

FAO Briefs on Import Surges - Countries

No. 5 Ghana: rice, poultry and tomato paste



November 2006

SUMMARY

- Import surges for rice, poultry and tomato paste were documented in Ghana over the period 1998 to 2004, with formula-based volume triggers¹ breached in one or more incidences for each of the commodities. However, price triggers were never breached for any of the three commodities during the period.
 - The exact causes of the surges, in the context of a stable policy environment and an depreciating currency, are difficult to isolate. However, stakeholder discussions suggest that there are reasonable grounds to believe that economic incentives for increased unrecorded transborder trade with adjacent countries may be a significant factor. The issue of unreported cross border trade highlights the need to look at import surges and appropriate trade remedies within a regional context. More investigation is required.
 - In all of these sectors, producers have been unable to benefit from growing domestic markets, and they have lost market share. This seems to be largely due to structural problems, including high and rising production costs and a general lack of competitiveness. However, for tomato paste, on-going subsidized exports from the European Union may be undercutting domestic producers, inhibiting their growth.
 - Identification of the surges and their causes are complicated by lack of accurate data on import volume and prices. Policy recommendations include priority action to improve trade surveillance data and capacity building to improve the institutional framework for trade remedy action.
-

Introduction

Agriculture is the mainstay of Ghana's economy, contributing about 40 percent of GDP, about 35 percent of foreign exchange earnings, and 60 percent of employment. Over 80 percent of the rural populace has their main livelihood activities centred on agriculture. Import surge cases for rice, poultry and tomato paste were identified for study from available trade data. These commodities are consumed by a majority of Ghanaians both in rural and urban communities. Import surges of poultry products have risen to a mainstream debate at the national level in recent years. Industry stakeholders have pressed policy makers to raise tariffs, claiming that import competition threatens local industries. Rice is an important cash crop in the communities in which it is produced, besides being an important food staple for both rural and urban communities across the country. Tomato production in Ghana is mainly a smallholder activity, and its distribution throughout the year is markedly seasonal. Concern is escalating about increasing imports of canned tomatoes (mainly tomato paste and preserved tomatoes) from Italy and other countries which can be found in all food shops and markets in the country.

Identification of import surges

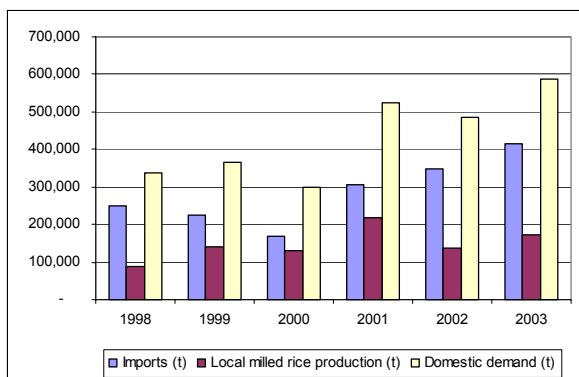
Rice

- Based on the methodology established in WTO for the implementation of special safeguards (SSG) against disruptive import surges, volume triggers for rice based on a three year moving average were exceeded in 2002. Over the study period, a significant rise of imports was noted, from almost 250 000 tonnes in 1998 to 415 150 tonnes in 2003², an increase of nearly 70 percent. Local output in milled rice equivalent has stagnated around 150 000 tonnes per year in the study period (Figure 1).
- Domestic rice accounted for 43 percent of the domestic market in 2000, but this fell to 29 percent by 2003.
- Ghana imported rice from the United States (33 percent on average of total imports between 1998 and 2003), Thailand (30 percent), Vietnam (17 percent), China (12 percent) and Japan (8 percent).
- Rice importation is a highly concentrated business with five major importers accounting for more than 75 percent of imports. Industry concentration has increased between 1998 and 2004.

¹ For details see FAO Briefs on Import Surges - Issues, No 1. *Import Surges: What are they and how can they be identified?* <ftp://ftp.fao.org/docrep/fao/009/j8671e/j8671e00.pdf>.

² Import series for rice from various sources show very different levels. The study team chose the Ghana Ports and Harbour Authority (GPHA) data on advice of a representative of the rice importer.

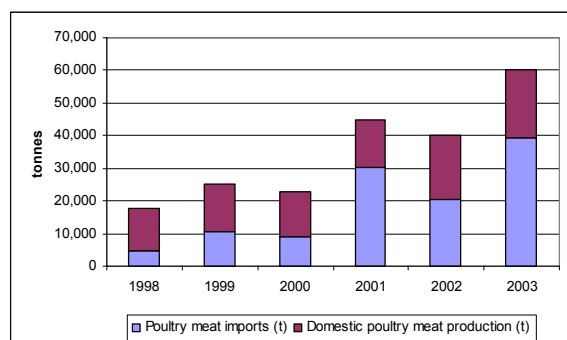
Figure 1. Ghana rice production, imports, and apparent consumption (tonnes), 1998-2004



Source: Statistics and Research Department (SRID) of Ministry of Food and Agriculture (MOFA), Ghana Ports and Harbour Authorities (GPHA)

- Based on volume triggers under SSG methodology, import surges occurred in 2001 while based on a 30 percent deviation from a three year moving average, they occurred also in 2002 and 2003.
- National poultry inventories according to Ministry of Food and Agriculture (MOFA) figures shows a 52 percent increase, from 17 million to 26 million birds over the same period, while meat production increased by 66 percent from 13 000 tonnes to 21 000 tonnes. (Figure 2).

Figure 2. Ghana poultry production and imports



Source: SRID (MOFA), Ministry of Trade and Industry (MOTI), CEPS.

- Stakeholders in the poultry industry, however, expressed concern that MOFA figures are highly inflated, thus underestimate the impact of imports on markets. Lack of reliable data on production makes the use of market share as an injury indicator problematic.

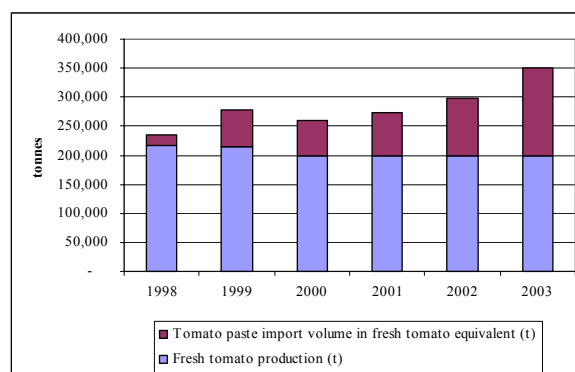
Tomato paste

- Tomato paste can be considered a “like-product” to other tomato products, including canned and fresh tomatoes. Its importation can have direct impact throughout the tomato sector.
- Data indicate that tomato paste imports stagnated during most of the 1990s, but started to rise from 1998. Imports increased from 3 300 tonnes in 1998 to 24 740 tonnes in 2003, an increase of 650 percent. The identification of import surges based on deviations from a three year moving average show that trigger volumes were breached in

2000 and 2002. Trigger volumes, as calculated under SSG methodology, were exceeded in 2000, 2001, 2002 and 2003.

- The market share of local tomatoes has fallen from 92 percent to 57 percent during the study period.
- Major exporters of tomato paste to Ghana from 1999 to 2003 have been Italy (36 percent), China (16 percent), USA (8 percent), Spain (7 percent), Turkey (7 percent), Greece (6 percent), Portugal (5 percent), and Chile (5 percent). Exports from Italy are supported by EU export refunds of 45€/tonne in 2001 (about 10 percent of wholesale prices of tomato products during the period). Export refunds maintain low import prices which may maintain prices below production costs, thus inhibiting the ability of domestic producers to respond to market growth.
- Growth in local fresh tomato production fell from 215 000 tonnes to 200 000 tonnes during the review period. However production data in Ghana is poor as data published by MOFA appears to be estimates only since 2000 (Figure 3).

Figure 3. Ghana tomato production and tomato paste imports



Source: MOTI and MOFA.

- Domestic tomato paste production was re-initiated in 2004 when the Wenchi Tomato Factory (one of three such factories that have been closed and placed under divestiture) reopened. Many factories were closed as a result of structural reforms of the late 1980s.

Reasons for the surges

Potential causes of import surges are diverse. They could be induced by changes in the exchange rate and other macroeconomic shocks, subsidized production and exports in major exporters and international price movements due to global supply and demand factors. Domestic factors include policy shifts (i.e., changes in tariffs, subsidies or regulations), changing input and production costs, sudden shifts in consumption (income, tastes) or sudden production shortfalls.

External

External environment, international price developments and exchange rates

A review of potential external factors which could prompt import surges shows no clear and

obvious causes. Price developments for the three commodities concerned, with the exception of rice, showed no sudden declines over the period 1995 to 2004. World market reference rice prices (white rice, milled 5 percent broken, FOB Bangkok, Source: IMF) dropped in 2000-002, likely in response to policy decisions in India which led to a sudden release of rice stocks onto global markets. International prices fell until 2001 but picked up slightly between 2001 and 2003. The Ghana exchange rate, in real terms, devalued almost 100 percent in 1999, but thereafter appreciated modestly; if anything, this event should have discouraged import demand for these products.

External shocks

One possible cause for increased imports could be the political instability in neighbouring Côte d'Ivoire. It is speculated that this led to increased imports into Ghana via the ports of Tema and Takoradi for subsequent transhipment. However, these imports are not reported as re-exports. Statistics show a definite increase in imports and transit trade (GPHA). However, this hypothesis requires further investigation.

Internal

Trade policy

There have been no trade policy shifts over the period, with all applied tariffs remaining at the 20 percent level for the study period, except for poultry. Producer pressure led to an additional 20 percent levy on poultry cuts from 1999 to 2001. This levy was removed due to conflict with ECOWAS obligations, but it limited imports during that period. Its removal would have increased incentives to expand imports. Other policy changes related to deregulation of Ghana's agricultural markets were essentially undertaken in the mid-1980s and early 1990s, preceding the study period.

Domestic production costs

While there is little data available on local production costs, stakeholders were concerned by eroding competitiveness in the context of high and rising input costs. There is some evidence that production and input costs are well above international levels. For example, broiler production costs in 2005 were US\$4.09 per bird (around 1.5 kg) or US\$2.70 per kg liveweight with feed costs making up 40 percent of the total costs (MOFA). Local sales prices were quoted at US\$ 5.50 per bird (US\$2.50 per kg live) (MOFA), well above the price of imported broiler cuts. Major suppliers of chicken products, such as the US and Brazil, show costs of US\$0.52 and US\$0.55 per kg liveweight respectively (The World Poultry Industry, IFC Global Agribusiness Series, 1995).

Nominal maize prices in US\$ terms in Ghana have fluctuated between US\$151 per tonne and US\$256 per tonne. In real terms, no significant increase of maize prices has been observed. This compares with prices in the United States ranging between US\$72 and 100 per tonne over the period. While Ghana definitely shows higher

maize prices than the United States, no trend is evident that would explain the sudden import surges observed during the study period.

A similar picture arises when looking at production costs of rice. Between 2002 and 2004 domestic costs have on average been 140 percent higher than farmgate prices in Thailand.

Changes in demand

From the demand side, Ghana's real GDP has been increasing on average in the 4 to 6 percent range annually. Along with population growth in the 2 percent range, and on-going shifts in consumption patterns, in particular toward increased poultry and tomato paste consumption, demand factors may have played an important role in causing higher imports. These latter products have been shown to have a high income elasticity of demand. For example, the increasing use of poultry parts in new cooking techniques and fast food outlets, increasing rural-urban migration, and higher tourism may have induced higher demand in urban areas, and rising imports.

Changing consumer preferences

Changing consumer preferences towards imported goods are reported as they are perceived to be of higher quality compared with domestically produced goods. The low production base for all the commodities studied has also contributed to higher import rates. Furthermore, compared to maize which is the country's major cereal staple (with annual per capita consumption about 40 kg), rice exhibits a high income elasticity of demand which would appear to be rising. Rice consumption per capita has increased by more than 35 percent over the last ten years mainly due to rapid urbanization and changes in food consumption patterns. These, combined with stagnant production and poorly organized markets for local rice, may help account for the significantly higher imports experienced in recent years. However, it is doubtful that these factors alone would have been responsible for such increases in recorded imports and consumption.

Evidence of injury

There is little quantitative data available to measure the extent of injury caused by the observed import surges. This follows largely from the lack of impact indicated on domestic market prices as real prices have remained flat. There is quantitative evidence of import surges of the selected commodities but the key injury indicator, prices, has been increasing in nominal terms. Consequentially, it is difficult to clearly identify injury to the sector.

What appears to be of greater concern is that producers in Ghana have not benefited from rapid increases in the growth of the domestic market, particularly rice and poultry. Implied injury can be identified through discussions with stakeholders (see below); however, it is not clear whether the injury can be directly attributed to imports or other factors, such as eroding competitiveness.

- There are reports that losses in income attributed to poultry surges have forced producers to downsize their operations due to depressed prices.
- Many poultry enterprises are reported to operate at very low capacities (sometimes 25 percent or less), attributed by stakeholders to rising imports. Capacity utilization in 2003 was stated at 25 percent for hatcheries, 42 percent for feed mills and 25 percent for processing plants. (Ghana Agricultural Workers Union)
- In the rice sector, it is estimated that between 2002 and 2004 about 66 percent of rice producers in Ghana recorded negative returns indicating loss in employment and source of livelihood, not only for farmers but also for other actors in the value chain (such as traders, millers, transporters, etc.). (survey by S. Asuming-Bringpong)

Stakeholder perceptions and concerns

Rice producers agreed that the low level of rice consumption, inadequate marketing facilities for local rice, rapid urbanization (growth rate of some 3.2 percent), and stagnation of local production all have contributed to increasing rice imports. Investment in the domestic rice industry is very limited, and this shortfall is compounded by lack of credit and micro-finance facilities for rice farmers. There is also a lack of well established distribution channels and of quality standards for local rice.

Poultry producers raised issues regarding production costs, arguing that grains, especially maize and soybeans which are mainly used in animal feed, are subsidized in many exporting countries, thus providing indirect support for the poultry industry in those countries. It was further claimed that in some countries, subsidies for export marketing allowed pricing for below that of local production.³

Increases in tomato paste imports initially seemed to make up for fresh tomato production gaps between peak and low seasons, and to compensate for lack of processing due to the closure of all local processing plants. Imports have recently reached historically high proportions.

Trade surveillance

Trade surveillance and the implementation of trade remedy measures for the agricultural sector have not received high priority in the country. The Ministry of Trade and Industry (MOTI) has no permanent trade surveillance team, but it has set up an advisory board on tariff issues which reacts to complaints from industry through committees. Lack of trained personnel has been indicated to be the main bottleneck, and capacity building is needed. Also, accurate data on import volumes and prices is lacking. There are many different authoritative sources for trade statistics which show extremely wide divergences. Finally, a formal means by which interested groups may appeal for investigation and trade remedy does not exist.

Conclusions

Import surges for rice, poultry and tomato paste were deemed to have occurred in Ghana during the period 1998 to 2004. While there does not appear to have been price suppression caused by increased imports, domestic producers have not been able to compete, and increasing domestic demand has largely been met by imports. The on-going presence of export subsidies of EU (Italy) tomato products may be an important factor that has kept tomato prices below those required by domestic producers to expand their production.

It appears that, in general, import surges appear to be the result of growing domestic demand, with the domestic sectors unable to keep pace with this growth due to high domestic costs. With relatively low applied tariff rates, imports have largely captured demand growth. However, data that support this hypothesis may be weak. It is also possible, in the context of relatively stable prices, that import surges during the period stemmed from strong demand for product to be transhipped to other adjacent countries. The issue of unreported cross border trade highlights the need to look at import surges and appropriate trade remedies within a regional context.

Policy activity should address Ghana's competitiveness situation. This may include, inter alia, a review of its trade policy, and in particular the use of policy remedies that may help its industry to make appropriate investments.

In light of difficulties in documenting import surges and their negative consequences, better and more information is required on domestic production and processing, trade and marketing patterns and prices of imported and domestic products.

³ See FAO Import Surge Brief - Commodities, No. 1. *Import Surges in Developing Countries: the Case of Poultry*. <ftp://ftp.fao.org/docrep/fao/009/i8672e/i8672e00.pdf>