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HUNGARY - AGRICULTURAL EXPORT SUBSIDIES

Request for a Waiver

The following communication, dated 8 September 1997, has been received from the Permanent Mission of Hungary.

1. REQUEST

Hungary requests that Members grant a waiver¹ from its obligations under paragraph 3 of Article 3, Article 8 and paragraph 2 of Article 9 of the Agreement on Agriculture for the period ending on 31 December 2001 in order that Hungary can carry out the fundamental adjustment of its agricultural policies necessitated by the erroneously established Section II of Part IV of its Schedule. This request is made in accordance with the Guiding Principles to be followed in considering applications for waivers adopted on 1 November 1956, the Understanding in Respect of Waivers of Obligations under the General Agreement on Tariffs and Trade 1994, and paragraphs 3 and 4 of Article IX of the Marrakesh Agreement Establishing the WTO. The exceptional circumstances justifying a waiver are described below.

2. DESCRIPTION OF THE MEASURES FOR WHICH A WAIVER IS REQUESTED

Hungary would be permitted to provide export subsidies in a period ending on 31 December 2001 listed in paragraph 1 of Article 9 of the Agreement on Agriculture in respect of agricultural products specified in the Annexes to this request, and in conformity with the budgetary outlay, quantity and other commitments specified in the Annexes to this request. As of 1 January 2002 Hungary would have to apply export subsidies only according to Section II of Part IV of its Schedule.

3. SPECIFIC POLICY OBJECTIVES PURSUED

The agro-food sector traditionally plays an outstanding role in the Hungarian economy. Agriculture provides employment for over 12 per cent of the active population. It accounts for some 10 per cent in GDP production and more than 20 per cent in total exports. The agricultural exports exert substantial positive influence on the trade balance, trade deficits experienced in recent years have been to a large extent mitigated by this sector in view of its high share in total exports. Statistical data show a direct correlation between the level of agricultural exports and the stability of the balance of payments. In view of heavy export subsidization and excessively high tariffs and other protective measures still prevailing on the world market for agricultural products, a certain degree of export subsidization is needed in order to maintain the level and market share of Hungarian agricultural exports.

¹See draft waiver decision in document G/C/W/86.

4. REASONS FOR THE REQUEST FOR A WAIVER

At the time when Section II of Part IV of Hungary's Schedule LXXI was established, a critical error occurred. The reason for this error is related to the deep systemic changes in Hungary that coincided with the second phase of the Uruguay Round. The effects of the political and economic changes on the orderly functioning of the administrative bodies concerned with agricultural policies and the lack of available comprehensive information on export subsidies provided during the Uruguay Round base period through secret, non-transparent regulations and ad-hoc arrangements, in particular concerning trade conducted in non-convertible currencies resulted in a failure to correctly calculate the basis for the establishment of Section II of Part IV of its Schedule.

As a consequence of this error, the referred section of Hungary's Schedule covers only a small fraction of the products subsidized and the amounts of subsidies in the Uruguay Round base period 1986-90. The Schedule contains 16 narrowly-defined products with an aggregate base outlay level of 22 billion Forints (equal to USD 423 million) against the real figures of some 720 subsidized products and over 58 billion Forints in nominal terms (equal to USD 1 billion) annual average export subsidies in the Uruguay Round base period.

As the practically complete elimination of export subsidies which is the consequence of the error committed during the establishment of Section II, Part IV of the Hungarian Schedule calls for the fundamental restructurization of agricultural support policies and bearing in mind that the preservation of the level of agricultural exports is of critical importance to the overall economic situation of the country, a transition period involving a limited and continuously decreasing degree of export subsidization is needed until this adjustment process is concluded.

5. TRADE EFFECTS OF THE WAIVER

Agricultural export subsidization permitted by the waiver is not expected to have negative impact on competitors since base levels for the reduction of budgetary outlays and for the subsidized quantities were established by taking into account the substantial autonomous reductions since 1990 in terms of budgetary outlays and product coverage: the amount of export subsidies were cut by almost two thirds and the number of products benefiting from export subsidies by 50% compared to the period of 1986-90. As no major expansion of Hungarian agricultural exports and/or negative influence on market conditions could be experienced due to higher export support in the first half of the 90's such effects can even less be expected in the waiver period: the terms and conditions of the waiver will place further limitations on the use of export subsidies thus diminishing their incidence with regard to Hungarian agricultural exports.

6. CONCLUSION

In light of the exceptional conditions brought about by the political and economic transition of the country that led to the critical error and taking into account that adherence to the erroneously established Schedule would jeopardize the macroeconomic situation and the viability of the agricultural sector of the country, Hungary requests that the Members of the WTO approve its application for a waiver.