WTO, TPP, Free Trade & Japanese Agricultural Policy Reform

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Japanese Farm Policy

- The government increased the rice price for farmers in 1960s. 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 and planting other crops. Now it is the only measure to keep the rice price high.

- The government enticed industries to install factories in rural areas so that rural people could work for those factories.

- A lot of inefficient small-scale part-time farmers remain in the rice industry.
Farmers are better off

(en thousand yen)

source: MAFF, Ministry of Internal Affairs and Communications "Household economy survey"
Farming income is small for rice farmers

(Thousand yen)

2014

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

Income derived from non-farming activities include:
- rice
- fruits
- vegetables
- beef
- dairy
- bloiler
- pig
How inefficient the Japanese rice industry is!

- **Dry farming**: 6%
- **Vegetable**: 12%
- **12% beef**: 4%
- **12% rice**: 64%
- **Other**: 4%
- **Fruit**: 9%
- **Dairy and beef**: 22%

The number of farmers

The value of production
# 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.
Some Japan’s tariffs are prohibitively high

Japanese tariffs on agricultural products

<table>
<thead>
<tr>
<th>Percentage Range</th>
<th>Count</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>319</td>
<td>23.9%</td>
</tr>
<tr>
<td>less than 20%</td>
<td>634</td>
<td>47.5%</td>
</tr>
<tr>
<td>20—less than 50%</td>
<td>225</td>
<td>16.9%</td>
</tr>
<tr>
<td>50—less than 75%</td>
<td>20</td>
<td>1.5%</td>
</tr>
<tr>
<td>75—less than 100%</td>
<td>9</td>
<td>0.7%</td>
</tr>
<tr>
<td>100—less than 200%</td>
<td>24</td>
<td>1.6%</td>
</tr>
<tr>
<td>over 200%</td>
<td>101</td>
<td>7.6%</td>
</tr>
</tbody>
</table>

Main products:
- coffee
- cotton
- tobacco
- vegetables
- chickens
- beef
- banana
- sake
- corn
- pork
- rice
- wheat
- daily products
- sugar

Source: MAFF
Mega-FTAs
The relationship between WTO and TPP

WTO:
- Tariffs
- Service
- SPS
- TBT
- TRIP
- Government Procurement
- Trade facilitation
- SCM (Subsidies)

FTA (TPP):
- Trade and Labor
- Trade and Environment competition
- State owned enterprises (SOE)
- Investment
- Trade facilitation
Who blocks Free Trade 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, JAs could 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 JAs. JA Bank is the second largest in Japan.
- JAs collected 11 million signatures against TPP. This triggered the embarkation on the Abe administration’s JA reform in 2015. But it was not a fundamental reform.
Japan’s agriculture in TPP

- 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. Only 82% of the tariff lines are subject to tariff elimination.
- This will be the benchmark for Japan’s future trade negotiations.
- A lot of farmers are falsely informed and believe that TPP will damage Japanese agriculture. They argue that tariffs are indispensable.
This year, the head of the agricultural committee of the ruling party proposed to reform JAs in order to reduce the price of farm inputs such as fertilizer which are twice as expensive as in the US or Korea due to the JAs’ monopoly power. This may diminish the farmers’ anxieties against the TPP as well as increase both the competitiveness of Japanese farm products and the farmers’ income.

This, however, resulted in the not mandatory but voluntary reform by JAs themselves.
From GATT to WTO

- Three basic principles of GATT
  1. most favored nation (article 1)
  2. tariff bindings (article 2)
  3. national treatment (article 3)
- The WTO’s Agreement on Agriculture
  1. domestic support
  2. tariffication
  3. export subsidies
Tariffication

- Only tariffs are allowed.
- Quantity import restrictions, variable import levies and any other non-trade barriers are prohibited. (article 4.2 in AoA)
- SPS measures should not be used as disguised import restrictions and based on scientific evidence. (SPS agreement)
Subsidies in AoA of WTO

- Domestic support
  - **Green box** (general services, some direct payments in Annex 2 of AoA) ~ no reduction is required
  - **Blue box** (direct payments under production limiting programs in article 6.5 of AoA) ~ no reduction is required
  - **Amber box** (AMS) ~ reduction is required

- Export subsidies ~ reduction is required in terms of amount and quantity
The US Policy

- Shift from price support to deficiency payments in 1960s
- Elimination of deficiency payments and introduction of decoupled payments in 1996
- Reintroduction of deficiency payments (counter-cyclical payments) in 2002
- Introduction of crop insurance in 2008 and elimination of decoupled and other payments in 2014
- Japan will introduce farm income insurance policy in 2017.
The EU Policy

- Price support in 1980s caused serious glut. Subsidised exports for its disposal caused trade dispute with the US. → UR negotiations
- Reduced cereal price support by 29% and introduced area payments to offset the loss of farmers in 1993. → reduction of subsidised exports
- Single payment scheme from 2003
Japanese Ag subsidies in WTO

- AMS = price support + subsidies. Price support is measured as internal and external price differential (administered prices – fixed external prices) multiplied by quantities.
- If any administered prices are abolished, price support will vanish. This is why Japanese actual AMS (577 billion yen in 2010) has been reduced substantially from the bound AMS (3,973 billion yen) in Japan’s country schedule.
Further WTO negotiations?

- The Peace Clause (article 13 in AoA) has already expired (article 1(f)). SCM Agreement directly applies to agricultural subsidies: any form of export subsidies including export credit are banned and any domestic support causing serious prejudice such as price-contingent subsidies are subject to countermeasures.
- Any subsidies inconsistent with the subsidy provisions in AoA are subject to Article 22 (compensation and the suspension of concessions) of Annex 2 (DS) to WTO. But those provisions are very difficult to implement.
- If this situation is acceptable for the WTO members, there is no need for further agricultural negotiations in WTO.
Price Support backed by Tariffs vs. Direct Payments

- Price support higher than an international price decreases demand for its own agricultural industry. Thus, Japan’s farmland indispensable for food security severely declined from 6.1 million hectares to 4.5 million hectares from 1960 to 2016.
- Direct payments to farmers do not distort the market. They will directly address and target the real needs, such as the farmer’s income and food security.
Change from Price Support to Direct Payment

- Domestic agricultural price
- Import price

- Price support
  - Direct payment

- Tariff
  - Tariff elimination

- Domestic production
- Imports

- Quantity

Domestic price → Tariff → Price support → Direct payment → Import price
Overview of wasteful rice policy

Reduced supply from acreage reduction
- 400 billion JPY fiscal burden
- 300 billion JPY acreage reduction subsidies
- 100 billion JPY direct payments for rice with acreage reduction as a condition

High price of rice
- 600 billion JPY consumer burden

One trillion JPY burden on consumers

High cost structure of rice
- High rice price encourages small part-time farmers, the scale of full-time farming does not increase
- The yield by area does not increase
  (40% less than yield in California)

Negative influence on food security assurance
- Reduction in paddy field area
The comparison of the revenue of rice between for direct human consumption and for feed use

(thousand yen)

- Revenue by sale
  - Direct human consumption (2013): 147 thousand yen
  - Direct human consumption (2014): 105 thousand yen
- Other subsidy
  - Feed: 70 thousand yen
- Acreage reduction subsidy
  - Feed: 24 thousand yen
The increase of rice for feed 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 WTO’s SCM Agreement. U.S. could retaliate on Japan by imposing high tariffs on imported industrial products such as automobiles from Japan.
Free Trade damages Food Security?

- We would have no other way to expand our food production in food crisis. This, however, needs **agricultural resources** for production.
- The increase of imports may reduce those resources. This is why Japan has used “food security” as a pretext for maintenance of high tariffs and resisted tariff cuts.
- On the other hand, Japan’s **set-aside program** of rice production in order to peg a high price has resulted in the **loss of 30 percent of the paddy fields** in the last 40 years.
A Desirable Policy

The elimination of rice set-aside policy

Part-time farmers

More production

World food security

Full use of Paddy field

Multi functionality

Consumers

Direct payment

Full-time farmers

Rent

Lower rice price