

Agricultural Policy Reform & TPP

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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.**

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.**

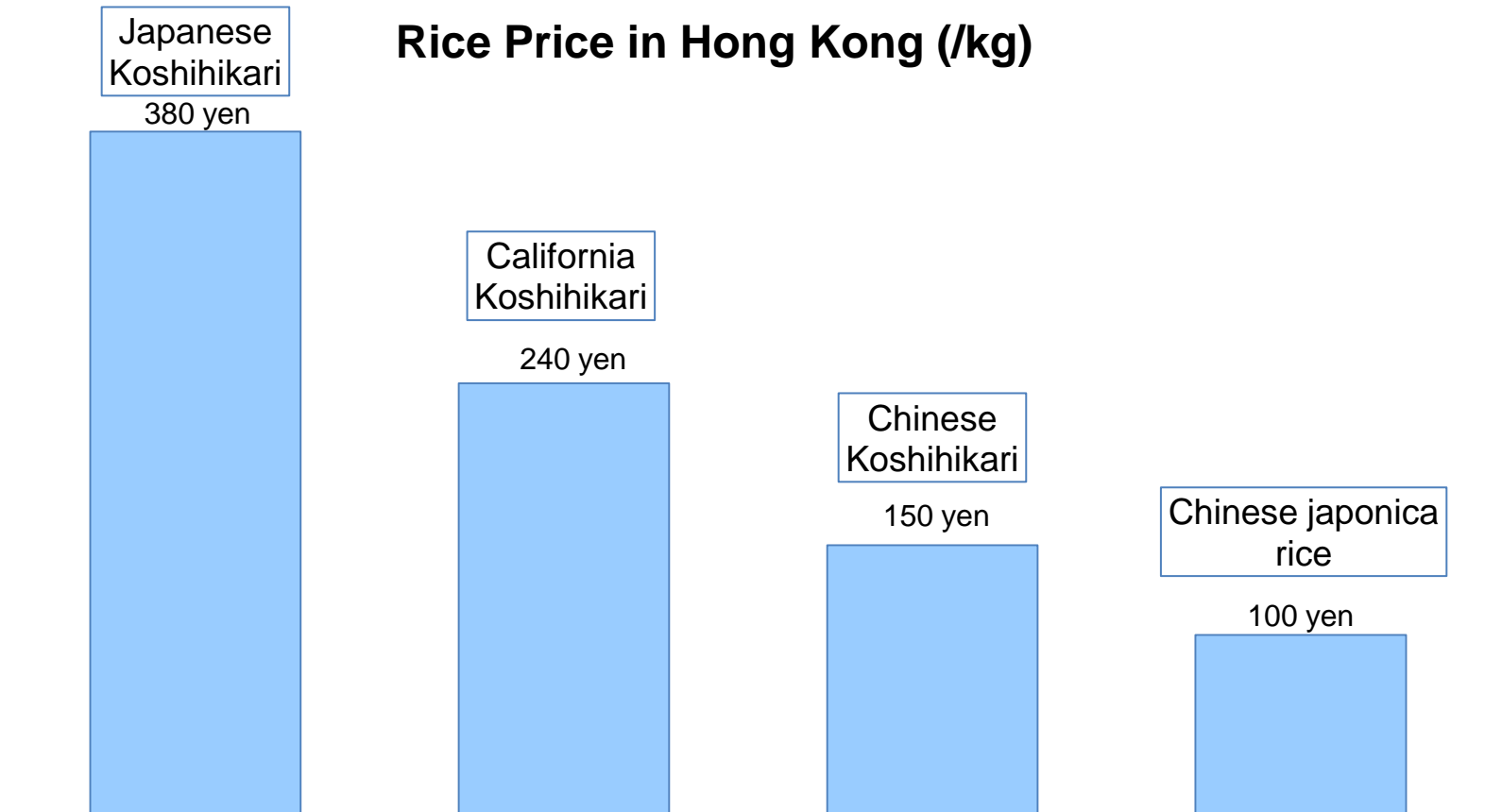
Scale is not everything

- Even the average farm size in U.S., the world's largest exporter of farm products, is only 1/20th 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 agriculture is not competitive?

- 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



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** (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**.

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. 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.

The program increased costs

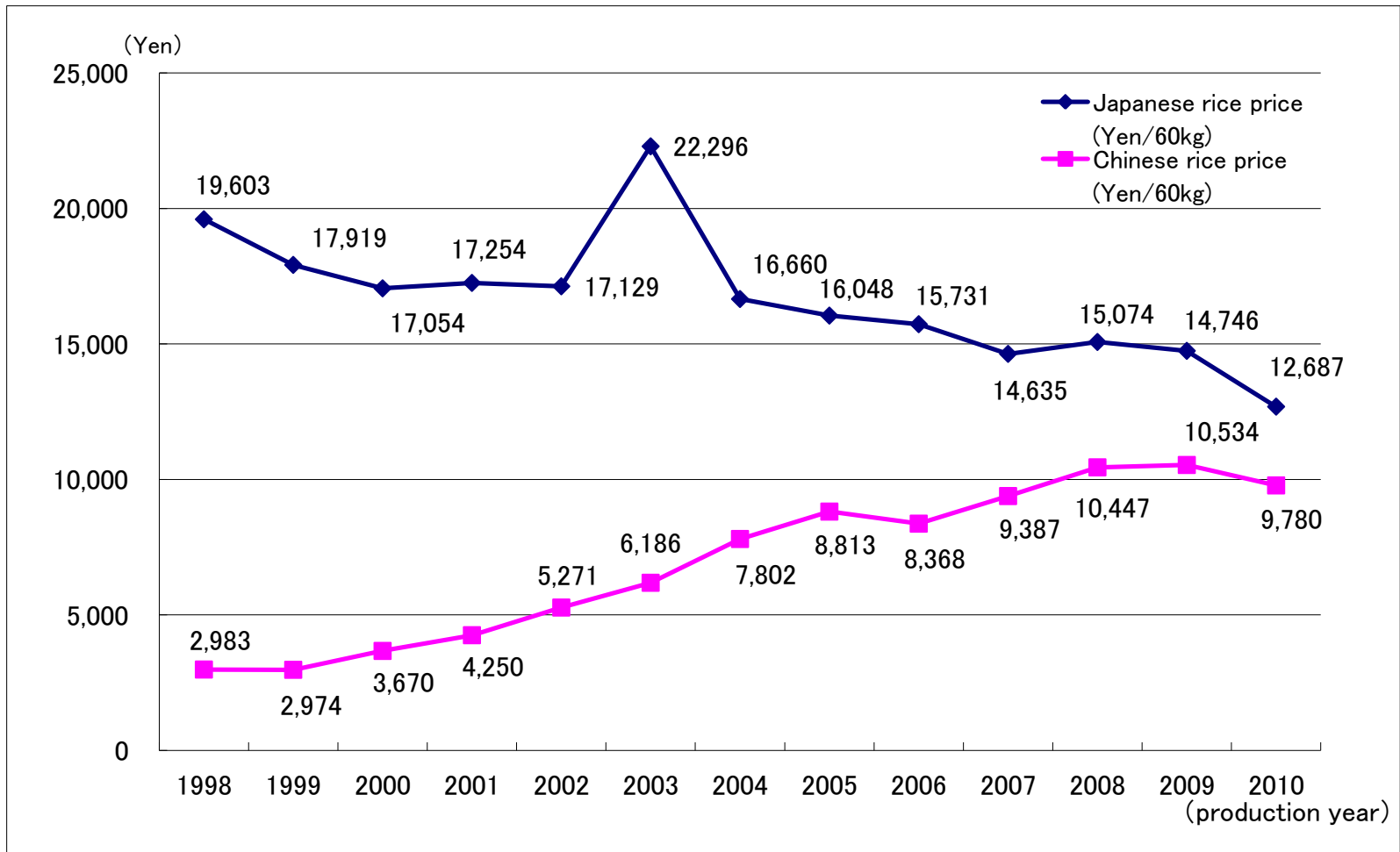
The cost of agricultural product per ton equals to production cost per unit area divided by tonnage of agricultural product produced (yield) in such unit area.

- **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 40% smaller than that in California.

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.

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.

More Explanation

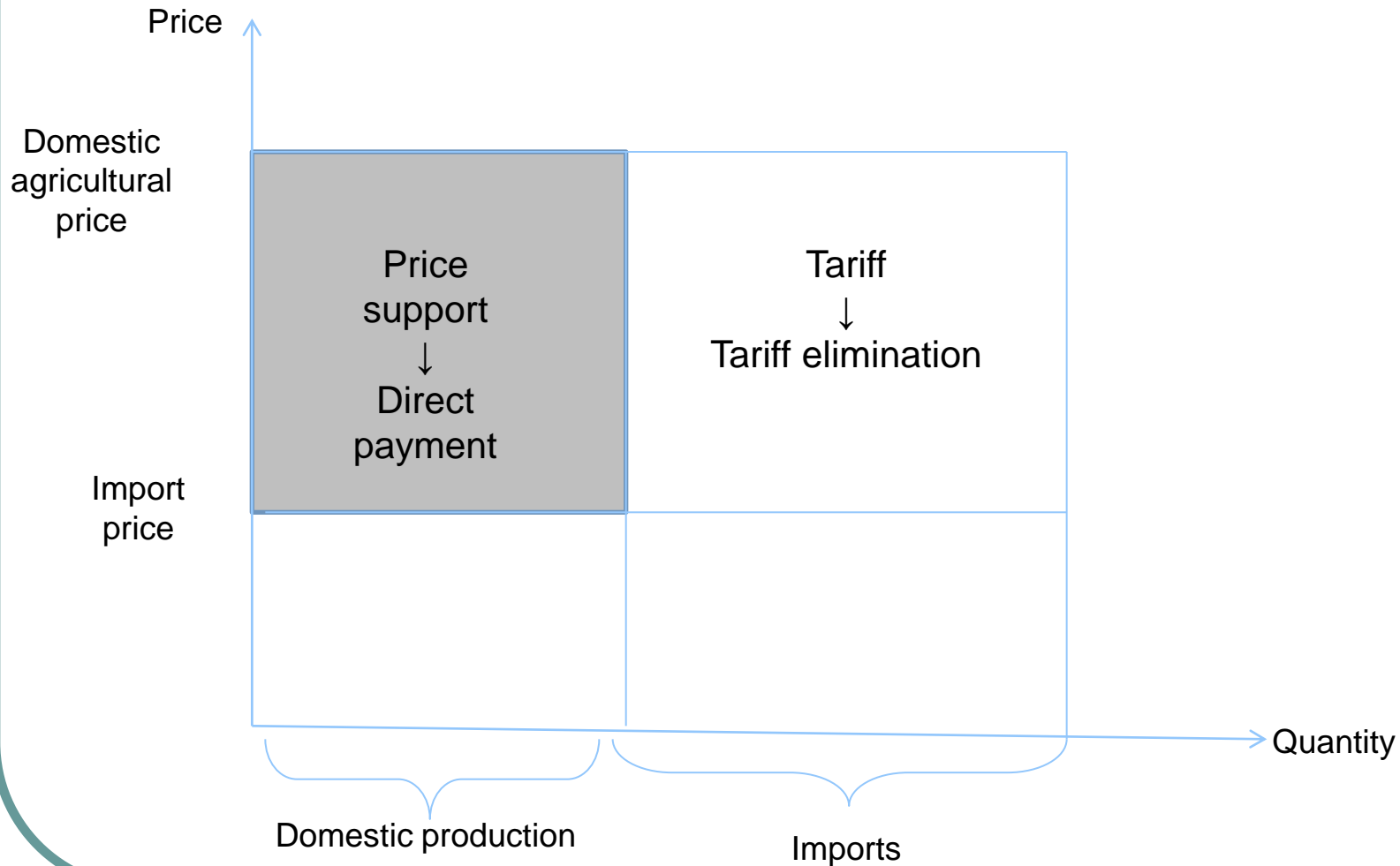
- The average size of rice farmer is less than 1 hectare. The rice production cost for farms of 15 or more hectares is 6,378 yen per 60 kilograms.
- If abandoning our rice acreage reduction policy brought Japanese rice yields up to Californian levels, the production cost would drop by 28 percent to 4,556. That would be less than half the national average of 9,478 yen.

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.

From Price Support to Direct Payment; Consumer Burden Disappears



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**.

The proposed reform of set-aside policy

- The government **increases the payments for producing rice for flour or feed**, which is also regarded as acreage reduction of rice for a staple diet.
- A farmer sells rice at 1,050,000 yen per hectare for a staple diet and at 250,000 yen for flour or feed. The government pays the gap between the two revenues, 800,000 yen for a farmer producing rice for flour or feed so that he or she may not be worse off.
- LDP proposes to increase the amount to 1,050,000 yen in order to induce farmers to produce more rice for flour or feed. This means that **rice millers or livestock farmers might get rice free** by only paying for the transaction costs.

The proposed reform of set-aside policy

- The MAFF argues that the demand for rice for feed use amounts to 4.5 million tons. This, however, will **replace substantial corn import from U.S.** which amounts to 10 million tons. The production of rice for flour will **replace some wheat import from U.S.** which amounts to 3.6 million tons.
- This subsidy is regarded as actionable or causing serious prejudice in the meaning of Article 6 of WTO's SCM Agreement. **U.S. could retaliate on Japan by imposing high tariffs on imported industrial products such as automobiles from Japan.**

Evaluation

- If farmers produce 4.5 million tons of rice for feed, the subsidy will amount to 900 billion yen which far exceeds current 500 billion yen for the set-aside program. **More expenditures** needed.
- If a farmer gets some money for selling rice for flour or feed, he or she will be better off than producing rice for a staple. This leads to less supply of rice for a staple. **Rice price increases.**
- This will **make worse the nature of the doubly wasteful policy: the increase of burden of both taxpayers and consumers.**

Evaluation

- There is no sign of rice price decrease. Japan cannot reduce or eliminate a tariff on rice in TPP negotiations.
- The inefficient part-time farmers continue to produce rice with the result that full-time farmers cannot accumulate farmland. This is the opposite of a structural adjustment policy.
- This reform, in a nutshell, is a

fake!

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.

The end result of TPP negotiations

- LDP and the Diet committees have adopted resolutions urging the government to have Japan's rice, wheat, beef and pork, dairy products and sugar exempted from the tariff elimination under TPP agreement and to leave the negotiating table if unable to do so.
- In Japanese politics, rice is a sacred cow. Only rice will get special treatment. But **making an exception requires compensation**. If an exception were to be made for rice in TPP negotiations, **an additional tariff-rate quota with zero in-quota tariff for TPP countries might be imposed** on top of the current tariff-rate quota of 770 thousand tons of rice on m.f.n. basis..This will reduce both the size of Japan's rice industry and its food self-sufficient ratio.

What should be done?

- 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.**