

Agricultural Policy & Trade

Does Free Trade Threaten Food Security?

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What are the root cause of the world food problems?

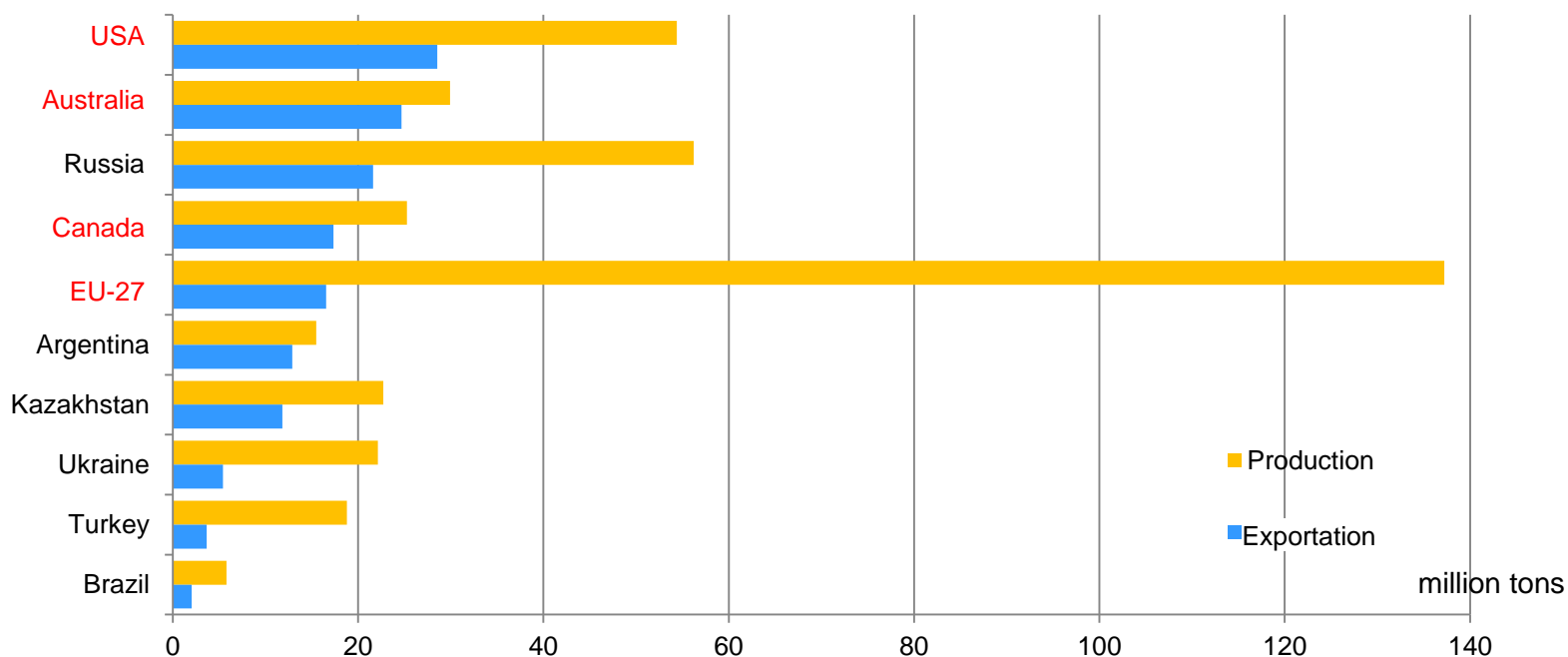
- In developing countries with high population growth, the demand for food has increased. In developed countries, it has stabilized.
- In developed countries, farm technology has greatly improved, while in developing countries it has been stagnant.
- Thus, generally speaking, **food prices in developing countries have increased and those in developed countries decreased.**

What are the problems?

- The decrease of food prices in developed countries have reduced the income of farmers. The government tried to support prices for farmers. This resulted in more production and surplus. Those countries tend to be exporters.
- The increase of food prices in developing countries has damaged consumers or workers in the other industries. The government tried to decrease food prices. This reduced not only farmers' income but production. Developing countries tend to be importers of food.

Major exporters of wheat

Production and Export of Wheat by Major Countries



Source: USDA, Production, Supply and Distribution database

Price matters in Food Security

- Price changes always equalize supply and demand.
- Food is sufficient for the world population. **Obesity and waste** in developed countries but, in contrast, **hunger and loss** in developing countries.
- The poor in developing countries **cannot afford to buy food at world prices**. The prices are too high for them. “Food security” is used in this sense in the FAO..

What does food security consist of?

- Food security consists of food **affordability** and **accessibility**.
- Some nations lack both.
 - (1) Some people in developing countries **cannot afford** to buy food. A food crisis occurs when food prices soar as in 2008..
 - (2) Some people in developing countries **have no access** to food due to the lack of transportation or distribution infrastructure, even when food is delivered at ports.
- **Economic growth and/or building infrastructure** is essential for overcoming a food crisis.

Two scenarios of high food prices

- A hike in food prices exacerbates food insecurity in two cases.
- **In the long run**, food supply **may be insufficient** for the growing world population. On average, prices might be too high for the poor..
- **In the short run**, the issue is **volatility**. Occasionally, food prices soar as in 2008, while they are low on average.

Increase of productivity matters

- So far, the increases in productivity outpacing growth in demand have resulted in a downward trend in the real price of grain. The current grain price is lower than it was in the '60s or '70s in real terms.
- Arable land has slightly increased. The increase in productivity is mainly attributed to an **increased yield per hectare**. **Investment and innovative technologies** are indispensable in this regard.

What is needed for food security

- **Food storage** saved for a rainy day **or expansion of world food production is a better way** to manage the situation. **The maintenance of agricultural resources** such as water and land serves the purpose of food security in the world.

Improvements for the Food Supply

- Now, only a few countries are exporters. More and more countries are dependent on them.
- Some exporting countries, however, suffer from production **negative externalities** such as **soil erosion, salinization, or depletion of groundwater**. **Soil and water in exporting countries are international commons in the interdependent world.**
- Without internalizing those negative externalities or properly managing resources, agriculture might not be sustainable and the food security of importers would be jeopardized. **Water and soil (land) should be properly priced and conserved.**

From GATT to WTO

- Three basic principles of GATT
 1. most favored nation(article 1)
 2. tariff bindings(article 2)
 3. national treatment(article 3)
- The WTO's Agreement on Agriculture
 1. domestic support
 2. tariffication
 3. export subsidies

Tariffication

- Only tariffs are allowed.
- Quantity import restrictions, variable import levies and any other non-trade barriers are prohibited. (article 4.2 in AoA)
- SPS measures should not be used as disguised import restrictions and based on scientific evidence.(SPS agreement)

Subsidies

- Domestic support

Green box (general services, some direct payments in Annex 2 of AoA)~no reduction is required

Blue box (direct payments under production limiting programs in article 6.5 of AoA)~no reduction is required

Amber box (AMS) ~reduction is required

- Export subsidies ~reduction is required in terms of amount and quantity

The US Policy

- Shift from price support to deficiency payments in 1960s
- Elimination of deficiency payments and introduction of decoupled payments in 1996
- Reintroduction of deficiency payments(counter-cyclical payments) in 2002
- Introduction of crop insurance in 2008 and elimination of decoupled and other payments in 2014

The EU Policy

- Price support in 1980s caused serious glut. Subsidised exports for its disposal caused trade dispute with the US. → UR negotiations
- Reduced cereal price support by 29 % and introduced area payments to offset the loss of farmers in 1993. → reduction of subsidised exports
- Single payment scheme from 2003

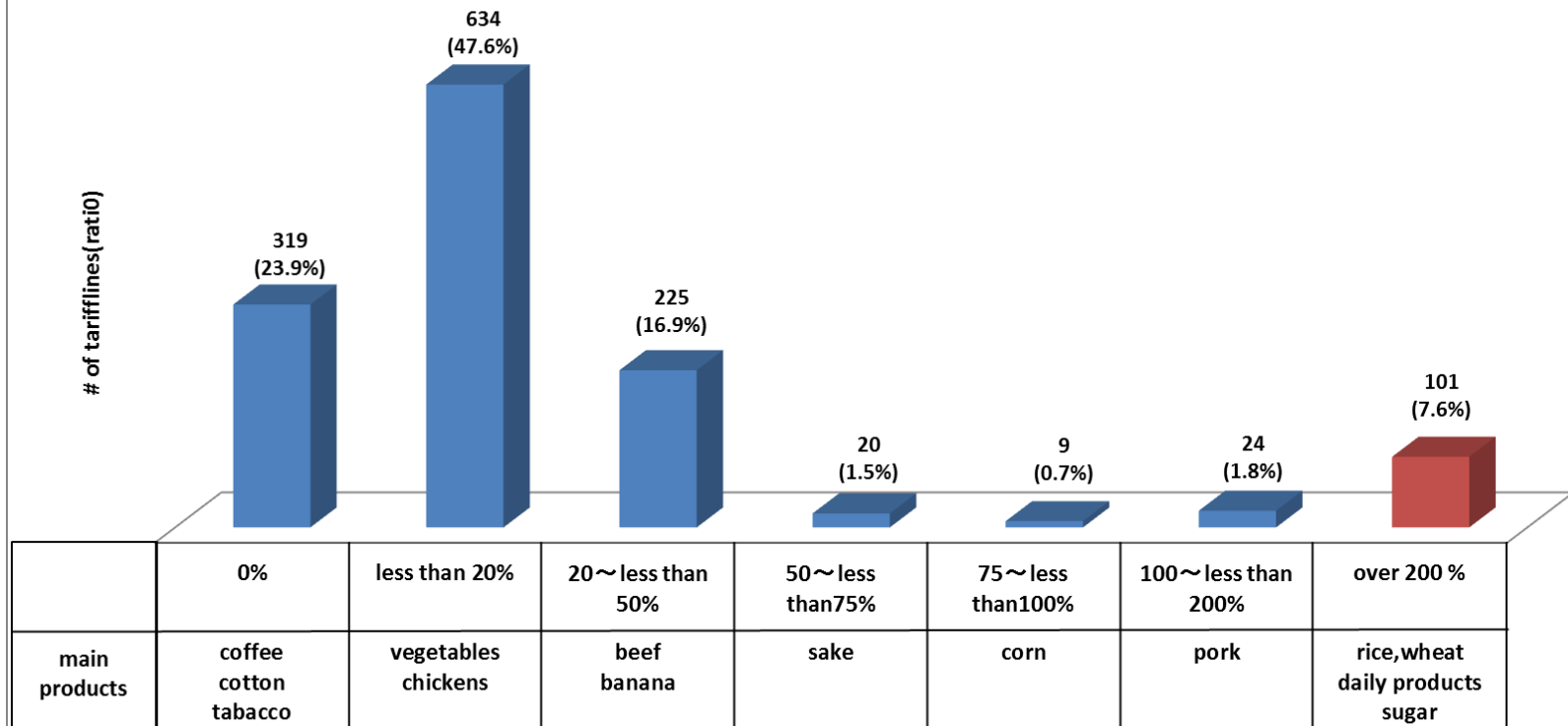
Comparison of agricultural policies

Country	Japan	US	EU
Decoupled direct payments	No	Yes	Yes
Environmental direct payments	Partial	Yes	Yes
Direct payments for less favourable regions	Yes	No	Yes
Production restriction programme for price maintenance	Yes	No	No
Tariffs* over 1000%	1 (tubers of konnyaku)	None	None
Tariffs of 500-1000%	2 (rice, peanuts)	None	None
Tariffs 300-500%	2 (butter, pork)	None	None
Tariffs of 200-300%	6 (wheat, barley, skim milk powder, starch, beans and raw milk)	None	None

* Specific tariffs are applied to tariffed products in Japan and the EU. Here, these specific tariffs are estimated as their equivalents of ad valorem tariff rates, taking into account international prices.

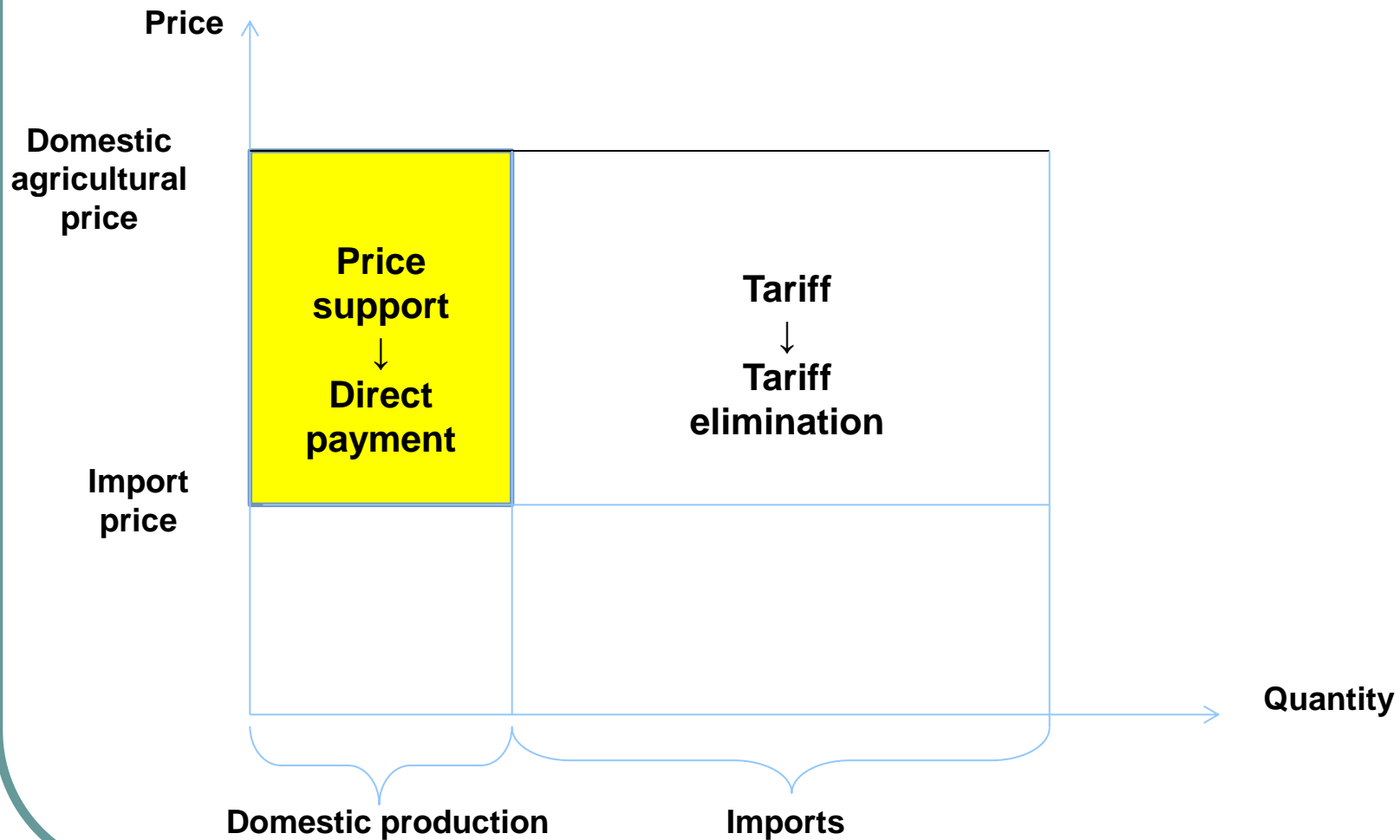
Some Japan's tariffs are prohibitively high

Japanese tariffs on agricultural products



source)MAFF

Change from Price Support to Direct Payment eliminates Consumer Burden. But TPP is disappointing



Price Support backed by Tariffs vs. Direct Payments

- Price support higher than an international price decreases demand for its own agricultural industry. Thus, Japan's farmland indispensable for food security severely declined from 6.1 million hectares to 4.5 million hectares from 1960 to 2005.
- **Direct payments to farmers do not distort the market.** They will directly address and target **the real needs, such as the farmer's income and food security.**

Quiz

1. US is the largest exporter of agricultural products. Then which country is the largest importer of agricultural products?
2. The largest beef exporters are India, Brazil, US, Australia. Then which country is the largest importer of beef?
3. 6 countries of the top 10 largest exporters belong to the same region. What is it? How is Australia ranked in terms of an exporter?

Japanese agriculture is not competitive?

- The Japanese agricultural sector claims that it is too small to compete with those of other countries. Scale is certainly advantageous when other conditions are equal.
- But there are large differences among countries in terms of the crops they grow, the fertility of their soil, crop yields, and quality. **Scale cannot be the only criterion for comparison.**

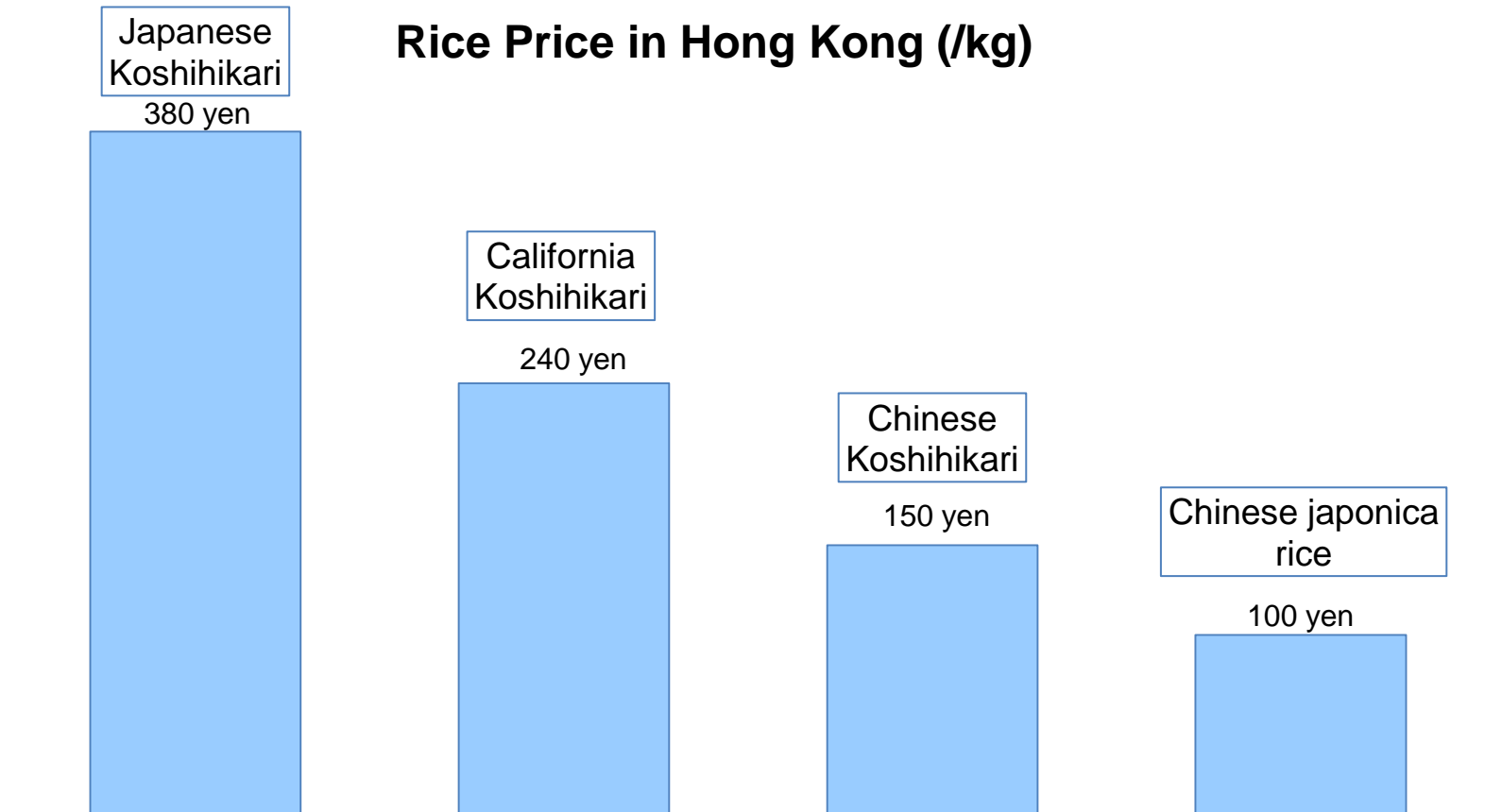
Scale is not everything

- Even the average farm size in U.S., the world's largest exporter of farm products, is only 1/18th that of Australia.
- The agricultural scale of the EU might be 10 percent that of the US and 0.5 percent that of Australia, yet thanks to high productivity and direct government payments, the EU can export grain. The wheat yield of the United Kingdom is five times higher than in Australia.

Quality as well as Price Matters!

- Just as there are sizable price differences among various types of cars, so too are there price differences among various types of rice, reflecting the **quality** of rice.
- In Japan, Koshihikari rice grown in the Uonuma district of Niigata Prefecture sells for a price 1.5 times higher than that produced in other areas. It is a mistake to argue that high-grade rice cannot compete with rice of inferior quality because it is so much more expensive.

Japanese rice is highly evaluated



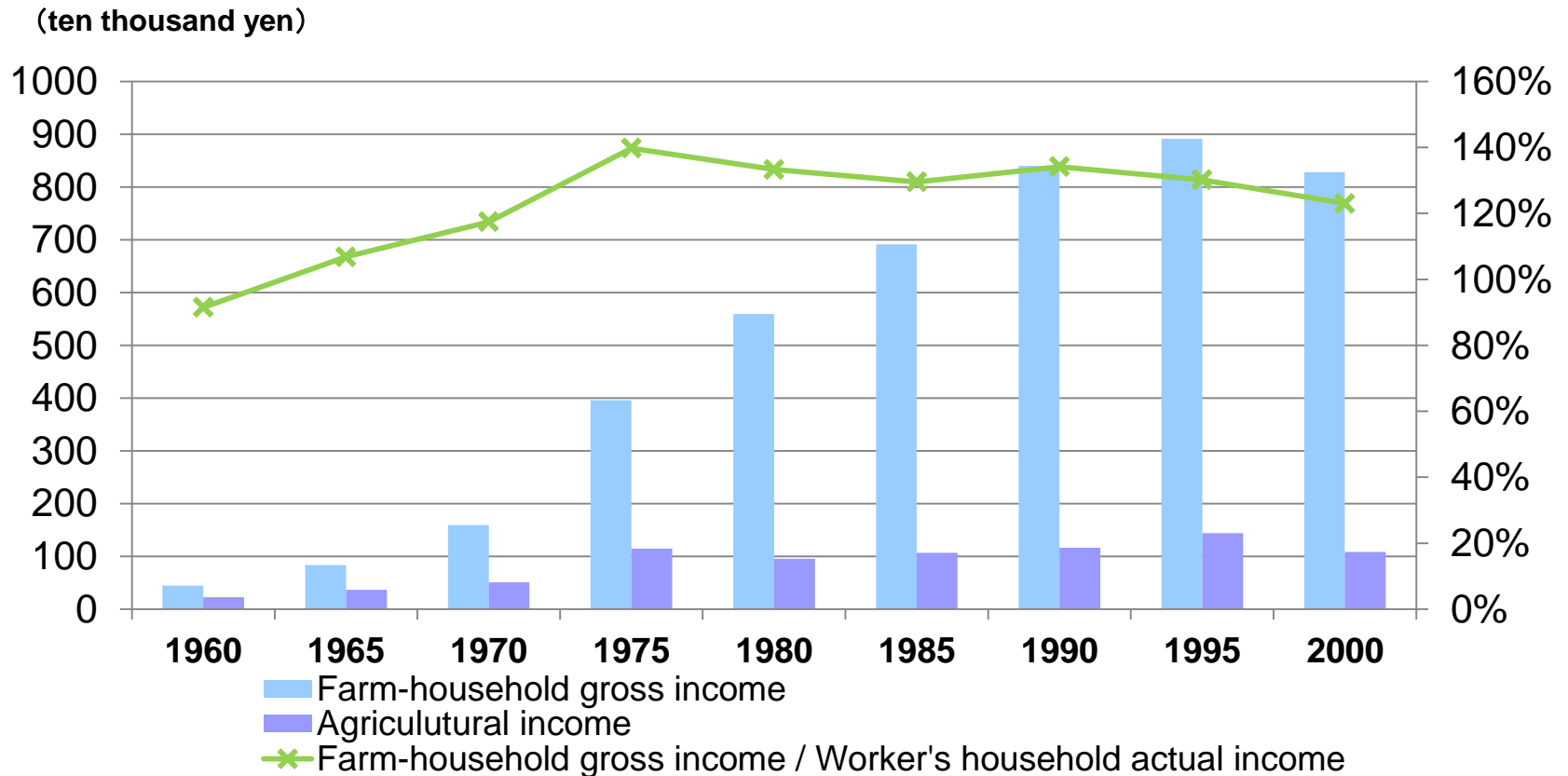
What has the Japanese government done for the farmers?

- After World War II farmers were better off than workers. Around 1955 when the industry fully recovered from the war damages, farmers turned out to be worse off than workers.
- The Japanese government **increased the rice price** for farmers. This caused the glut of rice. The government introduced **the acreage reduction or set-aside program** in 1970 by giving farmers subsidies for reducing rice production.

What has the Japanese government done for the farmers?

- The government also enticed industries by subsidies or tax exemptions to install factories in rural areas so that people who stopped farming could work for those factories.
- The high rice price and industrialization of rural areas has made great contributions to the increase of farmers' income and bridged the gap of the income level between urban and rural areas. This sharply contrasts with China.

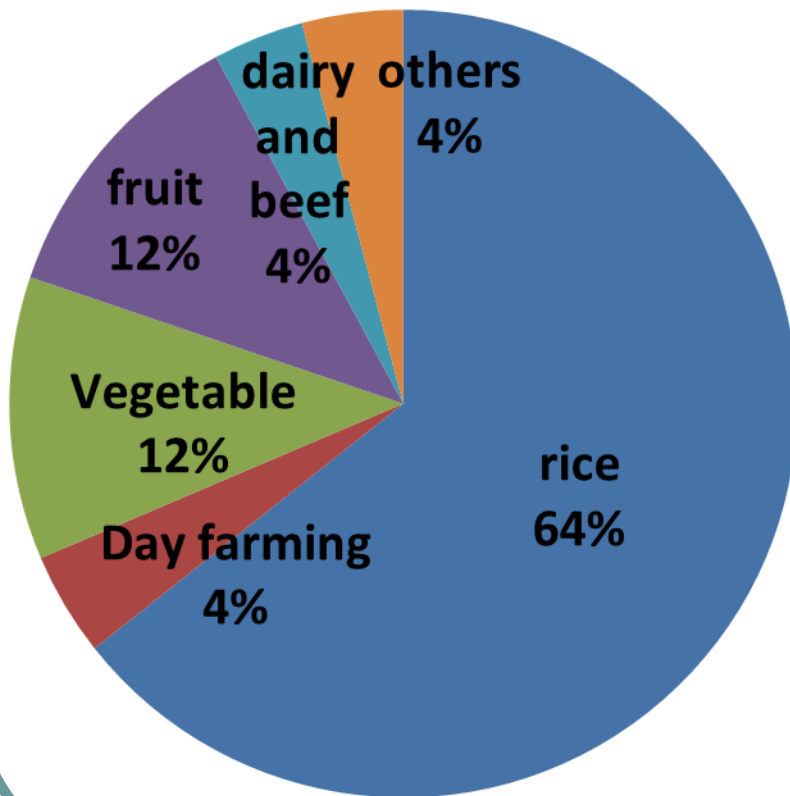
Farmers are better off



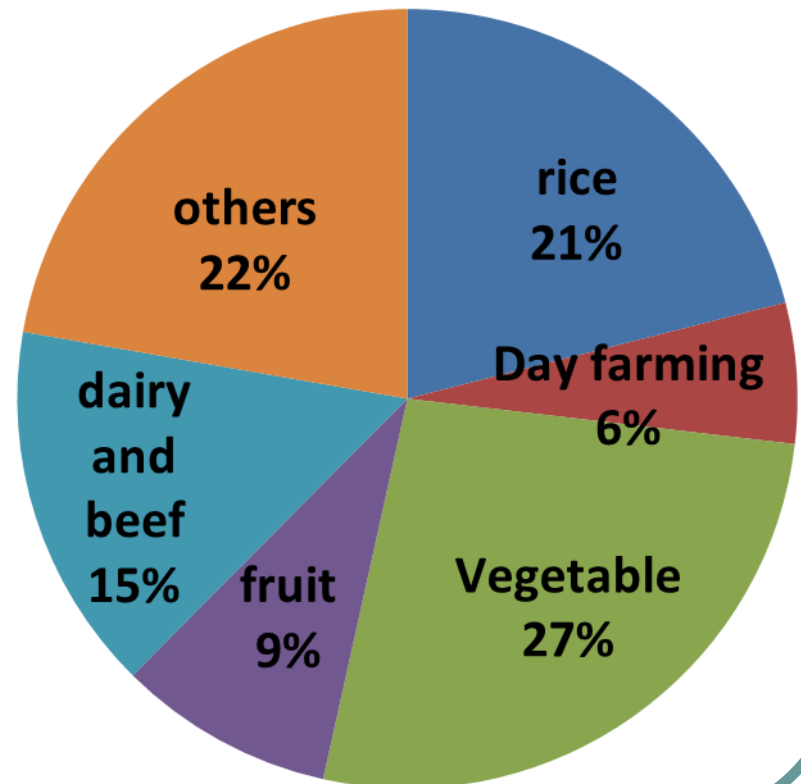
source:MAFF, Ministry of Internal Affairs and Communications "Household economy survey"

How inefficient the Japanese rice industry is!

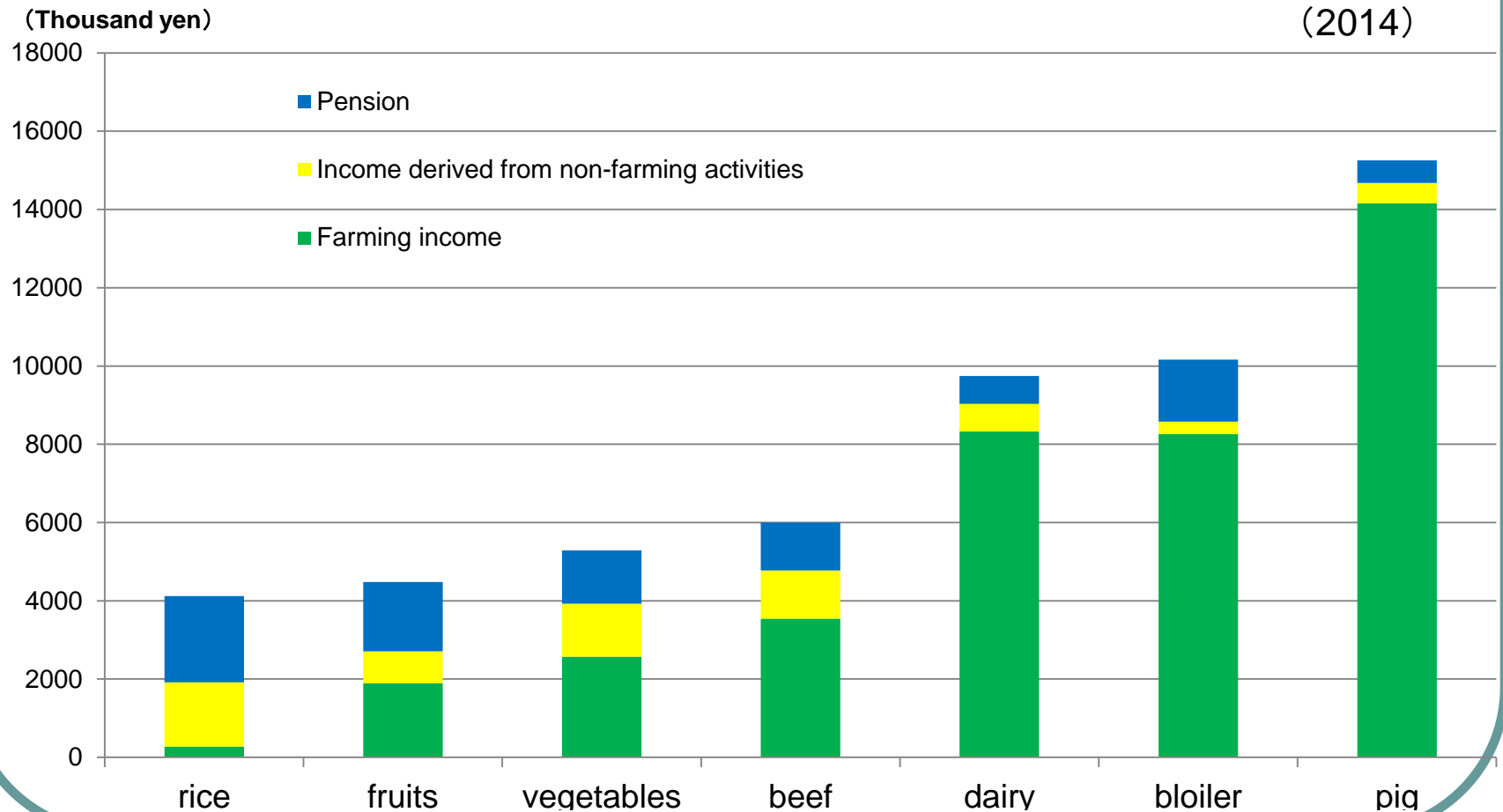
The number of farmers



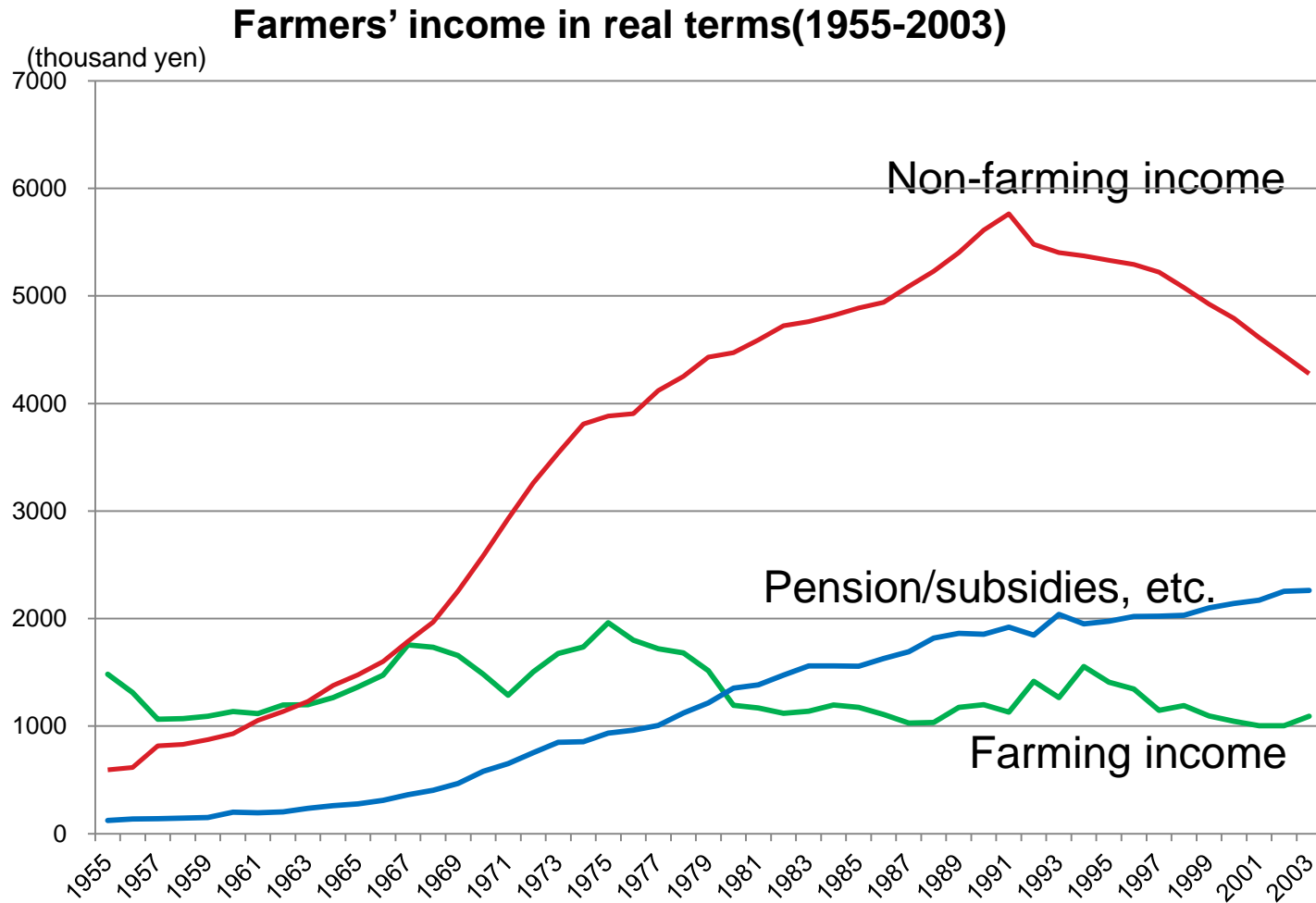
The value of production



Farming income is small for rice farmers



Non-farming income and pension is much greater than farming income in the farm sector as a whole



Who blocks TPP negotiations and agricultural policy reform?

- JA (agricultural cooperatives) is the only legal person in Japan which can make any kind of business including sales of farm inputs and products, insurance, and banking.
- **By pegging the rice price high with tariffs**, JA could maintain a lot of small-scale part-time farmers who have been the sources of JA's political power and have deposited their earned income or pension in JA. JA is the second largest bank in Japan.
- JA collected 11 million signatures against TPP. This triggered the embarkation on the Abe administration's JA reform. But it is a partial reform.

Japanese agriculture needs Free Trade

- The Japanese population is aging and decreasing. The domestic market for Japanese agriculture protected by high tariffs will be shrinking.
- In order to survive, Japanese agriculture has to **create overseas market. Free trade agreements** which eliminate tariffs on Japanese farm products **are indispensable for Japanese agriculture.**

Free Trade damages Food Security?

- We would have no other way to expand our food production in food crisis. This, however, needs **agricultural resources** for production.
- **The increase of imports may reduce those resources.** This is why Japan has used “**food security**” as a pretext for maintenance of high tariffs and resisted tariff cuts.
- On the other hand, Japan’s **set-aside program** of rice production in order to peg a high price has resulted in **the loss of 30 percent of the paddy fields** in the last 40 years.

Overview of rice policy

One trillion JPY burden
on consumers

Reduced supply from acreage reduction

400 billion JPY fiscal burden
300 billion JPY acreage reduction
subsidies
100 billion JPY direct payments
for rice with acreage reduction
as a condition

High price of rice

600 billion JPY consumer
burden

High cost structure of rice

- High rice price encourages small part-time farmers, **the scale of full-time farming does not increase**
- **The yield by area does not increase** (60% less than yield in California)

Negative influence on food security assurance

Reduction in paddy field area

The rice paddy set-aside program

- While paying the subsidy of 400 billion yen to entice rice farmers to join the program, the government forces consumers to pay an additional amount of 600 billion yen for the price artificially inflated by limiting supply through the program. It's **doubly wasteful**.
- The high price has reduced rice consumption.
- **Japan must have eliminated tariffs on all products, rice in particular**. Without tariffs we cannot maintain any domestic cartel prices.

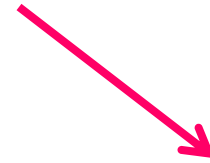
The program increased costs

The cost of agricultural product per ton equals to production cost per unit area divided by tonnage of agricultural product produced (yield) in such unit area.

- **The larger the farm size, the less the production cost per unit area.** But many small-size inefficient rice farmers in Japan continue to grow rice by high rice price.
- **The larger the unit rice yield, the smaller the production cost.** But the rice paddy set-aside program is designed to reduce rice yield and production. Average rice yield in Japan at the moment is about 60% smaller than that in California.

Income=sales (price × amount produced) - costs

Cost per tonne



Cost/hectare

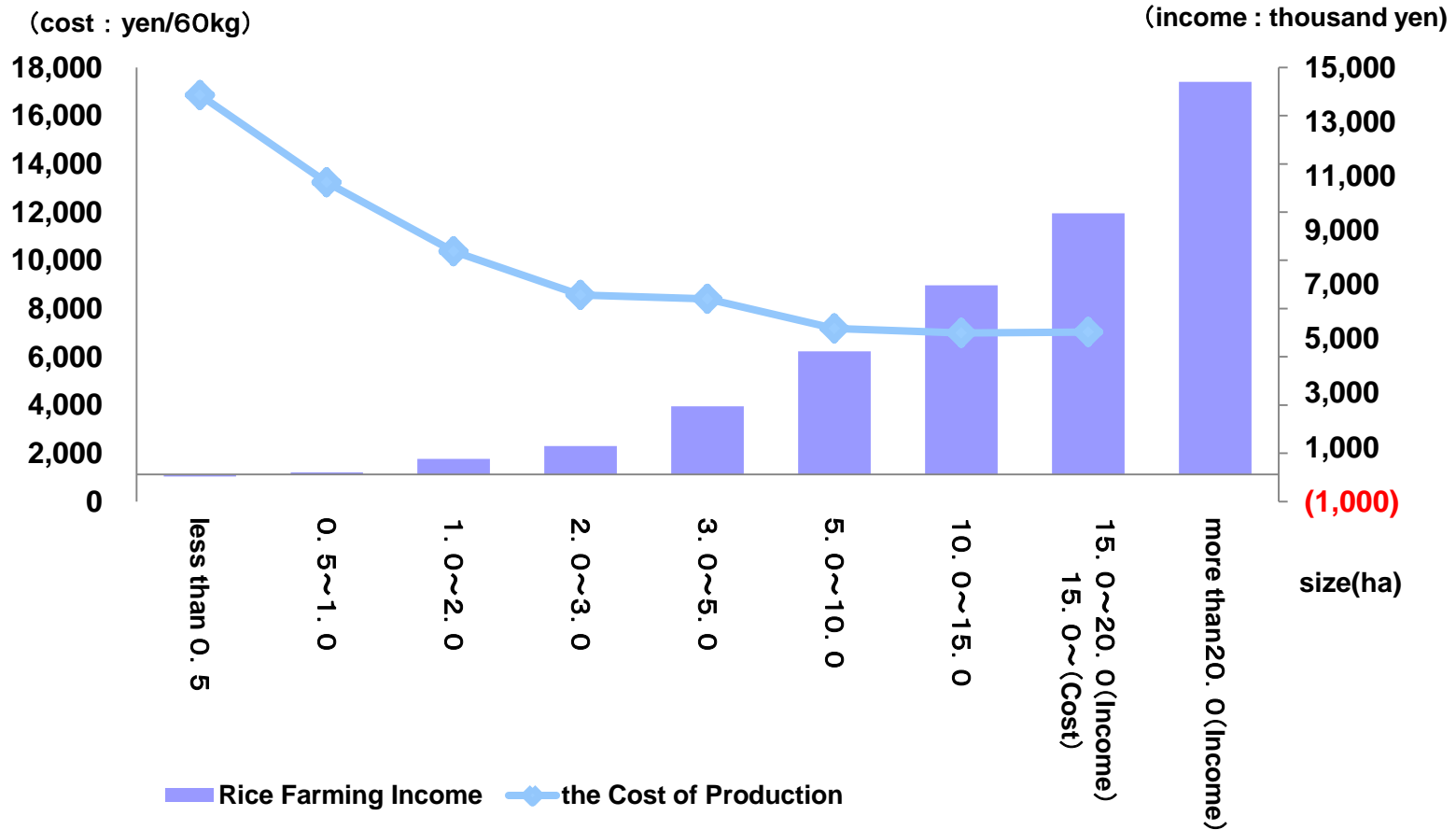


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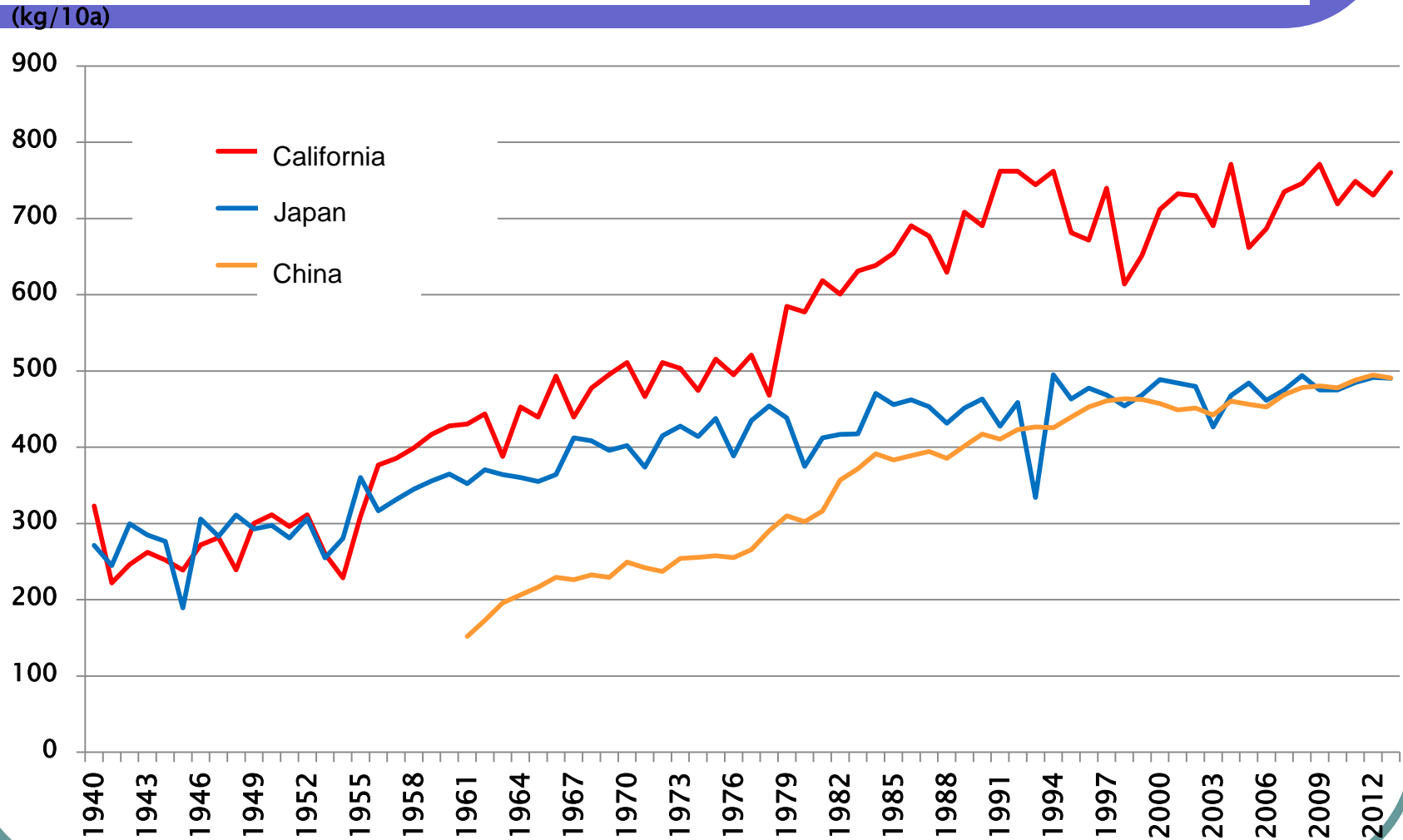
Harvest/hectare



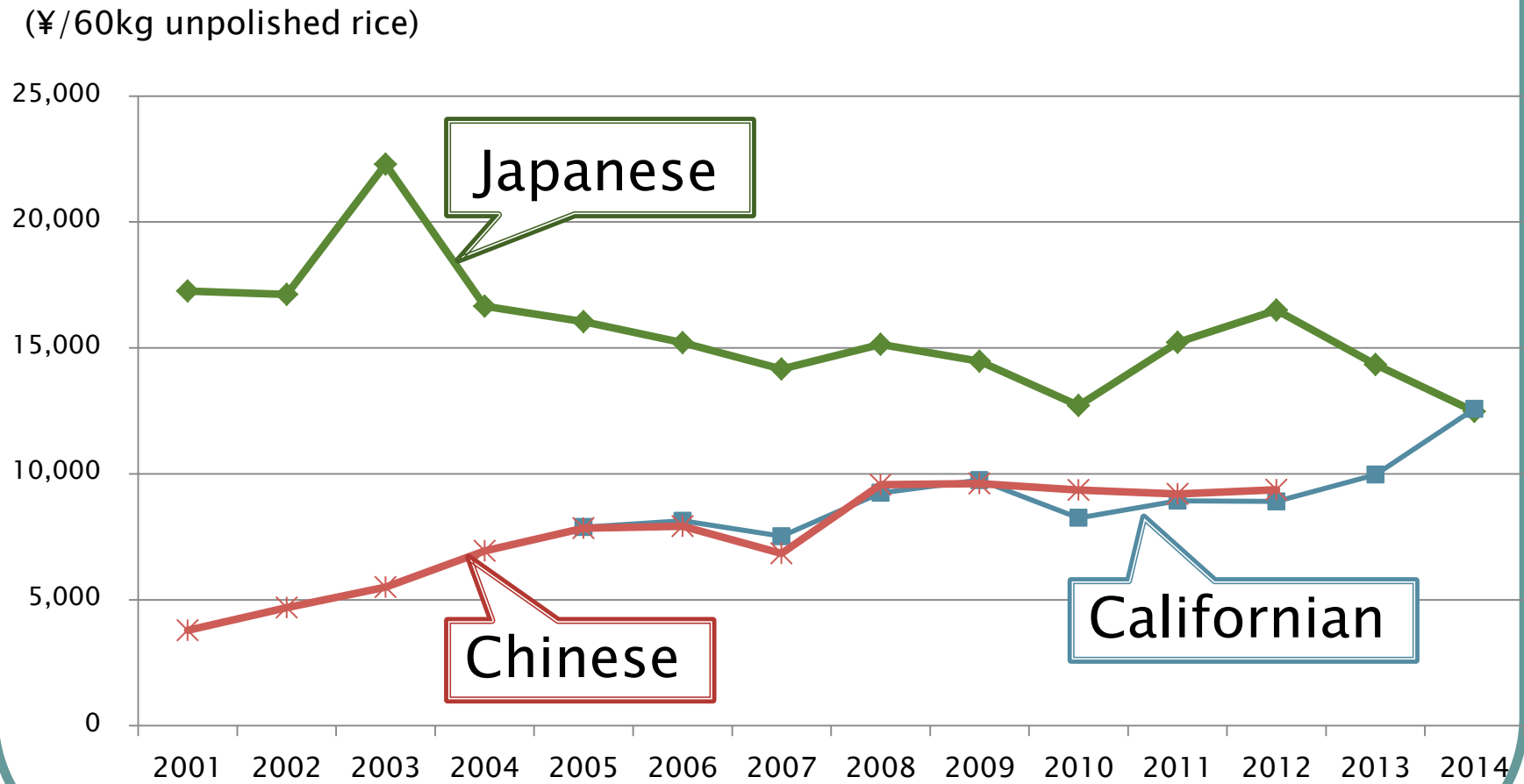
The larger the size, the more farm income



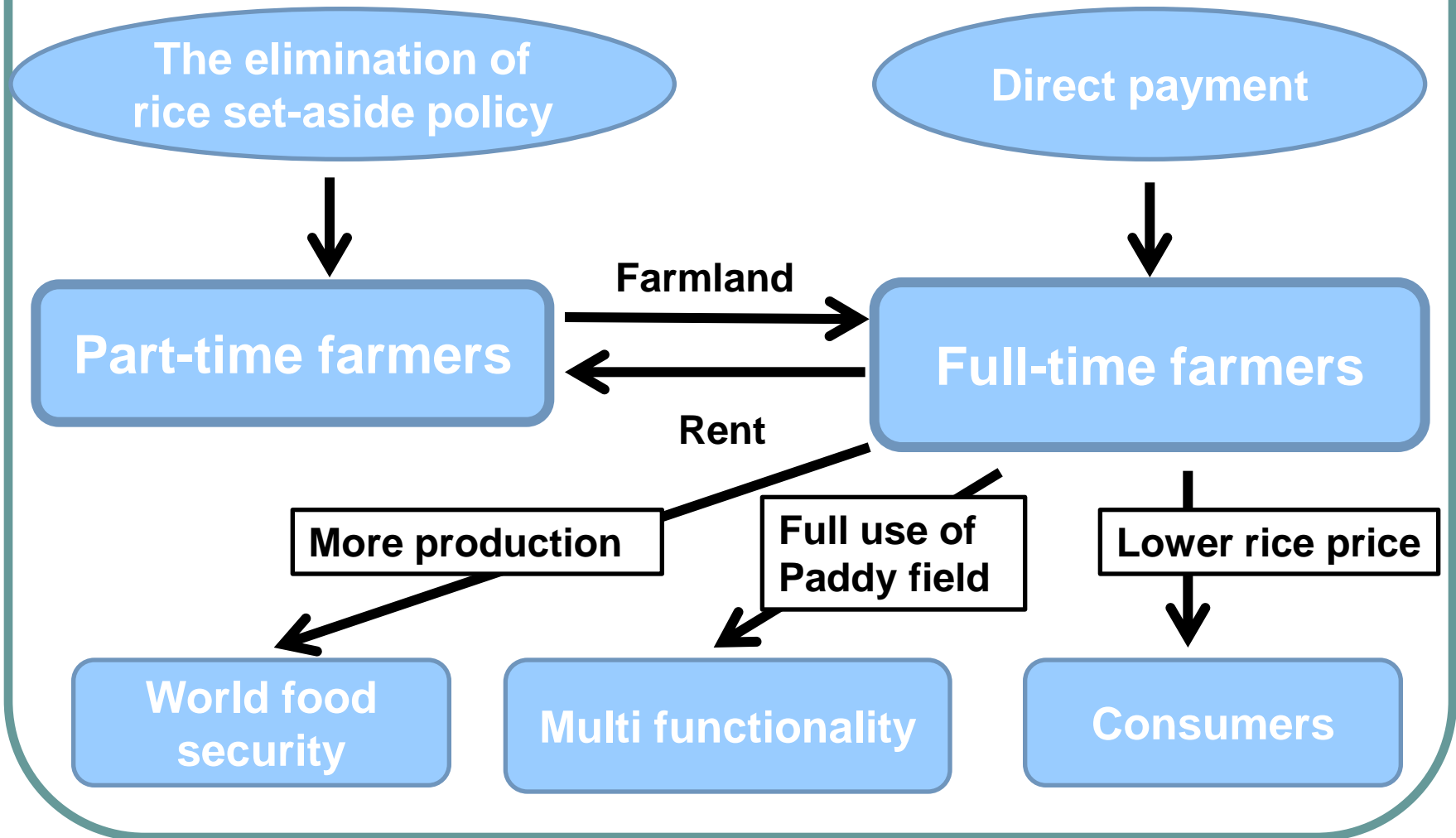
Stagnation of yield by area due to acreage reduction



Price differential between internal and external rice disappears



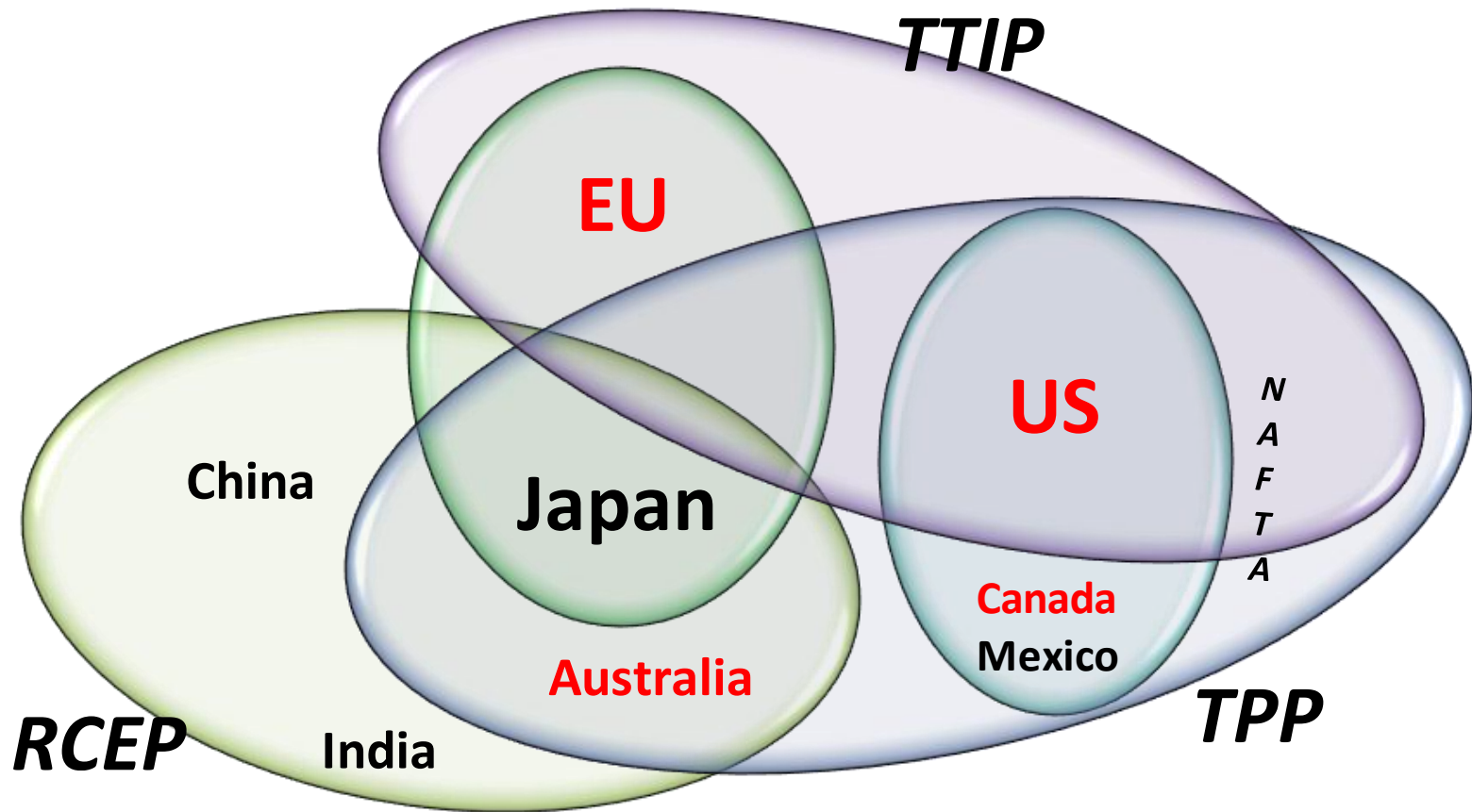
A Desirable Policy



Safety or Brand matters

- We have to meet the increasing demand for the quality control in the international food market. Safety as well as taste matters
- Traceability, HACCP(Hazard Analysis and Critical Control Point System), GAP (Good Agricultural Practice),
- Brand-name such as GI(Geographical Indication)

Mega-FTAs



The relationship between WTO and TPP

WTO

SCM
(Subsidies)

Tariffs
Service
SPS
TBT
TRIP
Government
Procurement

FTA(TPP)

Trade and Labor
Trade and Environment
Trade facilitation
competition
State owned enterprises
(SOE)
Investment

Many Misunderstandings on TPP

- TPP will not replace WTO; TPP will not change the basic structure of WTO's SPS agreement but require more transparency for the establishment of SPS measures.
- ISDS clause will not damage any regulatory measures such as those on food safety or environment as long as those measures treat domestic and foreign entities alike.

Market Access improves

- Tariffs on both agricultural and industrial goods will be reduced or eliminated.
- Service trade will be more liberalized because commitments were made on not positive list but negative list basis.
- More shops and bank branches can be operated in other TPP countries.
- More access to government procurement

New trade and investment rules

- Export taxes will be banned.
- Race to the bottom by manipulating labor and environmental regulations will be disciplined.
- ISDS protects overseas investment from discriminatory measures.
- Level playing field between SOEs and private companies. New disciplines on China.

TPP will expand or accelerate other FTAs

- The essence of FTA is discrimination: it is disadvantageous not to join it.
- Mega-FTA has domino effects: Korea, Taiwan, Philippine, Thailand and Indonesia show their interest to join TPP.
- China is also interested in TPP. RCEP is accelerated by TPP to say the least.
- EU become more eager to have FTA with Japan.

The TPP and Japan's agriculture

- **Tariffs on rice, wheat, sugar, butter and smp will be maintained** + increased tariff rate quota of rice, wheat, butter and smp; decreased surcharges on wheat within quota; decreased tariffs on beef, pork, whey and cheese + safeguards

The TPP and rice

- 70,000 tonnes TRQ for US, 8,400 tonnes TRQ for Australia for direct human consumption.
- The Japanese Government buys up the same amount of Japanese rice. Thus, additional import will not change the total amount of supply in the domestic rice market at the cost of Japanese taxpayers. It will not decrease domestic rice price. Farmers are as well-off as before.

Free Trade helps Food Security

- The elimination of the set-aside programme or price support coupled with the introduction of direct payments will lead to lower prices.
- Japan will no longer need tariffs. It will export rice while importing wheat or beef under free trade. This will keep our farmland from deteriorating or vanishing.
- Fully making use of resources will expand Japan's agricultural production. This will increase world supply and contribute to the food security of the world.

Free Trade is a basis for Food Security

- In case of a food crisis wherein Japan can no longer import wheat and beef due to the disrupted transportation, Japan will stop exporting rice and rather start consuming it in order to survive.
- Free trade does not help an importing country during such a crisis, but **exporting some products in normal times under free trade maintains agricultural resources in case of need.**
- **Free trade is indeed a basis of food security.**