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PECC Position on Agriculture Negotiation

PECC Agriculture Trade Study Group

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Agricultural Trade Study Group (ATSG)

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PECC Position on Agriculture Negotiation

By

PECC/Trade Forum/ATSG¹

1.0 Why PECC Position paper?

1 The WTO negotiation based on the Doha Development Agenda was launched in January 2002. A wide variety of negotiation issues are on the agenda to be concluded within three years. The APEC/PECC member economies, both individually and as a group, have been supporting the WTO liberalization process through the conclusion of the Uruguay Round and the launch of the current round. However, they represent the diverse interests of individual members, especially between exporting and importing economies, in individual negotiation issues. While sharing the same general objective, they have suffered from conflicts over different interests among themselves.

2 PECC/Trade Forum is participated by private sector experts interested in the WTO negotiation and its Trade and Investment Taskforce aims to monitor closely and study objectively the negotiation, disseminate to the public relevant information and the importance of successful conclusion of the negotiation, thereby encouraging our negotiators. We do not represent the interest of any particular member economies but strive for an efficient and sustainable trading regime for the APEC/PECC region and the world as a whole. We will try to produce a PECC position paper incorporating a possible consensus package accommodating different member interests.

3 A tough negotiation is anticipated in agricultural negotiation in order to coordinate between diverse interests of all exporting and importing countries and to reach a consensus agreement. In order to facilitate this process, we have organized an Agricultural Trade Study Group (ATSG) comprised of experts from six PECC member economies representing different interests in agricultural trade; China, Japan, Korea, New Zealand, Thailand, and the United States.

4 The first task undertaken by the ATSG was to study position papers submitted by the six members and to identify common interests and conflicts among themselves,

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thereby gaining a PECC overview. Secondly, we have searched for a possible consensus package of liberalization and regulatory reform which may not fully satisfy every member but may be agreeable to all members. This may be regarded as a naïve academic attempt and may not be of much assistance to our negotiators since we are aware of neither their trump cards in negotiation nor negotiation tactics. Nevertheless, it will enable us not to be constrained by individual members' specific interests and instead, allow us to gain a bird's-eye view of the agricultural trade negotiation conducive to the overall interest of PECC members. It will help the public to assess the final result of the negotiation against the efficient and sustainable regime of agricultural trade.

5 We circulated our draft PECC Position Paper to all PECC national committees for their comments and presented it for further discussion to the PECC Trade Forum at Washington D.C on April 23 and Phuket, Thailand on May 25, 2003. We have finalized it and expect that it will be submitted to WTO Ministerial Meeting by PECC Standing Committee.

2.0 Agriculture Negotiation: Overview

6 Agricultural products were largely excluded from GATT negotiations until the Uruguay Round, which initiated the concerted efforts for liberalization and dismantling of agricultural protection. In UR Agreement on Agriculture (URAA) its Preface states clearly;

- It aims to establish a fair and market-oriented agricultural trading system
- Reform process should be initiated through commitments on support and protection and through strengthened and more operationally effective GATT rules and disciplines
- It provides for substantial progressive reductions in agricultural support and protection sustained over an agreed period of time, resulting in correcting and preventing restrictions and distortions in world agricultural market
- Commitment should be made to achieving specific binding commitments in each of market access, domestic support and export competition
- Commitments should be made in an equitable way among all participants, having regard to non-trade concerns, including food security and the need to protect the environment

- Special and differential treatment to developing countries is an integral element of the negotiations

7 What has URAA achieved and what still remain to be liberalized?

- Improvement in market access:
 - Tariff reduction 36% on average for 1995 –2000: achieved by all members.
 - High peak tariff still remain (skimmed milk powder, butter, rice, sugar, etc.)
 - All non-tariff impediments should be tarifficated and then reduced (Japan tarifficated rice import since 1999)
- Reduction of domestic support (direct payment and market price support):
 - Reduce by 20% of the base year's AMS (Aggregate Measurement of Support)
- Reduction or elimination of export subsidy: only partly achieved.

8 How much has the agricultural trade expanded as the result of the UR commitment? WTO/Committee on Agriculture (2000) provided exports and imports volume (or value) for 14 product groups between 1986 and 1998. Table 1 shows the percentage increase of export from the average of 1986-90 to the average of 1996-98. Since the Uruguay Round commitments was only implemented since 1995, these figures only partly reflect the result of the UR liberalization. Total agricultural products increased by 66 % for 9 years, which is no less than the increase of manufactures. However, the increase differed between product groups. Fruit and vegetables and other agricultural products, both measured in value, recorded high growth, which may reflect partly the increase in export prices. However, products groups measured in volume differed greatly in their growth between the same nine years. Poultry meat increased by 240%, pig meat by 77%, and rice by 74%, while bovine meat, sugar, cheese, oilseeds, and whole milk powder recorded 30-51% growth. Wheat/wheat powder and coarse grains increased only by 4-5%. Butter/butter oil decreased by 5.1% and skim milk powder decreased by 10.2%.

Table 1 Increase of Export of Agricultural Products by Product Groups

	unit	Increase from 1886-90 to 1996-98	Share in total (US\$)
Total agricultural products	US\$	66.00%	100%
Rice	tons	77.60%	Cereal* 11.40%
Wheat and wheat flour	tons	** 3.9%	
Coarse grains	tons	** 5.0%	
Sugar	tons	30.50%	3.40%
Fruit and vegetables	US\$	74.70%	14.20%
Oilseeds	tons	50.40%	4.30%
Butter and butter oil	tons	-5.10%	0.50%
Cheese	tons	51.40%	1.20%
Whole milk powder	tons	46.40%	0.90%
Skim milk powder	tons	-10.20%	0.60%
Bovine meat	tons	38.30%	3.20%
Pig meat	tons	74.10%	2.20%
Poultry meat	tons	240.70%	2.10%
Other agricultural products	US\$	66.50%	55.80%

Source: WTO, Committee on Agriculture, *The Effects of the Reduction Commitments on Agriculture*, G/AG/NG/S/11, 9 June 2000. These data were sourced from FAO and other agricultural organizations.

Notes: Intra-EU trade is not included.

* Total of rice, wheat and wheat flour, and coarse grains.

** Increase from 1986/87-90/91 to 1997/98-99/00

9 UR Agricultural Agreement set the continuation of the reform process as follows (Article 20);

Recognizing that the long-term objective of substantial progressive reduction in support and protection resulting in fundamental reform in an ongoing process, the participants agree that negotiations for continuing the process will be initiated one year before the end of the implementation period, taking into account:

- the experiences to that date in implementing the reduction commitments;

- the effects of the reduction commitments on world trade in agriculture;
- non-trade concerns, special and differential treatment to developing country members, and the objective to establish a fair and market-oriented agricultural trading system, and the other objectives and concerns mentioned in the preamble to this Agreement; and
- what further commitments are necessary to achieve the above mentioned long-term objectives.

10 Agricultural negotiation has started since February 2000. Major participants submitted their proposals within 2000. It is now at the stage of establishing modalities by the end of March 2003. Despite the progress made since the negotiations started in 2000, a substantial number of important issues remain outstanding as Chairperson's overview paper of 18 December 2002 indicates. We have to decide the coverage and speed of liberalization so as to be accepted by both exporting and importing countries

3.0 Diverse Interests among PECC Members

11 The United States and Cairns Group propose drastic improvements in market access for five years; Adopting the Swiss formula of reducing higher tariff more and all tariffs down to less than 25 %; Tariff-rate quota quantities increased by 20 % of current quota (US proposal) or of current domestic consumption (Cairns Group proposal). As regards to domestic support, AMS shall be reduced drastically, substantially (with more than 50% down payments) in Cairns Group proposal, and down to 5% of agricultural output in the US proposal. Export subsidies shall be removed within three to five years.

12 Japan proposes the importance of non-trade concerns such as multi-functionality and food security and insists flexibility in tariff reduction. EU proposes a gradual liberalization along the UR linear reduction formula, which both Korea and Japan support. Importing economies 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.

13 Korea proposes 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 proposes 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.

4.0 Basic Stance for Drafting a PECC Position

4.1 General elements

14 The purpose of the UR negotiations on agriculture was “Bringing Agriculture into the GATT,” establishing the disciplines and rules on agricultural trade which are much more consistent with GATT/WTO disciplines. Implementation has been completed but the export volume of some agricultural product groups has not increased much under the new system (See Paragraph 8). It is found that the Agreement on Agriculture fails to ensure expected competition. The purpose of the current negotiations on agriculture shall be “Bringing Agriculture into Competition,” applying the rules more appropriately in agricultural trade and trade policy.

15 The competition, however, shall be in order to promote structural reform of agriculture in food importing countries to be competitive and to quit uncompetitive production and shift toward the direction based on comparative advantage. However, importing economies should be encouraged to make their reform efforts widely known so as to justify gradual reduction of protection.

16 Developing economies are handicapped in market competition and need to be given flexibility in implementing liberalization commitments but not in a manner of admitting double standard. In the current Doha Development Agenda, least developed economies have already been exempted from liberalization commitment without any time limit. However, many developing economies of APEC have experienced a decade-long rapid growth and will outgrow the developing economy status in near future. There

is a widely observed tendency that, as an economy develops, income disparity develops between agriculture and industrial sectors and agricultural protection is introduced to reduce the gap. Current developing economies would be better advised to introduce market competition as they approach graduation to developed economy status. Developing economies shall make efforts to be able to apply the same reduction commitments as developed economies eventually do.

4.2 Multi-functionality of Agriculture

17 The concrete contents of multi-functionality 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.

18 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.

19 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.

4.3 Food Security and Safety

20 Food security 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.

21 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 countries. 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.

22 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.

23 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.

24 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.

5.0 Possible package of the PECC position: proposal

5.1 Market access

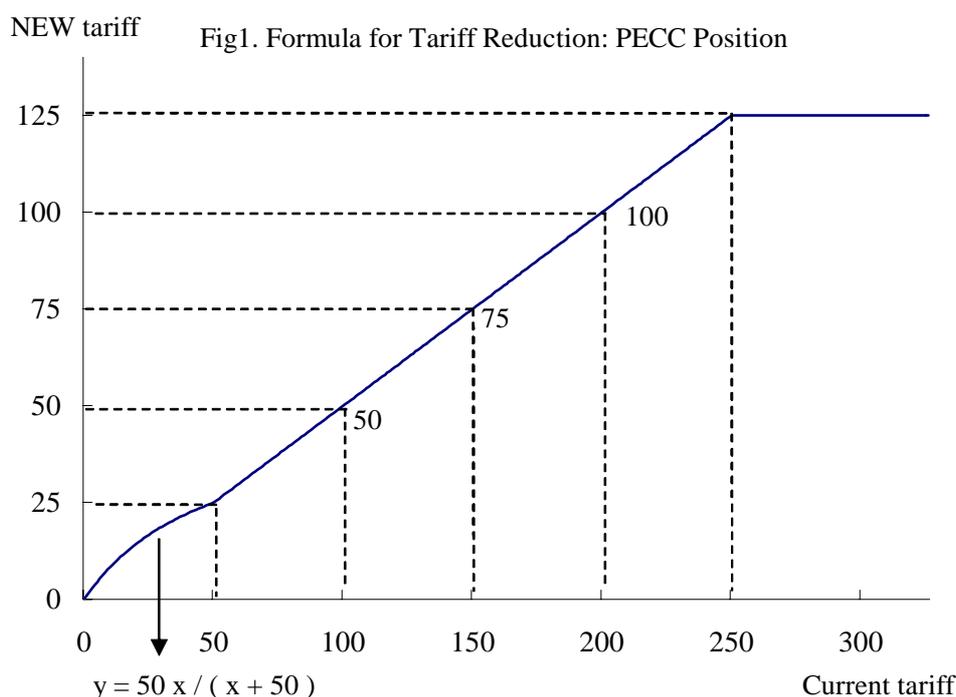
<Tariffs>

25 A flexible approach shall be established combining the Swiss formula and the Uruguay Round approach. One example is to apply the formula proposed by the Cairns Group for developing countries to all member countries. It consists of three types of reductions as follows:

- (a) initial tariffs falling in the range of 0-50 per cent inclusive shall be reduced using the Swiss formula with a coefficient of 50;
- (b) initial tariffs falling in the range 50-250 per cent shall be reduced by 50 per cent;

(c) initial tariffs that exceed 250 per cent shall be reduced to 125 per cent.

This formula is illustrated in Fig. 1. Current tariffs are measured on horizontal axis and the curve gives on vertical axis their corresponding new tariffs. This formula requires a deeper cut, all down to 125%, for very high tariffs such as over 300% tariffs on rice by Japan and Korea. Reductions shall be from final bound tariffs and be phased-in over five years for developed countries and nine years for developing countries.



26 Another example is to make a down payment in the first year of implementation equivalent to 50 per cent of the final bound commitment levels and then to reduce the tariffs on a simple average basis by 50 per cent with a minimum reduction rate of 25 per cent under the UR formula over the remaining four years (eight years for developing countries).

27 These are examples of compromise between the Cairns Group position that is requesting drastic tariff reductions and the Japanese position that is very conservative against tariff reform. The modality of tariffs is the key and very crucial for the negotiations. It is important to correct the dirty tariffication introduced in the UR

implementation. At the same time, it is necessary to provide importing countries with opportunities of structural reform in domestic agriculture under the liberalization.

<Tariff quotas>

28 The expansion of import volumes under existing tariff quotas is an essential element of the further market access commitments but this issue cannot be seen in isolation from the size of the tariff reductions which are to be negotiated. A possible example of the expansion formula is that all tariff quota volumes in member economy markets shall be increased from their final bound levels by 20 per cent over a 5-year period.

29 Minimum access commitments shall be abolished and integrated into the commitments of general access opportunities to avoid a creation of managed trade. Expansion of minimum access shall be under the same formula as for the other access opportunities rather than based on domestic consumption. In future, all the tariff quotas shall be abolished and border protection shall be only by tariffs.

30 All methods of quota allocation shall enable business decisions to be based on commercial considerations and shall not operate to restrict market access. The administrative decisions shall reflect as closely as possible those that would be made under a tariff-only regime.

<Special safeguard measures>

31 The special safeguard measures were provided for those member economies newly tarifficated by UR Agreement to adjust to the new system. It is considered as a temporal measure for the producers who had been protected by non-tariff barriers. After the adjustment period to the new system, the special safeguard shall be abolished. However, some commodities may be still under the reform process and need to maintain the special safeguard. If this is the case, the reform program shall be provided and member economies shall monitor the reform process.

<Importing state trading enterprises>

32 Members undertake to notify, on an annual basis, the following information with respect to imports of agricultural products by state trading enterprises: the volume, price and origin of imports; the domestic sales price; the basic elements of the annual business plans made by state trading enterprises in connection with imports. All WTO

members should be encouraged to set a timeframe for shifting both purchasing and selling STE's to a system whereby agricultural transactions are handled by competing private sector entities.

5.2 Domestic support

<Green box>

33 The basic criterion of the items in the green box shall be re-examined to provide that the support in question shall not have the effect of providing production support or price support to producers. At the same time, some modification is necessary for decoupled and safety net programs in accordance with the rate of tariff reduction. Expenditures on structural adjustments shall be monitored with the degree of achievement and shall be abolished within a fixed term of period.

<Blue box>

34 Blue box was a creature of the Blair House Agreement between the U.S. and the EU. It is anomalous and shall be eliminated.

<Amber box>

35 It is reasonable to use the Uruguay Round formula to reduce the total AMS with flexibility. The reduction of tariffs to implement under the market access commitment is automatically accounted in the calculation of the current AMS. Therefore, the commitment of reduction shall exclude the amount due to tariff reductions. Then it shall be reduced by, say, 20 per cent from that level over 5 years for developed countries and 9 years for developing countries.

36 Importing economies should be encouraged to make their reform efforts transparent internationally so that the aims and tools of their reform policy are correctly understood. For example, Japan is implementing the policies indicated in "Farm Policies Aimed at Promoting Structural Reforms in Agriculture" that was compiled in August 2001. The policies are promoting structural reform through the measures that concentrate on and give priority to "eligible farmers" and that emphasize making use of creative ideas, building a system for securing the confidence of consumers, and developing a safety-net for farmers attempting structural conversion. In addition, Japan is reducing the degree of intervention on the agricultural markets by, for example, abolishing the deficiency payment system, reducing administered prices, and introducing market-oriented farm management stabilization policies. International

announcement will serve as external commitment and help governments break through domestic resistance.

5.3 Export competition

<Export subsidies>

37 Scheduled outlays and quantity commitments shall be reduced to zero through equal instalments over five years. The subsidy element implicit in export credits shall be determined and subject to reduction commitments comparable to those that will apply to export subsidies.

<Exporting state trading enterprises>

38 Quarterly notification requirements shall be made an integral part of the Agreement for all export state trading enterprises. Notifications shall cover the volume and average price of exports to respective trade partners, average procurement prices and average domestic sales prices, and volume of domestic production.

<Food aid>

39 Strengthened rules and disciplines on providers of food aid are required, to ensure that disposal of food surpluses as food aid are not used to circumvent export subsidy disciplines and commitments, do not displace normal commercial imports nor act as a disincentive to domestic production in recipient countries, without reducing the availability of genuine food aid to meet humanitarian needs on a fully grant basis.

<Export restrictions>

40 Following consultations with other members, export restrictions and/or prohibitions shall be quantified and converted into export taxes that shall be bound in members' schedules and subject to reduction commitments. Bound rates of export taxes for all agricultural products based on risks and other factors obtained from past experiences shall be established in members' schedules and subject to a progressive reduction in a similar manner to either one of those mentioned in tariff reductions.

5.4 Special and Differential Treatment of Developing Economies

41 Developing economies shall be excluded, on appropriate graduation condition, from the disciplines to be established unless they are net exporters of the foodstuffs

concerned.

42 A wide range of flexibility should be given to developing importing economies with regard to the rules and disciplines on border measures and their application, in order to ensure their food security.

43 Flexibility should also be given to developing importing economies concerning the rules and disciplines on domestic support and their application, in order not to affect the support necessary to increase food production for domestic consumption.

44 When strengthening the rules and disciplines on exports and state trading, measures to exempt or ease obligations should be taken so as not to cause an excessive burden on developing economies.

45 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.

5.5 Non-Trade Concerns

46 Non-trade concerns such as multi-functionality, food security and safety mentioned in 4.2 and 4.3 should be given due consideration. Although it is difficult to quantify them and link with specific volume of domestic production or import, exporting economies should show sympathy for these non-trade concerns expressed by importing economies. It will be better attended by mutual understanding and closer consultations between importers and exporters rather than through negotiations. In 1998, the APEC Business Advisory Council (ABAC) proposed that APEC Leaders should undertake joint actions to develop the APEC Food System by developing more extensive rural infrastructure, adapting and adopting new farm and food technologies as well as reducing impediments to food trade. APEC Leaders should give a renewed focus on the ABAC's proposal in order to promote agricultural reform and liberalization, while attending to these non-trade concerns.

47 The same argument can be applied to a regional trading agreement (RTA) of a smaller coverage. RTAs have flourished world-wide since the 1990s but agricultural trade is often excluded in order to circumvent domestic resistance by import competing

farmers. On the contrary, RTAs can provide a suitable framework within which both exporters and importers understand each other's situation and form an efficient, secure and safe food system. When RTAs incorporate an appropriate food system, the momentum for agricultural liberalization and reform will increase immensely.

48 Agricultural trade is a major concern of developing economies during the current negotiation. Its liberalization will lead to the development of agriculture and contribute to the reduction of poverty. This is another type of non-trade concern or objective of agriculture negotiation. However, liberalization alone cannot achieve this objective but needs to be assisted by technical cooperation in improving technology, management, and marketing. Developed economies occupies almost half of the total agricultural exports (WTO Committee on Agriculture, 2000) and they also gain from agricultural liberalization. They should be encouraged to strengthen their assistance to developing economies' agriculture, taking advantage of their export gains.

49 For poor food importing countries, the rapid liberalization of their agricultural sector may cause temporary food insecurity, and may force the farmers of less competitive crops to switch to non-agricultural activities. Shifting resources into the manufacturing sector will be possible if they are able to export the labor-intensive products to the rest of the world, particularly the developed countries. The developed countries should not erect trade barriers against manufacturing imports from those countries. In addition, the external shocks may produce serious social disruption since many poor farmers may not be able to adjust themselves. To establish a development fund may be helpful not only to facilitate the process of rural development but also to provide a necessary safety net for the disadvantageous farmers in the poor developing countries.

6.0 Comments on the Harbinson Proposal

50 The Harbinson paper, Negotiations on Agriculture: First Draft of Modalities for the Further Commitments, was released immediately after we circulated our draft and discussed at the Informal WTO Ministerial Meeting in Tokyo for February 14-16 without any agreement. The revised Harbinson proposal was issued on March 19. It was revised for minor items and retains the main contents of the initial demand for reduction of protection levels. The U.S. and the Cairns group claim that it does not go far enough.

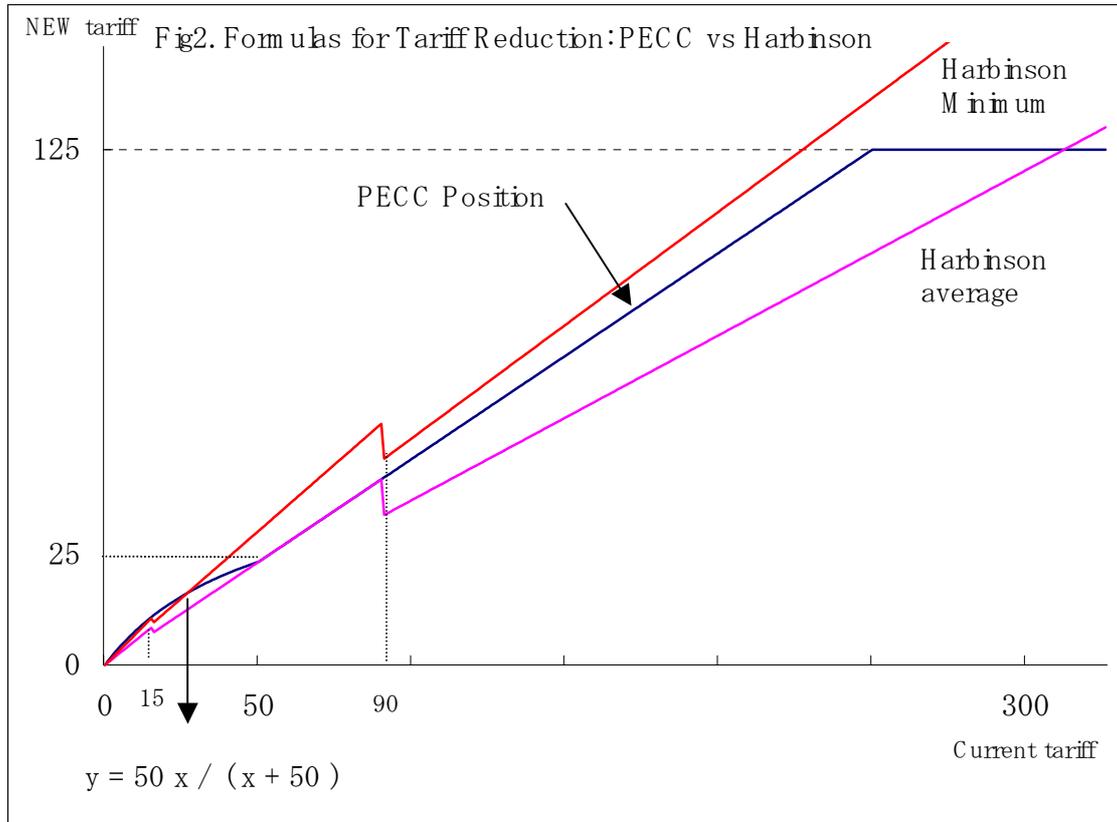
Japan and the EU are also against the revision, with expectations to continue to urge more moderate reductions in protection levels. The WTO had set a deadline of March 31 to establish the modality, the framework for agriculture trade liberalization. But it failed to reach an agreement on the modality by then. It seems to require some more time for our negotiators to converge to a consensus package near the Harbinson proposal. However, only time will not resolve the difference between negotiators but deliberate efforts are needed to urge our negotiators and governments to fill their gaps. Our PECC Position is closer to the Harbinson's than exporters' and importers' but has a clear logic of reforming the global regime of agricultural products as you see below.

<Tariffs>

52 The tariff reductions over the period of five (ten) years shall be as follows for developed countries (figures in parentheses are for developing countries):

- (i) For tariffs greater than 90 (120) per cent the simple average reduction rate shall be 60 (40) per cent subject to a minimum cut of 45 (30) per cent.
- (ii) For tariffs lower than or equal to 90 (120) per cent and greater than 15 (60) per cent the average reduction rate shall be 50 (35) per cent subject to a minimum cut of 35 (25) per cent. (For tariffs lower than or equal to 60 per cent and greater than 20 per cent the average reduction rate shall be 30 per cent subject to a minimum cut of 20 per cent.)
- (iii) For tariffs lower than or equal to 15 (20) per cent the average reduction rate shall be 40 (25) per cent subject to a minimum cut of 25 (15) per cent.

This proposal on tariff reductions for developed countries is similar to ours for tariffs lower than 250 per cent as is shown in Fig.2. Our reduction line is in between the Harbinson's Average and Harbinson's Minimum up to 312.5 per cent but much ambitious for tariffs greater than 312.5 per cent. For example, tariffs on rice in Japan, which is currently equivalent to 490 per cent, would be 270 per cent in this proposal but could not exceed 125 per cent in ours. Harbinson proposes a different scheme for developing countries while our proposal makes a difference only in the implementation period.



<Tariff quotas>

52 Tariff quota volumes which are less than 10 per cent of current domestic consumption shall be expanded to 10 per cent. A member may opt for binding it at 8 per cent, provided that the volumes for corresponding numbers of tariff quotas concerned are expanded to 12 per cent. Developing countries shall not be required to expand tariff quota volumes for SP products. We propose that minimum access commitment shall be abolished and integrated into the commitment of general access opportunities, which shall be increased by 20 per cent. The minimum access expansion at least to 8 per cent may be similar to 20 per cent expansion for most cases, though.

<Special safeguard measures>

53 Special safeguard provisions shall cease to apply for developed countries at the end of the implementation period or two years after the end of of the implementation period. For SP products subject to tariff reductions, developing countries have flexibility to apply a special safeguard mechanism. We also propose that special safeguard measures shall be abolished

<Domestic support>

54 Provisions of Green Box shall be maintained, subject to possible amendments. Direct payments under Blue Box shall be capped at the average level notified for 1999-2001 and bound at that level. These payments shall be reduced by 50 per cent (33 per cent for developing countries). The final bound total AMS (Amber Box) shall be reduced by 60 per cent (40 per cent for developing countries). This proposal on reduction of domestic support is an extension of URAA, though the reduction rate is greater than that of URAA. Our proposal requires rather fundamental reform of domestic support including reexamination of Green Box and elimination of Blue Box.

<Export competition>

55 For a set of products representing at least 50 per cent of the aggregate final bound level of budgetary outlays for all products subject to export subsidy commitments, final bound levels of budgetary outlays and quantities shall be reduced using a formulae and at the beginning of year 6 (11 for developing countries) budgetary outlays and quantities shall be reduced to zero. For the remaining products, at the beginning of year 10 (13 for developing countries) budgetary outlays and quantities shall be reduced to zero. This proposal is along with ours.²

² On August 13, 2003 EU-US Joint Text on agriculture was published in order to promote a grand compromise between exporters and importers. It is motivated by the same incentive as our attempt and provides an alternative set of compromises in the three outstanding issues, market access, domestic support and export competition. However, it does not give concrete figures in market access and is less consistent with economic rationale than ours.