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### **The arrival of Japanese rice in the US**

The abolition of the Acreage-Reduction policy would consolidate international competitiveness of Japanese rice.

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The gap in the price of rice in domestic and overseas markets has narrowed and been reversed; the price of domestic rice has become lower than that overseas. There is a no-tariff import quota on rice, but rice is no longer being imported from China or California. If the domestic price is lower than the price overseas, there is no need to try to maintain the tariff in the TPP negotiations or to continue the Acreage-Reduction policy. This is because in such a situation Japan can increase rice production and export rice at a high price. If the Acreage-Reduction policy is abolished, the competitiveness of Japanese rice will increase due to cost reduction. Rice farming in California is facing a crisis of survival due to drought. The time has come for Japanese rice to arrive in the US.

### **The TPP negotiations and rice**

It was reported that all tariffs including agricultural products were targeted for abolition in the TPP negotiations. That was why there were arguments in Japan over its participation in the negotiations. Japan Agricultural Cooperatives collected more than ten million signatures against the abolition of tariffs on agricultural products and the TPP itself.

The TPP negotiations are criticized not only in Japan but in the US, as they are confidential negotiations. However, every negotiation, not only between governments but also between non-governmental organisations has some degree of secrecy. It is logical to keep the demands or discussions of each party secret. Some Diet members who are against the TPP argue that it is unfair not to get access to the draft text of agreements in the negotiations. But they could not criticize them in public during the negotiations because they would be penalized when they had disclosed what they saw in order to keep the secrecy of the negotiations. After the negotiations are over, they can read and criticize the final agreements. It does not make any difference whether they can read the draft text now or not. However, they can discuss the basic principle of the Japanese government in the negotiations in the Diet so that they may reflect their arguments in the negotiations. The real issue is that the Japanese people have not even

been informed what the aims or basic principle of the government is in the TPP negotiations. They has not been revealed or discussed.

However, regarding tariffs on rice, wheat, beef, pork, dairy products, and sugar, the Japanese government's aim or intention in the TPP negotiation is clear. The Diet's Committees on Agriculture, Forestry and Fisheries in both houses made resolutions that those five items should be exempted from the abolition of tariffs otherwise Japan should leave the TPP negotiations. The Japanese government has been following these resolutions. I'm afraid we do not know the Japanese government's aim or intention regarding other agricultural goods in the TPP negotiations.

Moreover, details of negotiations between the US and Japan regarding these five items have been reported even though they are supposed to be secret. It seems that the US and Japan are close to agreement on considerably lower tariffs on beef and pork. In addition in exchange for the maintenance of the existing tariff on rice they are likely to establish an exceptional import quota which is not subject to a tariff. This is the unsatisfactory outcome I predicted before Japan joined the TPP negotiations. But it was an easy prediction to make.

From Japan's point of view, the existing tariff on rice, which is sacrosanct in Japanese politics, has to be maintained. However, Japan has to deal with the US demand to increase rice exports to Japan. As a result Japan has no choice but to accept the US demand to establish an exceptional import quota for rice with no tariff.

We have seen this before in the previous negotiations regarding rice. That is why it was easy for me to predict. The first time was during the GATT Uruguay Round negotiations held from 1986 to 93. During these negotiations, tariffication- non-tariff measures such as quantitative import restrictions- were replaced with tariffs and minimum access: an import quota corresponding to 5% of domestic consumption in the base period of the negotiations (1986-88) with zero in-quota tariff. Japanese rice, however, was exempted from this tariffication. As compensation, Japan had to expand its import quota in equal instalments starting in 1995 from 4% of consumption ending in 2000 at 8%. Japan realized that was too much so in 1999 they shifted their preference to tariffication and lowered the import quota to 7.2% of the amount of consumption (770 thousand tons). During the Doha round negotiations, Japan did not object to the expansion of the minimum access of rice as a compensation for the special treatment in order to avoid the substantial reduction of tariffs which was required in general.

However, if a no-tariff import quota is established, the amount of domestic production is supposed to decrease by the same amount. Japan used the imported rice as feed for animal or food for aid in order to avoid negative effects on domestic production. However, this causes a huge financial burden as Japan gives imported rice away, almost for free. 270 billion yen of taxpayer's money has been wasted on this. It is a useless waste.

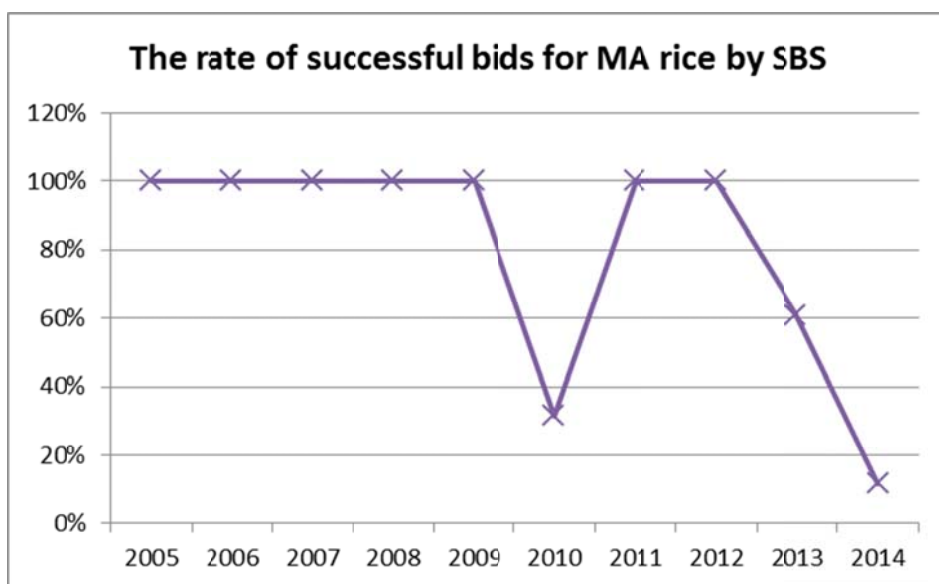
This time, the Japanese domestic agricultural sector insists that they cannot accept the increase in imported rice which will be used as animal feed while the Japanese government is encouraging Japanese farmers to produce rice for animal feed and reduce the supply of rice for direct human consumption in order to maintain the price of rice for direct human consumption.

#### **Rice will not be affected by the TPP negotiations**

However, at present, rice will not be imported from the US even if the import quota is expanded. This is because the difference in the price of rice between the US and Japan has been reversed.

The minimum access of rice is 770 thousand tons, and due to the US's request, 100 thousand tons from this is brought to market for staple food, direct human consumption. Its tender system is called SBS (Simultaneous Buy and Sell). Foreign suppliers (sellers) and Japanese buyers together tender bids at the same time. The bid which offers the highest margin (the price difference between the buyer's price and the seller's price) is selected. The price of the buyer sets the wholesale price in Japan, and the price of the seller sets the import price from the US to Japan; the difference is the price gap between the domestic and overseas markets. When there is a price gap between domestic and overseas markets, traders are always active. Except for the years I will discuss next, this import quota was always completely taken up or filled.

In 2010, when the price of domestic rice dropped by 12%, the take-up or fill rate of this import quota was 31%; in 2013, when the price of domestic rice receded by 13%, it was 61%. However in 2014, when the price of domestic rice receded by 12%, the take-up ratio of this import quota was 12%, which was only 12 thousand tons of imports. Especially, the last time-March this year-, there were only 216 tons worth of successful bids in spite of the Japanese government offering 88,610 tons. The take-up ratio of that import quota was 0.2%.

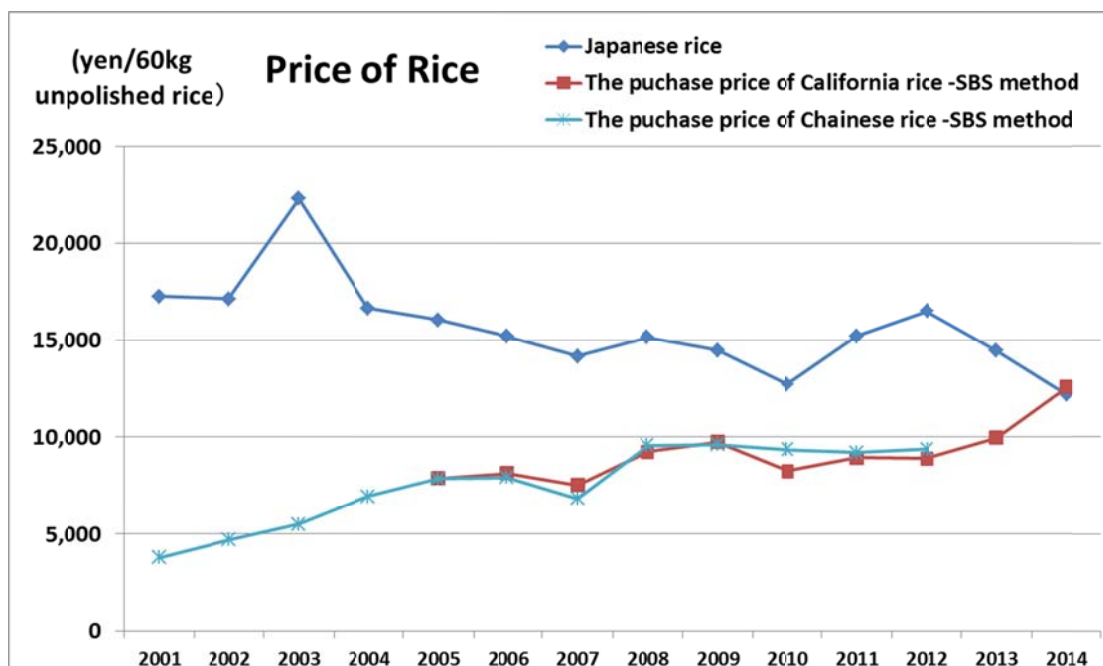


The graph made by the author from Ministry of Agriculture, Forestry and Fisheries publication.

During the present TPP negotiations between the US and Japan, it is reported that the US has requested a new import quota of 215 thousand tons of rice (175 thousand tons for staple food, 40 thousand tons for processing). Japan's response was that 50 thousand tons is adequate. Even the present quota of 100 thousand tons is not fully used so there would be no point or use in adding 175 thousand tons.

A decline in the price of domestic rice in 2014 was caused by price fixing manipulation by Japan Agricultural Cooperatives. In the previous 2 years, the price of rice had been kept high in spite of there being a bumper crop. This was due to the ZEN-NOH, a nationwide organization of Japan Agricultural Cooperatives which holds 50% of rice distribution in Japan, restricting the supply of rice to the market in order to maintain high prices. However, this action accumulated excessive rice stock. The price of rice produced in 2014 dropped as a result of this excess stock.

As a matter of fact, the price of rice was 12,481 yen per 60 kg, which is not so different from 12,711 yen in 2010. As the following graph shows, the price gap between domestic and overseas markets has disappeared.



The graph made by the author from Ministry of Agriculture, Forestry and Fisheries publication

Chinese rice which used to be imported in large quantities has lost its price competitiveness and it has not been imported to Japan since fiscal year 2013. The import price of California rice in fiscal year 2014 was 12,582 yen. The price of domestic rice has been falling since September in 2004, and it was 11,921 yen in April of 2015. The price gap had not only disappeared, the situation had been reversed. Moreover, the quality of domestic rice had been valued 20% to 30% higher than California rice in the Japanese market. So, the domestic rice was more of a bargain than merely the numbers showed.

Even if the rice tariff is abolished in the TPP negotiations, it would not influence Japanese rice farming. If the abolition of tariff on agricultural products was Japan's aim in the negotiations, there was no negative affect on the negotiations regarding automobiles.

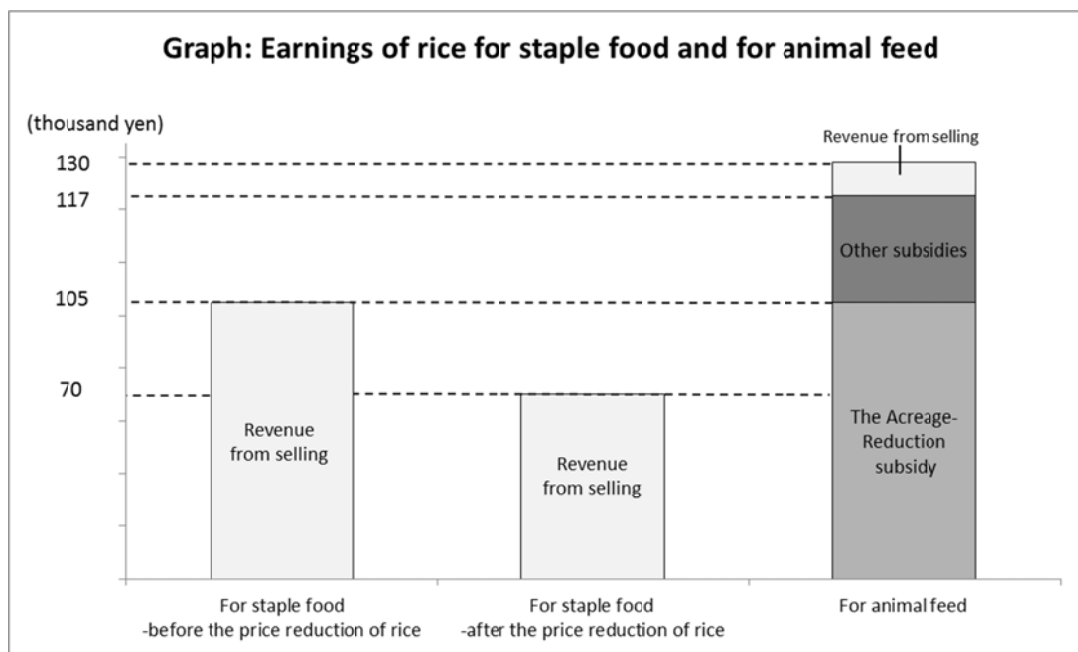
**The Expansion of rice production for animal feed, which will cause the abolition of the Acreage-Reduction policy**

There is a possibility that the price competitiveness of California rice may recover if the price of domestic rice for staple food rises due to the increase in rice used for animal feed over rice production for staple food. This, however, may cause the abolition of the long standing Acreage-Reduction policy.

The Liberal Democratic Party of Japan re-examined the Acreage-Reduction policy after their return to power, and abolished the Farmers' Income Support System introduced in 2010 by the previous administration led by the Democratic Party of Japan. In the final months of the previous Liberal Democratic Party administration, a subsidy for producing rice flour and rice for animal feed had been established in fiscal year 2009 as a part of the Acreage-Reduction policy. Using the resources freed up from the abolition of the Farmers' Income Support System, they raised the level of this subsidy to nearly the same level as the total revenue from selling rice for staple food. In addition, eligible farmers can get a 12 thousand yen subsidy named Sanchikouhukin. Therefore the total level of subsidy for each eligible farmer is 117 thousand yen. Of course, the farmer also gets the revenue from selling rice flour and rice for animal feed.

As long as farmers produce rice flour and rice for animal feed, they can get more than the amount of agricultural revenue from the sale of rice for staple food in 2013 as a subsidy. The agricultural revenue from selling rice in 2014 for staple food declined to 70 thousand yen. In this case, it is much better for farmers to produce rice flour and rice for animal feed, and receive 117 thousand yen from the government; the total income will be 130 thousand yen including revenue from selling rice.

ZEN-NOH have already announced that they are going to buy 600 thousand tons of rice produced in 2015 to be used as animal feed. This is three times more than the amount in 2014 (200 thousand tons). If farmers expand their production of rice for animal feed or for processing, there will be a shortage of rice for staple food. This will cause a rise in rice prices and will have adverse effects on the livelihood of low-income families. Moreover, the expansion of rice production for animal feed or for processing, which is covered by the subsidy will increase the total amount of subsidy regarding Acreage-Reduction. So the Japanese people will not only have to pay high prices for rice as consumers, but also their burden will increase as tax payers.



The graph made by the author from rice prices and average yields of rice etc.

Japan imports 10 million tons of corn from the US for animal feed. If a large amount of rice for animal feed is produced in Japan, the amount of corn imports from the US will decline greatly. In addition, if the amount of rice flour production increases, the amount of wheat import from the US will decline too. Therefore the US will suffer a huge drop in export revenues.

Even the subsidy, which is 5% of the price, can be grounds for a dispute settlement process in the WTO. Due to the declining price of rice for staple food, the amount of Acreage-Reduction subsidy for the rice for animal feed is more than 100% of the amount of the revenue from the rice for staple food. If the US brings a case against the Acreage-Reduction subsidy to the WTO, they will certainly win. In this case, the US can put a retaliatory tariff on cars which will be imported from Japan. The WTO permits its members to make what is called Cross Retaliation where a nation can retaliate in a different sector. For example, when a nation has been affected in the agricultural sector, it can retaliate in the industrial sector instead of the agricultural sector. If the automobile sector, which is seven times bigger than the rice, is damaged, Japan has no option but to abolish the Acreage-Reduction policy.

Under a situation where the domestic price is lower than the overseas price, it is not necessary to maintain the Acreage-Reduction policy and keep a lower domestic rice price because farmers can get a higher price by exporting rice. If Japan abolishes the Acreage-Reduction policy, and if the price of the domestic rice declines to around 8,000

yen, Japan will be able to export rice on a large scale. If the amount of exports increase, the amount supplied to the domestic market will decline, and the price of rice will go up higher than 8,000 yen. In a case where the export price of rice is 12,000 yen, the domestic rice price will also go up to the same level and production of domestic rice will expand. This is called arbitrage in economic terms. The self-sufficiency ratio, which the Japanese agricultural industry sets a value on, increases too.

Japan should abolish the Acreage-Reduction policy and reduce the price of rice. For full time-farmers affected by this in the short run, the Japanese government can pay the compensation directly from public finances. Japan can cut 400 billion yen, which was earmarked for the Acreage-Reduction subsidy, and use part of it instead as financial resources for the compensation. This expenditure will no longer necessary as the rice price increases to the international level. Moreover, part-time farmers whose scale are small and cannot cover their expenses from the revenue of rice sales, will quit farming and rent their lands to full-time farmers. If high-efficiency, full-time farmers take over that land and expand their scale, they will become more cost-efficient. At present, due to the Acreage-Reduction policy, the improvement of varieties in order to increase the yields is forbidden for governmental researchers, and the average amount of rice yield in Japan is 60% smaller than that of California. The costs are defined as dividing the cost per area by yields. So if yields increase, caused by abolition of the Acreage-Reduction policy, the cost will be reduced. Then the competitiveness of Japanese domestic rice will improve due to expansion in scale and the increase in yields.

### **The arrival of Japanese rice in the US**

How about California rice?

The US produces short-grain rice variety: Japonica rice, whose quality is similar to Japanese rice. Its total production amount in 2013 was only 140 thousand tons. In addition, its main production area, California, was hit by a serious drought, and the governor of the California state gave an administrative order for some institutions to reduce water consumption by 25%. The damage to agriculture, which uses 80% of the water in the whole state, is huge. Because the snowmelt of the Sierra Nevada has decreased, Californian farmers have increased their use of groundwater year by year in order to cover the shortage of snowmelt. Now the groundwater has almost dried up.

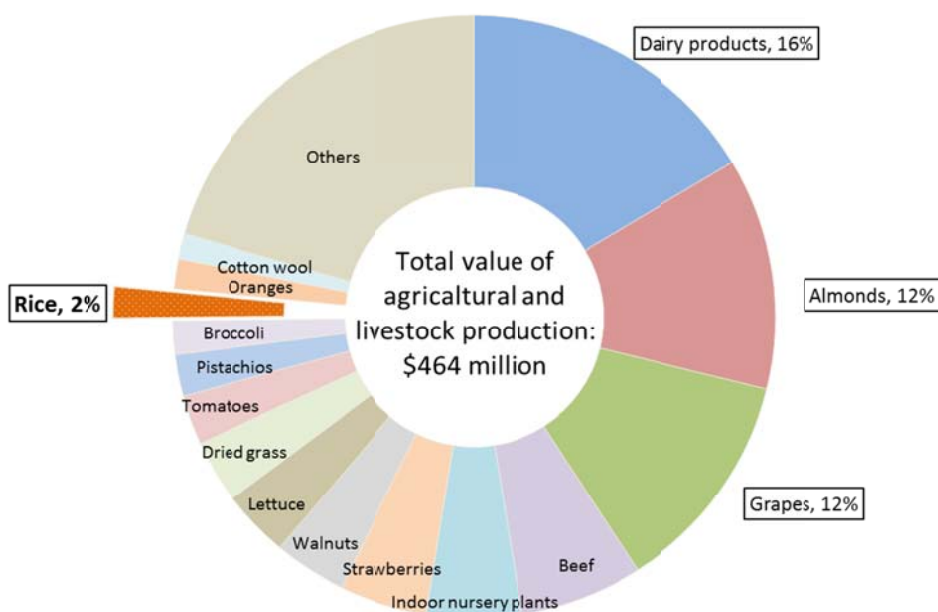
Moreover, there is an argument between farmers in Almond who want to make a



waterway from the river in order to irrigate farmlands similar geographically to desert, and fishermen of salmon and trout who want to stock the river with salmon fry and trout fry and who expect them to swim to the Pacific Ocean. In Japan, the Californian rice industry is recognized as a major power, but rice is only ranked 13<sup>th</sup> in the amount of agricultural production—lower than that of almonds, lettuce, or broccoli in California. In addition, a lot of water is used to produce rice. So if the production of almonds which have higher potential for profit is given preference, rice farming is likely to be reduced. This has already been proposed.

The amount of rice production in 2014 was reduced by 22% from the previous year, and it was at the lowest level since 1999. According to the US Department of Agriculture, the area for rice planting in 2015 is predicted to be reduced by more than 14% compared to the previous year. The water shortage in California is serious and long-term. The time may come when the production of rice disappears from California.

### The breakdown of agricultural production values in the state of California



The graph made by the author from USDA’s Economic Research Service.

A Japanese trading company noticed that the price of Japanese rice has become lower than California rice, and began to consider exporting Japanese rice to the US. In the near future Japanese rice, which is one of the highest quality types in the world, will spread remarkably in the US market. At this time people will laugh remembering the

TPP negotiations and the Japanese government's attempts to maintain tariffs on rice.

(This article was translated from the Japanese transcript of Mr. Yamashita's column published by "FISCAL & FINANCIAL BUSINESS REVIEW" in July 2015.)