

Simpson, James R. WTO農業交渉では日本と同盟する国・地図が必要だ。“WTO nougyou koushou de wa nihon to doumeisuru kuni, chiiki ga hitsuyou da.” (“Japan needs Allies in WTO Agricultural Negotiations.”) 農業と経済Nogyo to Keizai (Agriculture and Economics). Feb, 2003, pp25-39. (Original English draft).

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## Japan Needs Allies in the WTO Agricultural Negotiations

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### Introduction

The battle lines have been drawn between the agricultural export oriented nations such as the Cairns group countries and the US, and those such as Japan, seeking some way to preserve or at least continue their agricultural sector in a manner they decide. Along with Japan there are a large group of countries with no strong fixed proposals such as the European Union (EU), that largely simply want to maintain the status quo. Many, such as small island countries, have high cost agricultures and seek some way to survive trade liberalization. Still others, such as many developing countries, have a plethora of complaints about the Uruguay Round Agreement on Agriculture (URAA) concluded in 1994. The Doha Development Agenda, as the current round of international trade negotiations under the auspices of the World Trade Organization (WTO) is named, serves as the battleground. Promulgated at the Ministerial Conference at Doha, Qatar November 9-14, 2001, it was agreed that the round would finish in three years, by the end of December, 2004.

The short time frame (The Uruguay Round lasted 8 years) set for the current talks includes a March 31, 2003 deadline to set the modalities or operating rules. Then, the main issues in the talks will be taken up: market access (which is really about tariff reductions), domestic supports (subsidies to farmers and ways of deciding what fits in the “blue, green and amber boxes”), export subsidies, and questions not directly related to trade such as

animal welfare. Ferocious attacks were launched at recalcitrant agricultural “protectionists” by the US and the Cairns Group of agricultural exporting countries in their initial proposals at the ministerial meeting in Doha. Proposals for setting the modalities as well as news releases have become even more combative.

The Cairns Group used their annual meeting Oct 19-20, 2002 in Bolivia to press the US on its farm bill signed into law in May 2002, that increased agricultural subsidies. The leadership used the opportunity in its final communiqué to make it appear that a crisis of epic and grave proportions exists by stating, “The leadership must be driven by an awareness that this is one of the last chances the WTO membership has to correct deep-seated inequities within the international trading system. A failure to act will have serious consequences for the future of global trade.”

Mr. Mark Vaile, Australia’s Minister for trade, and head of the Cairns Group, said “Unless we achieve liberalization in agricultural trade, we are not going to conclude this round. We are not going to agree to it.”

Mr. Vaile also said “Hopefully, this message will go out to other countries in WTO that the agenda we embarked upon from Doha should not and will not be delayed, and should not and will not be diverted, nor will it be watered down.”

Now, wait just a minute! What is happening here? Apart from striving to set their position as strong and powerful, this is just an attempt to bully the rest of the world. Japan and the EU in particular were singled out in the meeting for not having set their detailed proposals on “acceptable” tariff and subsidy cuts. The pretense of a critical situation was set as a way to say “you play the game our way and to our advantage, or we don’t play at all.”

Deep-seated inequities? Inequities for whom? The strong powerful agriculturally endowed of the world? Nonsense. No conclusion without trade liberalization? And most galling, that the agenda embarked upon from Doha should not be diverted or watered down. One purpose of this article is to show that such a statement is a direct threat to the Agenda

concerning non-trade concerns. Another is to outline Japan's options going into the actual negotiations. The main objective is to provide an analysis of probable and possible allies, an indispensable factor for Japan to achieve a "favorable" (for Japan) outcome in the final agreement (if one is even forthcoming.)

### Some Clarifications Regarding the Agenda

Great confusion exists a year after the Agenda was initiated whether the round will end on time, and in fact whether it will even be concluded. Naturally, as in any kind of negotiations, a substantial amount of "posturing" has been taking place as individual countries and groups of countries jockey for bargaining positions. Member countries and regions are far apart on what to do in the round, and how to do it. For example, major agricultural exporters like as the United States insist on agricultural issues being negotiated separately from others, such as services or industrial products. Other countries, especially importers such as Japan, want all sectors to be negotiated in one package. There are also wide differences on ways in which tariff rate reductions will be negotiated.

Proposals submitted to the WTO, as well as news reports, reveal widely differing concerns. For example, several developing countries complain that the rules (from the Uruguay Round) are unfair because they have had unforeseen and unequal consequences. In particular, they object to the developed countries being allowed to continue to spend large amounts on subsidies while developing countries cannot do so because they lack the financial resources. One group of developing countries compares the effect of export subsidies with "dumping" because they can lead to a reduction in world prices for some commodities. Some pundits feel the "development" issue is becoming such a big issue that it could lead to collapse of the WTO talks, or at minimum a new "Development Box." The United States has presented a very strong proposal for tariff reduction as has most of the Cairns Group (Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala,

Indonesia, Malaysia, New Zealand, Paraguay, the Philippines, Thailand, South Africa, and Uruguay). Most countries, notably Japan and the EU, have essentially adopted waiting positions.

Nowadays, with only a very few minor exceptions, agricultural commodities among WTO members are directly protected in trade only by tariffs. In some cases, the calculated tariffs during the Uruguay Round were deemed too high to allow any real opportunity for imports. Consequently, a system of tariff rate quotas (TRQ's) was created to provide some minimum access below the quota level, and higher rates for quantities outside the quotas. Japan's tariff on rice is widely attacked as a symbol of one that needs serious reduction.

Much of the discussion for the first few years after the Uruguay Round (concluded in 1994) focused on the high level of tariffs outside the quotas, the size of the quotas themselves, and the tariffs charged within the quotas. Countries with great comparative advantage in agriculture, such as Australia, have argued for much or complete elimination of tariffs. More recently, great attention has been focused on domestic subsidies paid to farmers and for export promotion. The EU has been roundly criticized for its high subsidy levels, especially since it decided to continue its current very high cost Common Agricultural Policy (CAP) until at least 2006. The decision by the United States to increase farm subsidies in its farm legislation enacted in 2002 has added fuel the fire of pointed innuendos about double standards—fighting for import liberalization while enhancing their own producer's export competitive advantage.

An increasing number of experts argue that protectionism, largely in response to the general global economic downturn, outside as well as inside agriculture, threatens the global economy. In the United States, President Bush has strongly endorsed protection of the U.S. steel industry, not to mention agriculture. Japan's battle with China on steel is another example, particularly since China invoked safeguards on steel imports in November 2002.

Many feel that the keen interest in regional or bilateral trade agreements between countries and/or trading blocks could lead to major trade wars between the Americas, Europe and Asia.

### Japan's Situation

Japan is in a difficult position because of its very high production costs on agricultural commodities, which means that a substantial reduction in tariffs would cause great damage to the agricultural sector. An adverse agreement in this round could mean that its food self-sufficiency rate, now at 40 percent, could easily fall to 30 or even down to 20 percent since rice has such a high tariff and constitutes such a high proportion (23 percent) of the remaining 40 percent food self-sufficiency rate.

The bottom line is that to prevent the food self-sufficiency rate from falling much further Japan must do one or more things (a) insure that a general major reduction in agricultural tariffs does not take place in this round, (b) gain an exclusion for rice and dairy products or, (c) obtain a change in rules that would allow exceptions for countries with low food self-sufficiency rates. The question is the extent to which Japan can muster allies to its non-trade concerns, and the way in which support can be effectively enacted.

WTO bodies continue to follow the GATT practice of consensus in general decision-making, which means that if no member present at a meeting when the decision is taken formally objects to the proposed decision, it is adopted. Voting is an alternative for unusual cases, but is seldom used. Thus, although each member has a vote regardless of size, there is still a lot of power politics employed, and results depend to a large extent on how members view, perceive and identify with a country attempting to influence the process. The EU has no vote per se, but is very powerful because it has 15 voices (and soon 25 probably) in the WTO. Japan has the EU as well as a number of other countries on its side, but is in a very precarious position of being perceived as an economic powerhouse with large annual trade

surpluses and a “duty” to open its markets to the world. Non-trade concerns are an important part of the powerhouse equation.

### Non-trade Concerns and Multifunctionality

The WTO Ministerial Declaration from the Doha conference contains Article 13 which states that “We recall the long-term objective referred to in the Agreement (Article 20 in the URAA) to establish a fair and market-oriented trading system through a program of fundamental reform encompassing strengthened rules and specific commitments on support and protection in order to correct and prevent restrictions in world agricultural markets.” The keyword is “fair.” Also included in Article 13 is that “We take note of the non-trade concerns reflected in the negotiating proposals submitted by Members and confirm that non-trade concerns will be taken into account in the negotiations as provided for in the Agreement on Agriculture.” These sentences are simple, yet crucial to Japan and a whole host of other countries because a favorable outcome of the negotiations hinges on them.

Non-trade concerns include multifunctionality, which refers to the fact that an economic activity may have multiple outputs and by virtue of it, can contribute to several societal objectives at once. It is also sustainability oriented to assure satisfaction of current human needs without jeopardizing the capacity of future generations to meet their own needs and desires. For some time after the concept began to be widely applied to agriculture around the mid 1990s, there was considerable argument by many economists that multifunctionality was being misused to maintain distortionary domestic policies. However, it is now generally recognized that agriculture in all countries have multiple functions apart from production such as providing recreational sites, flood control, maintenance of rural communities, scenic landscapes, etc. The U.S., for example, has a large program of trust funds in which contracts

are made with farmers to preserve their land in agriculture rather than sell for urban development.

Most of the joint products of multifunctionality are public goods because they cannot be sold or traded. All citizens can and should have an interest in assuring that they have an input into deciding how, and in what form, the public goods related to agriculture are used and maintained for future generations. That is one of every person's fundamental rights. Japan has declared that multifunctionality of agriculture is a basis for their WTO negotiating proposal in which food security is assured by the coexistence of agriculture. A practical problem is that if all countries can claim it, what is so unique about Japan?

Actually, Japan has a number of close allies that also base their negotiating proposals on use the multifunctionality approach to assure that their agricultural sectors continue in some nationally defined way (EU, Mauritius, Norway, South Korea and Switzerland). The six are loosely termed "Friends of Multifunctionality." With the glaring exception of the EU the rest, in general, they are fairly well unified by being substantial food importers, are relatively small geographically, and have very high production costs due to factors such as a small proportion of land being arable, high population density and/or inhospitable climatic conditions.

Japan has taken a quiet, yet effective role in gathering international support for the multifunctionality concept and perhaps even more important, non-trade concerns in general. For example, forty WTO members and observers met in Doha during the Ministerial Conference and held their own Non-Trade Concerns Ministerial (Conference) from which a statement was released about the need to secure the coexistence of various types of agriculture as foreseen in Article 13 of the Doha Declaration.

Another major step was the 4<sup>th</sup> International Conference on Non-Trade Concerns in Agriculture at Ministerial Level, held in Rome June 14, 2002 and chaired by then Japan's Minister of Agriculture Mr. Tsutomu Takebe. This turned out to be an important meeting as

54 ministers and representatives from WTO members and observers attended and reaffirmed their support for non-trade concerns.

The multifunctionality debate is extremely important because, to a large measure, it will show the extent to which food and agriculture is recognized as somehow being different than manufactured commodities or services. It can also serve as verification of whether a country or union of countries (EU) can exhibit their rights to control the future of their beliefs about food safety, their own food systems and agricultural sectors, and whether consumer and national sovereignty have a place in neo-classical trade theory and paradigms. It is a litmus test of the extent to which food importing countries of all kinds, large and small, economically rich or poor, and exceptionally or poorly endowed for agricultural food production, have the right to decide how they want organize their societies and use their resources.

An irony is while many countries that now hope to use multifunctionality as a foundation for their non-trade concerns are free to set policies on minimum food production levels they want to maintain, under WTO rules, and in apparent contradiction with several international covenants such as *The Universal Declaration of Human Rights*, and a later document promulgated by the United Nations called the *International Covenant on Economic, Social and Cultural Rights*, in reality they cannot put them into practice due to the “box” system (blue, green and amber) on which a nation’s agricultural policies are judged as acceptable or trade distorting and thus “bad.” The *International Covenant on Economic, Social and Cultural Rights*, which took effect in 1976, is enough to show that a true “level playing field” (a term often used by the United States and Australia) should include the right for countries to set minimum domestic food production levels as an integral part of fair and equitable agricultural trade rules.

There are several sections of that Covenant brought into effect a quarter century ago that pertain to present-day food production and WTO country proposals on non-trade

concerns in general, and multifunctionality specifically. One states that all peoples may, for their own ends, freely dispose of their natural wealth and resources without prejudice to any obligations arising out of international economic co-operation. Another exhorts States Parties to take into account “the problems of both food-importing and food-exporting countries, to ensure an equitable distribution of food supplies in relation to need.” It seems that a strong case can be made that any country, and certainly a group of countries such as the “Friends of Multifunctionality,” should have the right to set minimum levels of food self-sufficiency they wish to maintain.

Debates about rights to non-trade concerns are one thing; changing enacted trade rules is another. The important point is that while WTO rules can be modified if there is sufficient sympathy for changes, they can be very difficult to enact in practicality. The fact is that even if a significant number of the WTO’s current 147 members would like to make changes to WTO rules decided in the URAA because they felt that their human rights guaranteed under an international covenant were being abrogated, they would have an extremely hard time of bringing it about due to the great power wielded by the Cairns group and the US. A majority vote is sufficient for general decision-making, but a two-thirds vote is needed to amend an agreement.

One way out might, ironically, be the “box system,” a major pillar of WTO rules. There continues to be considerable discontent about it ever since it was adopted in the URAA and much discussion has taken place about amending it, with proposals ranging from minor modifications to complete elimination of the system. The U.S., for example, has proposed elimination of the “blue box.” One intriguing idea would be a “Non-trade Concerns Box” in which food security as a human right would be specifically brought into an agreement on agriculture. At present, food security is only mentioned in Annex 5 of the URAA, and then only as a vague concept. The multifunctionality concept could be defined in a Non-trade Concerns Box, along with a country’s rights to decide how to use and preserve its natural

resources. Rules could developed about conditions and limitations, such as defining the basis for minimum food self-sufficiency rates, and flexibility on how commodities, can be chosen.

### The European Union: How much of an Ally to Japan?

The European Union (EU) is very sympathetic to use of multifunctionality as a basis for its non-trade concerns, and Japan considers it a strong ally. The two have several mutual interests in this round such as desire to at least maintain the status quo and hopefully change rules to include non-trade concerns. Also, both have high subsidy levels. There are many commonalities between the EU and Japan, but there are some major differences as well. One is that while Japan is the worlds' largest importer of agriculture commodities, the EU has substantial production surpluses (Table 1). Another aspect is the EU's large size, with 15 member countries and another 10 likely to join in the next few years. Most of its current and potential new members have a low population density and considerable potential to expand food output even more. Thus, one of the EU's main problems is how to accommodate the proposed new member countries, all of which are very much agriculturally based, and will require considerable subsidies due to their low productivity agriculture making up a large part of their GNPs.

The EU's decision-makers have their hands full in the struggle with the union's enlargement, and with revision of its administration to smoothly prepare for a long-term, self-sustaining union. In addition, the EU has been struggling for years to revise its extremely high cost Common Agriculture Policy (CAP) that eats up nearly half of the EU annual revenues, primarily through export and producer subsidies. As if that were not enough, a particular problem related to the WTO negotiations is how to deal with worldwide calls for a substantial reduction in the EU's very high agricultural subsidies, a topic at the heart of issues for this round. In brief, the WTO agricultural negotiations are a thorn in the side of EU officials, one they, like Japan, would rather not deal with at present, and on which they would like for the status quo to be maintained. This is one main reason why the EU has been

reluctant to submit a proposal and why Japan's proposal did not contain numbers. Japan believes that rules should be set before numerical targets can be established.

Japanese are uninformed about their nation's agriculture and agricultural policy. In some respects they are not alone when compared with the EC, but differences are noteworthy. Two surveys carried out in mid 2001 revealed that only 50 percent of EU citizens had ever even heard about the CAP. Despite this, almost half of the general public surveyed said European governments should boost spending on agriculture. Furthermore, over 90 percent of the general public in the EU recognize the importance of agriculture and want to learn more about it. A significant aspect of the two surveys was that both the general public and farmers put food safety and environmental protection as their top goals for farm policy. Both groups in the surveys regarded protection of farm incomes and small farms as being inadequate, and support protecting farm incomes and ensuring the competitiveness of European agriculture in international markets.

One reason Europeans are favorably disposed to support high spending levels on agriculture is because they only indirectly pay for the CAP. This is because each nation's government rather than individuals directly pay into the EC (the European Commission, which is the administrative body of the EU). Another is that farming has come to be appreciated for its multifunctional aspects and as a scientifically based profession. An increasing number of young farmers are four-year university graduates, and in some countries such as Denmark, farmers receive licenses to prove their skills. In contrast to most Japanese, Europeans place a great deal of attention on protection of the environment—both urban and rural. They strongly value beauty, both human made and natural, and are proud of their culture, nation and the communities where they live. I really believe that if surveys were available, it would show that nearly all Europeans believe that **food is life**.

## Does Japan have a Support Base? Does Japan have Allies?

The EU negotiators have their citizens as allies and supporters in the WTO negotiations. Unfortunately, the same cannot be said about Japan where consumers are uninformed about the consequences of WTO actions because no one in the media takes it as their job to explain to them the importance of domestic agriculture and related industries about food trade and negotiations. As an example, almost all consumers would be surprised to learn, for example, that agriculture simply is not a big-ticket item in Japan's perennial trade surplus with the U.S. They would be astonished to learn that if 40 percent of Japan's rice was imported (a possible consequence of this trade round) and the US got half of that market share, it would only reduce that country's trade deficit with Japan by about one percent. Automobiles, electronics and other manufactured goods are the big items. Worse yet, a very serious problem is that no one or institution in Japan has taken it upon themselves to tell Japan's story to the rest of the world's citizens. Perhaps this is because of they lack knowledge about consumer support groups in much of the western world....

There is a continual barrage of bad press about Japan's agriculture due to the food safety and labeling *Fax passes* by government, but virtually no information about what it would be like if Japan were to become a "food trade prisoner" due to its food self-sufficiency rate falling to 20 percent or lower from substantial tariff reductions in this round of world trade negotiations. All citizens hear or read about the supposed coddling of those "bad" farmers by rural based diet members and the need to address agricultural "problems" if Japan is to pursue its FTA strategy. The practical matter is trade negotiations should be of equal or more interest to consumers than farmers because the issue is about food--and **food is life**.

Japan has three options in the negotiations. One is to sit back and hope that current allies will protect them, and that maybe the problem will just go away due to protectionist sentiment in the world today. Another is to take a middle position with some leadership such as that with multifunctionality. A third is an aggressive stance, much like the US and Cairns

group have made with their shocking proposals. Japan could, for example, take leadership in the fight to exclude agriculture from FTAs, or for minimum food self-sufficiency levels, or some other creative proposal. Dramatic, bold, and assertive strategies require strong support from all government agencies as well as the agricultural sector and consumers in general. A fourth option, and perhaps the boldest of all, is to seek very strong relations with many other countries and then simply take a forceful stance against agricultural tariff reductions without “fair” treatment for non-trade concerns. Asian nations are a good target.

### Asian Countries as Allies?

Four of the Southeast Asian nations; Indonesia, Malaysia, the Philippines, and Thailand are Cairns Group members. The new Director General of WTO is from Thailand, which puts allegiance of that country into doubt. Another problem is that while agriculture is a large component of Asian nation’s GNP, few have specialists on agriculture within the WTO framework, and agricultural ministries have little power in the nation’s WTO policy making framework anyway. Most Southeast Asian nations (like most developing countries) are more concerned about how to gain foreign exchange than about future threats from tariff reductions in their agricultural sector. This is because developing countries will be given special considerations (Article 13 of the Doha Declaration) regardless of outcomes from negotiations. What they do not realize, (and that Japan can and should use as a lever to gain their allegiance) is that in the not-too-distant future they also will succumb to the “box” system if indeed they are successful in their economic development. Then, they, like Japan, will be trapped in a “black box” in which there is no way to avoid the trade liberalizing effects of unfairly low tariffs.

Japan’s agriculture has great similarity to that of Southeast Asian countries. Farm size is very small (about 1.5 ha compared with 20 in the EU and 200 in the U.S.), and is rice based. This smallholder agriculture system is what Japan attempted to show the agriculture

ministers attending countries in July when they were given a tour around Nara, site of the meeting. The US Secretary of Agriculture Ann Venema was distinctly unimpressed. Australia's Agriculture Minister Warren Truss responded by publishing an article in the *Daily Yomiuri* titled "Agriculture's multifunctionality doesn't justify coddling farmers" in which he blasted Japan for having the audacity to use the concept of agriculture's multiple functions "as an excuse to delay the overdue integration of agriculture into the WTO trading system."

Actually, Japan has been moderately active in developing alliances with Asian nations. For example, Japan's government countered by soliciting support of Asian nations at the ministerial level of the Second meeting of the ASEAN Agriculture and Forestry Ministers of the People's Republic of China, Japan and Republic of Korea (AMAF Plus Three) held October 11, 2002 in Vientiane, Lao People's Democratic Republic.

### Assessment

There is one constant in these WTO negotiations—there will be continuous change in negotiating positions and continuous surprises. For example, in October 2002 Australia announced it will eliminate all trade tariffs and quotas it levies on the world's 50 poorest countries. In November, the U.S. announced a proposal for its global elimination over 13 years of tariffs on factory products.

Change is the constant so that, what seems to be a country on the defensive, such as Japan on tariff reductions, can quickly change to a power seat if it is successful in developing a bold and assertive plan in conjunction with numerous allies. It now appears that a base has been developed by Japan—it is just a matter of national willpower and mustering sufficient forces to develop a plan—such as a Non-trade Concerns Box) and carry it out. The hardest decision is the decision, to make the decision, that Japan's agriculture should be preserved and then fight for it.

The Asian nations with which Japan is discussing FTAs all have the problem of agriculture in developing agreements. It might seem like a long uphill battle to solve this problem by excluding agriculture from WTO rules under GATT Article 24 that “substantially all the trade” must be liberalized within a free trade agreement. However, the amount of support may be larger than it seems on the surface, much like it is with the multifunctionality issue. The big key is to recall there is neither a crisis nor a good reason why there must be substantial agricultural liberalization in this round of negotiations despite pronouncements to the contrary. The WTO should be a forum for fair and equitable trade no matter how long it takes. That is the mandate for that organization and this Development Agenda.

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Table 1 Self-sufficiency rate of agricultural staples in selected countries 1997

	Japan (1)	France	Germany	Netherlands	UK	USA
percent--						
Cereals	27	191	128	24	116	135
Vegetables	83	91	45	233	59	101
Fruits	49	79	33	34	9	86
Meats	54	112	87	205	84	109
Fishes and shell fish	65	38	21	55	45	80

Source:Abstract of Statistics on Agriculture Forestry and Fisheries in Japan, Maff, 2000.

(1) Japan is 1999.

