

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

RESTRICTED

MTN.CNG/NG5/W/17
24 July 1987

Special Distribution

Group of Negotiations on Goods (GATT)
Negotiating Group on Agriculture

Original: English

NEGOTIATING GROUP ON AGRICULTURE 6-7 JULY 1987

Statements by Japan

Preliminary Comments to the United States Proposal

1. Like previous speakers, I should like to thank the United States delegate for the submission of a comprehensive proposal. The proposal has been characterized by some representatives as revolutionary or radical coming from a country where evolution or moderation is preferred. I feel somewhat uncomfortable at this difference.

The United States proposal calls for progressive reduction over ten years of practically all market-access barriers and subsidies. That would mean nearly a 100 per cent rule of market forces on agriculture. As I explained yesterday, in connection with principles to govern trade in agriculture, the long-term objective of agricultural policies affecting international trade should be to allow, like in other industries, market forces to function more effectively. It should be noted, however, that, due to the specific characteristics of agriculture, such as the constraints related to land resources, necessity of the stability of food supply and the environmental protection, it is quite difficult to consider agriculture in just the same manner as other sectors. In fact, many countries, in the light of the specificity of agriculture, are actually implementing some form of support policies. The truth will be somewhere between a 100 per cent rule of market forces and a completely regimented system. Therefore, we think the rule of market forces should be modified with elements of specificity. In view of this, the United States proposal claiming for an across-the-board elimination of the protection is too ambitious even if it may be intended as a starting point for negotiations. Now, I should like to make some preliminary remarks on the major elements contained in the United States proposal, and ask for certain clarifications of specific points described therein.

First tier

(1) Aggregate measurement tool

2. In the conclusion part which appears on the top of the United States paper, the subjects of negotiations are broadly classified into three areas in accordance with the Punta del Este Declaration. However, in the implementation part, subsidies and import access are treated in the same

manner in the so-called Policy Coverage. We have difficulty in understanding how the reduction and elimination of import quotas can be considered in the same context as those of price support. This kind of treatment may spring from the United States idea to make use of a specific tool for the measurement of the aggregate support. Here, a methodology developed by the OECD, the Producer Subsidy Equivalent (PSE) seems to be considered as a possible tool. We consider that any aggregate measurement tool needs to be carefully examined. We cannot overlook the problems or flaws inherent in its methodology because, on the basis of the calculation made under a certain presupposition, it is difficult to reflect in a single series of figures the diverse agricultural policies which are implemented for a variety of purposes.

3. In addition to the general problem inherent in the aggregate measurement tool mentioned above, we see, among others, the following problems in using the PSE as a method of quantification of the level of protection in agriculture.

- (a) It uses the difference between internal and international prices as one of the components for the calculation of protection, but such a difference is largely dependent on extraneous factors such as the fluctuation of exchange rates, international prices, etc.
- (b) The basis of the calculation of protection is also linked to the quantity of the domestic production of the product in question, whereas the size of trade, in particular of imports, in that product is not taken into consideration. Therefore, such protection does not reflect accurately the effect on trade, and may even give a distorted image. If I may give a concrete example, the protection Japan gives to its domestic soya, it is obvious that this apparently high degree of protection does not reflect the reality of the soya market in Japan where imports predominate. Imports represent 95 per cent of total consumption.

4. It is our view that the current world agricultural crisis is basically caused by large-scale over-production by major agricultural exporting countries as well as the intensification of export competition triggered off by the increase of export subsidies reflecting such over-production.

From this point of view, the United States proposal claiming for the elimination of subsidies is understandable and endorsable by my delegation to the extent that it refers to the export subsidies.

However, the United States proposal is much more far-reaching than this. It covers all subsidies with an exception of income payments not related to production and marketing, the so-called "decoupling", and aids.

5. There are those countries in the world whose agriculture is greatly constrained by land resources, resulting in a small-scale production basis, but does contribute to the stabilization of world trade in agriculture as a large agricultural importing country despite a very low food self-sufficiency ratio. For these countries, some sort of domestic subsidy for

the sake of maintaining the minimum level of self-sufficiency from the point of view of food security is necessary. Having said this, however, my country does not intend to stick to maintaining the level of support Japan is providing to the farmers. On the contrary, it has been taking measures to reduce such support. For example, our agriculture-related budget is steadily decreasing over the years in the circumstances where major countries are in fact increasing it. As a result of such reduction, our agriculture-related budget for 1986 stands for 83 per cent compared with 1980. On the specific commodity, we have just decided to reduce the government purchase price of rice, which is the producer price, by 5.95 per cent, as for wheat, about 6 per cent and dairy products some 6 per cent. Clearly enough from the foregoing, we are quite conscious about reducing subsidies contributing to the balance of world production and stability of world trade in agriculture.

(ii) Import access

6. In the United States proposal, very few details are provided for the import-access aspect. Nevertheless, I should like to make a few comments on this aspect. Japan believes that the long-term objective of agricultural policies affecting international trade should be to allow, like in other industries, market forces to function more effectively. However, in view of the specificity of agriculture, import restrictions of agricultural products should be allowed under more specifically defined and operationally effective conditions. This point is clearly stipulated in the Japanese paper presented yesterday (see page 5).

7. In this connection, my delegation took note of the preparedness on the part of the United States to put its waivers on the negotiating table, as declared by the United States some time ago, although we fail to see any reference to the waivers in the United States proposal.

Second tier

8. In the second tier, the elements introduced in the United States proposal are quite innovative and we wish to seek some clarifications.

9. My first question relates to the "implementation plan" referred to in the United States proposal. Does the United States have in mind a plan of reduction of support on each product or a plan of reduction of overall support?

10. My second question relates to the third paragraph of the second tier of the United States paper. Here, the United States states that "the ten-year implementation plan will have the character of a GATT binding". We do not fully understand the meaning of this sentence, especially in connection with the second sentence of the same paragraph where modifications of the implementation plan are foreseen. Further elaboration from the United States would be appreciated.

* * * * *

On Identification of Problems

1. It is our view that the biggest problem of the actual crisis in agriculture lies in the supply-demand gap which is caused by the large-scale production enhancement by the agricultural exporting countries without due attention to the demand situation and by the intensification of competition among exporting countries against such background. We consider therefore that the price supporting measures as well as the export assistance measures on the part of the exporting countries are the most important problems which this negotiating group should address in the context of the identification of the problems.

2. We believe that the following points should be included in the subject of identification of problems:

(a) The various rôles which agriculture is playing (stable supply of food, environment protection, employment sustainment, regional development, etc.).

(b) The various categories of measures affecting agricultural trade taken by each country (more concretely;

(i) increase or decrease of agricultural budget during a certain period of time (say five years),

(ii) implementation of policies providing positive or negative incentive to agricultural production,

(iii) improvement of market access,

(iv) implementation of policies providing incentive to exports, etc.).

(If the EC elaborates on its arguments on the identification of the problems.)

In selecting the specific items which should be subjected to the procedure of the identification of the problems, we should take into consideration the effect on the trade of the measures to be taken with regard to such items. In this connection, it is our view that those items the trade volume of which surpasses a certain proportion of their world supply level should be given priority in selecting such items.

* * * * *

Principles to Govern Trade in Agriculture

(Proposal of Japan)

General

The long-term objective of agricultural policies affecting international trade, should be to allow market forces to function more effectively, while giving consideration to social and other concerns, such as food security, environment protection and overall employment, which are not purely economic. Such policies should bring more predictability and stability to world agricultural trade under more operationally effective GATT rules and disciplines.

Market access

The basic principle should be the greater liberalization in agricultural trade by improving market access through, inter alia, the reduction of the import barrier, and import restrictions should be allowed under more specifically defined and operationally effective conditions, taking due account of the specific characteristics of agriculture as referred to above.

Subsidies

Subsidies on agricultural export in principle should not be used. In the domestic front where policies distort the trade in agriculture, a progressive and concerted reduction of agricultural support should be implemented in a balanced and flexible manner, giving consideration to the specific characteristics of agriculture as referred to above. Countries with surplus production as a result of the government assistance should quarantine such surplus to its domestic market.

Sanitary and phytosanitary regulations

Governments should minimize the adverse effects that sanitary and phytosanitary regulations and barriers can have on trade in agriculture, taking into account the relevant international agreements. It should be pursued to eliminate disguised barriers to trade.