Trade policy and food price volatility in LIFDCs

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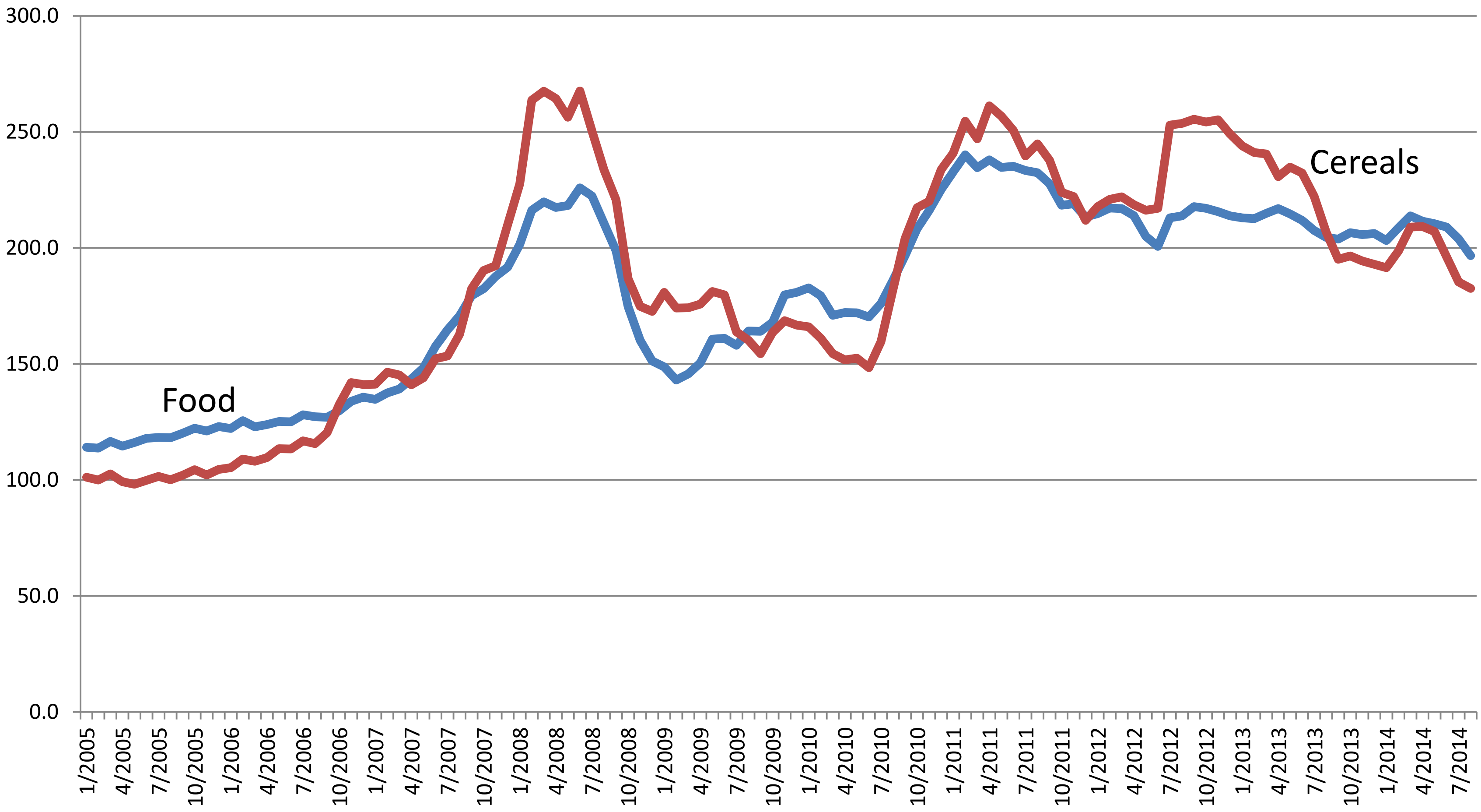
Overview

- LDCs and NFIDCs 2011 proposal for WTO work programme
- Trade policy changes, especially import tariffs, and some of their effects
- Focus on LIFDCs and cereals
- Based on different pieces of FAO work
- Draw attention to some FAO information resources – GIEWS price tool and FAPDA

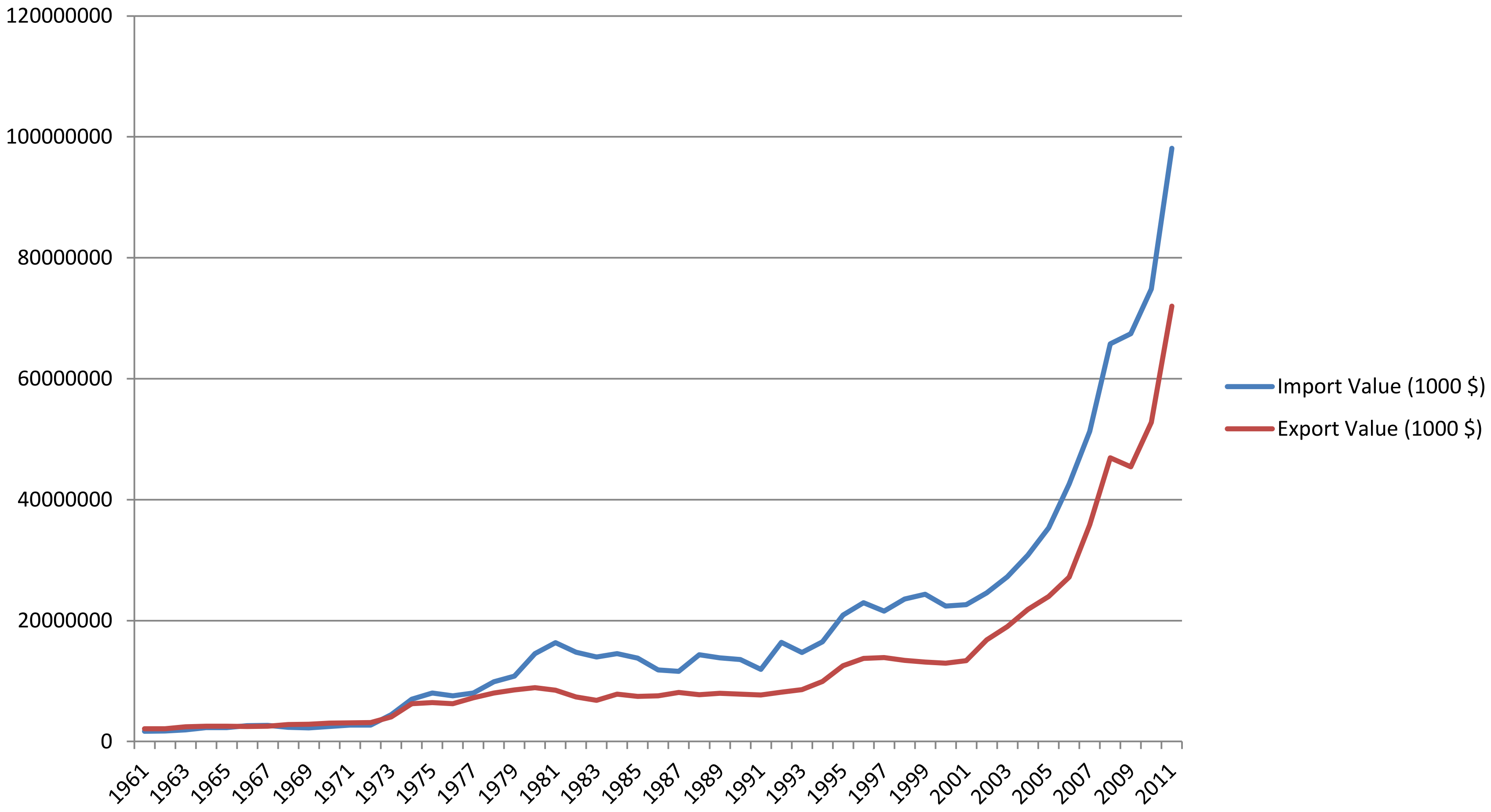
FAO Food and Cereal Price Indices (2002-4=100)



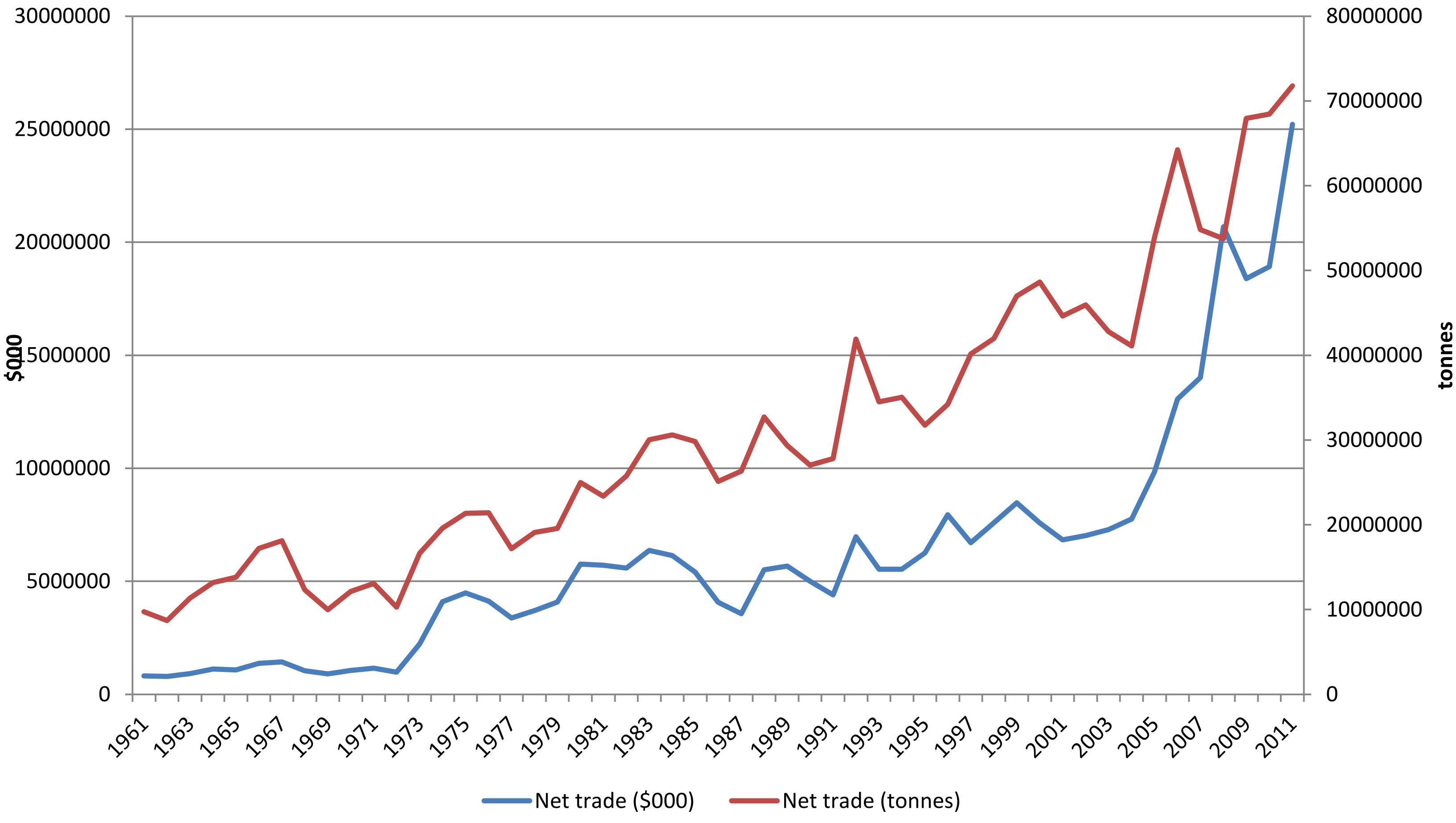
Features of LIFDCs

- Diversity of 55 LIFDCs within classification including in policy responses
- Low self-sufficiency (around 70%) – reflects low productivity etc
- Declining importance of food aid shipments
- Increased dependence on international markets and vulnerable to international shocks, including policy shocks
- Trade balances emphasize cereals followed by oils and sugar where price hikes greatest

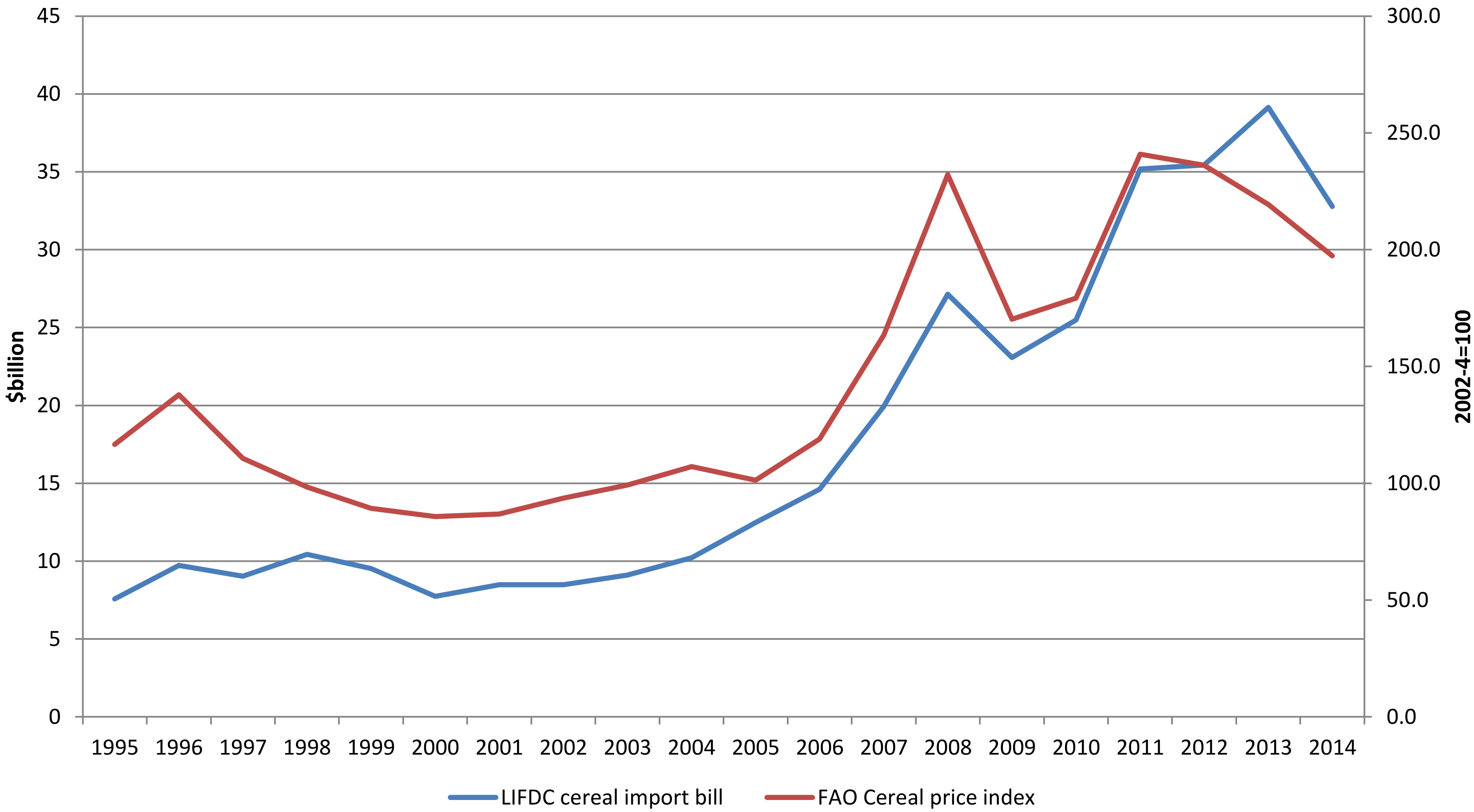
Low income food deficit countries food trade



Low income food deficit countries net cereal trade



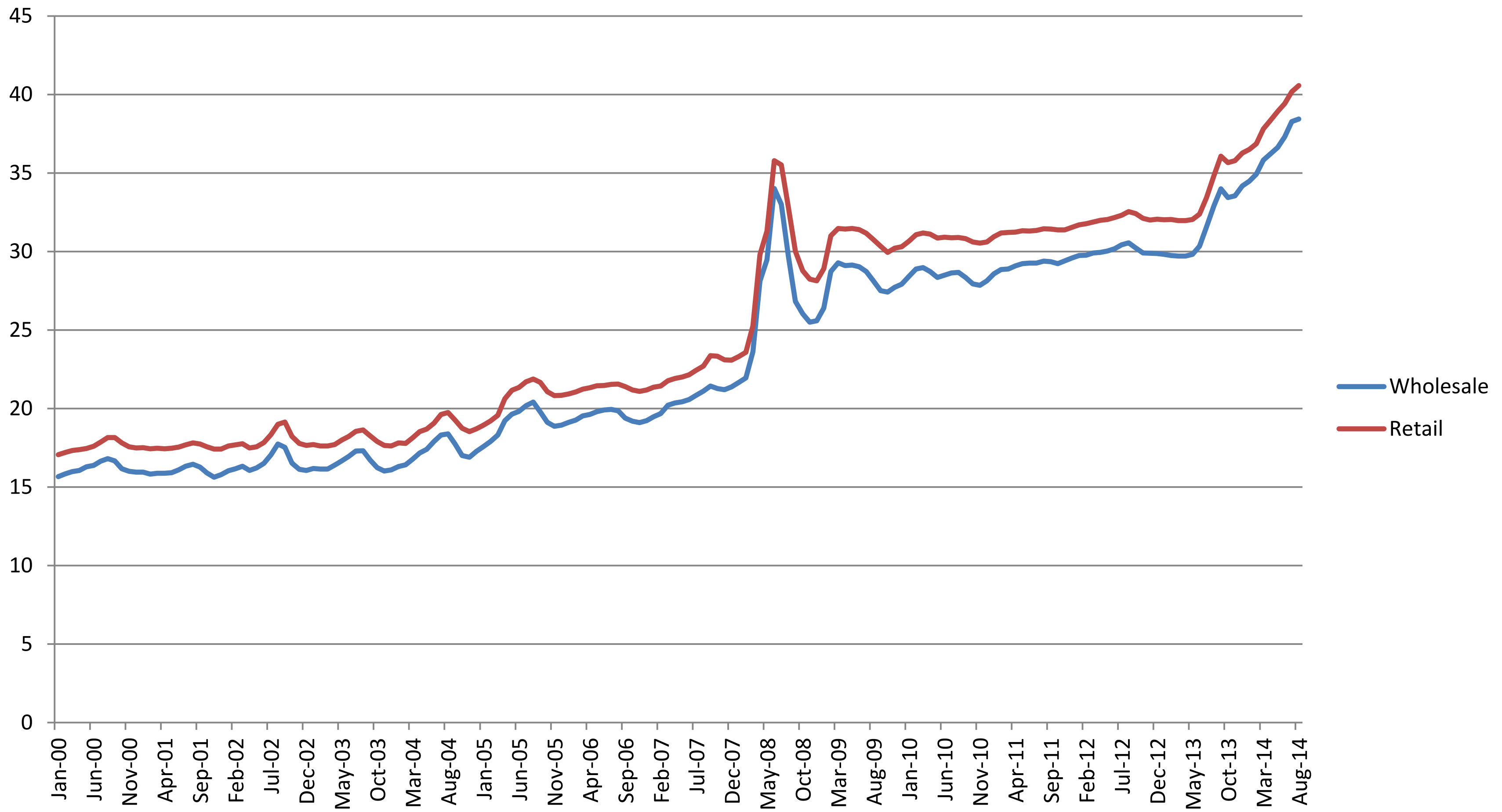
LIFDC cereal import bill ($bn)



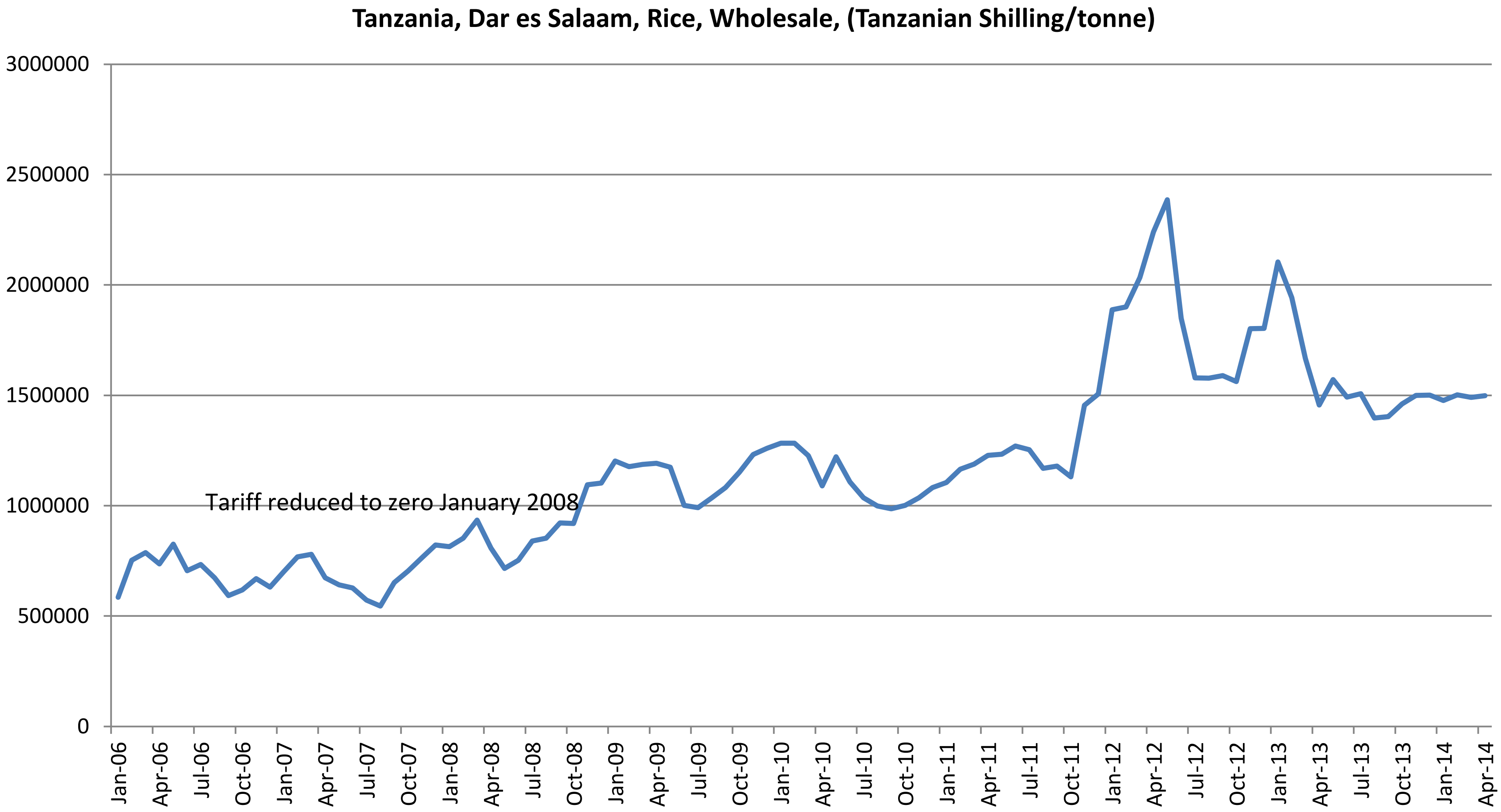
GIEWS price and policy information

- The first version of the GIEWS Food Price Data and Analysis Tool released March 2009. Now on third version
- Monthly retail and wholesale prices for staple food commodities (cereals, pulses , meat, fish ...) in selected markets in each country
- 1130 monthly domestic price series in 82 countries
- 28 international cereal export price series
- 20 different food commodity categories
- Price tool for graphics, statistical analysis etc

Philippines Rice Prices (regular milled, Philippine Peso/Kg)



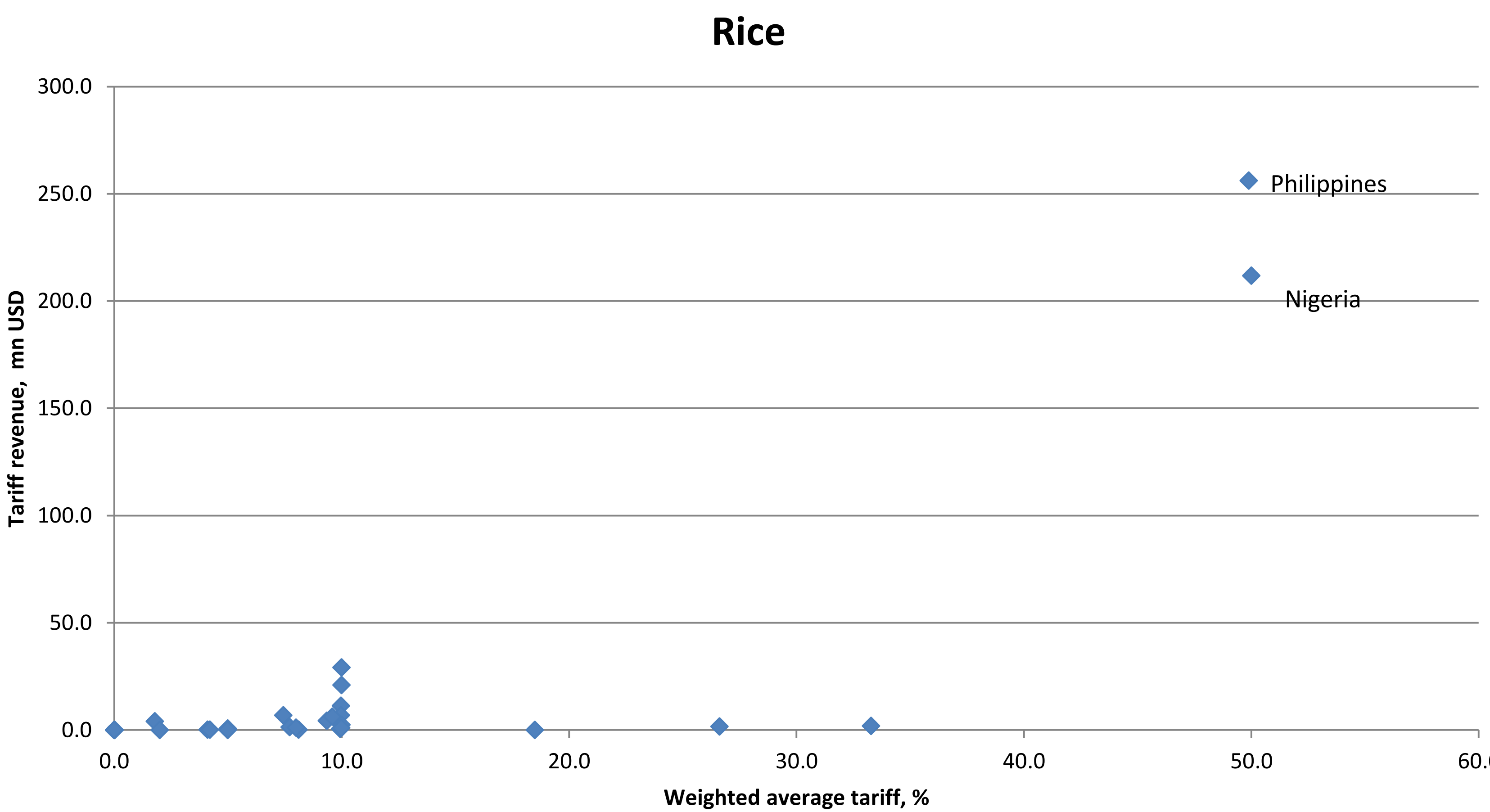
Tanzania domestic rice price



LIFDC trade policy responses

- Trade policies seen as quick and cheap way of augmenting supplies and slowing price increases
- Conscious of consumer (reduced import tariffs, export restrictions) versus producer (import restrictions) interests and trade policies shifted to favour each at different times
- 60% of countries reduced import tariffs in 2007/8
- Import subsidies beyond budgets
- Import restrictions – not common, seasonal, periodic
- Export restrictions – even in food importers
- Responses after 2007/8?

LIFDC applied tariffs and tariff revenue 2006



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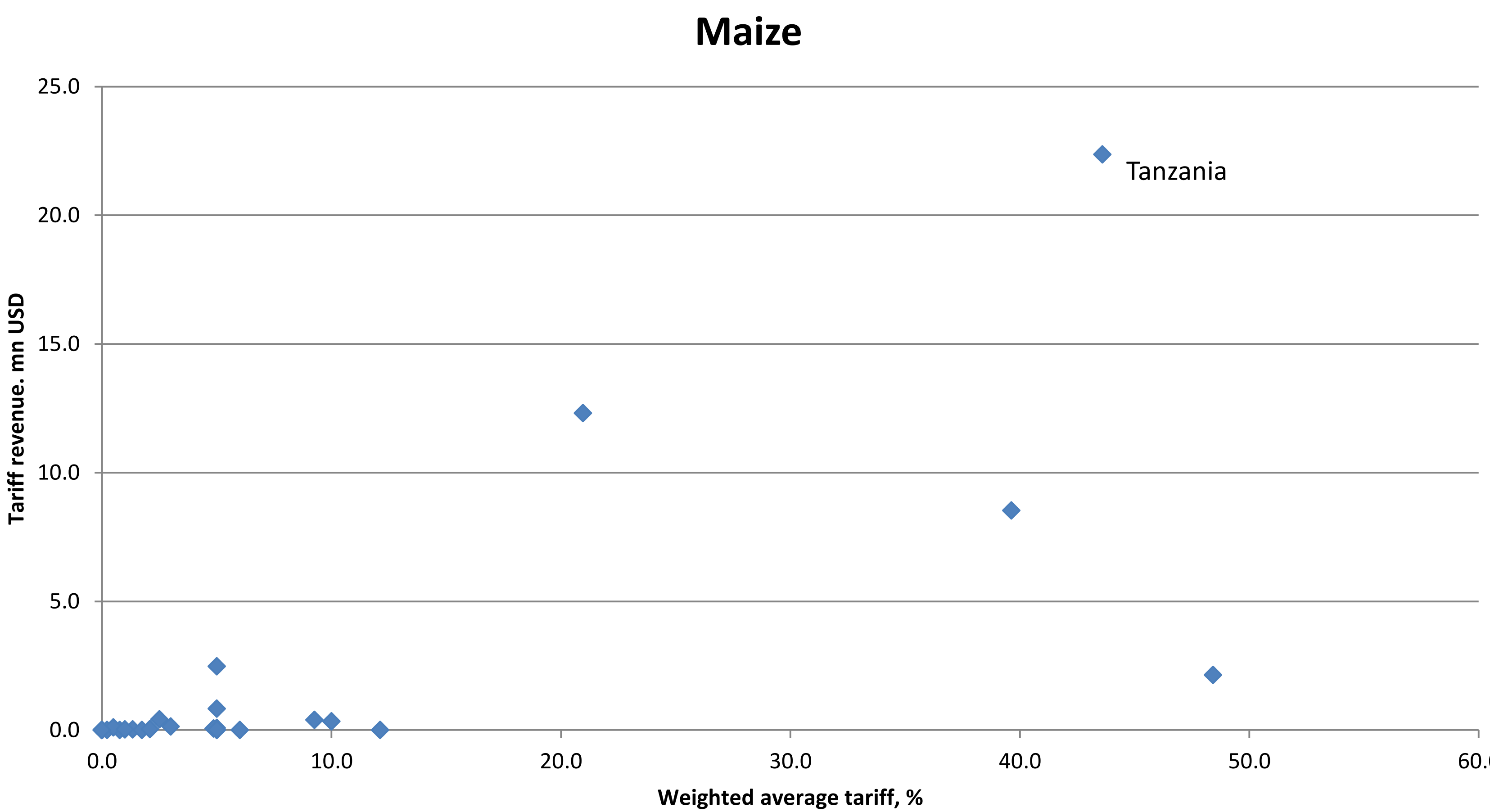

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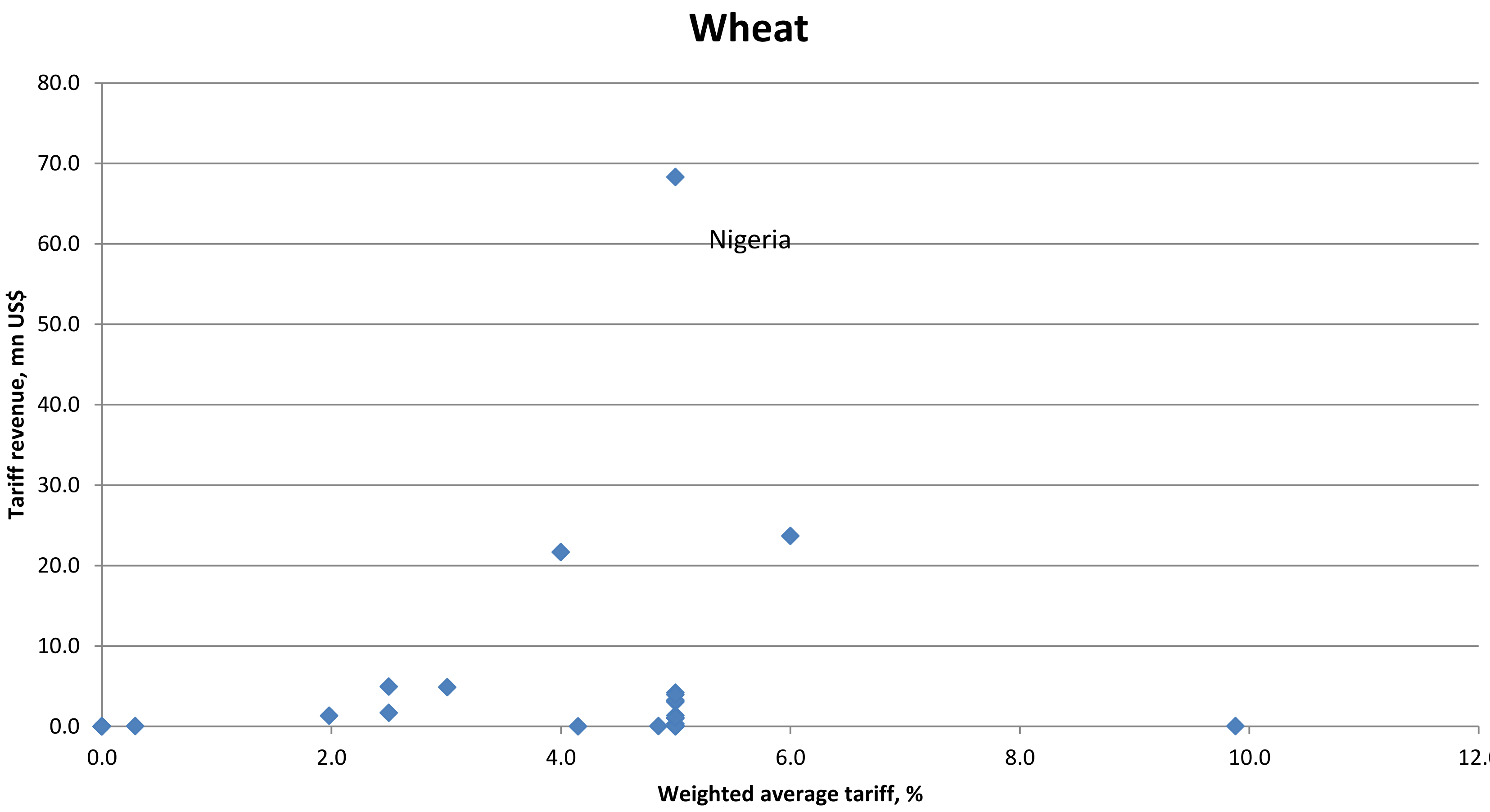

FAPDA policy data base

- Food and Agriculture Policy Decision Analysis (FAPDA) - collection and dissemination of information on policy decisions to policy makers but also as a public good.
- FAPDA analyses aim to promote coherent and effective food and agriculture policies.
- FAPDA web-based tool tracks national food and agriculture policy decisions in more than eighty countries;
- More than 6000 policy decisions since 2008, classified (consumer, producer, trade) and documented
- http:/www.fao.org/economic/fapda/tool/Main.html
- Developed from GIEWS (ISFP) policy review which continues as part of the price data base
- Information sources

FAPDA policy report (part) – Tanzania

15/04/2010	Export prohibition	A cereal export ban that was imposed in 2008, has been lifted in 2010.	Availability of Food
20/11/2009	Entry into force of a free (or preferential) trade agreement	The Protocol on the Establishment of the East African Community (EAC) Common Market entered into force on 1 July 2010, following ratification by all the five Partner States: Burundi, Kenya, Rwanda, Tanzania and Uganda. The Protocol was signed by the Heads of States on 20 November 2009, coinciding with the 10th Anniversary celebrations of the revived Community.	Availability of Food
01/11/2009	Export prohibition	Cereal export ban that was imposed in 2008 is still in force.	Availability of Food
01/08/2009	Other export promotion measures	The Kilimo Kwanza (Agriculture First) under pillar No.9 : Infrastructure Development for Kilimo Kwanza included finalization of the construction of Mwanza Airport runway extension to share chartered flights from KIA through Mwanza to Europe and facilitate the exports of horticulture and fishery products. The Kilimo Kwanza (Agriculture First) is a national resolve to accelerate agricultural transformation. It comprises a holistic set of policy instruments and strategic interventions, this initiative is a central pillar in achieving the country's Vision 2025 launched by H.E. Jakaya Mrisho Kikwete, President of the United Republic of Tanzania.	Availability of Food
01/07/2009	Share of agricultural expenditure in the National Budget (increased or decreased)	For the Tanzanian FY 2009/10 the government allocated for agriculture Tsh 666.9 billion, showing an increase of 30 percent compared to Tsh 513.0 billion in 2008/09 including of EPA resources.	Availability of Food
01/07/2009	Import Tariff Reduced	As the wheat production in the region could not meet the demand, import tariff on wheat has been applied at a reduced 10 percent rate (instead of 35 percent)	Availability of Food
01/05/2009	Export prohibition	Export ban to its neighboring country, in particular Kenya, is and will remain in force in the foreseeable future.	Availability of Food
01/07/2008	Share of agricultural expenditure in the National Budget (increased or decreased)	In the FY 2008/09 the Government allocated for agriculture Shillings 460.0 billion, compared to Shillings 379.0 billion in 2007/08. The larger amount of the budget allocated for agriculture will be spent on fertilizer subsidies, the Special Grain Reserve (SGR), research particularly on improved seeds, and training.	Availability of Food
01/01/2008	Export prohibition	Faced with high food prices in 2008 and in an attempt to maintain food security, the Tanzanian government established a ban on maize exports at the beginning of 2008.	Availability of Food
01/01/2008	Tariff	Faced with high food prices in 2008 and in an attempt to maintain food security, the Tanzanian government removed the import duty on cereals, and had in place a zero import duty policy for maize until May 30, 2008.	Availability of Food

Table 1. Trade based policy measures commonly adopted (as of 1 December 2008)

	Africa	Asia	Latin America	**Ove**
Countries surveyed	33	26	22	
Market Interventions				
Trade policy				
Reduction of tariffs and customs fees on imports	18	13	12	
Restricted or banned export	8	13	4	
Domestic market measures				
Suspension/reduction of VAT or other taxes	14	5	4	
Released stocks at subsidised prices	13	15	7	
Administered prices	10	6	5	
Production Support				
Production Support	12	11	12	
Production Safety Nets	6	4	5	
Fertiliser and Seed Programs	4	2	3	
Market Interventions	4	9	2	
Consumer Safety Nets				
Cash transfers	6	8	9	

Africa import tariff changes post 2007-8

Pre 2007-8 policies maintained	Tariff reduction maintained after 2007-8	Variable trends after 2007-8	Tariffs reintroduced after 2007-8	Import ban	Import quota
Lesotho*	Algeria (durum wheat)	Mali (rice)	Burkina Faso (rice)	Nigeria	Zambia
Togo**	Sierra Leone (rice)	Nigeria	Senegal (rice, wheat)	Algeria	Kenya
Ethiopia*	Liberia (rice)	Morocco	Mauritania (rice)***	Zambia	
Egypt	South Africa (wheat and wheat flour)		Ghana (rice, maize, wheat)		
Mozambique**	DRC (basic foods)		Cameroon (wheat, wheat flour, rice)		
	Rwanda (wheat, maize)		Kenya (wheat, maize)		
	Tanzania (wheat, cereals)		Zimbabwe (maize)		
	Uganda (wheat)		Chad,		
	Tunisia ****		Malawi (wheat flour)		
* no taiffs for basic foods					
** tariffs maintained throughout period					
***tariffs maintained at lower level					

Implementing tariff reductions

- Policy reductions or suspensions
- Persistent reduction or unpredictable ad hoc changes eg Nigeria
- Often late and inadequate to cover price increases
- Loss of tariff revenue
- Widened margins?
- Effects on producers
- Impact on international prices?

How effective?

- Why tariff reductions? Quick, cheap, visible
- Price variations – cereal prices more than doubled in 2007-8: maize +110%; wheat +125%; rice +200%
- Applied tariffs in 2006 in LIFDCs averaged 11% for cereals
- Impact of tariff reductions limited and temporary
- Distributional issues – who benefitted? Widening margins
- Incentive effects on producers– tariffs low anyway but further reduced incentives
- National policy choices contrary to regional trade agreements
- Liberalization effects? After 2008 tariff reductions often stayed while export measures eased

Alternatives to tariff reductions

- Trade policies may be second best but better than nothing?
- Alternatives
  - stockholding
  - productivity improvement/resilience
  - reduce transactions costs – infrastructure etc
  - safety nets