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Agricultural Export Restrictions[1]

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Surging commodity prices in 2007 and early 2008 coupled with concerns about dwindling buffer stocks drove a number of countries to institute agricultural export restrictions in the name of maintaining domestic food security. Among 60 low-income countries surveyed by the FAO in 2008, around one-quarter had some form of export restriction in place on food-related agricultural products. Such measures have been widely criticized for leading to further price increases by placing limits on global supply and undermining the level of buyer confidence and for hindering the timely and sufficient procurement of food aid. IPC's position paper, *Agricultural Export Restrictions: Welfare Implications and Trade Disciplines* by Siddhartha Mitra and Tim Josling, supports these assertions, showing that export restrictions have significant detrimental economic impacts yet are not subject to meaningful trade disciplines. Accordingly, the paper issues recommendations for alternative measures to protect food security and puts forth various options for strengthening trade disciplines related to export restrictions.

A country may impose export restrictions for a variety of reasons; most common are restrictions on raw products like staple grains enacted to assuage food security concerns. Governments may also opt for export taxes as a way to gain revenue or to garner political favor with urban consumers. Some countries impose so-called differential export taxes, which aim to prevent loss of profits attainable through processing. In the case of differential export taxes, raw products are taxed at a higher rate than processed products, e.g. raw apples would face tighter export restrictions than apple juice, allowing a country to augment its production and exports of processed products and increase income generated from exports.

The paper demonstrates the negative consequences of export restrictions through a welfare analysis of three types of restrictions: embargoes/bans, licenses/quotas, and taxes. In both the short and long run, each policy examined leads to a deterioration in welfare for both the country imposing the measure and for the rest of the world. Domestically, export bans lead to the greatest welfare loss relative to the other policies, and along with quotas, their impact is most detrimental for staple goods with inelastic demand (e.g. grains). Conversely, export taxes produce more serious welfare losses when applied to non-staples (fruits, timber, etc.) characterized by high responsiveness of demand to price. For each type of policy,

[1] This Policy Focus was complied by Christine St. Pierre, IPC Policy Associate, from the IPC Position Paper, *Agricultural Export Restrictions: Welfare Implications and Trade Disciplines* by Siddhartha Mitra and Tim Josling.

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the magnitude of the welfare loss depends heavily on the price elasticities of demand and supply for the affected product. While export restrictions will reduce prices for domestic consumers, the policy constitutes a market distortion, and the welfare loss for producers will always be greater than the benefit to consumers. In developing countries, agricultural producers are often among the poorest citizens, and by reducing their purchasing power, export restrictions actually keep food security out of reach for some of the most vulnerable.

In the rest of the world, export restrictions imposed by a country will reduce supply on the global market. As a result, international prices will increase, and consumer welfare will decline. This price increase will benefit producers in the rest of the world, but the overall economic impact will remain negative. More important than the net economic welfare loss, however, is the large decline in consumer welfare; this is in fact what makes export restrictions so detrimental. Price increases caused by export restrictions have the greatest impact on the world's poorest consumers by driving up prices and making the food supply unreliable. As such, export restrictions on staples have contributed to unrest in different parts of the world threatened by food insecurity. Although export restrictions may provide benefits for select groups in an economy, all types of restrictions-whether bans, taxes or quotas-ultimately have a negative economic impact on both the country imposing the measure and on the rest of the world.

Despite the negative impacts of export restrictions, international trade rules are focused on the problems of exporters — high border protection, domestic support and export subsidies — and have largely ignored the importers' main problem, which is unreliability of supplies. The WTO, through the GATT Articles, allows the use of quantitative restrictions and embargoes on agricultural exports on a temporary basis, and export taxes have never been bound at specific levels or been subject to agreed reduction. The WTO Agreement on Agriculture does require countries to notify other Members of these export restrictions, but this has not been noticeably effective in creating greater confidence in food importing countries about the reliability of supply.

The Doha Round offered an opportunity to strengthen disciplines on export restrictions, and several countries proposed tighter rules in papers that were submitted in the preliminary stages of the agriculture negotiations. However, the provisions put forward dealt largely only with the length of time for which restrictions can be applied, and the issue had virtually disappeared from the agenda by the Cancún ministerial in 2003. Furthermore, negotiators largely ignored the proliferation of export restrictions in 2007-2008 and missed the opportunity to make a strong political link between the strengthening of disciplines on export restrictions in the WTO and the issue of food security. The latest version of the draft DDA modalities text would require the WTO to be notified within 90 days after — not before — the imposition of export restrictions. It calls for export restrictions to normally last no longer than one year, with importers' consent required for measures that last longer than 18 months. The modalities also include an exemption from these requirements for least-developed and net food-importing countries.

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Given the negative effects of export restrictions, the IPC makes a number of recommendations, both for alternative policy measures, as well as for improving trade disciplines.

Rather than implementing export restrictions, countries could employ both supply and demand management techniques to ensure food security. On the demand side, programs could be implemented whereby governments purchase food staples, then redistribute these products to poor consumers who cannot afford them at market prices. While potentially shielding the poor from the negative effects of high food prices, these policies may be subject to budgetary constraints and distributional issues. Therefore, it is important that they be coupled with supply augmentation efforts.

Public investment in irrigation, agricultural facilities, etc. by developing country governments is critical, but given that many of these nations are already financially overburdened, an emergency grain fund managed by a multilateral organization such as the FAO could distribute commodities collected from member nations according to need. As an alternative to physical stocks, the idea of a "virtual" grain reserve has been proposed, which would be set up by a group of countries, each pre-committing funds for possible intervention in the grain futures market.[2] The funds would be used only in those situations where grain would have to be purchased to liquidate the futures contracts. Such coordinated action in the markets may prevent wild price swings and remove some of the incentives for export restrictions. Additionally, farmers in developing countries could form agricultural cooperatives, which could then sell their shares to both domestic and foreign citizens and institutions. The generated funds could be used toward research to improve productivity.

Promoting increased productivity on the supply side also presents a viable alternative to differential export taxes: using the earlier example of apples, efforts by processors to raise resources through the share/financial market could improve capacity as well as efficiency. As capacity increases, demand for apples will also go up, leading to an increase in the price of raw apples. The processors on the other hand can neutralize higher prices of inputs through greater efficiency and higher sales.

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On the trade front, while there are important steps that can be taken at the bilateral, regional and plurilateral level to discipline the use of export restrictions and address stock levels, action at the multilateral level would be optimal. Given the uncertain fate of the Doha Round, it may appear unwise to put so much emphasis on multilateral disciplines. Yet meaningful disciplines on export restrictions might help assuage the concerns of import-sensitive countries about supply reliability and actually facilitate a greater readiness by these nations to make stronger market access commitments. The proposals in the modalities represent a step in the right direction, but disciplines should be tightened further and must address both quantitative restrictions and export taxes to be meaningful.

Should a Doha Round deal not be feasible in the near future, it may be worth reconsidering the way in which the elements of the agricultural package are negotiated. The progress on export competition suggests that it could be rescued from any long-term suspension of the Round. Indeed, a separable "exporters' code" or "food security code" that included self-restraint on both export subsidies and export restrictions may be enough to move the stalled talks in a more positive direction. Such a code would aim to remove important distortions from the global agricultural

[2] von Braun, J. and M. Torero. (2008), "Physical and Virtual Global Food Reserves to Protect the Poor and Prevent Market Failure," *IFPRI Policy Brief* No. 004, June

market and address supply availability concerns and could be negotiated among a smaller group of countries, such as those accounting for (say) 80 percent of grain exports and imports.

Connected to the issue of export restrictions are the rules related to food aid and to financing food imports. As discussed above, export restrictions lead to increased international prices for the affected commodities, and since food aid appropriations are often made in monetary terms, the quantity of aid drops when prices increase. Hoarding due to increased perception of food shortages has also hindered food aid procurement by international relief groups, such as the World Food Program (WFP). An exemption from export restrictions for food aid procurement should be implemented as a matter of urgency — regardless of whether this is to be incorporated into multilateral disciplines or an agreed code of conduct. As recent experience has shown, it is no longer sufficient for the international community to consider the issue of food aid solely in the context of preventing measures equivalent to export subsidies. Equally important is to consider a reliable approach to the impact of high prices on availability of food aid and in turn on poor countries and families.

Summary of IPC Recommendations

POLICY ALTERNATIVES TO EXPORT RESTRICTIONS

- Invest in developing countries' agriculture sectors to increase production, and establish real or virtual multilateral grain reserves and portfolio investment programs for developing country farmers in order to increase supply stability
- Develop food assistance/demand management programs to alleviate the negative effects of high prices on poor consumers

IMPROVING TRADE DISCIPLINES

- Take action at the multilateral level to tighten disciplines on both quantitative export restrictions and export taxes
- Immediately implement an exemption from export restrictions for food aid procurement