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## **Japan**

### **Agricultural Situation**

# **Japan's Proposal on WTO Agricultural Negotiations 2001**

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#### **Report Highlights:**

**The following is Japan's proposal on WTO agricultural negotiations. On January 9, 2001, MAFF released the proposal on its website. The report summarizes proposals on market access, domestic support, state trading, export disciplines, and developing countries. While not listing specific targets for tariffs, domestic support, tariff rate quotas, etc., the report states Japan cannot accept any reductions in support or protection that would hinder efforts to increase Japan's self-sufficiency for key commodities.**

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## **NEGOTIATING PROPOSAL BY JAPAN ON WTO AGRICULTURAL NEGOTIATIONS**

Japan has been implementing the Uruguay Round agreements in good faith, and is actively engaged in the agricultural negotiations in accordance with Article 20 of the Agreement on Agriculture.

In preparation for the negotiations, the Government of Japan has received opinions from a wide-range of members of the society, including agricultural producers, the food industry, consumers and non-governmental organizations. The Government has also conducted official opinion polls and has reviewed public comments concerning agricultural production and trade. This negotiating proposal has incorporated those views and comments, and is supported by a wide range of public, including not only agricultural producers, but also the consumers themselves.

The proposal consists of the following: 1) basic elements to be considered in the negotiations; 2) market access; 3) domestic support; 4) rules and disciplines on exports; 5) state trading; 6) consideration for developing countries; and 7) response to the concerns of consumers and the civil society. The basic philosophy which underlies these proposals is the "coexistence of various types of agriculture".

It is widely believed among the people of Japan that the 21st century should be an era of peace, dignity and mutual respect, and that the various nations and regions of the international society should coexist and mutually respect each country's values based on their specific historical and cultural backgrounds.

Agriculture is the foundation of society in every country, and provides a variety of functions that are beneficial to the society. As there are differences in the natural conditions and the historical background from one country to another, the diversity and coexistence of agriculture among various countries need to be preserved. In this regard, it is important to mutually recognize the necessity to overcome the differences in production conditions among the countries.

Japan's Negotiating Proposal is based upon the fundamental philosophy of coexistence, as mentioned above, and pursues the following five major points:

- (i) Consideration of the multifunctionality of agriculture;
- (ii) Ensuring food security, which is the basis of the society in each country;
- (iii) Redressing the imbalance between rules and disciplines applied to agricultural exporting countries and those applied to importing countries;
- (iv) Consideration for developing countries; and
- (v) Consideration for the concerns of consumers and the civil society.

These five points reflect the general consensus of the people of Japan, which itself is the biggest net-food importing country, having imports equivalent in amount to the consumption of

75 million people.

The trade rules that enable only a particular type of agriculture which focuses on the efficiency to thrive, would naturally be rejected not only by Japan but also by other countries. Similarly, Japan is in no position to agree on the outcome of negotiations if this only enables a small number of competitive exporting countries to benefit from the international agricultural market.

Japan sincerely supports establishing, through the current agricultural negotiations, fair and equitable rules and disciplines which will not only avoid damaging agriculture of each country, but will allow its coexistence.

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**I. Basic Elements to Be Considered in the Negotiations**

## [Proposal]

1. The current WTO negotiation on agriculture is of great importance as it will significantly influence the worldwide trend of the agricultural policy in the 21st century. It is, therefore, necessary to examine thoroughly the experience gained from implementing the Uruguay Round (UR) agreements. The negotiations should also respond to the challenges that need to be addressed by various agricultural policies around the world.

## 1.1 Examining the implementation of the UR agreements

2. The agricultural agreement reached during the Uruguay Round was a new step forward in the area of trade rules on agricultural products. However, the instability of international food supply and demand has yet to be eliminated, and a number of countries had no choice but to take additional support measures under such circumstances. These facts reveal the need to further consider reality whereby agriculture cannot be sufficiently managed by market mechanism alone. Furthermore, new issues relating to the consumers' daily life, such as genetically modified organisms (GMOs), have emerged as technology itself advances.

3. Bearing this in mind, it is necessary to examine thoroughly the situation surrounding the implementation of the UR agreements. Taking into account the difficulties encountered in each Member's food and agricultural policies needing to be resolved, the negotiations should contribute to solving such difficulties.

## 1.2 Pursuit of the multifunctionality of agriculture and food security as the major issues of the agricultural policies worldwide

4. The various types of agriculture in different countries and regions must be able to coexist in the 21st century. For that purpose, it is important for each Member to acknowledge the diversity of agriculture resulting from the differences in the natural conditions and historical backgrounds. Based on this notion, it is essential to ensure that the benefits of the multifunctionality of agriculture can be sufficiently reaped through sustainable production. It is further essential to secure a stable food supply, which is indispensable for human life. Thus, the negotiations should be conducted while recognizing the above-mentioned elements as being the major issues of the agricultural policies worldwide.

## [Background]

## 1.1 Examining the implementation of the UR agreements

(a) The UR Agreement on Agriculture, which converted, in principle, all non-tariff border measures into tariffs, was the outcome of a series of broad-ranging negotiations, covering not only border measures, but also export subsidies and domestic support. This was a new step in the area of trade rules for agricultural products.

(b) The international environment surrounding agriculture and agricultural policies

subsequent to the UR agreements clearly shows that it has become more important to recognize that the market mechanism alone can hardly suffice for managing the public good aspect of agriculture, let alone agriculture itself.

(c) For example, while world agricultural trade has increased on the whole, only a limited number of countries have enjoyed the benefit of such expansion. While the agricultural output in developed countries has increased, causing problems of over-production, food shortage in developing countries has worsened. Consequently, the situation surrounding food security in many countries has become more serious.

(d) Although many countries are implementing policy reforms in response to the UR agreements in order to reduce the degree of intervention on the agricultural market, and are making a policy shift toward an approach more focused on stable farm management, the recent decline in the price of agricultural products has created new problems and some countries have had no choice but to take additional support measures.

(e) In addition, agricultural management, both in importing and exporting countries, faces various difficulties due to the increase of imports and the unstable supply and demand situation. New issues relating to consumers' daily life have emerged along with technological progress, such as in the area of genetically modified organisms (GMOs).

(f) In this regard, it is necessary, as the first step in the current negotiations, to thoroughly examine the global situation of food, agriculture and the rural areas as well as the implementation in each country since the UR agreements. It is also necessary to conduct such negotiations in order to resolve the difficulties in each country and to allow the sustainable use of limited global resources in the long term.

1.2 Pursuit of the multifunctionality of agriculture and food security as the major issues of the agricultural policies worldwide

1.2.1) Importance of the multifunctionality of agriculture

(a) Agriculture not only provides products for trade, but also produces some multifaceted and publicly benefitting values through sustainable production activities. These values, however, are not tradable and cannot be reflected in the market prices.

(b) The multifunctionality of agriculture is a concept which explains that agriculture is an economic activity that not only produces food and fiber but also creates both tangible and intangible values, which are embodied in various ways in each country. These ways may vary in accordance with the relevant factors, such as geography, climate and the historical background of each country. The general characteristics of multifunctionality are as follows:

(i) The benefits of multifunctionality cannot be obtained separately from agricultural production (joint production);

(ii) It is difficult to preclude people from enjoying the benefits of multifunctionality at no cost (public good aspects);

(iii) It is difficult to properly evaluate the benefits of multifunctionality in monetary terms in the agricultural market (externalities).

(c) A common recognition of the concept and the contents of the multifunctionality mentioned above has also been formed in the OECD.

(d) The multifunctionality of agriculture cannot be obtained through trade, but only through the sustainable agricultural activities of each country.

Thus, some forms of policy intervention are indispensable, in order to reap the benefits of multifunctionality by placing domestic agricultural production as the basis of food supply.

(e) With regard to using non-trade-distorting measures as methods of policy intervention,

there is not necessarily a consensus on the concept of non-trade distortion. It is regrettable that not much effort has been made in the area of clarifying the concept of non-trade distortion, while similar efforts are underway with regard to multifunctionality.

(f) The most important and difficult task of the agricultural trade negotiations is to identify ways to harmonize the following two ideas: non-trade distortion and the coexistence of the various types of agriculture of Members. Such harmonization would become possible by examining the respective trade rules and policies, taking into full consideration of the characteristics of the multifunctionality of agriculture.

#### 1.2.2) Importance of food security

(a) Each government bears the responsibility of securing the stable food supply which is indispensable for maintaining life and health: a stable supply of food is the important issue relating to people's right to live.

(b) In particular, developing countries put their highest priority on food security. While food-exporting countries are free to either export or not to export their goods, importing countries, however, do not have such a choice. Food security is also one of the most serious concerns among the consumers of Japan, as it is the largest net-food importing country in the world.

(c) The supply and demand of food in the world tends to be unstable due to the special features of agricultural trade; not only are exporting countries concentrated in particular parts of the world, but trade is vulnerable to unusual climates. Such instability is likely to increase in the short-term due to unusual climate change, such as El Nino. It is also likely that world food supply and demand may be tightened in the medium and long term due to a possible increase in the demand of feed grain resulting from a drastic rise in the population and in economic growth, mainly in developing countries.

(d) Moreover, there is a growing trend that only a small number of countries are gaining a greater export share of the major agricultural products. The FAO predicted that the target, set at the World Food Summit in view of halving the current population of more than 800 million suffering from malnutrition by 2015, might be delayed by 15 years, i.e. until 2030. This explains the growing concern on ensuring global food security.

(e) Given such circumstances, the agricultural negotiations should be conducted by bearing in mind the importance of global food security, which includes assistance to developing countries suffering from problems, such as starvation and malnutrition, and also by maintaining a close coordination with other organizations, such as the FAO.

## II. Proposal on Market Access

[Proposal]

5. The negotiations on the market access of agricultural products should be conducted in accordance with the provisions of the Agreement on Agriculture: the Agreement stipulates that the long-term objective of substantial progressive reductions in support and protection resulting in fundamental reform is an ongoing process, and that factors, such as non-trade concerns, will be taken into account. The negotiations should also aim at resolving the difficulties encountered in the food and agricultural policy of each country since the implementation of the UR agreements, as well as at achieving well-balanced results for the purpose of enabling the various types of agriculture to co-exist.



## 2.1 Tariff levels

6. Appropriate tariff levels should be decided in a manner that provides flexibility to individual products, thereby accommodating such factors as an individual country's current situation of production and consumption for each product, as well as the situation concerning international supply and demand, while at the same time recognizing that the reform process is underway.

7. As for the products which became subject to tariffication as a result of the Uruguay Round, the out-of-quota tariff rates should be decided fully considering such factors as the differences between domestic and international prices, as well as the progress of domestic agricultural policy reform. When deciding the rates, consideration should be given to various elements, inter alia, securing the benefits of the multifunctionality of agriculture and ensuring food security. The in-quota tariff rates for these products should be decided in light of such factors as the trend of international supply and demand and the actual situation of domestic consumption of each product.

8. Tariff levels of processed agricultural products should be determined, while giving sufficient consideration to the importance of food industry, which has developed in unison with agriculture.

## 2.2 Access opportunities

9. The current system, which requires Members to provide a certain level of access opportunities, has the fundamental problem of imbalance between importing and exporting countries in terms of their rights and obligations. Such aspects of the system need to be improved.

10. The level of access opportunities should be decided giving sufficient consideration for such factors as securing the benefits of the multifunctionality of agriculture and ensuring food security. The level should also be decided according to the actual agricultural situation and the progress made through the structural reform of each country. Consideration should also be given to the different situations of the international supply and demand of each respective product in order to provide flexibility when determining the appropriate level of access opportunities.

11. Besides the above-mentioned points, the system, which requires Members to provide a certain level of access opportunities, has the following problems. It is therefore important to make the necessary improvements to the system.

(i) Since the level of access opportunities was determined according to domestic consumption during the past negotiations, such level should now be reviewed, considering the latest volume of consumption in order to achieve fair treatment.

(ii) As for the products subject to the special treatment concerning paragraph 2 of Article 4 of the Agreement on Agriculture, there is a problem whereby the additional level of access opportunities will be maintained, even after the special treatment ceases to be applied during the implementation period. There is, therefore, need for improvement.



### 2.3 Tariff rate quota administration

12. Based on the principles described at the outset, each Member should respectively adopt the methods that are based on their domestic conditions, for administering their tariff rate quota systems.

13. The tariff rate quota administration should be transparent and impartial.

### 2.4 Safeguards

14. Regarding seasonal and perishable agricultural products, a new safeguard mechanism with special conditions should be introduced, in order to apply safeguard measures in a timely and effective manner in a case where a rapid increase of imports were to occur. This would also enhance transparency for administering safeguard measures.

15. The special safeguard mechanism under the Agreement on Agriculture should be maintained, bearing in mind the negotiating history of the Uruguay Round whereby the mechanism was agreed in conjunction with tariffication as a package.

### 2.5 Sectoral initiatives

16. Japan does not support the idea to call for further sector-specific reductions in tariff levels in addition to the commitments already called for with regard to general tariff reductions.

## [Backgrounds]

### 2.1 Tariff levels

(a) Prior to the UR negotiations, countries had been allowed to maintain various non-tariff border measures for agricultural products: quantitative import restrictions, variable import levies, minimum import prices, discretionary import licensing, non-tariff measures maintained through state trading enterprises, voluntary export restraints, and other similar border measures. Such measures were then out of the scope of trade negotiations. The fact thus indicates that negotiations on agricultural trade were conducted, automatically taking into account the multifunctionality of agriculture and food security. In the UR agreements, a set of specific disciplines on agricultural trade was introduced for the first time, and all border measures were converted into tariffs.

(b) Bearing such background in mind, the tariff levels of the products which became subject to tariffication as a result of the Uruguay Round should be considered, in the current negotiations, by paying particular attention to, inter alia, the multifunctionality of agriculture and food security.

(c) Since the tariff system has become the only legitimate tool to adjust differences in the natural and economic conditions of Members with regard to agricultural trade, it is necessary to duly maintain its function. Under such circumstances, it is essential that an appropriate tariff level be determined, considering the situation surrounding each product and the negotiating history, thereby providing flexibility for each product. This is important in order to continue the reform process for substantial progressive reductions in support and protection.

(d) In the current agricultural negotiations, various products having considerable differences in their economic and social significance are subject to the negotiation. In particular, the out-of-quota tariff rates for the products which became subject to tariffication as a result of the

## Uruguay Round

should be determined, taking into full account such factors as the differences between domestic and international prices, as well as the progress of domestic agricultural policy reform. The in-quota tariff rates for these products should also be decided, considering such factors as the trend of international supply and demand and the actual situation of domestic consumption of each product: it is, therefore, inappropriate to treat all products in the same manner.

(e) Tariff levels of processed agricultural products should be determined, fully considering the sound development of the food industry in each country, which plays a significant role in the stable supply of good quality food.

## 2.2 Access opportunities

(a) While food-exporting countries can promptly impose export restrictions, importing countries are obliged to provide a certain level of access opportunities according to the rule that is, in principle, to prohibit border measures other than tariffs. In other words, while exporting countries are free to either export or not to export, importing countries have no such choice. Improvement should be made on such fundamental problem.

(b) A system which requires Members to provide a certain level of access opportunities has also the following fundamental problems, and improvement needs to be made by taking into account such problems:

(i) Access opportunities should be decided by giving sufficient consideration for such factors as securing the benefits of the multifunctionality of agriculture and ensuring food security. These should be decided based on the actual agricultural situation and the progress made through the structural reform of each country.

(ii) A system requiring Members to provide a certain level of access opportunities could have a considerable impact on international supply and demand, and any question related to this system should be carefully considered. For example, it is necessary to make special consideration for those products whose trade volume is relatively small compared with the actual volume produced and whose scale of international market is small, unlike other products having a large traded volume. Establishing the same level of access opportunities for such products, regardless of the difference in their trade structure, is not only infeasible, but may also create difficulties for developing countries when purchasing food. Thus, flexibility should be provided to each Member in order to be able to establish an appropriate level of access opportunities by paying sufficient attention to such factors as the international trade structure, the multifunctionality of agriculture and food security.

(c) In addition to the above, such a system requiring Members to provide a certain level of access opportunities has the following problems. The system needs to be improved taking them into account:

(i) Since a certain percentage of the actual domestic consumption during the base period was used for deciding the level of access opportunities during the previous negotiations, the base period should now be reviewed, reflecting the variations in the volume of food consumption in each country in order to achieve fair treatment.

(ii) As for the products subject to the special treatment concerning paragraph 2 of Article 4 of the Agreement on Agriculture, the level of access opportunities was set at an additional level. It is an overly heavy burden and lacks equity to require certain Members to continue providing such extra access opportunities in the future, simply as compensation for few years' delay in tariffication, even after the special treatment ceases to be applied. Improvement should therefore be made in this regard.

### 2.3 Tariff rate quota administration

(a) Tariff rate quotas (TRQs) should be decided and administered by reflecting the actual situation of agriculture in each Member, recognizing that the reform process to achieve a long-term objective is now underway. Different, specific treatment is required for each product, taking into full account the characteristics of each product and its distribution pattern. It is, therefore, inappropriate to impose a uniformed administration of TRQs through ignoring these factors.

(b) Tariff rate quotas should be administered in a transparent and impartial manner.

### 2.4 Safeguards

(a) Seasonal and perishable agricultural products have difficulty in inventory adjustments and although consumption itself remains stable, prices are elastic. As a result, unlike industrial goods, these products are more susceptible to a sharp fall in prices, resulting from an increase in imports, thus having a huge impact on producers over a short period of time.

(b) Given such characteristics of seasonal and perishable agricultural products, it is necessary to introduce a new safeguard mechanism through which minor and short-term measures can be applied automatically and effectively, based on simple and basic conditions.

(c) By setting clear conditions for invoking a new safeguard mechanism, similar to those for special safeguards, it will become possible to make measures transparent and also prevent their abuse.

(d) The special safeguard mechanism under the Agreement on Agriculture should be maintained, bearing in mind the negotiating history of the Uruguay Round where this mechanism was agreed in conjunction with tariffication as a package. It is stipulated in the Agreement on Agriculture that the special safeguard mechanism shall remain in force for the duration of the reform process.

(e) The mechanism of special safeguards is transparent and predictable, due to the clarity of the requirements for its application as well as the tariff levels to be applied. The mechanism, therefore, constitutes by no means an obstacle to a smooth flow of trade.

### 2.5 Sectoral initiatives

Japan does not agree with the idea to call for further sector-specific reductions in tariff levels (including zero-for-zero), in addition to the commitments to be made for a general tariff reduction: such an approach does not evenly represent the positions of both the food-importing and food-exporting countries.

## III. Proposal on Domestic Support

[Proposal]

17. When discussing a future framework and the levels of domestic support, due consideration should be given to the multifunctionality of agriculture and the situation of food and agriculture in each country. Taking into account the experience to date from implementing the Agreement on Agriculture, efficient policies should be promoted through focused measures and flexible actions, responding to the changes of circumstances, so as to continue the process of agricultural policy reform.

### 3.1 Rules and disciplines on domestic support

18. The present basic framework of rules and disciplines on domestic support should be

maintained so that the agricultural policy reform by each Member can be steadily promoted.

19. In light of the experiences to date from implementing the UR agreements, improvements, such as the following, should be made with regard to the requirements to be met in the "Green Box" in order to promote agricultural policy reform by reflecting the real situation of agriculture;

(i) From the viewpoint of narrowing the gap between the actual trend of each Member's agricultural policy reform and the current agreement, the requirements for decoupled income support, stipulated in Annex 2 of the Agreement on Agriculture, should be improved, in order to reflect the real situation of production, including the factors of production which are employed.

(ii) In view of introducing safety-net programs, which are necessary when promoting market-oriented policy conversion, it is appropriate to ease the requirements on measures, such as for income insurance and income safety-net programs, as well as the restriction on the rate of compensation concerning those measures.

20. The "Blue Box" measures, which are exempt from the reduction commitment, should be maintained.

### 3.2 Levels of domestic support

21. In order not to undermine the benefits gained in each country from the multifunctionality of agriculture, the total AMS commitment levels should be determined in a realistic manner, in order to keep pace with the progress of domestic agricultural policy reform.

22. The base level of the total AMS should be equivalent to the final commitment level in the year 2000 (ceiling), which was decided as a result of the Uruguay Round, in order to secure the continuity of agricultural policy reform.

### [Background]

#### 3.1 Rules and disciplines on domestic support

(a) Under the existing Agreement on Agriculture, domestic support is categorized into three groups, namely, "green," "blue" and "amber," in accordance with the degree of impact on trade and production. Since Members, including Japan, are currently implementing agricultural policy reform under this framework, any drastic change that limits the coverage of the "Green Box" would impair the smooth implementation of agricultural policy reform in each country.

(b) In light of experiences to date obtained from implementing the Agreement on Agriculture, some of the requirements in the "Green Box" need to be improved in order to reflect the points specified below (See points (i)&#65374;(iii).). The improvement is aimed at contributing to the promotion of agricultural policy reform through:

- narrowing the gap between the ongoing trend in agricultural policy reform based on the actual situation of agriculture and the existing agreements; and
- facilitating the smooth introduction of safety-net

programs, necessary for promoting market-orientated policy conversion.

(i) Decoupled income support (Annex 2, paragraph 6)

a. The multifunctionality of agriculture, which is closely linked to agricultural production, contributes to local society and the environment as benefits for the public. The reason why public spending on agriculture is accepted in every country is mainly due to the public nature of agriculture, which is closely linked to agricultural production itself.

b. The existing requirements for decoupled income support have become inappropriate with regard to the actual situation of agriculture, because they prevent any link between the amount of payment and the level of current production. Furthermore, they do not take into account the aspects of agricultural production as public goods. In this regard, some countries, which applied policies in compliance with the present requirements and became unable to respond to the change in the production situation, have no choice but to provide additional support for their producers.

c. In view of securing the benefits of the multifunctionality of agriculture and of achieving financial effectiveness, it is necessary to reflect the actual situation concerning agricultural production (including factors of production) as much as possible when deciding the amount of payments, while at the same time decoupling it from the current level of output.

(ii) Income insurance and income safety-net programs (Annex 2, paragraph 7)

a. It is unreasonable to restrict the level of income loss that is eligible for compensation, because a disparity of compensation among the farmers in need will occur as a result of compensatory measures being based on a fixed threshold level. In addition, in light of the experiences gained from implementing the Agreement on Agriculture, it has proved difficult to be able to stabilize farm management without providing compensation for the loss of income below 30%.

b. Farm management is vulnerable to the fluctuation of supply and demand as well as to natural disasters. In many cases, compensating only 70% of the income loss has been proved insufficient for continuing farming when incomes drop drastically. Consequently, most of the safety-net programs implemented in several countries compensate more than 70% of income loss.

c. It is therefore necessary to ease the restrictions on the requirements and the level of the compensation ratio in order to reflect the actual situation of agriculture. Such changes, however, should not encourage producers to ignore their sound sense of management.

(iii) Payments for relief from natural disaster (Annex 2, paragraph 8)

It is not appropriate to restrict the level of the production loss eligible for compensation, since, as described in (ii) above, disparity will occur concerning compensation as a result of applying such measures. Therefore, necessary changes should be made.

(c) When reforming agricultural policies towards a more market-orientated system, the "Blue Box" measures are essential as a transition stage for a smooth policy conversion from "amber" to "green" policy measures. As the "Blue Box" measures are less trade-distorting and less production-stimulating than the "Amber Box" measures, these should be maintained and positively recognized.

### 3.2 Levels of domestic support

(a) In order to secure the benefits of the multifunctionality of agriculture, a certain level of policy intervention (domestic support) is indispensable. This is indeed taken into account by way of the agricultural policies of each Member, through which the reform process is steadily being implemented. From the viewpoint of not undermining the benefits gained in each

country from the multifunctionality of agriculture, the total AMS commitment levels should be determined in a realistic manner, in order to keep pace with the progress of domestic agricultural policy reform.

(b) The levels of AMS in each country were decided by, for example, the difference in the conditions of production and the gap in productivity between agriculture and other industrial sectors, for the purpose of sustaining agricultural production in each Member. It is, therefore, unreasonable to set the level of AMS as a fixed percentage of each Member's total agricultural production. The base level of the total AMS should be equivalent to the final commitment level in the year 2000 (ceiling), which was decided as a result of the Uruguay Round, in order to secure the continuity of agricultural policy reform.

#### **IV. Proposal on Rules and Disciplines on Exports**

[Proposal]

23. In view of redressing the imbalances of the rights and obligations between importing and exporting countries, and of maintaining the food security of food-importing countries, rules and disciplines on export;promoting and export;restricting measures should be established. (See examples described in 4.1 and 4.2 below.)

24. Negotiations on these future rules and disciplines on exports should be conducted, by making sure that an appropriate balance can be achieved with the outcome of negotiations on imports, in order to reach a fair and equitable agreement that can be accepted by both exporting and importing countries alike.

##### **4.1 Export subsidies**

25. To reduce further the amount of export subsidies and the volume of subsidized exports;

26. To strengthen disciplines on measures taken during the implementation period, such as rollovers;

27. To bind the level of the unit value of the export subsidy, which will then be progressively reduced during the implementation period;

28. To strengthen disciplines on the export subsidy on the products and the markets in which developing countries are interested;

29. To strengthen disciplines on the export credit, bearing in mind the discussions held in the OECD;

30. To strengthen disciplines on the domestic support that has a similar effect as that of export subsidies, thus putting them under the export disciplines.

##### **4.2 Export prohibitions/restrictions, export taxes**

31. To tariffy all export prohibitions and restrictions (by replacing them with export taxes);



32. To bind all export taxes (including those possibly introduced in the future). For products subject to the export tax, to establish quotas in which a certain amount of exports will be exempt from the export tax;

33. In the case where temporary and short-term measures to restrict exports become necessary before export taxes are introduced, to clarify the disciplines applied on such emergency measures used in order to adjust the volume of exports. Measures for clarifying such disciplines are:

(i) To establish strict requirements for the application of such emergency measures;

(ii) To introduce consultations with other Members as a prerequisite for imposing emergency measures, and to clarify the measures to be taken when the consultations do not result in a satisfactory solution;

(iii) To obligate Members, when introducing emergency measures, to maintain the proportion of exports to domestic production at the level of the preceding [x] years, in order to allow importing countries to secure the necessary level of imports;

(iv) To limit the duration of such emergency measures.

#### [Background]

In the UR agreements, it was decided that all non-tariff border measures were to be replaced by tariffs in principle and then bound and reduced. In contrast, the current rules and disciplines concerning exports, including export prohibitions and restrictions and export subsidies, remain less strict than the rules and disciplines on imports.

Mindful of such background, the rules and disciplines on exports need to be strengthened much further, if the rules and disciplines on imports are also to be strengthened. If not, the imbalance between the rules and disciplines on imports and exports would be further aggravated.

It is also important to strengthen the rules and disciplines on exports in light of the food security of importing countries. Given the characteristics of agricultural exports for which a small number of exporting countries are predominant, rules and disciplines to increase the stability and predictability on trade are required, in order to ensure that the measures taken by exporting countries will not threaten the food security of importing countries.

#### 4.1 Export subsidies

(a) In order to establish a fair and market-orientated agricultural trading system, further reductions in export subsidies are necessary.

(b) The current commitment on the reduction of export subsidies is modest compared with those on border measures and on domestic support: for instance, measures, such as rollover, are allowed in export commitments. The rules and disciplines on exports should be strengthened, including the elimination of such measures as rollovers.

(c) Under the current WTO Agreement on Agriculture, import tariffs are bound, and Members are not allowed to raise the bound tariffs on imports from specific countries. On the other hand, as long as a Member abides by the commitments on export subsidies (namely, the



commitment on an overall subsidy and the subsidized volume of exports), it can freely decide how much subsidy to use on the exports to specific countries. This shows an imbalance in the rules and disciplines on imports and exports. The unit value of the export subsidy should be bound and reduced progressively.

(d) Disciplines concerning the export subsidy on products and the markets in which developing countries are interested should be strengthened.

(e) An export credit can have a similar effect as an export subsidy. Appropriate disciplines on export credits are, therefore, required, based on the discussions held in the OECD, in order to prevent the circumvention of export subsidy commitments.

(f) Policy measures, which are currently categorized as domestic support, but have the effects of an export subsidy, should be scrutinized and subject to the disciplines on exports.

#### 4.2 Export prohibitions/restrictions, export taxes

(a) Ensuring food security for its population is an important responsibility of each government. Export prohibitions and restrictions, which an exporting country will take temporarily, can severely affect the food security of an importing country, even if it can be considered a necessary measure for the exporting country in view of ensuring its own food security.

(b) With regard to imports, all border measures, other than tariffs, have been replaced by tariffs in principle. On the other hand, Members can freely take export prohibitions and restriction measures under the current Agreement. Japan thus proposes that all export prohibitions and restrictions be tariffied (i.e. replaced by the export taxes).

(c) All import tariffs are bound and commitment has been made to reduce them under the current Agreement, even though there exists no provision concerning export taxes. It is necessary, therefore, to bind the level of all export taxes, including those possibly introduced in the future. With regard to products subject to the export tax, it is also necessary to establish quotas in which exports equivalent to a certain proportion of domestic production will be exempt from the export tax. Disciplines in this regard should be defined.

(d) Furthermore, clarification of the disciplines on export restrictions is necessary in order to prepare for a situation where an exporting country, if export taxes have not been introduced, faces an urgent need to restrict exports.

## V. proposal on State Trading

[Proposal]

34. Since state trading has a significant impact on the market, appropriate disciplines should be established in order to improve its transparency and predictability. Taking into account the impact of state trading on the international market, as well as the current rules, disciplines on state trading should be further clarified, while at the same time make a clear distinction between export state trading and import state trading.

35. In order to improve transparency with regard to the operation of state trading enterprises, the volume and price of exports and imports for respective trade partners should be notified. A mandatory notification indicating the annual project of exports and imports should also be established.

36. In particular, with regard to export state trading, which has a considerable effect on the international agricultural market as a whole, the following disciplines should be made obligatory:

- (i) to provide quarterly notifications of the amount and price of exports, the procurement price and so forth;
- (ii) the prohibition of financial assistance from the government;
- (iii) a contribution to the stabilization of the international market through, for example, obligating minimum exports and stockholding in preparation for unforeseen circumstances.

[Background]

- (a) Since state trading has a significant impact on the market, state trading enterprises should act responsibly under certain disciplines.
- (b) It is therefore necessary to establish a clear set of disciplines on state trading with further clarification made on the subjects and procedures concerning notification, in order to enhance the transparency and predictability of the measures taken by state trading enterprises.
- (c) Regulations on state trading enterprises cover both export and import state trading. However, while import state trading only has an impact on the market within a particular country, export state trading affects the entire international market of a specific agricultural product.
- (d) Under the existing agreements, disciplines on export state trading are less strict than those on import state trading. For example, export state trading enterprises can implement measures to promote exports by setting lower export prices than domestic prices. They can also implement measures to adjust export volumes to reflect the situation of domestic production.
- (e) Mindful of the above-mentioned shortcomings of the existing disciplines on state trading and of distinguishing export state trading from import state trading, it is necessary to establish disciplines on export state trading which obligates a quarterly notification of elements, such as the amount and price of the exports, as well as the procurement price, and also prohibits financial assistance from the government. Such disciplines will improve transparency and predictability.
- (f) Since export state trading has a considerable impact on the international market, its contribution to food security should be achieved through stabilizing international agricultural trade. To this end, obligating minimum exports and stockholding in preparation for unforeseen circumstances, or a comparable contribution towards the stabilization of the international market through providing funds, are necessary.

## **VI. Proposal on Consideration for Developing Countries**

[Proposal]

37. Securing a stable food supply is the first priority for those developing countries suffering from starvation and malnutrition. Based on the dialogues conducted with developing countries, Japan proposes to provide them more consideration with regard to agricultural trade rules, as well as to strengthen the scheme for assisting them in food security, in order to enable developing

countries to solve their problems through self-help.

#### 6.1 Rules and disciplines on border measures

38. A wide range of flexibility should be given to developing countries with regard to the rules and disciplines on border measures and their application, in order to ensure their food security.

#### 6.2 Rules and disciplines on domestic support

39. Flexibility should also be given to developing countries concerning the rules and disciplines on domestic support and their application, in order not to affect the support necessary to increase food production for domestic consumption.

#### 6.3 Rules and disciplines on exports and state trading

40. When strengthening the rules and disciplines on exports and state trading, measures to exempt or ease obligations should be taken so as not to cause an excessive burden on developing countries.

#### 6.4 Addressing food security concerns

41. The idea of a possible framework for international food stockholding should be examined, in order to complement existing bilateral and multilateral food aid schemes and to enable loan of food in the case of temporary shortage.

#### [Background]

##### 6.1-3 Rules and disciplines on border measures, domestic support, exports and state trading

(a) Many developing countries, in particular net food-importing countries, are faced with serious problems, such as starvation and malnutrition. For such countries, the first priority is to achieve food security, and this issue should be taken into full consideration when discussing trade rules.

(b) Thus, special consideration should be given to those developing countries suffering from such problems. It is appropriate to provide flexibility with regard to the disciplines and the levels for border measures and domestic support.

##### 6.1.4 Addressing food security concerns

(a) Food security is a global issue as, (i) more than 800 million people are now suffering from starvation and malnutrition, mainly in developing countries; and (ii) a huge demand in food aid has arisen due to various disasters and economic crises.

(b) In order to address such challenges, food productivity in developing countries should be enhanced in the long-term, while, in the short-term, it is necessary to strengthen bilateral and multilateral schemes for food aid. An idea of a possible framework for international food stockholding should be examined, which shall complement existing bilateral and multilateral food aid schemes, and which will enable loan of food in the case of temporary shortage.

## **VII. Proposal in Response to the Concerns of Consumers and the Civil Society**

[Proposal]

42. Consumers and the civil society in Japan seek genuinely fair and equitable trade rules. Japan imports 60% of its food consumed domestically and is the largest net food-importing country in the world. As Japan is the largest customer of agricultural products in the world, Japanese consumers and the civil society attach great importance to food safety, as well as to the relevant information necessary when making the appropriate choice of food. They also are keenly interested in the consideration made on the importance of the multifunctionality of agriculture and the conservation of the global environment and resources.

43. A wide-range of sectors from the Japanese society have various concerns on agriculture as a whole, and the following proposals reflect those concerns that are directly related to the agricultural negotiations.

### **7.1 Stable food supply**

44. Reduction in support and protection in excess of that foreseen in Article 20 of the Agreement on Agriculture would seriously impede nationwide efforts to increase the food self-sufficiency ratio, and, therefore, would not be acceptable to the consumers and the civil society in Japan.

45. Measures that increase the instability of the international food market, including export prohibitions and restrictions, and imposing export taxes and subsidies on actions destined for export promotion, should be governed by more strengthened disciplines. On the other hand, such a system as import state trading, that has the role of mitigating the impacts of a fluctuating international agricultural market and of stabilizing the domestic food supply, should, therefore, be maintained.

### **7.2 Providing safe food to the public**

46. Ensuring food safety should be a primary focal point when considering trade rules. As for any new issues arising subsequent to the UR agreements, a review should be conducted to examine whether the existing agreements have any problems addressing them. Quarantine and inspection measures should also be improved and strengthened to ensure food safety in this regard.

### **7.3 Providing information that enhances consumers' confidence in choosing food**

47. A scheme to provide information by way of appropriate labeling for both imported and domestic products should be established so that consumers can choose food in full confidence.

48. Appropriate international rules should also be established under the auspices of the Food Standards Committee of the CODEX with regard to the labeling of genetically modified organisms (GMOs).

#### 7.4 Disclosure of information on WTO agricultural negotiations

49. In order to secure the transparency of the agricultural negotiations, adequate information should be provided to the consumers and to the civil society, in addition to providing necessary opportunities for expressing their views.

##### [Background]

##### 7.1 Stable food supply

(a) The food self-sufficiency ratio in Japan is currently at 40% (in terms of calories). A considerable number of Japanese people are concerned about this situation as the figure is far too low for a country having a population of more than 120 million.

(b) Japan aims at increasing its food self-sufficiency ratio through efforts of both producers and consumers, while, at the same time, promoting market-orientated agricultural reforms in accordance with the Basic Law of Food, Agriculture and Rural Areas. In its Basic Plan for implementing the Basic Law, the food self-sufficiency ratio for 2010 is targeted at 45%, an increase of 5% from the current 40%. The plan also aims at achieving an appropriate balance between domestic production, stable imports and food stockholding, thus securing a stable supply of food to the population.

(c) Japan's proposals on market access and domestic support are based on the needs of its consumers. As the largest net food-importing country in the world, Japan sincerely hopes that these proposals will be given serious consideration by all the Members.

(d) In light of the unstable nature of the international food market, Japanese consumers wish for a series of trade rules that will minimize the impacts of a fluctuating international market on their daily lives.

##### 7.2 Providing safe food to the public

(a) It is basic policy of the Government of Japan to ensure the safety of imported food constituting a part of the stable food supply. Trade rules that impede food safety will not be accepted. In this regard, quarantine and inspection measures should be improved and strengthened to ensure food safety.

(b) Since the UR agreements, new issues have emerged due to such factors as an increase on GMOs, as well as the growing concerns of consumers with regard to food safety. Consumers in Japan expect adequate measures to be taken in order to supply safe food to the public.

(c) Concerning food safety, the WTO needs to examine and identify issues exclusively with regard to trade-related measures. Such issues should include, for example, whether the existing SPS Agreement can sufficiently respond to those new issues that have emerged since the UR agreements.

(d) The issue of food safety, especially the GMO-related topic, is currently being examined in other international organizations than the WTO. The latest G8 Summit in Kyushu;Okinawa adopted a communique praising the efforts by the OECD and the Food Standards Committee of the CODEX and encouraging full progress of the work at stake. Therefore, consideration on the matter in the WTO should be conducted in coordination with these organizations, thereby benefitting from the accumulation of scientific knowledge in the OECD and the discussions in the Food Standards Committee of the CODEX.

7.3 Providing information that enhances consumers' confidence in choosing food

(a) Responding to the requests made by consumers, Japan has announced a new standard for quality labeling under the Japan Agricultural Standards Law of March 2000. The labeling system of GMOs will be introduced on April 1st, 2001.

(b) Each Member is considering and introducing its own labeling system. Work on international rules should be expedited urgently in order to promote as early as possible consumers' confidence when making the correct choice of food.

(c) Deliberations on this question are now underway in the Food Standards Committee of the CODEX. The work shall continue until a conclusion can be reached in that forum.

7.4 Disclosure of information on WTO agricultural negotiations

In order to respond to the concerns of the consumers and the civil society, information on the WTO agricultural negotiations should be sufficiently provided, and necessary opportunities for expressing their views should be given, including to non-governmental organizations (NGOs), consisting of farmers, consumers and so forth.

## **VIII. Agricultural Negotiations in the Context of a New Round**

[Proposal]

50. The agricultural negotiations should be conducted and concluded in a single undertaking as a part of a sufficiently broad-based new round.

(Annex)

Japan's Proposal Examined from the Viewpoint of the Multifunctionality of Agriculture and Food Security

The concept of the multifunctionality of agriculture and food security is reflected in the following part of this proposal as follows:

### **1. Market access**

Appropriate levels of tariffs and access opportunities should be determined with flexibility, taking into account various elements: securing the benefits of multifunctionality; ensuring food security; the current situation of production and consumption for each product; international supply and demand; and the progress of domestic agricultural policy reform.

In particular, due consideration should be given to the products which became subject to tariffication as a result of the Uruguay Round, in order to secure the benefits of multifunctionality and to ensure food security in each country.

Special safeguard measures should be maintained.

### **2. Domestic support**

In order to enable each country to promote agricultural policy reform, while giving

consideration to securing the benefits of the multifunctionality of agriculture and ensuring food security, the following improvements should be made:

- requirements for "Green Box" policies should be improved, based on the experiences of implementation;
- the "Blue Box" policies should be maintained;
- domestic support level should be determined in a realistic manner

3. Rules and disciplines on exports

Export rules and disciplines should be strengthened, since it is necessary to ensure the stability and predictability of exports in order to ensure food security in importing countries.

4. State trading

Export state trading could affect the entire international market of a specific agricultural product, as well as the food security of importing countries. Therefore, disciplines on export state trading should be clarified in order to improve its transparency and predictability.

5. Consideration for developing countries

Flexibility should be given to developing countries with regard to the disciplines and the levels for border measures and domestic support, taking into full consideration that developing countries put their highest priority on stable food supply.

The idea of a possible framework for international food stockholding should be examined, in order to complement existing bilateral and multilateral food aid schemes and to enable loan of food in the case of temporary shortage.

6. Response to the concerns of consumers and the civil society

As Japan is the largest net food-importing country in the world, its consumers and the civil society are keenly interested in a stable food supply. In this regard, reduction in support and protection in excess of that foreseen in Article 20 of the Agreement on Agriculture, which may impede efforts to increase the food self-sufficiency ratio, would not be acceptable to the consumers and the civil society in Japan.

Moreover, measures that increase the instability of the international food market should be governed by more strengthened disciplines. At the same time, systems such as import state trading, which contribute to mitigating the impacts of a fluctuating international food market, should be maintained.