

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

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UNDERTAKINGS PURSUANT TO PARAGRAPH 15 OF THE
MID-TERM REVIEW DECISION ON AGRICULTURE

Notification from New Zealand

1. In accordance with the requirements of the Trade Negotiations Committee Agreement on Agriculture of April 1989 (MTN/TNC/11/15), the New Zealand authorities wish to make the following notification of intent with regard to the reduction of support and protection levels for 1990. The notification is presented in terms of both an aggregate measure of support and policy specific data. A short historical review is presented as background to the notification.
2. In the course of the last five years, the New Zealand Government has pursued a major programme of economic reform encompassing all areas of economic activity including agriculture. For a long period preceding 1984, New Zealand pursued policies designed to promote the development of secondary industry. The main instruments employed were border protection, assistance and controls on capital flows supporting a fixed exchange rate régime. The costs that these policies imposed on the agriculture sector meant that compensating assistance was necessary for the agriculture sector in order to assure an acceptable balance on the external accounts - agriculture being the major source of foreign earnings.
3. The major policy reform commencing in 1984 has been associated with the opening to foreign competition of domestic markets for industrial goods, the liberalization of financial markets including the adoption of a "free float" currency régime and the rapid reduction of assistance to agricultural production and marketing. The Government's goal has been the creation of a low inflation economy fully responsive to changing world markets.
4. For the agriculture sector, this meant the progressive elimination of price support, taxation concessions, capital subsidies, "free" government services and input subsidies. In fact almost all forms of support have been, or will soon have been, eliminated.
5. The following table shows a time series of estimates of the effective rate of assistance for the pastoral sector which accounts for the major proportion of New Zealand's agricultural output. The effective rate measure has been employed for the purpose of this notification because the data is readily available, having been used in New Zealand as an adjunct to policy formation.

Table 1Effective Rate of Assistance for Pastoral Agriculture¹

March years ending	1985	1986	1987	1988	1989	1990 ²
Assistance	742	786	1,607 ⁴	540 ⁴	282	206
Total value of output	4,577	3,831	3,967	4,575	5,407	6,148
Value added	1,418	1,083	1,312	1,570	1,995	2,243
Cost excess ³	527	458	241	247	295	237
Effective rate of assistance %	13	24	87	17	-1.0	-1.0

¹All data is \$NZ million unless otherwise indicated.

²1990 data are forecasts.

³Cost excess is the estimated extra cost imposed on agriculture as a consequence of assistance policies applying to other economic sectors.

⁴In 1987 significant sums of debt held by the producer boards at the Reserve Bank were written off.

Source: New Zealand Ministry of Agriculture and Fisheries¹

Parallel estimates of support, expressed as the ratio of gross assistance to the unassisted value of output, have also been made and are presented as Table II below.

Table IINew Zealand Support¹ for Pastoral Agriculture

March years ending	1985	1986	1987	1988	1989	1990
Support %	16	21	41	12	5	3

¹Ratio of gross assistance to unassisted value of output

Source. Ministry of Agriculture and Fisheries

¹For further details reference may be made to "Assistance to Pastoral Agriculture 1983/84-1987/88" Volume II, L. Tyler NZMAF.

6. These data demonstrate vividly the effect on assistance levels of the major reforms which have been undertaken. The recent trend is very clearly downwards to the point where the estimated effective rate measure is forecast to be negative in 1990 and the support measure as defined above is expected to reach zero within the next few years.

7. The data cited above relate to the pastoral sector only. This encompasses livestock products of bovine and ovine origin. These account for approximately 65 per cent of the value of New Zealand agricultural output. The remaining 35 per cent covers principally horticultural production as well as the products of pigs, poultry and cereals. The clear majority of policies which impact upon assistance to agriculture are of universal application and not product specific. Therefore, the trend in assistance levels represented by the data for pastoral agriculture applies also to other agricultural products. The same holds true in respect of pisciculture, fishing and forestry.

8. New Zealand Commitment

The New Zealand Government is confident that decisions already taken to remove agricultural assistance measures will result in a decline in overall assistance to the agriculture sector in the year 1990.

In view of the extremely low assistance levels currently prevailing for all agricultural products in New Zealand in 1989 in relation to the size of the measurement errors inherent in assistance measurement, no specific size of the reduction is put forward. The data supplied below in relation to specific policies are indicative of the size of the reduction in gross assistance it is expected will be achieved. The low incidence of product specific programme means that the reductions will be more or less evenly spread across the spectrum of agricultural products.

9. Background

Policy decisions taken by the New Zealand Government over recent years in relation to agriculture assistance provide for the phased reduction of assistance. In many cases the decisions already taken provide for the elimination of policy measures after a phased reduction period. While many measures have been eliminated already, a number are still being phased out and it is the continuation of these phase-out programmes which will result in further assistance reductions in 1990 and beyond.

10. The following are the most important changes expected to result from the further implementation of Government policy decisions already taken:

(a) Inspection, grading and hygiene:

A decision was taken in 1984/85 to reduce Government funding for inspection and grading services from 100 per cent to 66 per cent and 33 per cent in the subsequent two financial years. In 1989 a decision was taken to reduce further the Government funding for this purpose to zero for implementation beginning in mid-1989.

Practical difficulties of implementation mean that this decision will take approximately two years to implement. In respect of the pastoral sector a reduction in Government funding of the order of \$10 million is expected to be achieved in the year to March 1991.

(b) Interest concessions:

A decision was taken in 1984 to progressively increase the interest rates on all loans at below market interest rates held by the Rural Banking and Finance Corporation. This decision required that the rate on all such loans be raised by one percentage point annually until the market rate is reached.

Simultaneously over the last two years market interest rates have been declining. These two factors taken together result in substantial reductions in assistance delivered via this avenue.

Interest rate concessions granted in previous years were worth an estimated \$92 million to the pastoral sector in the year to March 1989, falling sharply to a forecast \$26 million in the year to March 1990. A further decline of the order of at least \$10 million is forecast for the year ending March 1991.

The Rural Banking and Finance Corporation was sold to a private sector buyer in mid-1989. A condition of the sale is the continued implementation of the progressive elimination of interest rate concessions.

(c) Taxation concessions:

In 1985 the decision was taken to eliminate progressively the then existing provision for the full deductibility of certain forms of capital expenditure associated with farm production. That decision provided for the phased removal of this concession over four years commencing in the 1988/89 income year. The low level of farm capital expenditure currently has meant an acceleration in the decline in assistance delivered through this avenue.

The estimated value of assistance delivered to the pastoral sector via taxation concessions of all forms was \$104 million in the year to March 1984 falling to \$13 million in the year to March 1989, to \$10 million in the year to March 1990 and is forecast to fall by a further \$5 million in the year to March 1991. This forecast decline arises principally from the phasing out of the deductibility of farm capital expenditure.

(d) Assistance in relation to adverse climatic events:

In 1988 and 1989 the New Zealand farm sector suffered from a number of serious climatic events ranging through cyclone, flood and drought. Government assistance estimated at \$37 million was provided in the year ending March 1989 and is forecast at some \$30 million in the year to March 1990. On the basis of a return to more normal seasonal conditions, assistance under this heading is forecast to fall by approximately \$15 million in the year to March 1991.

(e) Capital grants:

In the late 1970s programmes to encourage investment in increased productive capacity of pastoral land were introduced. These were termed the Land Development Encouragement Loan Scheme and the Livestock Incentive Scheme. Both schemes ceased in 1982. As the schemes involved the partial or full suspension of capital repayments once certain conditions were met assistance delivery in this form has continued since 1982 and will go on for some years yet.

Assistance delivered to the pastoral sector was some \$18 million in the year to March 1984 and is forecast at around \$13 million in the year to March 1990. A further decline of approximately \$5 million is forecast for the year to March 1991.

(f) No new assistance programmes are planned for introduction.

11. Summary

The forecast reduction in assistance delivered via the programmes specified above in the year ending March 1991 is as follows:

Inspection and grading:	\$10 million
Interest concessions:	\$10 million
Taxation concessions:	\$ 5 million
Adverse climatic events:	\$15 million
Capital grants:	\$ 5 million
 Total reduction:	 \$45 million

It should be noted that there are many practical difficulties associated with the forecasting of the precise reductions in assistance delivered via specific programmes. The above data indicate orders of magnitude and are generally conservative.