

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

RESTRICTED

MTN.GNG/NG5/W/39

26 December 1987

Special Distribution

Group of Negotiations on Goods (GATT)

Original: English

Negotiating Group on Agriculture

JAPANESE PROPOSAL FOR NEGOTIATIONS ON AGRICULTURE

1. Introduction

In each country, agriculture has functions under the economic and social conditions of each country to meet the social and other concerns such as food security, environment protection or overall employment, which are not purely economic. It is necessary to give full consideration to these important roles of agriculture.

The trade in agriculture is now given different treatment from the industrial products in the GATT to some extent, for instance, in the areas of import restrictions and export subsidies. Trade in agriculture, by contrast to trade in industrial products, is instable by nature due, for instance, to precariousness of supply which is affected by weather conditions and perishability of products. It is, therefore, essential to fully take into account the difficulty of importing countries in relying the great part of their supply on foreign sources.

In view of the recent disequilibrium in the world market of major commodities, it is necessary for contracting parties, as their long-term objective, to make efforts to enable market forces to function more effectively in their agricultural policies affecting international trade. Even while pursuing such an objective, an important task for the contracting parties is to take into account the specific characteristics of agriculture as outlined above, and to harmonize those elements with the attainment of the objective.

In the Uruguay Round of Negotiations, the issue of current structural world surplus production must appropriately be addressed on the basis of what has been outlined above. At the same time, it is necessary from a long-term perspective to aim at providing more predictability and stability to the trade in agriculture, which is expected to fluctuate in the time to come, for the purpose of benefiting both exporting and importing countries. To this end, it is important to achieve greater liberalization of trade in agriculture and bring all measures affecting import access and export competition under strengthened and more operationally effective GATT rules and disciplines, while giving consideration to the balance between rights and obligations of exporting and importing countries.

(1) Measures on Import and Export

It is necessary to realize the improvement of conditions for expansion of trade in agriculture through further liberalization of trade by taking such measures as the reduction of import barriers while making sure that harmony is maintained with the need for ensuring the stability in the trade in agriculture and sound development of agricultural sector in all countries.

With regard to import restrictions, more concretely defined and operationally effective conditions should be pursued in order to realize most suitable measures which would bring about more stability and expansion of trade, by harmonizing the need for more effective functioning of market forces in the field of agricultural trade with the need to assure food security.

We must not overlook the aspect of trade discipline at the time of food shortage, by diverting most of our attention on the measures to cope with the present production surplus. The implementation of export prohibitions or restrictions by exporting countries in order to prevent critical food shortages should be reviewed with due consideration being given to the positions of importing countries.

(2) Government Subsidies Affecting Trade in Agriculture

1. It should be recognized that increased subsidized export of agricultural products or processed agricultural products for the purpose of disposing of the surplus in international market has seriously distorted the world trade in agriculture and has adversely affected both competing exporting countries and importing countries. Discipline must be established in this regard.

The present principle of the GATT, which permit the use of export subsidies on primary products under defined conditions, is not practical in view of the fact that, in reality, it has led to a number of disputes over the use of export subsidies on agricultural products and processed agricultural products. The basic rule of prohibiting the use of export subsidies which is applicable to the export of non-primary products, therefore, should equally be applied to the export of agricultural and processed agricultural products.

2. Agricultural policies of each contracting party is implemented with the primary objective of promoting sound development of its agriculture under its given economic and social conditions. At the same time, those same policies contribute to the attainment of multifaceted national policy objectives including preservation of natural environment and regional development. Domestic subsidies other than export subsidies are being used as a part of these agricultural policies, and as such, they should clearly be distinguished from export subsidies which by their nature are obstacles to the stability and expansion of trade in agriculture.

In case these subsidies are found to have trade distorting effect in their implementation, the progressive and concerted reduction of negative aspect to the trade should be pursued in a balanced and flexible manner, paying heed to their originally intended role.

(3) Sanitary and Phytosanitary Measures

Sanitary and phytosanitary measures such as the prevention and eradication of infectious diseases and pests of animals and plants are implemented according to its sanitary and geographical conditions by each contracting party as indispensable means for maintaining health and life of human, animal, or plant. In order to attain these objectives, some degree of effect upon international trade is unavoidable. It is necessary, however, to minimize the adverse effects upon trade in agriculture by ensuring that applications of the regulations are not carried out in such a manner as to become a disguised restriction on international trade. Relevant international agreements on this matter should be respected.

2. Proposal

(1) Product Coverage

All agricultural, fishery, forestry products (HS 01-24, and 44 as well as the relevant products notified by participating countries).

(2) Emergency Measures

In view of the present circumstances where the increase of subsidized export greatly distorts the current agricultural trade, thereby hindering the solution of the problem, steps as described in 1. (2) 1 above is an essential premise for the purpose of achieving fruitful results in the negotiations on agriculture in the Uruguay Round, which aim at the "formulation of new GATT rules" that fully reflects the reality and long-term prospect of trade in agriculture. As the first step, it is necessary that major exporting countries implement standstill, on emergency basis and in concrete terms, by freezing export subsidies (as for the definition of export subsidies, illustrative list of export subsidies of the "Subsidies Code" should be applied) at current level, thereby creating a sound and constructive environment conducive for the negotiations.

(3) Measures on Import and Export

1. Tariffs

The average level of customs tariff rates has been reduced considerably in the field of agriculture, as a result of successive rounds of negotiations, and as the across-the-board linear reduction of the customs tariff rates is not suitable for agricultural products because the need of protection greatly varies from product to product, reduction or elimination of tariff rates over a defined period shall be pursued through request and offer procedure for the purpose of facilitating realistic negotiations.

2. Measures on Import

(a) Principle of general elimination of quantitative restrictions other than duties, taxes or other charges (current GATT Article XI:1) needs to be maintained in agricultural trade as well for the purpose of enabling market forces to function more effectively in this area.

Quantitative import restrictions such as those permitted as exceptions to the GATT rules on the basis of a waiver should also be the subject of the current negotiations on agriculture, and be brought under the "new GATT rules" on import restrictions, because actual effects on trade of those exceptions are similar to those of measures which lack such legal basis under GATT.

The import restrictions based on Article XI:2(c)(i) of the current GATT rules are permitted for the purpose of ensuring effectiveness of the measures taken by governments to limit the over-production of the agricultural products. In formulating the "new GATT rules", it is necessary to aim at making appropriate improvements on the provisions stipulating the import restrictions described above, while giving consideration to the actual trading and transacting practices of agricultural products, diversity of measures of each government, the need to stabilize domestic production of "basic foodstuffs" which is indispensable to maintaining the livelihood of the citizens of countries whose self-sufficiency rate of foodstuffs is particularly low, as well as the assurance of stable market access to exporting countries of agricultural products.

(b) With regard to variable levy and minimum import price system, rules should be articulated in GATT by ensuring transparency in its implementation and assuring minimum access level, taking into account the discussions made so far in the GATT as well as the possible restrictive effects on trade of those measures.

(c) Implementation of border measures described in sub-paragraphs (a) and (b) above shall be carried out in such a way as to keep consistency with the use of subsidies to be managed under the rules set forth in (4) 2. (a) below, giving consideration to the improvement of market access.

3. Measures on Export Restrictions

Under the existing GATT rules, export prohibitions or restrictions of foodstuffs at the time of critical shortage are permitted as the exception to the general prohibition of quantitative export restrictions, and compared with exceptions provided for in case of import restrictions in which stringent conditions such as minimum access obligations are required, interests of exporting countries are given extremely favorable treatment and lacks the balance.

It is, therefore, necessary to review the exception to the principle of general prohibition of quantitative export restrictions bearing in mind the exceptions provided for in the case of import.

(4) Subsidies

1. Export subsidies: after the freeze is imposed in accordance with (2) above, export subsidies shall be phased out over a fixed period of time to be agreed on through negotiations.
2. Other subsidies: many of the contracting parties provide "government subsidies" under their respective social and economic conditions in agricultural field in order to attain such objectives as stabilizing or adjusting the levels of production and consumption, and the levels of farmers' income and consumer prices.

Current global surplus of major agricultural products is attributable to over-production resulting from total disregard for the demand situation. Such an over-production has been brought about mainly as a result of the increase of government subsidies which, since 1980, has been managed by major exporting countries of the agricultural products in such a way as to stimulate production.

As this example illustrates, each contracting party needs to recognize that among the "government subsidies" there are those which, depending on how they are managed, could have adverse effect upon agricultural trade. Therefore, contracting parties shall place these "government subsidies", whose intended purpose is to support income or prices, under the rule of GATT in accordance with the following principles, with a view to reducing trade distorting effect and improving the competitive environment (subsidies to be subsumed under this category shall be defined clearly through negotiations, but those subsidies aimed at improving infrastructure of agriculture, improving agricultural structure, encouraging transfer to other crops from surplus product, promoting social welfare as one of the objectives, research and development, disaster relief, and dissemination program are to be excluded from this category):

(a) In order to prevent "government subsidies" from becoming an obstacle to the maintenance of the stability of agricultural trade and its development, the fulfilment of the following conditions shall be ensured, which require the reduction or the improvement of the subsidies.

a) Management of the subsidies should reflect, to the extent possible, the actual demand and supply situation in order to allow the market forces to function effectively. In particular, care should be taken not to create structural over-production or exacerbation of such a situation which would be caused by the management of subsidies effecting significant increase of domestic production or significant reduction of import.

b) "Government subsidies" should be coordinated closely and in an organic manner with policies for structural improvement in agriculture in order to encourage and promote structural improvement. Improved productivity achieved by the structural improvement, should be reflected to the extent possible, in the management of the subsidies.

c) As appropriate, the subsidies should be replaced by other form of subsidies neutral or restrictive to production.

(b) In particular, in case where the government subsidies are accorded to products which face structural over-production (such a product shall be identified through negotiations), and the accumulated surplus therefrom is being exported, either the net amount of subsidies should be reduced back to the level of 1980, or the production (or cultivation area) level be rolled-back to the 1980 level taking into account the population increase of the country concerned within 5 years.

(c) The above undertakings should be conducted, progressively and concertedly, in a balanced and flexible manner, taking into account in a comprehensive way such factors as the world demand and supply situation of the agricultural products; the production trend in agriculture, self-sufficiency rate of foodstuffs, and export volume of the agricultural products in each of the contracting parties.

3. Discipline on Export Price

If, in order to prevent, over a long period of time, the occurrence of structural surplus and recurrence of resultant distortion of trade in agriculture, it is deemed necessary and useful to formulate export price for major trading commodities in agriculture through a rational formula which takes account the specificity of the products, in addition to measures described in 1 and 2 above, consideration should be given to its formulation under an international framework with the participation of both exporting and importing countries and maintaining cooperation and coordination with relevant international organizations and agreements.

(5) Sanitary and Phytosanitary Measures

Quarantine inspection of animals and plants are conducted as a necessary measure to protect human, animal, or plant life or health, and in order to fulfill its objective, it is, to a certain extent, unavoidable that the quarantine inspection affects trade to a degree.

From this point of view, efforts shall be made to ensure the transparency of the quarantine procedure in as much detail and in as concrete a term as possible, inter alia, by clarifying the conditions for import prohibition and lifting of it, while taking into account the agreements reached at the relevant international specialized agencies. In addition, in case measures which would technically enable the trade of prohibited items are established, countries concerned shall hold favorable consultations with a view to lifting such a prohibition.

(6) Special and Differential Treatment to the Developing Countries

It is necessary to fully recognize the importance of agriculture and its trade for the development of the developing countries. From this point of view, appropriate consideration shall be made to realize special and differential treatment to the developing countries in implementing the measures described in this proposal.

3. Other Remarks

(1) Comprehensive Aggregate Measurement

In implementing the above proposal, there is no need for a comprehensive aggregate measurement of level of protection and support. The producer subsidy equivalent (PSE) developed in the OECD, is a measurement to estimate the level of assistance to agricultural producers resulting from entire range of government measures, but is not designed to measure nor compare the level of protection to agriculture in respective countries. In addition, PSE does neither reflect the wide-ranging purposes pursued by agricultural policies such as food security, preserving national land and environment, and achieving well-balanced regional development, nor does it pay heed to different conditions surrounding agriculture in respective countries. For these reasons, it is difficult to use PSE or a similar comprehensive aggregate measurement as a negotiating tool in the Uruguay Round of Negotiations on Agriculture.

(2) Launching, Conduct and Implementation of the Outcome of the Negotiations on Agriculture

The launching, the conduct and the implementation of the outcome of the negotiations on agriculture should be treated as a part of a single undertaking in the entire negotiations of the Uruguay Round, and shall be carried out while maintaining the overall balance of the negotiations.