

# Agricultural Policy Reform & Free Trade

Research Director,  
the Canon Institute for Global  
Studies

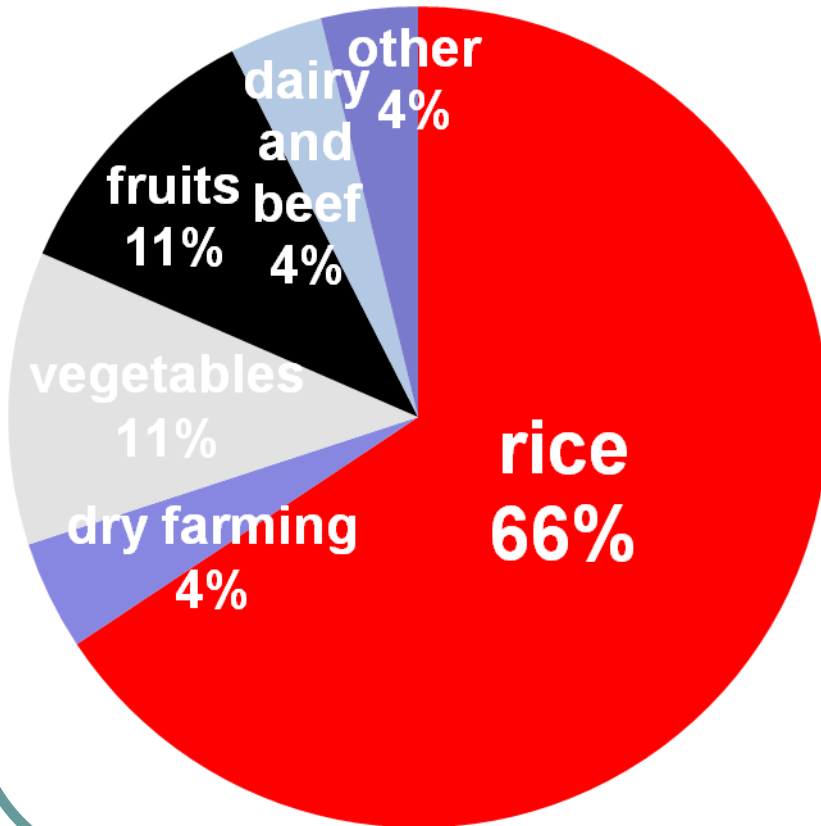
Kazuhito YAMASHITA

# Japan and the TPP negotiations

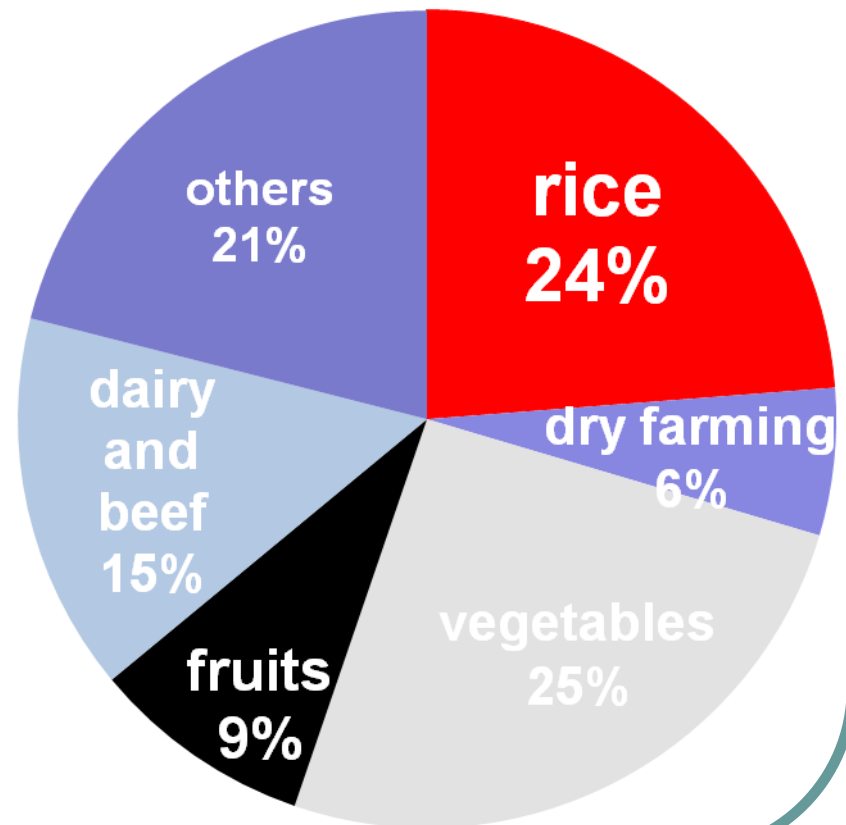
- The Diet agricultural committees have adopted resolutions urging the government to have Japan's rice, wheat, beef and pork, dairy products and sugar exempted from the tariff elimination under TPP agreement and to leave the negotiating table if unable to do so.
- In Japanese politics, rice is sacrosanct. But making an exception requires compensation. An additional tariff-rate quota with zero in-quota tariff for TPP countries might be imposed on Japan.

# The inefficient Japanese rice industry

## The number of farmers

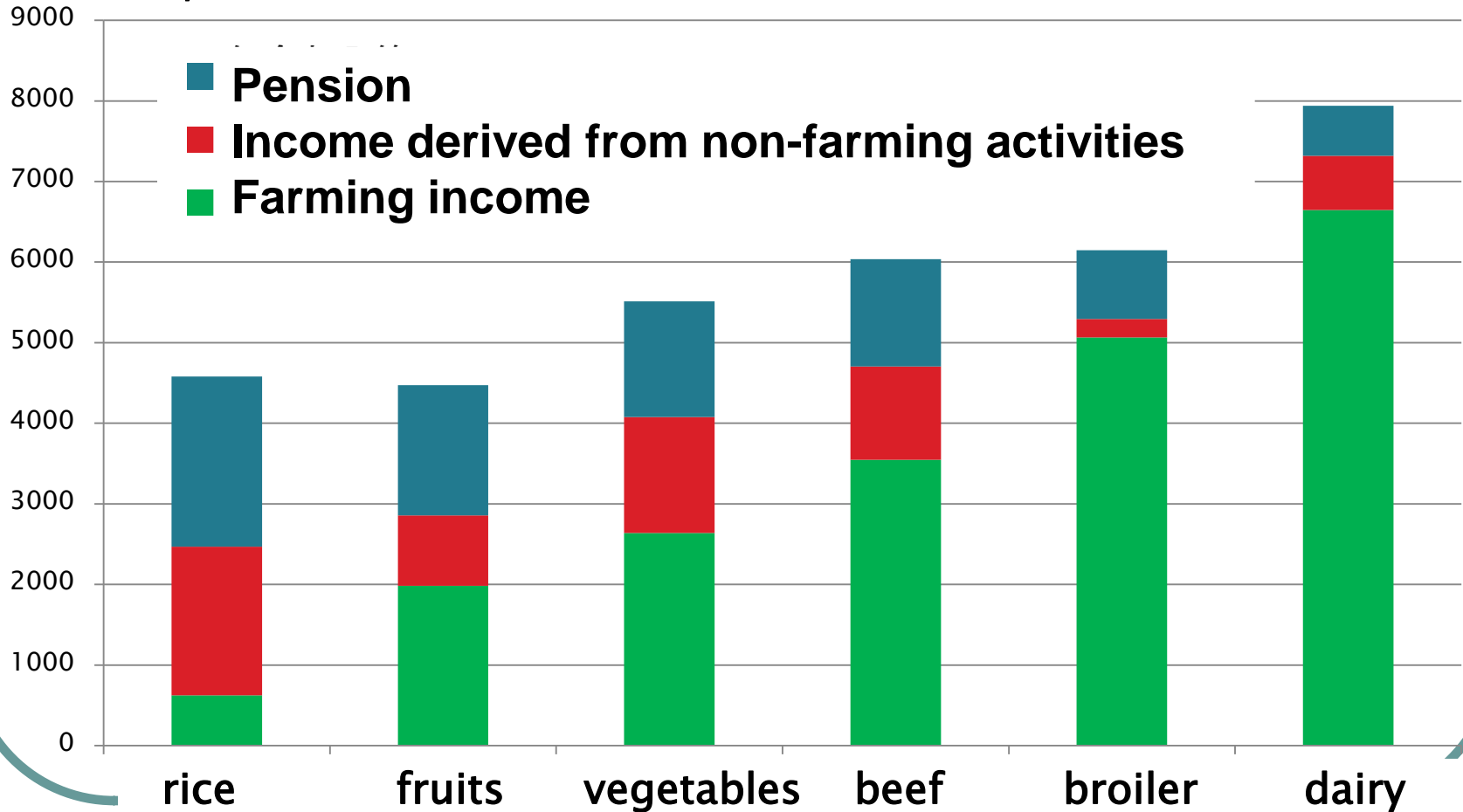


## The value of production



# Distorted rice farming

(thousand yen)



# 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 not only get high commission in proportion to price but 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 in JA. JA is now the second largest bank in Japan.

# The rice paddy set-aside program

- The high rice price has been maintained by the 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 one trillion yen to support rice farming**, total production of which amounts only to **1.8 trillion yen**.

# The program increased costs

- The larger the farm size, the less the production cost per unit area. But many small-size part-time inefficient rice farmers in Japan continue to grow rice by high rice price. Full-timers cannot accumulate land.
- 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 set-aside policy change

- The government paid the gap between the sale for direct human consumption and sale for flour or feed, 800,000 yen per hectare as a set-aside subsidy for a farmer producing rice for flour or feed so that he or she may not be worse off.
- LDP increased the amount to 1,050,000 yen equal to the sale revenue for direct human consumption in order to induce farmers to produce more rice for flour or feed.
- The rice price for direct human consumption dropped to 800,000 yen in 2014. More incentives to produce rice for flour or feed in 2015.



# What might happen in 2015

- The increase of rice for feed or flour **replaces substantial corn import from U.S.** which amounts to 10 million tons. The production of rice for flour **replaces 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.**

# The proposed reform of JAs by the deregulation committee

- Delete from the Agricultural Cooperative Law the provisions concerning the national and prefectural unions of JAs (the national union is called JA-Zenchu, the headquarters of JA's political activities) which are authorized under the law to collect money from them. This reduces JA-Zenchu's political power.
- Convert the National Federation of Agricultural Cooperative Associations (Zen-Noh), which engages in the processing and sale of agricultural produce collected from local JAs, into a stock corporation. Without legal status of a cooperative it is no longer exempted from the Anti-Monopoly Law .

# What will happen this year?

- The proposal was watered down and reform is left to the initiatives or judgments of JAs after the consultation between the government and the ruling party which is greatly influenced by JAs, the post-war most powerful interest group.
- By the end of this year, the change of the Agricultural Cooperative Law will be decided taken into account the judgments of JAs.
- But JAs cannot control the process because **the PM Abe insists on substantial reform of JA-Zenchu.**

# 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.
- The average age for farmers in Japan exceeds 65, because they cannot find successors due to unprofitable farming activities.
- 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.**

# The desirable policy reform

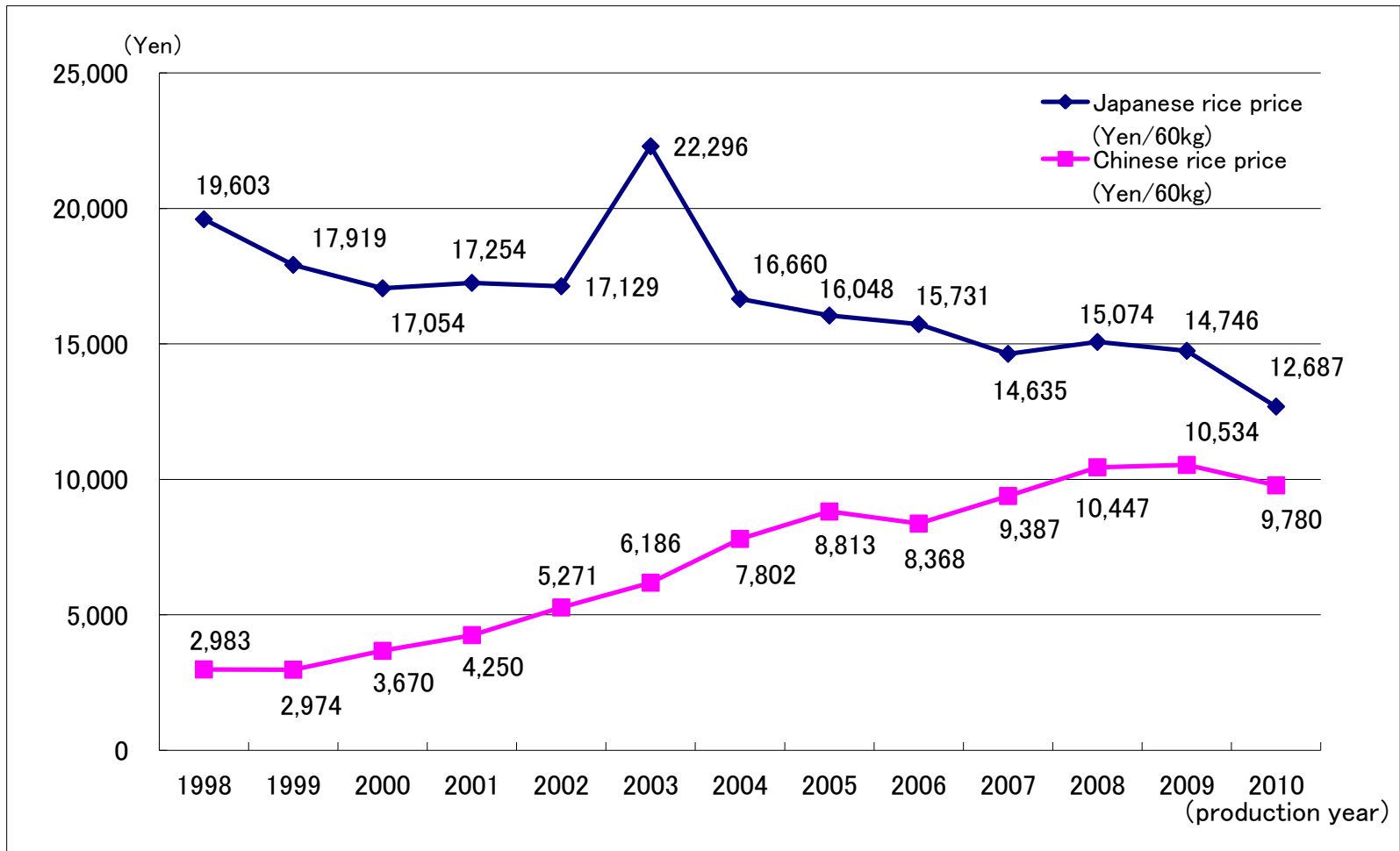
Get rid of the set-aside program and introduce a direct payment scheme only for the full-time farmers.

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.

# Price gap is narrowing



# What should be done?

- Reduction of the price of rice makes import duties unnecessary and we do not need to claim an exemption of rice from elimination of tariffs in the TPP negotiations.
- The future of Japan's agriculture rests on whether we can successfully destroy the rice paddy set-aside program. The dissolution of JA which has backed the program helps achieve this goal.