**JOB/AG/3** 5 February 2010

**Committee on Agriculture**
**Special Session**

**G-33 SUBMISSION ON THE SSM:**
**PRICE AND VOLUME CROSS-CHECK CONDITIONALITIES**

Communication by the G-33

The following communication, dated 5 February 2010, is being circulated at the request of the G-33.

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## I. INTRODUCTION

1. In line with the Doha and Hong Kong mandates, the G-33 has called for a Special Safeguard Mechanism (SSM) which must be simple, accessible, and effective in addressing import surges and price declines. Accordingly, the G-33 group explained on various occasions that the SSM must be easier to use than the Special Safeguard Provisions (SSG). While there may be certain restraints to prevent abuse of the SSM, these must not be at the expense of the importing countries' right to use the SSM in a flexible, effective and timely manner.

2. The Chair's texts (TN/AG/W/4/Rev.4 and TN/AG/W/7) include provisions that effectively impose *a priori* conditions for invocation of the SSM. Among others, the texts envisage that:

(a) Members will not resort to the volume based SSM if the domestic prices for the concerned products are not declining,

(b) Members will not take recourse to the price based SSM if the volume of imports for the concerned products are "manifestly declining".

The G-33 believes that these conditions will constrain the use of SSM, and limit its availability and effectiveness.

3. In this context, the G-33 as part of its continued commitment to constructively engaging in the agriculture negotiations with the objective of an early conclusion of the DDA, submits this document so as to further elucidate the discussions on the price and volume conditionalities.

## II. PRICE AND IMPORT LINKAGE

4. While analysing the impact of trade on domestic markets, economic models assume "a single national market for a homogeneous good that embraces all national sales and purchases and in which the good is sold directly by producers to final consumers. The supply of imports and demand for exports are assumed to be perfectly price elastic."[1] However, the reality is different. Most often, markets are neither isolated nor perfect, and price elasticity vary.

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[1] Mike Westlake, "The Transmission of Imports to the Domestic Markets", FAO, 2005, http://www.fao.org/es/ESC/common/ecg/19/en/Surge4Transmission.pdf.

5. The quality of most agricultural products is different depending on the country, the variety of climate, locations of markets, and changes in freshness during transportation. That is why many imported products have separate marketing channels from domestic products. Agricultural goods are traded in very complex supply chains through a number of intermediaries before they reach retail stores. Along the way, goods may be processed and changed physically. Such conditions will very much affect the competition between imports and domestic products particularly if the markets are inefficient.

6. The nature of relationship between imports and price is also affected by a number of other factors such as demand and supply structure, market structure, and price elasticities. Therefore, the relationship between prices and imports may not be as clear-cut as envisaged in the Chair's texts.

## III. ANALYSIS OF IMPORT SURGES AND PRICES[2]

7. Agricultural prices vary for various reasons. The food price index of the FAO[3] increased to 191 in 2008 from its level of 122 in 2006. World cereal price index increased from 145 in 2006 to 349 in April 2008 and decreased to 174 at the end of the year. Similarly, world rice prices increased from 436 US dollars per ton in 2007 to 782 dollars per ton in 2008 and down to 545 dollars per ton in 2009. World oilseeds price index of about 140 at the beginning of 2007 increased to 280 in mid 2008 and decreased to around 140 in end of 2008. Moreover, in a South Centre study, 15 per cent prices declines were identified in about 3446 tariff lines while 10 per cent price declines were recorded for 6413 tariff lines in a sample of 56 developing countries between 2004-2007.[4]

8. Based on the 1992-2007 data compiled from World Agricultural Supply and Demand Bulletins (WASDE) prepared by USDA[5], it is clear that the world price of certain products have not moved in close proximity with the export volumes. Any export fluctuation seemed to have had no direct and significant impact on price movements in the given period.

9. Examination of three major and worldwide commodities, wheat, rice and maize, show that export volumes and price fluctuations are not linked. While world wheat prices fluctuated almost 100 per cent in the last 18 years, the world wheat export volumes did not show significant changes (Figure 1). Similar cases were also observed in world rice markets during 1992-2007 periods. While rice prices fluctuated over 100 per cent in the given period, the import volume of the rice did not show a significant fluctuation (Figure 2). Similar situation has also been observed in world maize markets. While maize price changed over 90 per cent, the world maize import volume increased by less than 10 per cent (Figure 3).

10. Analysis of three major products clearly suggest that movements in both import volumes and prices[6] do not necessarily coincide.

[2] The Chair's text of W/7 uses "domestic prices" as the basis of the volume cross check conditionality. However, due to the difficulties in finding domestic prices over a certain period of time, global prices are used for purposes of this study. Some cases were also referred with regard to domestic prices.

[3] FAO, http://www.fao.org/docrep/011/ai482e/ai482e03.htm and http://www.fao.org/docrep/010/ai466e/ai466e03.htm.

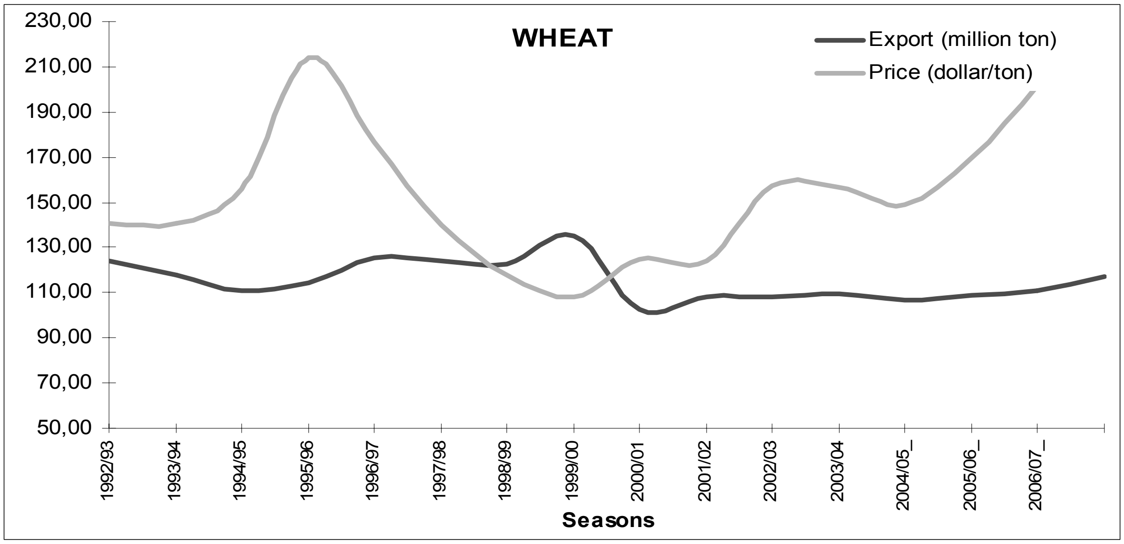
[4] The South Centre, "The Price Based SSM: Trends in Agriculture Price Declines and Analysis of the Conditionalities in the December 2008 WTO Agriculture Chair's Texts", November 2009, SC/TDP/AN/AG/10.

[5] USDA WASDE, http://www.usda.gov/oce/commodity/wasde/.

[6] Export prices were obtained from http://www.indexmundi.com/commodities/.

**Figure 1**

**World Wheat Export Volumes and Prices (1992 – 2008 WASDE Reports)**




**World Wheat Production**

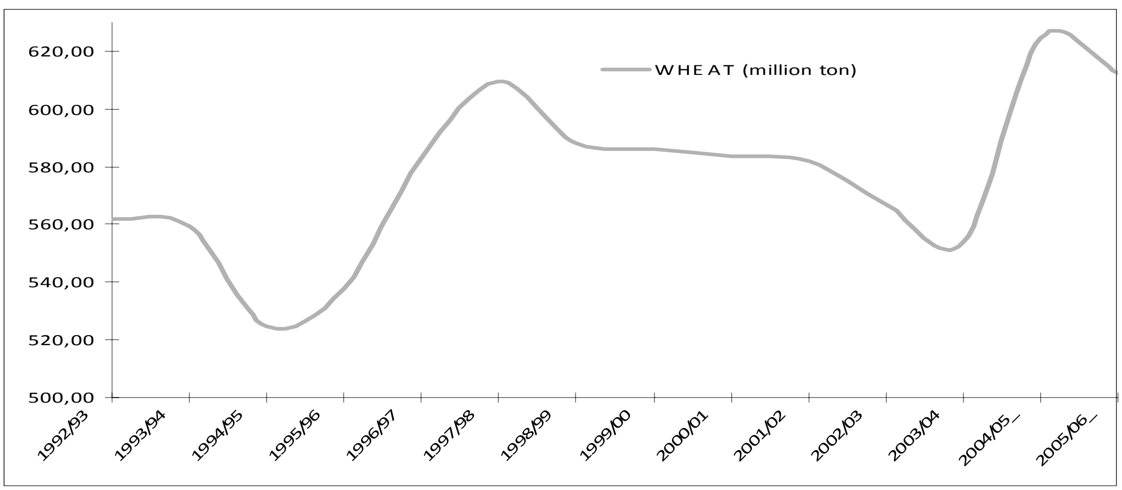
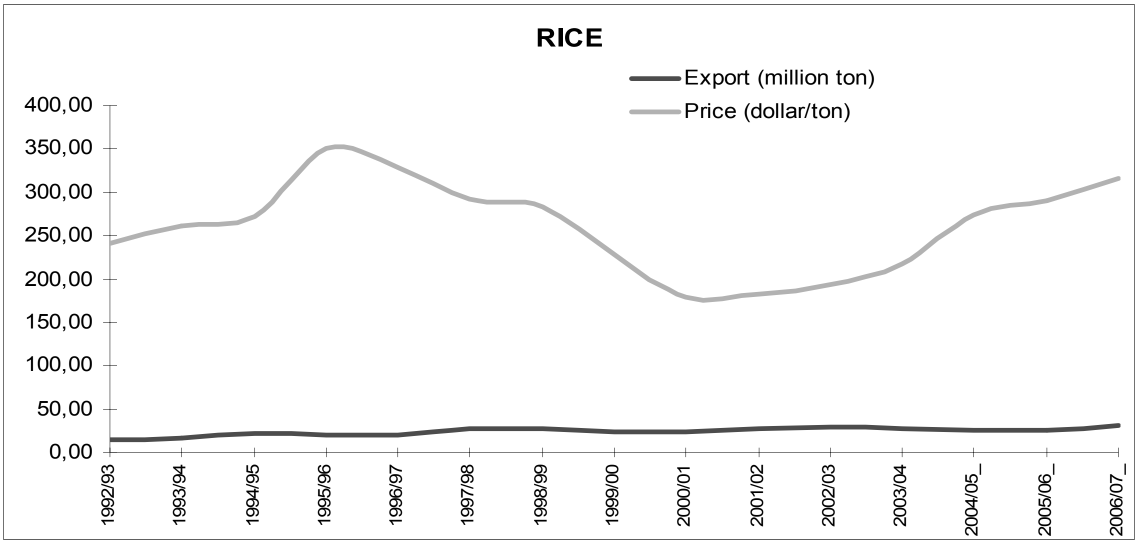


**Figure 2**

**World Rice Export Volumes and Prices (1992 – 2008 WASDE Reports)**




**World Rice Production**

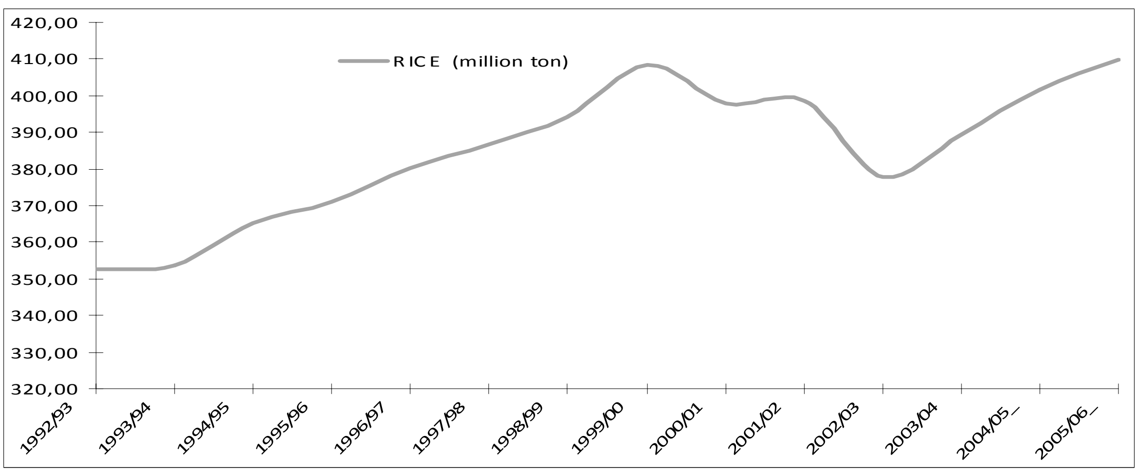
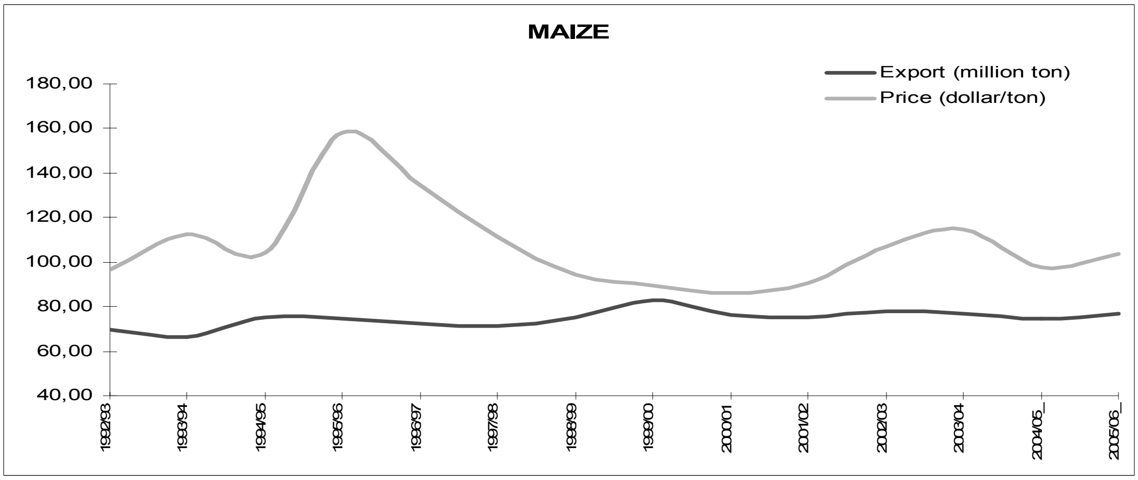
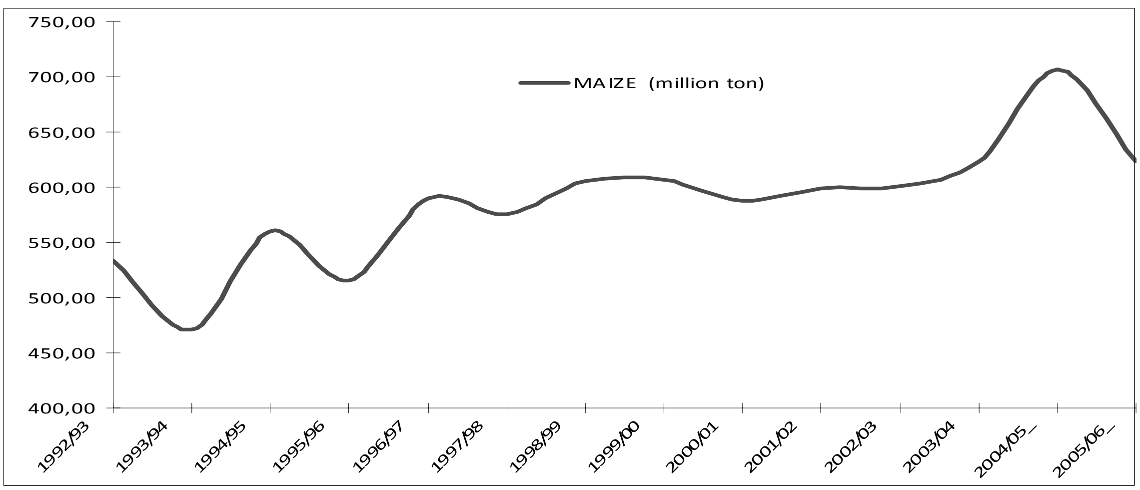


**Figure 3**

**World Maize Export Volumes and Prices (1992 – 2008 WASDE Reports)**




**World Maize Production**




11. Similar findings are found in other studies. For instance, a South Centre study covering the 2004-2007 period and data from 56 developing countries shows that for over 85 per cent of volume import surge cases, no price decline (measured in terms of import prices falling below 85 per cent from the preceding three-year import price average) takes place."[7] It is obvious that a cross check conditionality will negatively affect access to the SSM.

12. On a country basis with domestic price data, FAO[8] has also identified several cases where import volumes and prices do not always move in asymmetry and in fact, import surges do not directly affect the domestic prices (Annex). Some of these cases also point to the existence of decreases in domestic production while domestic prices are not declining.

[7] South Centre, "The Volume Based SSM: Analysis of the Conditionalities in the December 2008 WTO Agriculture Chair's Texts" October 2009, SC/TDP/AN/AG/9.

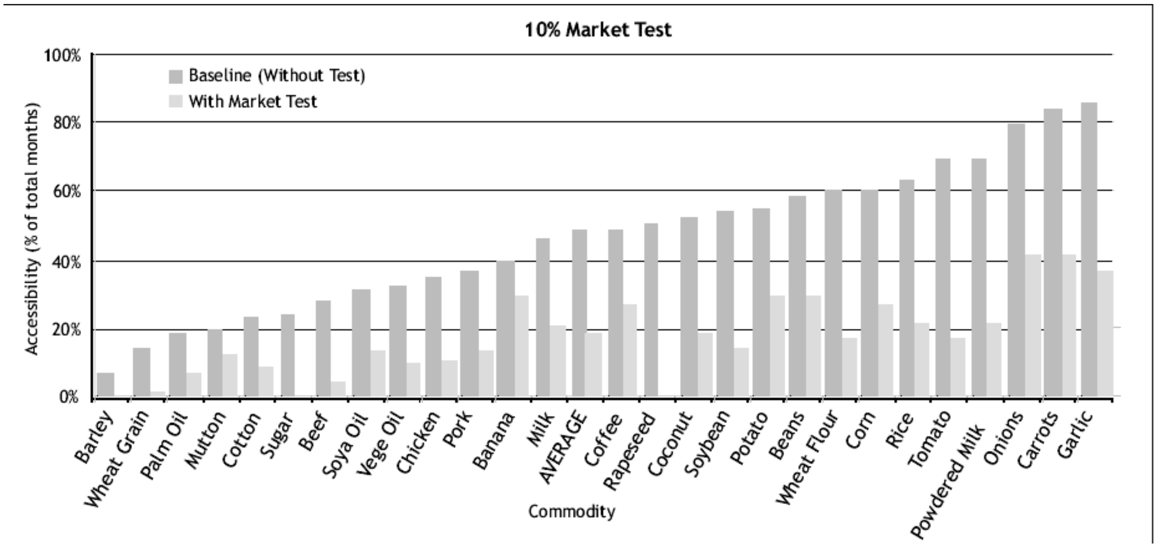
[8] FAO, http://www.fao.org/es/esc/en/378/406/index.html.

## IV. IMPACT ON ACCESS TO THE SSM

13. A study by ICTSD covering the period 2000-2005, also indicates that "availability of SSM was more than halved when so called market tests were imposed [Figure 4] ... access to the measure declined very substantially from the baseline level of 48 months if remedial duties were disallowed during periods when average import prices and volumes did not deviate from corresponding averages in preceding three years by more than ten percent [Figure 5]."[9]

**Figure 4**

**SSM Access with a Market Test: Products**[10]




*Source:* ICTSD, 2008

14. The South Centre study also states that "when the cross check requirement is imposed, the price-based SSM could not be used for about 20 per cent of cases where there are price declines"[11]. In other words, in 20 per cent of the cases, empirically price depressions did not coincide with the volume surges. There is also a similar finding in an ICTSD study[12] of 4044 monthly shipments of 27 commodities in 6 countries between 2000 and 2005. The study clearly reveals that only in 17 per cent of the monthly cases that the price depressions coincided with volume conditions:

[9] ICTSD, "Implications of Proposed Modalities for the Special Safeguard Mechanism: A Simulation Exercise" Issue Paper No.10, http://ictsd.org/downloads/2008/05/ssm_montemayor.pdf.

[10] ICTSD, "Implications of Proposed Modalities for the Special Safeguard Mechanism: A Simulation Exercise" Issue Paper No.10, http://ictsd.org/downloads/2008/05/ssm_montemayor.pdf . 10 per cent Market test is defined as 10 per cent price or volume decrease.

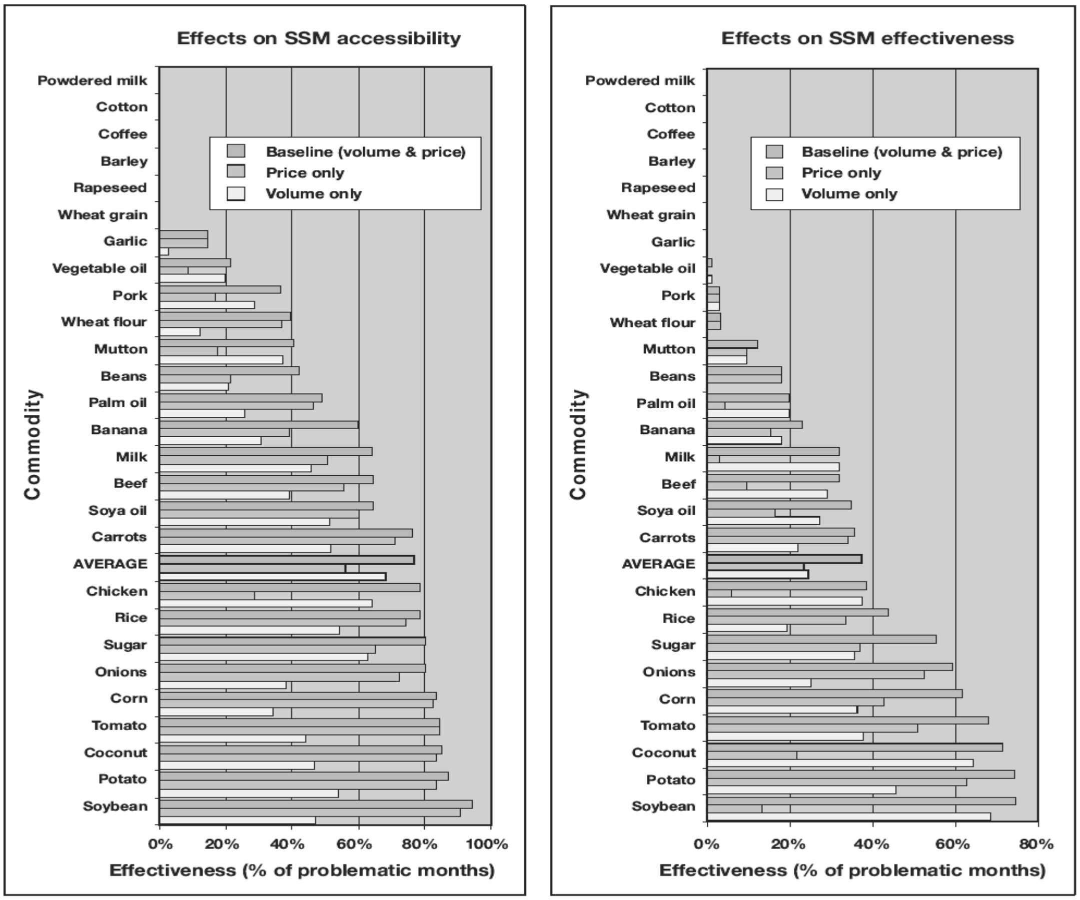
[11] The South Centre, SC/TDP/AN/AG/10.

[12] ICTSD, "How will the May 2008 Modalities Text Affect Access to the Special Safeguard Mechanism and the Effectiveness of the Additional Safeguard Duties", Issue Paper No. 15, June 2008.

"….. simulations showed that the price-based safeguard could be accessed in 17 percent of total months, if the use of additional safeguard duties was disallowed during months when the cumulative volume of imports from the start of the current year up to the month prior to importation was lower than the import volume in the same period in the preceding year. If this condition was removed, access to the price-based safeguard improved significantly, to 30 percent of total months. If the cross-check modality was retained, but current import volumes were required to be at least 10 percent lower than imports during the corresponding period in the preceding year, access to a price-based measure improved by only one percentage point (to 18 percent). If the price-based safeguard could only be imposed if a price depression coincided with an import volume surge (i.e., imports exceeded the levels required to 'trigger' the safeguard), access rates dropped to 8 percent – a more debilitating outcome."

**Figure 5**

**Comparative Effects of Volume and Price Safeguards on Access and Effectiveness, by Products**




*Source:* ICTSD, 2007

15. Time is of the essence for the SSM to be effective. There will be a considerable time lag between import surge and its impact on both domestic prices and industry. These lags are part and parcel of normal business transactions. The effects of shifts in demand and supply are not instantaneously translated to changes in prices.[13] These lag effects tend to be more acute in developing countries because of complex and thick layers of distribution chains and inadequate infrastructure. Therefore, the proposed cross check mechanisms shall render the SSM unresponsive to practical needs because it relies on contemporaneous data and ignores the dynamics of real business transactions.

16. In addition, the volume and price cross check conditions will prevent countries from using the SSM effectively as it will require collection of real time price data for all tariff lines all the time. Most developing countries including Small, and Vulnerable Economies (SVEs) and Least Developed Countries (LDCs) do not have the capacity to meet these data requirements in a timely fashion.

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[13] Rapsonmanikis, G., Hallam, D., and P. Conforti (2003), Market Integration and Price Transmission in Selected Food and Cash Crop Markets of Developing Countries: Review and Applications, in *Commodity Market Review 2003-2004*, Food and Agriculture Organization, Rome, Italy.

17. There may also be cases where the SSM cannot be invoked when an import surge takes place because domestic prices increase due to a natural disaster. As import penetration rises during the disaster period, developing countries do not have a chance to recover their production capacity. Their agricultural infrastructure could collapse and finally, they are deprived from achieving food security, livelihood security and rural development as enshrined in the Doha mandate.

## V. CONCLUSION

18. The SSM is a temporary emergency measure and is not intended to provide a permanent protection to farmers and producers in the importing countries. It is critical that importing countries must have ready access to the safeguard when needed. Since prices and volumes do not always move in asymmetry all the time because of the transaction lag effects, mandating a further constraint (through the cross-check) on the SSM will be unrealistic and disproportionate. Either of the mandatory cross-checks can seriously hamper the use of the SSM and limit its timeliness and effectiveness in addressing a temporary import surge or price decline.

19. Another dimension is that the proposed mandatory volume and price conditions can prevent countries from using the SSM effectively as it will require collection of real time volume and price data for all tariff lines all the time. It will also be very difficult for most developing country Members especially SVEs and LDCs to monitor such data. Such difficulty can also be seen in the implementation of SSG which can partly explain the apparent low utilization of both the volume-based and price-based SSG by developing countries.

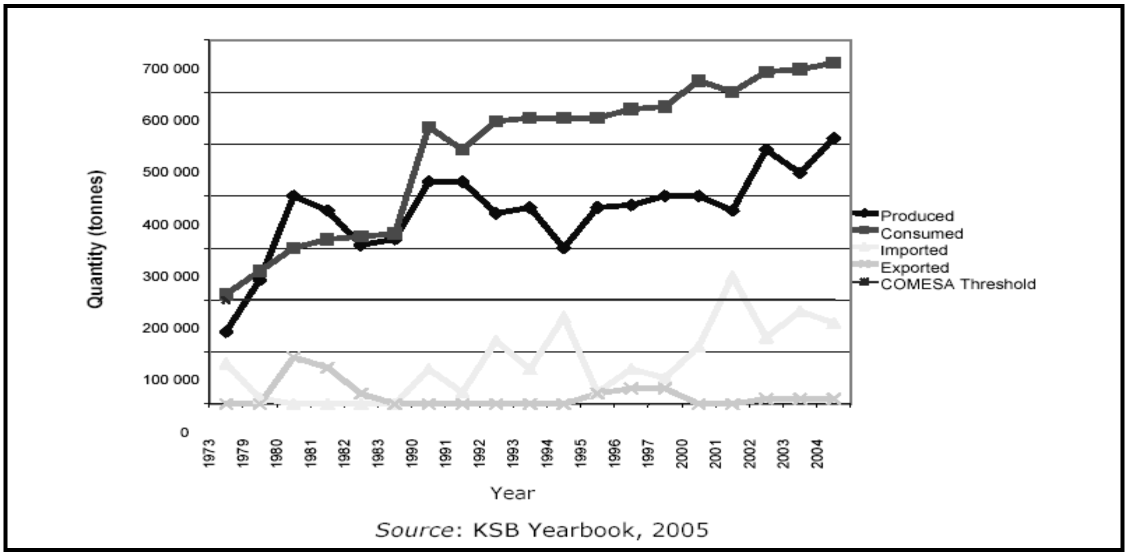
20. Finally, as demonstrated in other recently issued G33 submissions on the SSM, satisfying/breaching the triggers is already a sufficient condition for justifying the invocation the SSM. In fact, the Chairman's proposed trigger thresholds both for the volume-based and price-based SSM can effectively bar access to the SSM for most of the agriculture tariff lines. The set thresholds can also significantly hinder/limit triggering of a product in any 12-month period. Moreover, the utilization of a similar measure, the SSG, strongly suggests that despite frequent triggering, actual utilization of the SSG has been miniscule in terms of frequency of invocation and number of products and countries. Therefore, subjecting further any triggered SSM to the mandatory cross-check is an unnecessary complication on the operation of and access to the SSM.

## ANNEX

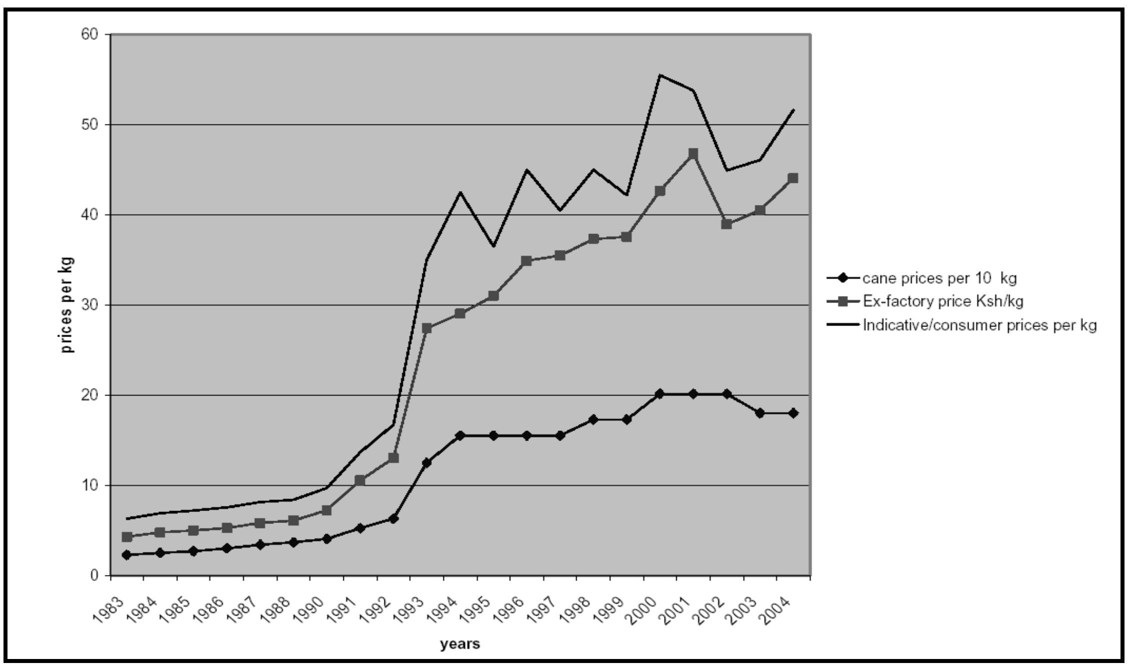
### CASE I: KENYA, SUGAR

*Source:* Impact of Sugar Import Surges on Kenya, ActionAid International
http://www.southcentre.org/index2.php?option=com_docman&task=doc_view&gid=465&Itemid=68

**Sugar Production, Consumption and External Trade, 1974-2004**



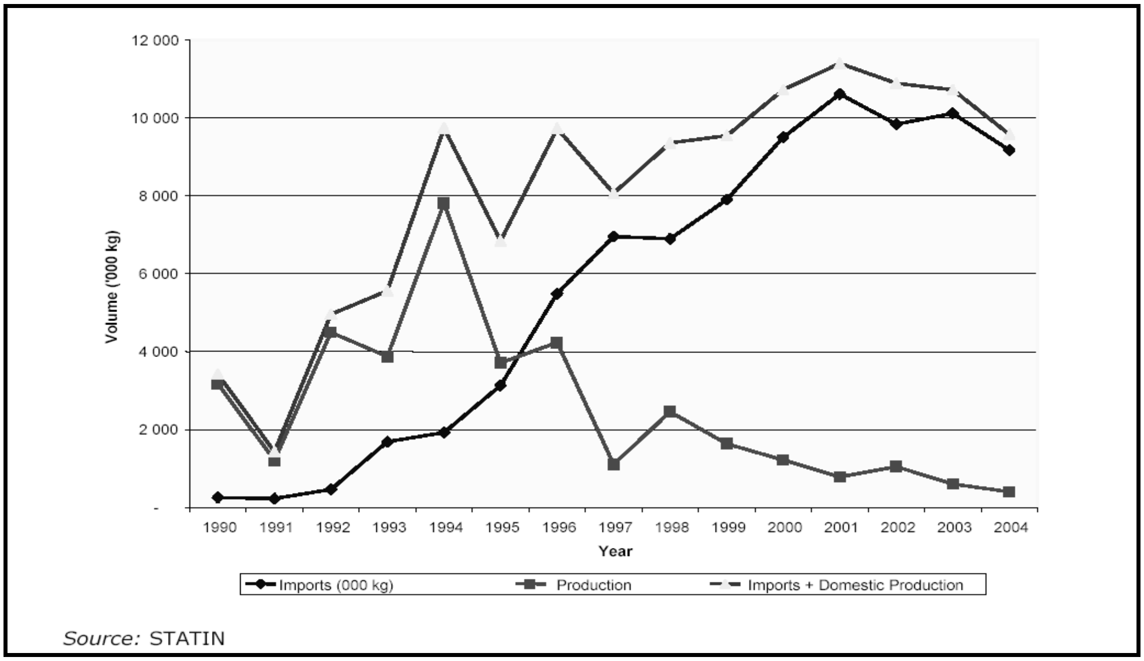

**Price Trends, 1983-2004**



**CASE II: JAMAICA, ONION**

*Source:* FAO Briefs on Import Surges-Countries, No:6, "Jamaica : poultry, onions and dairy products", November 2006, ftp://ftp.fao.org/docrep/fao/009/ah629e/ah629e00.pdf

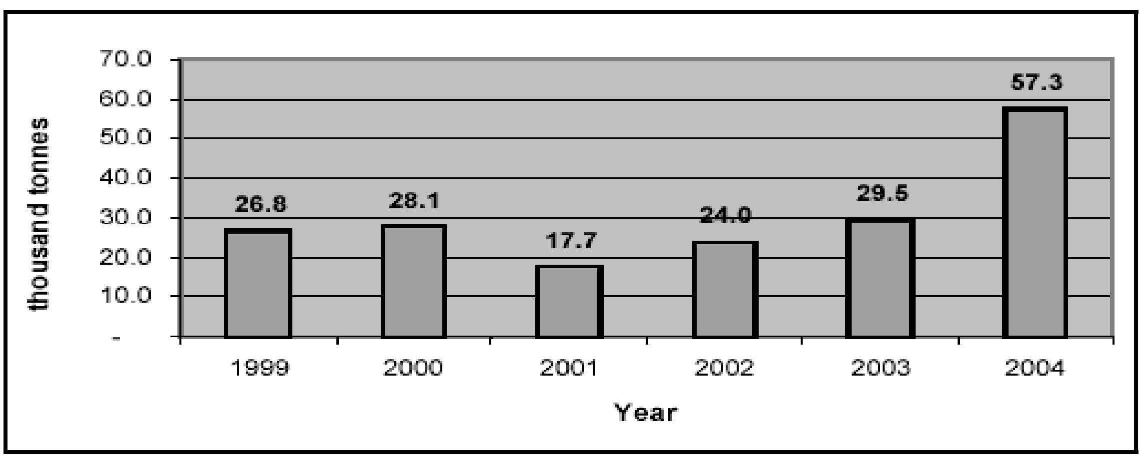
**Production, Imports and Total Supply of Onions in Jamaica, 1990-2004**



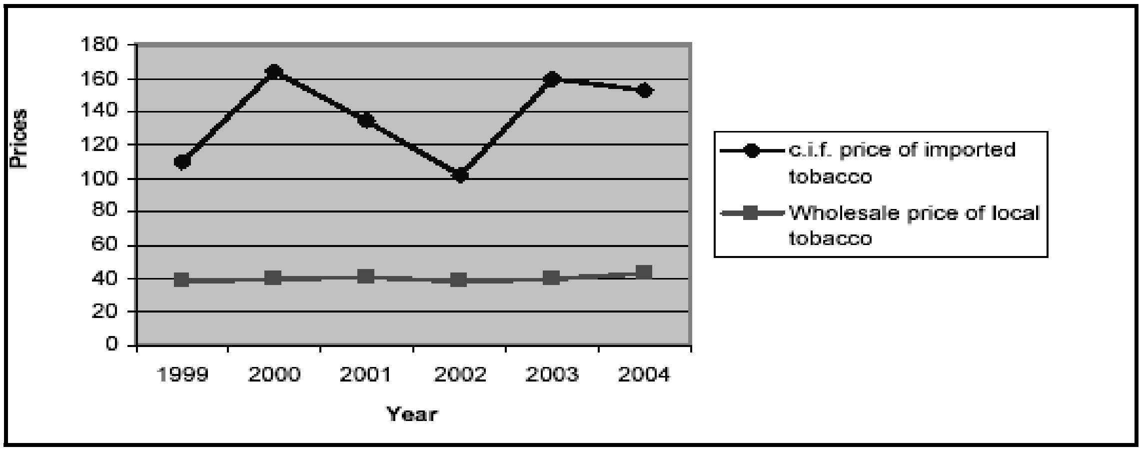

**CASE III: PHILIPPINES, TOBACCO**

*Source:* FAO Briefs on Import Surges-Countries, No :9, "Philippines. Tobacco and Onions", February 2007, http://www.fao.org/es/esc/common/ecg/410/en/countries9philippines.pdf

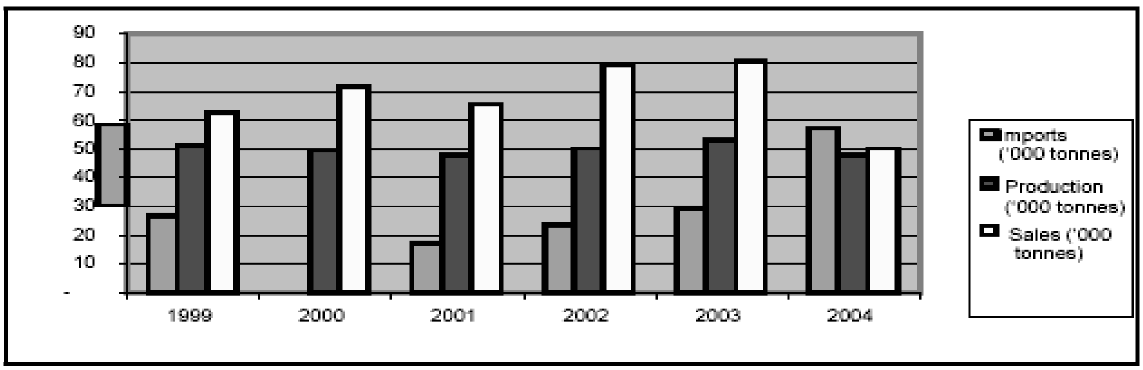
**Imports of Tobacco, 1999-2004**



**Price Trends, 1999-2004**




**Volume of Imports vs Production and Sales, 1999-2004**

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