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INTERNATIONAL AGRICULTURAL ADJUSTMENT PROGRESS REPORT ON GUIDELINES 7, 8 AND 12

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I. INTRODUCTION

1. The Conference decided at its Twenty-fourth Session in 1987 to change the periodicity of progress reports on the implementation of the Guidelines and Targets for International Agricultural Adjustment from biennially to once every four years. The seventh progress report will therefore be submitted to the Twenty-sixth Session of the Conference in 1991. The Conference however decided also to review at its Twenty-fifth Session in 1989, on an exceptional basis, progress on Guideline 7 (policies affecting international agricultural trade and market access), Guideline 8 (stability of world markets for agricultural products; access of food importing developing countries to food supplies on reasonable terms) and Guideline 12 (external assistance to agriculture of the developing countries). Accordingly, the present document monitors progress regarding the implementation of the three afore-mentioned Guidelines.

2. The issues covered by these three Guidelines are also discussed in the Conference documents C 89/2 (the State of Food and Agriculture), and C 89/23 (Progress Report on the GATT Multilateral Trade Negotiations - Uruguay Round - and Implications for FAO). Developments in the areas of the three Guidelines determine to a great measure the external environment for the food and agriculture sector of developing countries. Adjustments in this external environment constitute one of the vital elements of the long-term strategy for the food and agriculture sector under preparation in FAO, which will be discussed under the Conference agenda item on Preparations for an International Development Strategy for the Fourth UN Development Decade (document C 89/19).

II. Performance with Respect to the Guidelines

Guideline 7

"All countries, particularly developed countries, should display the necessary political will by refraining to the maximum extent possible from imposing any new tariff or non-tariff barriers to the imports of agricultural and agro-based products, particularly those from developing countries, and they should progressively improve access to international markets in order to underpin a dynamic upward trend in trade volumes in these products as well as greater product diversification. Importing countries should avoid arbitrary disruption of emerging trade opportunities and of existing trade. Exporting countries should restrain to the maximum extent possible the use of export subsidies and similar measures which might hamper trade, particularly of developing countries."

3. The latest OECD annual review of agricultural policies, markets and trade ^{1/} indicates that agricultural support in the OECD member states continues to remain high. This has negative implications for the growth

^{1/} OECD, Agricultural Policies, Markets and Trade: Monitoring and Outlook 1989, Paris 1989.

and orderly development of world agricultural trade. According to the estimates of the OECD Secretariat, the total costs of agricultural policies more than doubled between 1979-81 and 1986, to reach ECU 272 billion (US \$268 billion) for 18 of these countries combined. The bulk of the total support is on account of the agricultural policies of the EEC (12 member states), the United States and Japan. Moreover, about 70 percent of the total costs arise as a result of price and other market support policies which may be considered, *prima facie*, as policies which distort trade, either directly through border measures or indirectly through their effects on domestic production and/or consumption. Preliminary indications are that the total costs of these policies decreased in both 1987 and 1988 in terms of ECU but that costs rose in terms of dollars in 1987 before reverting to about US \$270 billion in 1988. Higher international prices for many agricultural products of the OECD countries, together with some policy adjustments, have helped to contain the costs of their policies in the past year. It is to be stressed, however, that the costs of agricultural support in the OECD countries, notwithstanding the strikingly large estimates, may understate the overall costs, bearing in mind the less-than-complete country coverage.

4. Overall, recent developments in agricultural policies impinging on international trade reveal a mixed picture. Certain industrialized countries have introduced changes in their agricultural policies which have the effect of reducing barriers to trade, reducing subsidies on production, and limiting growth of agricultural support expenditures. Some measures have also been taken aimed at opening up trade in a regional context. In the GATT context, the decisions on negotiations on agriculture reached by the Trade Negotiations Committee held in April 1989, and the resumption of the Uruguay Round of multilateral trade negotiations, especially taking into account the need for both long-term reform of agricultural policies, particularly in the main industrialized countries, and the short-term actions agreed, revive the possibility of improvements in the conditions of international agricultural trade. Moreover, with the resumption of the negotiations, certain progress has been achieved in the negotiations on tropical products.^{1/} However, the level of support provided to agriculture through the policies of most industrialized countries has remained extremely high, and mainly in the form of measures which involve distortions to trade. Moreover, in certain major commodity sectors, competition for markets by means of export subsidy programmes has been unabated or has even increased.

5. The exacerbation of problems of market access in agricultural trade in recent years has been reflected by the large number of disputes brought before the GATT. Notable progress was made in resolving a number of these disputes. However, a number of new disputes also arose in the course of 1988 and early 1989.

6. There have been a number of regional agreements in the period under review which have prospective major implications for international trade, including agricultural trade. These include the Canada/United States Trade

^{1/} For details see document C 89/23.

Agreement: these two countries have the largest bilateral trade flow in the world. Considerable progress has also been made in the EEC's programme toward creation of a single barrier-free internal market by 1992, with over one third of the Commission's proposals having been finally adopted. In the context of the Single European Market, certain ACP banana-producing States have expressed concern regarding the possible implications for their status as preferential suppliers of bananas to the Community.

7. Since the last review by the Conference of developments in agricultural protectionism bearing on Guideline 7, a number of important agricultural policy changes have also been initiated which are broad in their commodity coverage. Certain elements of these changes are highlighted below regarding individual food and feed commodities.

8. In Japan, by cabinet decisions taken in July and August 1988, a programme for elimination of quantitative import restrictions was initiated on a wide range of agricultural products, including beef, oranges and orange juice, certain other fruits and fruit products and tomato products, prepared beef and pork products, certain sugar preparations, and some dairy products. For a number of products, notably beef but also certain fruits and nuts, pork and beans, the programme includes reductions in most-favoured nation tariffs, while for three consecutive years the Japanese Ministry of Agriculture has decided to reduce producer price supports for beef, pork and raw milk for processing, as of April 1988.

9. In the EEC, at the summit of Heads of Government in February 1988, wide ranging measures were agreed as a basis for controls on agricultural production and prices, and concerning legally-binding controls on agricultural support expenditure. The main decisions set out a new budget framework which limits the maximum real growth in expenditure and "stabilizers", or reinforcement of existing stabilization mechanisms, involving production thresholds and price penalties (or additional co-responsibility levies) when production exceeds indicated levels for cereals, oilseeds, wine, olive oil, tobacco, fruits and vegetables, sugar, sheepmeat, milk, and beef and veal. In addition the agreement introduced area set-asides, under which farmers applying for set-aside premiums must set aside at least 20 percent of their total arable area; and made provision for promoting early retirement from farming.

10. As regards individual commodities 1/, a number of developed countries have taken further significant steps to reduce price support for wheat and coarse grains since the latter half of 1987, including major exporters like the EEC, Canada, and the United States. As regards 1988/89, a major influence on cereal production policies in the current season was the North American drought of 1988. In the United States this led to the adoption of the Farm Drought Bill, to compensate farmers whose incomes were affected and to recompense livestock producers through the Emergency Feed Programme and the Emergency Feed Assistance Programme. Another consequence, but for the 1989/90 season, was the decision to reduce the

1/ The following paragraphs provide only a summary review of developments for individual commodities. More details are available in: Protectionism in Agricultural Trade: Review of Action Taken on Conference Resolution 2/79, Document CCP 89/18 of the Committee on Commodity Problems, Fifty-seventh Session, Rome, 12-16 June 1989.

proportions of land to be kept out of production in the United States under the Area Reduction Programme. Drought also affected cereal production in Canada in 1988, and the government announced a special drought assistance programme and raised initial payments to cereal growers for 1988/89 substantially following the upturn in world prices. In general, higher world cereal prices led to a sharp reduction in levels of support as measured by producer subsidy equivalents (PSEs).

11. In spite of the continuing disarray in international markets a number of recent policy changes have been in the direction of liberalising grains trade. A number of countries eased their import quota arrangements for certain grains and some others cut their tariffs.

12. Regarding export policy developments, Argentina, as part of a major reform of trade policy, discontinued export taxes on wheat and coarse grains. Canada decided to end the Canadian Wheat Board's monopoly of sales of oats from August 1989. The United States passed its Agriculture Appropriations Bill which allocated US \$770 million to the provision of subsidies through the Export Enhancement Programme (EEP) in 1988/89. Looking further ahead, legislation introduced through the Trade Bill may affect prospective trade policy. The Bill ensures funding of the EEP in 1989/90 and 1990/91 with an increased ceiling of US \$2.5 billion. It also provides that the EEP may be extended to include all interested importers rather than being restricted to traditional trading partners. The same Bill allows for marketing loans to be introduced for wheat and coarse grains should the President decide that international trade negotiations had made insufficient progress by January 1990.

13. In response to a tighter world market situation for rice, most developed exporting countries took steps to increase paddy output in 1988. As a result of the change in the world rice market from surplus to tight supplies and higher international rice prices, the degree of subsidy in those export programmes which are linked to world market prices declined in 1988. However, there was no fundamental modification of the underlying policies on export aids. Concerning the developing rice-exporting countries, no new export measures were announced in Thailand, while some other countries adopted measures to promote exports. However, both the share of small exporters in the world market and their export volumes declined in 1988. Import policy measures in many countries remained basically unchanged in 1988 from the previous year. However, there has been a reduction of restrictions on rice imports in some countries.

14. In reviewing progress, in the context of its Guidelines for National and International Action on Rice, the Intergovernmental Group on Rice, at its 32nd Session in 1989, expressed its appreciation that most developed countries had exercised restraint in increasing output, in line with the Group's earlier request. It regretted, however, that there had been no fundamental change in export subsidy programmes.

15. Oilseeds, oils and fats production continues to be supported in many countries by means of price support schemes, supplemented in some cases by non-price measures. In 1987 and 1988, the tendency has been for several developed countries to increase support or procurement prices less than in earlier years or, in some cases, even reduce them. In developing countries, the general tendency has been to continue increasing support prices in 1987-88. However, in many cases inflation eroded at least in

part the incentive effect of the increases in support prices. As regards measures affecting exports in the oilseeds, oils and fats sector, a limited number of exporting countries reduced or eliminated pre-existing export disincentives in 1987-88. However, these positive export policy measures have been overshadowed by other developments, particularly by a sudden sharp increase in the use of export aids. Import policy developments in the past year appear to confirm on the whole the tendency to liberalize imports which had become apparent in 1986-87. Reported measures taken in 1987-88 which abolished or reduced import duties, levies and quantitative restrictions outnumber those which introduced or increased these import barriers.

16. At its 22nd Session in March 1989, the Intergovernmental Group on Oilseeds, Oils and Fats, in the context of the Guidelines for International Cooperation in this sector, agreed that the progress made in 1987-88 towards achieving the overall objectives of the Guidelines was very limited, and considerably less than that ascertained by the Group at several of its recent sessions. A clear tendency towards increased protectionism had developed in 1987-88 in the form of both increased protection to high-cost production and considerably increased use of export aids.

17. In most developed countries producer and/or consumer prices of meat are subject to some type of direct or indirect regulation by governments. Only in very few countries does the meat industry operate in an essentially free market situation. In the developing regions, there has also been a tendency to cut subsidies on meat consumption or production and to deregulate state intervention in domestic and export marketing, coupled with the introduction of more realistic exchange rates.

18. Faced with oversupply of meat, the EEC and other western European countries have continued to resort to measures to stimulate exports, especially of beef. While remaining a large net exporter of livestock and meat, the EEC has in recent years allowed increased imports of beef free of tariff duty and at reduced rates of levy from a number of African countries associated with the EEC. At the same time more high quality beef has been authorised to enter the EEC free of levy, benefiting mainly South American suppliers. Quotas on preferential imports of manufacturing beef and live cattle were reduced until 1988, though there has been some increase in 1989. The United States has granted various direct and indirect aids to exporters of livestock and meat since the mid-1980s but the share of subsidized exports in total US exports decreased substantially in 1988. At the same time the level of beef imports allowed under the Meat Import Act was raised until 1988, though restraints on shipments were negotiated with Australia and New Zealand in 1987 and 1988 and the import level was lowered again in 1989. In Japan, the cut in beef and pigmeat support prices has been accompanied by a reduction in import charges. Indeed, in a process of liberalization, quantitative restrictions on beef imports are to be phased out, and tariffs are to be reduced. At its 13th Session in March 1989, the Intergovernmental Group on Meat considered that Japan's policy changes constituted the most significant contribution to the liberalization of the international meat market in recent years.

19. Among the developing countries, the Republic of Korea has maintained its ban on poultry and pigmeat imports but resumed imports of beef. The government of Mexico has continued to restrict exports of live cattle and

allowed larger imports of livestock and meat, mainly from the United States, as part of its policy to ensure adequate supplies to domestic urban consumers at fixed prices. Export aids granted by developing countries have been further reduced, largely because of serious budgetary problems. Turkey is one of the few developing countries which continues to grant meat export subsidies. Argentina and Uruguay have phased out most taxes on their exports of livestock and meat, to mitigate the adverse effects of depressed world market prices on domestic producers.

20. The dairy sector has continued to be highly supported in most developed countries. However, western Europe pursued policies of adjusting output of milk and milk products to remunerative outlets. In the EEC, the collection of cow milk by EEC dairy plants in 1988 was nearly 10 percent less than in 1983, the year prior to the introduction of marketing quotas. Production also decreased further in most other countries of western Europe. However, Canada raised quotas slightly and lowered penalties for excess deliveries. In Japan the quota on manufacturing milk, for which the government guarantees a set price to farmers, was also increased in 1988/89 although the guaranteed price itself was reduced in that year and again in 1989/90. In the United States, the only developed market economy country in the northern hemisphere not applying quotas on milk marketing, production experienced an upswing in 1988 notwithstanding another cut in the support price and the effects of drought on feed supplies and prices.

21. The continued reduction in world output and stocks resulted in an accelerated rise in skim milk powder prices in international trade. Domestic market prices also increased in the EEC and the United States. Even so, from mid-1988 the United States was able to compete in the international skim milk powder market without subsidies, while the EEC cut its export refund by almost half. By end 1988, world prices of skim milk powder were well above the GATT's minimum export price, which was raised twice in 1988. Market prices of other milk products and respective minimum prices agreed under the GATT's International Dairy Arrangement also increased. However, a large part of international trade in butter and butter oil in 1988 still consisted of transactions at specially reduced prices, and food aid. In the EEC, the quota of 97 million tons remained well above the level of unsubsidized sales of milk and milk products in domestic markets and abroad which have averaged between 70 and 75 million tons of milk equivalent in recent years. Hence, substantial quantities would continue to be disposed of, at subsidized prices, in domestic and external markets.

Guideline 8

"All countries should make the fullest possible efforts and adopt appropriate measures to ensure greater stability of world markets for agricultural products at prices remunerative to producers and fair to consumers, where appropriate through the use of international commodity agreements. In this respect, the international community should take measures to ensure importing countries, particularly low-income countries, access to supplies of food on reasonable terms, particularly in times of world food shortages."

22. The 1980s have been a particularly unfavourable period for the negotiation of international commodity agreements aimed at ensuring greater stability of world markets for agricultural products. Although there has been a recent upward trend in commodity prices in general, due primarily to the effects of severe drought in North America and supply adjustment programmes in developed countries, the aggregate level of world agricultural prices, even in nominal terms, was in 1988 10 percent below the level of 1980. Prices of several major tropical commodities (e.g. coffee, cocoa, tea) principally exported by developing countries, have fallen sharply in the past two years as markets remained heavily in surplus. Long-term downward trends, combined with the strong volatility of international prices for many commodities, have continued, making it difficult to envisage agreement among producers and consumers on price levels which international commodity agreements should defend. Moreover, the general thrust of policy thinking, particularly among certain developed countries, has tended to favour the freer working of international commodity markets through market forces rather than stabilization by means of international commodity agreements. At the same time, the ongoing negotiations on agriculture in the GATT Uruguay Round have as their objective the establishment of a market-oriented agricultural trading system, in which government intervention would be reduced. It is therefore not surprising that no new international commodity agreements with market stabilization provisions have been negotiated in the past two years. Moreover, serious tensions and discords have persisted regarding the operations of some of the existing international commodity agreements.

23. The 1986 International Cocoa Agreement which came into force in January 1987 failed to make an impact on the price of cocoa. Its buffer stock buying operations were suspended in June 1987 when purchases reached the limit of 75 000 tons within six months. After a short recovery, cocoa prices fell to a four and a half-year low at the beginning of September 1987. However, the International Cocoa Council failed to restore the price support mechanism of the Agreement and the buffer stock manager was unable to intervene in the market. In order to resume buffer stock buying, producers and consumers agreed (January 1988) to lower the intervention prices. However, buffer stock purchases, which reached the maximum of 250 000 tons in February 1988, made little impact on prices. A Special Council of the International Cocoa Organization in March 1988 failed to reach agreement on a withholding scheme which would have kept another 120 000 tons of cocoa from the market in storage by countries of origin. Further talks in September 1988 and in March 1989 ended without a consensus on new levels of support prices or agreement on any action over the rising amount of arrears in levies owed to the buffer stock, and cocoa prices fell to levels far below the price range to be defended under the pact. Following reports of disease in the Bahia cocoa-growing region of Brazil and dry weather in West Africa, particularly in Côte d'Ivoire, cocoa prices edged up in late May 1989 but there appeared to be no fundamental change in the market situation, with supply outstripping demand. The current International Cocoa Agreement expires in September 1990 but unless participants find a solution to the present problems in their next meeting in September 1989, it will remain practically dormant.

24. Coffee prices also remained under pressure in 1987 and in 1988. Producers and consumers agreed (September 1987) to reintroduce export quotas for the final two coffee years of the 1983 International Coffee Agreement with the purpose of bringing prices back into the agreed range of

120-140 US cents per pound with safety limits of 115 cents and 145 cents respectively. The total export quota agreed for the coffee year 1987/88 was 58 million bags (60 kg each), which in October 1988 was limited to 56 million bags to keep prices above 115 cents per lb. In the first quarter of 1989, prices fell below the 120 cents a pound defence level and the quotas were cut by 2 million bags in two successive instalments of one million bags each in February and March 1989 and by 1.5 million bags in April 1989. Coffee prices stabilized but for most of the time they remained below the defence level. Major coffee producing and consuming member countries held a number of informal consultations during the first half of 1989 to work out a new International Coffee Agreement which would replace the existing pact due to expire in September 1989. Proposals to prevent two-tier markets, where non-members pay less for coffee than ICO members, and which have undermined the effective functioning of the Agreement, were considered, but the meetings failed to develop a common approach on this issue. Finally, in further talks in early July the ICO members agreed to suspend export quotas, thus creating the first free market in coffee since 1987. They also decided to extend the International Coffee Agreement for two years starting from 30 September 1989, but without export quotas.

25. The Second International Natural Rubber Agreement (INRA II) concluded in 1987 entered provisionally into force (29 December 1988) after it was ratified or approved by the required level of natural rubber producing and consuming countries. The new five-year agreement provided for more frequent price reviews and semi-automatic adjustment of price range and has imparted a degree of flexibility that had not been available to the old agreement. INRA II has not yet been put to a test, thanks to rising demand for natural rubber and a better structural balance. In view of this, the general expectation is that like its predecessor, it will succeed in stabilizing natural rubber prices. Sales of the buffer stock under INRA I proved highly profitable in addition to achieving its primary purpose of absorbing surplus supplies in the early 1980s and selling into the market when the supplies tightened in September 1987. At its meeting in April 1989 the International Rubber Organization (INRO) took decisions on the distribution among its members of the substantial money assets (estimated at US \$371 million) generated by the above-mentioned sale of more than 300 000 tons of buffer stock during INRA I.

26. The International Sugar Agreement 1987 came into force in January 1988. The new Agreement is, like the previous one, a purely administrative agreement and contains no regulatory clauses. The Agreement is intended to enable the International Sugar Organization and its statistical machinery to remain operative and in particular to continue to provide an appropriate framework for the preparation of a possible new International Sugar Agreement with economic provisions.

27. The International Wheat Agreement 1986, comprising the Wheat Trade Convention and the Food Aid Convention, entered into force in July 1986. The New Wheat Trade Convention, like its predecessor, is for a five-year period and does not contain any price or stock provisions. The Food Aid Convention 1986 is largely unchanged from the previous one. Originally agreed to remain in force until June 1989, the Convention has recently been extended by two years to June 1991.

28. The International Tropical Timber Council, set up to administer the International Tropical Timber Agreement, held two meetings in 1988,

respectively in Brazil and Japan, and one in May 1989 in Côte d'Ivoire. A number of projects on information and market intelligence, on aspects of forest industry and on reafforestation and forest management were initiated. On behalf of some European tropical timber traders, the idea of a surcharge on tropical timber imports, subscribed by all consuming countries, was put forward. The proceeds would be paid into the special fund of the International Tropical Timber Organization to support forestry management. The position was maintained by producing countries that more remunerative prices for tropical timber are essential to sustain tropical timber resources.

29. The 1982 International Agreement on Jute and Jute Products was due to expire in January 1989. However, the Council of the International Jute Organization at its Ninth Session (November 1988) decided to extend it for two years until January 1991 in order to allow for the renegotiation of the Agreement. At its Eleventh Session (March 1989) the Council agreed on the text of the new Agreement. It also decided to request UNCTAD to convene an international conference to renegotiate the Agreement and proposed that the Conference be held commencing 30 October 1989.

30. The International Dairy Products Council and its three committees continued to review the functioning of the GATT International Dairy Arrangement (IDA) and to assess the world dairy situation. In line with rising prices in international markets for virtually all dairy products, particularly those with a high protein content, minimum export prices were raised further in 1988. While actual prices in international trade in milk powder exceeded the minimum levels throughout 1988, a large proportion of member countries' exports of butter continued to take place at prices well below the IDA minimum level, following derogation of price provisions for old butter and certain conditions regarding export quantities. At its session in March 1989, the International Dairy Products Council noted the continued strengthening of the world dairy market. Dairy products were in general selling well in all the major markets at the beginning of 1989 and prices for products covered by the Protocols of the International Dairy Arrangement remained well above the agreed minimum levels.

31. The functioning of the GATT Arrangement Regarding Bovine Meat continued to be reviewed by the International Meat Council. The Council, and its Market Analysis Group, have increasingly also covered markets of other meats, as well as questions of a policy nature of special concern to participants. However, no progress has yet been made with regard to other objectives of the Arrangement, such as expansion and liberalization of trade.

32. As regards initiatives on new international commodity agreements, UNCTAD VII (1987) requested the Secretary-General of UNCTAD to convene or resume ad-hoc review meetings on individual commodities which are not covered by international commodity agreements or arrangements and which are included in the indicative list of resolution 93(IV) on the Integrated Programme for Commodities (IPC), and to decide on appropriate international action needed to solve the problems faced by these commodities. A process of preliminary comprehensive consultations for these purposes has been in progress in UNCTAD, and the UNCTAD Committee on Commodities would consider the results in due course.

33. The operations of the agreements, which do not have economic provisions and aim to improve structural conditions in the market of the commodity concerned, were partially affected by insufficient funds to finance the related research and development projects. In this context, the need for the early operation of the Second Account (which is meant to finance measures in the field of commodities other than stocking) of the Common Fund for Commodities assumed particular relevance. Here some positive developments have taken place. The main outstanding condition for entry into force of the Agreement establishing the Common Fund for Commodities, adopted as long ago as June 1980, namely that ratifying countries should represent two-thirds of the Fund's directly contributed capital, was fulfilled in July 1988. The representatives of the 64 States which had by September 1983 ratified the Agreement Establishing the Common Fund met in New York on 19 June and decided that the Common Fund would formally enter into force on that day, that is on 19 June 1989.

34. At its first annual meeting (July 1989), the Governing Council of the Common Fund appointed the Managing Director of the Fund and chose Amsterdam as the site for its headquarters. It also elected 26 executive directors and their alternates which would constitute the Executive Board of the Fund until the second annual meeting of the Governing Council likely to be held by July 1990, which would elect the 2 remaining executive directors and their alternates for the remainder of the two-year period. The Council directed the Executive Board to submit at its second annual meeting for its consideration draft texts on organizational matters including those on the rules and regulations for the conduct of business of the Fund, relationship agreements with various cooperating institutions and rules and regulations for First and Second Account operations.

35. The First Account of the Common Fund which is to contribute to the financing of stocking within the framework of International Commodity Agreements (ICAs) will be activated when ICAs with buffer stocking provisions elect to be associated with the Fund. Presently there are two ICAs which rely on buffer stocks, those for cocoa and rubber. However, the Second Account, designed to finance commodity development measures which would improve the structural conditions in markets and enhance the long-term competitiveness of developing countries' export commodities, could be activated as soon as the Common Fund becomes operational.

36. The Guideline also calls for measures to be taken to "ensure importing countries, particularly low-income countries, access to supplies of food on reasonable terms, particularly in times of world food shortages". The relatively tight supplies in world cereal markets and the resulting rise in world cereal prices during 1988/89 pose problems for many food-deficit developing countries as their access to food imports is already constrained by balance-of-payment problems arising from the burden of mounting external debt, weak demand for several of their primary exports and other economic and financial difficulties. The increase in cereal prices is expected to raise the cereal import bill of these countries by some 37 percent in 1988/89. The rise in prices will also lead to lower food aid shipments in view of the fact that major donor allocations are budgeted in monetary terms.

37. Food aid availabilities of cereals for 1988/89 are expected to decline to 9.7 million tons, about 3.6 million tons or 25 percent less than in the previous year, the lowest volume in six years and below the minimum

annual target of 10 million tons established by the World Food Conference in 1974. Food aid in cereals for low-income food-deficit countries is also expected to decline substantially in 1988/89. Although shipments to these countries would still account for about 83 percent of total food aid in cereals, the share of their total cereal imports covered by food aid is expected to drop to 14 percent from 20 percent in 1987/88.

38. The overall resource position of the International Emergency Food Reserve (IEFR) is also precarious. As of 31 December 1988, contributions of cereals to the Reserve amounted to only 463,000 tons as compared to about 644,520 tons at the same time in the previous year, although the contribution of 92,088 tons of non-cereal commodities was higher. Delays in donor pledges throughout the year, coupled with rising demand for emergency assistance, particularly for the growing number of refugees, seriously constrained the Reserve's capacity. Nevertheless, assistance was provided to some 30 countries which were faced with natural or man-made emergencies during 1988, partly by resorting to advance calls on resources pledged to the IEFR for 1989. The Council at its 95th Session in June 1989, in reviewing the 14th Annual Report of the WFP Committee on Food Aid Policies and Programmes (CFA), underlined the need to strengthen the resource base of the IEFR and in this connection, looked forward to the study on the IEFR which WFP would undertake in collaboration with FAO for consideration by the CFA at its 29th Session in 1990.

39. The Committee on World Food Security at its fourteenth session in April 1989 recommended that, in spite of reductions in surplus food stocks and increases in food prices, food aid donors should make all efforts to maintain food aid shipments to both low-income and other food-deficit countries where production shortfalls and financial constraints on imports would otherwise mean sharp declines in per caput consumption. The Council at its 95th Session in June 1989 also invited food aid donors to make all efforts to maintain food aid shipments to both low-income and other food-deficit countries.

Guideline 12

"In support of measures in the developing countries to increase substantially investment in agriculture, external assistance from both bilateral and multilateral sources of financing must be substantially increased so as to make possible early realization of the estimated annual requirements (in 1975 prices) of \$8.3 billion with \$6.5 billion on concessional terms, keeping in mind FAO's Secretariat estimates that external assistance requirements will increase to between \$11-12.5 billion (in 1975 prices) by 1990. More concessional assistance, both bilateral and multilateral, should be concentrated on low-income countries, and donors should commit adequate funds for local costs and should meet requests wherever possible for financial participation in recurrent costs of the implementation of development projects in the agricultural sector."

40. External assistance to agriculture is part of total external resource flows and transfers to the developing countries. It can, therefore, be examined more meaningfully in the context of developments in total resource flows and transfers. According to the 1988 report of the

Chairman of the Development Assistance Committee (DAC), total net resource flows to developing countries in 1987 amounted to \$89 billion, down from a \$124 billion annual average in 1979-81. This represents a 28 percent fall at current prices but a near halving (47 percent decline) at 1986 prices and exchange rates. Total net resource flows as defined by DAC includes the full value of grants, technical assistance, food aid and direct investment as well as disbursements from loans minus principal repayments. It, however, excludes interest payments. According to the World Bank, interest payments by the developing countries reached \$54 billion in 1987 on long-term debt alone. Taking this into account, there was a net transfer from developing countries on long-term debt (disbursements minus the sum of interest and principal payments) of \$38.1 billion in 1987. The preliminary estimate of net transfer from developing countries on long-term debt for 1988 is \$43 billion. ^{1/} At present, net Official Development Finance (ODF) ^{2/} to all sectors accounts for more than two-thirds of all net resource flows to developing countries compared with a share of ODF of just over one-third in the early 1980s. This dramatic increase in the share of ODF is in part due to the sharp fall in private flows (mainly in export credits and bank lending) since the early 1980s.

41. Lack of data makes it impossible to draw a comprehensive account of all (official and private) resource flows to agriculture. Data for ODF to agriculture are, however, fairly complete and show that the share of agriculture in total ODF disbursements increased rapidly in the 1970s, reflecting a shift in priorities in favour of agriculture, from 13 percent in 1975 to about one-fifth of total ODF in 1982 and remained at that level until the present. A similar pattern can be seen for the share of agriculture in disbursements of Official Development Assistance (ODA is the concessional part of the ODF, i.e. grants or loans with grant element of at least 25 percent. ODA accounted in 1987 for four-fifths of total ODF). ^{3/}

42. The external assistance target indicated in the guideline is understood to refer to Official Commitments to Agriculture (OCA) "narrowly"

^{1/} Sources: OECD, Development co-operation: 1988 Report, Paris 1988, and World Bank, World Debt Tables 1988-89, Washington, D.C. 1988.

^{2/} ODF is defined as the sum of all net flows from official bilateral and multilateral institutions whose main objective is the promotion of economic and social welfare of developing countries.

^{3/} Data for ODA (and ODF) to agriculture exclude food aid which in value terms over the last ten years accounted for between eight and 11 percent of total annual ODA by members of the OECD Development Assistance Committee.

defined (see footnote to Table 12.1).^{1/} In 1987, the level of such commitments amounted to \$9.8 billion at current prices (Table 12.1). Except for the unusually high level of commitments in 1986, the 1987 commitments represent the highest level ever at current prices. At constant prices, however, they represent the lowest level since 1981, partly due to the significant devaluation of the dollar since 1985. The same holds for commitments to agriculture under the "broad" definition (\$13.4 billion in 1987 at current prices) which in real terms reached its lowest level since 1980. Preliminary data for 1988, which are available only for multilateral lending, show a further decline of commitments to agriculture from multilateral sources, particularly in non-concessional loans.

43. The guideline sets a target of \$8.3 billion at 1975 prices. This would be \$15.3 billion if converted to 1987 prices. The 1987 commitments of \$9.8 billion at current prices were, therefore, 35 percent below target. The average growth rate of OCA to agriculture in real terms was 6.2 percent per year between 1974 and 1987. It has, however, been declining over time, from 11.6 percent per year in 1974-80 to 2.9 percent per year in 1981-87. If these trends were to continue, the target of the guideline would not be met before several years, let alone the one of \$11-12.5 billion at 1975 prices that the guideline indicates as the requirements for 1990.

^{1/} Commitments rather than disbursements have been traditionally used in reporting progress under this guideline because disbursement data were not available in time and in the same detail until quite recently.

Table 12.1

Official commitments of external assistance to agriculture
of the developing countries (concessional and non-concessional)

	Three-year averages			Annual		
	1974/76	1979/81	1984/86 <u>3/</u>	1985 <u>3/</u>	1986 <u>3/</u>	1987 <u>3/</u>
 \$ billion				
<u>Agriculture "Narrow"</u>						
<u>Definition 1/</u>						
Total at current prices	2.8	7.1	9.1	7.9	10.9	9.8
Total at 1975 prices <u>2/</u>	2.9	4.7	6.2	5.8	6.7	5.3
Percent concessional	66	71	62	72	51	73
<u>Agriculture "Broad"</u>						
<u>Definition 1/</u>						
Total at current prices	5.0	11.0	12.4	11.7	14.4	13.4
Total at 1975 prices <u>2/</u>	5.2	7.3	8.5	8.6	8.8	7.3
Percent concessional	65	71	64	68	56	70

1/ The OECD "narrow" definition includes all assistance directly related to agricultural production and to fisheries. The "broad" definition also includes assistance for forestry, manufacturing of inputs, other agro-industries, rural infrastructure, rural development and regional and river development. Data exclude food aid. Also assistance by CMEA countries and a few other countries and institutions is excluded.

2/ Deflated by the United Nations unit value index for exports of manufactured goods.

3/ Containing some estimates for bilateral assistance in 1985, 1986 and 1987.

44. Disbursements of external assistance show considerable time lags with respect to the date of commitment, and some commitments have been cancelled. Data on disbursements show that on the average one-fifth of a loan commitment is typically disbursed in the first year and about half of the loan by the end of the fourth year following a commitment. The

remaining half of the commitment typically takes another eight to nine years to be disbursed.^{1/} As a consequence, disbursements of external assistance in real terms in any year are determined by commitments in the preceding ten to fifteen years, and by developments in the purchasing power of the nominal loan values.

45. Disbursement data for the "broad" definition of the sector are available up to 1986. They show that average annual disbursements in 1984/86 amounted to \$10.8 billion at current prices. This was 13 percent below the corresponding figure for commitments of \$12.4 billion shown in Table 12.1. Disbursement data for the "narrow" definition of agriculture show a similar percent difference between commitments and disbursements. If the guideline target therefore were to be interpreted as referring to disbursements rather than commitments, the shortfall of realizations from the target would be higher than the 35 percent indicated earlier.

46. The guideline indicates that \$6.5 billion, or 78 percent of the total target of \$8.3 billion (both in 1975 prices), be provided on concessional terms, i.e. in the form of grants or loans with a grant element of at least 25 percent. In 1987, concessional commitments were \$7.2 billion or 73 percent of total commitments to agriculture ("narrow" definition). This share has been fairly constant for most years with values ranging from 67 to 73 percent. In 1986, when both bilateral assistance (given almost entirely on concessional terms) and multilateral assistance reached record levels, the share of concessional commitment dropped to the lowest level ever due to an exceptionally low share (31 percent) of concessional loans in multilateral lending. Data for 1987 and preliminary data for 1988 show a large increase in concessional multilateral lending, in part due to a strong recovery in the level of IDA lending to agriculture (from \$0.9 billion in 1986, to \$1.4 billion in 1987 and \$1.8 billion in 1988).

47. It is to be noted that the grant element in all concessional assistance to agriculture is very high; at 61 percent in 1986 it was well above the 25 percent threshold required for classifying resource transfers as concessional. Therefore, the fact that the target for concessional assistance to agriculture has not been met may be considered to be partly compensated by the high grant element inherent in the transfers that did take place.

48. Data on external assistance to agriculture ("broad" definition) by origin (bilateral, multilateral) show that the share of bilateral assistance in the total has been between 40 and 45 percent in most years. This share fell in 1986 to 39 percent despite the fact that bilateral assistance in absolute terms had increased to a record level. This was due to an even stronger increase in multilateral assistance. The latter reflected a sharp increase in 1986 of loan commitments by the World Bank (a nearly doubling to \$4.6 billion), mainly to Latin America. In 1987, the

^{1/} For a more detailed discussion of this subject see, FAO, External Assistance to Agriculture: Trends, Policies and Impact, (forthcoming, 1989).

World Bank's capital commitments to agriculture fell to \$2.6 billion, and preliminary data for 1988 indicate a further fall to \$2.2 billion. With the recent (April 1988) increase in its authorized capital, however, it is expected that the World Bank will raise its lending substantially, which could have positive effects on lending to agriculture.

49. Data on the distribution of external assistance to agriculture by recipient are incomplete and available only for capital assistance. The main distinction is what proportion and how much per caput goes to the different country groups. The low-income food-deficit countries (defined as all countries eligible for IDA assistance, including all low-income and least developed countries but excluding net cereal exporters) received in 1987 63 percent of total capital commitments to developing countries compared with 60, 65 and 58 percent in 1974/76, 1979/81 and 1984/86 respectively. Their share in the concessional part of capital commitments was higher and followed a similar path of change (Table 12.2). The drop in these shares in 1984/86 is mainly due to a change in the country coverage of the group of low-income food-deficit countries (see footnote, Table 12.2). In per caput terms, external assistance shows a clear redistribution in more recent years in favour of the low-income food-deficit countries. Concerning regional distribution, there has been a significant increase in allocations to the developing countries of Africa, partly in response to the appeal of the UN Programme of Action for Africa's Economic Recovery and Development (UN-PAAERD).

50. Trends in development assistance (all sectors) suggest an increased flexibility in aid modalities which should contribute to increase its efficiency. One tendency is a shift from project aid to programme aid (accounting at present for over 18 percent of bilateral disbursements), while another trend was the decrease in the proportion of aid which is source-tied: from 63 percent in 1972 for total DAC ODA to 53 percent in 1982/83 (whereafter this proportion again increased slightly to 55 percent in 1985/86). Studies on the costs of aid tying suggest that it reduces the value of development loans by about 15 to 20 percent, while it is estimated that it is improbable that aid tying provides donors with any significant macro-economic benefits. Another key constraint to the efficient use of external assistance is, in many cases, the lack of funding of local and recurrent costs of development projects. Even though the Development Assistance Committee (DAC) of the OECD has adopted (in 1979) "Guidelines on Local and Recurrent Cost Financing", data suggest a fall in the local cost financing as percent of bilateral (DAC) ODA from 7.9 percent in 1982/83 to 4.4 percent in 1985/86. This is particularly serious for agricultural projects, most of which tend to be intensive in recurrent costs and in the use of local inputs.

Table 12.2

Official commitments of external assistance to agriculture (broad definition)
by source, recipient and degree of concessionality

	Averages					
	1974/76		1979/81		1984/86 1/	
	Total	Concess- ional	Total	Concess- ional	Total	Concess- ional
From all sources	5,000	3,236	10,974	7,742	12,449	7,951
Bilateral 2/	2,190	1,890	4,683	4,490	5,187	5,054
Multilateral 3/	2,810	1,346	6,291	3,252	7,262	2,897
To the developing countries 4/						
Low-income food-deficit 5/	2,233	1,677	5,855	4,778	5,850	3,931
(\$ per caput)	(0.96)	(0.72)	(2.27)	(1.86)	(2.10)	(1.40)
(\$ per caput, excl. China)	(1.49)	(1.12)	(3.69)	(3.00)	(3.40)	(2.30)
All other developing	1,515	669	3,175	1,422	4,169	1,686
(\$ per caput)	(2.54)	(1.12)	(4.70)	(2.10)	(2.10)	(0.90)

1/ Preliminary or including partial estimates.

2/ DAC/EEC, OPEC bilateral.

3/ World Bank, Regional Development Banks (IDB, ASDB, AFDB/ADF), IFAD, OPEC multilateral (ABEDA, AFESD, OFID, ISDB), UNDP, FAO (TF/TCP), CGIAR.

4/ Capital assistance only, i.e. excluding technical assistance grants which accounted for 15 percent of the total in 1984/86, but for which no data are available by recipient. Also excluded is assistance to countries not classified as developing as well as part of the bilateral capital assistance for which data by recipient are not available.

5/ 65 food-deficit countries with 1983 per caput income below \$790 (the level used by the World Bank to determine eligibility for IDA assistance). For 1984 to 1987, 69 food-deficit countries with per caput income below \$940 in 1987. The latter definition excludes Malawi, Nepal and Pakistan, which were included under the former definition but which were on average net cereal exporters over the period 1983/84 to 1987/88, and adds Botswana, Congo, Swaziland, Dominican Republic, Guatemala, Nicaragua and Tuvalu.