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## WTO Negotiations and Other Agricultural Trade Issues in Japan

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### 1. Introduction

The WTO Ministerial meetings held at Cancun, Mexico, in September 2003 failed to agree on a Ministerial Declaration that would have given much needed momentum to the Doha Development Agenda (or Round). The direct reason why the Cancun Ministerial collapsed was the failure to launch negotiations on Singapore issues that are controversial between developed and developing countries. But it is commonly recognized that the dominant and the most critical issue at Cancun was agriculture.

Prior to the Cancun Ministerial, Carlos Pérez del Castillo, chairman of the WTO General Council, included an agricultural modality (framework) in the draft for the Ministerial Declaration that was to be adopted at the WTO Ministerial Conference. This modality was based on the compromise draft agreed to between the United States and the European Union (EU) in August. However, the dissatisfaction of several countries, beginning with the developing nations, led to an effective abandonment of the idea of reaching an agreement at this Ministerial Declaration, resulting in the general postponement of the matter.

This paper will attempt first to examine the background of this situation then discuss the role of Japan to break the deadlock for the negotiations and other agricultural trade issues in Japan.

### 2. Review of the current agricultural negotiations

Agricultural negotiations began in 2000, before the start of the new round at Doha, Qatar, as a built-in agenda item (i.e., one approved in the previous round as a matter for negotiation), together with the service sector issue. The negotiations were to establish a modality by the

end of March 2003.

A modality refers to a basis for a pact that must be agreed upon. Establishment of a modality indicates the conclusion of actual negotiations for determining methods for tariff reductions, figures that will form the basis for such reductions, and other matters. Although Chairman Harbinson of the Special Session of the WTO Committee on Agriculture presented the first draft for this modality in February of this year and a revised version in March, these could not be finalized because they were opposed both by exporter nations, which seek major reductions in trade protections, and by importer nations, which are trying to keep such reductions to a minimum.

The pillars of the agricultural negotiations are the following three areas: market access, export competition, and domestic support. Each of the major nations made a case in each of these areas. Let's review the debate concerning market access, a matter in which food importing countries like Japan have a significant stake.

First, the United States and the Cairns Group nations, such as Australia, made an appeal for a major opening of markets, insisting on the Swiss formula of tariff reductions, in which the higher the tariff, the larger the reduction. Specifically, they proposed that tariffs be reduced over five years to the point where all tariffs would be less than 25%. Thereafter, all tariffs would be reduced to zero by a certain deadline. On the other hand, the EU and Japan insisted on maintaining a balance between trade and non-trade concerns, proposing reductions of no less than 15% and averaging 36%, similar to the previous Uruguay Round approach.

The tariff reduction methods presented by Chairman Harbinson included these compromise proposals. Tariffs currently exceeding 90% would be reduced by a minimum of 45% and by 60% on average; tariffs in the 15% - 90% range would be reduced by a minimum of 35% and an average of 50%; and tariffs of 15% or less would be reduced by a minimum of 25% and an average of 40%. However, these figures were given as examples only.

Although this is not the Swiss formula, which would keep all tariffs below a certain level, it is an attempt to achieve equality by applying higher rates of reduction to goods with high tariffs, instead of bundling all goods together as under the Uruguay Round approach. It has incorporated an insistence on the reduction of tariff peaks (prominently high tariffs), one of the points of contention in these negotiations.

This Harbinson draft was opposed by exporter nations such as the United States and the Cairns Group nations, who deemed it inadequate. It was also opposed by Japan and the EU, who deemed it too extreme and feared that it would lead to destruction of their domestic agricultural industries. Then, in August, the United States and the EU, which had formerly been in polar opposition, sought a new compromise draft and agreed upon a joint draft. Based on this draft, General Council Chairman Castillo incorporated thinking on an agricultural modality into the draft for the Cancun Ministerial Declaration. The Declaration draft calls for adopting one of the following tariff reduction methods: the Uruguay Round approach, the Swiss formula, or removal of tariffs. In other words, tariffs would be classified into the following three groups and reduced accordingly: (1) tariffs to be reduced by setting minimal and average reduction rates; (2) tariffs to be reduced to below a fixed uniform level; and (3) tariffs to be removed.

In addition, maximum tariff levels would be set, and tariffs exceeding these levels would be reduced to the maximum levels. If tariffs were not reduced, measures for expansion of imports (such as expansion of the tariff quota limit) would be adopted for the relevant goods or other goods. This is a proposed framework only and does not include figures such as distribution ratios of goods to each group and rates of tariff reduction.

However, many nations expressed dissatisfaction with this draft. Developing countries such as India and Brazil were particularly outspoken. First of all, this reaction occurred because special measures for developing nations were not as clear as in the Harbinson draft, and reductions in protection of developed nations, which would be likely to lead to expansion of exports from developing nations, were insufficient. At the same time, these countries were markedly suspicious of the negotiations, which advanced under the guidance of Europe and the United States.

### 3. Some issues interested among Asian countries

At the stage of submitting proposals for negotiations, Japan proposed the importance of non-trade concerns such as multi-functionality and food security and insisted flexibility in tariff reduction. EU proposed a gradual liberalization along the UR linear reduction formula, which both Korea and Japan support. Importing economies prefer to maintain the current

framework of amber, blue and green box but agree on further reduction of AMS but at a tolerable speed. Japan agrees on gradual reduction of export subsidy but at the same time stresses the need to discipline the export controls and suggest their tariffication.

Korea proposed that it should be allowed to apply the developing country provisions for the next ten years during which it will make a full-fledged effort for agricultural reform. China insisted more special and differential treatments to be given to developing economies with a view to ensure food security and increasing income and work opportunities for low income people and resource-poor farmers in the rural areas. China also emphasizes that it has made substantive tariff reduction commitments in its accession negotiation and that the new WTO members should be exempted from making further tariff reduction. Both Thailand and China argue that, while developed economies utilize both border measures and domestic support to help domestic production, developing countries cannot afford to resort to domestic support due to budgetary constraints and still require special safeguards or other border restriction. Thailand complains that ‘unrealistically’ stringent SPS standards by some developed countries tend to impede its export of agricultural products.

#### (1) Multi-functionality of Agriculture

The concrete contents of multi-functionality, which Japan insists to take into account in the negotiations, vary according to the history and national conditions of each country. The following functions may be considered as major elements. (1) Land conservation including preventing floods, preventing soil erosion, and preventing landslides, (2) Fostering of water resource, (3) Preservation of the natural environment including management of organic waste, resolution and removal of polluted substances, air purification, and maintenance of bio-diversity and preservation of wildlife habit, (4) Formation of scenic landscape, (5) Transmitting culture, (6) Rural amenity, and (7) Maintaining and revitalizing the rural community. Most functions are so-called externalities created by agricultural activities.

Recognition of multi-functionality of agriculture itself is an important progress in evaluation of agricultural activities, especially from an environmental viewpoint. But what needs to be asked is how to maximize the net benefits from the multi-functions of agriculture with consideration to the costs of maintaining agricultural operations. We have to estimate the

marginal loss (gain) of the social value caused by multi-functionality as agricultural production shrinks (expands), if multi-functionality is to be placed at the center of the proposal for the agricultural trade negotiations.

However, the relationship of multi-functionality with agricultural production is not straightforward. There are many alternative levels of production and many combinations of products to achieve a certain level of social value created by agricultural activities. WTO negotiations are to discuss the levels of support and protection that affect trade and production. Thus, the quantitative assessment of multi-functionality in terms of agricultural production is necessary. However, multi-functions of agriculture are not the targets that agricultural production directly aims to hit. They are not necessarily efficient to fulfill the social needs. These complexity and ambiguity of the relationship of multi-functionality with agricultural production make it difficult to give the quantitative assessment and the scientific evidence of multi-functionality. Instead, countries can directly subsidize, via the Green Box, conservation, water, environment, culture and other multi-functional values of rural area.

## (2) Food Security and Safety

Food security, which is also an issue to be considered as a non-trade concern, is defined as a situation in which all households have both physical and economic access to adequate food for all members and where households are not at risk of losing such access. We have two options on how to achieve food security at the national level. One is the pursuit of food self-sufficiency and the other is food self-reliance. Food self-sufficiency means meeting food needs as far as possible from domestic supplies and minimizing food imports. But here is a risk relying predominantly on domestic production. On the other hand, food self-reliance means maintaining a level of domestic production but relying also on international trade to meet the food needs of the population. Which strategy a county should take depends on the benefits and risks of relying on international trade.

Food security is an important issue in countries whose food self-sufficiency rates are very low. In Japan, the food self-sufficiency ratio has dropped to 40 percent on a calorie basis, which is the lowest among the developed counties. Some people are very much concerned about this low level of self- sufficiency from the food security viewpoint. Ensuring food

security is one of the basic roles that the government should play. MAFF has set a target level of food self-sufficiency ratio at 45% as a guideline for public efforts to raise the food self-sufficiency ratio to that level by 2010.

Imports and stockpiling as well as domestic production are acknowledged as policy measures for food security. However, excessive dependence on imports is considered to have 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 also questioned because it is only a short-time measure to the loss in quality and the cost of stockpiled food.

Policy measures for food security differ by what types of crises are considered. The predictions on future world market conditions depend on the assumptions and forecasts of exogenous variables. It is important to prepare policy measures at a minimum social cost for possible different food security risks. In addition, the volatility of the world food market prices arises as a result of the intervention of governments endeavoring to insulate domestic markets from international trade, which makes the world market smaller than it would be without intervention. If all domestic markets are integrated to international trade, poor or rich harvests in some areas can be easily absorbed into the world market. Therefore, limiting trade for food security purposes is not the correct policy measure to achieve its purpose.

Full regard should be given to consumers' concern about food safety as well as prices and availability (security). Exporters should cooperate fully with importers to eliminate pesticide residues and causes of disease in foodstuff. However, it must be warned that too strict a standard and testing that is tend to be adopted under the name of safety will impede food trade. WTO's Agreement on Sanitary and Phyto-sanitary Standards (SPS) sets an international standard and recommends their SPS measures well-founded in sound science and based on risk assessment. Importing economies should also be encouraged to assist exporters, especially of developing economies, to enhance their capacity to comply with the SPS measures.

### (3) Tariff peaks

One of the issues discussed with importance in the current negotiations is to reduce tariff peaks. High tariffs for agricultural imports are not unique to Korea or Japan. Tariff peaks in agriculture are commonly observed in developed countries. Table 1 shows the number of tariff peaks in terms of tariff lines for the EU, Japan, and the U.S. Tariff peaks defined here as tariff rates of 20 percent or more are most common in dairy products, cereals (not in the U.S.), sugar, and food industry (processed) products. For all agricultural and fisheries products taken together, the proportion of tariff lines for which duties exceed 20 percent is about one quarter of all tariff lines for both the EC and Japan and about one tenth for the United States.

Problems relating to tariffication are not only tariff peaks but also tariff rate quotas (TRQ). For those commodities whose border measures were converted from non-tariffs to tariffs, TRQ were adopted. The quantities to which lower tariffs are applied are mostly the base period imports under the previous Imports Quotas (IQ). The secondary tariffs were set at very high levels as TEs. If TEs are prohibitively high, there are no imports beyond TRQ. Thus, TRQ work the same as previous IQ.

Table 2 indicates the differences between within-quota tariffs and secondary tariffs on the average for several countries. Japan, Canada, Norway, and Korea have extremely high secondary tariffs applied to newly tariffied products. Meanwhile, Norway has high tariffs even within TRQ. With these high secondary tariffs applied to imports beyond TRQ, tariffication has not fundamentally changed the nature of the previously existing non-tariff border measures. This is why exporting countries, particularly developing countries, require reduction of tariff peaks in the negotiations.

### 4. New dimensions of agricultural negotiations

The previous Uruguay Round resulted in the conclusion of the two-party, Blair House accord between the United States and the EU. However, this was merely an arrangement composed of measures that would benefit the two parties. Other member nations, particularly developing nations, felt strongly that they had been left out of the negotiations. In fact, many expressed dissatisfaction with the Uruguay Round Agreement, claiming developing nations

enjoy no benefit from it. The negotiations were once again concluded by Europe and the United States, but in the current situation, with three of four WTO members being developing nations, it seems clear that the same method of reaching an agreement will not work.

In fact, the traditional alliances of agricultural producers were transformed in reaction to the US-EU proposal in August 2003 and the counterproposal from developing countries later known as G-22 countries. The emergence of the G-22 group, led by Brazil, China, and India, has complicated negotiations by polarizing the debate into a North-South debate on the most sensitive issue in the Round that is agriculture.

Among the major objectives, the G-22 group seeks (i) further reduction of the blue box domestic support, (ii) reduction of export subsidies by including export credit programs, and (iii) elimination of the extension of the peace clause. The group intended to engage in serious negotiations and was disappointed by the collapse of the talks in Cancun before discussion on agriculture took place. A lesson learned at Cancun is the necessity of strong will and leadership to negotiate.

Another dimension that appeared important at Cancun is the so-called cotton subsidies initiative, in which four West African producing countries pleaded to reduce and eliminate cotton subsidies, particularly in the US, EU, and China who are heavy subsidizers of cotton. The initiative itself was outside the context of agricultural negotiations but drew attention to the plight of some of the poorest WTO Members. The Western African countries submitted a draft text to WTO Director-General Supachai, who coordinated the negotiations on the cotton initiative.

The second Ministerial draft, however, reflects much of the language of the US who had resisted inclusion of the cotton initiative in the draft. The text suggested that the African countries stop growing cotton rather than compel the subsidizing countries to address the cause of the problem. This made the Western African countries angered and anti-trade NGOs prodded, and then led the African Caribbean Pacific (APC) group, who supported the cotton initiative, to the refusal of negotiations on Singapore issues. Here again it appears that the negotiations lack an appropriate coordinator to bridge the North and South countries.

## 5. Role of Japan: Concluding remarks



Major players in WTO Members must take groups like the G22 and ACP seriously. The draft on agriculture that is based on the US-EU proposal is at a standstill in the face of opposition from developing nations. This is an excellent chance for Japan to take its place in breaking the deadlock of the negotiations. The conflicting issues between the US-EU and developing countries are export subsidies and domestic supports playing as export subsidies, which are not at stakes of Japan. Japan must play a positive role to bridge them.

At present, the world is dividing into trading blocks, such as those formed by regional free trade agreements (FTAs), a development that threatens to weaken the WTO structure. Maintaining the WTO structure and promoting free trade are the lifelines of the Japanese economy. In addition, expectations are high for Japan to make this new round a success.

To begin with, the WTO is an international institution whose mission is to achieve economic prosperity through free trade. The introduction to the Agreement on Agriculture includes the following as a long-term objective: establishment of “a fair and market-oriented agricultural trading system.” Article 20 of the Agreement on Agriculture states that the objective of agricultural negotiations is the continuation of “fundamental reforms” through reductions in “support and protection.” It is vital for Japan to link agricultural negotiations to structural reforms in agriculture.

Today, structural reforms resulting in a single management structure overseeing all the agricultural land of each city, town, and village are necessary for Japanese agriculture to survive in the face of international competition. Japan must consider various measures to promote the investment of capital from outside the field of agriculture and the accumulation of new human capital. Through market competition, production resources must be promptly concentrated in efficient farms and farm businesses, through various developments in management, instead of adherence to farming by family-farms.

It is universally recognized that the critical issue in the Round is agriculture and that if there is no agreement on this there will be none on any other of the controversial subjects. If agricultural negotiations end in failure and the WTO weakened or rendered impotent, the damage not only to Japan’s economy but to the world economy will be great, with costs beyond measure.

Table 1. Tariff peaks by agricultural product groups (EC, Japan and the US)<sup>1/</sup>

Product group <sup>2/</sup>	Number of tariff lines within a tariff range				No. of peaks	Share in total %
	Total	20-29 %	30-99 %	>100 %		
<u>European Community (EC)</u>						
Meat, live animal (1-2)	351	68	79	14	161	46
Fish and crustaceans (3)	373	45	0	0	45	12
Dairy products (4)	197	21	77	9	107	54
Fruit and vegetables (7-8)	407	10	5	1	16	4
Cereals, flours etc. (10-11)	174	29	75	0	104	60
Veg.oils,fats, oilseeds (12,15)	211	0	8	2	10	5
Canned & prep.meat,fish(16)	105	17	8	0	25	24
Sugar, cocoa & prep. (17,18)	75	34	6	0	40	53
Prepared fruit,vegetables (20)	310	70	39	1	110	35
Other food ind. prod(19,21)	90	27	8	0	35	39
Beverages & tobacco (22,24)	202	9	15	2	26	13
Other agr.prod(5-6,13-14,23)	231	4	14	4	22	10
All agr., fish. Products(1-24)	2,726	343	334	33	701	26
<u>Japan</u>						
Meat, live animal (1-2)	136	3	19	7	29	21
Fish and crustaceans (3)	189	0	0	0	0	0
Dairy products (4)	146	45	57	22	122	84
Fruit and vegetables (7-8)	209	1	2	7	10	5
Cereals, flours etc. (10-11)	132	37	24	10	71	54
Veg.oils,fats, oilseeds (12,15)	161	1	1	3	5	3
Canned & prep.meat,fish(16)	101	21	3	3	27	27
Sugar, cocoa & prep. (17,18)	80	26	19	6	51	64
Prepared fruit,vegetables (20)	231	52	5	2	59	26
Other food ind. prod(19,21)	232	113	2	15	130	56
Beverages & tobacco (22,24)	65	8	0	0	8	12
Other agr.prod(5-6,13-14,23)	208	0	0	0	0	0
All agr., fish. Products(1-24)	1,890	307	132	75	514	27
<u>United States</u>						
Meat, live animal (1-2)	116	6	0	0	6	5
Fish and crustaceans (3)	114	0	0	0	0	0
Dairy products (4)	251	29	58	9	96	38
Fruit and vegetables (7-8)	269	13	0	0	13	5
Cereals, flours etc. (10-11)	59	0	0	0	0	0
Veg.oils,fats, oilseeds (12,15)	124	0	2	2	4	3
Canned & prep.meat,fish(16)	90	1	1	0	2	2
Sugar, cocoa & prep. (17,18)	144	6	13	2	21	15
Prepared fruit,vegetables (20)	169	3	2	3	8	5
Other food ind. prod(19,21)	156	11	18	2	31	20
Beverages & tobacco (22,24)	126	1	3	8	12	10
Other agr.prod(5-6,13-14,23)	161	0	2	0	2	1

All agr., fish. products(1-24)	1,779	70	99	26	195	11
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<sup>1/</sup> Tariff peaks are defined as tariff rates that are 20 percent or more. All are MFN tariffs.

<sup>2/</sup> The numbers within the parenthesis in the product are SITC numbers.

Source: FAO compilation based on data provided in UNCTAD/WTO (1997), *The post-UR tariff environment for developing countries*, TD/B/COM.1/14, tables 1-3.

Table 2. Average tariff rates applied to agricultural imports for selected countries.

	All Agricultural products	Products newly tariffied		All Products
		Within TRQ	Secondary	
		Japan	12 %	
U.S.A.	6 %	10 %	29 %	4 %
E U	20 %	8 %	45 %	7 %
Canada	5 %	8 %	203 %	5 %
Australia	3 %	7 %	27 %	10 %
Switzerland	51 %	36 %	81 %	9 %
Norway	124 %	216 %	239 %	26 %
Korea	62 %	21 %	366 %	18 %
Thailand	35 %	31 %	91 %	29 %

Source: OECD, Review of Tariffs Synthesis Report, 1999