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ACCESSION OF KAZAKHSTAN

Questions and Replies Concerning Domestic Support and Export Subsidies in the Agriculture Sector

Addendum

The Ministry of Industry and Trade of the Republic of Kazakhstan has submitted the following Questions and Replies Concerning Domestic Support and Export Subsidies in the Agriculture Sector with the request that they be circulated to members of the Working Party.

- Supporting table DS:1

Question 1

We note that in the appendix to WT/ACC/SPEC/KAZ/7 Kazakhstan provides a lot of useful information on measures listed in supporting table DS:1.

However, we would ask that Kazakhstan focus on providing information that is relevant to demonstrating how these measures meet Annex 2 criteria, and to incorporate this information into the supporting table.

For example, could Kazakhstan confirm that none of the programs listed under the Annex 2, paragraph 2 "general services" category involve direct payments to farmers or processors?

Answer:

Domestic support measures listed in Table DS:1 are taken only under programs funded from the Republican budget.

Development, discussion, and adoption of budgetary programs are performed in accordance with Articles 14, 15, 16 of the Law of the Republic of Kazakhstan No.357-1 of 1 April 1999 "On Budgetary System".

Funds listed in Table DS:1 under "general services" are allocated for general-type measures (e.g. measures on ensuring epizootic safety of the Republic of Kazakhstan, on control of crop diseases and damaging insects, assessment of variety and sowing characteristics of seeds and transplanting stock of seed breeding stations, etc.) under state programs, as well as for the maintenance of services comprising the system of the Ministry of Agriculture of the Republic of Kazakhstan engaged in general-type services (measures). They do not provide for the redistribution of funds supplied by consumers, do not grant price support to producers, and meet the requirements of Paragraphs 1 and 2 of Annex 2 of the Agreement on Agriculture.

For more details on measures of the "Green Box" program, see the revised Tables DS:1.

Question 2

We were unable to find additional information in WT/ACC/SPEC/KAZ/7 concerning the state procurement of grain program listed under paragraph 3 (which, we would note, should be characterized as "public stockholding for food security purposes," not "general services").

Answer:

The Republic of Kazakhstan has placed the state procurement under "public stockholding for food security purposes" – Paragraph 3 Annex 2 of the Agreement on Agriculture in the revised Table DS:1.

Question 3

Please provide information on this measure and how it meets paragraph 3 criteria, in particular the requirement that purchases be made at market prices.

We would reiterate our position that we would expect Kazakhstan to include this measure in the "green box" if it meets the criteria of paragraph 3, notwithstanding the provisions of footnote 5.

Answer:

Under the Republican budgetary program "Grain Procurement for the Renewal of National Grain Reserves", the Republican budget annually allocates funds for the procurement of grain for the national reserves of the Republic of Kazakhstan. The national grain reserve has been created to meet mobilization needs and ensure food security of the Republic of Kazakhstan, and conforms with the provisions of Paragraph 3 Annex 2 of the Agreement on Agriculture – "Public Stockholding for Food Security Purposes".

The public stockholding of grain is performed by the authorized body – the Ministry of Agriculture of the Republic of Kazakhstan through the Agent for the management of the national grain reserves (the national company CJSC "Food Contract Corporation", hereafter – the Corporation) in the form of annual grain procurement effected under the Law of the Republic of Kazakhstan "On State Procurement" and Rules for Accumulation, Storage, and Use of the National Grain Reserves following procedures set by the decision of the Government of the Republic of Kazakhstan on the state procurement of grain for the corresponding year.

The mechanisms of the state procurement of grain (rules for financing transactions with the national grain stocks, grain procurement volumes, rules for contract execution, and requirements to the quality of the procured grain) are determined by the decision of the Government of the Republic of Kazakhstan demonstrating an appropriate level of transparency in terms of financial costs.

In 1996 the state procurement of grain was performed in the commodity exchange at market prices.

Grain of the national grain stocks has been sold on the domestic market at market prices based on the results of open biddings or on the commodity exchange. The export grain price set by the Corporation also reflects the state of the world market and concluded contracts on grain supply, and as such meets the requirements of the criteria of Paragraph 3 Annex 2 of the WTO Agreement on Agriculture, namely, that "sales from food security stocks shall be made at no less than the current domestic market price for the product and quality in question".

Question 4

Based on the information provided in WT/ACC/SPEC/KAZ/7, it is our view that the program "Development of State National Parks, Fish Hatcheries, and Forestry Associations" does not belong in the supporting table because fish and forestry are not covered under the Agreement on Agriculture.

Answer:

The Republic of Kazakhstan has removed the above measures from Table DS:1.

- Supporting table DS:2

Question 5

We appreciate the additional information that Kazakhstan provided in WT/ACC/SPEC/KAZ/7 on measures that were included in this supporting table, and understand the difficulties facing the Kazakh agricultural sector.

However, we would reiterate our position that Kazakhstan does not have recourse to Article 6.2 provisions. When Kazakhstan revises WT/ACC/SPEC/KAZ/6, it should move these programs to other supporting tables, as appropriate.

Answer

While being a country rich in land resources, for the last few decades the Republic of Kazakhstan has been crippled by the aftermath of implemented structural reforms. The crisis has been especially devastating for the agricultural sector. Among the major problems impeding its recovery are: drastic decline in the gross yield and yield of specific agricultural crops, amount and productivity of livestock, obsolescence and unsatisfactory state of the physical infrastructure.

Hence, the current policy of the Republic of Kazakhstan is aimed primarily at attraction and expansion of long-term investments. Investments in the agricultural sector of the Republic of Kazakhstan are usually done on a long-term basis and on favorable conditions with participation of the international banks (International Bank for Reconstruction and Development, Asian Development Bank), which, as a general rule, provide financial aid to poor and developing countries for poverty control purposes.

Thus, the ADB loan funds listed in Table DS:2 for 1996-1998, have been targeted at production and processing of agricultural goods, machinery for technological stations, development of wholesale markets and other market infrastructure, necessary for marketing of agricultural products, as well as financing of the required working capital.

Soft loan policies continue into the present time.

In 1998 the Republic of Kazakhstan concluded an agreement with the Asian Development Bank on allocation of credit line to the Project on Management of Water Resources and Land Rehabilitation equal to US\$35,331 million, currently implemented in the South Kazakhstan Oblast encompassing 39.2 thousand hectares of areas, used to cultivate the bulk of Kazakhstani cotton. The projects includes works on rehabilitation and modernization of the irrigation and drainage systems, including amelioration of salty soils and measures to improve water management. The project has been developed for a term of 27-35 years, the first decade being subject to favorable terms and service payment at the rate of 1 per cent *per annum*.

The International Bank for Reconstruction and Development (IBRD) has allocated US\$80 million for works on improvement of irrigation and drainage systems. The project in question has been developed to reconstruct the irrigation and drainage systems in order to enhance efficiency of irrigated farming activities involving 15 irrigated areas in nine oblasts of the Republic of Kazakhstan with the overall area of 32.5 thousand hectares. The payback period set for end borrowers is 30 years, with the grace period of five years, and the preferential interest rate averaging 6.5 per cent *per annum*.

Under the IBRD loan, the Republic of Kazakhstan implements starting from 1998 the Project on Post-Privatization Agricultural Support, developed primarily to support agricultural enterprises of the Republic of Kazakhstan, developing in the market post-privatization environment. Among the main objectives of the project are: enhanced sustainability of the agricultural loan schemes and stabilization of profitability of agricultural enterprises through application in the agricultural sector of soft loans on a long-term basis. The average interest rate equaled 12.1 per cent, average loan term – 2.7 years, duration of the grace period being established by operating banks on a case-by-case basis for every project.

Also, starting in 2000-2001 in the framework of IBRD loans the Republic of Kazakhstan implements a number of projects to regulate the water course of the Syr-Darya river, preserve the northern part of the Aral Sea, maintain water supply and ensure adequate sanitary conditions for the settlements adjoining the Aral Sea region. Among the main objectives of the projects are: preservation of the northern part of the Aral Sea, improvement of ecological conditions in the delta of the northern Aral Sea, rehabilitation of dams, and increase of the volumes of water supply to the city of Aralsk.

Both the IBRD and the ADB show interest in the future cooperation with the Republic of Kazakhstan in the agricultural sector. At present, the Republic of Kazakhstan is developing the following project documents in the framework of loans of these international banks for implementation in subsequent years:

- second stage of the IBRD loan "Post-privatization Agricultural Support";
- ADB-aided project "Improvement of Water Supply to Rural Areas";
- project of the IBRD loan 'Enhancement of the Competitive Power of Kazakhstani Agricultural Products';
- project in the framework of the ADB loan on "Rural Development".

All of the above investment projects conform completely with the provisions of Paragraph 2 Article 6 of the WTO Agreement on Agriculture.

- State guarantees for non-governmental external loans.

State guarantees for non-governmental external loans are one of the measures for invigoration of investments in the agricultural sector of the Republic of Kazakhstan.

State guarantees are granted based on the Resolutions of the Government of the Republic of Kazakhstan taken for each investment project.

State guarantees are granted on condition that borrowers repay budget funds, spent by the Government of the Republic of Kazakhstan in the process of fulfillment of its obligations of a guarantor and requirements under the Law of the Republic of Kazakhstan No. 464-I of 2 August 1999 "On State Borrowing and Debt and Borrowing and Debt Secured by the State".

Therefore, given the interest shown by international credit organizations in direct long-term investments into the agricultural sector, the Republic of Kazakhstan is willing to create favorable conditions and preserve the opportunity to expand the volume of investments in the agriculture in the future. This attitude presents ample reasons for inclusion of Table DS:2 in the commitments taken by the Republic of Kazakhstan on domestic support.

- Leasing of agricultural machinery

The current technical level of agricultural production is the main crippling factor, curbing efficient development of the sector, and leading to deterioration of crop cultivation technologies, spreading of pests, plant diseases, loss of soil humus, and, as a result, decline of the quality and quantity of products.

The average age of existing agricultural machinery is 13-14 years, the standard operation period being 7-10 years. The availability factor of existing machinery is 0.7 or lower while the load per unit exceeds the norm by 1.2-1.6 times.

Between 1994 and 1999 supply of new machinery to the agricultural sector practically ceased. For the last three years noting the funds allocated from the budget, the Republic of Kazakhstan has purchased 7,279 units of agricultural machinery worth app. KZT 13,648 million, which has but very little overall effect on the quantity of machinery available in the sector, accounting for a mere 0.5 per cent of the required level.

At present, the ratio of agricultural machinery available to agricultural producers to agricultural machinery required constitutes 70 per cent, 80 per cent of which are obsolete and need replacement. Unsatisfactory solvency and lack of marketable security prevents the bulk of agricultural producers to receive loans from second-tier banks for the purchase of necessary equipment.

The development of leasing practices ensuring availability of agricultural machinery is one of the top priority objectives attainment of which is planned for a long-term perspective. Under the 2003-2005 National Program of Agricultural Production, approved by the President of the Republic of Kazakhstan, the Republic of Kazakhstan intends to replace approximately 10 per cent of existing park of agricultural machinery and tractors at the investment rate of no less than KZT 13 billion for three years, allocated from the Republican budget.

Given the above, any reduction of public expenditures incurred in the process of provision of agricultural machinery to agricultural producers through application of leasing mechanisms is absolutely unacceptable for the Republic of Kazakhstan.

- Subsidies granted to low-income enterprises, and enterprises in stringent conditions

This section includes funds of the Republican budget allocated for the invigoration and development of small businesses. These funds have been intended for soft loans granted to small businesses by the Foundation of Support of Small and Medium Businesses of the Ministry of Economy of the Republic of Kazakhstan, including farms as a form of small businesses, for a term of up to ten years at the interest rate of 12 per cent *per annum* for the production of agricultural goods and purchase of equipment and mini-technologies for the processing of agricultural goods.

Borrowing at second-tier banks is difficult for agricultural producers given a very limited amount of available marketable security. This problem is paramount for low-income agricultural enterprises with limited capital assets, that can be of but little use as loan guarantees.

To address this issue and to raise the level employment in rural areas, the Republic of Kazakhstan granted soft loans to farms, strongly affected by adverse effects of reforms, implemented in mid 1990's.

The document WT/ACC/SPEC/KAZ/7 contains an error – the description of subsidies granted by the Foundation for Support of Small and Medium Businesses to low-income enterprises and enterprises in stringent conditions has been replaced by the description of the "Farm's Development" program. The Republic of Kazakhstan offers its apologies and submits the amended variant to serve as a basis for all future considerations.

- Supporting table DS:4

Question 6

It is unclear if Kazakhstan has included support that is equal to or less than 5 per cent of the value of production.

Answer:

The document WT/ACC/SPEC/KAZ/6 does not take into account *de minimis* level of support in AMS. The Republic of Kazakhstan is submitting the revised Table DS:4 including 10 per cent *de minimis*.

Question 7

We note that if Kazakhstan includes *de minimis* support in the base period, then it will have to include *de minimis* levels of support in the calculation of its current total AMS.

Answer:

The Republic of Kazakhstan is submitting the revised Table DS:4 including the level of *de minimis*.

Question 8

What is the source of the data on value of agricultural production ("gross output"). How was it calculated?

Answer:

Value of agricultural products have been included based on the information of the Statistics Agency of the Republic of Kazakhstan.

Question 9

Could Kazakstan double check the value of sugar beet seeds - it seems to be very low relative to support.

Answer:

The Republic of Kazakhstan confirms having made a technical error and submits a correct value of beet-root seeds in the revised Table DS:4.

Question 10

Kazakhstan should aggregate all non-product-specific support in supporting table DS:9 and enter the total nonproduct-specific AMS in supporting table DS:4.

It would also be helpful if Kazakhstan could move all of the footnotes that explain these measures to supporting table DS:9.

Answer:

The Republic of Kazakhstan is submitting tables on domestic support, revised to reflect the above comments.

Question 11

The *de minimis* provision for non-product-specific support is applied to the total non-product-specific AMS, not to each of its components.

Answer:

The Republic of Kazakhstan is submitting tables on domestic support, revised to reflect the above comments.

Question 12

It is not necessary to calculate the total AMS as a percentage of the value of agricultural production.

Answer:

The Republic of Kazakhstan is submitting tables on domestic support, revised to reflect the above comments.

Question 13

It is unclear what the difference is between the two entries entitled "Total: Current total AMS" and "Total (All aggregate measures of support)" at the end of supporting DS:4 (page 7) in WT/ACC/SPEC/KAZ/6. There should just be one calculation of the total AMS.

Answer:

The Republic of Kazakhstan is submitting Tables on domestic support, revised to reflect the above comments.

- Supporting table DS:5

Question 14

Can Kazakhstan confirm that it does not maintain any market price support measures, such as government procurement or intervention programs that set a price for the purchase of commodities?

Answer:

At present, the Republic of Kazakhstan uses no mechanisms aimed to support market prices or interference programs, targeted at setting fixed prices on purchase of goods. This norm has been stipulated in Article 18 of the Law of the Republic of Kazakhstan No. 1543-XII of 4 July 1992 "On Protection and Support of Private Entrepreneurship".

Private entrepreneurs deal in their goods (works, services), both produced by themselves, and purchased from third parties, using prices (tariffs, charges), set independently or on a contractual basis.

Direct state regulation of prices on goods, produced by private entrepreneurs, is allowed only in cases when entrepreneurs abuse their monopolistic standing in the market.

Setting of state prices with the view to prevent overcharging practices employed by monopolists is effected along guide-lines developed in the anti-monopoly legislation.

- Supporting table DS:6

Question 15

It would be helpful to better understand the program "Financial support to agricultural producers" of the products listed in this table. How do these measures operate?

Answer:

These measure are performed under the budgetary program "Preservation and Development of Seed and Livestock Breeding". Funds are allocated from the Republican budget for:

- preservation and development of seed breeding, aimed at the partial reduction of the price of selected crop seeds (up to 40 per cent), breeding stock, semen, and hatching eggs, marketed by domestic producers (up to 20-25 per cent);
- compensation of the price of rare or endangered species, purchased for breeding purposes (100 per cent); and
- compensation of costs incurred by the purchase of breeding bulls and preservation of their semen.

Mechanisms of implementation of this program and the rules of allocating funds from the Republican budget for the purposes of preservation and development of seed and livestock breeding are approved by the Government of the Republic of Kazakhstan annually.

State subsidies are granted to seed breeding stations and economic agents engaged in livestock breeding, certified in accordance with set procedures, for actual volumes of selected seeds of regionalized varieties of crops included in the State Register of Selection Achievements Allowed for Use in the Republic of Kazakhstan, sold to domestic agricultural producers at reduced prices, as well as actual quantity of breeding stock, marketed under set quotas and cost estimates.

Norms for subsidies for each variety of selected seeds and breeding stock species, as well as measures aimed at their preservation are set annually by the Government of the Republic of Kazakhstan.

Seed and livestock breeding stations sell selected crop seeds and breeding stock to domestic agricultural producers independently using prices coordinated with the Ministry of Agriculture of the Republic of Kazakhstan, reduced by the amount of the subsidy.

Question 16

We would note that the WTO Secretariat's technical note WT/ACC/4 sets out the methodology and table formats for the supporting tables. Supporting table DS:6 is to be used for measures that affects the producer price and involve direct payments from the government to producers.

If these measures do not affect producer price, we would suggest that Kazakhstan consider moving them to supporting table DS:7.

Answer:

Based on the above description, funds granted by the Republic of Kazakhstan under Table DS:6 meet requirements set out in the technical paper WT/ACC/4 for inclusion in Table DS:6, i.e. they are targeted at the reduction of prices on products of livestock and seed breeding stations and are allocated under budgetary programs from the Republican budget.

Question 17

What is the "Foundation of Agricultural Support," and why is it the source of data for some payments, but the Ministry of Agriculture is the source for other payments?

Answer:

The State Foundation for Agricultural Support is the structural component of the Ministry of Agriculture of the Republic of Kazakhstan (hereafter – the Foundation). The Foundation is an agent engaged in allocation and control over targeted use of funds, allocated from the Republican budget for the purposes of support of the national agricultural sector.

- Supporting table DS:7

Question 18

We note that the format used in WT/ACC/SPEC/KAZ/6 for this table differs from that in the WTO Secretariat's technical note WT/ACC/4. Please refer to WT/ACC/4 for the correct format.

Answer:

The Republic of Kazakhstan noted the above comments and revised Table DS:7 on domestic support accordingly .

- Supporting table DS:9

Question 19

As noted in Q5 and Q6 in SPEC/KAZ/7, income tax breaks and VAT breaks should be removed.

Answer:

The Republic of Kazakhstan has removed VAT benefits and income tax from Tables DS:4 and DS:9.

Question 20

If we understand the response to Question 6 correctly, it appears that some of the forgiven debt and rescheduled arrears concerns tax debts. Again, tax debts that have been forgiven or rescheduled do not belong in the AMS calculation.

Answer:

The Republic of Kazakhstan has removed deferred tax arrears of agricultural producers from Table DS:9.

Question 21

It would be useful to have more information on any other types (i.e., not taxes) of debts that have been rescheduled or forgiven, the legislative basis for these measures, and details on the benefits to producers were calculated.

The information in footnotes 6 and 7 to supporting table DS:4 are helpful in this regard and should be moved to supporting table DS:9 as previously noted. Also, it would be helpful to understand each of the components of debt relief and restructuring,

Answer:

The Republic of Kazakhstan is submitting more details on deferred debts, see annexes to the revised Tables on domestic support.

Question 22

In particular the "credits to cover debit balance in the republic's offset," which is unclear to us.

Answer:

Under the Decree of the President of the Republic of Kazakhstan No. 1542 of 4 February 1994 "On offsetting of mutual debts", all economic agents, irrespective of the form of ownership, took part in the Republic's offset, aimed to cancel mutual defaults in payment of enterprises and organizations, and establish favorable conditions for uninterrupted circulation of commodities and services. Procedures of the Republic's offset have been determined by the Resolution of the Cabinet of Ministers of the Republic of Kazakhstan No. 181 of 14 February 1994 "On Procedures of Republic's Offset".

Based on the results of the Republic's offset, under the Decree of the President of the Republic of Kazakhstan No. 181 of 14 February 1994 "On Procedures for Completion of Republic's offsetting of mutual debts of enterprises and organizations", and in order to prevent growth of money quantity:

- in case of credit balance – funds left on accounts must be exchanged on dated marketable bills of the Ministry of Finance of the Republic of Kazakhstan, the order of discounting and payment of which has been set out in the Resolutions of the Government of the Republic of Kazakhstan No. 178 of 8 February 1996 and No. 185 of 8 February 1996; and
- in case of debit balance – the Decree provided for short-term loans of enterprises and organizations for a term of six months (nine months for agricultural producers), allocated from the credit facilities of the National Bank of the Republic of Kazakhstan under the loan agreement concluded between the National Bank of the Republic of Kazakhstan and the Ministry of Finance of the Republic of Kazakhstan.

These loans and due interest have been scheduled for payment until 5 December 1994.

The Ministry of Finance of the Republic of Kazakhstan has fulfilled all its obligations before the National Bank of the Republic of Kazakhstan on repayment of credit facilities, whereas numerous enterprises and organizations failed to repay received loans by the specified date. In accordance with the Resolution of the Government of the Republic of Kazakhstan No. 1045 of 22 August 1996 servicing banks recalculated the amount of due interest, payable for the use of received loans as of 15 September 1996 at the refinancing rate of the National Bank and added to outstanding debts.

To continue proceeding on the above, the right of the Ministry of Finance to claim repayment by agricultural producers of their outstanding debts relating to the following:

- target-oriented loans secured by the Ministry of Finance;
- target-oriented loans secured by oblast administrative bodies;

- overdue debts relating to short-term loans accounted for in banks on the balance account No. 620;
- loans, granted for wages payment to agricultural producers;
- loans to cover debit balance in the Republic's offset, and
- have been transferred to the State Foundation for Agricultural Support of the Republic of Kazakhstan (now CJSC "Foundation of Financial Support to Agriculture") in accordance with the Resolution of the Cabinet of Ministers of the Republic of Kazakhstan No. 224 of 6 March 1995 "On Transfer of Loan Debts of Agricultural Producers Irrespective of the Form of Ownership to the State Foundation for Agricultural Support".

Further, in accordance with the Resolution No. 651 of 28 May 1996 "On Agreement of 17 May 1996 Concluded between the Ministry of Finance of the Republic of Kazakhstan and the State Foundation for Agricultural Support", debts of agricultural producers, transferred to the State Foundation for Agricultural Support (including loans for to cover debit balance) have been restructured by 50 per cent cancellation by the Government of the Republic of Kazakhstan of its claim for repayment of the principal, and 100 per cent cancellation of past due interest payments, as well as by deferral of the remaining share of requirements. Similar conditions applied to restructuring and deferral of debts of agricultural producers before the Foundation.

Question 23

It is important that we understand this component of Kazakhstan's support calculations, since it will serve a basis for future notifications - so it's important that we get it right in Kazakhstan's supporting tables.

Please provide information on the other programs listed in supporting table DS:9 - "fertilizers," "plants protection," and "mixed fodder".

Answer:

Financial funds for the programs fertilizers, plant protection, and mixed fodder listed in Table DS:9 are allocated directly to agricultural producers from the Republican budget by the State Foundation for Agricultural Support. Disbursement mechanism and procedures have been stipulated in the Procedures of Allocation of Funds from the State Foundation for Agricultural Support, adopted annually by the Government of the Republic of Kazakhstan.

- Fertilizers

Financial aid has been granted based on bidding results to agricultural producers, who submitted applications for reduction of fertilizers costs. Reduction constituted 50 per cent of the overall costs of mineral fertilizers, used for crops intensively reared on irrigated lands and seed areas of agricultural crops, excluding transportation, storage, and fertilizer placement costs, within limits allocated from the Republican budget for this purpose for the corresponding year.

- Plant Protection

In order to establish moderate prices on plant protection products and ensure timely measures on control of dangerous crop pests and diseases, funds have been allocated from the Republican budget to reduce the level of costs of plant protection products. Agricultural producers received financial aid of 60 to 40 per cent of the price of pesticides, depending on the used type. The list of plant protection products and their quality required to meet compensation norms have been developed by the Bid Evaluation Committee of the Ministry of Agriculture of the Republic of Kazakhstan based on the results of evaluation of bids, submitted by agricultural producers. The pivotal principal of the

decision is the great importance attributed to the use of pesticides in the process of rearing specific varieties of crops given phytosanitary conditions in the country.

- Mixed Fodder

Financial aid is granted to specialized breeding stations listed in the Schedule adopted by the Ministry of Agriculture of the Republic of Kazakhstan with the view to reduce the price of purchased mixed fodder on a KZT 5,000 per 1 ton basis.

In order to apply for the aid, Oblast Departments of Agriculture shall submit certificates on purchase of mixed fodder by livestock breeding stations to the Ministry of Agriculture of the Republic of Kazakhstan. The Ministry, following set verification procedures, develops summary certificates for the Foundation on allocation of finances for reduction of prices on mixed fodder. The Foundation transfers the required volume of financial aid directly to breeding poultry farms.

Question 24

How does the program "Farm's Development" differ from the product-specific support measures listed in supporting table DS:6? We note that the source for this program is also the State Foundation for Agricultural Support and some of the measures appear to be similar (for example, the cattle AMS includes support for cattle reproduction and breeding, how does this differ from "acquisition of breeding cattle" indicated in footnote 8?).

Answer:

The Farm's Development program and product-specific support measures listed in Table DS:6 differ in the following.

The programs are financed from the Republican budget. Budgetary funds are allocated in the framework of budgetary programs by the authorized body – the Ministry of Agriculture of the Republic of Kazakhstan and the agent for allocation and control over targeted use of budgetary funds – the State Foundation for Agricultural Support.

Funds for programs listed in Table DS:6 have been allocated to seed breeding and livestock breeding centers through the State Foundation for Agricultural Support to achieve reduction of price of produced and sold products.

Funds allocated for the 'farming development' program have been granted to farms in the form of soft loans for a term of 5 years at the interest rate of 10 per cent *per annum* for:

- implementation and application of new agricultural production technologies;
- purchase of tractors, agricultural machinery, trucks, lubricants and combustibles, seeds, fertilizers, herbicides, pesticides, veterinary drugs;
- purchase of breeding stock; and
- other purposes, aimed at the effectivization of production and marketing of agricultural products.

Funds have been allocated to farms based on the bidding results, i.e. to projects found perspective by the Bid Evaluation Committee. Winning bidders have received contracts providing for reduced prices on selected seeds and premium breeding stock.

Question 25

Could Kazakhstan confirm that all figures listed in represent budgetary outlays and not estimates of support? If these figures were calculated, please move the figures to column 4 and provide calculation details.

Answer:

The Republic of Kazakhstan confirms, that the data and program descriptions contained in the Table reflect budgetary expenditures and are not a result of calculations.

- Export Subsidies

Question 26

We would reiterate our position that Kazakhstan should undertake a commitment not to apply export subsidies on the date of accession.

Many members have called for the elimination of export subsidies in the WTO agriculture negotiations.

Answer:

While not trying to forestall results of the multilateral negotiations of Doha Development Agenda, the Republic of Kazakhstan considers expedient to undertake commitments on export subsidies under the current Agreement on Agriculture, adopted in the course of the Uruguay Round.

The Republic of Kazakhstan needs to use export subsidies based on the following objective factors:

- Geographical location (land-locked country), vastness of territory, remoteness from major markets (countries) involved in import of agricultural products, all drastically decrease the competitive power of Kazakhstani agricultural products in foreign markets in terms of price parameters;
- In the Republic of Kazakhstan the bulk of export products is transported by railway, the share of transportation costs in the product value rising as high as 30 per cent. Given the high share of transportation costs in the export price, domestic products of the Republic of Kazakhstan are not competitive in the foreign markets. The share of foods and agricultural products in the total volume is decreasing and fluctuates recently between 8 and 10 per cent of the total export turnover, while more than 50 per cent of export turnover is covered by grain. Furthermore, while in some years the Republic of Kazakhstan exported 10-12 million tons of grain, in 2001 and 2002 this figure plummeted to 3.3 and 4.3 million tons, respectively;
- The production of the basic export product (grain) exceeds by far (by more than two times) the level of demand on the domestic market. Agricultural production involves the major part of the population of the Republic of Kazakhstan, export sales of agricultural products being the only source of income for the population of rural areas. Given this, the Government of the Republic of Kazakhstan maintains support of the export of products; and
- At the same time, it should be noted that major trade partners of the Republic of Kazakhstan – WTO members (the United States, the European Union), have the right to subsidize export products which right they exercise very intensively. The application of

export subsidies will allow the Republic of Kazakhstan to ensure equal competitive opportunities for the Kazakhstani traders.

Question 27

While we appreciate the responses that Kazakhstan provided in WT/ACC/SPEC/KAZ/7 with respect to the programs that have been included in supporting table ES:1, it is not clear to us how these measures operate.

For example, is the internal transportation subsidy contingent upon export? Or do commodities that are shipped within Kazakhstan afforded the same subsidy?

Answer:

Transportation subsidies for agricultural products have been granted in the form of decreasing coefficients applied to current tariffs on transportation of agricultural products by railway in accordance with Rules for setting and cancellation of decreasing coefficients to tariffs on cargo transportation by rail transport.

Overall, these benefits are granted both for transportation of agricultural products within the Republic of Kazakhstan and transportation of exported products. It should be noted, that in reality transportation benefits granted to agricultural products relate mostly to exports, as intra-republican cargo transportation usually involves motor vehicles, as more available given lower price and higher transportation speed.

Hence, based on the provision of Paragraph 1(e) Article 9 of the WTO Agreement on Agriculture, the Republic of Kazakhstan has included the above transportation subsidies in Table ES:1 of its commitments in the agricultural sector in the context of the WTO accession.

Question 28

The description of "direct export subsidies" for grains provided through the CJSC "Food Contract Corporation" provided in Kazakhstan's response to Q8 is not entirely clear to us, and we would also ask for more information on this program operates, data on expenditures, and calculation details.

Answer:

Direct export subsidies for grain have been granted in 1997 and 1998 under the following schemes.

- 1997

To aid agricultural producers with the sale of grain and purchase of agricultural machinery on favorable terms, the State Food Contract Corporation (hereafter – the Corporation) (at present – CJSC "Food Contract Corporation" with 100 per cent of shares owned by the State) in pursuance of the Order of the Prime-Minister No. 294-p of 21 June 1996 "On Purchase of Combine Harvesters" has purchased combine harvesters "Niva" from the production plant in the Russian Federation (for a sum of US\$11,140 thousand) for supply of agricultural producers under leasing procedures. Agricultural producers were required to pay the price of harvesters in grain terms for a period of several years.

To settle the issue of payment for combine harvesters "Niva", the Corporation had to secure the purchase with the grain of state reserves for a term of three years.

Also, in 1997 in pursuance of the Order of the Prime-Minister No. 316-p of 3 July 1996, the national joint-stock company "Ken Dala" purchased from the joint-stock company 'Krasnoyarsk Combine Production Plant' (Russian Federation) combine harvesters "Yenisei" (for a sum of US\$16,762.3 thousand). Combine harvesters have been leased to agricultural producers of the Republic of Kazakhstan against security of Oblast Akims under the following terms:

- advance payment of 30 per cent of the price of a combine harvester effected by the Corporation using funds received from sales of national grain reserves, marketed subsequently in foreign markets;
- the second share of 30 per cent of the price of a combine harvester paid in grain, using grain delivered by agricultural producers to industrial granaries; and
- the remaining 40 per cent of the price of a combine harvester paid using loans of commercial banks secured by national reserves of grain procured from agricultural producers.

The calculations include the overall costs of the above agreements in terms of the national currency of the Republic of Kazakhstan.

- 1998

Given the remote position of major wholesale markets, low level of marketing development, and limited availability of financial resource, a large number of small and medium agricultural producers cannot market their grain independently and are compelled to sell it at a low price offered by traders, who virtually monopolized the local target markets.

To address this issue and to support small and medium businesses, the Republic of Kazakhstan has procured grain for renewal of the national grain reserves, bypassing numerous intermediary structures, at market prices.

In 1998 in accordance with the Resolution of the Government of the Republic of Kazakhstan No. 998 of 5 October 1998 the Corporation received funds for the procurement of grain and crop seeds in the domestic market. The grain was purchased from small and medium agricultural producers ex-elevator, marketed later in full by the Corporation in foreign markets. The transaction included the amount of credit facilities received by the Corporation from the Foundation for Support of Small Businesses for grain procurement purposes equal to US\$98,248 thousand in the national currency of the Republic of Kazakhstan – KZT.
