

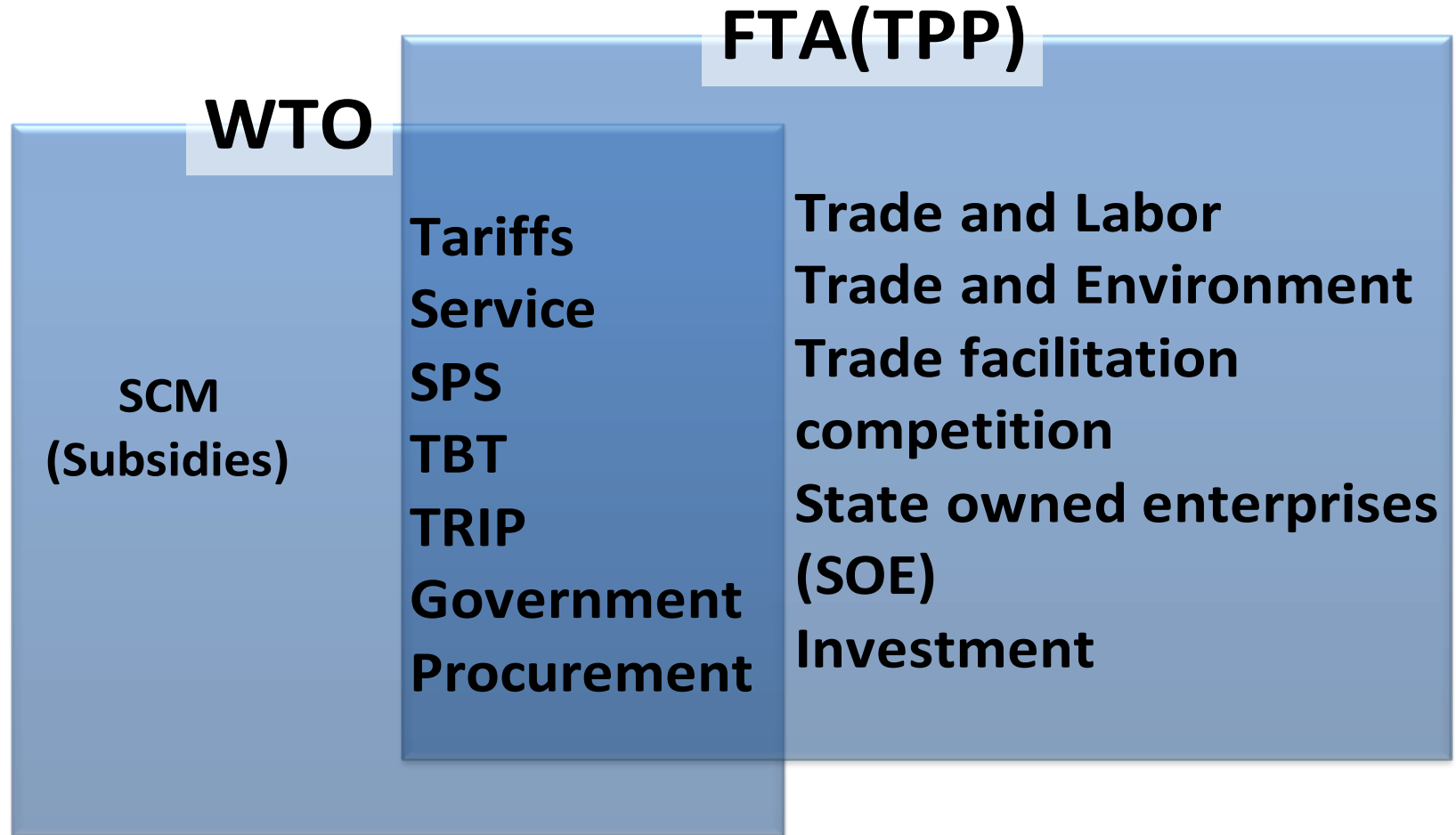
Abenomics on Agriculture & Free Trade

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How important Japan-EU FTA is!

- WTO's DDA negotiations are in stalemate. It is difficult to further liberalize trade of goods and service. Trade facilitation is not a piece of cake.
- Mega-FTA negotiations are under way. Japan-EU FTA, TPP, RCEP and TTIP. Japan, EU, US and China are involved.
- These set a new stage for trade liberalization. Furthermore, if we succeed in producing new rules and disciplines in these FTA, we can take them to WTO and make them worldwide.

The relationship between WTO and TPP



What are discussed in TTP?

- WTO+ matters: Trade and labour, Trade and environment, Intellectual property rights and State-owned enterprises.
- Some Asian countries have a lot of SOE. It has bad effects on fair competition. It also exercises monopoly power on trade; Japan can export rice by paying 1% tariff on it but SOE charges a great margin, a de fact tariff after entering the Chinese territory.

What are the stumbling blocks?

- Japan has excluded a lot of agricultural products from FTAs. Tariffs on Japan's industrial exports remain.
- In the TPP negotiations, the Diet's agricultural committees in both houses made a resolution that five agricultural commodities such as rice, wheat, dairy products, sugar, pork and beef must be exempted from tariff elimination.

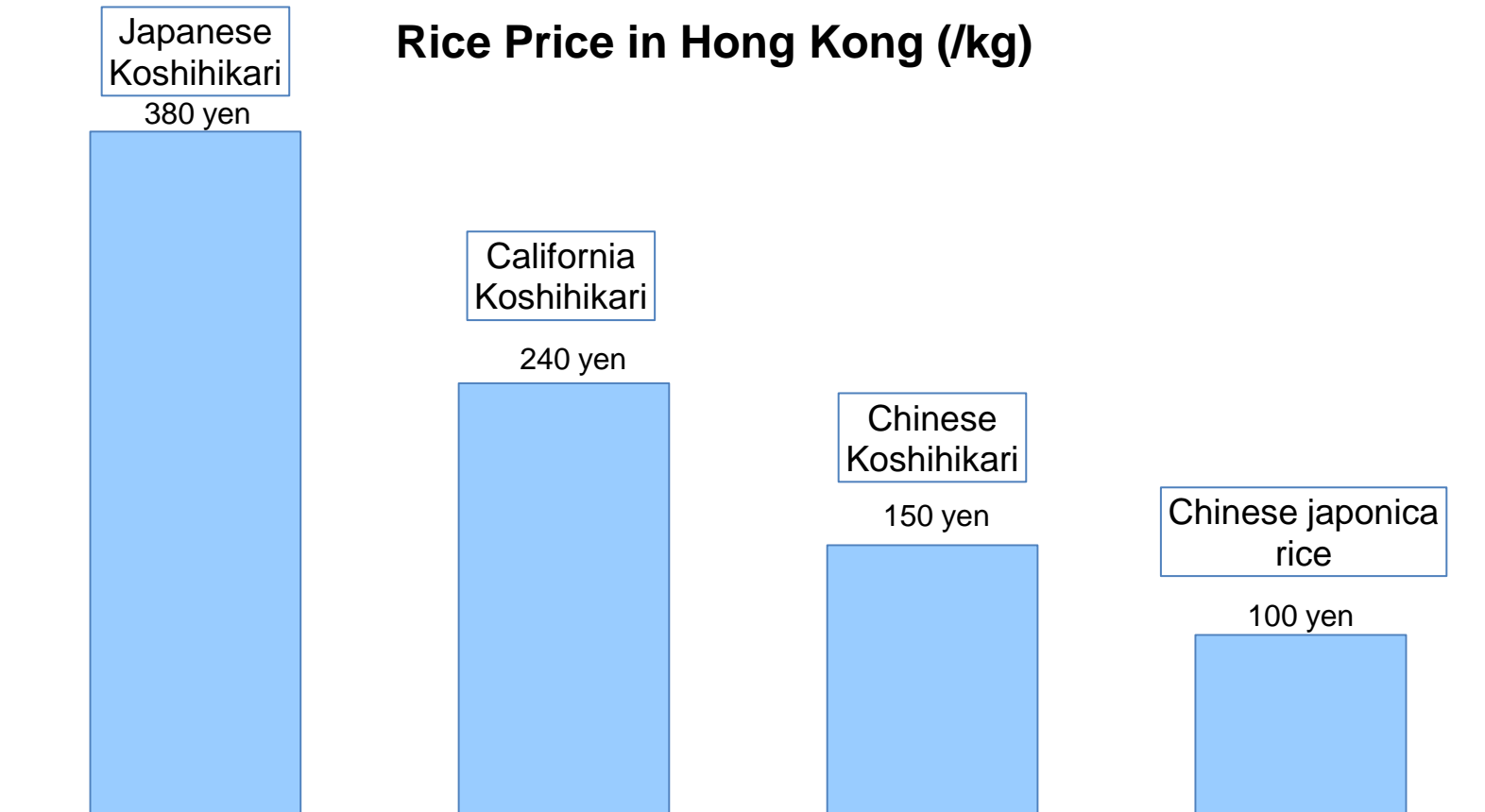
Japanese agriculture needs Free Trade

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

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.

Japanese rice is highly evaluated



Agricultural policy in Abenomics

- The Abe administration proposes to **double farm income** ($I = PXQ - C$) over the next 10 years.
- Three policies are proposed.
 - P. help farmers **process or market** farm products or provide **catering or accommodation service** (agritourism) 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?

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

- Most farmers work part-time and do not have time or skill to work on processing agricultural products or managing guest houses.
- Uncompetitive products cannot be sold no matter how great the sales promotion is.
- Small-scale farmers can still make a profit on farming because of high rice prices maintained through the acreage reduction program. They remain in the industry.

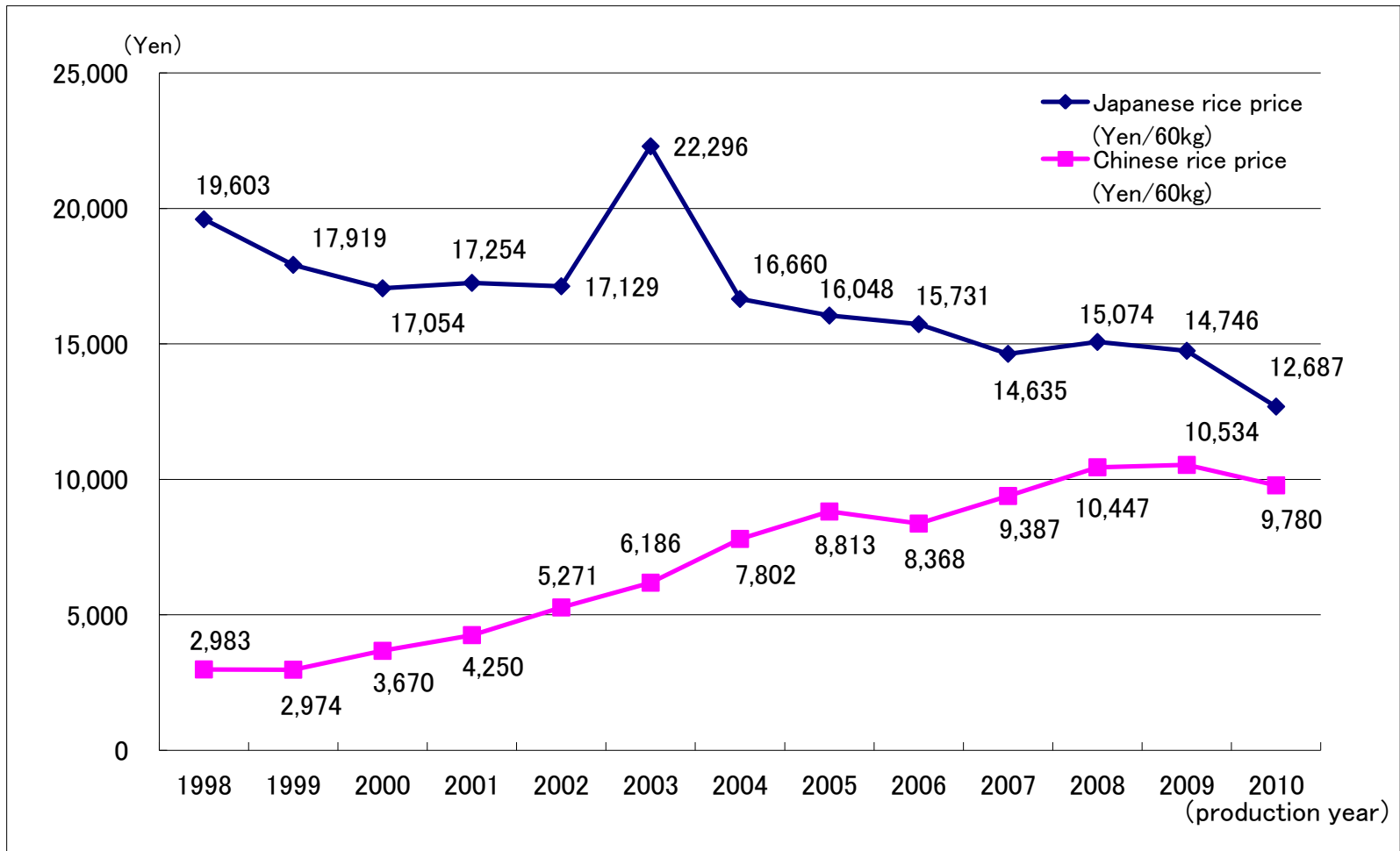
The rice paddy set-aside program

- 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**.
- 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.

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.
- 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.

Price gap is narrowing



The desirable policy reform

I have long proposed to **get 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.

The proposed reform of set-aside policy

- The current set-aside policy consists of **two area payments**: those **for the acreage reduction of rice by planting other crops than rice**, introduced since 1970 and those **for rice planting field for the farmers** who achieved the allocated limit of rice production by the government, **introduced since 2010 by the former DPJ government**.
- The proposed reform is **only doing away with the latter payments**.

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.

What should be done?

- Abolishing the rice paddy set-aside program 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 any trade negotiations.
- The Abe administration proposed reform of JAs: the dissolution of the National political federation for depriving it of political clout and making the National agricultural federation a stock company for depriving it of monopoly power which increases agricultural prices. But it remains to be seen.