

Committee on Agriculture

**COMMITTEE ON AGRICULTURE (REGULAR MEETINGS)
IMPLEMENTATION-RELATED ISSUES**

Report to the General Council by the Vice-Chairman

The present report on the outcome of the Committee's consideration of the three implementation-related issues which were referred to the Committee by the General Council is submitted on the responsibility of the Vice-Chairman, Minister Yoichi Suzuki, as agreed by the Committee at its meeting on 27 September 2001.

A. ARTICLE 10.2 OF THE AGREEMENT ON AGRICULTURE: THE DEVELOPMENT OF INTERNATIONALLY AGREED DISCIPLINES TO GOVERN THE PROVISION OF EXPORT CREDITS, EXPORT CREDIT GUARANTEES OR INSURANCE PROGRAMMES, TAKING ACCOUNT OF PARAGRAPH 4 OF THE MARRAKESH NFIDC DECISION

1. The question of the implementation of Article 10.2 of the Agreement on Agriculture was referred to the Committee on Agriculture by the Special Session of the General on 18 October 2000, it being understood that in pursuing their work on export credits, export credit guarantees or insurance programmes account would be taken of the provisions of paragraph 4 of the Marrakesh NFIDC Decision. This subject was taken up at the at the regular meetings of the Committee on Agriculture held in November 2000, March, June and September 2001, with progress reports being made to the General Council in documents G/AG/6, G/AG/8 and G/AG/9 and Corr.1).

2. As part of the overall results of the Uruguay Round negotiations WTO Members undertook, in terms of Article 10.2 of the Agreement on Agriculture, to work towards the development of internationally agreed disciplines to govern the provision of export credits, export credit guarantees or insurance programmes and, after agreement on such disciplines, to provide export credits, export credit guarantees or insurance programmes only in conformity therewith. In terms of paragraph 4 of the Marrakesh NFIDC Decision Ministers agreed to ensure that any agreement relating to agricultural export credits makes appropriate provision for differential treatment in favour of least-developed and net food-importing developing countries.

3. Negotiations on a proposed Sector Understanding on Export Credits for Agricultural Products amongst WTO Members which are participants to the OECD Export Credit Arrangement have been ongoing for a number of years. Members involved in these negotiations have informed the Committee that this work has reached an advanced stage, in the form of a proposed text which is acceptable to most but not all of the participants concerned, and which makes provision for differential treatment in favour of least-developed and net food-importing developing countries. At the same time work within the WTO on the question of agricultural export credits has been progressing in both the regular meetings of the Committee on Agriculture and in the Special Session Negotiations under Article 20 of the Agreement on Agriculture on the basis, *inter alia*, of the

proposals that have been tabled and other inputs, including with respect to special and differential treatment in favour of developing countries.

4. In the light of their discussions and informal consultations on this matter Members are agreed and recommend that work in the regular meetings of the WTO Committee on Agriculture on the development of disciplines pursuant to Article 10.2 and the related provisions of the Marrakesh NFIDC Decision should continue in line with the following general understandings:

- (a) that the focus of the work in the regular Committee meetings would be on the implementation of Article 10.2 and the disciplines foreseen therein, whereas the Special Session negotiations would focus on the proposals tabled or to be tabled on export credit practices;
- (b) that, without prejudice to further work to be undertaken in the regular meetings of the Committee as provided for in subparagraph (i) above, in the event that a Sector Understanding on agricultural export credits is concluded at the OECD, the Committee would, as envisaged in the report of the Committee on Agriculture to the Singapore WTO Ministerial (G/L/131, paragraph 11), consider how any such understanding could be multilateralized within the framework of the Agreement on Agriculture and how the provisions of paragraph 4 of the Marrakesh NFIDC Decision have been taken into account; and
- (c) that the Committee on Agriculture should submit a report to the General Council on this subject following its regular September 2002 meeting.

B. EXAMINATION OF POSSIBLE MEANS OF IMPROVING THE EFFECTIVENESS OF THE IMPLEMENTATION OF THE DECISION ON MEASURES CONCERNING THE POSSIBLE NEGATIVE EFFECTS OF THE REFORM PROGRAMME ON LEAST-DEVELOPED AND NET-FOOD-IMPORTING DEVELOPING COUNTRIES

1. At its meeting on 15 December 2000 (WT/L/384, paragraph 1.2, refers), the Special Session of the General Council instructed the Committee on Agriculture to examine possible means of improving the effectiveness of the implementation of the Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net-Food-Importing Developing Countries (a copy of the Decision is attached as Annex A). This examination was undertaken in the regular meetings of the Committee on Agriculture as well as through informal consultations. These consultations included an informal roundtable to examine detailed proposals by the net food-importing developing countries for the establishment of a revolving fund, as well as other measures for improving the effectiveness of the implementation of the Marrakesh NFIDC Decision (G/AG/W/49 and Add.1 and Corr.1 refer). Specialist representatives of the IMF, the World Bank and the FAO participated in this Roundtable.

2. Progress reports were made to the General Council on the Committee's work in this regard at its regular meetings in March and June this year in documents G/AG/7 and G/AG/10 respectively. Copies of these progress reports, which include the detailed proposals referred to above as well as the comments of the IMF and the World Bank on access to their facilities and on the proposed revolving fund, are attached hereto as Annexes B and C. A summary of the Committee's discussion on this subject at its meeting on 27 September will be included in the Secretariat report (G/AG/R/28) on that meeting.

3. In the light of the discussions and informal consultations in connection with the Committee's examination of possible means of improving the effectiveness of the implementation of the Marrakesh NFIDC Decision, the following recommendations are forwarded for approval by the General Council:

I. Food Aid (paragraph 3 (i) and (ii) of the Decision)

- (a) that early action be taken within the framework of the Food Aid Convention 1999 (which unless extended, with or without a decision regarding its renegotiation, would expire on 30 June 2002) and of the UN World Food Programme by donors of food aid to review their food aid contributions with a view to better identifying and meeting the food aid needs of least-developed and WTO net food-importing developing countries;
- (b) WTO Members which are donors of food aid shall, within the framework of their food aid policies, statutes, programmes and commitments, take appropriate measures aimed at ensuring: (i) that to the maximum extent possible their levels of food aid to developing countries are maintained during periods in which trends in world market prices of basic foodstuffs have been increasing; and (ii) that all food aid to least developed countries is provided in fully grant form and, to the maximum extent possible, to WTO net food-importing developing countries as well.

II. Technical and Financial Assistance in the Context of Aid Programmes to Improve Agricultural Productivity and Infrastructure (paragraph 3(iii) of the Decision)

- (a) that developed country WTO Members should continue to give full and favourable consideration in the context of their aid programmes to requests for the provision of technical and financial assistance by least-developed and net food-importing developing countries to improve their agricultural productivity and infrastructure;
- (b) that, in support of the priority accorded by least-developed and net food-importing developing countries to the development of their agricultural productivity and infrastructure, the WTO General Council call upon relevant international development organisations, including the World Bank, the FAO, IFAD, the UNDP and the Regional Development Banks to enhance their provision of, and access to, technical and financial assistance to least-developed and net food-importing developing countries, on terms and conditions conducive to the better use of such facilities and resources, in order to improve agricultural productivity and infrastructure in these countries under existing facilities and programmes, as well as under such facilities and programmes as may be introduced.

III. Financing Normal Levels of Commercial Imports of Basic Foodstuffs (paragraphs 4 and 5 of the Decision)

- (a) that the provisions of paragraph 4 of the Marrakesh Ministerial Decision, which provide for differential treatment in favour of least-developed and WTO net food-importing developing countries, shall be taken fully into account in any agreement to be negotiated on disciplines on agricultural export credits pursuant to Article 10.2 of the Agreement on Agriculture;
- (b) that an inter-agency panel of financial and commodity experts be established, with the requested participation of the World Bank, the IMF, the FAO, the International Grains Council and the UNCTAD, to explore ways and means for improving access by least-developed and WTO net food-importing developing countries to multilateral programs and facilities to assist with short term difficulties in financing normal levels of commercial imports of basic foodstuffs, as well as the concept and feasibility of

the proposal for the establishment of a revolving fund in G/AG/W/49 and Add.1 and Corr.1. The detailed terms of reference, drawing on the Marrakesh NFIDC Decision, should be submitted by the Vice-Chairman of the WTO Committee on Agriculture, following consultations with Members, to the General Council for approval by not later than 31 December 2001. The inter-agency panel shall submit its recommendations to the General Council by not later than 30 June 2002.

IV. Review of Follow-up

- (a) that the Committee on Agriculture shall review and report to the General Council on the follow-up to these recommendations following its regular September 2002 meeting.

C. THE SUBMISSION BY MEMBERS ADMINISTERING TARIFF QUOTAS OF ADDENDA TO THEIR NOTIFICATIONS TO THE COMMITTEE ON AGRICULTURE (TABLE MA:1) IN ACCORDANCE WITH THE DECISION OF THE GENERAL COUNCIL IN WT/L/384 REGARDING THE ADMINISTRATION OF TARIFF RATE QUOTA REGIMES IN A TRANSPARENT, EQUITABLE AND NON-DISCRIMINATORY MANNER

1. Paragraph 1.1 of the General Council decision WT/L/384 provides that: "Members shall ensure that their tariff rate quotas regimes (TRQs) are administered in a transparent, equitable and non-discriminatory manner. In that context, they shall ensure that the notifications they provide to the Committee on Agriculture contain all the relevant information including details on guidelines and procedures on the allotment of TRQs. Members administering TRQs shall submit addenda to their notifications to the Committee on Agriculture (Table MA:1) by the time of the second regular meeting of the Committee in 2001." The understanding was that this decision should not place undue new burdens on developing countries (WT/GC/M/62, paragraph 14, refers).

2. So far the following Members administering tariff rate quotas have submitted the requisite Table MA:1 Addenda: Australia (G/AG/N/AUS/1/Add.1); Canada (G/AG/N/CAN/2/Add.2, 6/Add.1, 10/Add.1, 19/Add.1); European Communities (G/AG/N/EEC/1/Add.2, 3/Add.1, 14/Add.1, 15/Add.1); Japan (G/AG/N/JPN/1/Add.1, 8/Add.1, 23/Add.2, 57/Add.1); Latvia (G/AG/N/LVA/1/Add.1); New Zealand (G/AG/N/NZL/1/Add.1); Norway (G/AG/N/NOR/1/Add.1); and United States (G/AG/N/USA/2/Add.3 and 34/Add.1).

3. It is recommended that implementation of the General Council decision in paragraph 1.1 of WT/L/384 be kept under review by the Committee on Agriculture at its regular meetings.

* * * * *

As agreed by the Committee at its meeting on 27 September 2001 the General Council is accordingly invited to approve the recommendations in Sections A, B and C of this report.

ANNEX A

DECISION ON MEASURES CONCERNING THE POSSIBLE NEGATIVE EFFECTS OF THE REFORM PROGRAMME ON LEAST-DEVELOPED AND NET FOOD-IMPORTING DEVELOPING COUNTRIES

1. *Ministers recognize* that the progressive implementation of the results of the Uruguay Round as a whole will generate increasing opportunities for trade expansion and economic growth to the benefit of all participants.
2. *Ministers recognize* that during the reform programme leading to greater liberalization of trade in agriculture least-developed and net food-importing developing countries may experience negative effects in terms of the availability of adequate supplies of basic foodstuffs from external sources on reasonable terms and conditions, including short-term difficulties in financing normal levels of commercial imports of basic foodstuffs.
3. *Ministers accordingly agree* to establish appropriate mechanisms to ensure that the implementation of the results of the Uruguay Round on trade in agriculture does not adversely affect the availability of food aid at a level which is sufficient to continue to provide assistance in meeting the food needs of developing countries, especially least-developed and net food-importing developing countries. To this end *Ministers agree*:
 - (i) to review the level of food aid established periodically by the Committee on Food Aid under the Food Aid Convention 1986 and to initiate negotiations in the appropriate forum to establish a level of food aid commitments sufficient to meet the legitimate needs of developing countries during the reform programme;
 - (ii) to adopt guidelines to ensure that an increasing proportion of basic foodstuffs is provided to least-developed and net food-importing developing countries in fully grant form and/or on appropriate concessional terms in line with Article IV of the Food Aid Convention 1986;
 - (iii) to give full consideration in the context of their aid programmes to requests for the provision of technical and financial assistance to least-developed and net food-importing developing countries to improve their agricultural productivity and infrastructure.
4. *Ministers further agree* to ensure that any agreement relating to agricultural export credits makes appropriate provision for differential treatment in favour of least-developed and net food-importing developing countries.
5. *Ministers recognize* that as a result of the Uruguay Round certain developing countries may experience short-term difficulties in financing normal levels of commercial imports and that these countries may be eligible to draw on the resources of international financial institutions under existing facilities, or such facilities as may be established, in the context of adjustment programmes, in order to address such financing difficulties. In this regard Ministers take note of paragraph 37 of the report of the Director-General to the CONTRACTING PARTIES to GATT 1947 on his consultations with the Managing Director of the International Monetary Fund and the President of the World Bank (MTN.GNG/NG14/W/35).

6. The provisions of this Decision will be subject to regular review by the Ministerial Conference, and the follow-up to this Decision shall be monitored, as appropriate, by the Committee on Agriculture.

ANNEX B
(G/AG/7 dated 25 April 2001)

EXAMINATION OF POSSIBLE MEANS OF IMPROVING THE EFFECTIVENESS OF THE IMPLEMENTATION OF THE DECISION ON MEASURES CONCERNING THE POSSIBLE NEGATIVE EFFECTS OF THE REFORM PROGRAMME ON LEAST-DEVELOPED AND NET FOOD-IMPORTING DEVELOPING COUNTRIES

Report by the Vice-Chairman, Minister Yoichi Suzuki, to the General Council

5. At its meeting on 15 December 2000, the Special Session of the General Council referred to the relevant subsidiary bodies, including the Committee on Agriculture, a number of implementation related issues. The General Council decided, *inter alia*, that:

"[t]he Committee on Agriculture shall examine possible means of improving the effectiveness of the implementation of the Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Developing Countries and report to the General Council at the second regular meeting of the Council in 2001." (WT/L/384 refers).

6. In this context, a group of sixteen WTO net food-importing developing countries comprising Côte d'Ivoire, Cuba, Dominican Republic, Egypt, Honduras, Jamaica, Kenya, Mauritius, Morocco, Pakistan, Senegal, Sri Lanka, St. Lucia, Trinidad and Tobago, Tunisia and Venezuela has submitted to the Committee on Agriculture a "Proposal to Implement the Marrakesh Ministerial Decision in favour of LDCs and NFIDCs" (the text of the proposal is attached in Annex 2). The proposal was the subject of preliminary informal consultations as well as discussions at the regular meeting of the Committee on 30 March 2001. A detailed summary of the discussions at the regular Committee meeting is attached in Annex 1.

7. As part of the follow-up to these useful discussions, it has been agreed to take up in further informal meetings the issues of access to the financing facilities of the international financial institutions; food aid; and technical and financial assistance. These informal meetings will be held for the purpose of identifying specific problems regarding these issues. It has been indicated that the involvement of the relevant international organization would be appreciated and indeed necessary.

8. As agreed by the Committee on Agriculture at its meeting on 29-30 March 2001, this report is submitted to the General Council on my responsibility as Vice-Chairman of the Committee.

ANNEX 1

Examination of Possible Means of Improving the Effectiveness of the Implementation of the Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Developing Countries – Summary of the Discussion at the Meeting of the Committee on Agriculture on 30 March 2001

1. Pakistan introduced the "Proposal to Implement the Marrakesh Ministerial Decision in Favour of LDCs and NFIDCs" (attached in Annex 2) on behalf of sixteen WTO net food-importing developing countries. The main objective of the Agreement on Agriculture was to reduce through multilateral disciplines structural surpluses that were generated by production and trade-distorting policies in agriculture pursued by some Members. Such disciplines would normally result in increased food import bills for the LDCs and the net food-importers. Recognition that such price effects could create difficulties for the LDCs and the NFIDCs was reflected in the Marrakesh Ministerial Decision through response mechanisms in the areas of food aid, access to financing facilities, and technical and financial assistance to increase agricultural productivity. Having been concerned and disappointed with the lack of implementation of the Ministerial Decision, some Members had raised this issue under the rubric of Implementation Concerns under paragraph 9 of the Geneva Ministerial Declaration. Subsequently, this Committee had been instructed to examine the possible means of improving the effectiveness of the implementation of the Ministerial Decision under the specific directions of the General Council. The present proposal was aimed at helping the Committee to take the necessary positive steps to resolve this important implementation issue at an early date. The sponsors of the proposal were grateful to the Vice-Chairman for encouraging them to submit this concrete proposal on ways how the Ministerial Decision could be effectively implemented, which was a legal commitment of WTO Members under Article 16 of the Agreement. The sponsors were also encouraged by the manner in which the Vice-Chairman had conducted informal consultations on this issue and were confident that the deliberations in this Committee would result in concrete suggestions for adoption by the General Council, which should allay the genuine concerns of the NFIDCs and LDCs.

2. Pakistan continued that the proposal established, on the basis of factual data provided by FAO, the causality between policy reforms under the Uruguay Round and higher food import bills for the two groups of countries. It contained concrete suggestions to improve the effectiveness of the implementation of the Ministerial Decision in three areas referred to above. Furthermore, with the objective of ensuring that the commitments were binding and effectively monitored, the sponsors had proposed that:

- (i) all major developed exporting countries should put aside supplies, under national food reserves, specifically earmarked to be released to the NFIDCs and LDCs under reasonable prices during years of high world prices;
- (ii) developed countries and international development and financial institutions (World Bank, IMF, UNDP) should contribute to the financing of the two components of the Revolving Fund which, in turn, should be managed by an inter-agency arrangement with the full involvement of FAO;
- (iii) the commitment of Members regarding volumes of food aid, volumes of physical reserves, contributions to the two components of the Revolving Fund would be inscribed in their country schedules as binding and legally enforceable;
- (iv) Members should make regular annual notifications in respect of these commitments to the WTO Committee on Agriculture.

The sponsors of the proposal were willing to enter into discussions with Members in good faith and with a view to reaching effective solutions.

3. Egypt stated that the effects of agricultural trade liberalization resulting from the implementation of the Agreement on Agriculture were felt in the LDCs and NFIDCs through higher prices for basic foodstuffs, a decrease in food aid deliveries to NFIDCs, or a decline in agricultural production combined with a lack of technical and financial assistance to improve their agricultural productivity and infrastructure. These effects had a significant impact on family incomes, employment, rural development, food security as well as economic and social stability. The increase of the cereal import bill of LDCs and NFIDCs during the first three years of implementation was approximately 49 per cent although admittedly a small part of this increase was due to reasons other than the implementation of the Agreement on Agriculture. In the case of Egypt, the result of implementation in terms of net agricultural trade was negative. The average value of agricultural imports in 1995-98 was 37 per cent higher than in the period 1990-94, although Egypt had experienced a declining trend in food imports since 1985. There was now a history of six years to judge whether the reform programme had caused negative effects and not just "possible negative effects" in the future. There was clearly a causality between liberalization and higher prices, at least in the short and medium term. The sixteen countries including Egypt had submitted the proposal as part of the implementation exercise relating to the Uruguay Round commitments and the ongoing negotiations. It might be expected that LDCs and NFIDCs would call for a more extensive compensation mechanism with further trade liberalization.

4. Egypt noted further that one of the major deficiencies of the Decision was the definition or interpretation of certain terms, particularly what constituted "negative effects". With respect to food aid and the relationship between the Decision and the Food Aid Convention (FAC), there were differences in the way in which the beneficiaries were categorized. Unlike the Decision, the FAC also assigned priority to certain groups of countries. It was therefore doubtful whether the Convention fully reflected the concerns of the Decision. With respect to the issue of access to financing facilities, Egypt noted that the IMF Compensatory Financing Facility (CFF) was limited to cereals only and the conditions in accessing it were difficult to meet which meant that the CFF had no relevance to the Decision's objectives and coverage. More importantly, the Decision dealt with effects arising from international factors, while the IMF facility addressed or required domestic policy adjustment related mainly to balance of payments difficulties. Of course, the modalities of the management of the resources of the proposed Inter-Agency Revolving Fund needed to be agreed. In the view of Egypt, there was a need to combine shared functions or actions under one mechanism. Egypt expressed the hope that Members would lend their support to the proposal and the sponsors stood ready to have further discussions on the technicalities of operating the Revolving Fund.

5. Sri Lanka recalled that at the November 2000 meeting of the Committee Sri Lanka had stated its views on why the Marrakesh Decision had not been implemented. The reasons included ambiguity with respect to timing and mechanisms to operationalize the Decision. There was also a lack of clarity with respect to the meaning of "negative effects", "reasonable terms and conditions", "sufficient level of food aid" and "normal level of imports", and with respect to assigning precise rights and responsibilities to the relevant agencies. Furthermore, there were no binding WTO commitments on the main three elements of the decision, namely food aid, technical and financial assistance, and access to all basic foodstuffs and necessary concessional financing facilities. According to FAO data, these two groups of countries were facing higher cereal import bills than before. The NFIDCs should have access to basic foodstuffs when stocks were low and prices were high on the international market. Therefore, there was a linkage between access to food and the availability of finance to purchase food. The proposal envisaged establishment of a Revolving Fund with a view to ensuring access for LDCs and NFIDCs to concessional financing when world prices were high with a link to a food reserve to ensure that these countries could purchase food at

reasonable prices in the international market. Sri Lanka agreed that the main objective of the Agreement was to create a fair and market-oriented agricultural trading system by removing trade-distorting policies which in the past had led to structural surpluses. If the fundamental objective of elimination or gradual reduction in export subsidies and reduction in domestic support was successful and structural surpluses were decreased there would be an increase in the cost of food imports of the LDCs and NFIDCs. In this connection, Sri Lanka recognised Japan's proposal at the Special Session for the establishment of an international food reserve.

6. In the view of Sri Lanka there were further reasons that justified the establishment of a Revolving Fund. The IMF compensatory financing facility (CFF) had not been used by many NFIDCs and LDCs due to its conditionality; the CFF covered only the cereal cost of food and did not cover all basic foodstuffs as envisaged in the Decision, and it was subject to standard interest rates. Furthermore, the IMF was in the process of reviewing the CFF in the context of an overall reform of the financial architecture with emphasis on the Poverty Reduction and Growth Facility. The IMF was not looking at cereal import bills separately but rather in the context of the balance of payment situation and other adjustment conditionalities. Moreover, the availability of financing under the CFF would be reduced as its operation was reviewed. Under the second window of the Revolving Fund, technical and financial assistance would be made available to improve agricultural productivity and related infrastructure so as to enable the LDCs and NFIDCs to increase their food production and be less dependent on food imports. On food aid, the philosophy of the Food Aid Convention had changed with the intention to encourage commercial purchases, decrease the availability of food aid and provide finance to purchase food on a commercial basis. There was an emphasis on encouraging commercial buying, hence the importance of a Revolving Fund. Sri Lanka also believed that there was a need for donor countries to commit greater commodity volumes under the Food Aid Convention and to make food aid available in fully grant form.

7. Sri Lanka expressed the hope that the proposal would receive positive consideration by developed country Members and donor countries as the reform process envisaged in Article 20 of Agreement on Agriculture should also take into account possible negative effects arising from the reforms. On this condition, these two groups of countries would be able to make further commitments in the reform process since this would impose additional burden of adjustment on these two groups of countries.

8. Honduras, on behalf of Cuba and the Dominican Republic, stated that after six years of implementation of the Agreement, there were no concrete measures in favour of the LDCs and NFIDCs. As the proposal indicated, the situation of the net food-importers had deteriorated as a result of the Uruguay Round. The Marrakesh Decision was only one of the many Uruguay Round benefits which developing countries were supposed to have received but which had not materialized. It was therefore difficult for these Members to consider the launching of a new round of negotiations since they were still waiting to obtain the benefits from the past round. These Members hoped that this proposal would be well received by Members and that it would result in concrete decisions to be adopted by the General Council in the implementation process before the fourth Ministerial Conference which would contribute to the process of strengthening confidence in the multilateral trading system.

9. Senegal stated that as one of the sponsors of the proposal it fully supported the specific ideas that had been put forward. Senegal considered that the proposal constituted an important step towards finding a solution to this priority issue. In Senegal food imports constituted approximately 45 per cent of total imports and this issue was therefore of utmost importance since it was directly linked to food security. Senegal called on Members to give the proposal their highest attention so as to make progress on this issue.

10. India supported the proposal made by the group of sixteen net food-importing developing countries. India noted with concern that food aid was lower when world market prices were high. If Members were serious about implementing the Marrakesh Decision in good faith, food aid should increase when it was most needed, that is when world market prices were high. India also supported steps for capacity enhancing in the long term so that dependence on food aid was reduced. Food production could be boosted in many of the current food-importing developing countries if trade-distorting support to agriculture provided in several other countries was meaningfully reduced.

11. Indonesia recognized the importance of the proposal submitted by the sixteen WTO net food-importing developing countries. Indonesia looked forward to constructive results in the consultations undertaken by the Vice-Chairman with a view to finding appropriate mechanisms to implement the NFIDC Decision.

12. New Zealand noted that it was one of those Members which had supported the decision in the General Council to bring this issue before the Committee on Agriculture with a view to finding ways of more effectively implementing the Marrakesh Ministerial Decision. New Zealand commended the proponents of the proposal for tabling this thoughtful paper. New Zealand already provided all of its food aid in fully grant form and would encourage others to do so as well. New Zealand agreed that donor countries should commit greater commodity volumes under the Food Aid Convention as the need dictated. New Zealand also agreed that it was essential that additional and more targeted technical and financial assistance be provided to NFIDCs and LDCs to increase their agricultural productivity and infrastructure. There were many other interesting suggestions in the proposal, including the inter-agency Revolving Fund concept, which New Zealand would need more time to reflect upon. New Zealand looked forward to take forward the discussion in a substantive manner and supported ongoing informal consultations by the Chair on the subject.

13. Thailand welcomed the constructive proposals by the sixteen developing countries. It could support the proposal that food aid should be provided in fully grant form. In addition, Thailand suggested that the purchase of food stocks for food aid should be made from developing countries only.

14. Australia welcomed the proposal for revising existing WTO provisions under the NFIDC Decision and the establishment of mechanisms to improve the implementation of that Decision. Australia was interested in further technical elaboration of the proposals in the paper. Australia noted that at a preliminary discussion between the sponsors of the proposal and donors, which was convened by the Vice-Chairman, it was agreed that as a first step it would be helpful if the IMF, the World Bank, the International Grains Council and the FAO could inform Members on their actions relevant to the proposals on access to financing facilities, food aid, and technical and financial assistance. Australia would welcome this approach.

15. Canada thanked the proponents for their efforts in preparing the proposal. Canada shared the interest in ensuring that the Decision was effectively implemented. While the submission alluded to a clear causality between Uruguay Round policy reforms and higher food import bills experienced by LDCs and NFIDCs, Canada was not convinced that the paper clearly established this causal link. In fact, the Table attached to the proposal seemed to show food import bills rising in 1995/96 and falling since. Per unit import costs had done likewise, and based on the further decline in prices for 1999/2000, it could be expected that they would decline still further when more recent data became available. This suggested there might be many other reasons for the changes in food import bills of the LDCs and NFIDCs than a link with the reform programme. The issue of causality was very important in the discussion of the implementation of a decision dealing with the effects of the reform. Canada recognised the legitimate concerns of the sponsors of the proposal regarding instability in food import bills and wanted to see the Decision work effectively. Canada also agreed with India that reduced distortions and a better functioning agricultural trading system would contribute to improved

food security in NFIDCs and LDCs. On food aid, Canada supported the call for all food aid to be provided in fully grant form. On the question of larger volume commitments under the Food Aid Convention, Canada had increased its volume commitments under the Food Aid Convention in 1999, and had consistently exceeded its Food Aid Convention commitment threshold. With regard to the idea of carrying forward and back food aid commitments, Canada wondered if this would run counter to the principle of providing assurances of the availability of minimum levels of food aid. In considering this proposal, Canada believed that the appropriate forum to consider food aid volume commitments was the Food Aid Convention and not the WTO. On the proposed new financing facilities, Canada would like to learn more about the reasons for the under-utilisation of existing facilities. Canada would encourage a detailed and specific discussion of what problems existed within existing mechanisms, and how they might be resolved, before considering the establishment of a new mechanism. Regarding technical and financial assistance, Canada was interested in examining how this assistance could be targeted more effectively. Canada had doubts, however, about whether the WTO was an appropriate forum for countries to make commitments on the level and direction of their development assistance activities.

16. The EC stated that it was fully committed to the Food Aid Convention and strongly supported the proposal that food aid should be provided in fully grant form. The EC also had noted that food aid had been lower when market prices were higher, and vice-versa. This illustrated another important issue, namely the abuse of food aid to enhance market penetration. With respect to increases on food aid, the EC believed that food aid should be given to those in need and when needed. Food aid should not create dependence, nor jeopardise local production of food. With respect to financial facilities, the EC's view at this stage was that they should be dealt with by the IMF and the World Bank.

17. The United States thanked the sponsors of the paper for their contribution to the discussion. The United States felt that the debate on whether or not the modest Uruguay Round reform process had a negative effect on the LDCs and NFIDCs had probably gone on long enough. Nonetheless, some countries might feel that their reliance on food imports left them vulnerable to the uncertainties of the market place and these concerns must be addressed if these countries were to participate in and benefit from further reform. While there were a number of points in the proposal with which the United States agreed, on some issues the United States had different views. In the view of the United States, the negotiations on food aid should remain with the Food Aid Convention and not be taken up by the WTO. The United States were thus reluctant to make binding commitments on food aid within the WTO schedule of commitments. The United States as the largest donor of food aid provided more than 85 per cent of food aid in grant form. The United States considered that there was an important role to play for concessional loan based food aid. The United States were also reluctant to commit to a new financing facility without first exploring the deficiencies of the current arrangements. Furthermore, a new financing mechanism could not be established quickly and a great deal of technical work would be required. In any event, the United States took the proposal seriously and were committed to working with interested members on the matter. The United States encouraged the Vice-Chairman to continue the informal technical discussions.

18. Japan welcomed the proposal by the sixteen developing countries. This proposal sought to address the problems which NFIDCs and LDCs were facing during the Uruguay Round implementation period. Japan supported the efforts to consider what should be done to solve these problems and to make the Marrakesh Decision effective. In the view of Japan, the specifics of the proposal should be examined carefully. Japan supported that FAO play an important role as a competent agency on food security issues in developing countries. Members should draw on FAO's expertise to examine the implementation experience of the Agreement on Agriculture, approaches towards food security, technical problems on food stockholding schemes and other issues. Japan felt that it could also be useful to have discussions among relevant international organizations, including FAO. Regarding food aid, Japan believed that the possibility to provide food aid on a loan basis should be maintained, taking into account the needs of recipient countries and financial conditions of

donor countries in the case when large-scale food shortages occurred. Regarding the proposal on stockholding, Japan had also proposed an international food stockholding system in its negotiating proposal. Japan would like to examine with the developing countries concerned what measures were effective for establishing such an international food stockholding scheme.

19. Uruguay welcomed the concrete proposals made by the sixteen Members. Uruguay supported a number of suggestions, in particular that food aid should be provided in fully grant form and be available when most needed. The proposals should be carefully studied and given priority attention. While Uruguay shared the doubts expressed by Canada concerning the causal link between the reform process and the problems faced by these countries, it agreed that work should be undertaken to identify problems within the framework of existing mechanisms before recommending new solutions. Uruguay supported the idea of seeking additional information from the relevant international organisations.

20. Argentina welcomed the proposal and was prepared to support it. Although Argentina had concerns regarding the justification of the proposal, Argentina considered the proposal to be a step in the right direction by suggesting aid for imports rather than subsidies for exports of agricultural products. Another merit of the proposal was to draw attention to the importance of technical assistance as a means to increase production in the countries concerned. Argentina noted that it might be complicated and possibly beyond the Committee's mandate to establish a new fund. Nevertheless, Argentina supported the suggestion of Australia to first proceed to an examination of the existing mechanisms and facilities, in the light of which the Committee could then make recommendations, as appropriate. Argentina considered, on the other hand, that the suggested causality between the Uruguay Round commitments and higher food import bills was far from clear since many factors were at play, including the financial crisis, natural disasters and civil wars. Argentina also considered that applications to be included on the WTO list of net food-importing developing countries (G/AG/5/Rev.4) should be considered with good will but cautioned against diluting the list if the Marrakesh Decision was to be implemented effectively.

21. Pakistan thanked Members for having positively engaged in these discussions. Their ideas and suggestions would be helpful in refining the proposal. With respect to the argument by certain Members that the causality between the reform programme and international food prices was not established or rather weak, Pakistan observed that in the first two years of implementation, world market prices for food had increased as domestic support and other trade-distorting support was reduced; in subsequent years, prices had decreased since trade-distorting support to agriculture had been increased to levels of the base period. In the view of the sponsors of the proposal, there was thus a clear causal link between the "reform policies" and international food prices. In any event, the sponsors were willing to elaborate their proposal which reflected genuine concerns and difficulties.

22. Argentina took issue with Pakistan's statement concerning the issue of causality. In the view of Argentina, the situation was as follows: initially, when the commitments on domestic support and export subsidies were not constraining, international commodity prices had increased; subsequently, when the commitments became more constraining, world prices had declined – and not the other way round as might be expected. In other words, there could be a linkage between the WTO commitments in agriculture and world prices but the suggested causality was far from clear. For this and other reasons, Argentina would be concerned about statements to the effect that the results of the Uruguay Round were prejudicial to the interests of the NFIDCs and LDCs.

23. In summarizing the discussion, the Vice-Chairman noted that Members had held an interesting debate on the issue of causality between the Uruguay Round results in agriculture and world food prices and although different views had been expressed, there was a common view that it was important to ensure stable food supplies for LDCs and NFIDCs. There had also been different views on the question of which institutions should deal with the various elements of the Marrakesh

Decision. It would be his suggestion to continue the informal discussions with participation of experts from the relevant international organizations, with a view to identifying the specific problems in implementing the Decision. In such informal meetings, it would be his intention to take up the issues separately, that is access to the financing facilities of the international financial institutions; food aid; and technical and financial assistance.

ANNEX 2

PROPOSAL TO IMPLEMENT THE MARRAKESH MINISTERIAL DECISION IN FAVOUR OF LDCs AND NFIDCS

Submitted by Côte d'Ivoire, Cuba, Dominican Republic, Egypt, Honduras,
Jamaica, Kenya, Mauritius, Morocco, Pakistan, Senegal, Sri Lanka, St. Lucia,
Trinidad and Tobago, Tunisia and Venezuela *

We are grateful to the Vice-Chairman of the WTO Committee on Agriculture for inviting concrete proposals by the NFIDCs and the LDCs on the relevant points under paragraph 21 of the Draft Ministerial Declaration of 18 October 1999 related to the implementation of the Marrakesh Ministerial Decision on Measures Concerning the Possible Negative Effects of the Reform Process on Least-Developed and Net Food-Importing Developing Countries. We look forward to the following proposals being given immediate and favourable consideration to allay the genuine concerns of the NFIDCs and LDCs and effectively implement the relevant Ministerial Decision which is a legal commitment of WTO Members under Article 16 of the Agreement on Agriculture. We are confident that the discussions in the Committee on Agriculture on this issue will lead to the submission of positive suggestions to the General Council for adoption.

The main objective of the Agreement on Agriculture was to decrease the structural surpluses generated in the past by production and trade-distorting policies in agriculture. It is, therefore, obvious that if this fundamental objective of the AoA is successful, the effect for the NFIDCs and LDCs will be an increase in the cost of their food imports. The period since the UR came into being provides a good example for examining the experience of NFIDCs and LDCs as regards their food import bills.

According to the data provided by FAO (see Table I), these two groups of countries are facing much higher cereal import bills than before. Taking the two years prior to 1995 as a benchmark (i.e. the average of the two marketing years 1993/94 and 1994/95), the increase in the cereal import bills in 1995/96 to 1996/97 amounted to 36.6 per cent for the two groups of countries taken together. Nearly all of this increase (35.1 per cent) was due to increases in the per unit cost of imported cereals, as volumes changed only marginally. Moreover, even after the world prices returned to more normal levels since the 1997/98 marketing year, the cereal import bills of these two groups of countries remained at a much higher level than they were prior to 1995.

In view of the above, the causality between policy reforms under the Uruguay Round and higher food import bills for the LDCs and NFIDCs is clear.

Proposals for Implementation

The Ministerial Decision includes three mechanisms to respond to the difficulties faced by the LDCs and NFIDCs: food aid, access to financing facilities, and technical and financial assistance to increase agricultural productivity and infrastructure. We have the following proposals in respect of each of these three mechanisms.

*(G/AG/W/49, dated 19 March 2001.)

Food Aid

Unfortunately, it has been observed that food aid is lower when world market prices are high and hence more food aid is needed, and vice versa. Moreover, the new Food Aid Convention (FAC) approved in June 1999 has lesser volume of commodity commitments (4.895 million tonnes, in wheat equivalent) than under the previous 1995 FAC (5.35 million tonnes, in wheat equivalent) and 1986 FAC (7.5 million tonnes).

We therefore, propose that:

- (i) all food aid should be fully in grant form;
- (ii) donor countries should commit greater commodity volumes under the Food Aid Convention;
- (iii) the donor countries commit that the food aid volumes will increase in years of high world market prices when such aid is most needed. This can be achieved by providing appropriate flexibility in the Convention, e.g. carry forwards from periods of low prices and hence of low demand for food aid and call forwards from next year(s) contributions under the FAC.

Access to Financing Facilities

The NFIDCs and LDCs need access to special financing facilities to maintain the normal volume of food imports during times of high market prices without further jeopardizing their balance-of-payments position. Experience has shown that the existing facilities under the Bretton Woods institutions, due to the conditionalities attached and other technicalities, have not been used by the countries in need of such financing. Moreover, the required financing facility should have some corresponding link with physical stocks of food grains. We therefore propose that:

- (i) FAO, in the light of its experience and work in this area, should be asked to provide estimates of the volumes of normal annual food imports that are needed by individual NFIDCs and the LDCs to maintain consumption levels, and assess the assistance needed to import these quantities;
- (ii) an inter-agency Revolving Fund should be set up with two components. The first, and variable component of this Fund (to comprise existing and/or new financing facilities as appropriate), will be to ensure that adequate financing at concessional terms is made available to the NFIDCs and LDCs in times of high world market prices;
- (iii) the producing countries commit, in years of plentiful supplies as we are witnessing now, to put aside over and above volumes required for food aid, emergencies and essential nutritional assistance projects, sufficient national food reserves in accordance with the normal import requirements of the NFIDCs and LDCs as indicated by FAO;
- (iv) these reserves should be released to the LDCs and NFIDCs at reasonable prices, in times of high world market prices, to help them, together with available food aid, meet their normal import requirements.

Technical and Financial Assistance

Further, we consider it essential that technical and financial assistance be provided to the NFIDCs and the LDCs to increase agricultural productivity and infrastructure. This will address directly the very problem responsible for the heavy dependence of LDCs and NFIDCs on the world market. We, therefore, propose that:

- (i) the second, and fixed component of the above-mentioned Revolving Fund should provide technical and financial assistance to NFIDCs and LDCs for specific projects linked to improving agricultural productivity and related infrastructure;
- (ii) this technical and financial assistance to be provided to the NFIDCs and the LDCs should be over and above the regular bilateral and multilateral activities of donors in this area.

Binding Commitments and Effective Monitoring

To ensure certainty and predictability in respect of food aid, financing, and technical and financial assistance, it is recommended:

- (i) all major developed exporting countries should put aside supplies, under national food reserves, specifically earmarked to be released to the NFIDCs and LDCs under reasonable prices during years of high world prices;
- (ii) developed countries and international development and financial institutions (World Bank IMF, UNDP) should contribute to the financing of the two components of the Revolving Fund which, in turn, should be managed by an inter-agency arrangement with the full involvement of FAO;
- (iii) the commitment of WTO Members regarding volumes of food aid, volumes of physical reserves, contributions to the two components of the Revolving Fund are inscribed in their country schedules as binding and legally enforceable;
- (iv) the WTO Members should make regular annual notifications in respect of these commitments to the Committee on Agriculture of the WTO.

We are willing to enter into discussions with our trading partners in good faith and with a view to reaching effective solutions. Depending on these discussions, we will be happy to provide further technical elaboration of the points made in this proposal.

Table I

Cereal Imports of LDCs and NFIDCs (1993/94 to 1999/00) - Information as of November 15, 1999

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00
<u>Import bill (\$ million)</u>							
LDCs	1,375	2,195	2,272	1,871	2,357	1,996	na
NFIDCs	3,775	4,559	6,265	5,857	5,397	4,617	na
LDCs+NFIDCs	5,150	6,754	8,537	7,728	7,754	6,613	na
% change over 1993/94-94/95	-13.5	13.5	43.4	29.8	30.3	11.1	na
<u>Total volume imported (1000 tons)</u>							
LDCs	11,167	13,310	12,273	10,753	14,390	15,380	13,108
NFIDCs	25,516	25,995	26,093	28,038	30,974	29,370	31,542
LDCs+NFIDCs	36,683	39,305	38,366	38,791	45,364	44,750	44,650
% change over 1993/94-94/95	-3.4	3.4	1.0	2.1	19.4	17.8	17.5
<u>Food aid (1000 tons)</u>							
LDCs	3,932	4,326	3,305	2,553	2,669	3,157	na
% of total imports	35.2	32.5	26.9	23.7	18.5	20.5	na
NFIDCs	1,857	1,325	641	495	622	616	na
% of total imports	7.3	5.1	2.5	1.8	2.0	2.1	na
LDCs+NFIDCs	5,789	5,651	3,946	3,048	3,291	3,773	na
% of total imports	15.8	14.4	10.3	7.9	7.3	8.4	na
<u>Benefit from US EEP (\$ million)</u>							
LDCs	99	35	1	0	0	0	na
NFIDCs	355	88	21	0	0	0	na
LDCs+NFIDCs	454	123	22	0	0	0	na
% change over 1993/94-94/95	57.4	-57.4	-92.4	-100.0	-100.0	-100.0	na
<u>Per unit import cost (\$/ton)</u>							
LDCs	123.1	164.9	185.1	174.0	163.8	129.8	na
NFIDCs	147.9	175.4	240.1	208.9	174.2	157.2	na
LDCs+NFIDCs	140.4	171.8	222.5	199.2	170.9	147.8	na
% change over 1993/94-94/95	-10.4	9.7	42.0	27.2	9.1	-5.7	na
<u>Wheat export price</u>							
US no 2 hard winter (\$/ton)	143	157	216	181	142	120	110
% change over 1993/94-94/95	-4.7	4.7	44.0	20.7	-5.3	-20.0	-26.7
	1993/94-94/95		1995/96-96/97		1997/98-98/99		
<u>Averages (LDCs+NFIDCs)</u>							
Import bill (\$ million)	5,952.0		8,132.5		7,183.5		
Total volume imported (1000 tons)	37,993.9		38,578.5		45,057.0		
Food aid (1000 tons)	5,719.8		3,496.8		3,532.0		
Benefit from US EEP (\$ million)	288.5		11.0		0.0		
Per unit import cost (\$/ton)	156.7		210.8		159.4		
Wheat export price (\$/ton)	150.0		198.5		131.0		
<u>% change over 1993/94-94/95</u>							
Import bill	0.0		36.6		20.7		
Total volume imported	0.0		1.5		18.6		
Food aid	0.0		-38.9		-38.2		
Benefit from US EEP	0.0		-96.2		-100.0		
Per unit import cost	0.0		34.6		1.8		
Wheat export price	0.0		32.3		-12.7		

Source: FAO . Figures for 1998/99 are provisional and for 1999/00 are estimates

ANNEX C
(G/AG/10 dated 6 July 2001)

EXAMINATION OF POSSIBLE MEANS OF IMPROVING THE EFFECTIVENESS OF THE IMPLEMENTATION OF THE DECISION ON MEASURES CONCERNING THE POSSIBLE NEGATIVE EFFECTS OF THE REFORM PROGRAMME ON LEAST-DEVELOPED AND NET FOOD-IMPORTING DEVELOPING COUNTRIES

Report by the Vice-Chairman, Minister Yoichi Suzuki, to the General Council

1. At its meeting on 15 December 2000, the Special Session of the General Council referred to the relevant subsidiary bodies, including the Committee on Agriculture, a number of implementation related issues. The General Council decided, inter alia, that:

"[t]he Committee on Agriculture shall examine possible means of improving the effectiveness of the implementation of the Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Developing Countries and report to the General Council at the second regular meeting of the Council in 2001." (WT/L/384 refers).

2. In this context, a group of sixteen WTO net food-importing developing countries comprising Côte d'Ivoire, Cuba, Dominican Republic, Egypt, Honduras, Jamaica, Kenya, Mauritius, Morocco, Pakistan, Senegal, Sri Lanka, St. Lucia, Trinidad and Tobago, Tunisia and Venezuela submitted to the Committee on Agriculture a "Proposal to Implement the Marrakesh Ministerial Decision in favour of LDCs and NFIDCs" (G/AG/W/49). The sponsors of this proposal have submitted an elaborated proposal which has been circulated as G/AG/W/49/Add. 1 (copy attached as Annex 3). The list of co-sponsors now includes Peru, bringing the number of co-sponsors up to 17. The proposals were the subject of continuing discussions, including at an Informal Roundtable Discussion with the IMF, the World Bank and the FAO as well as at the regular meeting of the Committee on 28-29 June 2001.

3. The IMF representative stressed that the IMF has sufficient financial resources but lending by the IMF had to be aimed at addressing balance-of-payments problems. The World Bank representative observed that World Bank lending for rural development had declined from about US\$4 billion per annum a decade ago to US\$1 billion last year, the lowest level ever. This decline was due not to lack of World Bank resources, but to a decline in demand for loans aimed at agricultural and rural development. The World Bank representative stated that the Bank was concerned that agricultural development was no longer being accorded a high priority in many developing countries in terms of the use being made of the Bank's resources. Frustrations were expressed by the proponents of the proposal that adequate financing facilities to meet the short-term difficulties of the NFIDCs and the LDCs were not existent. A detailed summary of the discussions at both meetings is attached in Annexes 1 and 2.

4. Regarding future work, I noted that there is support among Members to continue the consultation. I intend to organize more informal consultations. There will also be an opportunity to pursue the issue at the Special Session of the Committee on Agriculture in July in the context of the discussions on food security. This will contribute to define more clearly the scope of issues that need to be taken up in the context of implementation. The content of my consultations will include how to address short-term financial difficulties, whether present IMF and World Bank facilities are suited to address concerns, and the proposed revolving fund. I will also provide opportunities to consult in a wider context including the issues of food aid and technical and financial assistance to improve agricultural productivity and infrastructure.

5. As agreed by the Committee on Agriculture at its meeting on 28-29 June 2001, this report is submitted to the General Council on my responsibility as Vice-Chairman of the Committee.

ANNEX 1

Examination of Possible Means of Improving the Effectiveness of the Implementation of the Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Developing Countries – Summary of the Discussion at the Meeting of the Committee on Agriculture on 29 June 2001

6. Egypt noted that the participants in the Roundtable had reached the conclusion that the current financial facilities available under the aegis of the IMF and World Bank did not serve the purpose of the Marrakesh Decision. These facilities were anchored in balance-of-payments relief at the IMF, and in long-term agricultural production projects at the World Bank. Because of time constraints, there had not been a full discussion of the proposal for a new food financing facility. In view of the rising opposition of civil and other sections of society to further liberalization in agriculture, it was becoming increasingly difficult for the decision makers in various capitals to engage wholeheartedly in the work of the special negotiating sessions. Doha presented a unique opportunity to convince the doubters of the feasibility and desirability of further reform of the multilateral trade system. This would be impossible without a suitable sign of the international community's commitment to address the concerns of the weaker trading partners. NFIDCs and LDCs were frustrated and disappointed about the lack of constructive engagement and the slow pace of discussions, and reiterated a willingness to accelerate work on the issue with a view to presenting the Ministers at Doha with a pleasant surprise.

7. In Pakistan's view, it would be embarrassing for Ministers if the Marrakesh Decision was not operationalized before the Doha conference, six years after it had been taken; this issue should be one of the many deliverables at Doha. The NFIDCs and LDCs had tried to explain the rationale of their proposal, and put forward a solution. The existing facilities of the IMF and World Bank did not cater to the needs of the proponents. The Contingency Financing Facility (CFF) of the IMF was not used frequently because of the conditionality, and this conditionality had been further strengthened. The possibility of modifying the CFF criteria was remote. Since the existing facilities did not meet the needs, alternative institutions should be considered, for example the International Fund for Agricultural Development (IFAD). IFAD was an international financial institute, had logistic capacity, but lacked money. In response to those who failed to see the link between prices and the reform programme, Pakistan pointed out that according to the OECD, support to agriculture had risen, which naturally had led to falling prices. Especially Cairns Group countries should not be blind to this link between increased support and falling prices.

8. Venezuela noted that the concentration on short-term financing at the Roundtable should not mean that other topics, including food aid as well as technical and financial assistance, were not important. The discussions at the Roundtable had led to the conclusion that the existing financial facilities were not adequate for the needs addressed by the Marrakesh Decision. Unfortunately, at the Roundtable there had been no opportunity to discuss the proposal in detail. Venezuela emphasized in particular two aspects of this proposal: the self-financing character of the fund, and the possibility that IFAD could be a more appropriate framework for the administration of this fund given the lack of flexibility of the IMF and the World Bank.

9. Sri Lanka appreciated the opportunity to discuss this topic at the informal Roundtable, and clarified the overall purpose of the proposal. This proposal called for effective implementation of the Ministerial Decision, including three mechanisms: food aid, financing facilities, and technical and financial assistance to increase agricultural production and infrastructure. The co-sponsors of the proposal had highlighted the reasons why the Decision remained unimplemented at previous meetings. They proposed that all food aid should be fully in grant form, requested donor countries to

commit greater commodity volumes under the Food Aid Convention, and to make this aid available when it was most needed, during periods of high market prices. On access to financing facilities, they proposed the creation of a special facility to maintain the normal value of food imports during times of high market prices without further jeopardizing their balance-of-payments positions. The group proposed the establishment of an inter-agency fund with two components: one variable component to ensure that adequate financing was made available at concessional terms to NFIDCs and LDCs at times of high market prices; and a fixed component to provide technical and financial assistance to NFIDCs and LDCs for specific projects linked to improving agricultural productivity and related infrastructure. They also proposed to ensure the predictability of the operationalization of the Decision, and recommended that all stakeholders make commitments in different areas.

10. Sri Lanka then addressed the questions posed at the March formal meeting of the Agriculture Committee and at the Roundtable. The first set of questions was related to the causality between the Uruguay Round reforms and the higher import bills experienced by NFIDCs and LDCs. The group's paper had observed that in the first two years of implementation, world market prices for food had increased as trade-distorting support was reduced. In subsequent years, prices had decreased since trade-distorting support to agriculture had increased to levels of the base period. Sri Lanka stressed that the comparison should be between an outcome *with* the Uruguay Round and one *without* the Uruguay Round. There was a long-term downward trend in food prices since the beginning of the previous century, and this trend was likely to continue. Other primary commodities exported by developing countries experienced a similar downward trend. Hence, export earnings also had a downward trend, influencing the terms of trade. The argument that the reform process had not had any adverse effects on the capacity of NFIDCS and LDCs to purchase food contradicted the argument made by the same people who claimed beneficial effects of the reform process for developing countries stemming from agriculture.

11. A second set of questions concerned whether the food-aid component should remain within the Food Aid Convention, whether the WTO was the appropriate forum for countries to make commitments in the different areas, and whether the establishment of a new fund fell within the Committee's mandate. Sri Lanka believed that the Marrakesh Decision had emerged as a consequence of the liberalization process undertaken in the WTO context. Hence the implementation of the responsibilities attached to the Decision lay also within the WTO. Although the level of food aid was decided under the Food Aid Convention, it was morally and practically incorrect to claim that the issue of food aid should be dealt with outside the WTO because the Decision called for the adoption of guidelines to ensure that appropriate levels of food aid were made available to NFIDCs and LDCs in fully grant form. Under the Decision, the Ministers recognized that in order to address the short-term difficulties experienced by these countries in financing normal levels of commercial imports, they would be eligible to draw on the resources of international financial institutions under existing facilities or facilities to be established. In the absence of a Ministerial Conference, the General Council was empowered to review the Decision for its effective implementation. The General Council, in its decision of December 2000, had mandated the Agriculture Committee to examine possible means of improving the effectiveness of the implementation of the Marrakesh Decision. Therefore, the Committee had a mandate to examine such new schemes.

12. The last set of questions addressed by Sri Lanka was related to the proposed inter-agency revolving fund, and to technical clarifications on the existing financial facilities, how they functioned, and why they were under-utilised. The informal Roundtable had proved that the existing financial facilities under the Bretton Woods institutions could not be used by the NFIDCs and LDCs due to the conditionalities attached to such facilities, the limited product and country coverage, and their greater relevance to the policy decisions of beneficiary countries than to the needs of NFIDCs and LDCs. The group sponsoring the proposal intended to provide technical details at an appropriate time on the organization, implementation and monitoring of the inter-agency fund. Sri Lanka invited interested

delegations to submit alternative proposals while taking into account the weaknesses inherent in the existing mechanism.

13. Peru shared the previous speakers' view about the inadequacy of the existing financial mechanisms and supported the creation of a new fund for short-term financing of normal import levels of basic food products as an important contribution to food security. Increasing food import bills constituted an obstacle to development. The new proposal dealt only with one of the aspects of the Marrakesh Decision, but Peru continued to be interested in a full implementation of the Decision.

14. Trinidad and Tobago recalled that the first proposal had addressed the three elements of the Marrakesh Decision, namely food aid, access to financing facilities, and technical and financial assistance to increase agricultural productivity and infrastructure. The Roundtable, which had addressed the section of the proposal that dealt with short-term financing facilities, had not been encouraging. The existing facilities could not and did not respond to the needs of the NFIDCs and LDCs in implementing the Ministerial Decision. There was a need to be innovative in creating an instrument, i.e. the proposed revolving fund, which could facilitate implementation of the Decision. Consultations on all aspects of the Decision had to be pursued. Trinidad and Tobago pointed out that aside from the Bretton Woods institutions there was another international organization with experience in financing that was involved in the area of agricultural development and food security: IFAD. In light of the negative and rigid position adopted by the IMF and the World Bank at the Roundtable, WTO Members should examine whether IFAD might not be the ideal agency to manage an operationalized revolving fund.

15. The Dominican Republic, on behalf of Honduras, reminded the Committee that the Marrakesh Decision contained a long-term and a short-term component. The short-term component aimed to resolve difficulties in financing normal levels of commercial imports, while the long-term component was designed to improve agricultural productivity and infrastructure. The Roundtable had made it clear that the existing facilities were not designed to cover short-term needs as foreseen in the Decision. Therefore, a new self-financing fund of 1.2 billion dollars to be contributed by multi-lateral organisms and donors had been proposed. There had been a lack of political will to resolve this problem in the six years since the adoption of the Decision. Time before the Doha Conference was running short, and the lack of satisfactory solutions to this and other implementation problems would condition their acceptance of new elements for the future work programme of the WTO. The Dominican Republic and Honduras desired a more detailed discussion of the proposal, and asked their trading partners for the necessary flexibility to reach a solution.

16. Cuba noted that the proposal constituted a new effort to find a concrete solution to one part of the Marrakesh Decision. It was clear that the existing facilities could not be adapted to the needs of NFIDCs. Thus, a new fund had to be created in a multilateral framework. The fact that until now the WTO had not been able to correct this problem resulting from the Uruguay Round showed that there was a lack of political will. This resulted in considerable insecurity in developing countries when it came to accepting new commitments in the organization.

17. Jamaica recalled the importance for developing countries of resolving implementation issues. The operationalization of the Marrakesh Decision was one such issue. Jamaica had co-sponsored the proposal, but had also indicated that it remained open to other options. One example, IFAD, was a financial institution whose involvement could assist in effectively addressing Jamaica's concerns. As preparations for Doha intensified, Jamaica anticipated concrete positive responses to advance this discussion.

18. Nigeria stressed that the need to implement the Marrakesh Decision was ever more urgent in view of other problems facing LDCs, most of which were in Africa. These problems included heavy debt overhang, natural disasters, droughts, wars and the AIDS pandemic. In view of these problems it

was imperative that a way be found to implement this Decision in line with Article 16 of the Agreement on Agriculture. If the present proposal was not acceptable, Nigeria invited developed countries to make counterproposals that would lead to a resolution. Such a solution would increase confidence in the multilateral trading system.

19. Argentina questioned the link between international prices and the agricultural reform process, and recalled its statement at the March Committee meeting on this subject (G/AG/7 refers). Many factors had influenced prices, including the Asian crisis and technological progress. When the implementation period had started, prices had increased, but at the end of the implementation period for developed countries, prices had fallen. The proposal was interesting and should be analyzed, but it was based on the unjustified assumption that there was an obvious link to prices.

20. India reiterated that this was a real implementation problem arising from the Marrakesh Decision. India was concerned with the non-implementation of this decision affecting the most vulnerable developing countries, which would lead to a loss of these countries' faith in the WTO's responsiveness to their problems. India shared these concerns since it had graduated from being a net food importing country to self-sufficiency or even marginal exports. India urged the Vice-Chairman to develop a road map for the work leading up to Doha to find a solution to this problem. If food prices had decreased, and food aid had increased, India wondered why import bills had increased since the Uruguay Round. Through the Vice-Chairman, India requested FAO to analyze this problem and provide more information to the Committee.

21. New Zealand stressed that it had faithfully implemented the Marrakesh Decision and its follow-up at the Singapore Conference. LDCs wishing to trade with New Zealand had almost duty-free access, and starting on 1 July 2001 would have completely duty-free access for all products. New Zealand's food aid was guaranteed on a cash-only basis, and targeted assistance to agriculture was provided through its bilateral aid programme. New Zealand was neither for nor against the proposed short-term financing facility, but remained to be convinced of the need for a new fund. At the Roundtable, New Zealand had hoped to see an attempt to use the existing framework of the IMF and the World Bank since it saw significant barriers to the development of a new fund within the timeframe envisaged. New Zealand also saw difficulties in the notion of the WTO as a rules-based organization taking on this issue, and was struggling to find a way forward. Like India, New Zealand would endorse a road map, as well as further informal consultations and discussions at the July Special Session. If Ministers at Doha decided that the concept of a short-term financial facility should be pursued, then New Zealand would work faithfully to activate such a decision.

22. The European Communities noted that, similar to New Zealand, it had also opened its markets to LDCs. Regarding the proposal, the EC agreed that food aid should be in fully grant form, and should not be a means of surplus disposal. The EC was not convinced by the justifications given for the new fund. The Marrakesh Decision referred clearly to countries facing negative effects in terms of availability of food on reasonable terms and conditions, while the proposal referred to rising import bills, which might be caused by other factors, such as growing populations or higher incomes. While the Decision referred to the financial facilities of the current international organizations, the proposal suggested to create a new fund outside the umbrella of the current institutions. In addition, the EC was not convinced that the current financial facilities were inappropriate to meet the problems related to the availability of food. The EC remained open to further technical discussions to facilitate a better understanding of the issue. Food security would also be addressed in the negotiations under Article 20. Implementation of the Marrakesh Decision was important, and there was scope for significant improvements of conditions for the provision of food aid.

23. Venezuela replied that the Marrakesh Decision referred also to difficulties in financing normal levels of food imports. Regarding the link between the reform process and prices, the fact that there were many factors should not serve as an excuse to delay action. Paragraph 5 of the Marrakesh

Decision clearly referred to existing financial facilities and to possible new ones; thus the proposal aimed only at implementing something already contained in the Decision.

24. Egypt requested all delegates to concentrate on the proposal, which dealt with short-term financing requirements. Food aid did not replace these. Egypt was grateful for duty-free market access for LDCs, but this did not provide for food security. The new fund did not have to be outside the Bretton Woods organizations; the proposal mentioned that these organizations should be involved in its management. The fund was supposed to be commercially viable, and would constitute a safety net for bad times, which would help countries to go further in their liberalization efforts. Import bills of NFIDCs and LDCs for 2000/2001 were expected to rise by around 6 per cent. The Decision was meant to help NFIDCs and LDCs precisely in these situations, even if they did not reflect long-term market developments. Since it was to be expected that subsidies would be reduced through the ongoing negotiations, this would definitely result in price increases, probably about three to four years after the conclusion of an agreement. If nothing was done now, it would be very difficult to address that future situation, since it would take time to establish a new funding facility.

25. Canada recognized the concerns of some LDCs and NFIDCs over food security, particularly in the context of continuing agricultural trade liberalization. However, it reiterated the need to keep in mind the actual impact of the Uruguay Round on prices, which it believed to be slight. Canada looked forward to further consultations on the issue. If there were significant reductions in trade-distorting subsidies, this should normally result in rising prices, but the Uruguay Round results had not given a very good experiment to confirm this hypothesis since subsidies were still high. The Marrakesh Decision was about the impact of the Uruguay Round. In the future, further reduction in trade-distorting subsidies might actually result in rising prices. This suggested it would be appropriate to deal with the concerns of countries about the potential price impact of more significant reforms in the context of the negotiations. The discussion of food security in the July Special Session would be important in this regard.

26. Australia noted that it was interesting that according to the World Bank, the use of loans for agricultural development had declined. It would be useful to explore with the World Bank how this could be reversed. Agricultural development would be important to improve the food security situation of NFIDCs and LDCs. Other ways of improving the food security situation and address some of the concerns giving rise to the Marrakesh Decision were to work to eliminate export subsidies, reduce domestic support and increase market access. Australia looked forward to addressing these issues in more depth at the July Special Session in the context of the discussion of food security. Australia appreciated that these aspects addressed the longer-term issues, and that there also were short-term considerations. In this context Australia noted the proposal to establish a new fund, and looked forward to work with the IMF, the World Bank and the NFIDCs and LDCs on their concerns.

27. The United States also expressed concern at the decline in investment in agricultural and rural development noted by the World Bank. It was important to reverse this trend in order to address food security. Although they addressed very important issues, the United States had reservations about the specifics of the proposals, for example on the need for a new billion-dollar fund. The US considered fora other than the WTO more appropriate for making binding commitments on food aid.

28. As the biggest net food importer, Japan understood the necessity of making the Marrakesh Decision effective. Japan looked forward to participating in further informal meetings on the issue.

29. Switzerland believed that food aid should best be discussed in the Special Session of the Committee on Agriculture. Switzerland remained committed to the Food Aid Convention, strongly supported the proposal that food aid should be provided in fully grant form, and was ready to increase its commitments under the next Convention. However, food aid should not create dependence or

jeopardize local production. In this light, technical assistance, which was also part of the proposal, was of primary importance. With respect to financial facilities, the Swiss view was that they were best dealt with in the context of the Bretton Woods institutions. The Roundtable had shown that there were under-utilised facilities, and that both the World Bank and the IMF would welcome increased use of their facilities. Switzerland was not convinced that the existing facilities were not appropriate to accommodate the concerns, and looked forward to more informal consultations.

30. Norway agreed that the Marrakesh Decision needed to be operationalized. Norway thought that food aid should be given in fully grant form, and that there might be a need to increase the commodity volumes under the Food Aid Convention as well as technical and financial assistance. Starting on 1 July 2002, Norway would fully open its markets for imports from LDCs. As to short-term financing, Norway was not yet sure that the best solution was the creation of a new mechanism. First it should be analyzed what could be done to improve the existing mechanisms. Norway looked forward to a continued dialogue.

31. The Vice-Chairman summarized the discussions. Regarding future work, the Vice-Chairman planned to continue the informal consultations. There would also be an opportunity to pursue the issue at the Special Session in July in the context of the discussions on food security. The content of the consultations would include how to address short-term financial difficulties, whether present IMF and World Bank facilities were suited to address concerns, and the proposed revolving fund. He would also provide opportunities to consult in a wider context including the issues of food aid and technical and financial assistance to improve agricultural productivity and infrastructure.

ANNEX 2

Examination of Possible Means of Improving the Effectiveness of the Implementation of the Marrakesh NFIDC Decision – Summary of the Interventions by the IMF, the World Bank and the FAO at the Informal Roundtable Discussion held on 18 June 2001

The International Monetary Fund

Item (i) The issue of access to the financing facilities of the international financial institutions

32. The IMF makes its financial resources available to member countries through a variety of lending, including through the following four "regular" facilities:

- (a) Stand-By Arrangements (SBA): Designed to deal with any temporary balance-of-payments (BOP) problem. The typical SBA is for 12-18 months, but may be as long as three years and disbursement of financing is usually conditioned on the borrower meeting specified performance requirements. Loans must be repaid within 3 ¼-5 years. The expected repayment period is shortened to 2 ¼ - 4 years if the country's external position allows it to repay earlier.
- (b) Extended Fund Facility: Designed to provide medium-term assistance in particular to members with (a) an economy suffering serious payments imbalance relating to structural maladjustments in production and trade and where price and cost distortions have been widespread; or (b) an economy characterized by slow growth and an inherently weak balance-of-payments position which prevents the pursuit of an active development policy. The length of an EFF arrangement is typically three years and disbursement is conditioned on the borrower meeting specified performance requirements, including structural reforms. The facility has longer repayment periods than other facilities, 4 ½ - 10 years; the expected repayment period is shortened to 4 ½ - 7 years if the country's external position allows it to repay earlier. If agriculture is targeted in a reform programme, countries can avail themselves of this facility. Some of the countries on the WTO NFIDC list would be eligible to use this facility.
- (c) Compensatory Financing Facility (CFF): Provides financing for members experiencing temporary export shortfalls or excesses in cereal import costs, based on balance-of-payments situation. Interest rates are market-related, but are concessional in that the terms are better than would be available from commercial banks. Repayment in 3 ¼ – 5 years. The access limits have a range of up to 55 per cent of a country's IMF quota.
- (d) Poverty Reduction and Growth Facility (PRGF): Highly concessional loans (0.5 per cent interest) with longer-term repayments (5 1/2-10 years). The PRGF could incorporate agricultural sector reform policies, as part of an overall strategy to reduce poverty. An eligible country may borrow up to a maximum of 140 percent of its IMF quota under a three-year arrangement; this limit (which is not an entitlement) may be increased under exceptional circumstances to a maximum of 185 percent of quota. Eligibility is based principally on a country's per capita income and eligibility under the International Development Association (IDA), the World Bank's concessional

window (the current cut-off point for IDA eligibility is a 1999 per capita GDP level of \$885); accordingly, many of the countries on the WTO NFIDC/LDC list qualify. The PRGF is fully financed (i.e. available to meet the total theoretical demand).

33. According to its mandate, lending by the IMF must be aimed at addressing BOP problems. In the specific case of a loan request under the cereal component of the CFF, developments in cereal imports are examined from a BOP perspective, i.e., if import prices rise, the BOP situation has to indicate that there is a need. The CFF has been used infrequently. The most recent use of the cereals component was by Bulgaria in 1997. Conditionality is one of reasons for its infrequent use, the availability of other instruments is another. Infrequent use is not a problem of lack of financial resources.

Item (ii) The scope for adapting the existing programmes and facilities of the international organizations in light of the Marrakesh NFIDC Decision

34. The IMF is based on revolving resources. Thus, the notion of “unused resources” (mentioned by some participants in the roundtable) does not apply.

35. The CFF was recently reviewed as part of a process of refocusing the IMF. The decision taken in this regard has reduced access, strengthened conditionality, as well as established a stronger link to overall BOP conditions. There were also voices among IMF members to abolish the CFF. The IMF will review its decision concerning the CFF *not later than 30 August 2002*.

36. As an alternative to adapting existing IMF facilities, countries concerned could analyze their situation from a balance of payments perspective, to determine whether their perceived financing needs could be met through recourse to IMF financing.

Item (iii) The Proposal to Implement the Marrakesh Ministerial Decision in Favour of LDCs and NFIDCs submitted by Côte d'Ivoire, Cuba, Dominican Republic, Egypt, Honduras, Jamaica, Kenya, Mauritius, Morocco, Pakistan, Peru, Senegal, Sri Lanka, St. Lucia, Trinidad and Tobago, Tunisia and Venezuela

37. The IMF position remains that it is in a position to meet any anticipated balance-of-payments needs. In accordance with its mandate, the IMF could consider the proposal only if it was related BOP difficulties. Since the proposed new fund falls outside its authority, the IMF cannot make a contribution.

38. In theory, it would be easier to amend the CFF than establish a new fund.

The World Bank

Item (i) The issue of access to the financing facilities of the international financial institutions

39. World Bank lending for agriculture and rural development decreased from 30 per cent of its total in 1978-81 to 9.6 per cent in 2001 - the lowest level ever. It was US\$ 3.5 billion a decade ago but only US\$ 1 billion in 2000. As the World Bank's approach has become more demand-driven, requests for agricultural and rural development loans have declined. This development is alarming since 70 per cent of those living on less than a dollar a day live in rural areas and most are farmers. In view of this development, the Bank is currently conducting a review of its agricultural sector and rural development strategy.

40. Most client countries have under-performing agricultural sectors, partly as a result of under-investment in Green Box measures. In many cases, there is a pronounced urban bias, with most public investment flowing into the cities. In addition, the domestic policies in developing countries often depress the internal terms of trade against agriculture. Overvalued exchange rates and other government interventions in many client countries continue to adversely affect prices for agricultural products. Farmers in many developing countries remain net tax payers due to their own government's interventions. In such circumstances, conditionality is imposed to ensure that the client country's own policies do not make World Bank-financed projects less likely to succeed.

41. A number of reasons were responsible for the declining trend in loan disbursements, including the following. As the result of low commodity prices, it has been difficult to obtain a satisfactory internal rate of return. Commodity prices have declined over the past 150 years in real terms and, although the World Bank projects food demand to double by 2050, due to technological improvements in agriculture it does not expect prices to rise in the long term. Safeguards to address legitimate environmental and social concerns also add to the cost of borrowing. Furthermore, the political reality is that the rural poor have little political voice and their interests are not a priority to their own governments.

42. IDA terms for the lowest income countries are very favourable at 0.5 per cent interest and 30 years repayment. Loans on IBRD terms are on commercial terms, although the World Bank AAA rating provided some benefit.

43. With respect to short-term measures, the World Bank is committed to market-based instruments with a view to reducing the effects of price fluctuations on farmers. Since 1999 in a number of cases commodity swaps have been part of loan agreements, whereby the commodity price risk was transferred to, and hedged by, the World Bank. In addition, the World Bank has set up a task force to explore commodity risk management to allow farmers in developing countries, especially smallholders, to use options and futures contracts. Eight related case studies are underway and pilot projects are due to start in 2002. Market-based risk management instruments are amenable to both producers/exporters and importers of agricultural commodities. It might be noted that the Cotonou Agreement makes reference to, and encourages the use of, market-based instruments.

Item (ii) The scope for adapting the existing programmes and facilities of the international organizations in light of the Marrakesh NFIDC Decision

44. As noted above, the demand for loans related to agriculture and rural development has declined dramatically over the past decade. Had there been demand, the World Bank could have lent much more for agriculture and rural development. (This does not imply that the World Bank has unused financial resources since loans are financed from bond sales. The World Bank has additional borrowing capacity for client countries to request loans related to agriculture or rural infrastructure.)

Item (iii) The Proposal to Implement the Marrakesh Ministerial Decision in Favour of LDCs and NFIDCs submitted by Côte d'Ivoire, Cuba, Dominican Republic, Egypt, Honduras, Jamaica, Kenya, Mauritius, Morocco, Pakistan, Peru, Senegal, Sri Lanka, St. Lucia, Trinidad and Tobago, Tunisia and Venezuela

45. The World Bank provides loans for investment but its charter does not permit lending for consumption. Furthermore, the World Bank provides very little in terms of grants and thus would not be in a position to contribute to the proposed new fund.

46. The World Bank considers market-based instruments (as outlined above) to be preferable to the creation of a fund to compensate for unanticipated price shocks. With respect to market-based instruments, the World Bank would consider subsidising the premia for such price insurance policies.

The Food and Agriculture Organization

Item (iii) The Proposal to Implement the Marrakesh Ministerial Decision in Favour of LDCs and NFIDCs submitted by Côte d'Ivoire, Cuba, Dominican Republic, Egypt, Honduras, Jamaica, Kenya, Mauritius, Morocco, Pakistan, Peru, Senegal, Sri Lanka, St. Lucia, Trinidad and Tobago, Tunisia and Venezuela

47. The proposal is based on research undertaken by FAO and presented at a FAO roundtable at the Palais des Nations on 21 March 2001. If there is interest in pursuing this proposal, FAO stands ready to provide further information and assistance with respect to the needs assessment and the operation of the proposed fund.

48. As a preliminary idea, the fund could be set up by providing ex-post compensation to governments in times of import bills deviating significantly from the long-term trend. Governments may then use these resources by providing targeted assistance to those that are adversely affected by increase in prices. Also, these resources may be used to support food production and productivity increasing programmes. In order to avoid rapid drawing down of the fund's capital, the level of drawings could be capped.

WORLD TRADE ORGANIZATION

RESTRICTED

G/AG/W/49/Add.1
23 May 2001

(01-2663)

Committee on Agriculture

Original: English

PROPOSAL TO IMPLEMENT THE MARRAKESH MINISTERIAL DECISION IN FAVOUR OF LDCs AND NFIDCS

Submitted by Côte d'Ivoire, Cuba, Dominican Republic, Egypt, Honduras,
Jamaica, Kenya, Mauritius, Morocco, Pakistan, Senegal, Sri Lanka, St. Lucia,
Trinidad and Tobago, Tunisia and Venezuela

Addendum

The attached Addendum concerning the Proposal to Implement the Marrakesh Ministerial Decision in favour of LDCs and NFIDCs is being circulated at the request of the above-mentioned Members.

OPERATIONALIZING THE MARRAKESH DECISION:

A NEW APPROACH TO SHORT-TERM FINANCING REQUIREMENTS

Introduction

The aim of this paper is to serve as a background document for the Roundtable on Operationalizing the Ministerial Decision on Measures Concerning the Possible Negative Effects of the Reform Process on Least-Developed Countries and Net Food-Importing Developing Countries (hereinafter referred to as the Marrakesh Decision).

The Roundtable seeks to bring together all the parties concerned (LDCs, NFIDCs, donor countries, the WTO, FAO, IMF and World Bank), in an effort to discuss the operationalization of part of the proposals presented by a number of WTO Member states (document G/AG/W/49), namely to create a new fund whose purpose is to provide the 'safety net' promised by the Marrakesh Decision, under terms and conditions compatible with the latter. It is hoped that the Roundtable would produce an agreement on forging forward with ideas for financing LDC/NFIDCs, to be presented at both the autumn session of the IMF/World Bank and the WTO Ministerial in November 2001 for implementation.

Sincere thanks is hereby extended to Mr. Yoichi Suzuki, Minister Plenipotentiary at the Mission of Japan to the WTO, whose untiring efforts as Vice-Chair of the Committee on Agriculture at the WTO were instrumental in revitalising a subject long-thought dead and organising the

Roundtable. Special gratitude also goes to Frank Wolter and Thomas Friedheim, Director and Counsellor respectively of the Agriculture Division and their staff, for their help and cooperation with the current effort. Last, but most definitely not least, to all the men and women of the delegations of Member states who have, over the years, kept the flame burning. To them we owe our appreciation, gratitude and thanks. May the Almighty bless our efforts.

Why the Decision? And Why the Roundtable?

There is little argument that agriculture is - and will remain for the foreseeable future - the essential sector for the majority of LDCs and NFIDCs, whose impact spills over from the economic into the social and political arenas. Food security is also a major policy objective of these countries, particularly as they depend - to a smaller or larger extent - on importing a sizeable proportion of their populations' food requirements.

In order for LDCs and NFIDCs to sign onto the Agreement on Agriculture (AoA) in 1994, the Decision was taken by Ministers attending the launch of the WTO, with the express aim of providing a 'soft landing' for those Member states whose economies were most liable to be affected from the liberalisation of agriculture under the AoA. Particularly, the Decision focused on the concept of 'availability of **adequate** supplies of **basic foodstuffs** from external sources on **reasonable** terms and conditions'. Hence, the Decision proposed three short-to-medium term response mechanisms (more food aid in grant form, S&D treatment on export credits, short-term credit facilities), as well as a longer-term mechanism (technical and financial assistance to improve agricultural productivity and infrastructure).

In view of the fact that the Decision has been a subject for little more than 'discussion' and 'review' for the last six years, the Roundtable, therefore, aims to:

- Galvanise all concerned states and parties into adopting a more practical and pragmatic work programme aimed at moving from the 'discussion' phase to the 'doing' one; and
- Study the proposal presented herein to address the needs of LDCs and NFIDCs in their quest to satisfy their basic foodstuff requirements from the world market; under a mix of terms and conditions that may be considered reasonable, with a view to presenting a workable plan for implementation by the IV Ministerial Conference in Doha.

In order to visualise the urgency and importance of the issue at hand, a few figures would be needed. Drawing on figures published by FAO, the WTO¹ and other international sources, the following facts stand out:

1. The combined **populations** of the 49 LDCs and 20 NFIDCs broke through the 1 billion mark in 1998, representing over 22 per cent of the combined population of all developing countries. Meanwhile, undernourishment touched around 38% of LDC populations, and 17 per cent of those of NFIDCs.
2. **Per capita incomes** of LDCs in 1997 were 17 per cent of the average of developing countries, while the p.c.i. for the NFIDCs in the same year stood at about 70 per cent of the developing country average.

¹ 'Implementation of the Decision on Measures...', document no. G/AG/W/42/Rev.3, WTO, 31 October 2000; and 'Towards Improving the Operational Effectiveness of the Marrakesh Decision', Discussion Paper no.2, FAO, Rome 2001.

3. The combined **cereals import bills** for LDCs and NFIDCs rose by over 10 per cent from 1993-95 to 1998/99, with a peak rise of 42.6 per cent in 1995/96. It is forecast that the year 2000/01 will see a further rise of around 3 per cent (\$800 million) in the value of cereal imports for these countries over the figures for 1999/2000.
4. **Food aid** deliveries to LDCs and NFIDCs **fell** from 5.65 million MTs in 94/95 to an estimated 4.59 million MTs in 99/00; a drop of around 19 per cent. It is notable that the volume of food aid to LDCs in 1999 represented 99 per cent of the 90-99 ten-year average, while that for NFIDCs was only around 63 per cent of said average - compared to a 60 per cent rise in food aid deliveries to 'other' countries during the same period. As to the **concessionality** of food aid, there remains at least one donor country which does not yet provide such aid on a 100%-grant-basis.
5. The volume of **commercial imports** by LDCs and NFIDCs **rose** from 35.2 million MTs in 94/95 to an estimated 42.9 million MTs in 99/00 (a rise of over 21 per cent), with a further increase of 750,000 MTs forecast for 2000/01.
6. Although cereal **import bills** are now thankfully lower than the peaks reached in 1995/96, they still remain at a higher plateau than the period prior to 1994/95.

Scope and Magnitude of the problem

A recent FAO study² concluded that the inadequacy of physical supplies of basic foodstuffs on world markets are not currently an issue for reflection, and that the real problem lies in the conditions of access facing LDCs and NFIDCs in obtaining their food requirements. The study also concluded that, in view of the language used in formulating the Decision, the triggering mechanisms for 'operationalising' the Decision should be based on the totality of effects and factors, i.e. on unexpected levels of food import bills of LDCs and NFIDCs on an individual basis, rather than limiting them to individual factors that lead to the outcome (e.g. rises in world market prices, declines in food aid deliveries, and so on).

Based on these conclusions, the study went on to compute the magnitude of excess import bills for the period 1989-1998 based on 5 per cent and 10 per cent alternative thresholds. It concluded that, for all food items and 46 LDCs and 19 NFIDCs covered by the Decision, the aggregate "excess" food bill in the 'maximum' year (1995/96) over the mean of the period was \$900 million (on the 5 per cent rule) and \$605 million (based on the 10 per cent rule)³.

Availability of Financial resources

The Decision foresees the need of LDCs and NFIDCs to address both short-term financing ('to cover difficulties in financing normal levels of commercial imports') and a longer-term financial need ('to improve their agricultural productivity and infrastructure').

On the short-term front, allusion has been made to the availability of financial resources under the IMF's Compensatory Financial Facility (CFF). A recent evaluation undertaken by the IMF itself

² 'Towards improving the Operational Effectiveness....', FAO, op. cit, pg. 4.

³ As shown in the FAO paper, the mean is the average for 1989-98 of the total "excess" import bills (i.e. the aggregate of all countries studied with import bills greater than 5 per cent or greater than 10 per cent above trend). Negative deviations from trend were not taken into account, since such deviations do not constitute a 'problem' to be addressed by the Decision.

points to the fact that 'there has been very little use of the CFF in recent years'⁴. In fact, reliable evaluative studies has come to the conclusion that, to make the CFF compatible with the terms of the Decision, the CFF would need 4 adjustments:

1. Extend its coverage to all basic food imports (rather than cereals only).
2. Relaxation of its general conditionalities and rules on eligibility.
3. Streamline eligibility requirements for both LDCs and NFIDCs.
4. 'Concessionalise' its resources, both in terms of repayment periods and interest levels.

It is to be noted that the same study concludes that 'the CFF is not the most suitable instrument for addressing the problem .. (sic. to be addressed through the Marrakesh Decision)⁵. Meantime, the role and operations of the **World Bank** in the provision of short-term financing for emergency food imports are not clear.

The longer-term requirement for multilateral financial resources is **theoretically** available through the World Bank's contributions to the Consultative Group on International Agricultural Research (CGIAR), estimated at \$ 50 million in 1998⁶, and other World Bank projects in the field of agriculture. No clear figures are available to quantify the long-term technical assistance and capacity-building programmes for LDCs and NFIDCs, or a detailed evaluation of their effectiveness in raising productivity and production – a key component of the assistance foreseen in the Decision.

To sum up, the financing required to address the 'short-term difficulties' is practically non-existent from any multilateral source on the terms - and under the conditions – foreseen in the Decision; while the longer-term financing needed to upgrade physical and human resources in agriculture are partially available via the World Bank.

The New Fund

This dearth of suitably conditioned short-term (<24 months maturity) financial resources leads us to believe in the need for a totally new approach for the future, to be based on the philosophy and intent of the Decision. It is, in fact, neither inconceivable nor unreasonable to assume that the 1995/96 surges could happen repeatedly in the future. The idea is for the creation of a special Food Financing Facility (F³), solely designed for the implementation of the Decision. The F³ could be visualised as follows:

- (a) In view of recent experience, its resource base is estimated at around \$1,200 million⁷; to be drawn from a 'consortium' of multilateral financial organisations, G-7 and other donors, and major developed exporting Member states.
- (b) The 'eligibility' of LDCs and NFIDCs to draw on the resources of the Fund would be decided on a country-by-country basis and in accordance with agreed-upon guidelines, and after a fair and factual computation/assessment was made of its requirements. Levels of each country's

⁴ 'The Fund's Compensatory Financial Facility – Recent Developments', IMF Speaking points for the Geneva Roundtable on Selected Agricultural Issues, Geneva March 21st, 2001 pg.2.

⁵ Ibid.

⁶ WTO document G/AG/GEN/31 of 15 December 1998, pg 23.

⁷ This figure was calculated on 2 years worth of credit facilities at the lower end level of \$600 million, as per the FAO study.

compensation package could be capped in periods of surges in import bills, in order to avoid harming the Fund's long-term financial viability.

- (c) The resources available to the Fund could be 'recycled' or repayable, so as not to unduly inflate the capital of said Fund. In fact, in the years when import bills are amenable, the resources could be earmarked by donors, but not disbursed, with a view to the optimal utilisation of such resources. Repayments of financial resources drawn-down by beneficiaries would be effected under a medium-term scheme on terms more favourable than current open market conditions.
- (d) The responsibility for the administration and management of the Fund would need to be centralised in a small bureaucracy; said bureaucracy to be overseen by a Management Board comprising representations from the WTO, FAO, IMF, World Bank, donor states as well as the beneficiaries.

This Fund would, obviously, not cover the longer-term requirements of LDCs and NFIDCs to improve their basic infrastructures and enhance agricultural productivity. In this respect, a call is made out to all donor parties to earmark a greater proportion of any multi- and bi-lateral aid programmes for such use. It was the vision of the signatories to the Marrakesh Decision to 'wean' recipients away from their food-aid 'dependancy'. This can only be achieved through a serious, concerted and cooperative effort aimed at improving levels of self-sufficiency of LDCs and NFIDCs – while maintaining the gains achieved in the agricultural reform process under the AoA, and spurring these countries towards greater engagement in future reform processes under the current negotiations under Article 20 of the AoA.
