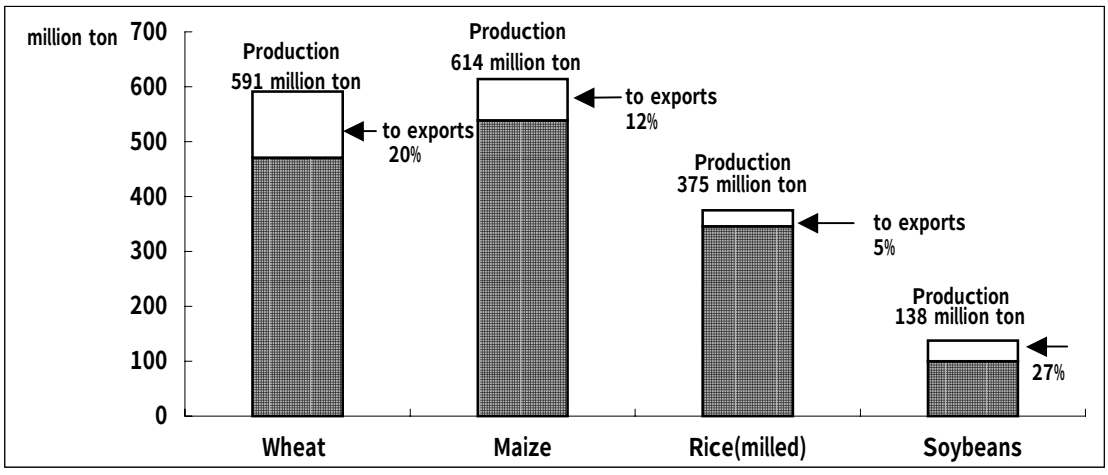
Elaboration of Japan's Negotiating Proposal:
International environment surrounding agricultural trade and food security

(Proposal in December 2000 [G/AG/NG/W/91])
2. ...the instability of international food supply and demand has yet to be eliminated, and a number of countries had no choice but to take additional support measures under such circumstances. These facts reveal the need to further consider reality whereby agriculture cannot be sufficiently managed by market mechanism alone.

Given the nature of agricultural products, which are not suited for storage compared to industrial goods, the structure of agricultural trade can be characterized by the small proportion of exports to the total volume of production. The structure can also be characterized by a small number of exporting countries having a large share in exports of major agricultural products.

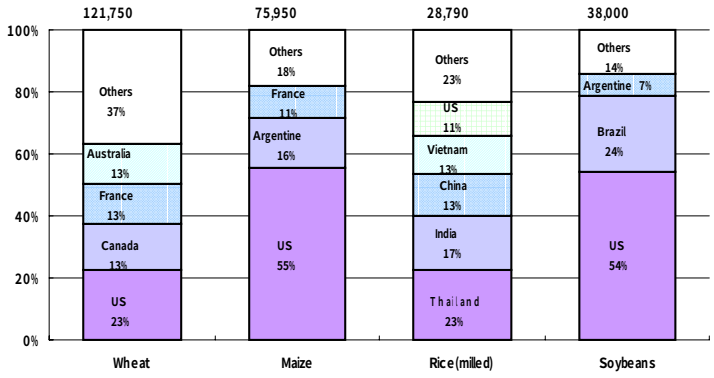
Figure 1. The World major grain production and the share of exports(1998)



Source: FAO "FAOSTAT"

Figure 2. The shares in World grain exports by country (by volume, 1998)

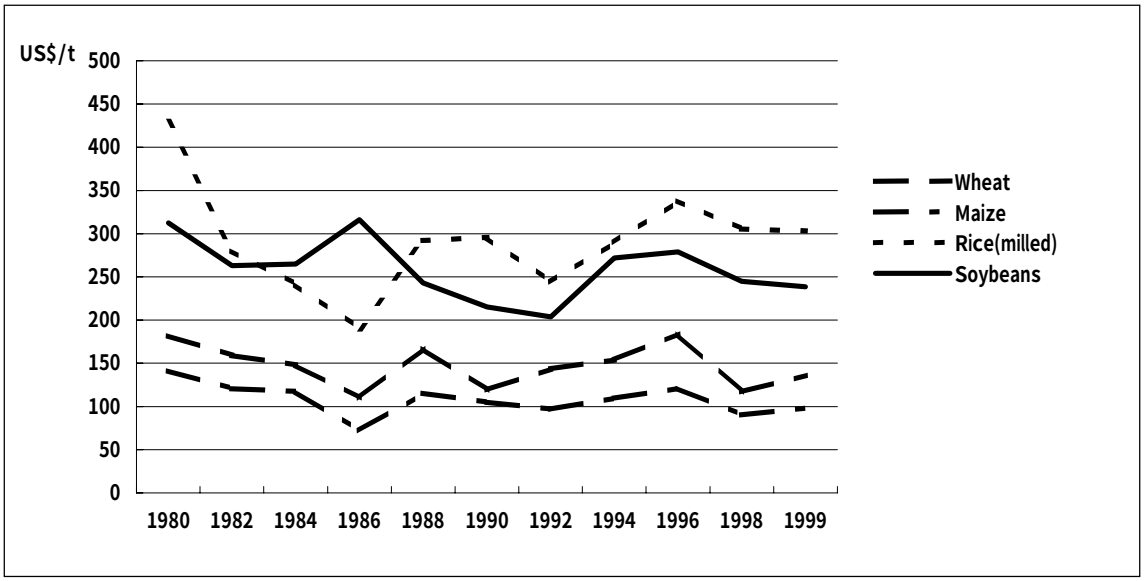
(Unit: thousand tons)



Source: FAO "FAOSTAT"

Supply and demand of agricultural products worldwide remains unstable after the conclusion of the UR agreements, due to the characteristics of agricultural trade mentioned above. While food consumption has been steadily increasing, the volume of production falls short of consumption when the production is affected by elements such as bad weather, production-limiting measures, thus leading to steep rise in prices.

Figure 3. Changes in the world price of grains and others



Source: OECD "Agricultural Commodities Outlook Database 1970-2004"

While the world food supply and demand has an intrinsic characteristics of being unstable, potential factors which may result in tightening the supply and demand balance cannot be denied in the middle and long-term. Some of the potential factors are the following:

(1) increase in the instability of food supply/demand in the short term due to unusual weather such as El Nino;
(2) substantial increase in the world population, especially in developing countries;
(3) increase in the demand for feed grain resulting from economic growth.

○ Increase on the frequency of El Nino

"Warm episodes of El Nino phenomenon have been more frequent, persistent and intense since the mid 1970's compared with the previous 100 years."

Source: IPCC 3rd assessment [a report of the intergovernmental panel on climate change] 2001

Table 1. The term of El Nino occurrence since 1976

76 summer ～ 76/77 winter
82 spring ～ 83 summer
86 autumn ～ 87/88 winter
91 spring ～ 92 summer
93 spring ～ 93 summer
97 spring ～ 98 summer

Source: data from Japan's Meteorological Agency

Table 2. World population prospects (medium fertility variant)

(unit: 100 millions)

	1950	2000	2050 (estimated)	2000→2050
World	25.2	60.6	93.2	32.6
More developed regions	8.1	11.9	11.8	▲ 0.1
Less developed regions	17.1	48.7	81.4	32.7
Africa	2.2	7.9	20.0	12.1
Asia	14.0	36.7	54.3	17.6
Latin America and Caribbean	1.7	5.2	8.1	2.9
Europe	5.5	7.3	6.0	▲ 1.3
North America	1.7	3.1	4.4	1.1
Oceania	0.1	0.3	0.5	0.2

Source: United Nations "World Population Prospects: the 2000 Revision"

Table 3. FAO Prospects for food demand (2050／1995)

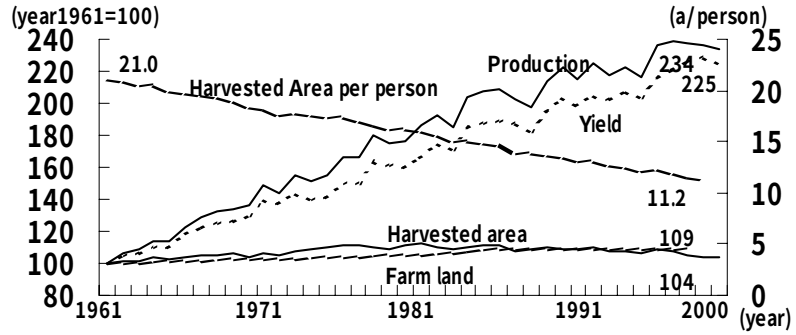
1995=1.00

	Africa	South America	Asia	North America	Developing Countries	Developed Countries	Total
Population Growth	3.14	1.80	1.69	1.31	1.95	1.02	1.76
Changes in eating habits	1.64	1.07	1.38	1.00	1.40	1.00	1.28
Total	5.14	1.92	2.34	1.31	2.74	1.02	2.25

Source: FAO "Food Demand and Population Increase," 1996

The increase in total agricultural production so far has been mainly due to the increase in yield. In recent years, however, the growth rate in yield is on the downward trend.

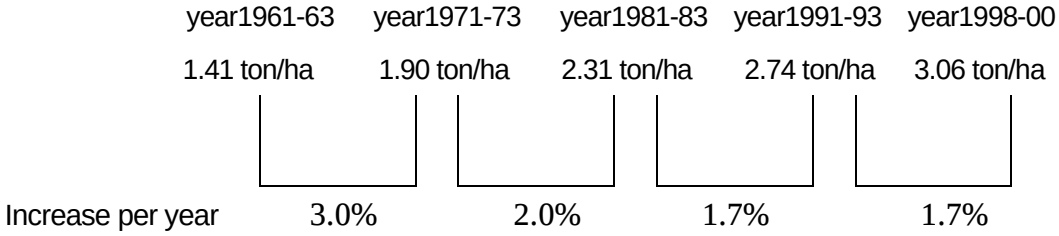
Figure 4. Global trend of production, yield, harvested area and farm land area*



Source: FAO "FAOSTAT"

Note: Products included in this figure are wheat, rice, barley, maize, rye, millet, sorghum, buckwheat and so forth.

Figure 5 Trend of changing yield*



Source: FAO "FAOSTAT"

*note: "yield" means the average of each year grain (refer to the note above) yield.

Moreover, the increase of agricultural land may be constrained by factors such as the following.

(1) environmental problems including soil degradation and desertification;

(2) a possible decrease of agricultural land due to rising sea level resulting from the effect of greenhouse gas

Table 4. Worsening of desertification due to excess grazing, excess timber felling, and salt accumulation.

The areas affected by deserification	About 3,600 million hectares (i.e., 25% of the total land in the world)
The population affected by deserification	About 900 million people (i.e., 17% of the total world population)
Annual increase of desertified land	4.5 to 5.8 million hectares

Source: UNEP Report 1991

Table 5. Impact of greenhouse gas (if human activities will continue as they are)

a) The global average of surface air temperature is projected to increase by 1.4 to 5.8 ℃ by 2100 compared to the temperature in 1990

b) The global average of sea level is projected to be heightened in 2100 by 9 to 88 centimeters compared to the 1990 level

c) The climate change has already been affecting the vulnerable ecosystem, and the further impact such as the following is projected:

(i) The number of people affected by flood will increase by 75-200 million due to a 40 cm rise of the sea level;

(ii) The agricultural production and other economic activities in developing countries will be significantly influenced, and the gap between North and South will be aggravated;

(iii) the destruction of ecosystem and the spread of infectious diseases.

Source: IPCC 3rd assessment [a report of the intergovernmental panel on climate change] 2001

According to the projection made by FAO, developing countries will face significant constraints in expanding the land use for agricultural purpose. FAO also estimates that the target, set at the World Food Summit to halve the population under malnutrition by 2015, may be achieved only in 2030.

FAO estimates that 792 million people in 98 developing countries are not getting food to lead normal, healthy and active lives. Even in the industrialized countries and the countries in transition, the number of undernourished people remains the same: 34 million people. To realise the Summit target that was spurred by the 1996 World Food Summit in Rome, where leaders of 186 countries pledged to reduce the number of hungry people in the world by half (=400 million people) by 2015, the development so far is far from satisfactory.

Unless some additional efforts are made, it is projected that 580 million people will remain under starvation and malnutrition in developing countries still in 2015, and that the World Food Summit target will be achieved only in 2030.

Figure 6 The number of undernourished people in the developing world:
Observed and projected ranges compared with the World Food Summit target

Source: FAO "The state of food insecurity in the world 2000"

(Proposal in December 2000 [G/AG/NG/W/91])
[Background]
1.1 ...(c) For example, while world agricultural trade has increased on the whole, only a limited number of countries have enjoyed the benefit of such expansion.

It is possible to observe a certain trend in the 1990s: net exporting countries of agricultural products have further increased their net exports, while net importing countries have further increased their net imports.

Table 6.

I. Among top 20 countries of net agricultural exports between 1991 and 1994,

a) Countries whose net exports have increased from 1995 to 1998
(17 countries)

US, Australia, Argentine, Brazil, Thailand, New Zealand, Canada, Malaysia, India, Cote d' Ivoire, Hungary, Costa Rica, Chili, Guatemala, Zimbabwe, Ecuador, Kenya

b) Countries whose net exports have decreased from 1995 to 1998
(3 countries)

Columbia, Indonesia, Turkey

II. Among top 20 countries of net agricultural imports between 1991 and 1994,

c) Countries whose net imports have increased from 1995 to 1998
(14 countries)

Japan, Korea, Hong Kong, Switzerland, Egypt, UAE, Norway, Venezuela, Kuwait, Nigeria, Bangladesh, Peru, Morocco, Pakistan

d) The countries whose net imports have decreased from 1995 to 1998
(6 countries)

EC, Mexico, Singapore, Romania, Jordan, Angola

Source: WTO Document G/AG/NG/S/11/Add. 1

(Proposal in December 2000 [G/AG/NG/W/91])

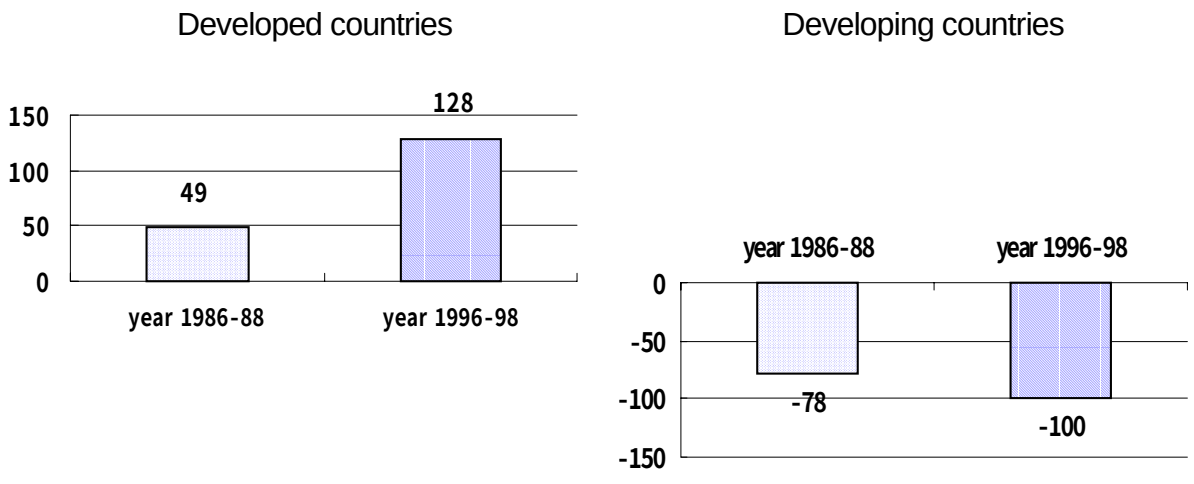
[Background]

(c) ...While the agricultural output in developed countries has increased, causing problems of over-production, food shortage in developing countries has worsened Consequently, the situation surrounding food security in many countries has become more serious.

After the conclusion of the UR agreement, even though the agricultural production has increased in developing countries including in Asia and Africa, the growth in consumption has exceeded the production, thus widening the gap between consumption and production.

In the meantime, the agricultural production in developed countries has increased faster than the consumption, causing the problem of over-production. Under such circumstances, dependence of developing countries on food imports fromdeveloped countries has increased.

Figure 7 Trends in [Production−Consumption] of grains (unit: million tons)



Source: FAO "FAOSTAT"

Developing countries' dependence on food imports from developed countries may further increase, due to the following factors:

(1) The current per capita grain consumption in many developing countries in Asia

and Africa is less than half of the consumption level in developed countries. The future economic growth in developing countries will increase the demand for agricultural products.

(2) The population growth in developing countries will increase the total food demand, while changes in dietary habits resulting from economic growth will further increase per capita grain demand.

Table 7. Trend of per capita grain consumption

(unit: kg/year)

	1986～88 a	1996～98 b	 b/a
Average of World	329	320	0.97
More developed regions	626	572	0.91
Less developed regions	232	248	1.07
(in which)			
Africa	188	196	1.04
Asia *	210	220	1.04

Source: FAO "FAOSTAT"

*note: China, Japan and Asian former USSR are excluded from Asia.

As mentioned above, there are various factors which may tighten the world food supply and demand situation in the middle and long term. Further expansion of agricultural trade which would strengthen the dependence on food imports from developed exporting countries could aggravate food security for a number of developing countries and net-food importing countries.

In order to ensure the food security of developing countries and net-food importing countries, an appropriate policy mix of domestic production, importation and stockholding should be devised. There also should be trade rules and disciplines that would allow each country to pursue such policy combination, and in particular, to place domestic agricultural production as the basis of food supply.

(Proposal in December 2000 [G/AG/NG/W/91])
[Background]
1.1 ...(d) Although many countries are implementing policy reforms in response to the UR agreements in order to reduce the degree of intervention on the agricultural market, and are making a policy shift toward an approach more focused on stable farm management, the recent decline in the price of agricultural products has created new problems and some countries have had no choice but to take additional support measures.

Each country is reforming its agricultural policies, through measures such as reducing the degree of intervention on the agricultural market as well as making policy shift toward an approach more focused on stable farm management.

Examples of agricultural policy reform

Example A

Abolition of the former deficiency payment system under production-limiting programmes, and introduction of the predetermined annual payments for farmers.

Example B

Reduction in administered prices and a raise in direct payment, as well as introducing new and more strict conditions on the eligibility for direct payment.

Example C

Introducing a system where the fund, raised by contributions of producers, central and local governments, is used to compensate the difference between producers' income in the year concerned and the average income over five years. This measure is intended for a case where producers' income falls short of their average income.

Example D

Reconsideration of the former price support policy for main agricultural products, and the introduction of the market-oriented farm management stabilization policy.

From the continued low agricultural products prices, some countries had little choice but to provide additional support to their farmers.

Examples of additional support measures

Example E

Various elements, such as the worldwide surplus of grain, Asian financial crisis, low grain prices due to enhanced export competitivity of some countries, natural disasters, have led a country to provide a series of emergency farm relief programs to assist producers suffering from economic losses.

Example F

To help the producers suffering from low grain prices, a provisional support measure was newly introduced. Compensation is paid to farmers for the difference between their income in the year concerned and their three-year average income, if their income in the year concerned is less than 70% of the average income resulting from such causes as natural disasters.

Besides the lenient provisions on export subsidies and non-transparent operation of export state trading enterprises, there remains other issues that need be addressed in the current Agricultural Agreement; the Agreement lacks disciplines on measures such as export credit that has indirect effect of export enhancing measures. Since these measures, that indirectly enhance exports, have significant influence on agricultural trade and food security of developing countries, it is necessary to establish strengthened disciplines.

(Proposal in December 2000 [G/AG/NG/W/91])

(Annex)

Japan's Proposal Examined from the Viewpoint of the Multifunctionality of Agriculture and Food Security

The concept of the multifunctionality of agriculture and food security is reflected in the following part of this proposal as follows:

1. Market access

Appropriate levels of tariffs and access opportunities should be determined with flexibility, taking into account various elements: securingthe benefits of multifunctionality; ensuring food security; the current situation of production and consumption for each product; international supply and demand; and the progress of domestic agricultural policy reform.

In particular, due consideration should be given to the products which became subject to tariffication as a result of the Uruguay Round, in order to secure the benefits of multifunctionality and to ensure food security in each country.

Special safeguard measures should be maintained.

2. Domestic support

In order to enable each country to promote agricultural policy reform, while giving consideration to securing the benefits of the multifunctionality of agriculture and ensuring food security, the following improvements should be made:

-- requirements for "Green Box" policies should be improved, based on the experiences of implementation;

-- the "Blue Box" policies should be maintained;

-- domestic support level should be determined in a realistic manner

3. Rules and disciplines on exports

Export rules and disciplines should be strengthened, since it is necessary to ensure the stability and predictability of exports in order toensure food security in importing countries.

4. State trading

Export state trading could affect the entire international market of a specific

agricultural product, as well as the food security of importing countries. Therefore, disciplines on export state trading should be clarified in order to improve its transparency and predictability.

5. Consideration for developing countries

Flexibility should be given to developing countries with regard to the disciplines and the levels for border measures and domestic support, taking into full consideration that developing countries put their highest priority on stable food supply.

The idea of a possible framework for international food stockholding should be examined, in order to complement existing bilateral and multilateral food aid schemes and to enable loan of food in the case of temporary shortage.

Each government bears the responsibility of securing the stable food supply for their people. Considering the characteristics of agricultural trade and a number of potential factors that can restrict the future increase of agricultural production, it is obvious that food security cannot be achieved by market forces alone.

No country can achieve its food security only through domestic production, or depending completely on imported food. Each country needs to find an appropriate combination of domestic production, importation and public stockholding to ensure its food security. In order for each country to be able to select such policy mix, there should be a framework that enables countries to maintain a certain level of domestic production, which is not determined solely by factors related to market mechanism such as the level of food production capability. Such framework should encompass not only rules on Green Box, but also other domestic support and border measures. In this regard, it is essential to review relevant rules so that they will be well adapted for the actual circumstance surrounding agriculture, instead of merely tightening rules on domestic support without a clear vision.

In order to maintain stable imports, there should be strengthened disciplines on exports. The importance of improved market access for agricultural exports from developing countries, especially LDCs and NFIDCs, should be properly recognized, as such improvement would enable these countries to enhance their purchasing power on

basic foodstuffs. At the same time, it is also important to bear in mind that the experience obtained from implementing the Uruguay Round Agreement shows that the benefits of market access improvement have been mostly enjoyed by a small number of major exporting countries, and not by a number of developing countries that need the foreign exchange most.

This is the background reflected on Japan's agricultural negotiating proposal. Japan wishes to engage in an active dialogue with all WTO Members.