for almost half of Tanzania's population of 47 million chickens, some substitution and market impact is likely; however, the required data on prices and production availability from urban versus rural areas was not available to quantify the impact.

In the dairy sub-sector, one important indicator for gauging the likely impact is the amount of the local milk that actually competes with imported products. The import of all dairy products in Tanzania averaged 34 million litres per annum in milk equivalent terms during the past six years. This amounts to 18 percent of the country's total production of milk, or 188 million litres per year. Although this may seem low relative to national production, a more appropriate comparison is the portion of the domestic milk that competes with imported products. Using the marketed volume (67 percent of production) as the denominator, the share of the imports rises to 27 percent. When imports are compared with the total domestic milk that passes through formal/licensed markets (27 percent), the corresponding share becomes 40 percent. Finally, when imports are compared with the amount of milk processed locally from domestic production, the share is overwhelmingly high at 90 percent. Taking into consideration that most of the imported products are sold in urban markets, particularly Dar es Salaam (although milk and dairy products are increasingly distributed in rural markets too), the share of imported dairy products in this market is indeed very high.

A seasonal analysis of dairy imports indicates that there are two peaks, April-May and November-December while the lowest point is in August. Import patterns do not correspond well with domestic production, which is highest during the rainy season of March to June. Among imported products, milk powder constitutes the largest share (71 percent in 2002) which is mostly used for reconstitution into liquid milk by local processors. The reconstituted liquid milk is likely to compete with raw and processed milk from domestic production, particularly in urban markets. Though there is little production of quality cheese in the country, butter is readily produced locally. The notion of speciality markets for butter is therefore ruled out. Retailers such as supermarkets, shops and vendors sell local and imported milk and dairy products side by side, a sign of competition. Due to rerouting of some of the dairy products through free ports such as Dubai it is difficult to account for all the sources of dairy products entering Tanzania.

With regard to the likely impact at the household level, while rising imports may constrain the development of the processing sector, household survey data indicate that only a small percentage of agricultural households in Tanzania depend on livestock and poultry as their main source of income. On average, poultry constitutes less than one percent of household income,[9] this rises to 6 percent when all livestock, including dairy, is included. Given that only an estimated 20 percent of Tanzania's 47 million chickens (of which only 20 million are commercial broilers) are marketed in urban centres, the limited penetration of poultry imports into secondary markets implies that the increase in imported poultry products and stagnant chicken prices have only limited livelihood impacts on small producers.

[9] Expanded Survey of Agriculture, 1995/96.

Box 1: Perspectives of stakeholders in Senegal and Tanzania

Stakeholders

Various stakeholders in the dairy and poultry sectors in both countries were found to have somewhat different perceptions about the impact of import surges. Processors of locally produced milk and poultry (and to a lesser extent farmers, the government, NGOs and researchers) hold that trade liberalization and the WTO have harmed domestic markets.

Wholesalers (importers), retailers and processors of reconstituted milk and dairy products have a different opinion. They prefer a continuation of the liberal trade environment. This group advanced two arguments. First, imported quantities are small relative to domestic production and therefore have a negligible effect on domestic prices. Due to seasonality of domestic production, particularly in the dairy sector, it is essential to import these products to ensure continued operation of their processing plants during low season. Second, markets for imported and domestic products are segmented and there is no overlapping either geographically, seasonally or by population segment. Imported products target either low-season for domestic production, urban markets with insufficient supply from distant/remote production areas, and/or high income consumers including expatriates and tourist hotels with a preference for speciality products such as cheese, butter and chicken cuts that are not readily available locally.

Several government officials and traders in both countries felt that poultry producers are not competitive for a variety of reasons, notably - in the context of competition with imports - because of lack of effective processing capacity. Not having the capacity to produce further processed products is a big handicap in competing with imports. Other factors include poor management and the high costs of feed and other inputs. Competition is also undermined by seasonality of production and difficulty in accessing markets as the distance between producers and consumers can be very high. One strategy to overcome this problem is to process products so as to increase shelf-life and to diversify products so as to access growing market segments.

There appears to be a consensus that the growth in poultry meat imports effectively limits the growth of the processing industry, constraining market opportunities. One stakeholder specifically mentioned that the local agro-processing sector is still “infant” and needs to be protected from competition of low priced imported agricultural products.

Government response

As revealed through some recent policy changes and based on interviews with officials, it is clear that the governments in both countries are responding to pressures for tariff protection on the ground of reported damage to their industries. In Tanzania, the dairy industry was effective in pushing for tariff increases on milk and milk products. This group consists mainly of local processors of fresh milk while dairy processors of reconstituted milk (from imported milk powder) pressured for lower tariffs. The government had imposed in 2000 a 25 percent suspended duty on all imported milk and milk products, raising overall customs duty to 50 percent. This suspended duty was later reduced to 20 percent in July 2003.

In Senegal, the impact of dairy imports on local production has not been highlighted in the media as it has been for poultry. The emergence of a professional poultry industry group and lobbying pressure resulted in the imposition of a short-lived ban on poultry imports in late 2002. This was subsequently lifted, with the government obviously concerned about WTO legality as well as the loss of customs revenue from poultry imports. Total customs revenue from all products generates roughly 40 percent of the total public revenue in Senegal, with poultry and dairy product imports providing an important contribution of 5 billion and 12 billion CFAF respectively.

4 ASSESSMENT AND POLICY IMPLICATIONS

4.1 Assessment

There are widespread concerns expressed by many developing countries that the incidence of import surges of basic food commodities has been increasing, often disrupting local markets and causing negative effects on local production. This issue had also attracted considerable attention in the two case study countries undertaken in this paper. In Senegal, the government requested the WTO for a waiver valid through 2005 to maintain minimum reference prices for imports of various products, precisely for the above reasons. That the waiver was granted also shows that the WTO community is sympathetic to the problem. In Tanzania also, this issue had attracted considerable attention of all stakeholders, including the government. In fact, it was found that two agencies have already commissioned analyses on the impacts of import surges.

Measuring the impacts of import surges is a difficult task, but simple case studies also illustrate some of the fundamental issues. From the two case studies examined in this paper, it was found that the impacts vary markedly in different settings and for commodities. Thus, for example, while the negative impact on Senegal's broiler industry came out clearly, import surges were not an issue in the case of dairy products. This is because dairy imports, although high, had increased steadily over a longer period of time, facilitating a gradual adjustment in the domestic dairy industry.

In the case of Tanzania, some negative effects were found for the dairy sub-sector but only limited effects on the poultry. In both countries, rapid growth in poultry imports also revealed the weaknesses of the domestic processing industry in competing with imported products, particularly in situations where there has been rapid growth in demand for further processed quality products by supermarkets and hotels which the local industry failed to supply. Both poultry and dairy product imports by Tanzania constituted a small share of the total domestic production. While this might lead one to conclude that any impact would also be small, it was found that imported products were primarily sold in cities, where the import shares were much higher. Segmentation of urban and rural markets appears to be an important issue in assessing impact; it may be high in localized commercial markets, but much lower in rural areas. This fact raises issues concerning the competitiveness of domestic producers in supplying growing urban markets, and in particular for further processed products. This observation needs to be more rigorously tested using econometric techniques.

In the literature, import surges are often associated with unfair trade practices, notably export subsidies. The case studies indicated that such a generalization may not be appropriate, and other factors are equally or more important, including reductions in tariffs and exchange rate movements. However, export subsidies may certainly be important. The trade data showed that in recent years both Senegal and Tanzania imported poultry products and powered milk from the European Union (EU). In fact, in the case of dairy products, an estimated one half of Africa's dry milk powder imports, nearly 250 000 tonnes, has been sourced from the EU. EU export subsidies over the 2003 period averaged US$640 and US$1 120 per tonne for skim and whole dry milk power respectively. While all milk powder products exported from the EU receive export subsidies, poultry exports to Africa - both whole bird and parts – have been largely unsubsidized. Africa is not one of the targeted zones for the EU restitution, although there may have been periodic shipments of subsidized cuts. On the other hand, the origin of products imported by Tanzania from the UAE, which is a recipient of EU subsidized exports, is not clear. The US subsidies for poultry meat were operational only periodically over the past 10 years and targeted exclusively on whole birds export to certain Middle Eastern countries.

Finally, it was found that the government and other stakeholders are not necessarily dogmatic about resorting to tariff barriers in response to import surges and strong import trends. For example in Senegal the broiler sub-sector suffered considerably when tariffs were lowered and imports increased, but the government did not impose any trade restriction. The result was a marked shift away from broiler to the production of laying chickens for eggs. The debate that ensued also raised public attention on the need for a broiler industry in Senegal that is modern, professional and competitive. Some stakeholders, including the government, appear to consider this to be a desirable adjustment.

The challenge for the governments is to identify the factors underlying import surges and determine whether the causes are structural or based on short term market shocks induced by domestic production changes or international market shocks. Secondly, the impact of the shock has to be assessed through the evaluation of the competitiveness of various sub-sectors, prior to determining appropriate adjustment periods and implementing supportive policies. Trade remedy measures are by design responses to problems of a temporary nature.

4.2 Policy implications

In view of the main findings above, policy and other implications are summarized into three categories: national-level policies; WTO negotiations; and areas for further analysis.

National-level policies

Import surges and similar shocks coming from world markets will not disappear even if all forms of "unfair" trade practices are eliminated through multilateral trade negotiations, as is seen in the case of non-agricultural goods where many of the distortions that the WTO rules allow for agriculture are not permitted. Therefore, it is essential that countries strengthen their ability to respond to such shocks. In this regard, the following measures would seem to be appropriate for developing countries in general, including Senegal and Tanzania:

- First, an effective trade surveillance system is the necessary step towards strengthening the capability of the affected sectors in responding to trade shocks. India, for example, has a system that closely monitors the import trend of 220 sensitive products which include 112 agricultural products.
- Second, governments need to strengthen their capability to investigate the effects of import surges, once these are detected from the trade data. As found in this study, not only various stakeholders had different views about the impact of higher imports, even the governments at times had to reverse policies as more came to be known about the effects. Policy reversals are unnecessarily costly.
- Third, the ultimate goal should be to develop institutional capability to resort to the WTO trade remedy measures like anti-dumping, countervailing and emergency safeguards. Until then, governments may take advantage of various WTO-compatible trade policy instruments to offset the effects of import surges, when these are deemed to threaten material injury to the local industry, following careful analysis. These instruments include the following:
    - Where bound rates are high – as is the case for Senegal and Tanzania – applied tariffs could be raised upwards temporarily in response to import surges. This is fully WTO-compatible.
    - Access to the special agricultural safeguard (SSG) would have been useful; however, neither Senegal and Tanzania nor many other countries have recourse to this mechanism, but a proposal is on the WTO negotiating table for Special Safeguard Mechanisms for developing countries that are expected to be similar to the SSG.
    - There could be other instruments in various WTO agreements that may be used to address temporary problems. The waiver Senegal requested and received from the WTO to maintain minimum reference prices for imports of selected products is an example of these other instruments. Countries need to improve capability to take advantage of Special and Differential Treatment provisions in the WTO Agreements.
- Fourth, while the above points focus on responses and WTO-compatible measures, the dominant consideration has to be on what is best for the economy, i.e. the decision to respond or not would have to be based on economic and social analysis of the likely impacts. Ultimately, it is competitiveness and efficiency that count most in multilateral trade. The Senegalese experience where the broiler industry contracted following import competition while the layer chicken and eggs sub-sectors emerged and grew is an example of this type of restructuring. Several

stakeholders considered that this was a positive outcome. There is a considerable need for capacity-building in this area..

WTO negotiations

The following two elements of the Agreement on Agriculture are particularly relevant for the issue being discussed.

- Export subsidies often contribute to instabilities in world commodity markets and so to difficulties in managing imports under a liberal trade regime. Therefore, any progress made in the ongoing trade negotiations towards curbing export subsidies, as committed in the Doha Development Agenda, helps those countries facing difficulties on account of import surges.
- Many developing countries, including Senegal and Tanzania, do not have access to the agricultural SSG, which often forces them to respond to surges with other instruments that may not be first-best for the problem. Until the time when these countries develop capabilities to resort to general WTO safeguards, simpler safeguards like the proposed SSM would be useful.
-

Analytical needs

One of the general observations made in the course of this study was that there are very few analytical studies on the impact of import surges relative to the widespread concerns and interest on this issue. Based on this study, the following topics would appear to be of priority for further research and analysis:

- More country case studies are desirable because the nature and magnitude of the impact of import surges depends very much on local specifics, the individual commodities, the resilience of local industries, and the level of market integration.
- One conclusion of the case studies, albeit somewhat tentative, is that the adverse impact of the import surge is limited to producers/processors in the major market or capital city. This conclusion is based on the argument that other markets are not well connected to the main market where imported products were sold. More in-depth analysis of the degree of inter-market integration is needed for assessing impacts in rural areas.
- Given widespread confusion, there is a need for clarifying the linkages between export subsidies and import surges at the global level.
- Similarly, in view of the lack of clarity in the literature, some statistical work towards defining what constitutes a "surge" in general and in different contexts (e.g. countries, commodities) would be useful. This analysis does not assess the overall economic impact of rising or surging imports, notably on consumer welfare gains and changes in government revenue. A broader assessment of these impacts would also be useful.

FIGURES

Figure 1: Senegalese poultry imports, volume and as share of consumption

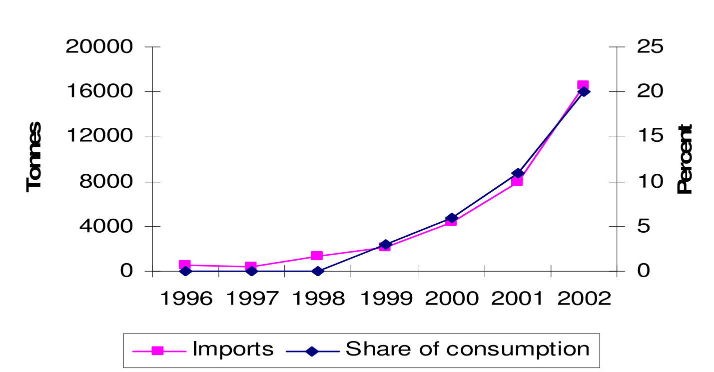


Figure 2: Retail price of poultry meat in Dakar

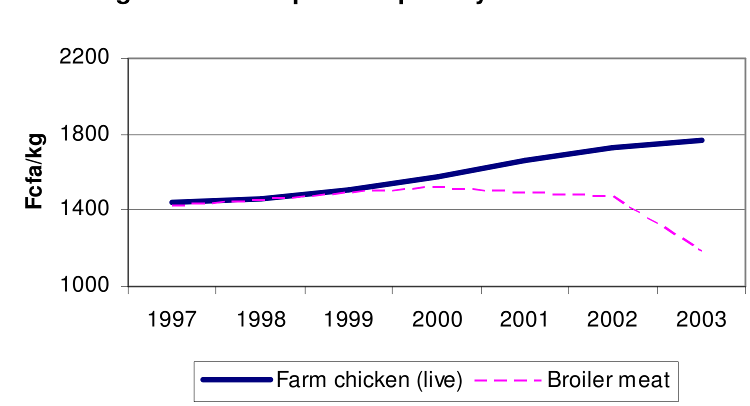
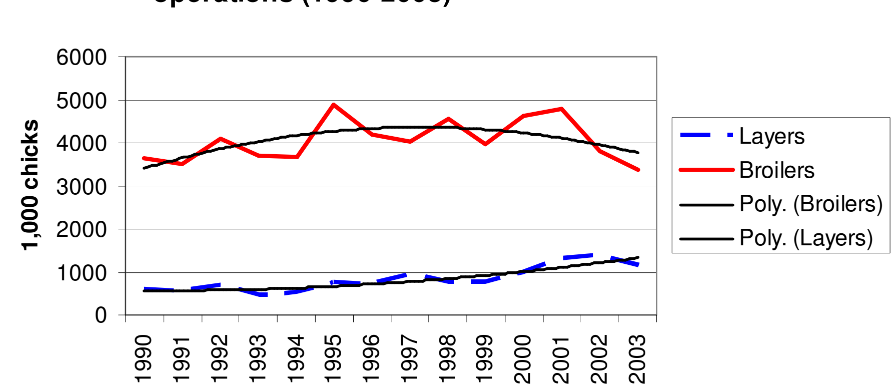


Figure 3: Number of chicks sold for grow-out operations (1990-2003)



Source: Data from the Senegalese poultry industry.

Figure 4: Senegal monthly poultry imports relative to price movements

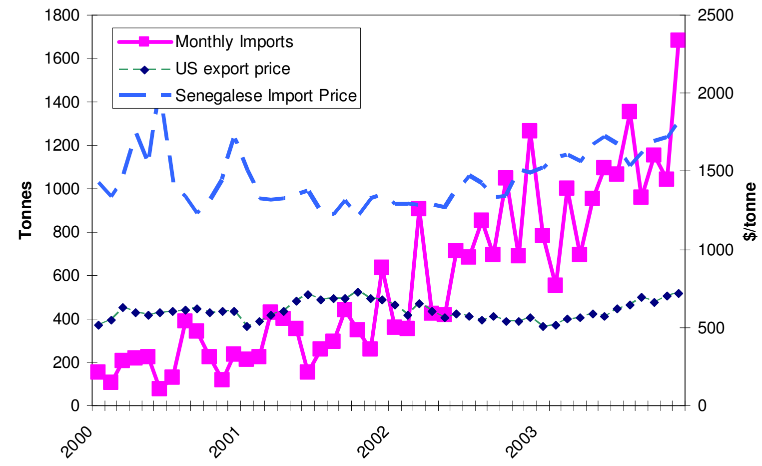


Figure 5 : Tanzania - imports by source, 2003

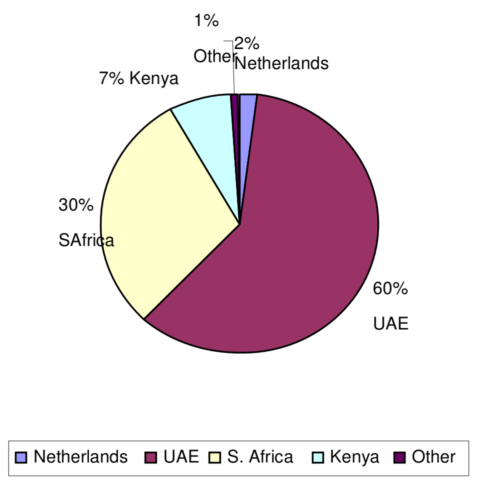
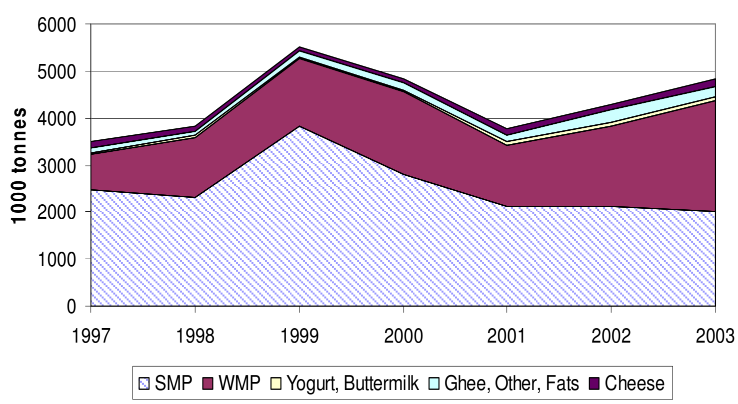


Figure 6: Dairy Product Imports: Tanzania



TABLES

Table 1: Chronological events of government policy decisions related to livestock products

Year	Government action
1999	Reduced imports tariffs as per WTO obligations; tariffs on poultry and dairy products dropped from 40 percent to 25 percent .
Jul-99	Abolished stamp duty on livestock and agriculture produce.
2000	Imposed 25 percent suspended duty on all imported milk products.
Jul-01	Abolished VAT on milk packaging materials.
Jul-02	Suspended duty on all imported milk reduced from 25 percent to 20 percent; abolished suspended duty on milk products e.g. powder milk, cheese, yoghurt, etc.
Jul-03	Suspended duty on imported fresh milk reduced from 25 percent to 20 percent.
Feb-04	Passed a bill in the National Assembly to prevent import of cheap (and sub-standard) products and dumping to protect the domestic industry.
Feb-04	National Dairy Development Board bill presented for the first time at the National Assembly, expected to be approved in the April session.

Table 2: Tanzanian imports of dairy and poultry products (tonnes)

	Dairy products	Poultry
1997	3 469	6
1998	3 869	32
1999	5 565	163
2000	4 876	139
2001	3 942	380
2002	4 354	490
2003[1]	4 869	192

[1] Customs data, 2003 incomplete

ANNEX 1
THE ANALYTICAL APPROACH AND METHODS FOLLOWED FOR THE CASE STUDIES

The incidence of import surges of basic food commodities in particular is reported to be rising in recent years. Many developing countries see this phenomenon as a source of serious concern for them in view of the often disruptive effects on local markets, with negative effects on production, employment and so on.

In contrast to these widespread concerns and reporting, the documentation of the phenomena of import surges, based on sound statistics and analyses, is generally weak. Indeed, there are very few analytical studies available on the impact of import surges.

It was in this context that the two case studies reported in this paper were undertaken. Measuring the impact of import surges is a difficult task requiring primary information from the field. It is even more difficult to generalize the results across countries because the impacts can vary markedly in different settings and for commodities, as well as depending on the resilience of the local industries (markets) and the level of market integration. In view of this, a case study approach was considered appropriate for a preliminary investigation of the phenomenon. Such an approach has the advantage of uncovering a range of issues and linkages for further analysis. Needless to say, this should be followed by in-depth analyses.

Overall approach

The overall approach to the study is simple to lay out, and basically follows the two-step procedure for an investigation as established in the WTO trade remedy measures, notably in the Agreement on Safeguards. These are:

- Identification of the surge commodities and the surge itself; and
- Establishment of the causal link between the import and (negative) effects on the impact indicators.

As for the first point, two products or product groups – namely poultry and dairy products - were selected for both Tanzania and Senegal on the basis of prior information about concerns expressed in the media and literature by various national stakeholders over import surges and negative effects. Subsequent analysis of the trade data in the case studies confirmed that imports of these products did indeed surge in recent years.

As said in the main text, there is no objective definition of an import surge in the WTO trade remedy measures. Rather, a surge is defined in a general way as a phenomenon whereby a product is imported into a country in increased quantities in an absolute term 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. It is only in the Agreement on Agriculture that surges are defined in an objective manner, but with no explicit link to injury. As the focus of the case studies is on injury, the general definition and the approach in the trade remedy Agreements are followed here. In any case, the surges themselves are taken as given – based on expressed concerns in the countries – and so the issue of the definition is not relevant for the case studies.

In contrast, the core of any analysis of the phenomenon of import surges is the second bullet point above, i.e. the establishment of the causal link between imports and (negative) effects on the impact indicators. This is the most difficult part of the study analytically. There are very many ways of analyzing the linkage between imports and effects, ranging from rigorous statistical methods (e.g. econometric analysis of market integration) to more subjective and stakeholder-participatory approach. In practice, most analysts would like to combine both methods.

The methodology followed for the two case studies combines elements of the analysis of trade and price statistics, market structure and stakeholder surveys. The feasibility of undertaking some of the rigorous econometric analyses was explored and some price data were also collected, but the analysis was not undertaken given the preliminary nature of the study. Thus, the analysis was confined to the three elements noted above, i.e. analysis of trade and price statistics, market structure and stakeholder surveys. In order to provide the flavour of the approach taken and the methods used, the checklist that was developed to guide the study is summarized below. A great deal of consultation and discussion took place throughout the course of the study both between the national consultants and the other two authors located in Rome, as well as between the national consultants and various stakeholders in the countries.

Check-list for the collection of statistics, other information and analysis

Commodities under investigation

Imported products – milk powder (including substitutes, e.g. skimmed, dry, concentrate etc.), and poultry and poultry parts.

Competing domestic products – fresh milk, domestically processed milk products, poultry, beef.

Statistics on import trends and sources

- Import volumes and values (preferably monthly, or quarterly)
- The source of the import (country – imported directly or transhipped?)

Other information on imported products

- Who imports? (e.g. traders, industries, retailers etc.)
- For what use? (e.g. blending for fresh milk, for milk products like ice cream etc., and consumption in case of poultry)
- Where are the products sold/used? - limited to capital city, or, to other large markets, or to smaller cities in rural areas?

Market structure for domestic products

(the objective being understanding where and how imported products compete with domestic products)

The markets referred to here are: i) markets where imported products are sold; ii) markets supplied by domestic subsistence farmers; and iii) markets supplied by domestic commercial farms.

- Who supplies the capital city market? (small, subsistence farmers, medium farmers, or large commercial farmers? if possible, estimate relative shares).
- How do (i.e. in what way) domestic products compete with the imported products?

Are the two markets connected or segmented?

- Segmentation is a concept used in the economics of market integration – the analysis of whether markets are connected or segmented is typically undertaken based on spatial price data across markets.
- How are the markets connected or segmented? (complete lack of trade/sales, distance, quality, seasonal variation, etc?)
- Is there any price relationship among these markets?)

Statistics on prices

The "statistical" approach to the study of "market segmentation" is to correlate prices in various markets. So, market prices are key to this line of analysis, and should be assembled to the extent possible.

- Market (retail or wholesale) prices of the imported products in the main market (e.g. capital city)
- Market (retail or wholesale) prices of the domestically produced products in the same market (capital city) <u>and</u> in markets closest to the producing area (e.g. villages where smaller farmers also sell their products).

For sound statistical analysis, these prices have to be on a monthly or quarterly basis, and covering 3-4 years. However, some pattern may be discernible with data for fewer periods also.

Impact of the import/import surge on domestic producing sector and farmers

Identifying and quantifying these negative effects is perhaps the most difficult part of the investigation of this nature, mainly because it is very difficult to isolate the negative (or positive) effect of the import from other developments taking place simultaneously. Various WTO agreements on trade remedy measures mention the following variables for measuring the negative effects: reduced production and sales, price undercutting, reduced industry capacity utilization rates, employment and wages.

- How were farmers affected, in terms of production, sales and prices received?
- If these were depressed, could other reasons be responsible or was the import the main reason?
- How does one go about quantifying these negative effects? i.e. what type of statistics and whether these are available or not? If not, what type of fresh surveys might help?

Reaction of various stakeholders to the surge

(based on 1-2 hours of interviews with key stakeholders)

<u>Government</u>

- What is the view of the government officials on the surge? Do they consider recent import trends as being "surges"? (responses often differ between officials from Ministries of Agriculture, Commerce and Finance)
- If the phenomena are considered to be surges, what was the government response? Responses often take the form of raising applied tariffs, other regulations that limit imports (licensing, SPS/TBT-type measures), triggering WTO safeguards, giving domestic aids etc. Or, do the officials consider that the surge was not strong enough for its effects to be felt, and so nothing was done?

<u>Farmers (both subsistence and commercial farmers) and farm associations</u>

- What do they think of the phenomenon of import surge?
- Did they react in any way, e.g. petition the government for response/relief?
- What measures were called for?
- What did the Farm Association do? Were the cases publicized in the media?

<u>Importers of the products/traders/import associations</u>

- What do they think of the import surge?

- Do they see the negative side? How would they "view" or quantify the negative effects?
- Or, do they only see the positive side, e.g. on the ground that imports have helped employment in factories and food security for poor consumers?

NGO/civil society views

- Same questions as above – their views? Why? How would they quantify the effects?

Research/academic community

- Was this an issue that attracted research interest in the country? In newspapers?
- Were are analysis, papers done?
- How would they conduct this type of research?

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4 Agricultural Policy Indicators *Timothy Josling and Alberto Valdés*
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