Impact of export restrictions more serious than first thought

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What have in sugar, cotton and wheat got in common?

All three are agricultural commodities and are trading at multiyear highs. But from a trader's perspective, the shared element is the export restrictions imposed by significant producers, which have left a large hole in global supplies.

At a time of surging demand for food, feed and fibres and bad harvests worldwide, the export restrictions, which are now spreading, are helping to push global agricultural commodities prices to fresh highs by triggering panic buying, experts say.

The export restrictions more recently have expanded beyond agriculture. China imposed a de facto export ban on rare earth minerals – vital commodities used in high-tech goods from computers to electric cars – to Japan recently. Driving the dispute is Beijing's ambition to use tough export limits on these commodities as leverage to encourage foreign companies to relocate production lines to China.

For traders and agriculture officials, it is a déjà vu: export restrictions were also imposed during the 2007-08 food crisis. However, until now the effects if these trading restrictions were poorly analysed. Some say the restrictions were a critical element, but others play down their impact and note that large exporting countries needed to safeguard the needs of their people first.

A recent report has shed new light. In its study *Reflections of the Global Food Crisis*, the International Food Policy Research Institute, a think tank in Washington supported by many governments, says that "export restrictions played a dominant role in turning a critical situation into a full-blown crisis".

The report by IFPRI adds that there is evidence that "suggest [that] various trade shocks", including export restrictions and hoarding, "were more important short-term factors than previous analyses had suggested" in the food crisis two years ago. "Trade shocks seem to account almost entirely for the surge in rice prices … and could perhaps account for as much as half of the increase in wheat prices," the analysis says.

Can the World Trade Organisation and other bodies play a role in preventing, or at least, managing the export restrictions imposed by large production countries?

As Sallie James of the liberal Cato Institute in Washington notes, the problem is one that "the WTO is unaccustomed to". When the Doha round of multilateral trade negotiations was launched in November 2001, the focus in agriculture was on long-run declines in commodity prices and the effect of high import barriers on poor farmers and subsidies of rich-country governments that artificially depress prices.

"Indeed, export restrictions were not explicitly part of the original Doha mandate at all, although Japan and other countries had expressed concern about them before the Doha round was launched. Events have changed the emphasis, though," she says.

But trade and agricultural officials, commodities traders and analysts believe there is little scope for a rapid solution. First, current proposals within the Doha framework carry little weight as the Doha agenda itself is languishing amid lack of agreement.

More importantly, the restrictions in agricultural commodities exports are legal under global commerce rules, even for those countries, such as Ukraine, that are bound by their membership to the World Trade Organisation. Although the General Agreement on Tariffs and Trade, the core treaty of the WTO, bans since the 1947 "prohibitions or restrictions" on exports of commodities, it explicitly permits them when "temporarily applied to prevent or relieve critical shortages of foodstuffs or other products essential" to the exporting country. The agreement stipulates that "parties applying restrictions … shall progressively relax them as such conditions improve", but the legal documents were drafted in the late 1940s and do not define what is meant by temporarily – some believe it could mean a year or even more – nor does define explicitly the extent of a critical shortage. The ambiguity means, trade officials say, that so far no country has successfully challenged export restrictions in agriculture.

It does explicitly state, however, that before instituting an export restriction, nations "shall give notice in writing, as far in advance as practicable" and "shall consult" with any large importer. In practice, however, exporters largely ignore both the need to inform in writing and the consultation process. Indeed, the UN' Food and Agriculture Organisation in Rome, in a report studying the use of export restrictions during the 2007-08 food crisis, said that the obligations of formal notice and discussion are “useful to some extent for exerting some moral restraint of the exporter, but may not mean anything in concrete terms.”

Worse, the treaties do not mention the use of export taxes. Governments could impose overseas sales’ duties so high that they constitute, in effect, an export ban. Argentina, for example, used very high taxes for exports in 2008 to de facto stop overseas sales of the cereal. Other countries have set minimum export prices, which if set high enough, could play the same role of stopping overseas sales of commodities. Vietnam and India, for example, used high minimum prices in 2008 for its rice exports: both countries were able to all but stop exports of the grain.