

Committee on Agriculture

ANNUAL MONITORING EXERCISE IN RESPECT OF THE FOLLOW-UP TO
THE MINISTERIAL DECISION ON MEASURES CONCERNING THE POSSIBLE
NEGATIVE EFFECTS OF THE REFORM PROGRAMME ON LEAST-DEVELOPED
AND NET FOOD-IMPORTING DEVELOPING COUNTRIES

Attached are copies of statements* made by the representatives of the International Monetary Fund, the World Bank, the Food and Agriculture Organization (FAO), the World Food Programme (WFP) and the OECD at the meeting of the Committee on Agriculture on 20-21 November 1997 (agenda Item Part II.A refers).

Comité de l'agriculture

EXERCICE ANNUEL DE SURVEILLANCE DE LA SUITE DONNEE A LA DECISION
MINISTERIELLE SUR LES MESURES CONCERNANT LES EFFETS NEGATIFS
POSSIBLES DU PROGRAMME DE REFORME SUR LES PAYS LES MOINS
AVANCES ET LES PAYS EN DEVELOPPEMENT IMPORTATEURS
NETS DE PRODUITS ALIMENTAIRES

On trouvera ci-joint la copie des déclarations* faites par les représentants du Fonds monétaire international, de la Banque mondiale, de l'Organisation des Nations Unies pour l'alimentation et l'agriculture (FAO), du Programme alimentaire mondial (PAM) et de l'OCDE à la réunion du Comité de l'agriculture des 20 et 21 novembre 1997 (point A de la deuxième partie de l'ordre du jour).

Comité de Agricultura

EJERCICIO ANUAL DE VIGILANCIA DEL SEGUIMIENTO DE LA DECISIÓN
MINISTERIAL SOBRE LAS MEDIDAS RELATIVAS A LOS POSIBLES
EFECTOS NEGATIVOS DEL PROGRAMA DE REFORMA EN LOS
PAÍSES MENOS ADELANTADOS Y EN LOS PAÍSES EN
DESARROLLO IMPORTADORES NETOS
DE PRODUCTOS ALIMENTICIOS

A continuación se adjuntan copias de las declaraciones* formuladas por los representantes del Fondo Monetario Internacional, el Banco Mundial, la Organización de las Naciones Unidas para la Agricultura y la Alimentación (FAO), el Programa Mundial de Alimentos (PMA) y la OCDE en la reunión del Comité de Agricultura celebrada los días 20 y 21 de noviembre de 1997 (véase el punto A de la Parte II del orden del día).

*English only/Anglais seulement/En inglés solamente.

STATEMENT BY THE REPRESENTATIVE OF THE
INTERNATIONAL MONETARY FUND

I am grateful to the Chairman for this opportunity to speak to the Committee. In September last year we made a substantial statement and I certainly do not wish to cover ground with which the Committee is already familiar. I would, however, like to mention briefly three matters: the trend in world food prices since last year; new Fund resources to meet the needs of members; and our experience with net food-importers during the last twelve months.

Food prices have weakened considerably since the meeting of the Committee in September of last year. The IMF's index of food prices, measured in terms of SDRs for October 1997, was 1½ per cent below the level of one year ago. When measured in terms of US dollars, the decline in this index was 6 per cent, the greater drop reflecting the appreciation of the US dollar relative to the values of other major currencies. The decreases would have been much greater had not price increases for vegetable oils partly offset the large decreases in the prices of cereals. Consumption demand for vegetable oils has been very strong, particularly in many Asian and other developing countries where there have been large increases in per capita incomes in recent years. In addition, in recent weeks, the fear is that severe drought in South East Asia, possibly linked to El Niño, may cut production of palm oil and coconut oil, and hence reduce overall vegetable oil supplies below earlier expectations. However, in 1997, cereal crops were good in most countries of the northern hemisphere, in particular in China, India, Kazakhstan, Russia, Ukraine and the United States. In 1997, a large increase also occurred in world oilseed production, with exceptionally large crops in the countries of the European Union and in the United States. Overall, therefore, we see the problem of coping with higher food prices as one which has ameliorated considerably in the last twelve months, and the IMF's index for food prices for 1998 is expected to remain near the current level.

Since our last statement, the Fund's potential ability to help its members has been improved. In Hong Kong, at our Annual Meetings, Governors agreed that quotas should be increased by 45 per cent, that is, approximately US\$89 billion, and that there should be a special SDR allocation of approximately US\$25 billion. Further, there is agreement to seek ratification of a New Arrangement to Borrow (NAB) equivalent to approximately US\$46 billion, and finally, you will have read about negotiations for possible Asian finance to supplement or support IMF financing. All these initiatives, in very different ways, expand the scope of support the IMF can offer its members. So we can reiterate what we said last year, that the Fund considers it has sufficient liquidity (if these initiatives are ratified in practice) to meet any additional needs that may arise from higher food prices.

Last year we gave Committee members a table showing how almost half (22) of the 46 WTO Members classified as net food-importers had already found Fund facilities useful. Since last September, at least six of the net food-importers have resorted to the Fund's resources: Egypt, Ethiopia, Guinea, Haiti, Madagascar and Tanzania.

Naturally, Mr. Chairman, we are acutely aware of the problems faced by net food-importers. If requested, and if there is a balance of payments need, we will certainly help. It is a relief to note developments over the last year (as I have just described) have improved the position, but allow me to reassure the Committee that the Fund has the resources under existing facilities, and has shown its willingness to use these reserves in the last year, to meet the balance-of payments needs of net food-importers.

STATEMENT BY THE REPRESENTATIVE OF THE WORLD BANK

Review of World Bank measures to assist the Least-Developed and Net Food-Importing Countries

Assistance to overcoming food shortages and raising agricultural productivity in poor countries is an important component of the World Bank's strategy for country assistance. World Bank lending for agriculture and rural development was one of the largest single lending sectors, with commitments totalling \$2,577 million in FY 1996, or around 12 per cent of total Bank Group lending.

The World Bank continues to monitor the progress of liberalization resulting from the implementation of commitments made under the Uruguay Round Agreement. A number of recent studies using different methodologies and assumptions confirm that the long run impacts of the Uruguay Round agreement on agricultural prices will be relatively small - certainly far smaller than the price increases that have been experienced in recent years. Given the small size of the shocks resulting from the Round and the Bank's substantial headroom above current IBRD loans outstanding, it seems clear that the Bank will be in a position to meet any additional demands generated by the Round for loans on IBRD terms.

In response to the Ministerial Decision, a Working Group involving the World Bank, the Food and Agriculture Organization, the World Food Programme and the IMF met in 1995 to address the special needs of least-developed and net food-importing countries. The Working Group reviewed the range of facilities available for additional financing needs for developing countries in the event of world price shocks and production shortfalls and provided a report to the WTO in late 1995. Given the wide range of facilities and the small price impacts expected to arise as a consequence of the Round, and the difficulty involved in distinguishing Uruguay Round impacts from other shocks, it did not seem appropriate to establish a special Uruguay Round adjustment facility.

It is important to point out that the sharp increases in world grains prices that followed the completion of the Round were related to policy changes that reduced public stocks to low levels. However, these stock reductions took place independently of and were not required by the Uruguay Round agreement, which does not constrain stock purchases. Second, the increases in world grain prices that began in 1995 have been largely offset by good harvests in 1996 and 1997. From a high of \$262/ton in May 1996, wheat prices have declined to \$150/ton in September 1997. World grain production in 1997 is projected to be about equal in size to the 1996 level which should be large enough to keep prices well below the 1996 highs and probably near recent lows.

To assist least-developed countries and net food-importing countries to raise agricultural productivity, the Bank is strengthening its rural development programmes. Bank lending and technical assistance programmes for rural development in these countries include (i) encouraging appropriate policies and strategies; (ii) enhancing food supplies through intensification of production systems and through sound natural resource management; (iii) improving access to food; and (iv) improving utilization of food. Key elements of the strategy include supporting government policies and strategies that encourage investment and growth, and which do not discriminate against agriculture and small farmers; promoting better technology and production techniques; investing in infrastructure and people, and promoting appropriate macroeconomic policies and institutions. As part of the Rural Strategy Compact endorsed by the World Bank Board, investments in rural poverty reduction programmes have been made in many least-developed countries in part as a response to the effects of liberalization on less competitive rural producers.

Regional and country activities

In Africa, World Bank assistance in 1996 included IDA funding for Côte d'Ivoire for trade and domestic price reform in agriculture (US\$150 million); food security assistance for Kenya (US\$22 million); an Agricultural Sector Adjustment Credit for Senegal (\$2.8 million); and an Agricultural Extension and Services Project for the livestock sector in Guinea (US\$35 million). In Malawi, adjustment lending is being followed up with an Agricultural Services Project that provides support services to help farmers deal with some of the short-term problems and opportunities created by market liberalization.

In Middle East and North Africa, the Bank financed a \$100 million Emergency Drought Relief and Recovery Program for Morocco in 1996. Country assistance strategies include programmes to improve the competitiveness of agriculture, marketing and agro-industry in the light of increased global trade liberalization.

In Eastern and Central Europe, Bank assistance includes: a \$20 million loan to finance an Emergency Farm-Reconstruction Project that will improve agricultural production in Bosnia and Herzegovina; a Technology Services Project in Croatia (\$17 million) and the Former Yugoslav Republic of Macedonia (\$7.9 million); an Agricultural Irrigation and Drainage Systems Project in Kazakhstan (\$80 million); an Agricultural Research Project in Moldova (\$10 million); and an Agricultural Sector Development Project in Lithuania (\$30 million).

In South Asia, World Bank operations in 1996 include improvements in supporting agricultural sector and agribusiness investments along with critical sector reforms to increase competitiveness. Bank lending in 1996 includes: coastal embankment rehabilitation to protect crops and infrastructures from cyclone damage in Bangladesh (\$53 million); an Agricultural Research Management Project in Bangladesh (\$50 million); and a Water Resources and Irrigation Project in India (\$290 million).

In Latin America, the Ministers of Agriculture of all the Central American countries have asked the World Bank for technical assistance to build institutional capacity for analysis and trade policy formulation. As part of the Rural Strategic Compact, the World Bank is funding increased technical assistance by RUTA - Agricola (Regional Unit for Technical Assistance) for the Central American countries. The Bank extended financing for two major projects under the Institutional Development Fund: (i) National and Regional Institutional Capacity Strengthening for Agricultural Trade Policy Management (US\$488,250); and (ii) Regional Project to Modernize and Increase the Competitiveness of Small-Farm Enterprises in Central America (US\$762,550). The Bank has maintained its investments in productive agriculture or related infrastructure as a response to liberalization. In addition, investments in rural poverty reduction programmes have been enhanced in most Latin American countries in part as a response to the effects of liberalization on less competitive rural producers.

Current and planned studies

The implementation of the commitments made under the Uruguay Round will determine both the long-run economic impact of the Round, and the base from which future trade liberalization will be undertaken. A current study on the implementation of the Uruguay Round draws on the notifications to the WTO made by each member to assess the extent and manner in which key agricultural trade policy reforms have been implemented in each country. The analyses deal with two issues: (i) how have countries been implementing their commitments in market access under the Uruguay Round Agreement in Agriculture, and (ii) based on actual implementation, what has actually happened in agricultural trade liberalization? Further research on ways in which countries can increase the benefits that they obtain from agricultural trade liberalization, particularly in the context of the forthcoming agricultural negotiations, is planned for the coming year.

SUMMARY OF THE STATEMENT BY THE REPRESENTATIVE OF
THE FOOD AND AGRICULTURE ORGANIZATION (FAO)¹

The Food Situation in the Least-Developed and Net Food-Importing Developing Countries

FAO has undertaken an analysis of the food security situation in the 48 Least-Developed Countries (LDCs) and the 18 Net Food-Importing Developing Countries (NFIDCs) which are eligible for assistance under the Marrakesh Ministerial Decision on Measures Concerning the Possible Negative Effects of the Reform Process on the Net Food-Importing Developing Countries. The main findings of the study are as follows.

The socio-economic profile of the Decision countries

The two groups together amounted to 956 million people in 1995, 21 per cent of the total population of developing countries. On average, these countries are below other developing countries as regards most indicators of social development. For example, comparing their per capita income to that of the rest of the developing countries, for the LDCs it is only 17 per cent of that of the rest, and for the NFIDCs it amounts to two thirds of that of the rest of the developing countries.

The percentage of undernourished population (based on FAO's last World Food Survey, published in 1996) remains not only high but also it has barely changed since the early 1970s - at about 40 per cent for the LDCs and 20 per cent for the NFIDCs. In absolute numbers, out of the total 840 million people estimated by FAO as undernourished in the developing countries, 280 million (one third of the total) are found in these two groups of countries. The average daily supply of kilocalories was estimated at 2100 for the LDCs and 2560 for the NFIDCs, compared to 2720 kilocalories for the developing countries as a whole. Moreover, not only is the average level of food supplies low but also the year-to-year variability in supplies is high.

Performance of domestic food production

Cereals provide roughly 52 per cent of the total energy supplies for the LDCs and 45 per cent for the NFIDCs. Average per capita cereal production in these countries is over 100 kgs. less than the rest of the developing countries. Overall, about two thirds of these countries have experienced a declining per capita cereal production trend during the 1980 to 1996 period. Moreover, they suffer from substantial year-to-year variability in cereal production. In the current marketing year (1997/98) some 20 LDCs are experiencing shortfalls in their food supply, requiring exceptional and/or emergency food assistance. Among the NFIDCs, five countries have unfavourable prospects for current crops with one country requiring exceptional food assistance. Slow food production growth and high production variability remains a major and chronic problem for both the LDCs and the NFIDCs. In turn, this contributes to a high dependence on imports as well as sharp year-to-year fluctuations in their cereal import bills.

Dependence on food imports

The total value of imports of all food items increased for the LDCs as a whole by over 50 per cent from the early 1980s to 1995 and for the NFIDCs by over 40 per cent. In the early 1980s, food imports accounted for about 17 per cent of the total merchandise imports of the LDCs and this share had increased to over 20 per cent by 1995. For the NFIDCs, the share declined somewhat from 17 per

¹Copies of the full statement are available from the Secretariat, Agriculture and Commodities Division, CWR, Room 1035.

cent in the early 1980s to 14 per cent in 1995, although even for that group of countries it was much higher than the share of the rest of the developing countries which was 6 per cent in 1995, down from 10.5 per cent in the early 1980s. One other dimension of the problem is that in some years the ratio of the food to total merchandise imports rises to much higher levels, implying that these countries have to curtail other vital imports in order to meet their food import needs. Cereals and vegetable oils dominate the food import bills of these countries, accounting for roughly 40 per cent and 20 per cent of the total during recent years, compared to 28 per cent and 15 per cent, respectively, for the rest of the developing countries.

Experience during the 1995/96 price spike

From 1993/94 to the peak of 1995/96 both groups of countries experienced a substantial increase in their cereal import bills, amounting to 85 per cent for the LDCs and 68 per cent for the NFIDCs, largely as a result of the substantial increase in the world cereal prices during 1995/96. However, their cereal import bill persists at a relatively high level, despite the decline in cereal prices since then. This is largely due substantial reductions in food aid and export subsidies in recent years. During 1997/98, food aid in cereals would account for 23 per cent of LDCs cereal imports compared to 36 per cent in 1993/94 and 64 per cent in the mid-1980s. The decline in the relative contribution of food aid to cereal imports of the NFIDCs is even sharper, from 22 per cent in the mid-1980s to 7.6 per cent in 1993/94, down to 2 per cent in 1997/98. Similarly, the value of imports under subsidies which accounted for as much as 26 per cent of their cereal import bills for the LDCs and 46 per cent for the NFIDCs in 1994/95, dropped to virtually nil since 1995/96.

The implications of both of these trends, although largely anticipated in the context of the new policy environment under the Uruguay Round, is that a much greater volume of cereals is now imported under commercial terms.

The ability to import

The above trends for both the LDCs and NFIDCs raises the question of their ability to pay for their growing import bills. Ability to pay is a broad concept with many dimensions which require a detailed analysis. However, trends in some relevant indicators of import capacity reveal certain difficulties for these countries. The value of their exports from goods and services (in per capita terms) had a downward trend until the mid-1980s and, despite an upward trend since then, it is still lower in 1995 than in the beginning of the 1980s. Also, agricultural exports, which include primary commodity exports, are no longer a large component of the total export earnings (20 per cent for LDCs and 10 per cent for NFIDCs). Thus, while it is often the case that high world market prices in basic food commodities coincide with high prices in primary agricultural exports, the compensating effect of this correlation is dampened significantly in view of the declining share of their agricultural exports in total export earnings. All LDCs and nearly all NFIDCs had a negative balance of payment (BOP) position during most of the 1980s and up to the present time and their BOP deficits have worsened. Also, another indicator of the difficulty these countries are facing in meeting their food import needs is their debt to service ratios (the ratio of total debt service to exports of goods and services). In 1995, the simple average of the debt-service ratios was 23 per cent for 41 LDCs for which data are available. For the NFIDCs this ratio stood at 20 per cent. Although debt to service ratios improved somewhat from the high levels of the 1980s, for many countries, especially among the LDCs, this ratio still remains high, with 10 of them above 25 per cent.

In summary, all the relevant statistics differentiate clearly the LDCs and the NFIDCs from the rest of the developing countries as regards food availability and capacity to import. The food security situation in both the LDCs and the NFIDCs remains precarious and FAO will continue to monitor this situation as it evolves.

STATEMENT BY THE REPRESENTATIVE OF THE WORLD FOOD PROGRAMME (WFP)

I am pleased to have the opportunity to inform the Committee on WFP activities with relevance to the Ministerial Decision.

The Decision stipulates the need to review the level of food aid to ensure that it is sufficient to meet the legitimate needs of developing countries during the reform programme. According to WFP's global food aid information system, INTERFAIS, the latest developments in food aid flows are as follows:

Food aid deliveries to Least-Developed and Net Food-Importing Developing Countries have fallen drastically since 1994, the year of signature of the Uruguay Round Final Act, when 7.3 million tonnes were provided. In 1995 food aid to the countries covered by the Decision fell to 4.9 million tonnes, a reduction almost identical with the cut in donors' minimum commitments under the then renegotiated Food Aid Convention 1995. In 1996 food aid flows dropped further to 3.9 million tonnes and now in 1997 deliveries to Least-Developed and Net Food-Importing Developing Countries are forecast to only reach 3.4 million tonnes.

There is little evidence that such a dramatic reduction of food aid flows is justified by the gains in trade and agriculture in these countries or that this loss has been made up by increases in other aid programmes listed in the Decision.

In this regard it should also be noted that since the Ministerial Decision little progress has been made in developing criteria and mechanisms that would help to answer important practicalities such as: defining "legitimate needs"; to whom and in what form an affected country would make any request for assistance; who would assess this request, on what basis and in what kind of time-frame; how any request for food aid assessed as "legitimate" would be resourced; or the operational arrangements under which the food aid would be provided. These are matters that WFP has raised in its Executive Board, particularly in the context of the "International Emergency Food Reserve (IEFR)", a proven international mechanism for responding to food assistance needs.

The Committee's Report to the Singapore Ministerial Conference refers to the Food Aid Convention as the framework within which the legitimate needs of the developing countries should be met. WFP has been participating in preparations for the renegotiation of the Food Aid Convention. The success of this process is crucial; only 12 months ago the World Food Summit in Rome made it clear that food aid needs are far beyond the resources now devoted to it.

I would like to briefly repeat the key proposals which WFP would like to see incorporated into a future Food Aid Convention (the full text was already earlier distributed to you in document G/AG/GEN/4 dated 21 July 1997):

Promotion of a more people-centred approach by encouraging donors to use food aid in ways that are most likely to give a lasting benefit to poor and hungry people (i.e. donors should be encouraged to accept the extra costs of targeting food aid);

Confining the range of eligible commodities to the kind typically eaten by hungry poor people in developing countries;

Sharpening the focus of food aid on the neediest countries; and

Achieving greater stability in food aid supplies, at least for interventions designed to help the most hungry, particularly in years of volatile world prices.

STATEMENT BY THE REPRESENTATIVE OF THE OECD

Agriculture and exports credits

Article 10.2 of the WTO Agreement on Agriculture notes that its Members undertake 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".

The Participants to the Arrangement on Guidelines for Officially Supported Export Credits (the Arrangement) agreed in 1992 and again in 1994 that, following the successful conclusion of the Uruguay Round, they would negotiate on complementary guidelines on Export Credits on Agricultural Products, an area currently exempted from the Arrangement.

Following the development in an experts' group of a draft Understanding with Options, negotiations began in 1996 and are continuing amongst the Participants to the Arrangement (plus Argentina) on an Export Credits Understanding for Agricultural Products.

To this end, the Communiqué issued following the 1997 Meeting of the OECD Council at Ministerial Level recorded that:

"Ministers encouraged Participants to conclude negotiations on export credits for agricultural products as soon as possible and to make a report to their next meeting in 1998."

Negotiations in the OECD are currently concentrated on the issue of maximum repayment terms while recognizing that many other issues (such as transparency, official financing support, pricing and aid issues) will need to be clarified before a final agreement is concluded. Additionally, it is noted that progress on other non-export credit related agricultural issues (such as STEs) would help to eliminate impediments towards an agreement amongst the Participants.

The Export Credit Understanding for Agricultural Products will conform with other international agreements (e.g. the FAO Principles of Surplus Disposal, the Food Aid Convention, and the WTO Agreements). In this regard, the Participants are, *inter alia*, considering how to take account of the requirement 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.

Whilst progress has been difficult, the Chairman of the Participants, Mr. Kurt Schaerer (Switzerland) remains optimistic that, given greater flexibility among the negotiating parties, it should be possible to report significant progress to the OECD Ministerial in April 1998, and for an export credit agreement for Agricultural Products to be finalized in the near future.

Time has been made available for a Special Meeting of the Participants (plus Argentina) in March 1998 which would allow for any outcome to form the basis of a Report to OECD Ministers on this issue.