



# Japanese Agricultural Trade Policy and Sustainable Development



By Kazuhito Yamashita

Canon Institute for Global Studies; Research Institute of Economy, Trade and Industry (RIETI)



International Centre for Trade  
and Sustainable Development

Issue Paper No. 56



# Japanese Agricultural Trade Policy and Sustainable Development

---

**By Kazuhito Yamashita**

Canon Institute for Global Studies; Research Institute of Economy,  
Trade and Industry (RIETI)



**Published by**

International Centre for Trade and Sustainable Development (ICTSD)  
International Environment House 2  
7 Chemin de Balexert, 1219 Geneva, Switzerland

Tel: +41 22 917 8492  
E-mail: [ictsd@ictsd.ch](mailto:ictsd@ictsd.ch)

Fax: +41 22 917 8093  
Internet: [www.ictsd.org](http://www.ictsd.org)

Publisher and Director:  
Programme Team:

Ricardo Meléndez-Ortiz  
Jonathan Hepburn and Paolo Ghisu

---

**Acknowledgments**

ICTSD wishes to gratefully acknowledge the support of its core and thematic donors, including the UK Department for International Development (DFID); the Swedish International Development Cooperation Agency (SIDA); the Netherlands Directorate General of International Cooperation (DGIS); the Ministry of Foreign Affairs of Denmark, Danida; the Ministry for Foreign Affairs of Finland; and, the Ministry of Foreign Affairs of Norway.

ICTSD and the author is grateful to all those who commented on, or otherwise contributed to, earlier drafts of the paper, including Prof. Masayoshi Honma, Ni Hongxing.

Kazuhito Yamashita is Research Director, Canon Institute for Global Studies and Senior Fellow (Adjunct), Research Institute of Economy, Trade and Industry (RIETI).

---

For further information on ICTSD and other work in this theme see [www.ictsd.org](http://www.ictsd.org)

Comments and feedback on this publication can be sent to Jonathan Hepburn ([jhepburn@ictsd.ch](mailto:jhepburn@ictsd.ch)) or to ICTSD's Managing Director for Communications and Strategy at [acrosby@ictsd.ch](mailto:acrosby@ictsd.ch)

Citation: Yamashita, Kazuhito; (2015); *Japanese Agriculture Trade Policy and Sustainable Development*; Issue Paper No. 56; International Centre for Trade and Sustainable Development, Geneva, Switzerland, [www.ictsd.org](http://www.ictsd.org).

Copyright ICTSD, 2015. Readers are encouraged to quote and reproduce this material for educational, non-profit purposes, provided the source is acknowledged. This work is licensed under the Creative Commons Attribution-Non-commercial-No-Derivative Works 3.0 License. To view a copy of this license, visit <http://creativecommons.org/licenses/byncRnd/3.0/> or send a letter to Creative Commons, 171 Second Street, Suite 300, and San Francisco, California, 94105, USA.

ISSN 1817 356X

## CONTENTS

FOREWORD	iv
EXECUTIVE SUMMARY	v
INTRODUCTION	1
1. POLICY OBJECTIVES	2
1.1 Farmers' Income	2
1.2 Food Security	3
1.3 "Multifunctionality"	6
1.4 Other Policy Objectives	9
2. THE JAPANESE AGRICULTURAL TRADE POLICIES	10
2.1 Japan in the Uruguay Round Agricultural Negotiations	10
2.2 Japan in the Doha Round of Agricultural Negotiations	15
2.3 Japan in the TPP negotiations	16
3. POLICY OPTIONS AND RECOMMENDATIONS	21
3.1 The Characteristics of Japanese Agricultural Policies	21
3.2 Who Supports High Prices and Tariffs?	24
3.3 Policy change under the Abe administration	26
3.4 Policy Recommendations; The Great Potential of Rice	34
CONCLUSION	39
REFERENCES	41
ENDNOTES	42

## FOREWORD

In their statements at the World Trade Organisation (WTO), governments have repeatedly acknowledged that trade policy has an important contribution to make in addressing sustainable development challenges. In particular, carefully designed agricultural trade policies can contribute to ensuring that economic growth occurs in a sustainable and equitable manner, and that it helps to overcome food insecurity and poverty in rural areas.

Governments and other stakeholders increasingly recognise that global rules on trade need to support the achievement of broader public policy goals, and that national policies need to be designed so as to further these goals at home without also undermining their achievement in other countries, through their effects on trade. ICTSD has therefore undertaken a series of studies and policy dialogues aimed at exploring these relationships in major economies, looking not just at agricultural trade policies in developed countries such as the US, EU and Japan, but also in some of the larger developing countries, such as China, India, Brazil and Argentina.

In addition to reviewing how current policies may affect internationally agreed goals in areas such as food security, these discussions and studies have provided an opportunity for policy-makers and experts to share analysis on the implications of new aspects of the policy environment - such as emerging trends in markets for food and agriculture.

Japan's agricultural trade policies have received attention from policy-makers and analysts around the world, as the country is one of the top ten agricultural trading powers, one of the largest importers of agricultural goods, and has long maintained particularly high levels of tariff protection and trade-distorting domestic support. New developments furthermore raise additional issues for the future of the country's agricultural trade policy, as well as for the global agricultural trading system as a whole: these include Japan's bilateral trade agreements with Australia and the EU, as well as regional negotiations under the auspices of the Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP) negotiations.

The following study, by Kazuhito Yamashita, seeks to provide policy-makers and other stakeholders with an impartial, evidence-based assessment of the extent to which Japan's current farm trade policies are successful in achieving economic, social and environmental objectives, including those relating to areas such as food security, poverty reduction, environmental protection and climate change. The paper places this analysis in the context of current multilateral rules and ongoing negotiations on farm trade at the WTO, as well as regional and bilateral agreements and negotiations to which Japan is party.

We hope that, as such, this study represents a significant contribution to the evolving discussion in this area.



Ricardo Meléndez-Ortiz  
Chief Executive, ICTSD

## EXECUTIVE SUMMARY

Japan has made it a top priority to keep many agricultural products exempt from substantial reductions or elimination of tariffs. In relation to the Trans-Pacific Partnership (TPP) negotiations, the agricultural committees of the Japanese Diet have adopted resolutions urging the government to leave the negotiating table if it cannot have Japan's rice, wheat, beef and pork, dairy products and sugar exempted from the tariff elimination in the TPP agreement. The resolutions have constrained the Japanese government in the TPP negotiations.

In contrast to Japan, the European Union, which took a defensive position in the agricultural negotiations of the Uruguay Round, undertook agricultural policy reform and played a more active role in the Doha Round. The EU has shifted its policy from price support to direct payments, protecting agriculture while also supplying agricultural produce to consumers at low prices. What tariffs are really protecting in Japan are high domestic prices for agricultural products.

Rice is a sacrosanct product in Japanese politics. The acreage reduction programme for rice was first introduced in Japan in 1970. 40 percent of paddy fields is set aside from rice production under this programme in order to support the price of rice. The Japanese people bear not only the costs of subsidies allowing farmers to join the programme but also the high price resulting from it. The burden of the Japanese people as taxpayers and consumers amounts to one trillion yen while the product of the Japanese rice industry is worth only two trillion yen.

MAFF has justified its own policy in the name of food security and "multifunctionality". In reality, however, Japanese agricultural policy has damaged both of them. Due to the acreage reduction programme for rice, Japan has lost 1 million hectares out of 3.4 million hectares of paddy fields which could contribute to food security, and as a result have lost most of the environmental benefits associated with agriculture in Japan.

The same policy has also damaged the Japanese rice industry. The high price of rice has kept a lot of inefficient small-scale part-time farmers in the industry. Full-time farmers find it difficult to acquire land and expand the size of their farms. Full-time farmers have not been able to reduce costs and increase their income.

However, the agricultural cooperative (JA) has strongly demanded this policy. Higher rice prices translated into more revenue from commissions for selling rice and higher sales of inputs, such as chemical fertilisers and pesticides, at higher prices. In addition, the JA has a hand in everything from banking, life insurance and accident insurance, for farmers and non-farmers alike, to sales of all agricultural products and materials, as well as the supply of daily commodities and services. For the JA, the continued presence of these part-time rice farmers has been advantageous. Income from part-time non-farming work, which is four times greater than farming income, as well as profits from the sale of farmland for other purposes (trillions of yen every year), is all deposited in the accounts of the JA, building the JA into Japan's second biggest megabank. Keeping rice prices high and part-time farmers on their farms has been the foundation of the JA's growth and prosperity.

It is not too much to say that the future of Japan's agriculture rests on whether we can successfully destroy the solid 'rocky mass' of the rice paddy set-aside programme, which is one of the central pillars of Japan's post-war agricultural policy. The Abe administration has embarked on the reform of JA for the first time in 70 years, although the fundamental reform is yet to come.

If the acreage reduction programme is abolished, resulting in lower rice prices, part-time farmers will lease their farmland to others. If the beneficiaries of direct payments are limited to full-time farmers, they will be better able to pay their land rent. Thus, farmland will be concentrated in the hands of full-time farmers, and the scale of their farming will grow. Discontinuing the acreage reduction programme will increase the yield per unit of land area. All of these will combine to make Japanese rice more competitive in the world market.

Japan saw its agriculture decline despite its intention to protect the domestic market by means of high tariffs. This domestic market is shrinking due to an ageing and decreasing population. Japan's agriculture will have no future without cultivating the export market. Lower tariffs in export destinations will be favourable to export expansion. The agricultural sector should act proactively on negotiations on TPP and other trade deregulation that serve to remove tariffs imposed by trade partners and to facilitate exports. Japanese agriculture could survive by exporting highly value-added agricultural products such as Koshihikari, a Japanese high-quality variety of rice, while importing rice from Vietnam or Thailand. Japan can open its market to developing countries and enhance their sustainable development.



## INTRODUCTION

Japan has taken a defensive position in previous rounds of the General Agreement on Tariffs and Trade (GATT) or the World Trade Organization (WTO). In the agricultural negotiations of the GATT Uruguay Round, Japan resisted tariffication (conversion from non-tariff measures such as import quantity restriction to a tariff-only system with a zero or low tariff quota) and resorted to special treatment for rice, a sacrosanct product in Japanese agricultural politics, with a larger tariff quota than in the case of tariffication. In the agricultural negotiations of the WTO Doha Round, it strongly resisted 100% tariff caps and made a great effort to treat as many products as possible as what were called 'sensitive products', which were exempt from deeper tariff cuts in exchange for increases in the size of tariff quotas.

In relation to the Trans-Pacific Partnership (TPP) negotiations, the agricultural committees of the Japanese Diet have adopted resolutions urging the government to leave the negotiating table if it cannot have Japan's rice, wheat, beef and pork, dairy products and sugar exempted from the tariff elimination in the TPP agreement. The value of agricultural production protected by high tariffs is around 4 trillion yen, only a twelfth

of the Japanese automobile industry, and yet it is agriculture that is dominating Japan's TPP negotiations.

In contrast to Japan, the European Union, which took a defensive position in the agricultural negotiations of the Uruguay Round, undertook agricultural policy reform and played a more active role in the Doha Round. It agreed with the United States on 100% tariff caps and the elimination of export subsidies.

Japan has made it a top priority to keep many agricultural products exempt from substantial reductions or elimination of tariffs. Since Japan has consistently stuck with a defensive stance in negotiations on agricultural products, it has become difficult for it to elicit the compromises from other countries that it deserves in other areas.

What tariffs are really protecting are high domestic prices for agricultural products - in other words, food prices. Unlike Japan, the US and the EU have made payments to farmers out of government coffers, protecting agriculture while also supplying agricultural produce to consumers at low prices.

## 1. POLICY OBJECTIVES

### 1.1 Farmers' income

Keeping the income of farmers at a decent level has been the main objective of Japanese agricultural policy. This argument has gained some political appeal. In the current Abe administration, the Prime Minister, the Minister of Agriculture, Forestry and Fisheries and other public officials emphasise that any policy reform of agriculture, including the reform of the agricultural cooperative (JA), should be judged by whether it can enhance farmers' income.

It is repeatedly argued by agricultural groups and the politicians they back that a high farm price is necessary to attain a certain level of farmers' income. The Ministry of Agriculture, Forestry and Fisheries (MAFF) increased the administered price of rice and maintained it under the Food Control Law until 1995. It has kept the price of rice high by the acreage reduction programme since then. There is little or no mention of benefits to consumers.

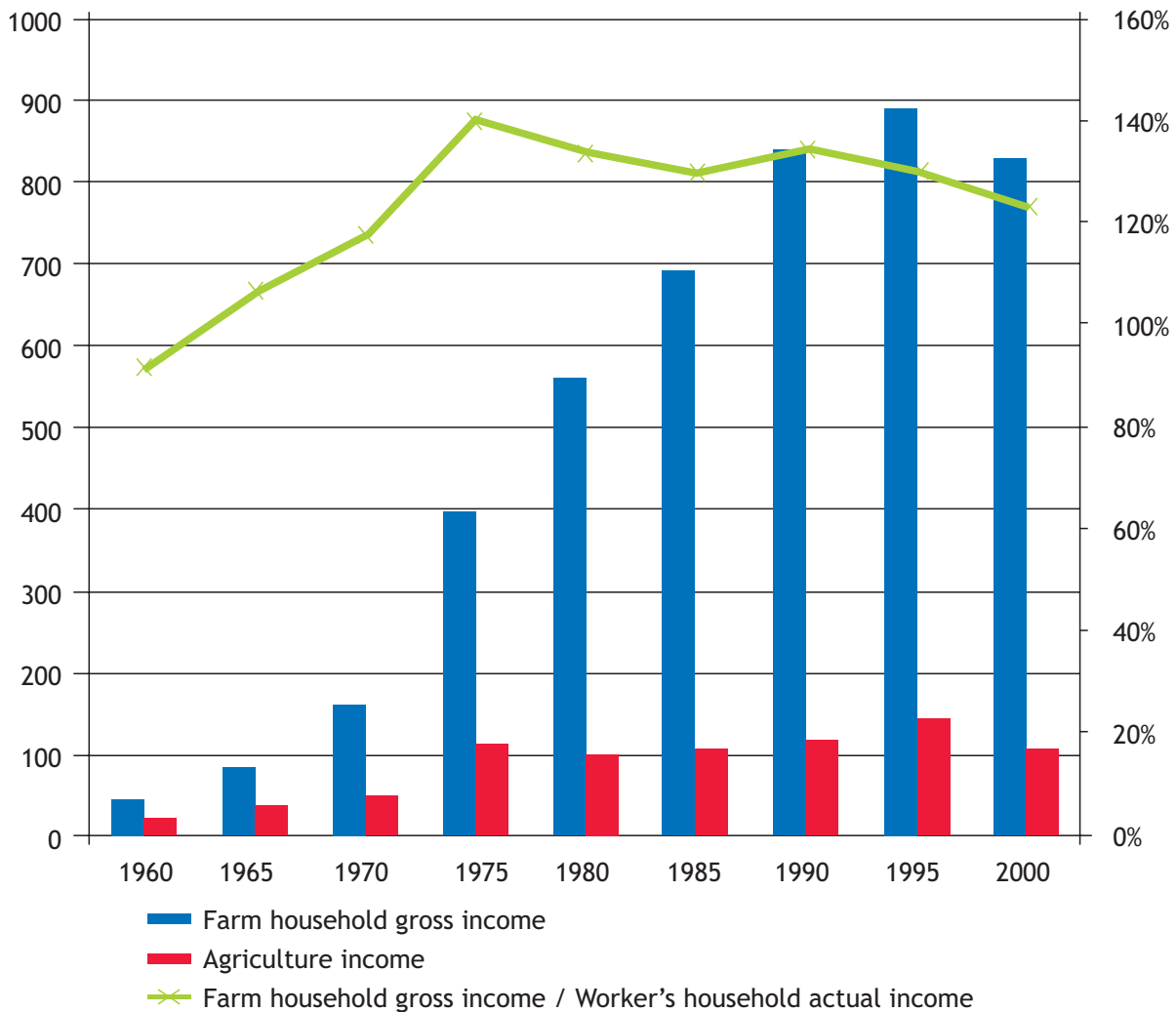
The Democratic Party of Japan (DPJ), which took over power in 2009 from the Liberal Democratic Party (LDP), which had ruled Japan for fifty years, both maintained this objective of keeping farmers' income high and reinforced it. The DPJ introduced a new direct income payment for rice farmers in 2010 in addition to the high price of rice maintained by the acreage reduction programme.

Increasing farmers' income continues to be the main objective under the current LDP Abe administration, which took back power from the DPJ in 2012. The growth strategy of current Prime Minister Abe aims to double farmers'

income over the next ten years through various policy measures. One of them is to create a so-called 'sixtiary industry', which means combining agricultural production as a primary industry with secondary and tertiary industries, such as processing, distribution, catering and restaurants, and agritourism, thus increasing the added value of agricultural products. Other policy measures include doubling exports and establishing a new public body called the 'farmland accumulation bank', which borrows and accumulates farmland to rent out to agricultural actors. Calculating income by multiplying the price by sales and deducting costs, the idea of the growth strategy is to increase the price by creating the 'sixtiary industry', enhance sales through exports, reduce costs by accumulating farmlands and expanding farm size, and thus increase income. This sounds very reasonable as far as the policy formulation is concerned.

But in reality, as Figure 1 shows, farmers' household income has been greater than workers' income since 1965. This is because most of the farmers are part-time farmers and their main income comes from working in a factory, in local government or elsewhere. The share of farming income in farmers' household income has dwindled from 67% in 1955 to 14% in 2003. It is no longer the case that people are poor because they are farmers or because they live in rural areas. The argument for maintaining farmers' income, however, has a political appeal to most of the Japanese people, who have been away from rural areas for a long time and still believe that farmers are poor. TV dramas set in a poor village in the pre-war era still appeal to many Japanese.

**Figure 1 Farm -household income and wage-earning household income, 1960-2000**  
(ten thousand yen)

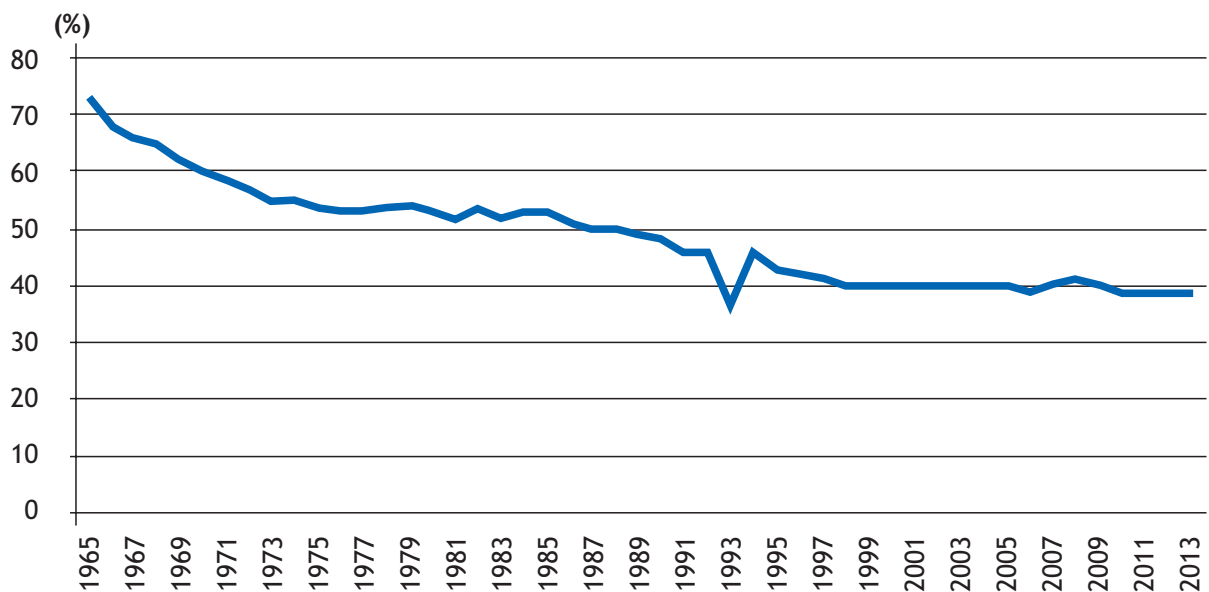


Source: MAFF; Ministry of Internal Affairs and Communications, 'Household Economy Survey'.

## 1.2 Food security

It is emphasised and widely believed in Japan that Japan's rate of food self-sufficiency, which has been declining and is now 39%, should be increased in order to achieve more food security. Japanese people are scared by the low rate of food self-sufficiency. It is frequently argued that we should not rely

on imported food and should increase the production of food. This argument appeals to most of the Japanese people. According to a survey by the Prime Minister's Office in 2014,<sup>1</sup> 69% of people think that the rate of food self-sufficiency is low and 83% feel insecure about the future supply of food. The issue of a low rate is emphasised in an elementary-school textbook.

**Figure 2 Change in the rate of food self-sufficiency (calorie base), 1965-2013**

An increase in the rate of food self-sufficiency is irrelevant to food security, however. The rate is calculated as domestic production divided by domestic consumption. Domestic consumption is the sum of the consumption of domestic and imported produce. If people become richer and richer and consume more beef, cheese and other dairy products which are either imported or require a lot of imported grain for their domestic production in Japan, then the rate of food self-sufficiency will decline. Combining domestic production in the present and the domestic consumption pattern fifty years ago, the food self-sufficiency rate would increase substantially because the level of domestic consumption was lower then. The decrease in domestic production and the change in the domestic consumption pattern have both contributed to a decline in the rate of food self-sufficiency in Japan.

After World War II, Japanese people felt very insecure about food because there was a lack of food and some people starved to death. The rate of food self-sufficiency at that time, however, was 100% because Japan did not import any food or grain at all and domestic production was equal to domestic consumption. Nobody would argue that the food situation after World War II, when people were starving,

was better than now simply because the food self-sufficiency rate then was higher than now.

In a nutshell, the rate of food self-sufficiency may increase or decrease according to the level of domestic consumption. At a time of food crisis without any imports, Japan would not be able to maintain its current consumption patterns with beef, cheese and various fruits or wine on the table. Japanese people would have to live on a subsistence level of food, with rice or potatoes on the table. The rate of food self-sufficiency under conspicuous consumption cannot measure the degree of food security in a food crisis. If we would like to use a food self-sufficiency rate to measure food security, we should not use current domestic consumption but take the subsistence level of human consumption as a denominator.

If Japan increases domestic production with more subsidies to farmers, the rate of food self-sufficiency will temporarily increase. But there is no guarantee that the Japanese government can give such subsidies to farmers in a food crisis. An increase in the Japanese food self-sufficiency rate might increase world production and alleviate the food bill in developing countries to a small extent, but it does not contribute to Japan's food security.

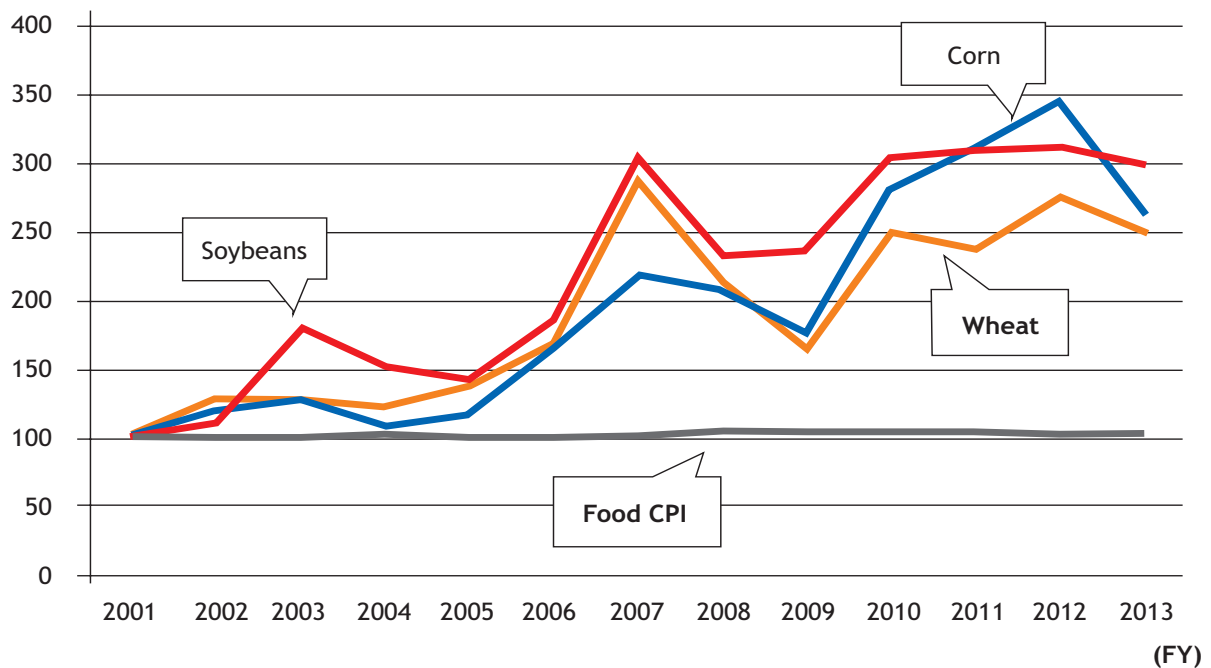
Food security consists of the affordability of food and its accessibility. Price plays a fundamental role in equalising supply and demand. Without any governmental intervention, there is no shortage or surplus in the market thanks to the work of the price mechanism. As far as the total amount of food is concerned, there is enough food for the basic nutritional needs of the world population. However, there is obesity and waste in developed countries and hunger and loss in developing countries. The price determined by the market is high for the poor in developing countries. They cannot afford to buy food if there is a hike in the world price. When food prices soar, as in 2008, a food crisis occurs. In addition to food affordability, some nations lack accessibility to food. Some people in developing countries have no access to food due to the lack of transportation or distribution infrastructure, even when food is delivered at ports. Thus economic growth and/or building infrastructure are essential to overcome a food crisis in developing countries.

We also have to distinguish the price in the short run from that in the long run. A hike in the food price exacerbates food insecurity in two cases. In the long run, the increase in the food supply may be insufficient to meet the growing demand caused by world population growth and by the increase in income in developing countries. On average, prices might be too high for the poor. We have to overcome this situation by further technological progress, investment in infrastructure and

other methods to increase productivity. We also have to overcome the problems of soil erosion, water depletion, salinisation and excessive use of agrochemicals which make world agriculture less and less sustainable.

In the short run, the issue is price volatility. Grain prices have declined in real terms in the last hundred years thanks to the substantial increase in productivity. The increase in supply has outweighed the increase in demand for food, even though the world has experienced population expansion. Occasionally, however, food prices soar, as in 1973 or 2008, due to poor harvests or new demand for agricultural products, such as for ethanol, even while prices are low on average.

What is important for food security in Japan? Japan can afford to buy food even during a price hike, whether in the short run or the long run. Japan is the largest net importer of agricultural products in the world. But even when the world's grain price tripled or quadrupled in 2008, the Japanese food consumer price index increased by only 2.6%. This is because imported agricultural and fishery products make up only 2% of total food expenditure in Japan. Food processing, distribution, and services such as catering in the food chain constitute the major part of the food bill in Japan. According to MAFF, agriculture and fishery, whether domestic or foreign, accounts for only 15% of the total food bill.

**Figure 3 International grain price index and domestic consumer price index , 2001-2013**

Source: Food and Agriculture Organization, 'Food Outlook'; Ministry of Internal Affairs and Communications, '2010 standard CPI', The price in 2001 FY is equal to 100.

Thus, in Japan, affordability of food is not an important issue for food security. Japan is rich enough to pay a high import bill. But accessibility to food matters. Japan would have difficulties in feeding its people without imports. This can happen when the sea lanes are interrupted by military attacks or food is not shipped due to strikes at ports. In the aftermath of the Great East Japan Earthquake, people in the area affected by the earthquake and tsunami could afford to buy food but they could not get access to food because of the disruption of the transportation system. In the event that Japan cannot import food, it has to produce food itself, making full use of agricultural resources such as land. In order for Japan to be food secure, it has to maintain or increase agricultural resources. The food self-sufficiency rate in peacetime has nothing to do with food security. Now the Japanese government is beginning to realise the importance of keeping agricultural resources. It is trying to develop the notion of 'the power or potential to supply all one's own food'.

### 1.3 "Multifunctionality"

Water, soil and sunlight are indispensable resources for agricultural production. Some of

the world's agriculture may not be sustainable because those resources are damaged or threatened by agriculture itself. Rice production as it has long been maintained in monsoon Asia, including Japan, is quite different from other agriculture.

As regards water, it needs a thousand tons of water to produce 1 ton of corn. Irrigated land, amounting to 17% of total farmland in the world, consumes 70% of the entire water supply of the world, including household and industrial use. Pumping excessive water out of rivers and underground water reservoirs for irrigation will reduce the water supply in the future. Agriculture in India, China and the US depends on groundwater.

Excessive irrigation in a dry area without a proper drainage system has caused serious salinisation, which not only creates environmental damage, of the kind that has made the Aral Sea almost extinct, but reduces soil resources which are indispensable for agricultural production.

With respect to soil, it takes about 200 or 300 years to create 1 centimetre of surface soil suitable for vegetation. Such surface soil is only 30 centimetres deep, and it is eroded by wind



and rain. Large agricultural machines till deep into the soil. Planting single crops by increasing the use of machines specialising in a particular crop tends to leave land without the cover of plants after the harvest. These agricultural methods combine to make soil susceptible to erosion by wind and rain. Action to prevent soil erosion such as no-tillage farming and covering land with crop may mean more agricultural chemicals, which damage the environment in their turn. No-tillage farming needs herbicide. Covering land with crop residues needs pesticide.

Dry land farming has a problem of replant failure or injury because of continuous cropping. Repeatedly planting the same kind of crop on dry land depletes some of the nutrition in the soil and increases harmful germs. Crop rotation was developed in order to avoid this problem. Now farmers tend to continuously plant dry land with the same kind of crop using specialist machines. In order to reduce the problem of replant failure, farmers increase the use of chemical fertilisers, herbicides and pesticides.

Agriculture in Japan differs from that in the US, Australia and China. The share of paddy fields, dry fields and pasture land in total farmland is 54%, 26% and 13% respectively in Japan; 6%, 28% and 65% in the US; 1%, 11% and 88% in Australia; and 13%, 9% and 75% in China. More than half of Japanese farmland is paddy fields, while the majority of land in the other three countries is barren pasture land unsuitable for crop plantation. Japanese farmland is fertile and most Japanese farmers produce rice.

Japanese paddy fields do not have the sustainability problems described above as a result of Japan's forests and water. Rainfall in Japan, which is twice as high as the world average, is gathered in the forests which cover two-thirds of total land in Japan, and it is gradually released to rivers together with large amounts of nutrition from forest trees, leaves and soil. Paddy fields utilise this nutritious water. The water supplying Japanese farmland comes 90% from rivers and 1% from groundwater. The humid climate helps prevent soil erosion by encouraging vegetation to cover the land. Paddy

fields are also covered with water. This makes them less susceptible to soil erosion and less suitable as a habitat for harmful germs. That is why Japan has continued to plant the same kind of crop, rice, in paddy fields year in, year out without a depletion of water resources, soil erosion, salinisation or replant failure for more than 3,000 years. This is indeed a highly sustainable agriculture.

Paddy fields terraced in order to retain water have played the role of a man-made water reservoir. They have contributed a great deal to retaining water, preventing floods and landslides and providing a beautiful landscape. They provide a habitat for many animals. So many years of cultivation have produced their own kind of nature. The tadpole shrimp (Triopsidae), which has lived for 200 million years, for example, could not survive without paddy fields. In addition, Japanese paddy fields are surrounded by 400,000 kilometres of waterways, long enough to stretch ten times round the earth. There are many fish, frogs and water insects in the waterways, food for birds. Rice production on paddy fields offers these positive externalities without any conflict.

There may be negative externalities associated with rice production. Paddy fields emit methane gas. However, Japan has maintained paddy fields for thousands of years. Their additions to greenhouse gases are not recent. In addition, rice production has been halved and 30% of paddy fields have been lost over the last fifty years. It is well known that the longer period of water drainage in summer decreases emissions substantially, as well as making rice more productive. Agricultural gross greenhouse gas emissions (tonnes of CO<sub>2</sub> equivalent) in Japan have declined from 31 million in 1990 to 25 million in 2010, according to the Organization for Economic Cooperation and Development (OECD).<sup>2</sup> Paddy fields offset negative externalities of agricultural production because they decompose nitrate nitrogen and prevent groundwater from being contaminated.

The OECD's agriculture ministerial communiqué from the meeting of 5-6 March 1998 recognised that beyond its primary function of supplying

food and fibre, agricultural activity could also shape the landscape, provide environmental benefits such as land conservation, the sustainable management of renewable natural resources and the preservation of biodiversity, and contribute to the socio-economic viability of many rural areas. These functions associated with agricultural production are called the 'multifunctionality of agriculture', and the OECD has published some papers on the subject.

It is emphasised in Japan that the 'multifunctionality' of agriculture beyond crop production, such as its anti-flooding effect, retention of water resources, and preservation of biodiversity and a beautiful landscape, should be maintained. The role of paddy fields in retaining water, preventing flood and breeding many insects, fish and birds is well understood. It is argued that we should preserve land and water resources in a good condition in light of both food security and 'multifunctionality'.

The 'multifunctionality' of agriculture is characterised by joint production. Agriculture may produce multiple outputs such as water supply, flood prevention, biodiversity and landscape. If they are not all produced together, and if there is not enough of an output, then we should introduce a policy to promote or increase it individually or separately. Some non-commodity outputs are jointly produced with commodity production. Some of them, such as a beautiful landscape of golden waves of rice in the fall, are related to the amount of production. Some of them, such as flood prevention, are related to the production factor, paddy fields. This is a case of a positive externality. If enough non-commodity outputs are not produced because they are not priced, then there is a room for governmental intervention or policies to enhance such externalities. The process of producing rice or the maintenance of paddy fields is likely to produce these functions. The introduction of water from waterways to paddy fields for rice production keeps the tadpole shrimp alive. In this way, an increase in rice production or keeping paddy fields in good condition enhances these non-commodity outputs.

MAFF has used 'multifunctionality' as a legitimating reason for the protection of agriculture in general. It defends all agricultural protection on the grounds of 'multifunctionality'. Tariffs on any agricultural products are necessary for 'multifunctionality'. It argues that 'multifunctionality' would be lost by the abolition of tariffs.

In 2014 Japan (MAFF) introduced direct payments amounting to 48 billion yen to farmers' groups or communities for keeping agricultural resources such as farmland, farm roads and waterways in good condition. It argued that these direct payments were aimed at enhancing 'multifunctionality'. It did not specify what kinds of multiple functions should be promoted. It simply noted that agriculture and farming communities had maintained 'multifunctionality' by keeping land in good condition, creating water resources, conserving the natural environment and forming beautiful landscapes.<sup>3</sup>

It has to be a criticism that this term, 'multifunctionality', ends up serving as a general justification for a range of different types of objectives or policies, without it being clarified precisely which is meant in a particular setting. The overuse of agrochemicals may kill the tadpole shrimp and other creatures. But MAFF's approach to 'multifunctionality' reflects the Japanese people's general attitude to or perception of agriculture. That is, agriculture, and rice production in particular, creates amenities and is good for Japanese society and the natural environment. This is partly because Japanese people have continued to plant rice on paddy fields for 3,000 years. Rice production is very sustainable. It is partly because Japanese society and communities have been developed and grown out of the planting of rice and its need for mutual cooperation and the coordinated efforts of village members in maintaining waterways and roads and doing other work related to rice production. In this sense, producing rice is quite different from the production of wheat and other grain which does not require coordinated work by farmers and village members. Rice production forms



a foundation for Japanese society and thus is believed to be good for it.

Rice is special. The semiconductor is called 'rice' in the industry in Japan. This is why rice has been treated differently from other agricultural products in agricultural policies, trade policy in particular.

The new direct payment programme does not increase rice production because it is not related to production per se but to production factors. If a multiple function is related to production, an independent policy to increase the area of beautiful landscapes of golden waves is likely to increase rice production. But this is not the case with this programme.

#### 1.4 Other Policy Objectives

Some of the policy objectives which may be pursued in other countries are not tackled in Japanese agricultural policies.

Since Japan is the third largest economy in the world, with per capita income at 38,468 US dollars in 2013, it does not have to tackle the issue of economic development.

Although there is an issue of income inequality in the whole economy and less development in rural areas, this does not fall in the domain of agricultural policy. Farmers are no longer poor because they are farmers. In addition, agriculture has lost its importance even in rural

areas. Farmers have become a minority in rural communities. Farming communities in which farm households made up more than 70% of total households accounted for 63% of all farming communities in 1970 but their share had fallen to 11% by 2010.<sup>4</sup> The share of GDP from farming activities in the total economy declined from 9% in 1960 to 1% in 2010. In regions such as Kyusyu or Hokkaido where farming is most active, this figure falls short of 5%. MAFF, however, has helped the development of rural areas by subsidising processing or distribution facilities for agricultural products operated by municipal governments or agricultural cooperatives.

There are some poor people who may not be able to afford to buy food and suffer from malnutrition. But there is an income transfer programme in store for them outside of the field of agricultural policies. Japan does not have food stamps, which amount to more than half of the budget of the US Department of Agriculture.

Climate change is not a main objective in Japanese agricultural policies. There is a programme of direct payments to environmentally friendly farming activities, including those for mitigating climate change. But these payments amount to only 3 billion yen in total. In addition, only 22,000 hectares out of 4,549,000 hectares in Japan receive payments for the containment of CO<sub>2</sub> gas in order to mitigate climate change, according to MAFF.<sup>5</sup>

## 2. JAPANESE AGRICULTURAL TRADE POLICIES

### 2.1 Japan in the Uruguay Round agricultural negotiations

The Uruguay Round negotiations were more comprehensive and ambitious than any that had preceded them in GATT, introducing trade in services and trade-related aspects of intellectual property rights (TRIPS) to the WTO in addition to trade in goods. The negotiations on agriculture also marked a watershed. After a succession of negotiating rounds, the US finally put a stop to the European Community's agricultural policies that had been distorting global trade, and it was determined that the WTO would regulate countries' domestic agricultural policies as well as market access and export subsidies.

#### 2.1.1 Market access: comprehensive tariffication and special treatment

Since Japan protects domestic agriculture by means of price support, and depends heavily on import quantity restrictions for agricultural products that are important nationwide or in certain regions, such as rice, wheat, barley, starch and dairy products, it was strongly opposed to 'comprehensive tariffication' in the Uruguay Round. Among other things, rice - which has a great number of producers and wields strong political power - is the most difficult item to tariffify. Each of the plenary sessions of both houses in the Japanese Diet had twice passed resolutions that no single grain of rice should be permitted to enter the Japanese market. This became one of the most important issues at the top of Japan's political agenda at that time.

At 4 o'clock in the morning, just one day before the conclusion of the Uruguay Round in 1993, the Japanese Prime Minister announced to the nation on TV that the government had finally accepted opening up the domestic market to foreign rice under the tariff quota required by the special treatment of rice with respect to tariffication. In the same year, Japan had an extraordinarily poor harvest due to exceptionally cold weather, producing 26% less than in a normal year, so that Japan was forced to import 2.6 million tons of

rice. The Diet resolutions could not be realised. There was a general perception that opening the Japanese rice market was inevitable. Without the poor harvest, there might have been a different outcome to the negotiations.

As compensation for the special treatment, Japan agreed to raise the minimum access tariff quota to 8% of domestic consumption, from the 5% that would have applied in the case of tariffication. Arguably, if the Japanese people and politicians had discussed the rice issue coolly, on the basis of relevant and easily available information, Japan need not have resorted to establishing an excessive amount of minimum tariff quota access. The modalities of agricultural negotiations permitted the out-of-quota tariff rate to be based on the difference between historically high domestic prices and the historically low international prices caused by the glut from 1986 to 1988, no matter how high the new tariff rate might be. The very high tariff rate resulting from this modality would prevent actual importation, while the minimum tariff quota access with a significantly lower in-quota tariff would have inevitably forced Japan to import the exact amount of the tariff quota. Arguably, however, a cool and rational discussion of this issue was hindered by vehement opposition to comprehensive tariffication. At first, the US did not favour the idea of special treatment for rice, but finally supported it because it guarantees greater access to the Japanese rice market with a greater degree of minimum access than in the case of tariffication.

When Japan accepted minimum access for rice, the cabinet made a decision that the acreage reduction programme for rice would not be strengthened or affected by it. In other words, the demand for domestic rice was not to be affected by the minimum access provisions. Rice imported under the minimum access tariff quota is mainly disposed of for industrial use, feed use or food aid, since domestic rice is for direct human consumption. Even when some amount of imported rice is allocated for direct human consumption, more than that amount of

domestic rice is disposed of with the financial support of the government. While food aid is the result of a surplus of domestic production in the US, in Japan it serves for the disposal of minimum access rice.

Japan imported 12.8 million tons of minimum access rice from 1995 to 2013. Of that, 1.3 million tons, that is 10%, was allocated as food for human consumption in Japan, 4.3 million tons for industrial use, 3.2 million tons for feed use, 3.0 million tons for food aid, and 0.8 million tons for stock. Of domestic rice, 2.2 million tons, more than the 1.3 million tons of minimum access rice for direct human consumption in Japan, was directed towards food aid and feed use. Since the price of rice for industrial use, feed use or food aid is much lower than that of imported rice, and storage costs are also involved in keeping imported rice, government expenditure for this disposal amounted to 257 billion yen from 1995 FY to 2012 FY. Arguably this is a waste of taxpayers' money. It has made no contribution to the development of Japanese agriculture or food security.

On average, Japan has exported 158,000 tons of rice as in-kind food aid each year. Fifty thousand tons of rice was shipped to the Philippines during the 2008 food crisis after consultation with the US, which was concerned with the decrease in its rice exports. Japanese in-kind food aid is not large and it does not affect the livelihood of farmers in developing countries. However, government expenditure for this disposal of minimum access rice should be directed to the maintenance of agricultural resources in Japan or to increasing agricultural productivity in developing countries.

In 1999 Japan stopped applying special treatment and introduced tariffication. This was for several reasons, including the fact that the increased access would lead to even more government expenditure on the disposal of imported rice, and the fact that Japan would be able to curb increases in minimum access under paragraph 2 of Annex 5 of the WTO Agreement on Agriculture (AoA) by resorting to normal tariffication. As a penalty for delay in tariffication, however, the required minimum access was raised from the

concessionary rate of 5% to 7.2% of domestic consumption in the base period, 1986 to 1988. It is a basic GATT and WTO rule that if a country seeks an exemption from general principles, it must invariably provide compensation in return.

Beef was also subject to import quantity restrictions. After bilateral negotiations with the US out of the purview of the Uruguay Round negotiations, Japan did away with import quantity restrictions in 1991. Instead it increased tariffs on beef from 25% to 70% in 1991 and reduced them to 60% in 1992 and to 50% in 1993. Actually this became the model of tariffication in the Uruguay Round negotiations. In 1993, as a part of the Uruguay Round negotiations, Japan agreed with the US to reduce its actual tariff rate to 38.5% and resort to the safeguard measure which enables Japan to automatically raise the tariff to 50%, the bound tariff rate in the WTO's country schedule when the amount of imports increases more than 117% compared to the same period the year before.

Dairy products benefited from tariffication. The GATT panel decided in 1988 that import restrictions on whole milk powder, skim milk powder and some dairy products were not consistent with GATT provisions. Japan delayed the elimination of these measures, however, except on some value-added products such as ice cream and frozen yogurt which were of concern to the US, after consultation with the US, a plaintiff to the panel. Japan finally tariffied these measures in the Uruguay Round negotiations. Thanks to the delay in the elimination of these measures, Japan increased tariffs on dairy products, which were bound at a low level<sup>6</sup> in the Japanese country schedule in GATT, to the equivalents<sup>7</sup> of the internal and external price differences from 1986 to 1988.

### *2.1.2 Domestic support*

As for domestic support, the total AMS (Aggregate Measurement of Support) amounted to 3,508 billion yen and the AMS for rice amounted to 2,662 billion yen, accounting for 76% of the total AMS in 1995. The structure of AMS changed drastically in 1998. The AMS for rice disappeared completely.

This is because Japan simply abolished the administered price of rice under the Food Control Law after the Uruguay Round. Thanks to the elimination of the AMS for rice, the total AMS was reduced to 767 billion yen in 1998, just 22% of that in 1995. (In fact, the administered price of rice and the Food Control Law were abolished in 1995. MAFF delayed the change of AMS till 1998.) The total AMS in 2012 was 15% of the level of the binding commitment, 3,973 billion yen. Japan is well within the limits set by the Uruguay Round negotiations, partly because of the high level of AMS recorded in the base period and mostly because of the elimination of the AMS for rice.

The acreage reduction programme for rice is nothing but a price-maintaining cartel, based on the collaboration of farmers, agricultural cooperatives and the government. This is a programme to allow farmers to reduce rice production together so that the rice price can stay higher than without this programme. It is always difficult to maintain a cartel because outsiders benefit from producing more than insiders at the high price which results from the insiders' efforts. In order to avoid this, there must be incentives to join the cartel and not to breach it. The subsidies to farmers for a reduction in rice production function as an incentive for farmers to join this cartel. Because agricultural cooperatives whose members are farmers are exempt from Anti-Monopoly Law, they can legally form a farmers' cartel.

Originally this programme did not aim at keeping the rice price high. Up to 1995, the Japanese government had purchased rice directly from farmers through agricultural cooperatives at a high support price, the administered price of rice under the Food Control Law. The high rice price produced a glut in the late 1960s. The government introduced the acreage reduction programme for rice in 1970 so that it could reduce the level of its purchases from farmers and lessen the financial burden created by the governmental rice purchase system. At first, subsidies were given to farmers to take action not to produce rice. But soon the programme changed to one of crop diversion and subsidies started to be given to farmers who replaced rice and planted wheat,

soybean, fruit, vegetables and other crops for the sake of an increase in food self-sufficiency as well as a reduction in rice production. This is a set-aside programme but it is quite different from the US conservation reserve programme which tries to keep fragile land from being used for agricultural production. What are set-aside in Japan are paddy fields which are as fertile and sustainable as those not set-aside.

At the end of the Uruguay Round negotiations in 1993, Japan negotiated with the US, which had argued for a reduction in this programme for fear that increases of wheat and soybean might replace and reduce US exports to Japan. Japan argued that this was an environmental direct payment because paddy fields created many environmental benefits. It also argued that the amount of the subsidies was less than the difference between the income from producing rice and that from producing other products, which was compatible with paragraph 12(b) in Annex 2 of the AoA, which reads that 'the amount of payment shall be limited to the extra costs or loss of income involved in complying with the governmental programme'. After a long discussion, the US finally accepted the Japanese argument. Thus these subsidies are classified as payments under an environmental programme in the green box in the Uruguay Round negotiations.

However, the Food Control Law was abolished in 1995 and the acreage reduction programme for rice changed its role. It is no longer a measure to lessen governmental expenditure under the Food Control Law. Now it is the only way to maintain a high rice price. This is another form or method of price support which is not captured by AMS. The subsidies to allow farmers to participate in the programme amounted to 250 billion yen in 2012.

Paragraph 12 of Annex 2 of the AoA was introduced or intended for environmental benefits such as reductions in agrochemicals, decreases in greenhouse gas emissions or increases in natural habitat. The subsidies under the acreage reduction programme for rice, one of crop diversion, are given to areas where other crops, not rice, are planted. The environmental benefits such as those of biodiversity, water supply and

landscape associated with rice production are lost by crop diversion. Furthermore, 1 million hectares out of 3.4 million hectares of paddy fields have been lost since the introduction of the acreage reduction programme in 1970. It is not an environmental programme at all.

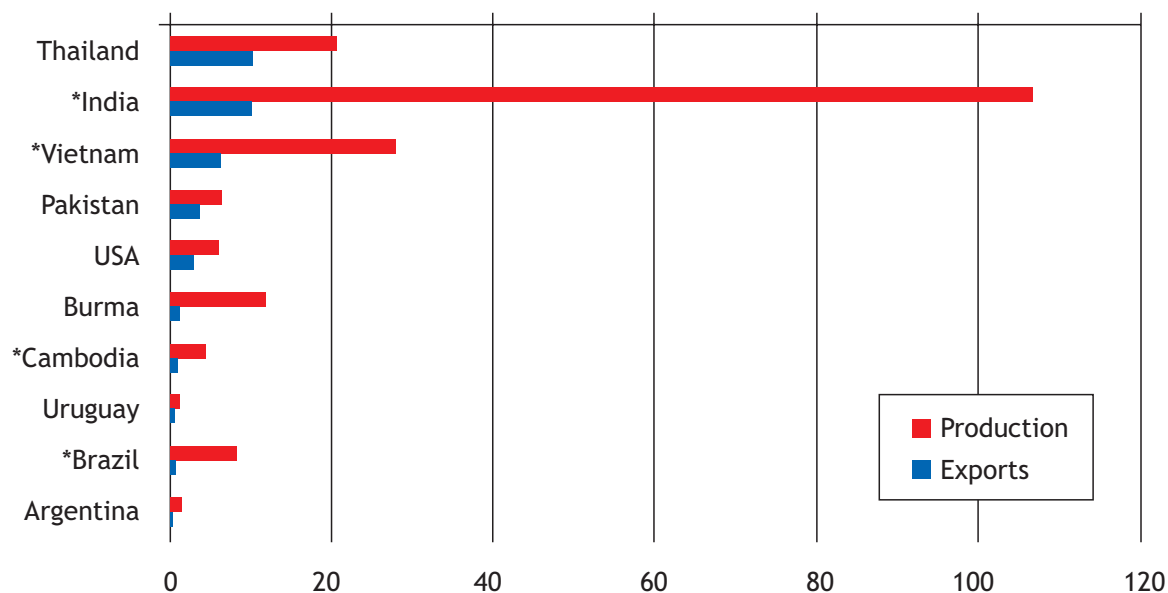
### 2.1.3 Export restriction

In the final phase of the GATT Uruguay Round negotiations in 1993, the Japanese government proposed prohibiting all export restrictions. From Japan's point of view, export restrictions are unfavourable to food-importing countries such as Japan. I was actually one of the members of the Japanese delegation to the trade negotiations in Geneva at the time. Our proposal faced serious opposition from some developing countries. The toughest opponent was India. Although its objectives were to a certain extent attained, Japan's proposal was significantly watered down in the negotiations.

It may be difficult for citizens in developed countries who can afford to buy food at a very

high price and have an ample supply of food to imagine that it is of critical importance for developing countries to strengthen their economies to be able to buy enough food. In 2008, international grain prices tripled. At the time, India prohibited the export of grain. If India had left the situation as it was, domestic grain would have been exported to overseas markets where prices were higher than in the Indian domestic market, which would have decreased domestic supply and boosted domestic prices to international levels. As a result, the poor, who spend most of their income on food, would have suffered serious problems in buying enough food. Since there are so many poor people in India, the government wanted to prevent this from happening. In actuality, India's imposition of export restrictions might have pushed up international grain prices to a certain level, impacting the poor in food-importing countries such as the Philippines. However, international society cannot push India to continue exporting domestic grain because of the simple fact that it may exacerbate hunger among the Indian people.

**Figure 4 Production and exports of the main rice-exporting countries**



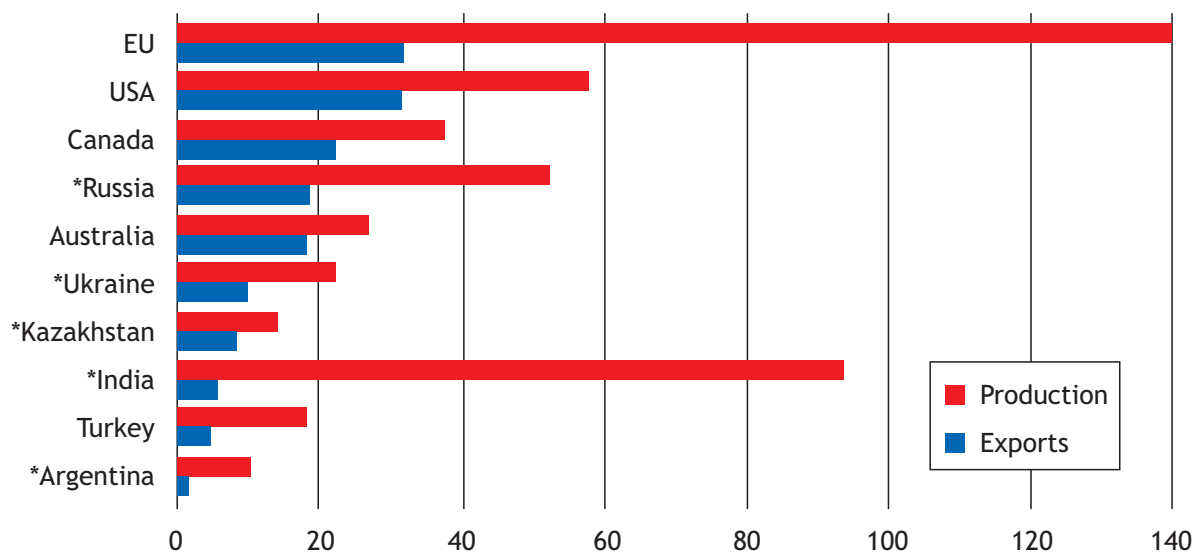
Source: US Department of Agriculture, 'World Market and Trade'; FAO STAT. Countries designated by \* have resorted to export restrictions in 2008.

The international rice market consists of some developing exporting countries. Vietnam and Cambodia as well as India resorted to export restrictions in 2008. Thailand did not apply export restrictions in 2008, partly because a substantial part of its production is destined for exports, and foreign markets are very important to it, and partly because its per capita income is so much greater than those of Vietnam and India that it can tolerate a higher food bill.

Now, a question arises as to what would happen if the United States or Australia were to impose export restrictions on grain after a poor harvest. Export restrictions by such large-scale grain exporters could lead to dire consequences the world over. However, countries like the US and Australia want to

export grain because they produce such a large amount and failing to export it could drive down domestic prices well below international prices. In other words, as long as international prices are higher than domestic prices - although domestic prices fluctuate depending on yield - these countries would continue to export grain to benefit from agricultural business as an export industry. Differently from countries like India, rich developed countries do not need to impose export restrictions to protect poor citizens. What if domestic prices were higher than international prices due to a significant deterioration in domestic production? In that case, developed countries would import grain from the international market to reduce the financial burden on their consumers.<sup>8</sup> They would hand over the reins to free trade.

**Figure 5 Production and exports of the main wheat-exporting countries**



Source: US Department of Agriculture, Production, supply and distribution database. Countries designated by \* have resorted to export restrictions in 2008.



Furthermore, export restrictions are like shooting yourself in the foot. In 1973, the US banned soybean exports. Japan, a major importer, helped Brazil reclaim land and become the second largest soybean exporter in the world. The US embargo on grain to the USSR in the 1980s increased sales by other exporters and meant that the US industry lost the USSR market. This was followed by a serious farm depression in the US. The US will never make the same mistake again. Only one country among the top five wheat exporters in 2013, Russia, applied export restrictions in 2008. Except in the EU, exports account for a substantial part of production for the major exporters. The wheat industry in the US, Australia and Canada cannot do without foreign markets.

This was the reason why there was no opposition from developed countries such as the US and Australia to Japan's proposal to regulate export restrictions. There is little need for regulation of export restrictions in the case of wheat, soybean and corn. Rice is different from other grains in that some major exporters are developing countries. But note that the volume of the trade in rice is smaller than in other grains. The world's rice market is often called a thin market. Most rice-consuming countries depend on domestic production and less on imports.

In sum, large grain-exporting countries which influence international prices would not restrict exports while developing countries such as India cannot be regulated to stop export restrictions. The international community cannot enforce any provision of regulation on export restrictions. Can we retaliate against those countries practising export restrictions by increasing tariffs on imports from them? In a food crisis, they do not export agricultural products. They do not export industrial goods either because industry is not well developed in developing countries. Can we ask those countries to pay compensation for export restrictions? Even when they offered compensation to reduce tariffs on industrial products, the food-importing developing countries most affected by export restrictions would not be treated fairly because they are not exporting industrial products. Potential international

regulation of export restrictions is subject to this kind of functional limitation. It is meaningful that member economies of Asia-Pacific Economic Cooperation (APEC) are taking up the issue of export restrictions these days. However, in order to solve the issue of international food security it will be more important to take measures to alleviate poverty and increase food production. Or stock should be built up for a rainy day.

## 2.2 Japan in the Doha Round of agricultural negotiations

During the Doha Round, the EU has moved towards the WTO's 'green box' direct payments, or decoupled payments as of 2003, which were not linked to the type or volume of production, prices or production factors. At the same time, the EU reduced the support price for butter by 25%. The specific tariff rate on butter, 1,896 euros per ton, was estimated to be a 200% ad valorem tariff rate if the average import price from 1986 to 1988 was used for conversion. For simplicity of calculation and explanation, imports at the c.i.f. (cost, insurance and freight) price of 100 euros after the 200% ad valorem tariff will be priced at 300 euros in the internal market. In the event that this price is equal to the domestic price, the domestic price reduced by 25% would be 225 euros. Since the c.i.f. price is 100 euros, a tariff rate of 125% is enough and necessary to maintain this domestic price. This is exactly the same tariff level as on butter in the US. In this illustrative example of Common Agricultural Policy (CAP) reform, the EU is ready to bring its tariffs to the same level as the US. This is an important objective of the 2003 CAP reform. Furthermore, since current tariffs contain some 'water' or 'overhang' thanks to the increase of an import price since 1986 to 1988, a tariff cap of 100% would be feasible for the EU's policy objectives. This led to the US-EU agreement in August of 2003.

This agreement caused the Japanese government a lot of trouble and turmoil. The Minister of Agriculture, Forestry and Fisheries issued a statement just after the announcement of the US-EU agreement, declaring that he would revise the five-year agricultural policy plan to take into account the direct payments in foreign countries.

This was because MAFF was shocked and aghast at the idea of tariff caps in the US-EU agreement. The EU, which Japan regards as an ally in the negotiations, had not informed Japan about the negotiations between the two countries. To make things worse, Japanese agriculture could not survive without a change in policies if tariff rates on rice and other products were reduced to 100%. MAFF thought that it had no alternative but to change the means of agricultural protection by switching to direct payments just as the EU had done in 1993 to cope with the Uruguay Round negotiations.

MAFF, however, changed this position twice. First, there was a paragraph in the bracket in the chair's text of the Cancun Ministerial Meeting in September of 2003 which allowed a country not to apply tariff caps to a very limited number of products designated for non-trade concerns. MAFF thought that it would not have to apply a tariff cap to rice just as in the special treatment of tariffication in the Uruguay Round. It decided that it would not introduce direct payments to rice since the price level of rice did not need to be reduced.

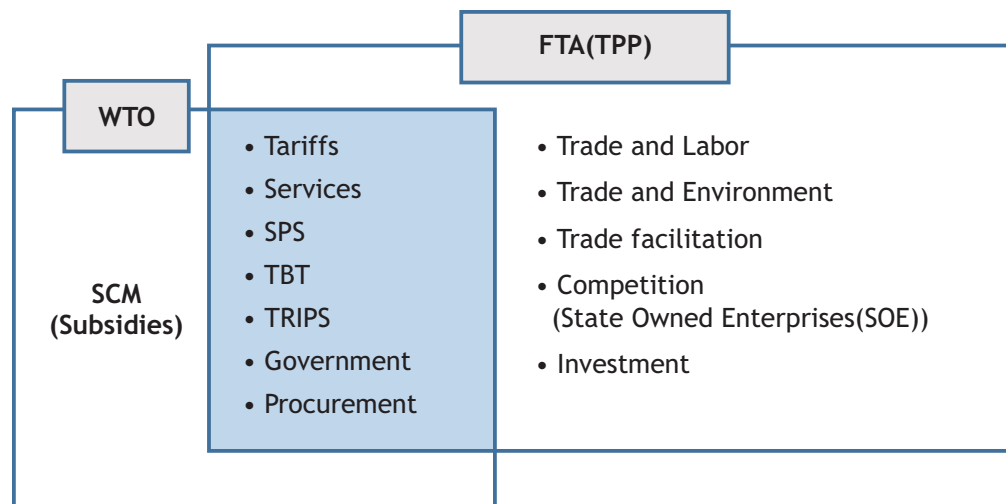
Secondly, the idea of 'sensitive products' as an exception to the 70% rate of reduction of tariffs of more than 75% was introduced to the Framework Agreement in 2004. Since the number

of sensitive products was not decided in the agreement and left open to future negotiations, MAFF had to explain to its farm industry that it would make efforts to designate all of the important agricultural products, including rice, wheat, barley, sugar, dairy products, beef, pork and starch, as 'sensitive products'. Since the price levels of those products might remain intact, MAFF would not have to introduce direct payments in order to compensate farmers for price reduction.

### 2.3 Japan in the TPP negotiations

The TPP agreement aims to liberalise and facilitate trade and investment in the Asia-Pacific region. The US has advocated that the Trans-Pacific Partnership should be the free trade agreement (FTA) in the twenty-first century. Efforts are to be made not only for the elimination or reduction of tariffs on goods and barriers to finance and other trade in services, but also for the establishment of rules for trade and labour, trade and the environment, investment and fair competition. The intention of the TPP agreement in the new areas of trade and the environment and trade and labour is to prevent the member countries from lowering labour or environmental standards so as to obtain an unfair advantage in competition with other countries.

Figure 6. Relationship between the World Trade Organization and the Trans-Pacific Partnership





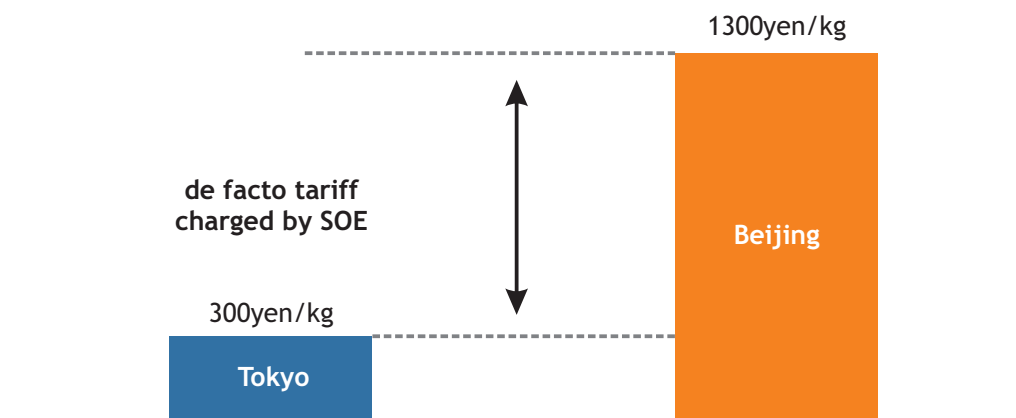
While some of these subjects are covered by the bilateral free trade agreements that Japan has concluded with other countries, the countries involved in the TPP negotiations are in discussion to advance and strengthen the rules in these areas. One example is the competition issue, for which the members are aiming to introduce new rules compelling governments not to provide benefits solely to state-owned enterprises (SOEs) whereby foreign companies and foreign products are discriminated against.

There is disagreement on regulations in relation to SOEs. The United States is pushing for the abolition of beneficial treatment for SOEs, such as preferential taxation and subsidies, which distort competition with private companies. Malaysia and Vietnam oppose the US position because their industrial structure is SOE-centric. They seem to have agreed to allow exceptions for certain beneficial measures for SOEs. However,

while the US and Japan wish to reduce the number of exceptions, emerging countries, which tend to have a large number of SOEs, want to maintain as many benefits for them as possible.

The problems in relation to SOEs are not only with subsidies and other benefits but also with their monopolistic power, which also distorts market competition. Indeed, these problems have a significant impact on Japanese agriculture. The agricultural market in Japan, which has been protected by high tariffs, will shrink in the near future due to an ageing population with a lower birth rate. To preserve and develop the agricultural industry in Japan the only way is to develop overseas markets by exporting agricultural produce. The agricultural industry must deal proactively with trade liberalisation negotiations such as the TPP in order to eliminate tariffs and non-tariff barriers of trade partners and to promote exports.

**Figure 7. The price of Japanese rice in Tokyo and Beijing**



*Note: SOE is a state owned enterprise.*

Although Japanese rice priced at 300 yen per kilogram in the domestic market can be exported with a 1% import duty to China, it is priced at the equivalent of 1,300 yen in the Beijing or Shanghai market. This is because the Chinese SOE makes a huge profit due to its monopoly power in rice distribution in China. Even if the import duty is reduced to zero, Japanese rice exports cannot be increased so long as a 'de facto' import duty is imposed by the SOE. It is assumed, reasonably, that China will find it difficult to isolate itself from the TPP arrangement when the areas covered expand. The United States seems to be working under the assumption of China's future participation in the TPP agreement. To prepare for such a situation, the US is now trying to introduce regulations on SOEs in the TPP negotiations. In this sense, China is a shadow participant in the TPP negotiations. Establishing regulations on SOEs will give Japan's agricultural industry a chance to further develop its Chinese market. However, it remains to be seen whether any rules and disciplines on trade distorting behaviours by SOEs will be established in the TPP agreements.

Most of the participants in the TPP negotiations followed the principle that all of the tariffs on agricultural products be eliminated. Whenever there is a principle, however, there is an exception in real life. The US has tried to maintain its tariffs on sugar imported from Australia and tariffs on dairy products imported from New Zealand. Canada would like to maintain its tariffs on dairy and poultry products, while the US demands that Canada eliminate tariffs on dairy products.

No other country, however, is seeking as many TPP exemptions as Japan, which joined the negotiations in 2013. The resolutions passed by the agricultural committees of the Japanese Diet demanding that rice, wheat, beef and pork, dairy products, sugar and other sensitive agricultural, forestry and fisheries products be exempted from tariff elimination under the TPP agreement constrain and restrict the Japanese government's TPP negotiations.

Intensive negotiations were held between Japan and the US during President Obama's state visit

to Japan in April 2014. According to Japanese media sources, the possible results of the negotiations seem to be the following: tariffs on Japan's 'five priority items' of agricultural products will not be eliminated; among these five items the current tariff rates will be maintained for rice, wheat and sugar; the tariff rate quota will be expanded for American rice, the amount of levies charged by the state trade enterprise for the import of and wheat under the tariff rate quota will be reduced; and tariff rates will be reduced on meat (beef and pork) and dairy products.

Why has the US agreed to the maintenance of tariffs on rice, wheat and sugar? First of all, American sugar is not competitive. Secondly, the US negotiators well understand the political significance of rice in Japan and the difficulty of reducing tariffs on rice. In order to enhance the export interests of the US rice industry, the US should expand the tariff rate quota rather than eliminating tariffs in vain. In 1999, five years after the Uruguay Round ended, Japan ended up accepting tariffication. The Japanese government (or MAFF) at that time finally realised that a request for an exception to a WTO rule would be accompanied by a requirement for compensation and that tariffication was less damaging than a minimum access tariff quota. Japanese government officials are trying to repeat the same mistake again. A request for 'sensitive products' in the Doha Round or the special treatment of tariff elimination in the TPP would be accompanied by a requirement for compensation, that is, expansion of the tariff quota. This may exceed the access which Japan tried to avoid in 1999. It will inevitably reduce Japan's rate of food self-sufficiency, which it wants to increase.

Lastly, MAFF as a state trade enterprise has imported wheat under a fixed ratio of 60% from the US, 20% from Canada and 20% from Australia for the past several decades. It is like a managed trade. If the tariff on wheat is to be eliminated, American wheat will have to face competition not only from Canada and Australia but also from the EU. This may damage US wheat exports. From this perspective, maintaining the tariff on wheat

and expanding the reduction of levies charged by the state trade enterprise under the tariff rate quota would not change the share of American wheat and thus could be beneficial to the US.

Two countries have continued negotiations since then, but they have failed to conclude them. The thorny issue is a safeguard mechanism for beef and pork. The US withdrew its demand for tariff abolition in regard to beef and pork, but it is demanding significant reductions, while Japan is demanding a safeguard system that allows it to increase the tariff rate with ease if imports increase. Basically, what is being discussed is the kind of safeguard which is similar in legal terms to the one Japan and the US agreed in the Uruguay Round negotiations. However, the current customs duty of 38.5% is going to be lowered and the upper limit will be set at 38.5% when the customs duty is triggered by the safeguard. There are some reports which claim that the US is demanding a lower limit, for example 30%. Also, concerning the agreed level of imports necessary to trigger the safeguard, there are reports that the US is demanding a level of around 400,000 tons - the same amount as before the decrease of exports to Japan caused by the outbreak of bovine spongiform encephalopathy (BSE) in the US - while Japan is demanding 200,000-300,000 tons in order to activate the safeguard easily.

Though the Japanese beef and pork industries are strongly opposed to tariff reduction, they would not suffer serious damage from a lack of tariffs. The tariff on beef was reduced from 70% in 1991, when the import quota was abolished, to the current rate of 38.5% - a little over half. Nonetheless, production of wagyu (Japanese cattle) beef, which accounts for the biggest share of beef production in Japan, increased in this period. In addition, as a result of exchange rate fluctuations, the Japanese yen has depreciated by about 50% since 2012. In 2012 beef priced at 100 yen was imported with a tariff of 38.5 yen, which made the import price 138.5 yen. Currently, the same beef is priced at 150 yen due to yen depreciation before the tariff is imposed. This price is higher than the import price after customs clearance in 2012.

Beef produced from male calves born to cows fed by dairy farmers and culled milk cows may be affected by the competition with imported beef. However, this kind of beef amounts to about a seventh of the total beef production of 520 billion yen. If farmers producing these other types of beef suffer, the Japanese government can support them by a direct subsidy from a government fund. Even if the amount of subsidy was a third of total production, it would amount to merely 23 billion yen.

Special arrangements are made for pork imports, according to which importers should pay the difference between 410 yen per kilogram in carcass and the actual import price as an import duty. This means that the import price of pork is always raised to 410 yen if it is imported at a price less than that. This is a kind of minimum import price system. The ad valorem tariff rate, 4.3%, applies to an import whose price exceeds 393 (= 410/1.043) yen.

In practice, importers prepare a package of pork meat which consists of high-class meat, such as loins and tenderloins, and low-class meat to be used for hams or sausages, so that the price of the package is set at around 410 yen per kilogram. Therefore, the amount of import duty actually paid is very small. Although the total amount of imported pork reached 400 billion yen in 2010, it is reported that the import duty actually paid only amounted to 18 billion yen, which was about 4.5% of total imports. Note that 4.5% is almost the same as the ad valorem tariff rate, 4.3%.

The Japanese media report referred to above on the bilateral negotiation between Japan and the US provoked strong opposition from the US agricultural industry, which asked the US Trade Representative (USTR) to eliminate Japanese tariffs on Japan's 'five priority goods', and on beef and pork in particular. The American agricultural industry centred on pork was fiercely opposed to attempts not to abolish the tariff. A letter was sent by 140 US Congress members to President Obama on 30 July 2014 saying that the US should conclude the negotiations without Japan since Japan had made an unprecedented and objectionable offer exempting numerous

products from tariff elimination, which could set a damaging precedent for other trade talks.

The biggest agricultural organisation in the US supports the Republicans, not the Democrats. The Democrats have rarely been positive about trade liberalisation negotiations, and the TPP negotiations were no exception. The Democrats, whose power base comprises labour unions, have been negative about free trade based on the claim that the inflow of cheap foreign products will harm employment. In the US mid-term elections in 2014, the Republicans won a majority of seats in the US Senate. As a result, the Republicans had a majority in both Houses, and the twist in the Congress was resolved. Unlike the Democrats, the Republicans are positive about free trade. During the election campaign, the leader of the Republicans in the Senate, Senate Whip Mitch McConnell, said that the Republicans would cooperate in liberalising trade. The American pork industry which had been fiercely opposed

to Japan- US bilateral discussions turned out to be an ardent proponent of the TPP negotiations after they were informed that Japanese tariffs on pork would be substantially reduced. While the US government was facing difficulties before the election, in June 2015 it was finally able to obtain Trade Promotion Authority, whereby Congress gives the government 'fast-track' authority regarding trade negotiations. The TPP negotiations, which the Obama administration is trying to promote, will move forward because of the opposition party's victory.

The TPP negotiations are speculated to be concluded in 2015. The Presidential election will be held in 2016, and since there are no elections in 2015, the US can conclude a free trade agreement that disadvantages certain industries without worrying about electoral repercussions. Furthermore, since the Republicans are in the majority in Congress, it will not be difficult to win congressional approval.

### 3. POLICY OPTIONS AND RECOMMENDATIONS

#### 3.1 The characteristics of Japanese agricultural policies

The Producer Support Estimate (PSE) was developed by the OECD as an indicator of agricultural protection and evolved into the Aggregate Measurement of Support (AMS) in the WTO Agreement on Agriculture in a legally binding form. The PSE is the sum of the taxpayer burden in the form of subsidies and payments made to farmers and the consumer burden in the form of price support higher than an international price brought about by border and domestic measures (calculated as the difference between domestic and international prices multiplied by domestic production volume).

Japan is criticised abroad for being protective of its farming sector by its rigid opposition to tariff reductions, while at home the government is blasted for damaging the nation's interests because its position on agricultural issues stalls any trade negotiations. This criticism, however, stems from the fact that Japan uses the wrong method of protection. Based on cost-benefit analysis, if there are positive externalities in agricultural production, it is difficult to say which is better, price support policy with tariffs on imports, or free trade without any tariffs. Price support increases domestic production with more positive externalities than free trade. Free trade lowers price with more consumer surplus than price support. The best policy is free trade with direct payments. Free trade optimises the consumer surplus and direct payments increase domestic production with more positive externalities.

In contrast to the EU, which shifted its policy from price support to direct payments, Japan's agricultural policies and positions in agricultural negotiations have not changed very much since the Uruguay Round. In order to maintain high domestic prices, Japan has had to rely on tariffs and non-tariff measures so as to isolate its domestic market from the international market.

In 2010, a direct payment called 'individual household income support' was introduced by the DPJ, which had taken power from the LDP. By contrast with the EU, this policy reform did not aim at decreasing the domestic price, however. Japan has reported this policy as a blue box policy stipulated in paragraph 5 in Article 6 of the AoA, since farmers who join the acreage reduction programme for rice, a production-limiting programme, are eligible for the payment. The Japanese government linked this policy to the acreage reduction programme for rice because it wanted this policy exempt from reduction commitments on the amount of subsidies by satisfying the requirement of paragraph 5, although a blue box policy would be subject to reduction commitments under the modalities text in the Doha Round negotiations. This linkage, however, reinforced the acreage reduction programme for rice, since it is more lucrative for farmers to join the programme. This policy has contributed to maintaining the high price of rice rather than reducing it.

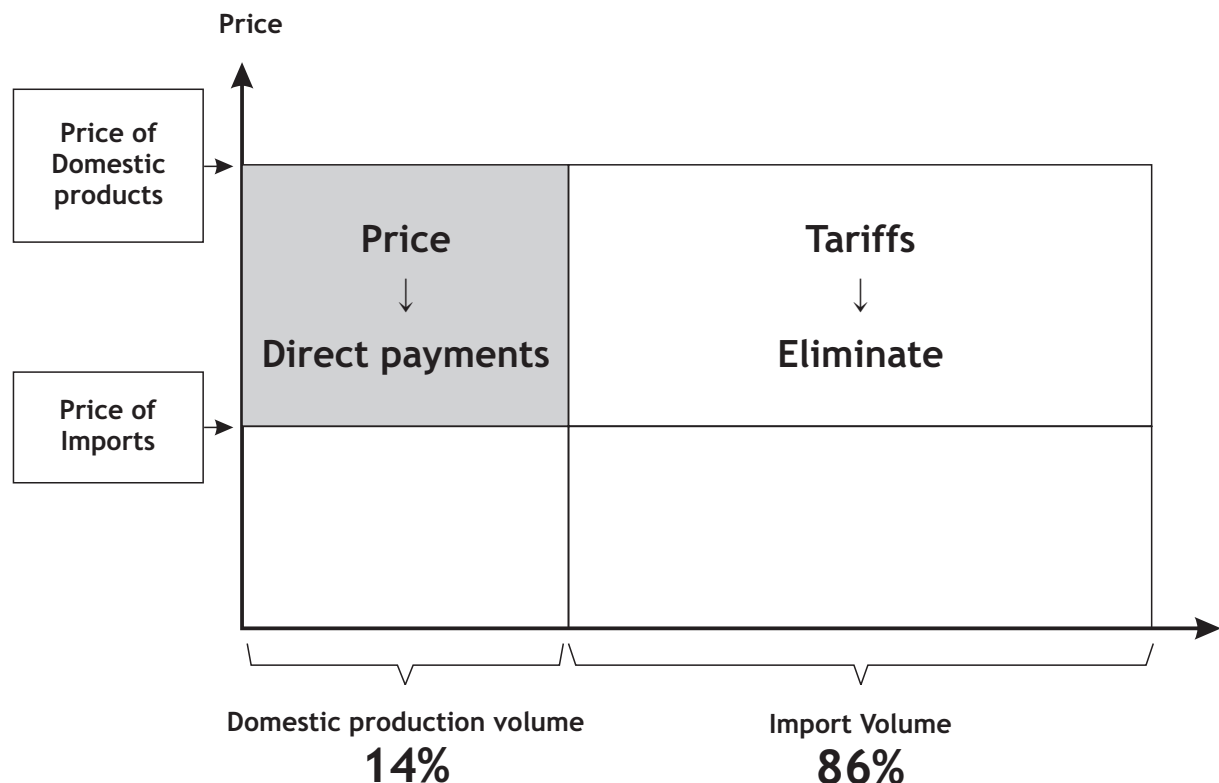
If the overall PSE is broken down into its two constituent parts (the consumer burden and the taxpayer burden), it can be seen that the proportion of the consumer burden declined in the US from 37% in the period 1986 to 1988 to 6% in 2010, and in the EU it went down from 86% to 15%; in Japan, however, it changed slightly from 90% to 78% over the same time frame. The US and the EU are moving forward with agricultural policy reform that shifts the burden from the consumer to the taxpayer. In the face of the EU switch to a US-style agricultural policy that places the burden more heavily on the taxpayer, Japan has been left high and dry, and the battle lines have been redrawn - no longer pitting the EU and Japan against the US, but rather the US and the EU against Japan. Unlike the US and the EU, which have lowered their dependence on tariffs by switching to direct payments, Japan maintains conspicuously high tariffs on products such as rice, wheat, sugar and dairy products. The US direct payments were abolished under the

2014 Farm Bill, but it did not return to a price support policy.

Protection for Japanese agriculture amounts to 4 trillion yen, according to an OECD estimate,<sup>9</sup> which has forced consumers to pay prices for agricultural products in excess of international prices. Customers have borne this amount for domestic agricultural products alone. Tariffs are levied on overseas agricultural products, making their prices balance with those of domestic agricultural products. Thus the actual amount borne by consumers far exceeds 4 trillion yen. Taking wheat as an example,

consumers have assumed the same burden for foreign-made wheat (which accounts for 86% of all wheat consumed) as domestic wheat (which accounts for only 14% of all wheat consumed). Replacing the amount borne by consumers with respect to domestic agricultural products with direct payments by fiscal burden would remove the consumers' burdens for foreign-made agricultural products without the need for replacement by fiscal burden because the price of domestic agricultural products would be reduced to that of imports without tariffs. A small fiscal expenditure would ease the difficulties of consumers.

**Figure 8** The reduction of the consumer burden by the shift from price support to direct payments



The rice market is much more distorted by the government. The subsidies allowing farmers join the rice acreage reduction programme amount to 400 billion yen a year. When added to the burden on consumers, 600 billion yen, due to the higher price resulting from this programme as opposed to the market equilibrium price, this totals more than 1 trillion yen annually, compared to the total value of rice production of 2 trillion yen. The Japanese nation bears the burden of protecting rice as taxpayers and consumers. Taxpayers' money increases the burden of consumers. It is a doubly wasteful policy.

A Japanese politician observed that Japan and the US fought hard for their respective national interests in the negotiations. It is understandable that it is in the national interest of the US to expand exports for the benefit of its domestic industry. What is in the national interest of Japan? Does the Japanese government negotiate to protect the domestic agricultural industry? If it aims to protect Japan's agriculture, it does not need to defend tariffs; its goal can be achieved by direct payments out of a government fund in the same way as is done in the EU.



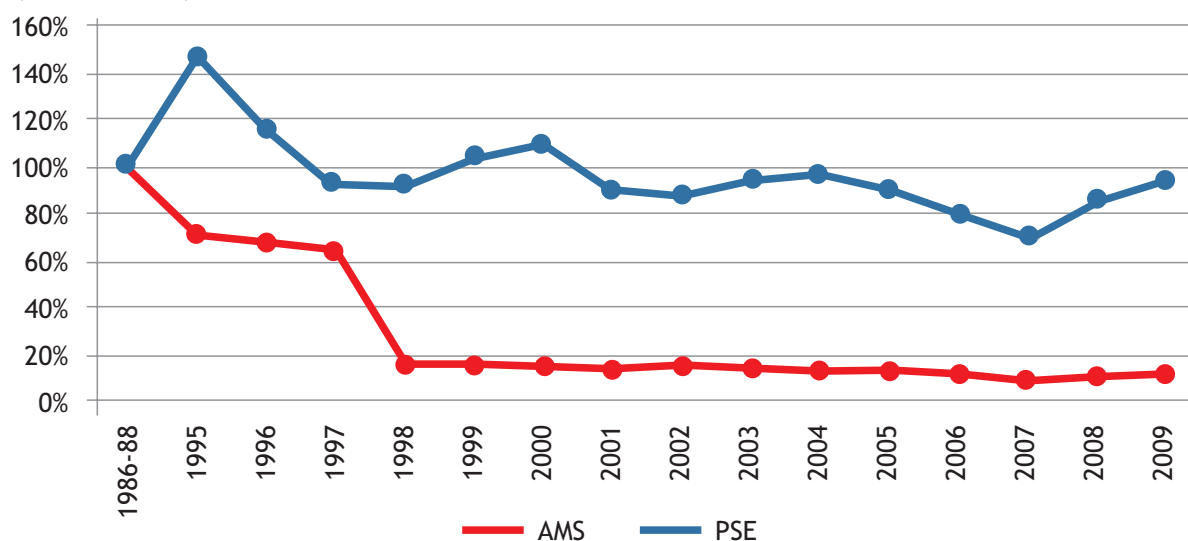
What those tariffs are really protecting are high domestic prices for agricultural products - in other words, food prices. Many Diet members, both in the ruling and opposition parties, opposed the consumption tax hike during the discussion in 2012, which led to a split in the then ruling party, on the grounds that it would make food more expensive for poor people. Yet bolstering food prices with tariffs and reduced rice acreage - which in fact has the same effect - is defended as being for the national good. To the extent that Japan maintains its policy of protecting farmers with domestic prices that are more expensive than international prices, tariffs will be required.

Many Diet members both in the LDP and the DPJ, and members of the cabinet, describe the defence of tariffs in the TPP negotiations as in the national interest. 'The national interest' that the Japanese government is trying to defend by tariffs is, however, not agriculture but the high price of agricultural products (and therefore the high price of food). In order to maintain high prices, tariffs are necessary, and to protect the existing tariff rates the Japanese government needs to accommodate the demands of US industries for an expansion of the tariff rate import quota (with no duty) on rice. With this measure, imports will increase and food self-sufficiency, which the Japanese government has long advocated should increase, will decrease.

The Japanese government might argue that it has made a substantial agricultural policy reform since AMS sharply dropped from 3,171 billion yen in 1997 to 609 billion yen in 2012. This change in AMS was caused by the abolition of a governmental rice purchase price, an administered price, under the Food Control Law. Since then, the rice price has been maintained by the acreage reduction programme. The actual size of protection, that is PSE, has not changed very much.

AMS calculates the consumer burden, price support, as the difference not between an actual market price but between the administered price in each year and the international price in the base year 1986-8 multiplied by domestic production volume. Without an administered price, even if a domestic market price was higher than an international price, the AMS would not contain the difference between domestic and international prices. If the government abolished an administered price, the part of the consumer burden in AMS would disappear. By contrast, with or without an administered price, PSE calculates any form of price support higher than an international price brought about by border and domestic measures (calculated as the difference between domestic and international prices in each year multiplied by domestic production volume). The part of the consumer burden in PSE would remain without an administered price. Thus Japanese AMS has been reduced substantially but its PSE has not changed much.

**Figure 9. Change in the Aggregate Measurement of Support and the Producer Support Estimate, 1986-8 to 2009**



Source: OECD PSE database; WTO members' transparency toolkit.

### 3.2 Who supports high prices and tariffs?

Japanese agricultural policies have tried to maintain a high farm price, for rice in particular, since the agricultural cooperative (JA), the most powerful interest group in Japanese politics since World War II, has strongly demanded it.

Due to food scarcity following World War II, the government needed to take action to prevent rice from being sold on the black market for high prices. To do so, the government transformed the wartime organisation which conducted, operated and controlled all such agricultural business during the war - including sales of farm products, purchases of related materials, and finance for farmers in villages - into the JA and attempted to use it as an organisation for forcing farmers to sell rice to the government.

US and European cooperatives have specialised in one or more activities such as sales, material purchases or other aspects related to a particular agricultural product or product group, or providing financial services to farmers. Neither region has anything like the JA, which has a hand in everything from banking, life insurance and accident insurance, for farmers and non-farmers alike, to sales of all agricultural products

and materials, as well as the supply of daily commodities and services. Not only is the JA unique among cooperatives, there is also no other corporate body or legal person in Japan that can match it.

In the years under the Food Control Law, which continued through to 1995, a policy was maintained of protecting farmers' income by setting a high price on the rice which the government bought from farmers via the JA. It was argued that the high price of rice was necessary to equate farmers' income with workers' income. The JA generated votes for the ruling LDP and in return was rewarded with various subsidies and higher prices for government rice purchases. Even after that system ended, rice prices have been kept high through the rice acreage reduction programme.

Higher rice prices translated into more revenue from commissions for selling rice and higher sales of inputs, such as chemical fertilisers and pesticides, at higher prices. The original aim of the collective purchase of inputs by cooperatives was to allow members to obtain lower-cost supplies by enhancing their negotiating power in the market. However, for the cooperatives themselves, it is more profitable to sell inputs to members at higher prices. Also, because the revenues

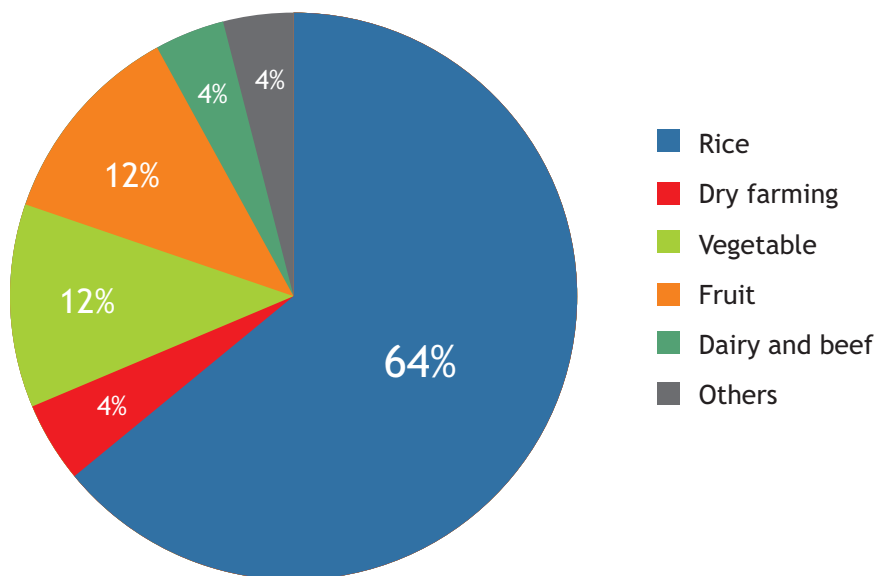


from higher rice prices are deposited in the JA by farmers, these assets have increased. If the price of fertiliser, for example, is raised, then loans extended to agrochemical makers from JA assets earn higher yields. The JA has flourished under the high rice prices in its comprehensive role, both as a seller of inputs and farm produce and as a financier.

On the other hand, the high rice prices have caused the decline of the rice industry. Thanks to steep rice prices, numerous inefficient

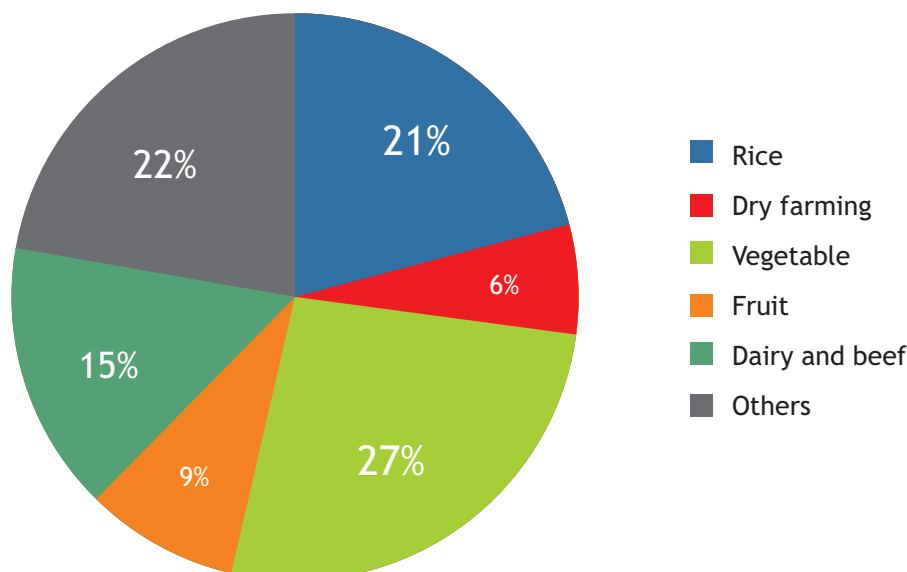
part-time micro-farmers have remained in the rice industry instead of letting their land go. Farmland has not accumulated in the hands of full-time farmers, so it has been difficult for them to expand the scale of their operations to bring down costs and boost profits. Now about 70% of farmers produce rice but they produce only 20% of total agricultural production. The high cost of rice has also reduced rice consumption. With both production and consumption impacted by the high rice price policy, the rice industry has declined.

**Figure 10. Shares of different types of farmers in terms of number**



Source: MAFF

**Figure 11. Shares of different types of farmers in terms of production**

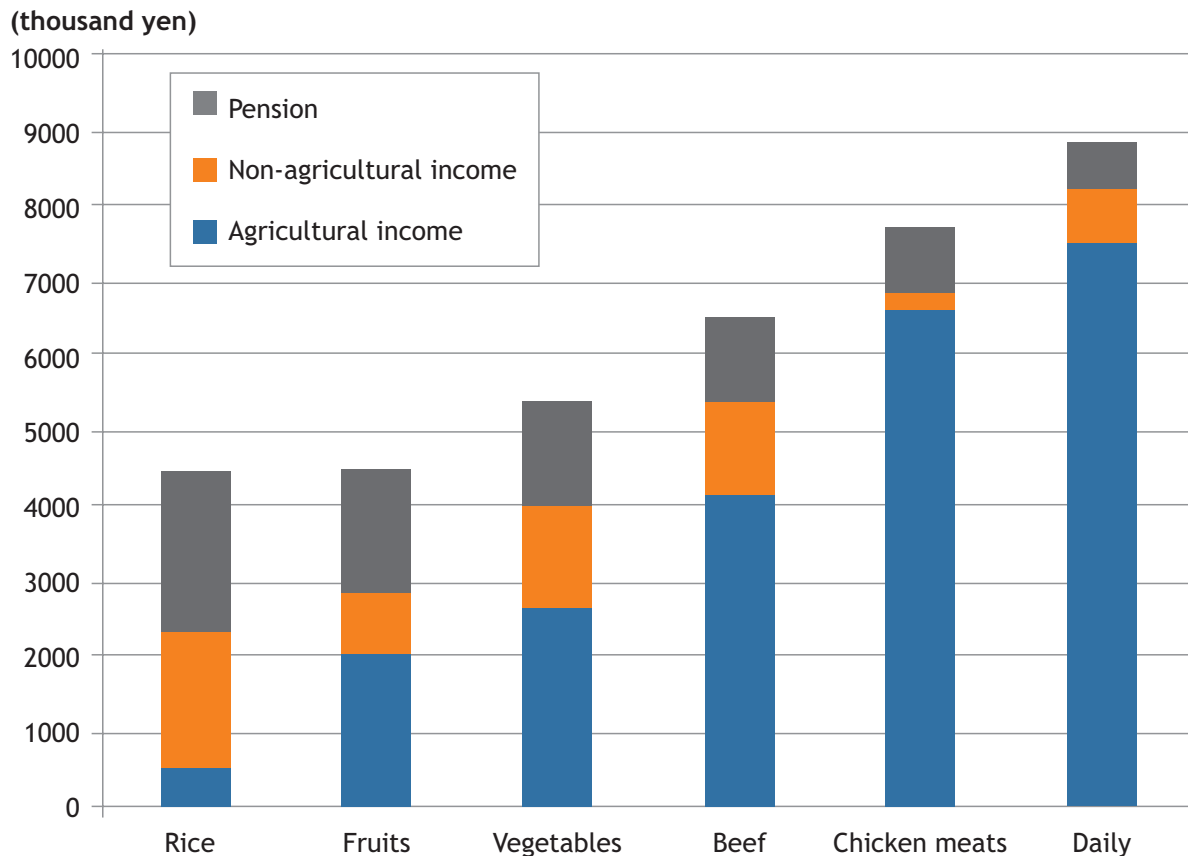


Source: MAFF

For the JA, the continued presence of the very part-time rice farmers who are pushing rice farming into decline has actually been advantageous. Income from part-time non-farming work, which is four times greater than farming income, as well as profits from the sale of farmland for other purposes (trillions of yen

every year), is all deposited in the accounts of the JA, building the JA into Japan's second biggest megabank. Keeping rice prices high and part-time farmers on their farms has been the foundation of the JA's growth. It is the high rice price that has allowed the cogs in this machine to keep turning.

**Figure 12. Sources of farmers' income**



Source: MAFF, 'Census of Management', 2013.

### 3.3 Policy change under the Abe administration

#### 3.3.1 Prime Minister Abe's growth strategy aims to double farmers' income over the next ten years

As mentioned earlier, the Abe administration tries to increase farmers' income by sixtiary industry, doubling exports and establishing the farmland accumulation bank. Regrettably, these policy measures cannot double farmers' income because they merely remake or redecorate measures that have already been implemented without any meaningful effects. Most of the farmers do not have the time or skills to process farm products. Abe's first

cabinet (2006-7) urged a doubling of exports of farm products, but so far exports have actually declined. Products that are too expensive cannot be sold no matter how great the sales promotion is. What is needed is to improve price competitiveness. Costs can rightly be reduced by accumulating farmland. However, Japan has maintained the acreage reduction programme for rice for more than forty years in order to maintain a high rice price by reduction of supply. Not much farmland is available for borrowing by full-time farmers who want to use it because the rice paddy set-aside programme raises the price of rice, allowing smaller farmers with high costs to continue

farming. In Okayama prefecture, for example, there is demand from full-time farmers for 800 hectares of land while only 8 hectares are available, even after the implementation of Abe's scheme for the farmland accumulation bank.

Enhancing exports is the correct policy since it is the only way to double farmers' income amidst a shrinking domestic market because of a declining and ageing population. Even if Japan doubles exports, it will not affect developing countries exporting agricultural products, partly because the Japan exports agricultural products worth just 3 billion US dollars while it imports agricultural products worth 69 billion US dollars, and partly because Japan exports some expensive agricultural products of high quality which do not compete directly with commodity products.

Japanese rice is the most outstanding and best quality product in the world. Its exports are steadily expanding. Abolishing the rice paddy set-aside programme would reduce the price of rice, and therefore increase farmland leases and reduce costs, and then enhance export competitiveness. This is the only way to double farmers' income. Superficially remodelling ineffective past policies will not be effective without changing the underlying situation. In this case, the retention of the rice paddy set-aside programme which keeps the price of rice high.

### 3.3.2 *Direct payments for 'multifunctionality'*

If the price of domestic agricultural products is excessively high compared to imports and thus imposes an unreasonable burden on citizens and consumers, domestic agricultural operations need not be protected despite the importance of multifunctionality. In other words, it is wrong to protect the agricultural sector solely because of the benefits of multifunctionality regardless of the cost borne by citizens and consumers.

Furthermore, domestic agricultural production should be the cheapest option available. If other sources can deliver the same value at

a lower cost we should consider abandoning domestic agricultural production. For example, if the price of domestic agricultural products is too high we can import agricultural products at the market price while some benefits of 'multifunctionality' such as the maintenance of water resources and flood prevention can be achieved by building dams, forestation and forest conservation. This may reduce the financial burden on the public. In other words, the protection of agriculture needs to be justified not only by the implementation of multifunctionality but also by lower production costs, which in turn will reduce the financial burden on citizens.

In 2014 Japan introduced direct payments to farmers' groups for keeping agricultural resources such as farmland, farm roads and waterways in good condition. This direct payment is aimed at enhancing multifunctionality. However, this will mean further increasing the burden on taxpayers. If we wish to avoid an increase in the cost to the public we might want to consider reducing the price of agricultural products and thus alleviating the burden on consumers. The government has used multifunctionality as an excuse for the protection of agriculture and imposed on consumers domestic prices higher than those of the international market. If direct payment of government subsidies is to be made to promote multifunctionality, then the price of agricultural products must also be reduced. Otherwise, citizens are forced to pay twice for multifunctionality in agriculture: once as consumers of agricultural products and again for the subsidy as taxpayers. If maintaining multifunctionality in agriculture is financed by the government, it is unreasonable to expect consumers to pay again for the same purpose.

### 3.3.3 *The strengthened rice paddy acreage reduction programme*

Prime Minister Abe incorrectly claimed in 2013 that the acreage reduction programme would be abolished and that he had succeeded in bringing about the greatest change in basic agricultural policy in the post-war

era - something which had seemed almost impossible for the LDP to achieve.

Under the original programme, from 1970, a subsidy has been paid to rice farmers who convert paddies to other crops in order to reduce rice production. The amount of the subsidy is calculated on the basis of the size of the area over which rice production is converted to other crops. In addition to this subsidy, in 2010 the party then in power, the DPJ, introduced a subsidy called individual household income support to be paid to rice farmers who comply with a target production quantity which sets a maximum limit on rice production. This is paid on the basis of the size of the area over which rice is actually planted. A policy change in 2013 by the LDP aimed to abolish the individual household income support introduced by the DPJ, as well as the target production quantity.

The funds obtained by the abolition of the subsidy would be utilised to expand the acreage reduction subsidy implemented in 1970. There is no change in the long-standing, fundamental agricultural policy of supporting rice farmers' income by maintaining a high price of rice through reduced production.

At the end of the last LDP-led government in 2009, a new arrangement was introduced as a part of the programme, under which an acreage reduction subsidy is paid for conversion not only from rice to wheat or soybean, which is not really easy for rice farmers to grow, but also to rice which is not intended for direct human consumption but used for rice flour or feedstuff. This is simply because rice is the easiest crop for rice farmers to grow. In the reviewed programme, the LDP increased the amount of the subsidy under this arrangement from 800,000 yen per hectare to 1,050,000 yen per hectare.

In rough terms, the price of rice for direct human consumption is currently inflated from the equilibrium price, 8,000 yen, to 14,000 yen per 60 kilograms due to the rice paddy acreage reduction programme. In addition to that, taxpayer money is used to pay the

difference between 14,000 yen for direct human consumption and 3,000 yen for rice flour or 2,000 yen for feedstuff. In this way, net income is guaranteed for rice farmers who grow the cheaper rice for flour or feedstuff at the same level as if they had grown the expensive rice for direct human consumption. Even under the current system of the acreage reduction subsidy, the volume of production of rice for flour or feedstuff is small due to poor demand. So, the LDP review intends to step up the subsidy in order to promote the conversion to rice flour or rice for feedstuff and to increase its production.

The problems with the planned changes are as follows. First, they increase the fiscal burden and require taxpayer money. Under the previous programme, rice farmers producing rice for flour or feedstuff were paid 80,000 yen per hectare so that they were guaranteed to earn 105,000 yen per hectare: the equivalent to the amount they would receive if they had grown rice for direct human consumption. The total size of cultivation areas of rice for flour and feedstuff was 68,000 hectares in 2013, which was less than 10% of the total size of rice paddies actually reduced under the programme. The size of the area is small, but the amount of subsidy is substantial. In short, 54.4 billion yen was being paid for the cultivation of rice for flour and feedstuff out of the total amount of the acreage reduction subsidy of about 250 billion. In the new programme, the unit of subsidy is increased to 105,000 yen per hectare.

MAFF estimates the maximum demand of rice for feedstuff at 4.5 million tons. If this amount of rice is produced, this requires 700 billion yen. Adding in other acreage reduction subsidies, the total amount could reach up to 800 billion yen. This means that an additional 550 billion yen of taxpayer money is required for the acreage reduction subsidy. If the production of rice for flour and feedstuff increases, there may be a risk that subsidising this conversion will require more expenditure than the amount which can be saved by the abolition of individual household income support.

If this new programme produces its anticipated effect - specifically an improvement in the profitability of production of rice for flour and feedstuff and the expansion of production - it could result in a reduction in the planting of rice for direct human consumption and a further increase in the rice price. If this is the case, a bigger financial burden could be placed on consumers in addition to an increase in their burden as taxpayers.

The above scenario may come true in 2015 because the price of rice dropped 20-30% in 2014 due to a significant surplus.

In 2012 we had the richest harvest for four years. Nonetheless, JA Zen-Noh (the National Federation of Agricultural Cooperative Associations) sold rice to wholesalers at a price of 16,500 yen per 60 kilograms. This price was higher than in 2011 when the rice price was higher than usual due to the aftermath of the Great East Japan Earthquake. It was also 30% higher than the price in 2010 when the rice produced in that year was priced at 12,700 yen. It was bizarre that the price rose despite the yield increase. The year of 2013 saw a richer harvest than the previous year, but the price remained at a high level of 14,500 yen.

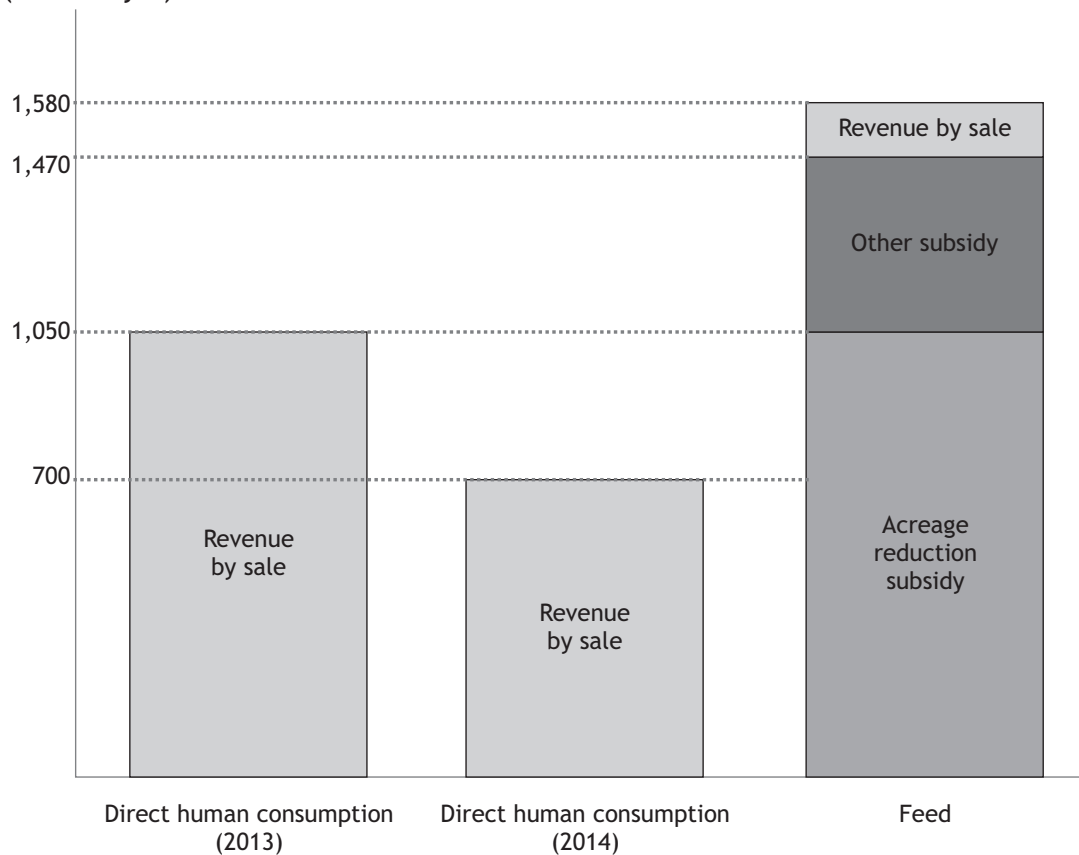
The reason the price of rice soared despite the rich harvest was that the rice supply was restricted by JA Zen-Noh in the market. JA Zen-Noh, whose share in the rice market is more than 50%, is exempt from the Anti-Monopoly Law because it is the national federation of cooperatives. A reduction of supply in spite of a yield increase produces excessive stock. In

June 2012 there were 1.8 million tons of rice held in reserve in the private sector. In June 2013 this increased to 2.24 million tons and was expected to increase to 2.57 million tons in June 2014. However, the inventory level in June 2014 actually decreased slightly to 2.22 million tons. This was because a public entity organised by JAs and wholesalers' associations to support the rice industry purchased 350,000 tons of rice, spending about 22 billion yen to take it off the market. However, the inventory level in 2014 was still higher than that of normal years. In comparison to the level in 2012 there was a surplus of 420,000 tons. In addition, it was expected that 250 thousand tons of rice would be added to the stockpile because of the decrease in demand for rice. This would increase the surplus stock to about 670,000 tons, which represents more than 10% of the total annual amount of rice distribution.

Excessive stock results in a rise in inventory costs which have a negative impact on JAs' business operations. Eventually JAs have no other choice than to release their excess stock on to the market. Against this background, the rice price went down.

Farmers could earn only 700,000 yen per hectare in 2014 - much less than the 1,050,000 yen per hectare they earned in 2013. Consequently, in 2015 farmers are likely to think that they can earn more income if they plant rice for flour or feedstuff and receive 105,000 yen per hectare from the government as well as some money from the sale. Now JA Zen-Noh is planning to increase the production of rice for feedstuff from 200,000 tons to 600,000 tons in 2015.

**Figure 13. Revenue from rice for direct human consumption compared with rice for feed use**  
(thousand yen)



The second problem with the planned changes is that they will cause friction in trade. Currently, 10 million tons of corn are imported to Japan from the US for use as feedstuff. If the amount of rice for feedstuff produced every year increases under the reviewed programme, imports of corn from the US could fall substantially. If the production of rice flour increases, wheat imports from the US could also fall. The US would bring the case to the WTO, and consequently the US would be allowed to take retaliatory measures by imposing higher import duties on imports of Japanese cars, for example. This could have a significant impact on the Japanese economy.

As mentioned before, the subsidies under the acreage reduction programme have been treated or reported to the WTO as a green box policy corresponding to paragraph 12 (payments under environmental programmes) in Annex 2 of the AoA. It is, however, difficult to argue for this treatment because the subsidies intend to increase the amount of produce such as wheat, soybeans and rice for flour and feedstuff rather than rice for direct human consumption in order

to increase the food self-sufficiency rate. We can enhance environmental benefits such as biodiversity, water supply and landscape better by planting rice than other crops. The higher income from rice for flour and feedstuff rather than rice for direct human consumption does not comply with paragraph 12(b) even if this is an environmental programme.

It should be noted that there is a well-established judicial precedent in GATT/WTO's dispute settlement that the measure can be challenged in light of any provisions of WTO's Agreements even though it was agreed in the negotiations and stipulated in a country schedule to WTO.

In addition, since the peace clause (Article 13 of the AoA) has expired according to Article 1(f)), the provisions on agricultural subsidies, whether domestic or export ones, in the AoA no longer apply. The provisions of the Agreement on Subsidies and Countervailing Measures (SCM) apply directly to agricultural subsidies. The green, blue and amber categories in the AoA have lost their validity. A green box policy can be



challenged if it causes serious prejudice under the SCM Agreement. The affected country can resort to retaliatory measures.

It is worth noting that the EU's Common Agricultural Policy underwent a drastic change in 1993 thanks both to the ever increasing financial burden and to the decade-long trade dispute with the US. If the Abe administration implements its policy change of the rice acreage reduction programme to the full extent, it is quite possible that the government will not be able to bear either the financial burden or the possible trade dispute with the US. Then, Japan will have no other way than to abolish the long-standing rice acreage reduction programme, perhaps leading to full participation in the TPP.

#### 3.3.4 *The reform of agricultural cooperatives*

The Council for Regulatory Reform (CRR) of the Japanese government proposed reform of agricultural cooperatives in 2014. However, the proposal which was decided by Abe's cabinet one month later had been considerably watered down from the CRR draft due to the opposition of the JA and to accommodate requests of the ruling LDP.

First, aiming to encourage local JAs to develop their own local farming activities, the CRR originally proposed that the provisions of the Agricultural Cooperatives Law authorising the national and prefectural unions of JAs to advise local JAs be deleted. This was intended to eliminate top-down control by higher JA bodies, which is not consistent with the cooperative's governing principle. It was also intended to deprive the JA of its political clout, since the Agricultural Cooperatives Law authorises the national and prefectural unions of JAs to collect funds from local JAs for their own political activities. However, the original proposal was modified to state that 'it will be decided after being studied by the JAs'.

The CRR's original proposal also stated that JA Zen-Noh, which engages in the processing and sale of agricultural produce collected from local JAs as well as in the sale of agricultural inputs, was to be converted into a joint-stock company.

JA Zen-Noh is a huge conglomerate which has 80% of the market share of fertilisers and 60% of the market share of agricultural chemicals and machinery. This huge conglomerate is exempted from the Anti-Monopoly Law because of its legal status as a cooperative. It also enjoys various benefits, such as a lower corporate tax rate of 19%, while normal companies are taxed at 25.5%, and exemption from the fixed assets tax.

Originally, farmers established agricultural cooperatives to buy agricultural materials collectively at a cheaper price. However, critics say that the exemption from the Anti-Monopoly Law allows Zen-Noh to sell farmers agricultural materials and inputs at higher prices. It is said that some local JAs are able to buy fertilisers 30% cheaper through normal market channels than through Zen-Noh.<sup>10</sup> Agricultural materials and inputs such as fertilisers, insecticide, machines and feed are priced at twice the level of similar products in the US. The higher prices of materials and inputs not only put farmers at an economic disadvantage but also ultimately impose a higher food price on consumers. We can expect a decrease in the price of agricultural materials and foodstuff if Zen-Noh loses the aforementioned privileges and is forced to compete with companies on an equal footing.

However, the proposal was changed to state that 'it is encouraged that a change of legal status to a joint-stock company is considered' with the condition that 'it will examine in detail whether removal of exemption from the Anti-Monopoly Law may cause any problems, and that it may find that they do not'. It is Zen-Noh itself that will study and decide on any change of status.

The JAs put forward their counterargument against the CRR's report saying that the government should not interfere with JAs as they are private organisations. The proposal which was decided by Abe's cabinet reflects this argument by letting the JAs, not the government, study the proposals and judge whether or not, or how far agricultural cooperative reform will be implemented. However, while banks are prohibited from engaging in securities and other business not specified in the Banking Act, and life insurance companies are not allowed to

deal with damage insurance, JAs in Japan are allowed to carry out all business activities, including the distribution of agricultural produce, funeral services, banking, handling of life and damage insurance, and so on. This wide range of special privileges is granted to JAs under the Agricultural Cooperatives Law. The JAs themselves were created by this law. The law was not made by JAs but enacted in the compromise between General Headquarters, Supreme Commander for the Allied Powers (GHQ/SCAP), which governed Japan after World War II, and the MAFF so as to collect rice for the government at the time of food shortages just after World War II. It has never been substantially amended since its enactment in 1947. Therefore, it is natural and reasonable for citizens in Japan to discuss what form the Agricultural Cooperatives Law should take today.

It is not easy to effect agricultural cooperative reform since the JAs have been untouchable for more than sixty years. Such reform is a daunting task which may take more than ten years to accomplish. But the CRR has done an excellent job by putting forward the proposal for the agricultural cooperative reform. We are just embarking on reform in Japan.

All countries have political organisations, but the JA is the only organisation that also engages in economic activities. Furthermore, the JA's political and economic interests are linked to maintaining high prices. What the JA is trying to protect is not the interests of farmers or agriculture, but the interests of the JA itself.

While the Abe administration advocated eliminating provisions relating to Zenchū, which plays the central role in the JA's political activities, and to prefectural central unions from the Agricultural Cooperatives Law, Zenchū argued that its authority to audit should be prescribed in the Agricultural Cooperatives Law. This was because auditing was an important way of controlling local agricultural cooperatives. Abolishing mandatory audits by Zenchū, turning Zen-Noh into a stock company and applying the Anti-Monopoly Law can lead

to reducing the price of agricultural materials and improving farmers' income. Consumers can also benefit from cheap prices.

In the end, the administration and Zenchū agreed to:

- eliminate provisions relating to Zenchū from the Agricultural Cooperatives Law and turn Zenchū into a general incorporated association;
- allow local agricultural cooperatives to choose between audits by an auditing corporation separated from Zenchū and audits by other auditing corporations;
- continue the position of the prefectural central unions based on the Agricultural Cooperatives Law;
- allow Zen-Noh to judge whether or not to turn into a joint stock company;
- postpone regulations on the use of the cooperatives' businesses by associate members (local residents rather than farmers).

By making Zenchū's audits voluntary, the national organisation's control will be weakened to a certain degree. However, Zenchū's political power will not be eliminated. Zenchū collected 8 billion yen and prefectural central unions collected 30 billion yen in 2013 in contributions from cooperatives in the federated organisation called keitō nōkyō. The prefectural central unions, which remained untouched, can still forcibly collect contributions. Prefectural central unions are members of Zenchū even after Zenchū becomes a general incorporated association, so the contributions collected by the prefectural central unions will continue to flow into Zenchū.

Even though agricultural cooperatives centred on Zen-Noh form an enormous business entity that has an 80% share of fertiliser sales, the Anti-Monopoly Law does not apply to them because they are a cooperative. They pay lower corporate taxes and are also exempt from real



estate taxes. Given these benefits, Zen-Noh etc. will not convert to a stock company.

The proposal to restrict the use of services by associate members to half of that by regular members was merely for show. Without associate members local agricultural cooperatives would lose customers for loans for non-farming purposes such as housing and automobiles. They probably did not care what happened to Zenchū's audits as long as associate membership could be maintained.

However, 'agricultural' cooperatives that have more associate members than regular members are not appropriate. Now associate members outnumber regular members by one million. The JA's agricultural department should be dissolved and the JA should convert to local cooperatives that provide banking and insurance businesses as well as household supplies. Business farmers will independently set up agricultural cooperatives if need be. This is what cooperatives should be like.

Reforms regarding essential issues such as the one vote per member system, wherein the opinion of the large number of small-scale farmers would be reflected in the JA's decision-making because their votes would have the same weight as business farmers' votes, and the conversion of the JA to local cooperatives, have not even been proposed yet. JA reform must not end here.

There have been disputes in the past among MAFF, JA and politicians backed by farmers who were called *nōrin zoku*, but they never came to the surface. However, this time the JA fully confronted MAFF, as can be seen in their intense arguments regarding the changes in MAFF's opinion. Even though JA reform might not have achieved the expected results, the fact that a large rift has been created has considerable significance.

### 3.3.5 *The reform of farmland policy*

The CRR also proposes to encourage business enterprises to enter the agricultural sector. Under current regulations, only a business enterprise engaged in the processing or distribution of

agricultural produce can participate in an agricultural production corporation, with a maximum equity ratio of 25%. The CRR proposes to lift the restriction on the types of businesses that can invest in an agricultural production corporation and raise the maximum investment ratio to 50%. This proposal was accepted by the LDP.

As for joint stock companies, the present Agricultural Land Law does not allow them to own farmland in principle. The law supports the principle of farmland reform after World War II, under which tenant farmers became landowning farmers through the distribution of land formerly owned by landlords. The idea behind this principle is that farmland should be cultivated by its owner. In the case of a stock corporation, stockholders own farmland while employees cultivate the land. This is not consistent with the principle of the Agricultural Land Law. Therefore, the law only permits an agricultural production corporation in which the equity ratio held by non-farmers (but engaging in certain agriculture-related businesses) is less than 25% to obtain the ownership of farmland. In other words, only corporations that are more or less created from farming households are allowed to obtain the property right to farm land.

However, the Agricultural Land Law was amended in 2009 to state that any entity intending to enter into agricultural business is entitled to lease farmland without any limitation on the lessee's non-farmer investment ratio. By this amendment the principle that a person who has a certain right on farmland should be a cultivator at the same time has been partly abolished because the lease is held by stockholders while the farmland is cultivated by employees of the corporation. There are no reasonable legal grounds for corporations not to be allowed to own farmland while they are entitled to obtain lease rights.

That being said, an immediate amendment to allow any corporation to own farmland is believed to be too drastic. The CRR favours a step-by-step approach to increase the maximum equity ratio of non-farmers from 25% to 50%.

However, in this proposal, people such as young, ambitious businesspeople or non-farmers who want to enter the agricultural sector by establishing small venture companies because of their lack of capital, still need to provide at least half of the company's capital themselves. The farmers' investment ratio requirements must be eliminated for venture companies with smaller capital in order to allow a variety of entities to engage in agricultural businesses.

### 3.4 Policy recommendations: the great potential of rice

MAFF has announced the estimated impact of lifting tariffs and import surcharges after joining the TPP. It states that agricultural production will decline by 4.1 trillion yen, including a 2 trillion yen plunge in rice production, from the current level of 8.5 trillion yen.<sup>11</sup> Food self-sufficiency will slide from 40% to 14%. In addition, 3.7 trillion yen worth of agriculture's multiple functions will vanish.<sup>12</sup> Afterwards MAFF modified the figure downwards, but it has continued to claim that Japanese agriculture will suffer catastrophic damage or loss if Japan joins the TPP agreement.

Japan's agricultural circles (MAFF and JAs) say that Japanese agriculture's small scale makes it unable to compete with US and Australian agriculture. In terms of the amount of land operated per farm, if we put Japan at 1, the EU would be 6, the US 75 and Australia 1,309.<sup>13</sup> Other things being equal, the greater the scale, the lower the cost. However, scale is not the only important factor. While the US is the world's largest exporter of agricultural produce, its farmland is only one-seventeenth the size of Australia's. The type of crops and crop yield per unit area of land both differ according to soil fertility. Barren soil means that most of Australia's agriculture comprises cattle-grazing on plains, whereas corn, soybean, or wheat production dominates in the US. The US imports low-quality beef for hamburgers from Australia while exporting high-quality beef from corn-fed cows to Japan. In Japan farmland is cultivated mainly for rice production.

The above-mentioned claim by the agriculture industry assumes that Japan's agricultural

products are not competitive in terms of cost. But competitiveness derives not only from cost but also from quality. Taking automobiles as an example, there are high-priced luxury cars and low-priced small cars in the market. The same applies to agricultural products. Japanese-origin Koshihikari, one of the most expensive and high-quality varieties of rice, is priced 160% higher in Hong Kong than California-origin Koshihikari and two-and-a-half times higher than Chinese-origin Koshihikari. The quality of rice depends on climate and natural conditions which determine the ingredients of rice. In general, the lower the protein, the better rice tastes. Even in Japan, the quality or price of Koshihikari differs according to its production area. The Koshihikari from the mountainous Uonuma region in Niigata prefecture has the best reputation in Japan and is priced more than 1.5 times higher than Koshihikari from other areas in Japan.

Japan imports cars such as Mercedes and Ford while exporting Toyota, Nissan and Honda. The US exports 3.5 million tons of rice while importing 0.8 million tons, mostly high-quality rice such as jasmine rice. The US is both the third largest exporter of beef and the largest importer of beef. Intra-industry trade applies to agriculture as well as industry. Even if Japan were to import rice for the catering and restaurant industry, it could export high-quality rice. Japan does not need to be afraid of importing low-priced, low-quality rice. Japan should not only ask other countries to eliminate tariffs on rice and other agricultural products but also eliminate its tariffs on imports. Opening up Japan's market could help the sustainable development of developing countries.

In Japanese agriculture, rice farming is notably on the decline, but this agricultural product outshines the rest of the world in terms of its quality. However, the policy of cutting rice production to keep the price high has prevented Japan's rice farming from being price competitive. Discontinuing this policy could turn Japan into a major rice exporter. The cost per unit produced is calculated by dividing the cost per unit area by the yield per unit area. It can be lowered by reducing the cost per area

by means of upsizing or by increasing the yield per unit area.

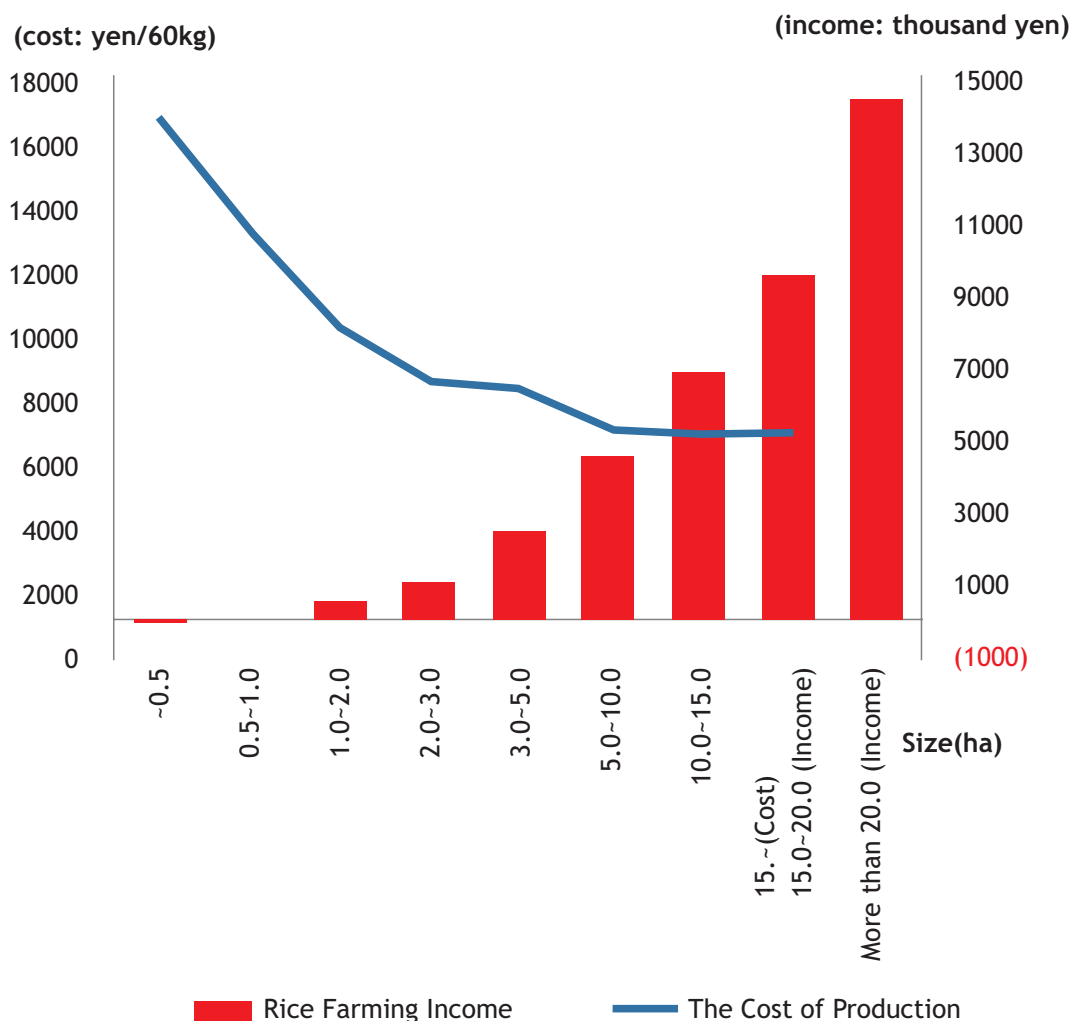
Under the present conditions of high rice prices, small part-time farmers have remained in the rice industry. In non-rice farming, full-time farmers living off their agriculture comprise over 80% of sales, while the sales share of full time rice farmers is less than 40%.<sup>14</sup>

After deciding to cut back on rice production in 1970, improving varieties to increase the yield per unit of land area became taboo among researchers in the national and prefectural institutions. Now, Japan's average rice yield per unit of land area is as much as 60% below that of rice production in California, whereas

both figures were previously the same until Japan's rice acreage reduction programme was implemented in 1970.<sup>15</sup>

If this policy is discontinued and the yield per unit of land area is raised to the level of California's rice production, the cost will be cut by three-eighths. One rice variety, Mitsuhihari, that is superior to California rice in its yield per unit of land area has already been developed by a private company (Mitsui Chemical Co.) and is being grown by some farmers. An agricultural cooperative that supplies seedlings to general farmers benefits from the high rice prices based on the policy to reduce rice production, so it has no intention of adopting seed of this or any similar variety.

Figure 14. Production cost and income from rice in 2012



Source: MAFF, 'Statistical Survey of Agricultural Management'.

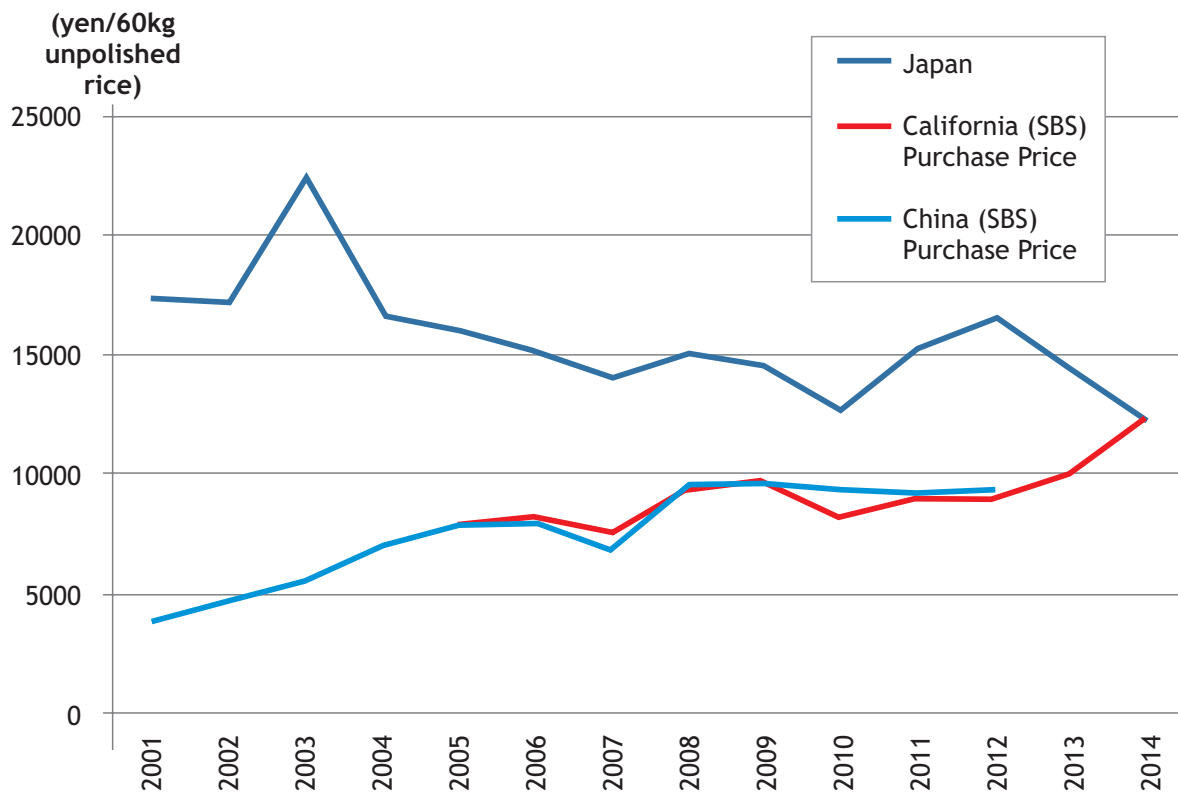
Note: the horizontal axis is about farm size. The right hand side vertical axis is about income and the left hand side vertical axis is about cost of production. The data for the farm size more than 15 hectares is grouped one for cost of production and two for income.

If the the acreage reduction policy to cut rice production is abolished, resulting in lower rice prices, part-time farmers will lease their farmland to others. If the beneficiaries of direct payments are limited to full-time farmers, they will be better able to pay their land rent. Thus, farmland will be concentrated in the hands of full-time farmers, and the scale of their farming will grow. An increase in scale means reduced costs. The cost of cultivating 15 hectares or more amounts to 6,500 yen per 60 kilograms. If the yield per unit of land area rises to that of Californian rice as a result of discontinuing the acreage reduction policy, costs will fall to around 4,100 yen, which is less than half the national average rice production cost of 9,800 yen.

Figure 15 shows the price of rice produced in China and California and imported by Japan under the tariff rate quota. The rice produced in China is no longer imported because the price difference between Japanese rice and Chinese rice disappeared. Instead Californian

rice is now imported. Japan has maintained 100,000 tons of tariff rate quota for direct human consumption. The fill rate has been 100% except in FY 2010 and FY 2013 because of the existence of the price difference between Japanese rice and Chinese or Californian rice. The fill rate, however, reduced to 12% in FY 2014. In March 2015, the last auction in FY 2014, MAFF offered to import 88,610 tons. But 216 tons were imported. This means that there is no longer a price difference between Japanese rice and Chinese or Californian rice. The price of imported Californian rice is 12,582 yen/60kg which is higher than that of domestically produced rice, 12,481 yen/60kg in FY 2014. The price of domestic rice has been falling, and it was 11,891 yen in May of 2015. The price gap had not only disappeared, the situation had been reversed. Taking into account the higher quality of Japanese rice compared with Californian rice, the price difference between Japanese rice and Chinese or Californian rice reversed substantially.

Figure 15. The price gap between Japanese rice and Chinese and Californian rice, 2001-2014



Source: MAFF, 'Auction Results of SBS [Simultaneous Buy-Sell] Rice' ([http://www.maff.go.jp/j/seisan/boueki/nyusatu/n\\_sbsrice/pdf/24sbs4.pdf](http://www.maff.go.jp/j/seisan/boueki/nyusatu/n_sbsrice/pdf/24sbs4.pdf)).

During the present TPP negotiations between the US and Japan, it is reported that the US has requested a new import quota of 215 thousand tons of rice (175 thousand tons for staple food, 40 thousand tons for processing). Japan's response was that 50 thousand tons is adequate. Even the present quota of 100 thousand tons is not fully used so there would be no point or use in adding 175 thousand tons.

Under a situation where the domestic price is lower than the overseas price, it is not necessary to maintain the acreage-reduction policy and keep a lower domestic rice price because farmers can get a higher price by exporting rice. In addition, the 12,000 yen price for Japan-produced rice was the result of the acreage reduction policy to reduce the volume of supply. If cutting back on rice production is abolished, the price level will drop to around 7,500 yen, falling below the level of China-produced rice. So, no tariff will be required. On the other hand, while it exports rice to Japan, China faces the issue of a 3.5-fold per capita income difference between citizens in its urban areas and those in rural areas, which constitutes its biggest internal affairs problem. As China addresses this issue, labour costs in China's rural areas will rise, and so will the price of its agricultural produce. Therefore, Japan's agricultural produce will be more competitive in terms of price.

Suppose the price of Japanese rice fell to 7,500 yen while the China-produced rice price rose to 13,000 yen. Then, trading firms would earn profits by purchasing rice at 7,500 yen in the Japanese market and exporting it at 13,000 yen. As a result, domestic supply would fall and domestic prices would rise to the level of the export price. This would increase domestic rice production and agricultural income would more than double.

When Japan's agriculture industry argues that it cannot compete with the US or Australia, it assumes that the Japanese government will not take any measures when tariffs are abolished. Although the size of farms in the EU is one-tenth of the size in America and five-thousandth of the size in Australia,<sup>16</sup> its high productivity and

direct payments enable it to export wheat and other grain. In the UK the yield of wheat per unit area is four times larger than Australia's, meaning that the UK's wheat productivity is four times higher than Australia's.

The international price of rice has recently been on the rise, while the difference between domestic and foreign prices has been decreasing. This means that even if the Japanese government were to adopt the direct payment of subsidies to rice farmers the amount paid to them would be smaller due to the currently smaller foreign-domestic price differential. Even at the current price level, some producers have already started exporting their rice to Taiwan, Hong Kong, and other destinations. Japanese rice will be unrivalled if it can achieve price competitiveness after expanding the scale of its cultivation and improving the yield per unit of land area in addition to its world-leading quality.

If the compensation for a fall in the price of rice following abolition of the rice acreage reduction policy is offered solely to full-time farmers, the cost would be around 150 billion yen. Additional measures on produce other than rice would cost 250 billion yen. The cost of the direct payments required will total 400 billion yen even in the event of immediate tariff elimination or after a ten-year phase-out period.<sup>17</sup> This total cost could be sufficiently covered by abandoning two schemes to raise a total of 400 billion yen, of which 250 billion yen would be saved by ending subsidisation for rice acreage reduction and 150 billion yen by dropping the income compensation programme for rice farming households. If the tariff is steadily cut during the ten-year period, the amount required will be even smaller.

How about California rice? The US produces short-grain rice variety : Japonica rice, whose quality is similar to Japanese rice. Its total production amount in 2013 was only 140 thousand tons. In addition, its main production area, California, was hit by a serious drought, and the governor of the California state gave an administrative order for some institutions to reduce water consumption by 25%. The



damage to agriculture, which uses 80% of the water in the whole state, is huge. Because the snowmelt of the Sierra Nevada has decreased, Californian farmers have increased their use of groundwater year by year in order to cover the shortage of snowmelt. Now the groundwater has almost dried up.

Moreover, there is an argument between farmers in Almond who want to make a waterway from the river in order to irrigate farmlands similar geographically to desert, and fishermen of salmon and trout who want to stock the river with salmon fry and trout fry and who expect them to swim to the Pacific Ocean. In California rice industry is only ranked 13th in the amount of agricultural production- lower than that of almonds, lettuce, or broccoli in California. Its share in agricultural production in California is 2%. In addition, a lot of water is used to produce rice. So if the production of almonds which have higher potential for profit is given preference, rice farming is likely to be reduced. This has already been proposed.

The amount of rice production in 2014 was reduced by 22% from the previous year, and it was at the lowest level since 1999. According to the US Department of Agriculture, the area for rice planting in 2015 is predicted to be reduced by more than 14% compared to the previous year. The water shortage in California is serious and long-term.

A Japanese trading company noticed that the price of Japanese rice has become lower than California rice, and began to consider exporting

Japanese rice to the US. In the near future Japanese rice, which is one of the highest quality types in the world, will spread remarkably in the US market. At this time people will laugh remembering the TPP negotiations and the Japanese government's attempts to maintain tariffs on rice.

Instead of being afraid of removing tariffs, Japan would be able to further increase exports. Milk can be exported to neighbouring countries, seeing that nearly a million tons of milk is shipped from Hokkaido to other prefectures every year and that Chinese labour costs will increase. Japanese dairy products have a good reputation, like Japanese rice. Many Chinese tourists visiting Japan are eager to buy infant formula to take back with them to China. New Zealand, the most efficient milk producer in the world, cannot ship raw milk to China and ships cows to China instead. Japan is close enough to China to ship raw milk there. The gap in the price of raw milk between Japan and New Zealand is also narrowing. With proper direct payments and removing the monopolistic behaviour of JAs, Japanese milk can be price competitive in Asian markets.

Against countries imposing export restrictions without scientific grounds,<sup>18</sup> Japan should allege that such restrictions violate the WTO Agreement on Sanitary and Phytosanitary (SPS) Measures and appeal to the relevant WTO committee, or resort to dispute settlement procedures. Positive action towards trade deregulation is a requisite for cultivating the export market.



## CONCLUSION

The main objective of Japanese agricultural policies is keeping farmers' income high. This objective itself is hardly justified because most Japanese farmers are part-time farmers whose income is greater than workers' income and whose income from farming on a very small scale is a small part of their income. Full-time farmers may have difficulties in making a living. But the acreage reduction programme for rice which increases the price of rice has kept a lot of part-time farmers in the rice industry. Full-time farmers find it difficult to acquire land and expand the size of their farms. Full-time farmers have not been able to reduce costs and increase their income.

MAFF has justified its own policy in the name of food security and 'multifunctionality', as more legitimate than keeping farmers' income high. In reality, however, Japanese agricultural policy has damaged food security and 'multifunctionality'. Most of the 'multifunctionality' of Japanese agriculture is executed by paddy fields. In order to preserve 'multifunctionality', the positive externalities of producing rice, rice should be planted on paddy fields. But now 40% of paddy fields is set-aside from rice production under the acreage reduction programme in order to support the price of rice. The new programme which increases the set-aside subsidy for rice to be used for rice flour or feedstuff may increase fields where rice is planted but is very costly. The acreage reduction programme is quite contrary to any increase in the food self-sufficiency rate. Due to this policy, Japan has lost 1 million hectares out of 3.4 million hectares of paddy fields since 1970. It is a real waste to have lost such a large area of paddy fields which have been maintained for about 3,000 years. This has damaged food security.

In the framework of the WTO, Japan argues in its negotiations as it seeks to maintain high tariff rates on rice and other sensitive products that it is ready to considerably raise the low-tariff quotas in return for maintaining

the tariff rates. This means that Japan would accept a decline in food self-sufficiency if the domestic prices can be maintained by high tariff rates. These facts suggest that the real intent of Japanese agricultural policies does not lie in the objectives stipulated in laws or official documents.

It is not too much to say that the future of Japan's agriculture rests on whether we can successfully destroy the solid 'rocky mass' of the rice paddy set-aside programme, which is one of the central pillars of Japan's post-war agricultural policy.

Japan saw its agriculture fall despite its intention of protecting the domestic market by means of high tariffs. This domestic market is shrinking due to population ageing and decrease. Japan's agriculture will have no future without cultivating the export market. Lower tariffs in export destinations will be favourable to export expansion. The agricultural sector should act proactively on negotiations on TPP and other trade deregulation that serve to remove tariffs imposed by trade partners and to facilitate exports. It is not contraction but expansion of Japanese agricultural production that will meet the growing demand for food in the world and alleviate the burden of a high food price for the poor people in developing countries. This will preserve agricultural resources by maintaining agricultural production. This will make a substantial contribution to food security not only in Japan but worldwide.

Japanese agriculture could survive by exporting highly value-added agricultural products such as Koshihikari, a Japanese high-quality variety of rice, while importing rice from Vietnam or Thailand. Japan can open its market to developing countries and enhance their sustainable development. Japan, however, is reluctant to open its agricultural market to TPP participants, including developing countries. It deprives them of opportunities to export agricultural products to Japan.

In addition, Japanese insistence on seeking many exemptions from tariff elimination will help other countries claim exemptions from other fields of TPP negotiations such as rules and discipline in relation to state-owned enterprises. This may not only reduce or diminish

the level of ambition of TPP agreements, which could make a major contribution to the world's trade system, but hinder those countries, developing countries in particular, from carrying out structural reform of their economy through participation in the TPP.

## REFERENCES

- Norinsuisansho (2007). 'Nogyo Keiei Doko Tokei' [Census of agricultural management trends], 30 December, <http://www.e-stat.go.jp/SG1/estat/List.do?lid=000001061617>.
- Norinsuisansho (2010). 'Norinsuisansho Shisan' [Ministry of Agriculture, Forestry and Fisheries trial calculation], [http://www.maff.go.jp/j/kokusai/renkei/fta\\_kanren/pdf/shisan.pdf](http://www.maff.go.jp/j/kokusai/renkei/fta_kanren/pdf/shisan.pdf).
- Norinsuisansho (2012a). *2010-nen Sekai Noringyo Sensasu* [Report on results of 2010 World Census of Agriculture and Forestry in Japan], 29 February, <http://www.maff.go.jp/j/tokei/census/afc/about/2010.html>.
- Norinsuisansho (2012b). *Seisan Nogyo Shotoku Tokei* [Production agriculture income statistics], 31 May, [http://www.maff.go.jp/j/tokei/kouhyou/nougyou\\_sansyutu/](http://www.maff.go.jp/j/tokei/kouhyou/nougyou_sansyutu/).
- Norinsuisansho (2014a). *Nogyo Kozo Dotai Chosa* [Agricultural structure movement survey], 18 February, <http://www.maff.go.jp/j/tokei/kouhyou/noukou/>.
- Norinsuisansho (2014b). *Shokuryo Jukyuritsu* [Food balance sheet], 21 February, <http://www.maff.go.jp/j/tokei/kouhyou/zyukyu/index.html>.
- Norinsuisansho (2014c). *Keiei Keitaibetsu Keiei Tokei* [Management statistics by type of management form], 19 March, [http://www.maff.go.jp/j/tokei/kouhyou/noukei/einou\\_syusi/](http://www.maff.go.jp/j/tokei/kouhyou/noukei/einou_syusi/).
- Norinsuisansho (2014d). *Nogyo Kyodo Kumiai Oyobi Dorengokai Issei Chosa* [Survey of agricultural cooperative unions and their federations], 16 June, [http://www.maff.go.jp/j/tokei/kouhyou/noukyo\\_rengokai/index.html](http://www.maff.go.jp/j/tokei/kouhyou/noukyo_rengokai/index.html).
- Norinsuisansho (2014e). *Menseki Chosa* [Survey of area under cultivation by type of crop], 30 June, <http://www.maff.go.jp/j/tokei/kouhyou/sakumotu/menseki/>.
- Norinsuisansho (2014f). *Sakkyo Chosa* [Crop survey], 30 June, [http://www.maff.go.jp/j/tokei/kouhyou/sakumotu/sakkyou\\_kome/index.html](http://www.maff.go.jp/j/tokei/kouhyou/sakumotu/sakkyou_kome/index.html).
- Norinsuisansho (2014g). *Kome o meguru Kankei Shiryō* [Materials relating to rice], July, [http://www.maff.go.jp/j/seisan/kikaku/pdf/sankou\\_siryō1.pdf](http://www.maff.go.jp/j/seisan/kikaku/pdf/sankou_siryō1.pdf).
- OECD (2001). 'Multifunctionality: Towards an Analytical Framework'.
- OECD (2003). 'Multifunctionality: The Policy Implications'.
- OECD (2002). *Agricultural Policies in OECD Countries: A Positive Reform Agenda*, 12 December.
- OECD (2014). Producer and Consumer Support Estimates Database, September, <http://www.oecd.org/chile/producerandconsumersupportestimatesdatabase.htm#country>.
- United States Department of Agriculture (n.d.). National Agricultural Statistics Service, [http://www.nass.usda.gov/Quick\\_Stats/Lite/result.php?2BE46348-8C65-3859-B240-811B40A9DF40](http://www.nass.usda.gov/Quick_Stats/Lite/result.php?2BE46348-8C65-3859-B240-811B40A9DF40).
- Yamashita, Kazuhito (2010). 'Agricultural Trade Policy Reform in Japan: Options for Achieving Change', in Ricardo Meléndez-Ortiz, Christophe Bellmann and Jonathan Hepburn (eds), *Agricultural Subsidies in the WTO Green Box: Ensuring Coherence with Sustainable Development Goals*. Cambridge: Cambridge University Press.
- Yamashita, Kazuhito (2013). *Nihon no Nogyo o Hakai Shita no wa Dareka* [Who destroyed Japanese agriculture?]. Tokyo: Kodansha.
- Yamashita, Kazuhito (2014). *Nokyo Kaitai* [The road to the dissolution of JA]. Tokyo: Takarajimasha.

## ENDNOTES

- 1 <http://survey.gov-online.go.jp/tokubetu/h25/table/PH25100001.csv> 22.July.2015
- 2 <http://stats.oecd.org//Index.aspx?QueryId=4868>.
- 3 [http://www.maff.go.jp/j/nousin/kanri/pdf/26tamen\\_pamph.pdf](http://www.maff.go.jp/j/nousin/kanri/pdf/26tamen_pamph.pdf).
- 4 <http://www.maff.go.jp/j/tokei/census/afc/about/2010.html>.
- 5 [http://www.maff.go.jp/j/seisan/kankyo/kakyou\\_chokubarai/pdf/h25\\_jiltu.pdf](http://www.maff.go.jp/j/seisan/kankyo/kakyou_chokubarai/pdf/h25_jiltu.pdf).
- 6 Tariffs on butter and skim milk powder are 35% and 25%, respectively.
- 7 According to MAFF, if converted into ad-valorem tariffs, specific tariff rates on butter and skim milk powder are equivalent to more than 300% and more than 200%, respectively.
- 8 Japan has imported a lot of grain such as wheat, barley and corn from the US, Australia, Canada and other countries since the World War II.
- 9 OECD, 'PSE Database', Census of Agricultural Income.
- 10 This was a remark by the president of Echizen-Takefu agricultural cooperative.
- 11 [http://www.maff.go.jp/j/kokusai/renkei/fta\\_kanren/pdf/shisan.pdf](http://www.maff.go.jp/j/kokusai/renkei/fta_kanren/pdf/shisan.pdf).
- 12 [http://www.maff.go.jp/j/kokusai/renkei/fta\\_kanren/pdf/shisan.pdf](http://www.maff.go.jp/j/kokusai/renkei/fta_kanren/pdf/shisan.pdf). MAFF did not show the method of the calculation. It is not shown how much of which kinds of multiple functions would be lost.
- 13 [http://www.maff.go.jp/j/kokusai/kokusei/kaigai\\_nogyo/pdf/area.pdf](http://www.maff.go.jp/j/kokusai/kokusei/kaigai_nogyo/pdf/area.pdf). 22.July.2015
- 14 Census of Agriculture and Forestry, Census of Management by Type of Management Form, Census of Agricultural Income, [http://www.maff.go.jp/j/tokei/kouhyou/noukei/einou\\_syusi/](http://www.maff.go.jp/j/tokei/kouhyou/noukei/einou_syusi/) and [http://www.maff.go.jp/j/tokei/kouhyou/nougyou\\_sansyutu/](http://www.maff.go.jp/j/tokei/kouhyou/nougyou_sansyutu/).
- 15 United States Department of Agriculture (USDA), 'National Agricultural Statistics', Census of Agriculture and Forestry.
- 16 USDA/National Agricultural Statistics Service; EU Agricultural Census 2010; Australian Commodity Statistics.
- 17 [http://www.canon-igs.org/research\\_papers/macroeconomics/20110527\\_898.html](http://www.canon-igs.org/research_papers/macroeconomics/20110527_898.html).
- 18 Japan imports almost all farm products. But China will not allow imports from Japan other than apples, pears and rice with a lot of fumigation, although Japan can export many kinds of farm products to other Asian countries.



ICTSD's Programme on Agricultural Trade and Sustainable Development aims to promote food security, equity and environmental sustainability in agricultural trade. Publications include:

- Argentina's Agricultural Trade Policy and Sustainable Development. By Marcelo Regúnaga, Agustín Tejeda Rodríguez. Issue Paper No. 55, 2015.
- La Política de Comercio Agrícola de Argentina y el Desarrollo Sustentable. Por Marcelo Regúnaga y Agustín Tejeda Rodríguez. Documento de Fondo No. 55, 2015.
- Low-Carbon Agriculture in Brazil: The Environmental and Trade Impact of Current Farm Policies. By Marcelo Marques de Magalhães and Divina Aparecida Leonel Lunas Lima. Issue Paper No. 54, 2014.
- Agricultura de Baixo-Carbono no Brasil: O Impacto Ambiental e Comercial das Atuais Políticas Agrícolas. Por Marcelo Marques de Magalhães, Divina Aparecida Leonel Lunas Lima. Edição No. 54, 2014.
- The 2014 Agricultural Act: U.S. Farm Policy in the context of the 1994 Marrakesh Agreement and the Doha Round. By Vincent H. Smith. Issue Paper No. 52, 2014.
- Public Stockholding for Food Security Purposes: Scenarios and Options for a Permanent Solution. By Raul Montemayor. Issue Paper No. 51, 2014.
- Agricultural Export Restrictions and the WTO: What Options do Policy-Makers Have for Promoting Food Security? By Giovanni Anania. Issue Paper No. 50, 2013.
- India's Agricultural Trade Policy and Sustainable Development. By Anwarul Hoda and Ashok Gulati. Issue Paper No. 49, 2013.
- Global Biofuel Trade: How Uncoordinated Biofuel Policy Fuels Resource Use and GHG Emissions. By S. Meyer, J. Schmidhuber, J. Barreiro-Hurlé. Issue Paper No. 48, 2013.
- Agricultural Domestic Support and Sustainable Development in China. By Ni Hongxing. Issue Paper No. 47, 2013.
- The 2012 US Farm Bill and Cotton Subsidies: An assessment of the Stacked Income Protection Plan. By Harry de Gorter. Issue Paper No. 46, 2012.
- Potential Impact of Proposed 2012 Farm Bill Commodity Programs on Developing Countries. By Bruce Babcock and Nick Paulson. Issue Paper No. 45, 2012.
- US Farm Policy and Risk Assistance. The Competing Senate and House Agriculture Committee Bills of July 2012. By Carl Zulauf and David Orden. Issue Paper No. 44, 2012.
- Net Food-Importing Developing Countries: Who They Are, and Policy Options for Global Price Volatility. By Alberto Valdés and William Foster. Issue Paper No. 43, 2012.
- Trade Policy Responses to Food Price Volatility in Poor Net Food-Importing Countries. By Panos Konandreas. Issue Paper No. 42, 2012.
- Trade Policy Options for Enhancing Food Aid Effectiveness. By Edward Clay. Issue Paper No. 41, 2012.

**About the International Centre for Trade and Sustainable Development, [www.ictsd.org](http://www.ictsd.org)**

Founded in 1996, the International Centre for Trade and Sustainable Development (ICTSD) is an independent think-and-do-tank based in Geneva, Switzerland and with operations throughout the world, including out-posted staff in Brazil, Mexico, Chile, Senegal, Canada, Russia, and China. By enabling stakeholders in trade policy through information, networking, dialogue, well-targeted research and capacity-building, ICTSD aims to influence the international trade system so that it advances the goal of sustainable development. ICTSD co-implements all of its programme through partners and a global network of hundreds of scholars, researchers, NGOs, policymakers and think-tanks around the world.