TPP and Japan’s Agricultural Policy Change

Research Director,
the Canon Institute for Global Studies
Kazuhito YAMASHITA
the main Japanese Farm Policy

- When the industry fully recovered from the World War II damages, farmers turned out to be worse off than workers. Almost all farmers produced rice at that time.

- The Japanese government increased the rice price for farmers. Inefficient small-scale part-time farmers remain in the rice industry.

- Eventually 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. Now it is the only measure to keep the rice price high.
Farmers are better off than workers

(ten thousand yen)

Farm-household gross income
Agricultural income
Farm-household gross income / Worker's household actual income

source: MAFF, Ministry of Internal Affairs and Communications "Household economy survey"
How inefficient the Japanese rice industry is!

The number of farmers:
- Rice: 64%
- Vegetable: 12%
- Dry farming: 4%
- Dairy and beef: 4%
- Others: 4%

The value of production:
- Vegetable: 27%
- Others: 22%
- Dairy and beef: 15%
- Fruit: 9%
- Rice: 21%
- Dry farming: 6%
Farming income is small for rice farmers

(Thousand yen) (2014)

- **Pension**
- **Income derived from non-farming activities**
- **Farming income**

- **Rice**
  - Pension: 2,000
  - Income derived from non-farming activities: 1,000
  - Farming income: 5,000

- **Fruits**
  - Pension: 1,000
  - Income derived from non-farming activities: 1,000
  - Farming income: 2,000

- **Vegetables**
  - Pension: 1,000
  - Income derived from non-farming activities: 1,000
  - Farming income: 2,000

- **Beef**
  - Pension: 1,000
  - Income derived from non-farming activities: 1,000
  - Farming income: 2,000

- **Dairy**
  - Pension: 1,000
  - Income derived from non-farming activities: 1,000
  - Farming income: 2,000

- **Broiler**
  - Pension: 1,000
  - Income derived from non-farming activities: 1,000
  - Farming income: 5,000

- **Pig**
  - Pension: 2,000
  - Income derived from non-farming activities: 1,000
  - Farming income: 12,000
Non-farming income and pension is much greater than farming income in the farm sector as a whole.

The chart illustrates the trend of farm income in real terms (1955-2003) with three categories: Non-farming income, Pension/subsidies, etc., and Farming income. The non-farming income shows a steady increase over the years, peaking around 1990. The pension/subsidies, etc., category also increases but with more fluctuations. The farming income, on the other hand, shows a dramatic increase from 1975 to 1990, followed by a decline.
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 or pension in JA. JA is the second largest bank in Japan.
Some tariffs are prohibitively high.

### Japanese tariffs on agricultural products

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Count</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>319</td>
<td>23.9%</td>
</tr>
<tr>
<td>20% to less than 50%</td>
<td>634</td>
<td>47.6%</td>
</tr>
<tr>
<td>50% to less than 75%</td>
<td>225</td>
<td>16.9%</td>
</tr>
<tr>
<td>75% to less than 100%</td>
<td>20</td>
<td>1.5%</td>
</tr>
<tr>
<td>100% to less than 200%</td>
<td>9</td>
<td>0.7%</td>
</tr>
<tr>
<td>Over 200%</td>
<td>24</td>
<td>1.8%</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>101%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Main Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>coffee</td>
</tr>
<tr>
<td>cotton</td>
</tr>
<tr>
<td>tobacco</td>
</tr>
<tr>
<td>vegetables</td>
</tr>
<tr>
<td>chickens</td>
</tr>
<tr>
<td>beef</td>
</tr>
<tr>
<td>banana</td>
</tr>
<tr>
<td>sake</td>
</tr>
<tr>
<td>corn</td>
</tr>
<tr>
<td>pork</td>
</tr>
<tr>
<td>rice, wheat</td>
</tr>
<tr>
<td>daily products</td>
</tr>
<tr>
<td>sugar</td>
</tr>
</tbody>
</table>

Source: MAFF
## Comparison of agricultural policies

<table>
<thead>
<tr>
<th>Country</th>
<th>Japan</th>
<th>US</th>
<th>EU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decoupled direct payments</td>
<td>No</td>
<td>Yes/No</td>
<td>Yes</td>
</tr>
<tr>
<td>Environmental direct payments</td>
<td>Partial</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Direct payments for less favorable regions</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Production restriction program for price maintenance</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Tariffs* over 1000%</td>
<td>1 (tubers of konnyaku)</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Tariffs of 500-1000%</td>
<td>2 (rice, peanuts)</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Tariffs 300-500%</td>
<td>2 (butter, pork)</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Tariffs of 200-300%</td>
<td>6 (wheat, barley, skim milk powder, starch, beans and raw milk)</td>
<td>None</td>
<td>None</td>
</tr>
</tbody>
</table>

*Specific tariffs are applied to tariffed products in Japan. Here, these specific tariffs are estimated as their equivalents of ad valorem tariff rates, taking into account international prices.*
Change from Price Support to Direct Payment eliminates Consumer Burden. But TPP is disappointing.

<table>
<thead>
<tr>
<th>Price</th>
<th>Domestic agricultural price</th>
<th>Import price</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Price support</strong></td>
<td>Direct payment</td>
<td>Tariff</td>
</tr>
<tr>
<td></td>
<td><strong>↓</strong></td>
<td><strong>↓</strong> Tariff elimination</td>
</tr>
</tbody>
</table>

- **Domestic production**
- **Imports**

Quantity
The TPP and Japan’s agriculture

- The Diet Committees on Agriculture, Forestry and Fisheries resolved that rice, wheat, beef and pork, dairy products, and sugar must be excluded from having tariffs eliminated in the TPP negotiations.

- Tariffs on rice, wheat, sugar, butter and SMP are maintained; tariff-quotas of rice, wheat, butter and SMP expand; surcharge on wheat within tariff-quota decreases; tariffs on beef and pork decrease, tariffs on whey and cheese are eliminated.
The TPP and beef

- Since import quantity restrictions were lifted in 1991, tariffs have decreased from 70% to 38.5%. But the production of Wagyu beef has increased in spite of the increase of imports.

- Transplant of fertilized Wagyu eggs in milking cows has become common. Japanese beef production has shifted to Wagyu, less affected by imported beef which will increase by TPP.
Pork under the current system

- **Specific Duty**: 482 Yen/kg
- **Ad Valorem Duty**: 4.3%

Import price (Yen/kg)

Post-tax price (Yen/kg)

Gate price

547

64.53

524

Import price (Yen/kg)
By TPP

Post-tax price (Yen/kg)

Import price (Yen/kg)

Specific duty 50 Yen/kg

Gate price 474

524

524
Domestic support for beef and pork increases (1)

- Japan will increase the amount of deficiency payments for beef and pork: from 80% of the difference between the production cost and the market price to 90% of it.
- The Government bears the 75% of the expenditures for the payments for pork as well as beef: currently 50% for pork.
- These deficiency payments will become permanent measures by chiseled in a law.
Domestic support for beef and pork increases(2)

- No rationales for this payment. The Japanese livestock industry does not make any contributions to food security or multifunctionality since it feeds imported grains to animals.

- But it works in a defensive way; it will not pay farmers more than the production cost. It will not stimulate production. It has been put into effect for a long time while the US exports to Japan have increased.

- The peace clause in WTO’s Agreement on Agriculture has expired. This is a price-contingent subsidy. If there is any damage to the US industry, USTR can take this payment to WTO’s dispute settlement procedures.
The tariff reduction schedule on beef if TPP goes into effect in 2017

Tariff rate(%)
The tariff reduction schedule on beef if TPP goes into effect in 2019
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.
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 comparison of the revenue of rice between for direct human consumption and for feed use
What might happen?

- The increase of rice for feed substantially replaces corn imported from the U.S. which amounts to 10 million tons. The Japanese Government tries to increase the production of rice for feed to 4 million tons.

- This subsidy is regarded as actionable or causing serious prejudice in the meaning of WTO's SCM Agreement. The U.S. could retaliate on Japan by imposing high tariffs on imported industrial products such as automobiles from Japan.