MULTILATERAL TRADE NEGOTIATIONS THE URUGUAY ROUND

RESTRICTED

MTN.GNG/NG5/W/161/Add.1
2 May 1990

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Group of Negotiations on Goods (GATT)

Negotiating Group on Agriculture

CLARIFICATION OF ELEMENTS OF DETAILED PROPOSALS SUBMITTED PURSUANT TO THE MID-TERM REVIEW DECISION

Note by the Secretariat

Addendum

1. The present note, which has been prepared in response to the interest expressed by a number of participants in extending the clarification exercise undertaken by the secretariat to elements of other proposals submitted pursuant to the Mid-Term Review Decision, relates to the proposals of the Group W/74 Net Food-Importing Developing Countries (NG5/W/119 refers).

2. The clarification undertaken by the Group W/74 was prepared with the assistance of a series of questions provided by the secretariat. The results of this exercise are set out herein.

GATT SECRETARIAT
UR-90-0255

INITIAL CONTRIBUTION TO THE CLARIFICATION EXERCISE (GROUP W/74)

(NFIDCs = Net Food-Importing Developing Countries)

QUESTIONS	REPLIES
A. Product coverage	
1. Can the Group provide a more precise indication of the products that would be covered by the proposed import price compensatory mechanism? Would it be limited to a range of basic food products imported by NFIDCs such as grains, including rice, dairy products, etc.?	The products covered are basic foodstuff that are imported by the NFIDCs and are subject to reform measures. In principle, they are, inter alia, grains, dairy products, meat, oilseeds and edible oils.
2. How would the availability of reliable quoted world market prices for the products concerned affect the question of product coverage?	Rise in prices can, of course, be easily identified for products where quoted world prices exist. For other products, representative prices should be obtained from reliable international sources.
3. What stage of processing of the products concerned would be relevant? Only the basic commodities or including their processed forms?	In principle, it is the basic commodities, but certain processed forms are usually included in the basic food basket, such as wheat flour from wheat or dairy products from milk, and these should be covered. It is to be noted that the price of the processed food commodities and their raw forms are positively correlated.
B. Negative effects	
1. How would increases in world market prices of the products concerned attributable to GATT reform commitments be distinguished from other factors affecting world market prices such as movements in supply related to climate conditions in producing countries, shifts in demand caused by crop shortfalls in other importing countries, exchange rate fluctuations?	Please refer to W/119 "Measuring the negative effects" (pages 1-2). Some possible approaches to measuring negative effects are outlined. One possible approach could be to agree on coefficients measuring possible percentage increases in prices following liberalization (such as those in Annex II of W/119) and these could be used to calculate benefits.

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QUESTIONS	REPLIES
B. Negative effects (cont'd)	Another approach would be to link benefits to actual rises in prices. It is understood that prices may change due to factors other than the reform measures. In this case, a pragmatic approach will be necessary. For example, supply changes due to crop failure or on account of weather conditions should be recognizable from those resulting from reform commitments. It should be possible to make suitable adjustments to actual price movements. However, the Group is open to ideas on this issue.
2. At what level would these prices be measured (prices quoted on commodity exchanges? External reference prices employed in OECD PSE data)?	Various comparisons of price levels can be made. The GATT secretariat can help in making a choice. Operationally either some selected world indicator prices, or some other reference prices like the one used in the OECD calculation of PSEs could be used. The advantages of using world indicator prices are that they are "transparent" and readily available. Changes in the unit value of a country's net food imports in a given base period (84/86 for example) (page 2, W/119) could be calculated.
3. What would be relevant, the net effect of price changes for a basket of products for all NFIDCs, or the net effect of world price changes for the particular range of products imported by particular NFIDCs?	What is relevant for the net food-importing country is the net effect of changes in world prices of the basket of food products imported by the particular NFIDC.
4. Would the proposed compensatory mechanism only apply in respect of price increases for those food products which are not imported under food aid or other concessionary arrangements?	The offsetting mechanism will apply to food imports whether or not they are imported under food aid or other concessionary arrangements. The mechanism will be additional to existing levels of assistance.

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QUESTIONS	REPLIES
B. Negative effects (cont'd)	
5. Would account be taken of the positive effects of the GATT reform process resulting from the transmission of possible higher world market prices to producers in NFIDCs?	The offsetting measures are intended to deal with a transitional difficulty - higher food import bills due to the reform process. Insofar as there will be positive effects from the transmission of higher world prices to producers in the NFIDCs, we do not envisage that these will occur in the short term.
C. Eligibility	
1. How would NFIDC status be defined? What criteria would be employed? Would eligibility be subject to regular review in the light of trends in a NFIDC's import and export performance?	NFIDC status will be applicable to those developing contracting parties non-members of other recognized groups in the Uruguay Round agricultural negotiations, who are (a) net food importers of the products referred to in A.1 and 3, and (b) meet certain additional criteria to be agreed, possibly including, for example, (i) ability to pay increased prices, (ii) debt servicing capacity, (iii) overall balance of payments situation.
2. What relevance would the overall trade balance and balance-of-payments situation of the country concerned have in determining NFIDC status or entitlements under the proposed scheme?	The balance of payments situation of the country determines largely its ability to accommodate increased prices and meet a higher import bill. As indicated above, this will be an element to be taken into account.
3. According to the criteria proposed by the Group, how many GATT developing member countries would be involved or eligible?	The eligibility criteria will have to be agreed upon and applied to determine the precise number of countries that will be eligible. Our preliminary assessment suggests that about twenty (20) contracting parties would be eligible.

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QUESTIONS	REPLIES
D. Offsetting measures to alleviate the burden of increased import prices	
1. What is the rationale for lump sum financial grants if, as implied in paragraph 1(a) of Section II of NG5/W/119, concessional sales and export credits are to continue to be available to NFIDCs? In effect does this proposal involve the creation in respect of NFIDCs of a system analogous to STABEX or, in other words, a system to stabilize expenditure on food imports?	W/74 countries have proposed a basket of offsetting elements which can be used to achieve two main goals: (1) to alleviate the burden of increased prices on their balance of payments, and (2) to enhance their capacity to increase agricultural productivity and production. Lump sum financial grants could be used to achieve either or both goals. Financial assistance is one element in a basket which includes concessional sales, export credits, food aid, technical assistance, market access and increased flexibility in structural adjustment programmes. Commensurate with the negative effects, any one of all of these measures could, conceivably, be provided to a given NFIDC. In regard to the second part of the above question, we reiterate that the measures are to offset the negative effects of higher food prices due to the reform process.
2. Would such financial grants be treated as general balance-of-payments assistance or as assistance tied, for example, to specific agricultural development projects?	Financial assistance, including grants, could alleviate the burden of increased prices on the balance of payments. Such assistance can also be used to enhance agricultural production and productivity. In the latter case, financing could be tied to specific agricultural development projects.

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QUESTIONS	REPLIES
Food Aid	
1. Can the Group expand on its proposals relating to food aid/UMRS? Why is it considered that additional food aid may not be an appropriate tool for offsetting negative effects in all food importing developing countries? Would the Group's position in this regard be the same if, as proposed by a number of participants, food aid were to be the principal exception to a prohibition on export subsidies?	Food aid and concessional sales are and can be appropriate methods to offset the negative effects. However, W/74 countries have indicated that these forms of assistance should be integrated with overall development strategies and plans and should not disrupt price incentive policies in the countries receiving them. For some recipient countries reduced conditions on food aid would increase absorption capacity. We are of the view that food aid and concessional sales should continue, and indeed be increased, no matter what decision on export subsidies is taken by the Negotiating Group.
Other organizations	
1. In general, commitments emerging from the Uruguay Round will engage participants in their capacity as contracting parties. How does the Group envisage action being taken in GATT that would essentially relate to matters within the competence of other organizations? What form would the action proposed by the Group in this regard take?	Cont[illegible] parties in GATT are also members of other inter[illegible] and development organizations. A decis[illegible] e taken in the Uruguay Round committing particip[illegible]s to pursuing certain actions bilaterally and/or multilaterally. Thus as part of the agreed outcome of the agriculture negotiations, developed contracting parties should undertake to implement measures of assistance, bilaterally and multilaterally, to net food importing developing countries. It will be necessary to initiate before the end of the Round the necessary institutional consultations on co-ordination and collaboration that will be required for implementation of the decision on net food importing developing countries.

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QUESTIONS	REPLIES
Other organizations (cont'd)	
2. What international organizations would be involved in the programme proposed by the Group?	We propose that consultations be undertaken with the relevant organizations (e.g. IMF, World Bank, FAO, IFAD, WFP) concerning procedures and modalities for channelling assistance to NFIDCs.
3. In general how would the Group see implementation taking place inside and outside GATT? How would such implementation be co-ordinated in each of the areas concerned (Section II, paragraphs 1(b), (c) and (d) refer)?	Improved market access conditions through immediate tariff and para-tariff reductions, elimination of non-tariff measures, elimination of support and protection on products of interest to net food importing developing countries would increase their export earnings and be part of the offsetting measures. This would be implemented in the GATT. Other measures would be implemented (a) bilaterally and (b) through relevant international organizations.
4. Can the foregoing questions be further elaborated in relation to Sections III and IV of NG5/W/119? What specific rôle is envisaged for the GATT in the arrangements proposed?	Section III of W/119 deals with the possible establishment of a funding arrangement. We envisage that this would be located in an existing international organization. This could be in the nature of a Fund. Criteria and modalities for the allocation of the resources of the Fund would be developed. These should ensure monitoring, accountability and equity. The GATT contracting parties may periodically review the implementation of the Uruguay Round decision on measures of assistance to net food importing developing countries.
5. Who will contribute?	We envisage that developed contracting parties who realize budgetary savings as a result of reduced support, and who will also benefit from higher prices

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QUESTIONS	REPLIES
Other organizations (cont'd)	for their agricultural exports, will undertake to contribute to the offsetting Fund and to other measures of assistance, bilateral and multilateral. Other developed contracting parties are expected to contribute to those arrangements.
6. For how long will the transitional arrangements last?	For the period of time during which reform commitments under the Uruguay Round are being applied. Given the time lag to be expected in respect of the effects of commitments taken at the end of the reform process, an additional agreed period should be allowed for the continuation of offsetting measures after the end of the reform period.