



08 JULY 2015 | Nairobi, Kenya

Dealing with price volatility and other special circumstances: market access and the special safeguard mechanism

Francis MATAMBALYA, Head, Research, Publications and Ph.D. Studies, International SEPT Program, Leipzig University

Seven points to remember

1. Achievements in global liberalisation in general
2. Agriculture in EAC
3. How developed countries impact markets
4. The multilateral solution to the woes of developing countries (incl. EAC)
5. Evolution of WTO debate and where we are
6. Recommendations about the SSM & SP
7. Considerations for the way forward

Table 5: Proposals about the architecture of the SSM

Dimension	Proposal	Further elaboration
1. Country eligibility	Make it available to all agro-dependent developing countries, regardless of the level of their development	<ul style="list-style-type: none"> • Agriculture is the key contributor to national income, livelihood security, employment (and income) security, rural development • Ability of developing countries to address injury to farmers caused by market volatilities is limited due to lack of fiscal options • Also: (i) SSG does not discriminate between countries, (ii) the July frameworks stipulations did not discriminate between countries
	Build-in differential treatment of LDCs and non-LDC developing countries	Proportion of LDCs' products and/or trade protected by SSM could be higher compared to non-LDC developing countries
2. Criteria for selection of special products	Either designate all products as SP	This option has popular support in developing countries
	OR: SP designation to be determined on the basis of product's <i>economic significance</i> * and <i>socio-economic significance</i> ** , using feasible thresholds	<ul style="list-style-type: none"> • This option is more pragmatic and realistic, and consistent with WTO trade rules (which discourage blanket sectoral protection) • FAO's classification of LIFDDCs can be one of the criteria used to eligible products for individual countries
3. Triggers of safeguard action	Develop feasible mathematical formula for computation of PT and its elements (see Matambalya 2010b: 141-146, 150-151)	<ul style="list-style-type: none"> • Allow a substantially higher SATL compared to SSG • Use a 5-year MoA to compute reference average import price • Use <i>exponential smoothing</i> method to compute the 5-year MoA • Compute quarterly trigger levels to avoid discriminating late exporters • Compute the <i>difference between trend and actual import prices</i> • Determine a feasible level of surcharge, linked to how much price falls below SATL • Apply surcharge on (i) 100% of the <i>difference between trend and actual prices for LDCs</i>, (ii) <i>less than 100% of the difference between trend and actual prices for non-LDC developing countries</i>
	Develop feasible mathematical formula for computation of VT and its elements (see Matambalya 2010b: 146-151)	<ul style="list-style-type: none"> • Allow a substantially lower SATL compared to SSG • Avoid misinterpreting increase in domestic demand as import surge • Avoid isolating domestic producers from long-run changes in world prices • Use a 5-year MoA to compute reference average import volume • Use <i>exponential smoothing</i> method to compute the 5-year MoA • Compute quarterly trigger levels to avoid discriminating late exporters • Compare <i>trend and actual import volumes</i>, to avoid treating normal increases in imports as import surges

Notes: * – concrete considerations include: product's significance for stabilisation of markets, promotion of economic transformation, economic output, trade, etc.; ** – concrete considerations include: product's significance for food security, livelihood security, rural development, poverty alleviation), LIFDDCs ... Low-income Food-Deficit developing countries, MoA ... Moving average, PT ... Price-based trigger, SATL ... Safeguard Action Trigger Level, SSG ... Special Safeguards, SSM ... Special Safeguard Mechanism, VT ... Volume-based trigger

Source: Base on summary and partial update of Matambalya 2010b: 138-155.

Table 5: Proposals about the architecture of the SSM – concluded

Dimension	Proposal	Further elaboration
4. Precondition for application of safeguard action	Dependency on the product is a condition for use of the remedy	<ul style="list-style-type: none"> • Use economic variables to show economic dependence and significance of the product for market stabilisation • Use socio-economic variables to demonstrate dependency on the product
	Show economic dependence and significance of the product for market stabilisation	<ul style="list-style-type: none"> • Show evidence of critical mass of share of product in exports (e.g., use average of the representative three years as threshold) • Show evidence of critical mass of share of product in GDP (e.g., use average of the representative 3-5 years as threshold)
	Show country's socio-economic dependence on the product	<ul style="list-style-type: none"> • Show proportion of population dependent on the product for livelihood security (e.g., use average of the representative 3-5 years as threshold) • Show product's contribution to calorie intake (e.g., use average of the representative 3-5 years as threshold)
5. Geographic coverage	Apply safeguard action on a non-discriminatory manner	Though in practice, import surges are traceable to a few countries, the remedy is not to serve as a tool against unfair trade, but to give time to domestic producers to adjust to sudden increases in imports
6. Permissible remedies	Allow tariff-type measures	<ul style="list-style-type: none"> • Unconditionally allow countries to raise tariffs to bound rate levels • <i>Conditionally</i> (where developing countries are willing to lower their bound tariffs, and the remedy is used to prevent injury to domestic producers), allow countries to raise tariffs beyond bound rate levels, to certain mathematically determined thresholds
	Allow QR	<ul style="list-style-type: none"> • Though not permitted in SSC, compared to tariffs the QR are more reliable instruments in restricting imports • Useful, where the importing country may need to set a higher <i>import ceiling</i> level (e.g., when domestic supply response cannot sufficiently cover the rise in consumption)
7. Restrictions on the levels of use of SSM	PT	<ul style="list-style-type: none"> • Surcharge should only seek to strike a balance between prices of domestically produced and imported products • Surcharge should fully or partially cover the <i>difference between trend and actual import prices</i> (in domestic currency) of the shipment concerned (in domestic currency)
	VT	<ul style="list-style-type: none"> • Application of the remedy should reflect import demand, and given level of domestic supply • Application of remedy should not disallow imports to grow beyond previous levels • Number of products on which remedies can be used in a year given can be limited

Notes: GDP ... Gross Domestic Product, QR ... Quantitative restrictions, SDT ... Special and Differential Treatment, SSM ... Special Safeguard Mechanism

Source: Based on summary and partial update of Matambalya 2010b: 138-155.

Table 5: Proposals about the architecture of the SSM - concluded

<i>Dimension</i>	<i>Proposal</i>	<i>Further elaboration</i>
8. Time scale	Considering the agricultural market dynamics, use longer time scales (12 to 36 months)	<ul style="list-style-type: none"> • Developing countries tend to take longer time to recover from market distortions • For shorter time scales (12 months but less than 24 months): allow immediate repeated use of the remedy • For longer time scales (24 to 36 months): allow repeated use of the remedy only after the elapse of reasonable time (e.g., 2 years)
9. Other rules governing use of SSM	Observe the need for SDT of developing countries	<ul style="list-style-type: none"> • SSM should not be undertaken concurrently with another remedy for the same product • Eligible countries should be exempted from compensation requirements • Intended use of the remedy should be notified to the WTO • Countries invoking the remedy should not be subjected to any kind of retaliation • Application of the remedy should be subject to appropriate dispute settlement mechanism
10. Treatment of developing countries	Remedy should be used against imports from developed and developing countries alike	<ul style="list-style-type: none"> • The purpose of remedy is not to serve as a tool against unfair trade, but to give time to domestic producers to adjust to sudden increases in imports • Evidently, import surges are caused by both developed and developing countries

Notes: GDP ... Gross Domestic Product, SDT ... Special and Differential Treatment, SSM ... Special Safeguard Mechanism, WTO ... World Trade Organisation

Source: Based on summary and partial update of Matambalya 2010b: 138-155.

Table 6: Benchmarks earmarked for weighting crop and livestock products

1. Weighting and selection of crops eligible for SP and SSM						
Specific Benchmark	Measurable Indicator	Vulnerability	Broad Economic Significance	Significance In Terms of:		
				Food Security	Livelihood Security	Rural Development
Crop's share in the production of staples	No. 1: (Average long term quantities of production of the staple p.a.)/(Average long term quantities of production of key staples p.a.)			+		
Crop's share in the land used for the production of staples	No. 2: (Average long term size of land under the production of the staple)/(Average long term size of land under the production of key staples)			+		
Crop's share of the area under the production of all crops	No. 3: (Area under the production of the product)/(Area under the production of all products)			+	+	+
Crop's share of the quantities of production of all crops	No. 4: (Quantity of production of the product)/(Quantity of production of all products)			+	+	+
Crop Sub-Clusters share of production quantity	No. 5: (Average long term quantities of production of the crop sub-cluster/ Average long term quantities of production p.a.)				+	+
Crop Sub-Cluster's share of the area under the Production of all crops	No. 6: (Area under the production of the crop sub-cluster/Aggregate Area Under the Production of Crops)				+	+
Incidence of Suspended Duty	No. 7.1: Application of suspended Duty on the Product at least once in the period 1998 to 2006	+			+	+
Crop's production growth rate	No. 8.1: Growth rate of the quantities of production of the product				+	+
Sensitivity of the product	No. 9.1: Inclusion of product in the sensitive list of the EAC CET		+	+	+	+

Table 7: Benchmarks earmarked for weighting crop and livestock products - concluded

II. Weighting and Selection of type of livestock eligible for SP and SSM

Specific Benchmark	Measurable Indicator	Vulnerability	Broad Economic Significance	For Measuring Significance For:		
				Food Security	Livelihood Security	Rural Development
Incidence of Suspended Duty	No. 7.2: Application of suspended Duty on the Product at least once in the period 1998 to 2006	+			+	+
Livestock production growth rate	No. 8.2: Growth rate of the quantities of production of livestock				+	+
Sensitivity of the product	No.9.2: Inclusion of product in the sensitive list of the EAC CET		+	+	+	+
Share of individual livestock type in the livestock herd	No. 10.1: (Number of individual livestock type/Size of national herd of all livestock).			+		
	No. 10.2: (Number of individual livestock type)/(Size of livestock sub-cluster)				+	
	No. 11: (Number of individual livestock type in a region)/(Size of regional herd of all livestock).			+		
Dependency on the livestock economy measured by Share of Rural Households Rearing Stock (in %)	No. 12: (Rural Households Rearing Stock) / (Total Number of Rural Households)				+	+
Dependency on the livestock economy measured by Smallholders Share of National Livestock Herd	No. 13: (No. of Livestock Owned by Smallholders) / (National Livestock Herd)				+	+
Dependency on the livestock economy measured by Smallholders Share of Regional Livestock Herd	No. 14: (No. of Livestock Owned by Smallholders) / (Regional Livestock Herd)				+	+

Source: Based on Matambalya 2010b.