

Agricultural Policy Reform

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Agricultural policy in Abenomics

- The Abe administration proposes to **double farm income** ($I = PXQ - C$) over the next 10 years.
- Three methods have been proposed.
 - P. help farmers **process or market** farm products or provide **catering or accommodation service** (agri-tourism) in order to raise their added value
 - Q. double the **export** of farm products
 - C. **increase the farm size** by establishing organizations which borrow and accumulate farmland to rent out to agricultural actors.

Does it work?(1)

Its offerings largely recycle past governmental initiatives that have delivered little results.

- The previous DPJ administration proposed the same policy to raise the added value of farm products. Most farmers work part-time and do not have time or skill to work on processing agricultural products or managing guest houses.
- Abe's first cabinet proposed doubling exports in 2007 but exports actually fell. Unsellable or uncompetitive products cannot be sold no matter how great the sales promotion is.

Does it work?(2)

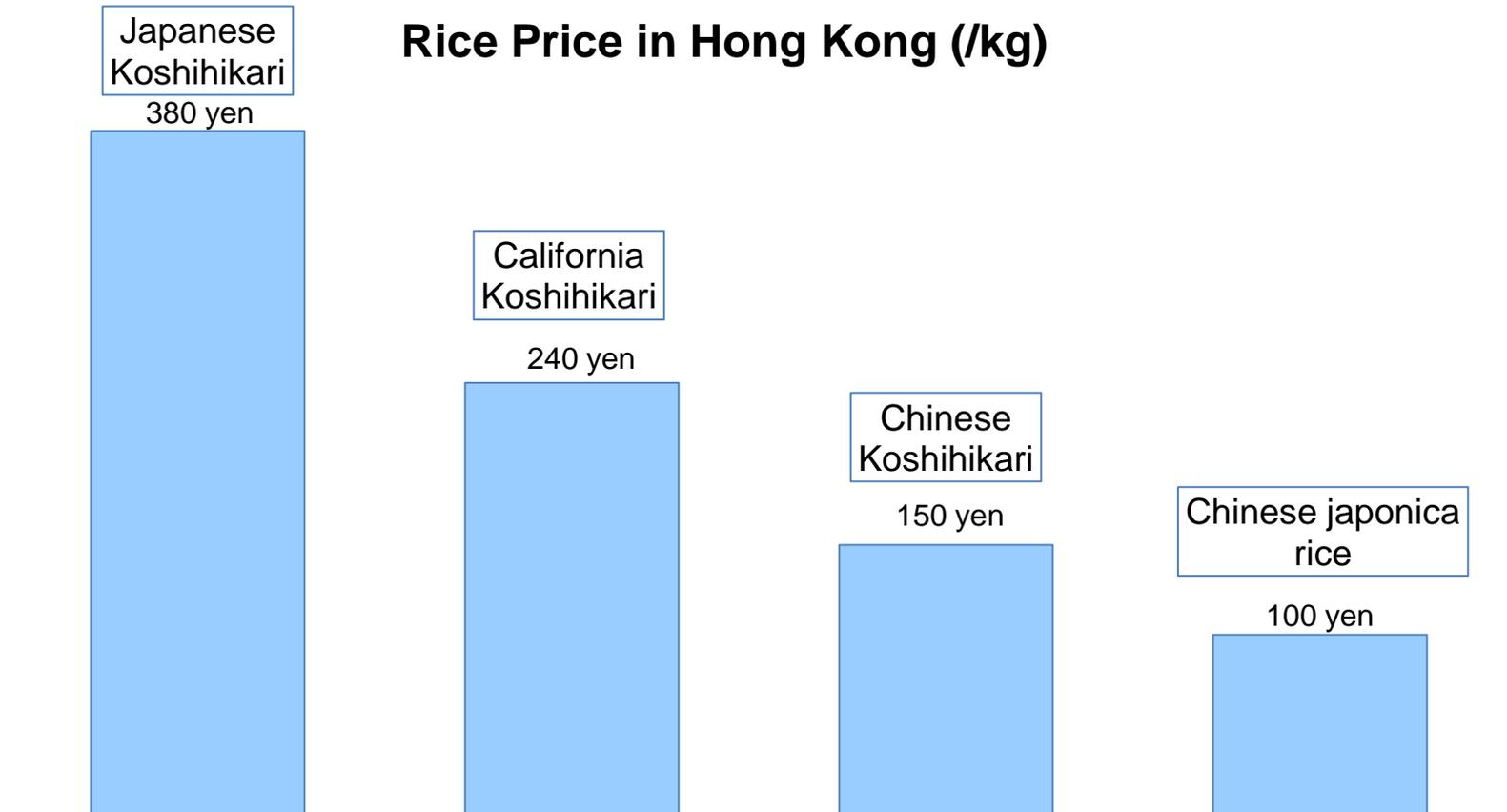
- The same kind of organizations have been active since 1970. However, of the 4.5 million hectares of farmland across the country, these organizations have leased only 12,000-16,000 hectares of farmland annually since 2005, a miniscule amount.
- **Little land is available for the organizations.**

Farmers hang on to their land in order to make a profit on sales for residential and other purposes due to **lax zoning regulations**. Moreover, even with high production costs, small-scale farmers can still make a profit on farming because of **high rice prices maintained through the rice paddy set-aside (reducing the acreage under cultivation) program**.

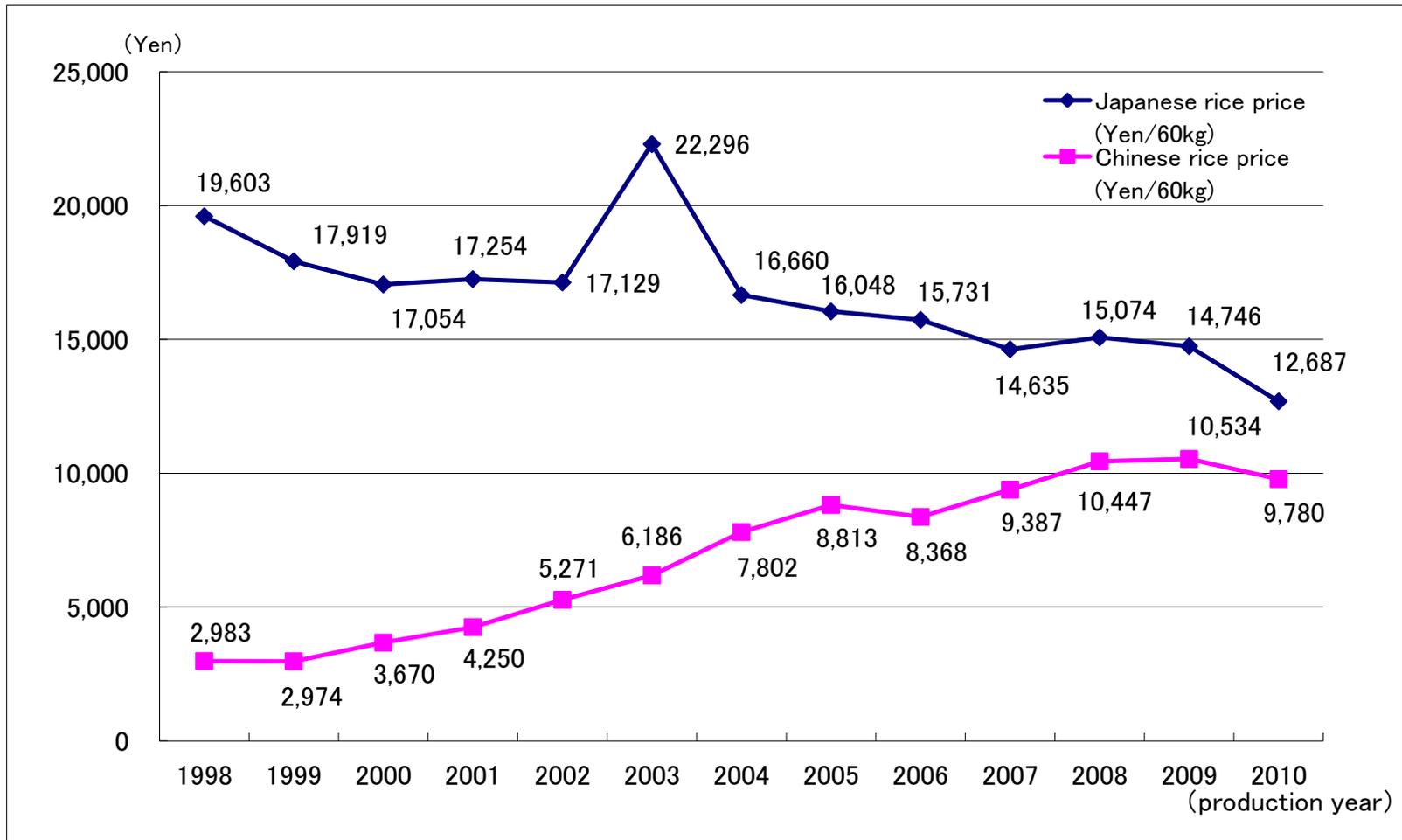
What is really needed?

- **Enhancing exports is the correct policy** since it is the only way to double farmers' income amidst a shrinking domestic market due to a declining and aging population.
- The only way for Japan to expand exports of agricultural commodities is to reduce their costs and prices and make them **more competitive** internationally.
- In the rice sector, increasing international competitiveness will require **abolition of rice paddy set-aside program** and a reduction in prices.

Japanese rice is highly evaluated



Price gap is narrowing



The rice paddy set-aside program

- While paying the subsidy of 500 billion yen to entice rice farmers to join the program, the government forces consumers to pay an additional amount of 500 billion yen for the price artificially inflated by limiting supply through the program.
- As a result, Japanese citizens pay about one trillion yen to support rice farming, total production of which amounts only to 1.8 trillion yen.
- The high price has reduced rice consumption.

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 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 40% smaller than that in California.

The desirable policy reform

I have long proposed **getting rid of the set-aside program and introduce a direct payment scheme only for the full-time farmers.**

The decrease in rice price will drive inefficient small-scale rice farmers out of the business.

They lease their farmland. Direct payment helps full-time farmers pay rent. Thus full-time farmers expand their farm size.

The elimination of the set-aside policy will increase rice yields per hectare.

These will lead to lower production costs and let rice farmers compete in the international market.

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.

Why hasn't the reform been realized?

- By pegging the rice price high, the most powerful vested interest group in Japan, **JA (agricultural cooperatives)** could not only **get high commission** in proportion to price but **maintain the number of part-time farmers** who have been the sources of JA's **political power** and have **contributed financially** to JA.
- JA is the only legal person in Japan which can make any kind of business including sales of farm inputs and outputs, life insurance, damage insurance and banking. JA's membership is not confined to farmers.
- Note that JA is the second largest bank in Japan.

To conclude

- Abolishing the rice paddy set-aside program, the largest 'rocky mass' in agriculture would reduce the price of rice, increase the farmland leases and reduce costs, and enhance export competitiveness. No import duties are necessary and we do not need to claim an exemption of rice from elimination of tariffs in the TPP negotiations.
- This is the only way to double farmers' income. Remodeling ineffective past policies on the surface is not effective
- It is not too much to say that **the future of Japan's agriculture rests on whether we can successfully destroy the rice paddy set-aside program, the core or the central pillar of Japan's farm policy since World War II.**