MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND

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WAYS TO TAKE ACCOUNT OF THE NEGATIVE EFFECTS OF THE AGRICULTURE REFORM PROCESS ON NET FOOD IMPORTING DEVELOPING COUNTRIES

Proposal by Egypt, Jamaica, Mexico, Morocco and Peru. Other Developing Countries Have Indicated Their Support

This proposal should be read in conjunction with MTN.GNG/NG5/W/74, submitted to the Negotiating Group earlier.

Net food importing developing countries, members of Group W/74, in their statement to the meeting of the Negotiating Group on Agriculture, 10-12 July 1989, contained in document MTN.GNG/NG5/W/101, reiterated their commitment to the Trade Negotiations Committee's Decision of April 1989 and stressed the fact that negotiations in agriculture should ensure mutual advantage and increased benefits to all participants.

It was emphasized in the foregoing statement (W/101) that: "To take into account the negative effects of net food importing developing countries, negotiations should result in specific measures and commitments at both bilateral and multilateral levels - agreed in the Uruguay Round - and implemented as appropriate in co-operation with international financial and development organizations."

These measures and commitments should have two main objectives:

- firstly, alleviate the burden of increased prices on the import bill and balance-of-payments situation of net food importing developing countries;

- secondly, enhance the capacity of these countries to increase agricultural production, especially food production, taking into consideration the inherent weakness of the agriculture sector in the majority of developing countries.

I. MEASURING THE NEGATIVE EFFECTS

Based on the results of a number of analyses and studies, it is clear that developing net food importing countries will be net losers, in the short to medium term, from the reform process. This is so, not only as regards higher import bills resulting from increased prices, but also through net welfare losses. Although there is broad agreement that prices will rise as a consequence of agricultural reform, there are difficulties in measuring precisely, at this stage, the negative effects, since these effects will depend on, inter alia, the policy coverage, country coverage, and product coverage of the negotiations, all of which are yet to be agreed.

However, various approaches for measuring the negative effects could be considered. One basic approach would be to calculate the value of net food imports in a given base period (1984/86 for example) by country. The adverse effects would then be calculated by multiplying the base value by an agreed set of coefficients which would represent the year-by-year impact of the reform process on food import prices (see, for example, Annexes I and II). Under this approach, agreement would be necessary on the currency unit to be used, on the food commodities to be included and the coefficient to be applied. Further refinements of this simple approach could be considered, such as (i) calculation of the negative effects using a separate coefficient for each specific commodity; (ii) inclusion of changes over time in the volumes of net imports; and (iii) inclusion of a price deflator in the calculations to allow for inflation.

II. OFFSETTING MEASURES

The net food importing countries - in statement W/101 - advanced offsetting elements of a general nature to achieve the two major objectives cited earlier, i.e. (1) alleviate the burden of increased import prices and (2) enhance the capacity to increase agricultural productivity and production. An elaboration on these elements follows. Net food importing developing countries should be able to choose the measures or mix of measures most appropriate to their individual circumstances.

1. Alleviate the burden of increased import prices

(a) Enhancing the purchasing capacity, through concessional sales including increased availability of low-cost export credits and grants

This element would also comprise lump sum financial grants on a year-to-year basis consistent with assessed negative effects arising from the effects of the reform process on world market prices of major food commodities.

(b) Increasing export earnings' capacity through improved market access conditions for agricultural exports by immediate tariff and para-tariff reductions and the phasing out or elimination of non-tariff measures taking into account the specific needs of net food-importing developing countries

The elimination of trade-distorting support and protection measures should cover products of export interest to our countries.

Early improvement in market access conditions to net food importing developing countries would be considered part of the indirect transfer to enhance their purchasing capacity.

(c) Provision of increased food aid, through inter alia, a flexible approach to the usual marketing requirements (umrs) and triangular arrangements which safeguard and promote production and exports of developing countries

We recognize that additional food aid may not be an appropriate tool for offsetting the negative effects of the reform process in import prices in all food importing developing countries. In particular, we recognize that food aid needs to be integrated with overall national development strategies and plans, especially so as to avoid disincentives to domestic food production. However, in many developing countries, particularly those which are forced to curtain consumption subsidies as elements of structural adjustment and austerity programmes, additional food aid could be of particular help to alleviate the burden of increased food bill and to safeguard access to food by the poorest population groups. In addition, food aid by means of triangular transactions and local purchases can assist in safeguarding and stimulating food production in developing countries and avoiding disruption to price incentive policies.

(d) The rise in import prices of food will exacerbate the debt servicing problems of net food importing developing countries and therefore we propose that international financial organizations should take the increase in import prices of food fully into account in negotiating structural adjustment programmes; specifically these programmes should be made more flexible

2. Enhance the capacity to increase agricultural productivity and production

(a) The provision of financial resources and technical assistance bilaterally and multilaterally, for the purpose of enhancing the purchasing capacity as well as agricultural productivity, production infrastructure and research

This element would comprise the provision of financial resources consistent with assessed negative effects arising from the reform process. Such resources would be additional to existing multilateral windows, facilities and assistance and would be devoted to enhancing the capacity to import food and to finance national programmes to enhance production, productivity, infrastructure and research in agriculture, particularly in the food sector and to technical assistance programmes geared directly to the objective of the negotiations such as, inter alia, improvements in sanitary and phyto-sanitary standards and eradication of plants and animal diseases.

III. FUNDING ARRANGEMENT

In order to implement the foregoing elements, we propose the establishment of a funding arrangement or facility and an appropriate monitoring system. Financial resources for this facility could be derived, inter alia, from contributions by developed contracting parties who will, as a consequence of agreements likely to be reached in the negotiations, curtail expenditures on subsidies. The funding arrangement or facility would have the following characteristics:

- it should be multilateral in character and subject to multilateral surveillance and other procedures necessary to ensure full compliance with other commitments made in the negotiations;

- it would be transitional, rather than permanent in nature. It is envisaged that the arrangement would remain in place until net food importing developing countries have adjusted their internal policies to the new situation. The scale of adjustment of these policies would depend on the extent of commitments on long-term reforms, and on the time frame for the implementation, which have yet to be negotiated. The initial period of the funding arrangement could be linked to the time period for implementation of the reform process;

- its administrative and implementation functions would be entrusted to existing international financial or development organizations. We stress, however, that the funding arrangement should be exempt from any conditionality requirements which may govern their normal operations;

- as regards the development of a possible bilateral component of funding, we consider that both financial and in-kind contributions should be untied;

- to determine drawings on the funding arrangement, we propose that an assessment be made of the impact and likely impact on world reference prices of the commitments made in the reform process, and of the consequential impact on food import costs compared with an agreed base period. The individual net food-importing developing countries should, we propose, elaborate their preferences as regards the uses to which they wish to devote their drawings, as a basis for negotiation with contributors to the funding arrangement.

IV. IMPLEMENTATION

In order to implement the specific measures and commitments outlined above, including the funding arrangement, it will be necessary to develop procedures, as appropriate, whereby GATT and existing international financial and development organizations co-operate and co-ordinate in order to implement and monitor their application.

V. AGENDA FOR FURTHER CONSIDERATION

Further concretization of our proposals will hinge on the progress made in the negotiations during the remainder of 1989 and in 1990, and on the conculsions regarding commitments.

We consider that an appropriate phased approach should be set in train, to develop a coherent agreement on ways of taking into account the negative effects of the reform process on net food-importing developing countries.

As the first stage in this process, we propose that discussions should focus on the elements set out in Section II above with a view to agreeing on those elements which would help in reaching the principal objectives of alleviating the burden of increased prices on our food import bills and of enhancing our production capacity in food and agriculture.

In parallel, we propose that a further focus of discussions should be on the design of an appropriate funding arrangement for channelling resources for these purposes and on the methodology for determining drawings on and contributions of resources.

Finally, and taking into account future progress regarding commitments on the reform process and the period of time for their implementation, we propose that agreement be reached on the parameters to govern drawings on and contributions of resources to the funding arrangement to give effect to the foregoing objectives.

ANNEX I

Simulated Effects of OECD Countries' Trade Liberalization Percentage Changes in Selected World Prices

	OECD[1]	USDA[2] -ERS	IATRC[3]	Tyers and Anderson[4]		IIASA[5]
Base period	1979-81 av.	2000	1986	1980-82 av.	1995 simulated	2000
Cereals			36			
Wheat	-1	0.4		10	25	18
Coarse grains	-3	2.9		3	3	11
Rice	1	6.6		11	18	21
Meat			16			
Ruminant meat		16.2		27	43	
Beef	15					17
Sheepmeat	22					
Non-ruminant meat		4.0		8	10	
Pigmeat	3					
Poultry meat	3					
Dairy products	44	24.3	49	61	95	31
Sugar	10	24.5		11	22	
Oilseeds			8			
Rapeseed	8					
Soyabeans	-10	2.0				
"Other" products		1.1	15			
Total	...	6.6	20	16	30	(9)

[1] OECD, National Policies and Agricultural Trade, Paris, May 1987. This study presents several scenarios. The scenario selected here assumes a 10 per cent across-the-board reduction in support from 1979-81 levels: the results have been multiplied by ten to yield approximate price changes consistent with the "full liberalization" assumptions of the other studies reported here.

[2]Vernon O. Roningen, Dixit, P.M. and Seeley R., Agricultural Outlook for the Year 2000: Some Alternatives. mimeo 1988. The results are derived from the SWOPSIM model of the Economic Research Service of USDA. The price changes simulate the effect of free trade in OECD countries in year 2000 compared with a reference scenario in which policies are held at their 1984/85 levels.

[3]International Agricultural Trade Research Consortium (IATRC), Assessing the Benefits of Trade Liberalization, summary of symposium, Annapolis, Maryland, August 1988. The reported scenario simulates the effects of elimination of existing agricultural policies of OECD countries, using 1986 as the base period.

[4]Tyers, R. and Anderson, K., Liberalising OECD agricultural policies in the Uruguay Round: effects on trade and welfare, J. of Agricultural Economics, May 1988.

[5]Prikh, K.S., Fischer, G., Frohberg, K., and Gulbrandsen, O., Towards Free Trade in Agriculture. International Institute for Applied Systems Analysis (IIASA), Laxenburg, Austria, 1986.

ANNEX II

Increases in Net Import Cost of Basic Foods Following OECD Liberalization, Selected Countries

SITC	Commodity	Price increase[1]	Net imports (av. 1984-86)				
			Egypt	Jamaica	Mexico	Morocco	Peru
		(%)	(...................... US$ millions				..................)
01	Meat and meat prep.	16	351	23	78	4	38
02	Dairy products and eggs	49	244	20	162	33	47
04	Cereals and prep.	36	1,587	79	568	307	229
09	Misc. foods	8	38	-2	12	2	3
22,4	Oilseeds, fats and oils	8	499	28	652	144	35
	Total of above		2,719	148	1,472	490	352
	Total of above following liberalization		3,509	192	1,821	629	467
	Percentage increase		+29%	+30%	+24%	+28%	+33%

[1] Assumed increases in world market prices in IATRC study (see Annex I)

Source: Data on net imports from FAO, Agrostat files

ANNEX III

Aggregate Food Trade of Developing Countries[1]
(Av. 1984-86, US$ millions[2])

	Gross food[3] Imports	Gross food Exports	Net food Imports
All developing countries (161)	43,899.4	33,360.8	10,538.6
- net exporters (32)	8,889.5	25,895.8	-17,006.2
- net importers (129)	35,009.8	7,465.0	27,544.9
of which W/74 group	5,638.2	1,486.6	4,151.7
- Egypt	2,879.7	186.8	2,692.9
- Jamaica	166.7	86.2	80.5
- Mexico	1,636.5	824.5	812.1
- Morocco	549.1	335.9	213.2
- Peru	406.2	53.2	353.0

[1]Source: FAO Agrostat files for 161 developing countries and territories

[2]Data rounded. Negative sign (-) indicates net exports

[3]"Food" is defined by FAO to include all products which are considered edible and contain nutrients in their raw or processed forms. For the present purpose the following commodities have been excluded from the definition: cocoa beans and products and other tropical beverages, fish and fishery products, feedingstuffs (SITC 08), alcoholic beverages, tropical fruits and spices, and live animals.

NB: Product coverage in the Negotiating Group on Agriculture is still to be determined.