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Working Party on State Trading Enterprises

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REPLIES TO QUESTIONS FROM THE UNITED STATES¹ ON THE ARTICLE XVII NOTIFICATION OF THE CZECH REPUBLIC²

The following communication, dated 26 March 1996, has been received from the Permanent Mission of the Czech Republic.

Replies to the US questions on the State Fund for Market Regulation

Question 1

The selection of products to be the subject of the SFMR operation is based on the factors mentioned in the notification. It is obvious that any decision results from the estimated annual levels of production and consumption. At present, only two commodities, milk and food wheat, are subject to market regulation.

In dairy products, the market is regulated through subsidized exports. In food wheat, which is the most important commodity in terms of its share in human nutrition as well as in the total agricultural output, the market is regulated solely through intervention purchases.

The export subsidies volume is determined by the SFMR Council and is derived from the forecast of milk surplus in the coming period. The surplus is estimated, based on an assessment of milk production and consumption. The total milk production expected is derived from anticipated development of dairy cow numbers and of milk yield, while the total milk consumption is estimated from the anticipated development of the consumption of milk and dairy products on the domestic market.

The volume of food wheat to be purchased is determined by the SFMR Council six months before its harvest. The level of intervention purchases in terms of its share in the annual consumption on the domestic market should be sufficient to allow, if necessary, the regulation of the market through the release of wheat from intervention stocks to domestic food wheat processors. The intervention purchases usually account for 40 per cent of the Czech Republic's annual consumption of the commodity.

Minimum (guaranteed) prices are derived from production costs (determined through surveys) for the commodity concerned, and they are set to ensure a minimum profitability to the more effective producers. The level of minimum (guaranteed) price is a farm gate price that the state guarantees as

¹G/STR/W/10

²G/STR/N/1/CZE + Corr.1

the lowest possible which the farmers, engaged in the state regulation measures, have to receive for the commodity concerned.

Tender for SFMR contractual partners has the form of a selection procedure guided by "The principles of selection procedure among legal and natural entities for intervention purchases, export or sale of products included in market regulation".

The principles set major selection criteria, methods for evaluation of applications as well as rules for publication of results and procedures to perform the operation concerned. The major criteria primarily include: required volume of products for intervention purchase, export or sale, requested amount of subsidy (in case of subsidized exports), level of the proposed price, level of processing and storage costs (in case of intervention purchases and sales) and a general entrepreneurial, trade and economic reliability of the applicant.

The intervention purchases as well as subsidized exports are undertaken on the basis of contracts between the SFMR and partners selected in the selection procedure.

Question 2

The level of export subsidies for dairy products is set differently for butter and other dairy products. The export subsidies for butter are based on the price of butter, the calculation of which involves minimum (guaranteed) price of milk and certain level of processing costs. The potential export price is assessed. The subsidy rate then represents the amount covering the difference between the price of potential export and the calculated price of butter.

For other dairy products, the subsidy rate is derived from bids by different dairies in which they propose products for export and require funds for export subsidies. Individual bids are considered in the selection procedure based on the financial requirements. Only bids with the lowest level of subsidy per litre of the best quality milk, with fat content of 3.6 per cent, may constitute a milk surplus subject to possible subsidized exports. In wheat, exports are not subsidized as the objective is to export under such conditions that would allow to cover the SFMR costs incurred while procuring, storing and selling the wheat.