Elaboration of Japan's Negotiating Proposal: <u>Domestic Support (Green Box)</u>

18. The present basic framework of rules and disciplines on domestic support should be maintained so that the agricultural policy reform by each Member can be steadily promoted.

(Elaboration)

1. Under the current Agreement on Agriculture, domestic support measures are categorized into three groups, namely, "green," "blue" and "amber," in accordance with the degree of their impact on trade and production.

2. Since Members are currently implementing agricultural policy reform under this framework, any drastic change that limits the coverage of the "Green Box" would impair the smooth implementation of agricultural policy reform that is underway.

3. It is therefore necessary to maintain the basic framework of domestic support under the current Agreement on Agriculture.

19. In light of the experiences to date from implementing the UR agreements, improvements, such as the following, should be made with regard to the requirements to be met in the "Green Box" in order to promote agricultural policy reform by reflecting the real situation of agriculture;
(i) From the viewpoint of narrowing the gap between the actual trend of each Member's agricultural policy reform and the current agreement, the requirements for decoupled income support, stipulated in Annex 2 of the Agreement on Agriculture, should be improved, in order to reflect the real situation of production, including the factors of production which are employed. (Annex 2, Paragraph 6)

(Elaboration)

4. Some Members who have applied policies in compliance with the present requirements of the "green" box have faced serious difficulties in responding to the changes in the circumstances surrounding the production and market. Consequently, those members had to provide additional support for producers.

5. One of the reasons why these countries have faced difficulties is that the current requirement for decoupled income support does not allow the payments to be

related to the prices applying to any production undertaken in any year after the base period. Since the payments per unit of land are fixed, support becomes excessive when the commodity price is high, yet insufficient to maintain the viability of farmers when the commodity price is low.

6. In fact, there are examples where policies applied in compliance with the present requirements (i.e. payments based on the area planted in the past) turned out to be insufficient, and additional payments were made to compensate for the marketing loss due to the decrease in prices.

7. The current provision on decoupled income support also requires the payments not to be related to the factors of agricultural production employed in any year after the base period. Due to this restriction, payments are fixed in accordance with the area planted in the past. As a consequence, the payment is not made in accordance with the area planted in reality, thus not always being able to provide support needed by farmers.

8. In view of securing the benefits of the multifunctionality of agriculture as well as ensuring the cost effectiveness of policy measures, it is necessary to reflect the actual situation concerning the agricultural production (including factors of production) as much as possible when deciding the amount of payments, while decoupling the payment from the current level of output.

9. Given the background described above, the current provision of decoupled income support has room for improvement. It is therefore proposed that:

(i) the base period for the payment per unit should be allowed to move;

(ii) the payment should be allowed to relate to the factors of production in the year concerned, such as agricultural production area, number of animals and so forth.

19. (ii) In view of introducing safety-net programs, which are necessary when promoting market-oriented policy conversion, it is appropriate to ease the requirements on measures, such as for income insurance and income safety-net programs, as well as the restriction on the rate of compensation concerning those measures. (Annex 2, Paragraph 7&8)

(Elaboration)

10. Considering the experiences gained from implementing the Agreement on Agriculture, it is necessary to provide adequate support for farmers whose income loss is less than 30% so as to facilitate the introduction of safety-net programs that are necessary for promoting market-oriented policy conversion and stabilizing farm management. In other words, the current provision on the income safety-net programs that allows payment only for the income loss of more than 30% does not respond to the real needs which should be addressed through agricultural policies.

11. Farm management is vulnerable to the fluctuation of supply and demand as well as to natural disasters. In many cases, compensating only 70% of the income loss has proved to be insufficient in order to continue farming when incomes drop drastically. In fact, some Members implement safety-net programs which are not limited to a minimum level of income loss and compensates 100% of the income loss. Furthermore, many Members have safety-net programs that cover the income loss of less than 30% and which compensates more than 70%.

12. Therefore, it is proposed that:

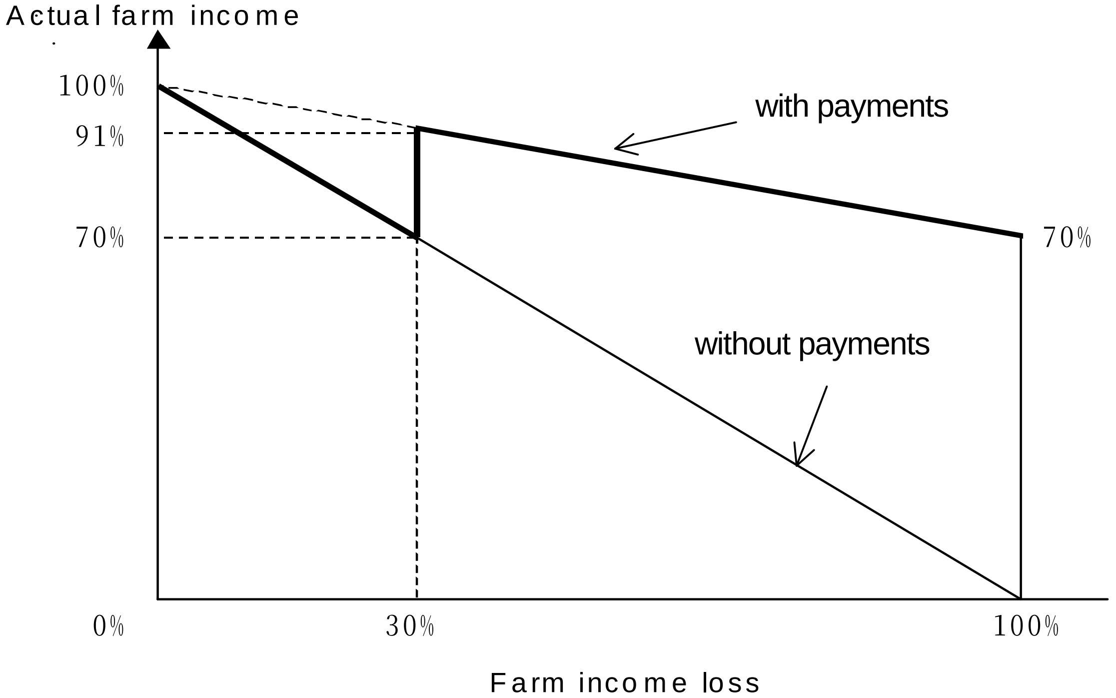
(i) The minimum income loss eligible for compensation (30 %) should be lowered in order to allow timely support necessary to stabilize farm management.

(ii) The maximum compensation rate of the income loss (70%) should be raised in order to ensure stable farm management while avoiding excessive compensation.

13. Similarly, with regard to payments for relief from natural disaster, the current requirement on the minimum income loss eligible for compensation (30 %) should be revised in order to allow timely support necessary to stabilize farm management.

Annex

Illustrative explanation of “income insurance and income safety-net” under the current agreement



Illustrative explanation of “relief from natural disasters” under the current agreement