

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

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TWENTY-THIRD SESSION OF THE NEGOTIATING GROUP
ON AGRICULTURE: JULY 1990

Statements by Japan

Statement of Japan on the Treatment of the Chairman's Draft Text
(19 July 1990)

1. Japan has been contributing to the sustained expansion of world trade in agriculture, by taking a number of policy measures aimed at improving its market access. As a result, Japan is now the world's largest net importer of agricultural products and, its self-sufficiency ratio for cereals is as low as 30 per cent. No other developed country in the world has such a low self-sufficiency ratio as Japan.

I recall that wheat, corn and soybeans which were the subject of contention at the multilateral trade negotiations of GATT many years ago, are now traded on a stable and prosperous basis internationally. Japan has been providing a large import market for those products, and this fact should be duly appreciated.

2. Furthermore, Japan has been taking initiatives in implementing a number of measures in advance of the conclusion of Uruguay Round negotiations, even after the Punta del Este Declaration; such as border measure decisions to liberalize trade on beef and citrus so as to further improve market access conditions and reduction of internal support price levels of products.

Japan has been participating positively in this negotiation on agriculture, and will continue to do so.

3. Our assessment of the Chairman's draft text is, however, that it does not duly take into account the views of my country which has been contributing greatly to the sustained expansion of world trade in agriculture, nor does it treat the interests of importing countries on a fair and equitable basis vis-à-vis exporting countries.

Yet, we dare not dwell upon these points today, since we have already pointed them out in detail at the outset of this meeting last week. I have arranged for the distribution of those comments (as attached) for the reference of this group.

4. We are very mindful that the leaders of seven countries at Houston "commended" to the negotiators the Chairman's draft text as a "means to

intensify negotiations". But this does not prejudge that the text is an agreed basis for negotiations. We note that the Chairman's proposed report on the draft text to the Trade Negotiations Committee is based on the same thinking. One should recall that the Houston Declaration says that "the negotiation on agriculture should be conducted in a framework that includes a common instrument of measurement, provides for commitments to be made in an equitable way among all countries, and takes into account concerns about food security".

We hope that these relevant points are clearly referred to in the Chairman's report on the draft text to the Trade Negotiations Committee.

5. We highly appreciate the efforts of the Chairman in having prepared the draft text under such difficult circumstances. Nevertheless, we remain dissatisfied with the Chairman's draft text which may be sent to the TNC. The current draft text brings us great difficulties, and at this juncture, we would like to make it clear that it is difficult to engage in the negotiations on the basis of a framework which is not agreed upon. We would also like to make it clear that in order for us to submit a meaningful country list by 1 October, a clear agreed framework of negotiations should first be established.

6. We are also of the view that it is essential that rules negotiations be undertaken concurrently with the negotiations concerning the reduction of support and protection.

7. We strongly hope that we will be able to participate positively in the negotiations including submitting our country list within a framework which reflects appropriately the interests of importing countries including Japan.

COMMENTS BY JAPAN ON THE CHAIRMAN'S DRAFT TEXT: 12 JULY 1990

I. INTRODUCTION

1. We would like to commend the Chairman's efforts in having prepared the draft text based on the discussion in the Negotiating Group on Agriculture and informal consultations.

2. However, it is regrettable that the draft text as a whole does not duly reflect the major concerns of importing countries such as Japan.

3. The draft text refers to the deadline of submission of country lists. However, it is difficult for us to submit them unless a clear-cut framework, which accommodates Japan's concerns, is agreed on internal support, border measures and export competition.

4. On this occasion, we would like to remind all participants that we have circulated, for reference, a paper clarifying Japan's position (see Annex).

II. INTERNAL SUPPORT

1. General comments

(1) The Chairman, in his draft text, has divided internal support policies into two categories, namely, policies subject to reduction and policies exempt from reduction. We support this approach in that the Chairman has not advocated the category of policies to be prohibited.

As to the reduction of internal support, it is important not to reduce internal support, which differs from country to country, across the board, but indeed to establish a discipline on internal support, taking into account specific situations of each contracting party, especially, the different conditions between exporting countries and importing countries like Japan which relies on imports for a substantial portion of its food supply. This approach is conducive to a fair and stable trading system of agriculture.

(2) The approach in the draft text that policies can be exempted from reduction commitments only if they meet certain criteria is indeed different from ours.

Our preferred approach is to identify first "amber" category policies, dealing with the rest of policies as in "green" category. If we are to take the opposite approach, that is to say, to identify first "green" category policies, it would give rise to extreme difficulties since the agricultural situation and policies as well as the composition of agricultural budget differ from country to country, hence not feasible.

(3) We consider that policies to be permitted should not be subject to any disciplines including monitoring. Therefore, we cannot associate ourselves with the idea in the draft text that policies exempted from the reduction commitments should be subject to not only surveillance and the review process but overall ceiling of the level of support.

In addition, the draft text states that the Mid-Term Review commitment by developed countries not to exceed the current level of support per commodity shall continue in force for the duration of the implementation period. This idea would give restraints on future policy making on internal policies and prevent flexible implementation of agricultural policies by bringing "green" policies under discipline. We cannot share such an approach.

2. Specific comments

(1) In paragraph 4, the draft text states that reduction commitments should be made at sub-national level as well as national level.

However, we cannot agree to the idea which does not pay due respect to the principle of local autonomy.

(2) Commitments should be made on AMS itself and the reduction of the AMS

could be implemented by reduction in internal support, border measures or the combination of both. It is regrettable that the draft text does not refer to this point.

(3) In reducing AMS, we consider the ratio of imports should be taken into account and that flexibility should be permitted, depending on the specific situations of each product or product sector.

In this connection, our understanding is as follows:

We would be grateful if the Chairman could confirm our understanding.

(i) Paragraph 3 states that the rate of AMS reduction is to be negotiated. This statement shows that flexibility will be given to the degree of reduction depending on the specific situations of each product or product sector.

(ii) Paragraph 5 states that the AMS will be expressed by total monetary value per commodity. This statement does not exclude the reduction of AMS on a product sector basis.

(4) The draft text states that total AMS will be used in reducing AMS without referring to the use of unit AMS. It is not appropriate because such discipline on internal support is stricter than that on export competition.

Let me be more specific. The draft text states that commitments to reduce export assistance may take the form of commitments to progressively reduce aggregate budgetary outlays on export assistance, per unit export assistance, the total quantity of a product in respect of which export assistance may be provided, or some combination of such commitments.

More flexibility is certainly given in the draft text to the ways and means of the commitments on export subsidies.

Considering that total AMS is mentioned as the only way of disciplining internal support, we have to underline that there exists much imbalance between the discipline on internal support and that on export competition.

The draft text also states that export assistance shall be reduced effectively more than other forms of support and protection. For that purpose, it is necessary to be able to make comparisons between the level of export subsidies and that of other forms of support and protection.

From this point of view, unit AMS and total AMS ought to be considered as independent options for reducing AMS.

(5) In the Chairman's letter, the need of "taking into account credits accumulated in respect of action taken since the beginning of the Uruguay Round" was referred to, and, the Mid-Term Review Agreement states that "credit will be given for measures implemented since the Punta del Este Declaration which contribute positively to the reform programme".

Therefore, the reference year in paragraph 5 should be amended to read: "1986", not "1988".

(6) The meaning of "equivalent commitments for products where an AMS cannot be calculated" in paragraph 5 is not clear. We consider that it is a matter to be discussed after the discipline on internal support has been clearly defined.

(7) The draft text appears to classify all input and marketing cost reduction measures into "amber". We have some problems with such classification.

As to input subsidies, it is necessary to examine which "inputs" are trade-distortive. Generally, input subsidies of Japan are not for direct assistance to specific products but for assistance to modernize fixed capital necessary to improve agricultural structure, not to provide assistance for current inputs such as fertilizers and agricultural chemicals. In light of this, they should be categorized as "green".

Marketing cost reduction subsidies are provided to the programmes aimed at rationalization and modernization of the agricultural marketing system such as integration and maintenance of market facilities, and not intended to expand agricultural production. Therefore, they are not trade-restrictive, but will rather contribute to improved market access. In light of this, they should be categorized as "green".

"Amber" policies should be "market price support" and deficiency payment under "direct payments" of the PSE's policy categories established by OECD.

A part of an "amber" policy corresponding to the amount of domestic production which could be supplied irrespective of conditions of competitiveness to imported products should be classified as "green" since this part is not inherently trade-distortive.

(8) Research and advisory programmes are included in general services of a generally beneficial public nature to agriculture and the rural community as one of the policy categories exempted from reduction commitment. At the same time, agricultural infrastructural/structural improvement programmes and land improvement programmes should also be included in the general services.

(9) We would like to give some comments on the elements of criteria in paragraph 8:

- (i) Firstly, the rationale is not clear behind the statement in paragraph 8(a) that the assistance must be provided through a taxpayer-funded government programme not involving transfers from consumers.
- (ii) Secondly, our comment is related to paragraph 8(b) stating that it must not be linked to current or future levels of production

or factor of production. According to this criteria, however, programmes aimed at, for example, improving productivity for the purpose of narrowing the gap between domestic and international prices would not be permitted. This would prevent implementation of such policies as would lead to overall reduction in support and protection. Furthermore, it would deny flexibility in policy choice.

- (iii) Thirdly, our comment is related to paragraph 8(c) stating that it must not be restricted to any specific agricultural product or product sector. What matters is how trade-distortive a certain product-specific policy is. It is just a preoccupation to decide that all product-specific policies are trade-distortive at this time when no scrutiny of the effect of such policies has been carried out.

Rather, excepting market price support and deficiency payment, it could be one of the practical solutions to bring product-specific policies with possibility of trade distortion under a less stringent discipline of, for example, monitoring using AMS.

To be more specific, the idea of dividing "amber" category into "pure amber" and "yellow green" and applying different disciplines to them could be considered as a basis for future discussion.

- (iv) Our fourth comment is on paragraph 8(e) stating that income safety-net programmes must not maintain producer incomes at more than [x] per cent of the most recent three-year average. We do not understand the rationale behind this concept as well as what income safety-net programme precisely means. On top of that, discussion of this kind of programme has not been made. However, we are willing to take part in the discussion since the income safety-net programme is considered to be related to so-called de-coupling policies.

III. BORDER PROTECTION

1. General remarks

(1) We see in the draft text various commitments, including the commitment of tariffication, which are conducive only to the interests of exporting countries. On the other hand, the concerns which have been repeatedly expressed by importing countries such as non-trade concerns are not addressed clearly. At best, these concerns are reduced to a level of the possibility of future negotiation or of matters to be taken into account. The draft text lacks the balance of interests between exporting and importing countries.

(2) There are some provisions in the draft text in which we can trace a line of thinking which seeks to apply a more ambitious and stringent principle to trade in agricultural products than to trade in industrial products. Such a philosophy is unrealistic and inappropriate.

2. Specific comments

(1) The draft text adopted a tariffication approach as though it were the only negotiating tool, despite the absence of an agreement among participants to convert all border measures other than normal customs duties into tariff equivalents. We find difficulties in this approach for the following reasons:

- (i) An idea that non-trade concerns should be accommodated within the tariffication approach is not satisfactory. It should be remembered that many participants believe that non-trade concerns cannot be duly accommodated within this approach.
- (ii) Import measures to be taken for the products to which enabling clauses such as Article XI:2(c)(i) apply and for the basic foodstuffs, need to be pursued from quantitative restriction perspective and hence should not be subject to tariffication.

Accordingly, non-trade concerns should be accommodated outside of the tariffication approach, and import restrictions for basic foodstuffs or under GATT rules must be allowed to be taken. For these reasons, the fundamental orientation of our exercise should not be in tariffication.

(2) Japan proposed that border adjustment measures can be taken for basic foodstuffs for food security consideration so that the required domestic production level can be maintained. This should be clearly referred to in the draft text.

Some countries including Japan put forward proposals concerning Article XI:2(c)(i) to make it more operationally effective. This should also be referred to in the draft text. To reject measures which are clearly embodied in the GATT cannot be tolerated.

We note that the Chairman incorporated paragraph 13 in the draft text. However, even if that paragraph is intended to take care of our concerns with regard to the basic foodstuffs and Article XI:2(c)(i), it does not state beyond merely not preventing the possibilities of negotiations within the approach other than that prescribed in paragraph 12. We cannot go along with a framework in which we are forced to make commitments for tariffication while our concerns for basic foodstuffs and others are left in suspense and without assurance.

(3) Binding all existing tariff rates is difficult even in the industrial sector. In light of special characteristics of agriculture, that would be far more difficult, and hence unrealistic.

(4) Without prejudice to our position on tariffication, we shall state our views on technical aspects relating to tariffication:

- (i) tariff equivalents should be estimated so as to reflect actual price gaps between internal price and external price, which should not be subject to any ceiling;

- (ii) in reducing tariff equivalents and expanding tariff quotas, due account should be given to gaps of fundamental production conditions between respective countries, supply/demand situation of the product in each country as well as specific situations for the product including the import trend;
- (iii) a certain adjustment mechanism should be built in so as to reflect fluctuations in import prices;
- (iv) a special safeguard mechanism ought to be considered.

In this connection, the following are our comments on technical aspects of tariffication as proposed in the draft text:

- (i) We appreciate that levels of tariff equivalents can be set, irrespective of the level of existing tariffs, and that reduction of tariff equivalents and expansion of tariff quotas can be adjusted, taking into account the specific situation of the product concerned. However, establishment of a minimum level of access, on the basis of tariff quotas at low or zero rate and representing a minimum per cent of current domestic consumption of the product concerned, is not appropriate, since it prejudices future negotiations based on a request/offer basis.
 - (ii) As for data used for calculating tariff equivalents, the draft text suggests that those for the most recent period available be used. We suggest that the data of 1986 be used as we have proposed for the purpose of calculating the AMS.
 - (iii) The draft text makes a distinction as to HS-basis product specification between products, namely, four-digit level and six-digit level. We would like to seek explanations of the reason for this distinction.
- (5) Special and differential treatment to developing countries should be addressed in such a way that flexibility can be accorded in the reduction commitments on their support and protection. With regard to border measures of third countries taken for products of interest of developing countries, they should be dealt with in the negotiations between the countries concerned, taking account of specific situations.

IV. EXPORT COMPETITION

1. As the Chairman himself indicated in his letter, a great majority of the participants demand the elimination of export assistance, simply because it constitutes the major source of distortion of international trade in agriculture. However, the draft text refers only to substantial and progressive reduction, and not elimination of export subsidies. This treatment of export subsidies by the Chairman is a great disappointment to Japan.

2. The draft text indicates effective reductions of export subsidies more than other forms of support and protection. However, the meaning of this indication, whether it refers to the scope, methods, extent, duration or other factors of reduction, is not clear.

Let me take an example of the methods of reduction. It may be pointed out that the Chairman's draft text suggests a wide flexibility as to the reduction of export assistance, namely, the choice within (i) aggregate budgetary outlays, (ii) per unit export assistance, (iii) total quantity of subsidized and exported products, or (iv) the combination of the above three. On the other hand, the reduction of total AMS is the only choice for the reduction of internal support. Obviously, it is quite worrisome that the reduction scheme for export assistance is less stringent compared to that for internal support.

I wish to reiterate our repeated position that export subsidies should be eliminated in light of the inherently trade-distortive nature, and the Chairman's idea on the "more than other forms" reduction should be made clearer.

3. We are of the view that any form of subsidy, granted either directly or indirectly, on the export of any agricultural product which results in the sale of such product for export at a price lower than the comparable price charged for the like product to buyers in the domestic market of the exporting country should be regarded as an export subsidy.

Therefore, deficiency payments provided to exported products should be regarded as export subsidies as long as they meet the above-mentioned conditions, and they should be included in country lists as a form of export subsidy.

Concerning producer-financed export subsidies, including those to which no government expenditure is supplied, Japan considers that they should be treated as export subsidies, if the producers' organizations concerned are provided with assistance of the government in their establishment and management.

V. SANITARY AND PHYTOSANITARY REGULATIONS AND BARRIERS

1. Our understanding is that Annex II of the Chairman's text concerning sanitary and phytosanitary regulations and barriers is a summary of the discussions of the Working Group on Sanitary and Phytosanitary Regulations and Barriers, which was drafted by the Chairman on his own responsibility. We commend the Chairman's efforts to prepare it. We believe that, as the draft text refers to in the cover note of Annex II, it is in its entirety meant only to serve as the basis for further work, without prejudice to a final agreement. We consider it appropriate to continue discussions issue by issue in the Working Group using Annex II of the draft text as material for discussion. In the course of the discussion, it is important to co-ordinate, and make necessary adjustments with relevant international expert organizations as well as other negotiating groups such as NG8 and NG13.

2. We wish to reiterate, at this juncture, that the outstanding issues in Annex II on which we have special concerns are: (1) recognition of legitimacy of measures which are more stringent than required by international standards, guidelines or recommendations when appropriate, (2) disciplines on dispute settlement, (3) the terms relating to "acceptable level of sanitary and phytosanitary protection", and (4) the extent of obligations to which national government is responsible for the measures of sub-national government.

ANNEX

Clarification of Japan's Position on Internal Support,
Border Protection and Export Competition

Japan, as the world's largest net importer of agricultural products, has positively participated in the work to make a framework for a fair and stable trading system in agricultural products. Japan has made efforts to improve market access as a major importing country, and as well has made great efforts to stabilize international trade in agricultural products by implementing production control, and streamlining domestic agriculture without disturbing the world market through export subsidies.

We think that our efforts mentioned above should be fully appreciated in the course of negotiations. In this context, Japan's position is clarified below, in an effort to meet the objective of this negotiation, namely, bringing more discipline and predictability to world agricultural trade.

I. INTERNAL SUPPORT POLICIES

1. Basic position

(1) The internal support policy for agriculture is implemented in each contracting party for the sound development of its national agriculture under the respective economic and social conditions backed by its history.

Therefore, it is imperative to establish disciplines on internal support policies for forming the framework of a fair and stable agricultural trading system, taking fully into account each country's situation, especially, the difference between the conditions of importing countries and those of exporting countries.

In light of this, it is not appropriate to implement the across-the-board reductions of internal support, which differ from country to country, without taking due account of the conditions mentioned above.

(2) One of the main background points against the Uruguay Round is world-wide surplus of agricultural products and excessive export competition. Therefore, we consider that it is not appropriate to apply to the importing countries the discipline intended to reduce budgetary expenditure for agricultural policies in the exporting countries.

(3) The internal support policy for agriculture is implemented in each contracting party not only for the sound development of its national agricultural production but also for food security, preservation of land and environment, employment, sustenance of regional society and so forth, which are closely related to multifaceted functions of agriculture. Therefore, internal support policies for agriculture should be clearly distinguished from export subsidies which are inherently most trade-distorting.

(4) Japan, as an importing country, will participate in the negotiation on the discipline on internal support, on the assumption that an agreement is reached for the eventual elimination of export subsidies.

2. Classification of internal support policies

(1) With regard to internal support policies, recent discussion has been focused on the criteria of policy categories. Japan does not consider that it is feasible to eliminate internal support in the light of multifaceted functions of agriculture. Accordingly, we do not think any internal support policies should fall under a prohibited category (so-called "red" category). From this point of view, we welcome the recent discussion that internal support policies should be classified into two categories, namely, policies to be permitted (so-called "green" category) and policies to be disciplined (so-called "amber" category).

(2) Two approaches have been proposed for classifying internal support policies into "amber" category and "green" category. One is to first identify "green" policies, putting the rest of the policies into "amber" category. The other is to first identify "amber" policies, putting the rest of the policies into "green" category.

We think that the former approach would give rise to extreme difficulties since the agricultural situation and policies as well as the composition of the agricultural budget differ from country to country, hence not feasible.

Furthermore, when we recall the Mid-Term Review Agreement which states that commitments should be made on those policies which directly and indirectly affect agricultural trade, it is reasonable to adopt the approach of first identifying the scope of policies to be disciplined ("amber" category).

(3) It is appropriate to bring only trade-distorting policies under the disciplines after examining whether the internal support policy in question is trade-distortive or not.

In order to examine whether policies applied to the product are trade-distortive, it may also become necessary to first determine product coverage.

In any case, classification of internal support policies should be made, taking into account multifaceted rôles policies play.

3. Policies to be disciplined

(1) Japan considers that "amber" category, subject to reduction using AMS, consists of market price support and deficiency payment.

(2) However, it should be kept in mind that some participants have proposed dividing the "amber" policies into two sub-categories according to the degree of trade-distorting effects.

For example, there may be an idea of dividing the "amber" policies into the two, namely, "pure amber" and "yellow green".

Policies which fall under "pure amber" could be those which directly affect production of specific agricultural products (i.e. market price support policies excluding those described in 4(2)(iii) below) and which aim at directly increasing farm income from specific agricultural products (i.e. deficiency payments excluding those described in 4(2)(iii) below).

Policies which fall under the "yellow green" category could be, for example, those which are product-specific with minimal trade-distorting effect. Further examination is needed on this matter.

Discipline for "pure amber" policies should be different from that for "yellow green" policies. The former could be reduced using AMS on a product or a product-sector basis, and the latter could be monitored using AMS.

(3) Our idea on the classification of "amber" policies is described above. Effects of "amber" policies should be calculated and aggregated on a product or a product-sector basis as appropriate elements of AMS. In other words, we do not believe that the policies classified as "pure amber" should be in themselves subject to reduction commitment. More specifically, the commitments should be made on AMS itself, and the reduction of the AMS could be implemented by reduction of border protection, internal support or a combination of both.

Furthermore, the following should be ensured for the reduction using AMS:

- (a) Reduction of AMS should be made in real terms, not in nominal terms, in order to avoid the influence by exogenous factors such as inflation.
- (b) Import ratios should be taken into account in reducing AMS.
- (c) Flexibility on the degree and pace of the AMS reductions should be allowed, depending on the specific situations surrounding each product or product sector.
- (d) Credit should be given to the measures which contributed to reduction of support and protection since 1986, the year of the Punta del Este Declaration.

4. Policies to be permitted

(1) It appears that the following policies are commonly recognized as policies to be permitted:

- (a) policies for preservation of land and environment;

- (b) policies for disaster assistance (including disaster relief and agricultural insurance);
- (c) general services, including research and development, dissemination and training, inspection, pest and disease control;
- (d) policies for the purpose of stockpiling;
- (e) policies related to marketing, including collection and provision of information, inspection and grading, expansion of consumption;
- (f) certain policies for producers, including programmes promoting social welfare as one of the objectives such as pension plans and programmes for less-favoured areas; and
- (g) domestic food aid.

(2) However, Japan considers, as noted above, that policies to be permitted are those other than the policies to be disciplined which should be narrowly defined. Policies contributing to the multifaceted functions of agriculture should not be prejudged, hence we cannot go along with the idea that policies to be permitted should be limited to those listed in (a) through (g).

Some examples of policies to be included in the "green" category in addition to policies listed in (a) through (g) are the following:

- (i) Programmes (including loan) aimed at agricultural structural/infrastructural improvement and land improvement should be categorized as "green" since the main policy objective of these is to improve unfavourable natural conditions such as steep-sloped land and economic conditions such as land utilization, and since their trade-distorting effects are minimal.
- (ii) Programmes aimed at modernization and rationalization of production should be categorized as "green" since their objective is to narrow the gap between domestic and international prices by reducing production costs and since they are expected to lead to overall reduction of support and protection, which is in conformity with the long-term objective of agricultural negotiations.
- (iii) Subsidies for supply control including diversion payments or subsidies on a temporary basis for carrying out trade liberalization measures (including market price support and

* Agricultural insurance is an insurance scheme intended to compensate for the losses of crops, production facilities and livestock which were caused by bona fide disaster.

deficiency payments) should be categorized as "green" because they are necessary to avoid a surplus situation which is a negative factor for trade, or to improve market access.

(iv) As to input subsidies, it is necessary to examine which "inputs" are trade-distortive. Generally, input subsidies of Japan are not for direct assistance to specific products but for assistance to modernize fixed capital necessary to improve the agricultural structure, not to provide assistance for current inputs such as fertilizers and agricultural chemicals. In light of this, they should be categorized as "green".

(v) Marketing cost reduction subsidies are provided for the programmes aimed at rationalization and modernization of the agricultural marketing system such as integration and maintenance of market facilities, and not intended to expand agricultural production. Therefore, they are not trade-restrictive, but will rather contribute to improved market access. In light of this, they should be categorized as "green".

(3) Policies categorized as "green" should not be subject to any discipline including monitoring.

5. Product coverage of AMS

Thirteen products for which PSE has been calculated by OECD could be a basis for examination of the product coverage of AMS.

II. BORDER PROTECTION

1. Basic foodstuffs and Article XI:2(c)(i)

(1) Basic foodstuffs

With regard to basic foodstuffs, it is necessary to enable contracting parties to take border adjustment measures necessary to maintain its required domestic production level for food security considerations, provided that the conditions and requirements stipulated in Japan's proposal are met.

(2) Article XI:2(c)(i)

With regard to Article XI:2(c)(i), review and clarification of the conditions and requirements for its application are needed in order to make it more operationally effective, taking into account current agricultural practices in trade. (See Attachment)

2. Tariffication

(1) Tariffication has been discussed mainly based on the proposals of the United States and the Cairns Group. We wish to stress that it is difficult

to apply tariffication to basic foodstuffs and products subject to quantitative import restrictions consistent with GATT rules.

For the basic foodstuffs, the maintenance of the required domestic production level is necessary. Also for those products subject to quantitative-import restrictions consistent with GATT rules, ensuring effectiveness of production control on the domestic like products and stability of supply and demand thereof is required.

In both cases, it is difficult to subject these products to tariffication since border measures for these products should be envisaged in quantitative perspective, because of the following reasoning:

- (i) The level of access for a product under Article XI:2(c)(i) is to be established as a certain ratio of the domestic production of the same product. On the other hand, the amount of tariff quota under the tariffication scheme can be insulated from the quantity of domestic production. In order to ensure effectiveness of domestic production control, import restrictions envisaged under Article XI:2(c)(i) cannot be replaced by tariff measures.
 - (ii) Since the required domestic production level for basic foodstuffs has to be maintained, we cannot subscribe to the argument that special consideration could be given in the treatment of tariff equivalents and tariff quotas therefor in tariffication process.
- (2) Without prejudice to our position on tariffication, the following are our views on technical aspects relating to tariffication:
- (i) tariff equivalents should be established so as to reflect actual price gaps between internal prices and external prices, which should not be subject to any ceiling;
 - (ii) in reducing tariff equivalents and expanding tariff quotas, due account should be given to fundamental production conditions of each country, supply/demand situation of the product in each country as well as specific situations for the product including import trends;
 - (iii) a certain adjustment mechanism should be built in, so as to reflect fluctuations in import prices;
 - (iv) a special safeguard scheme should be established.

III. EXPORT COMPETITION

1. Phase-out of export subsidies

Any agreement coming out from the negotiations on agriculture should be a comprehensive package including internal support, border protection

and export competition. It is difficult for Japan to accept any agreement on reduction of internal support and border protection without an agreement on phase-out of export subsidies which is most trade-distortive.

5. Definition of export subsidies

(1) With regard to the definition of export subsidies, we are of the view that any form of subsidy, granted either directly or indirectly, on the export of any agricultural product which results in the sale of such product for export at a price lower than the comparable price charged for the like product to buyers in the domestic market of the exporting country should be regarded as an export subsidy.

(2) Therefore deficiency payments provided to exported products should be regarded as export subsidies as long as they meet the above-mentioned conditions.

(3) Concerning producer-financed export subsidies including those to which no government expenditure is supplied, Japan considers that they should be regarded as export subsidies, if the producer organizations concerned are provided with assistance from the government in their establishment and management.

ATTACHMENT

Conditions and Requirements for the Use of Article XI:2(c)(i)

1. Japan already tabled its proposal for the purpose of reviewing and clarifying the conditions and requirements for the use of Article XI:2(c)(i). Our proposal is based on the recognition of the following backgrounds:

- (1) There are inconsistencies among Panel Reports on the interpretation of the conditions and requirements for the use of Article XI:2(c)(i). This has left the applicability of this Article ambiguous.
- (2) As was indicated by a Panel Report, certain conditions and requirements no longer match present agricultural trading practices and technological innovations which have been made since the formation of the GATT.

Our proposal is not intended to expand the scope of the application of Article XI:2(c)(i) nor create a loophole. Rather, it is intended, from the viewpoint of stabilizing international agricultural trade, to streamline and optimize each nation's system of agricultural import based on this Article.

We would like to stress that the approach we envisage is directed to "the establishment of strengthened and more operationally-effective GATT rules and disciplines" and is in line with the long-term objective of the Uruguay Round agricultural negotiations.

2. Article XI:2(c)(i) is provided for in order to ensure effectiveness of government measures restricting domestic production, in light of special characteristics of agriculture that production is affected greatly by natural conditions and that farmers in many countries are generally large in number with small-scaled operations and difficult to be organized. In other words, the rôle of the Article is to stipulate the means by which each country can appropriately deal with inevitable agricultural over-production which would otherwise occur owing to the special characteristics of agriculture as stated above. Therefore, disclaiming such means as production control which have been already established in the GATT would rather make agricultural reform more difficult. For these reasons, the assertion to eliminate this Article is unacceptable.

3. Based on the above, the following is an elaboration of the Japanese proposal.

(1) Effectiveness of supply control

Article XI:2(c)(i) permits import restrictions on any agricultural or fisheries product, imported in any form, necessary for the enforcement of

governmental measures which operate to restrict the quantities of the like domestic product permitted to be marketed or produced, or if there is no substantial domestic production of the like product, of a domestic product for which the imported product can be directly substituted.

As indicated in the previous Panel Reports, what matters is whether or not the quantity of the domestic product in question permitted to be marketed or produced is being restricted effectively. As long as the effectiveness of supply control of a domestic product is ensured, the condition for invoking this Article would be practically fulfilled, whether or not the measures in question are to directly restrict the quantity of production, and likewise whether or not they are based on legislation.

On the other hand, should such governmental measures, such as acreage reduction, not result in restriction of domestic production of the commodity concerned, import restriction on that commodity could not be permitted on a GATT-legal basis, since these measures are not being taken effectively.

(2) Like product

With respect to the qualification for the "like product" category for processed products, we find plural requirements stipulated in the current GATT instrument. However, they are far from being appropriate in view of current practices of agricultural trade.

Moreover, there are inconsistencies among Panel Reports on the interpretation of the conditions and requirements for the use of Article XI:2(c)(i). Also, a certain Panel raised doubts as to the appropriateness of some of these conditions and requirements.

We note that Canada, recognizing the need to identify the scope of qualified processed products in relation to a fresh product under domestic supply control, has proposed that an agreed list of designated processed products be defined and that a negotiated minimum percentage by dry weight of the fresh product under domestic supply control be established.

Japan has proposed that processed products which are "practically identical" with fresh products under domestic production control in international trade be regarded as the like product category.

While we note that the interpretative note to Article XI does signify that qualified "like products" in the processed product category cover "the same products when in an early stage of processing and still perishable, which compete directly with the fresh product and if freely imported would tend to make the restriction on the fresh product ineffective", in our interpretation, other types of processed products than are prescribed in the interpretative note are not excluded from what should be regarded as "practically identical".

From this viewpoint, we would like to propose adding the requirement of "reversibility" as a new qualification for meeting the "practically

identical" criterion. That is to say, as long as the processed product in question is reversible to fresh products and as long as the domestic production of that fresh product is being restricted effectively, that processed product should be regarded as the "like product", whether or not it is in an early stage of processing or still perishable.

With regard to the Canadian second alternative of demarcating the processed products to be qualified for invoking Article XI:2(c)(i), we would like to suggest that one viable method of defining a criterion for a limit of percentage of fresh products under production control be to limit the qualified processing to "extraction of the main ingredient or separation/condensation of fresh products under production control".