

WTO, TPP, Free Trade & Japanese Agricultural Policy Reform

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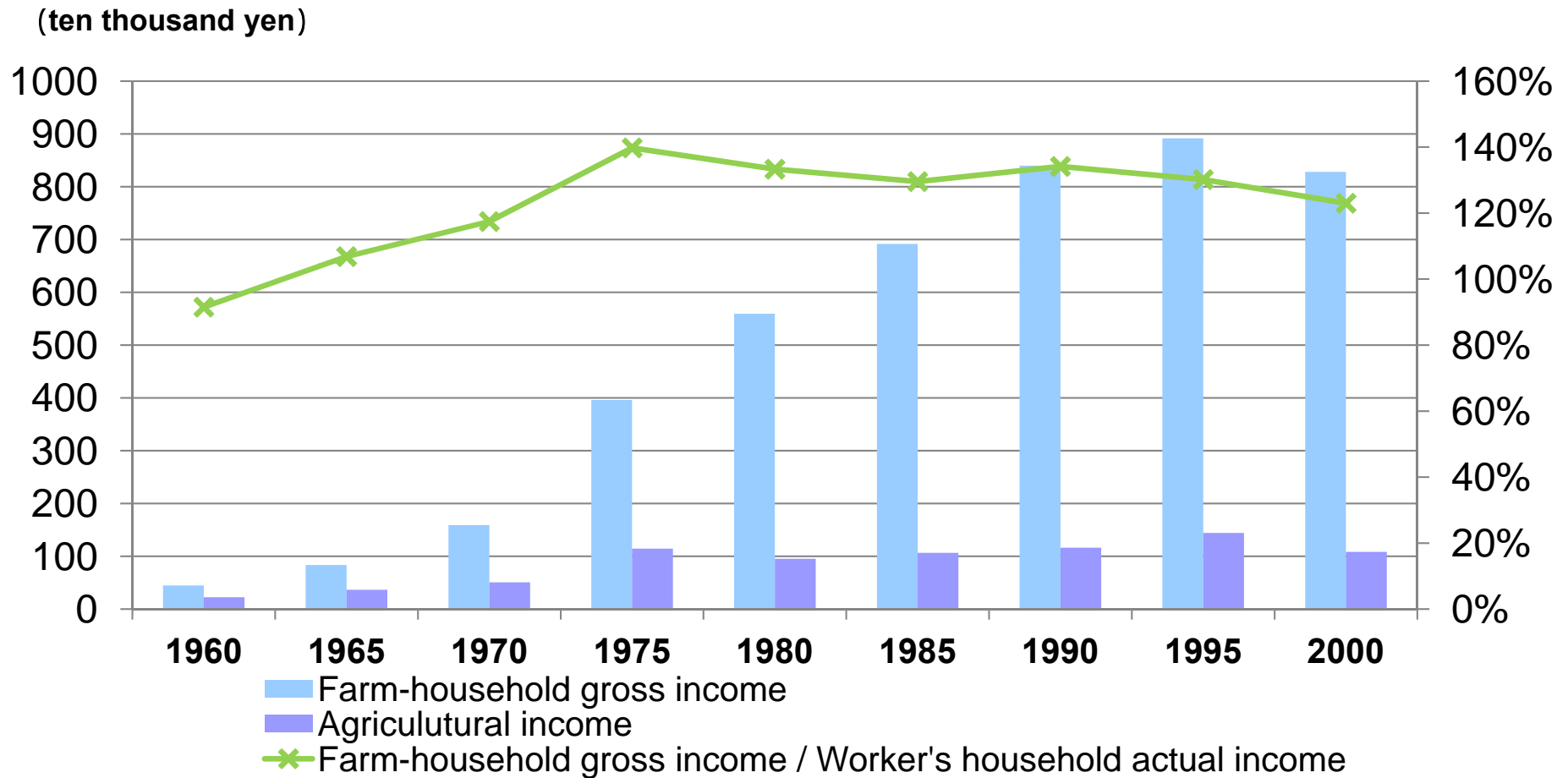
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Japanese Farm Policy

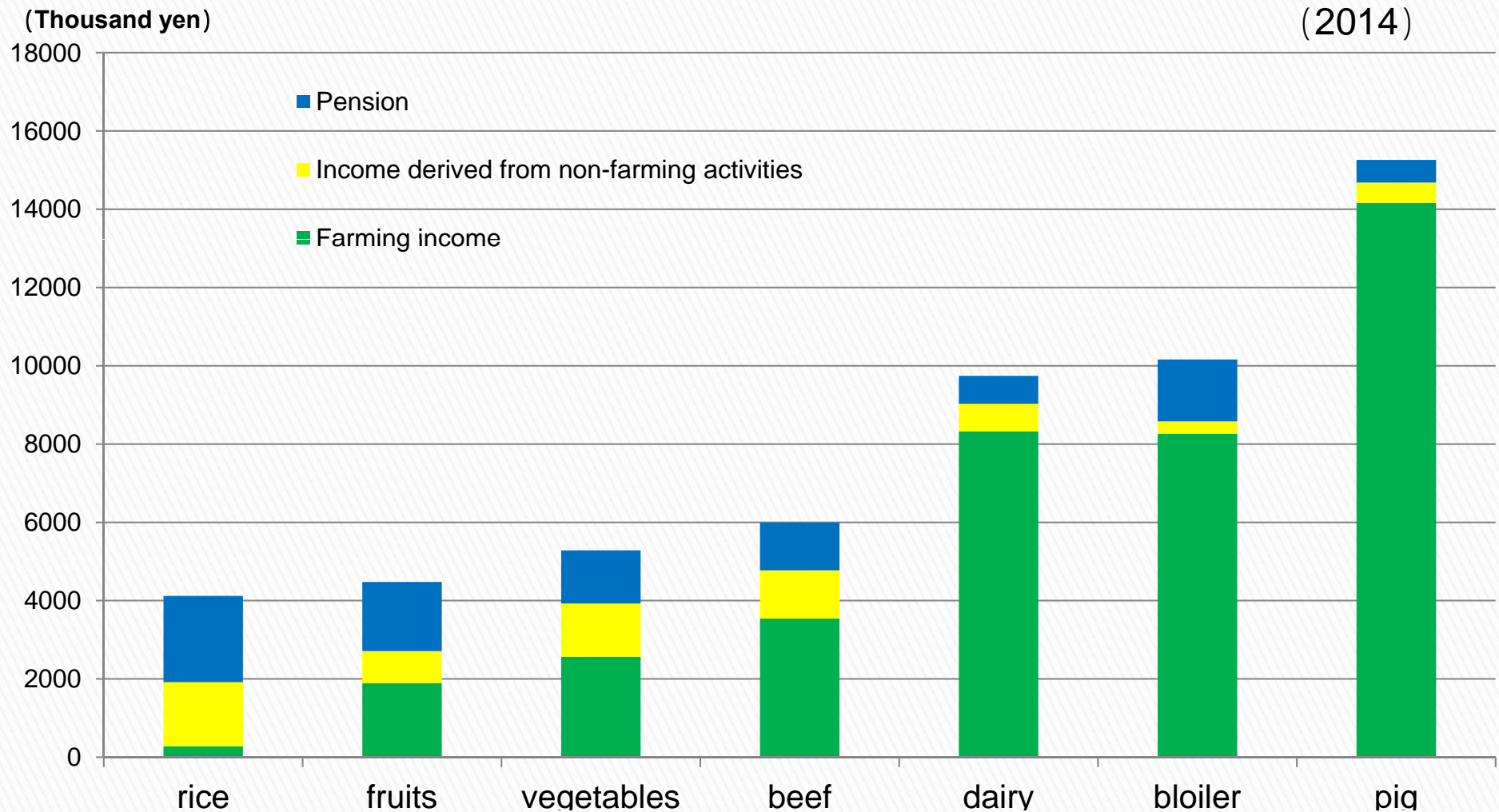
- ▶ The government **increased the rice price** for farmers in 1960s. This caused the glut of rice. The government introduced **the acreage reduction or set-aside program** in 1970 by giving farmers subsidies for reducing rice production and planting other crops. Now it is the only measure to keep the 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.

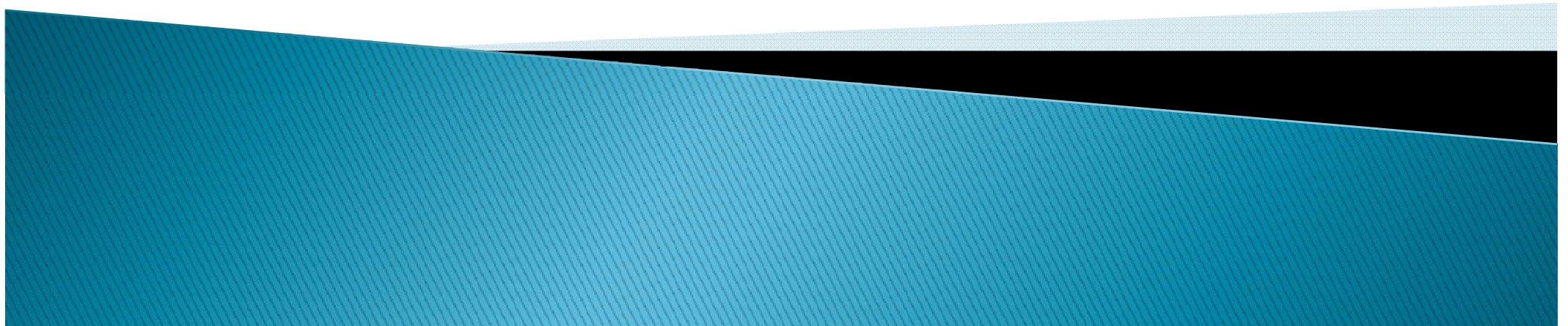
Farmers are better off



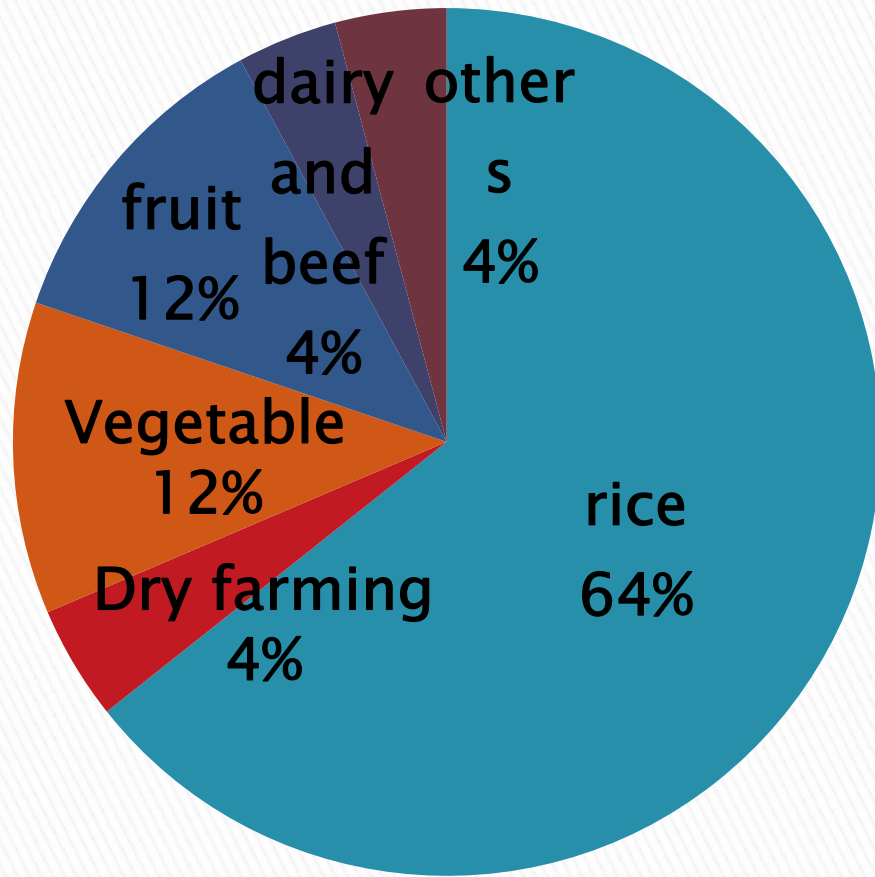
source:MAFF, Ministry of Internal Affairs and Communications "Household economy survey"

Farming income is small for rice farmers

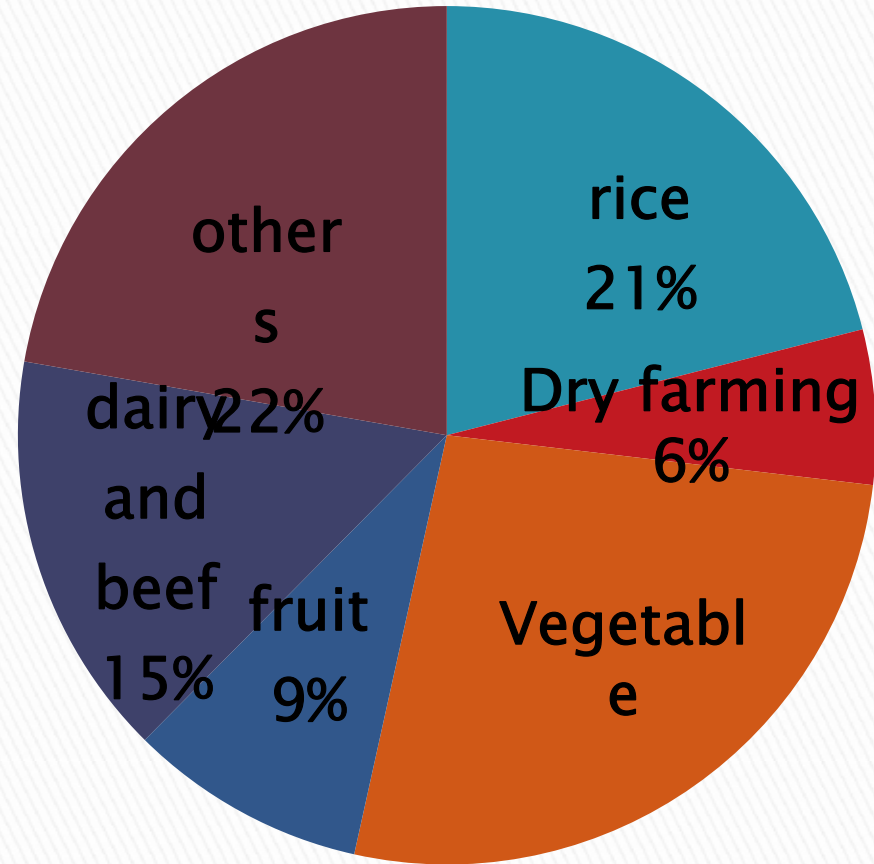




How inefficient the Japanese rice industry is!



The number of farmers



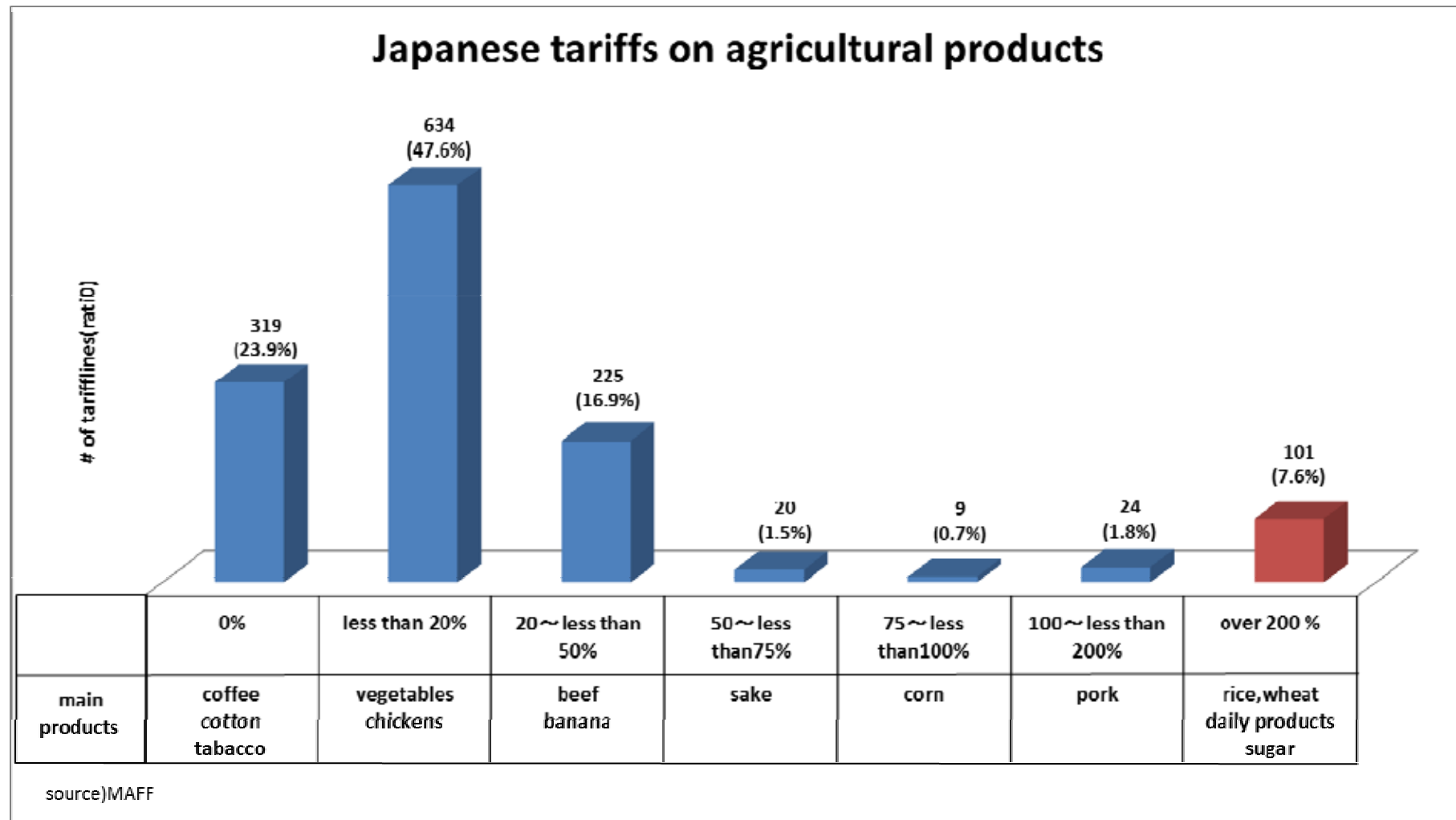
The value of production

Comparison of agricultural policies

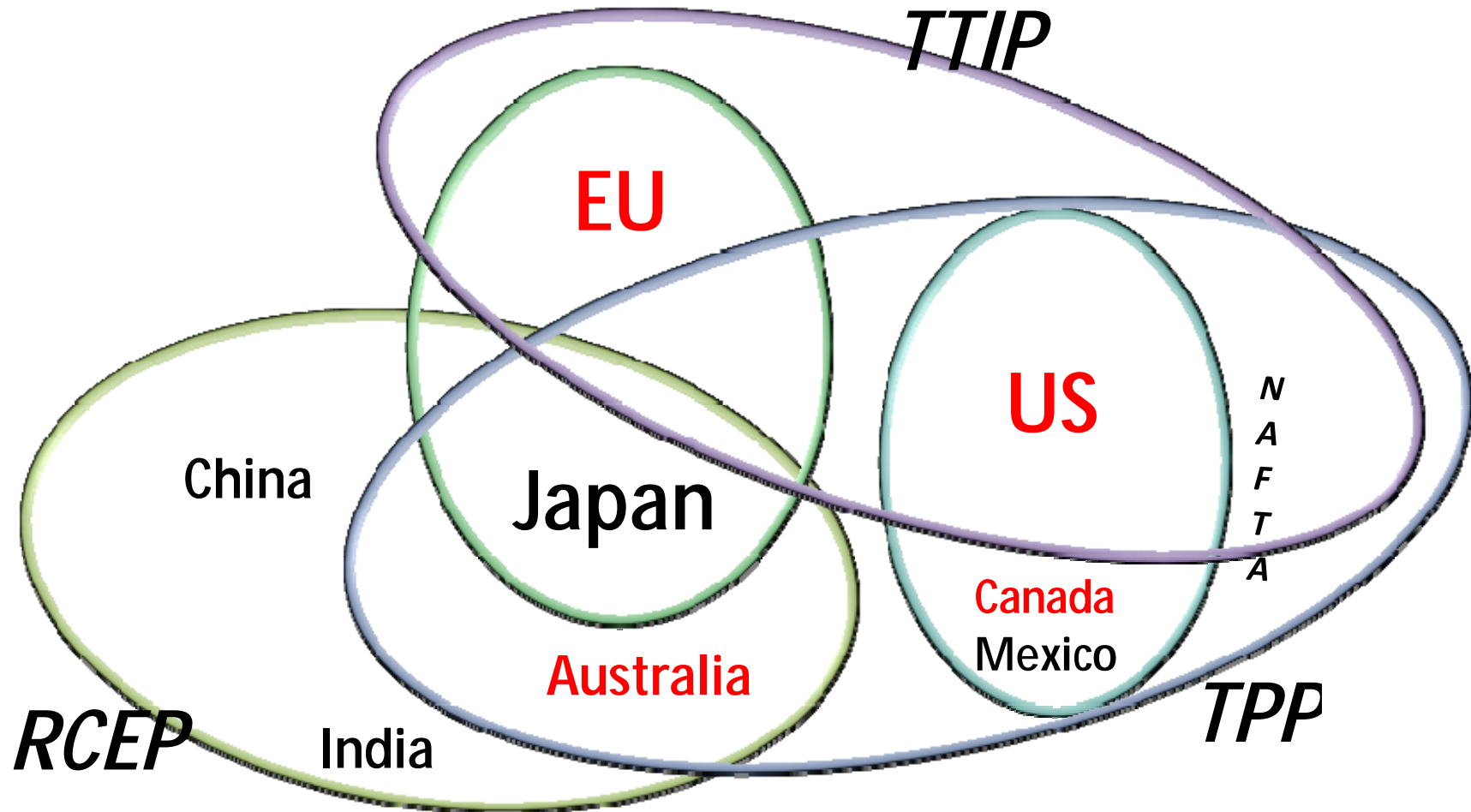
Country	Japan	US	EU
Decoupled direct payments	No	Yes/No	Yes
Environmental direct payments	Partial	Yes	Yes
Direct payments for less favorable regions	Yes	No	Yes
Production restriction program for price maintenance	Yes	No	No
Tariffs* over 1000%	1 (tubers of konnyaku)	None	None
Tariffs of 500-1000%	2 (rice, 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. Here, these specific tariffs are estimated as their equivalents of ad valorem tariff rates, taking into account international prices.

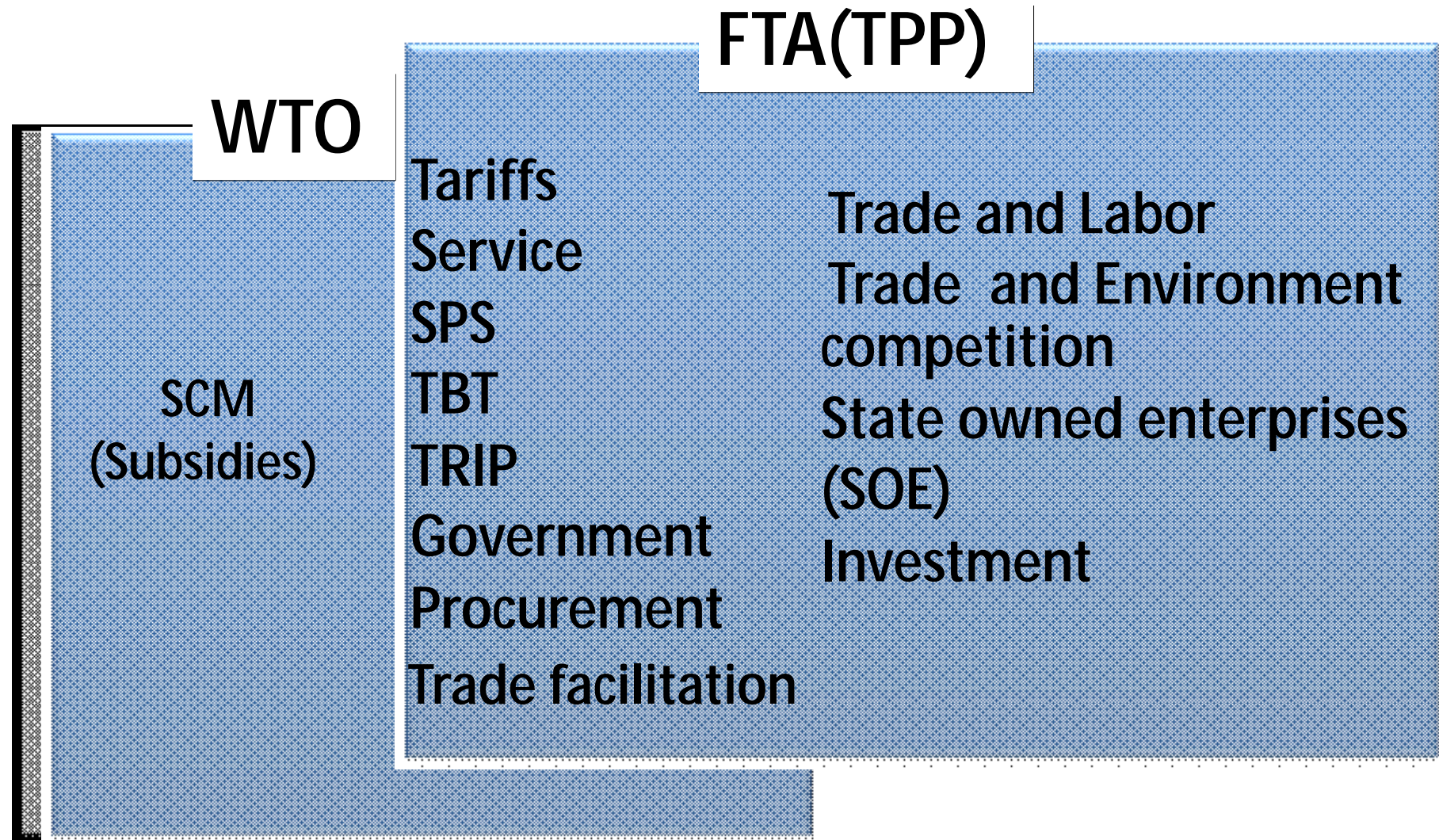
Some Japan's tariffs are prohibitively high



Mega-FTAs



The relationship between WTO and TPP



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 bench mark 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.

The Aftermath of TPP

- ▶ 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

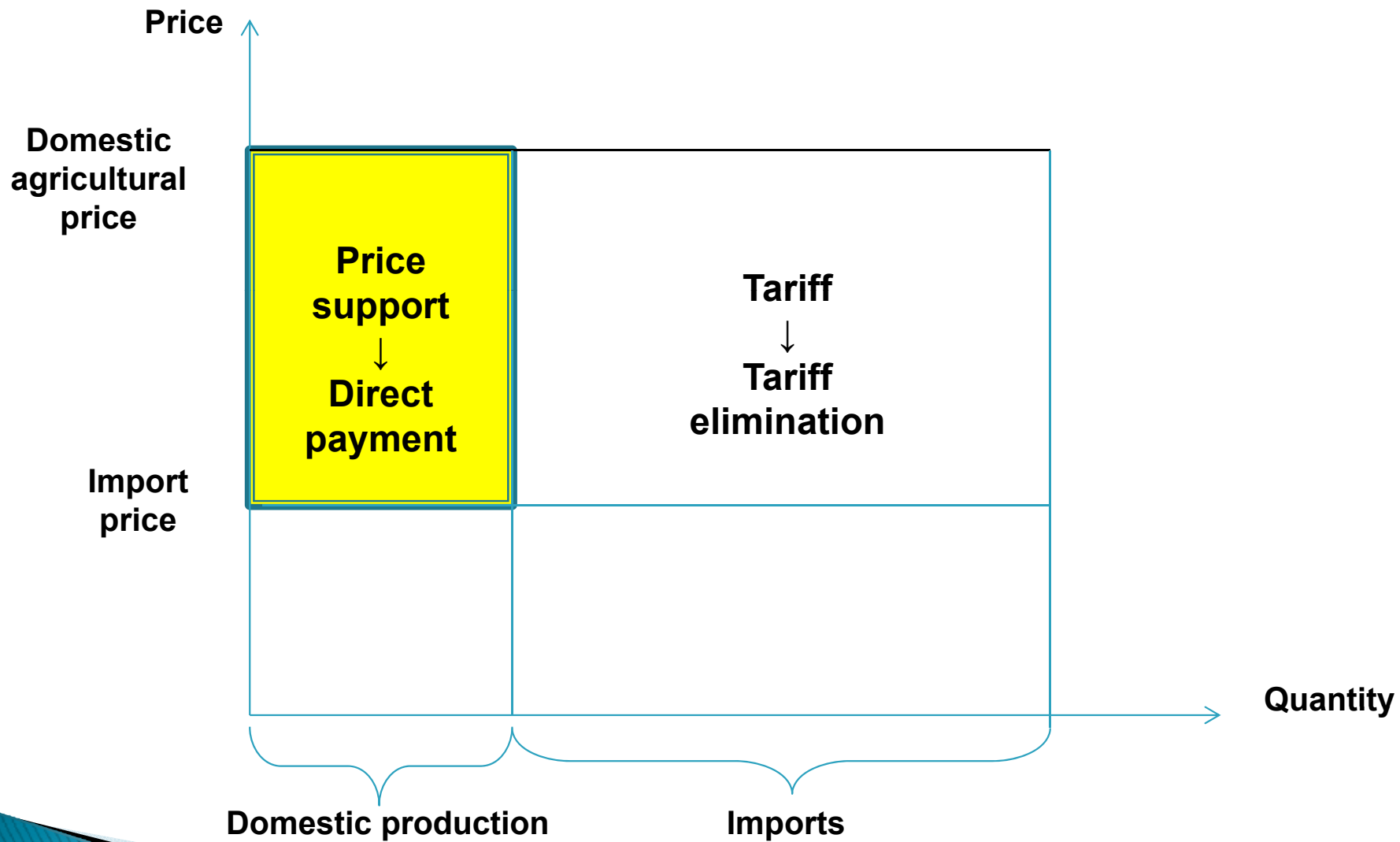
- ▶ AMS = price support + subsidies. Price support is measured as internal and external price differential (administered prices – fixed external prices) multiplied by quantities.
- ▶ If any administered prices are abolished, price support will vanish. This is why Japanese actual AMS (577 billion yen 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.**



Overview of wasteful rice policy

One trillion JPY burden
on consumers

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

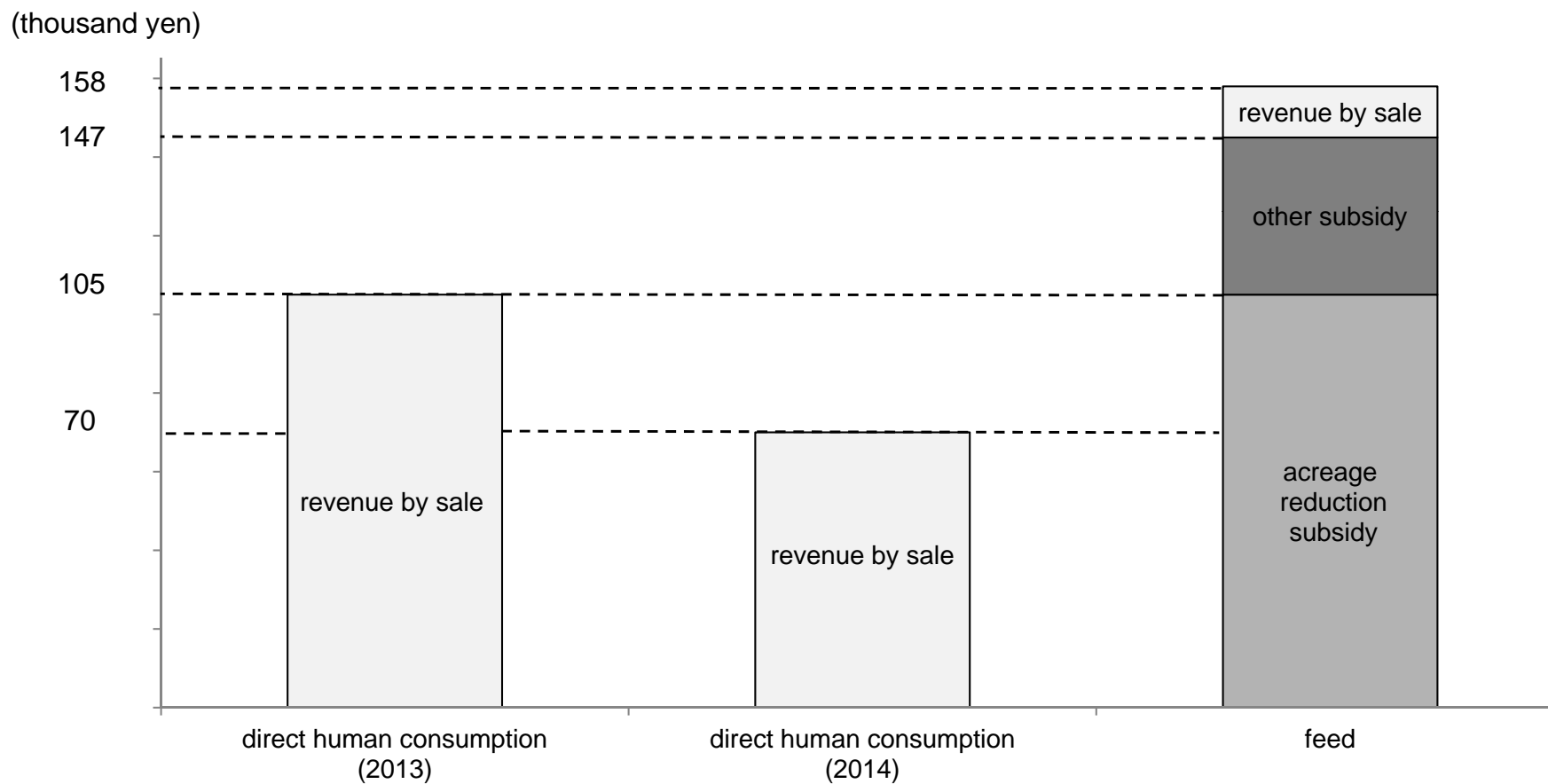
High cost structure of rice

- High rice price encourages small part-time famers, **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



What might happen ?

- ▶ 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

