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PREPARATIONS FOR THE 1999 MINISTERIAL CONFERENCE

Negotiations on Agriculture

Communication from Japan

The following communication, dated 25 June 1999, has been received from the Permanent Mission of Japan.

1. **Proposal**

A. Objectives

1. The objectives for the next agricultural negotiations are to establish a set of rules and disciplines that are genuinely fair and equitable for both food importing and exporting countries, as well as for developed and developing countries, and which allow a coexistence of the various types of agriculture among Members.

2. The following should be ensured in such rules and disciplines:

- (a) that due consideration be given to the importance of the multifunctionality of agriculture, as well as allowing for a smooth implementation of the domestic agricultural policies and to the differences in natural conditions by taking into consideration the historical background of agriculture of each Member;
- (b) regarding food security, which can be considered as one aspect of multifunctionality, that due consideration be given to the fact that domestic agricultural production is a basis for food security, by taking into account the instability of food supply/demand in the international market and the problems of starvation/malnutrition in developing countries;
- (c) to redress the imbalance in rights and obligations under the WTO rules between exporting and importing countries.

B. Main points to be addressed

3. In pursuing these objectives, WTO Members should agree to:

- (a) strengthen the existing rules and disciplines on export prohibition/restriction measures, export tax, export subsidies and export state trading enterprises, with a

view to redressing the imbalance of rights and obligations between exporting and importing countries; and

- (b) review the existing rules and disciplines of the Agreement on Agriculture while maintaining its basic framework. Such a review should take account of the experiences obtained during the implementation of the said Agreement, and facilitate a reform process for market-oriented approaches in agricultural policies undertaken by Members.

4. Special consideration should be given to developing-country Members in accordance with their situations and needs, in order to, among others, facilitate a smooth implementation of their obligations under the WTO rules and to achieve food security.

5. WTO Members should actively address such new issues as the treatment of genetically-modified organisms (GMOs).

C. Forums for negotiations

6. An independent group for agricultural negotiations should be set up in the next WTO trade negotiations in light of the particular characteristics of agriculture, which requires WTO Members to consider a wide range of issues, such as domestic support, border measures and export rules, in a comprehensive manner. Negotiations on those issues should be pursued comprehensively and effectively in such a group.

7. An appropriate forum should be established to address new issues, including GMOs, from a broad perspective. Work in such a forum should include an analysis of the current situation, identification of the questions to be dealt with, as well as the relationship between such questions and the existing WTO rules and disciplines.

2. Background

8. WTO Member countries have made utmost efforts to implement the Agreement on Agriculture since the agreements came into effect in January 1995. However, the Uruguay Round Agreement is not sufficient in terms of fair and equitable trade rules for both food importing and exporting countries, as well as for developed and developing countries.

9. From this viewpoint, as well as that of facilitating the domestic agricultural reform undertaken by each Member country, the next agricultural negotiations should be conducted to especially ensure the three following points: (i) the importance of the multifunctionality of agriculture; (ii) consideration of food security, which can also be regarded as one aspect of multifunctionality; and (iii) redressing the imbalance of rights and obligations between exporting and importing countries.

10. Given the different natural conditions and the historical and cultural background of each Member, to accomplish the above-mentioned objectives, and thereby establish genuinely fair and equitable trade rules, will achieve the development of an agricultural production, unique to each Member, based on the different natural conditions, and historical and cultural background which will allow the coexistence of the various types of agriculture in the future.

A. Multifunctionality of agriculture

11. Agriculture not only produces/supplies agricultural products, but also contributes to food security, by reducing the risks caused by unexpected events or a possible food shortage in the future,

to the preservation of land and environment, to the creation of a good landscape and to the maintenance of the local community, through production activities in harmony with the natural environment. All of these roles are known as the "multifunctionality" of agriculture.

12. The multifunctionality of agriculture has the following characteristics:

- (a) most aspects of multifunctionality are regarded as economic externalities and it is difficult to reflect their values properly in market prices. Though it is closely related to production, it cannot be subject to trade;
- (b) market mechanism alone cannot lead to the realization of an agricultural production method that will embody the multifunctionality of agriculture.

13. Therefore, certain types of policy intervention are indispensable to place domestic agricultural production as a basis for food supply and to fulfill the multifunctional roles of agriculture. For this purpose, it is necessary to thoroughly examine, based on the past experiences of implementing the agreement on agriculture, how to portray the policy intervention for the fulfilment of the multifunctionality of agriculture in the international framework and as to what extent such intervention can be allowed.

14. Among a wide range of the aspects of the multifunctionality of agriculture, those meeting the following conditions can be examined in terms of their relationship with agricultural trade:

- (a) where functions are closely related to, and cannot be separated from, agricultural production;
- (b) where functions play an important role in relation to the agricultural production activities that have generally been observed;
- (c) where the value of their function is commonly recognized by the people of a concerned country.

B. Food security

15. Food is a fundamental and most important product, and is indispensable for the maintenance of life and health. The State is responsible for the people in ensuring a stable food supply. In particular, in net food-importing countries, having a stable food supply is an important policy objective as it is a main concern of consumers.

16. Global food supply tends to be unstable due to the special feature of agricultural trade, including the concentration of food export to some specific countries or regions, and also due to its vulnerability to unusual climates. It is expected that the world food supply and demand may become unstable in the short term due to unusual climatic phenomena, such as El Nino, and may be tightened in the medium to long term due to a possible increase in the grain demand accompanied by a drastic rise in the population and the economic growth in developing countries.

17. Developing countries, suffering from starvation and malnutrition, have put their first priority on solving the food security issue. It is essential, therefore, not only to ensure the necessary food through food aid as a short-term measure, but also to provide assistance aimed at enhancing a sustainable food productivity in the long term. It is especially important to examine specific measures in order to deal properly with the issues related to those net food-importing developing countries.

18. Policy measures for food security include not only domestic agricultural production, but also stockpiling and imports. Excessive dependence on imports, however, has the following problems:

- (a) the world food supply may become unstable in the short term and may become tighter in the medium to long term;
- (b) agricultural trade has such unstable features as relatively lower portions of output are currently being exported and the major agricultural products are only being exported by some specific countries; and
- (c) large purchases by an economically-dominant country at a time of food shortage may have a negative impact on the international market.

Stockpiling is useful for meeting urgent demands, but problems can arise whereby it is inevitably only a short-term measure due to the loss in quality and the cost of stockpiled food.

19. It is, therefore, indispensable to provide domestic agricultural production with the primary role of ensuring food supply by increasing such production. It is also necessary to fully examine how policy intervention should be placed within the international framework and as to what extent it is allowed, based on the experiences of implementing the past agricultural agreements.

20. Such an examination should not be made in a uniform manner for major products. Rather, the characteristics of production, trade and consumption of individual products should be considered. Furthermore, not only the quantity, but also the quality, including safety and stable prices of food supply, is important.

21. As mentioned above, domestic production to ensure food security has not only the function of producing agricultural products, but also that of a safety net against risk. Food security may not be achieved if agricultural production as a whole is to be placed completely under the market mechanism. Food security, therefore, can be regarded as one aspect of the multifunctionality of agriculture in light of the fact that governments have an important responsibility to assure domestic agricultural production.

C. Strengthening export rules

22. Regarding the trade of primary products, such as agricultural, forestry and fishery products, international demands are inelastic and the products are exported only by some specific countries, although imported by a large number of countries. Actions, therefore, taken by exporting countries may have a severe impact on international prices.

23. In the Uruguay Round Agreement, it was decided that all border measures regarding imports other than tariffs, including import quantitative restrictions and changeable surcharges, were to be replaced by tariffs in principle. However, the rules and disciplines on exports, including export prohibition/restriction, export tax and export subsidies, remain lax.

24. Export state trading, on which more lenient rules are applied, may circumvent the reduction commitment of export subsidies by using a dual pricing system and differential pricing for each export destination.

25. Not only from a viewpoint of the balance of rights and obligations between exporting and importing countries, but also from that of food security in importing countries, the above situation should be corrected. An appropriate examination is required to strengthen rules and disciplines on the export side.

D. Domestic support

26. The multifunctionality of agriculture, with its aspect of public goods, is closely related to agricultural production. Thus, policy intervention (domestic support) in this aspect cannot be completely dissociated from production as a certain level of intervention is required for the fulfilment of the multifunctionality of agriculture, including food security.

27. Classification of domestic support into the groups of “Green”, “Blue” and “Amber” (the Amber group being subject to commitments on the total AMS) in the present framework has some rationale. Since it is impossible to drastically review this classification and to fully eliminate the trade distortion effect of the “Green Box”, it is appropriate to maintain the present framework and to review the requirements and scope for “green” policies based on the experiences achieved in implementing the past agreements, with a view to facilitating a smooth conversion towards a market-oriented policy.

28. In pursuing a market-oriented policy, the existence of the “Blue” policy can not be denied as it is the midpoint for transforming an “Amber” policy to a “Green” policy. The effects of the “Blue” policy are less distorting on trade and less stimulating of production than those of the “Amber” policy. Thus the “Blue” policy should be maintained and positively evaluated.

29. Furthermore, in dealing with the “Amber” policy, it is necessary to assure flexibility in its implementation by each Member, taking into account the progress of conversion towards a market-oriented policy, based on the present framework, including that of the total AMS.

E. Market access

30. Tariffs are the only legitimate border measures to adjust differences in natural or economic conditions regarding agricultural trade under the WTO system. From this viewpoint, non-tariff measures, including quantitative restrictions, were, in principle, replaced by tariffs in the Uruguay Round negotiations on agricultural trade. In this respect, regarding border measures, it is not appropriate to examine only tariffs of importing countries. Rather, a balanced approach is required considering such elements as the multifunctionality of agriculture and the actual production conditions.

31. In net importing countries of agricultural products, increasing domestic agricultural production should be regarded as a basis for food supply in order to ensure food security. For this purpose, appropriate border measures should be taken together with domestic support. Given the existing trade rules, which allow an exporting country to take export restrictions or prohibitions, importing countries have legitimate rights to take appropriate border measures for food security in their own country.

32. The present levels of tariffs are decided based on the domestic geographical and natural conditions, as well as on the situations regarding the respective products resulting from a series of trade negotiations. The out-of-quota tariff rates in the Uruguay Round Agreement were set up based on the difference between internal and external prices. It is necessary to examine tariff rates, taking into full consideration the above backgrounds, the necessity of maintaining a certain level of domestic agricultural production and the multifunctionality of agriculture.

33. The level of market access must be appropriate based upon various factors, including the experiences of implementing the Uruguay Round Agreement and the situation of supply and demand in importing countries.

34. As for the border measures for processed food, careful attention should be paid to a sound development of the food industry, which plays a vital role in providing a stable supply of food of high quality.

35. As mentioned above, border measures for agricultural products and processed food should be examined in a detailed manner, as well as on a product-by-product basis taking into account the circumstances of each product. It is not appropriate to treat them uniformly, thereby ignoring the specific character of each product.

36. Furthermore, with regard to safeguards, it is necessary to examine a system and its operation which will allow Members to respond promptly and effectively to situations, such as a drastic increase in imports, taking into account the specific features of agriculture.

F. Measures for developing countries

37. Under the present circumstances, where most of the WTO Members are developing countries, it is important to enable such countries to facilitate fulfilment of their obligations under the Agreement and to actively participate in the WTO system as a whole. For this purpose, special consideration is necessary towards capacity building in order to enable an effective implementation of the Agreement in response to the situations and needs of these countries.

38. Developing countries, suffering from starvation and malnutrition, have put their first priority on solving the food security issue. It is essential, therefore, to not only ensure the necessary food to such countries through food assistance as a short-term measure, but also to provide assistance aimed at enhancing a sustainable food productivity in the long term. It is especially important to fully examine specific measures in order to address the issues regarding net food-importing developing countries.

G. Response to new challenges

39. In recent years, consumers have increasingly been concerned about issues, such as food safety, recycling and organic agricultural products. As most of these did not attract public attention at the time of the Uruguay Round agricultural negotiations, we should, in the next negotiations, address such challenges properly.

40. For example, as a result of technology development on genetically-modified organisms (GMOs), production of GMOs and the food using such technology has substantially increased. Consequently, a number of issues have emerged concerning production, exports/imports, labelling and the protection of intellectual rights for GMOs.

41. It is often difficult to deal with these new challenges under the existing WTO framework, since they are related to several WTO Agreements at the same time.

42. It is necessary, therefore, to address these new challenges from a broader perspective.

H. Forum for the next negotiations

43. It is necessary to establish an independent group for agricultural negotiations on domestic support, border measures and export rules in order to negotiate these issues comprehensively and efficiently, as agriculture has a unique character where a wide range of issues can be addressed in a global manner.

44. It is also essential to establish an appropriate forum in order to address new issues, such as GMOs, where discussions from various points of view should be held on such aspects as an analysis of the current situation through the examination of issues to be addressed and their relationship with the existing WTO rules and disciplines.
