

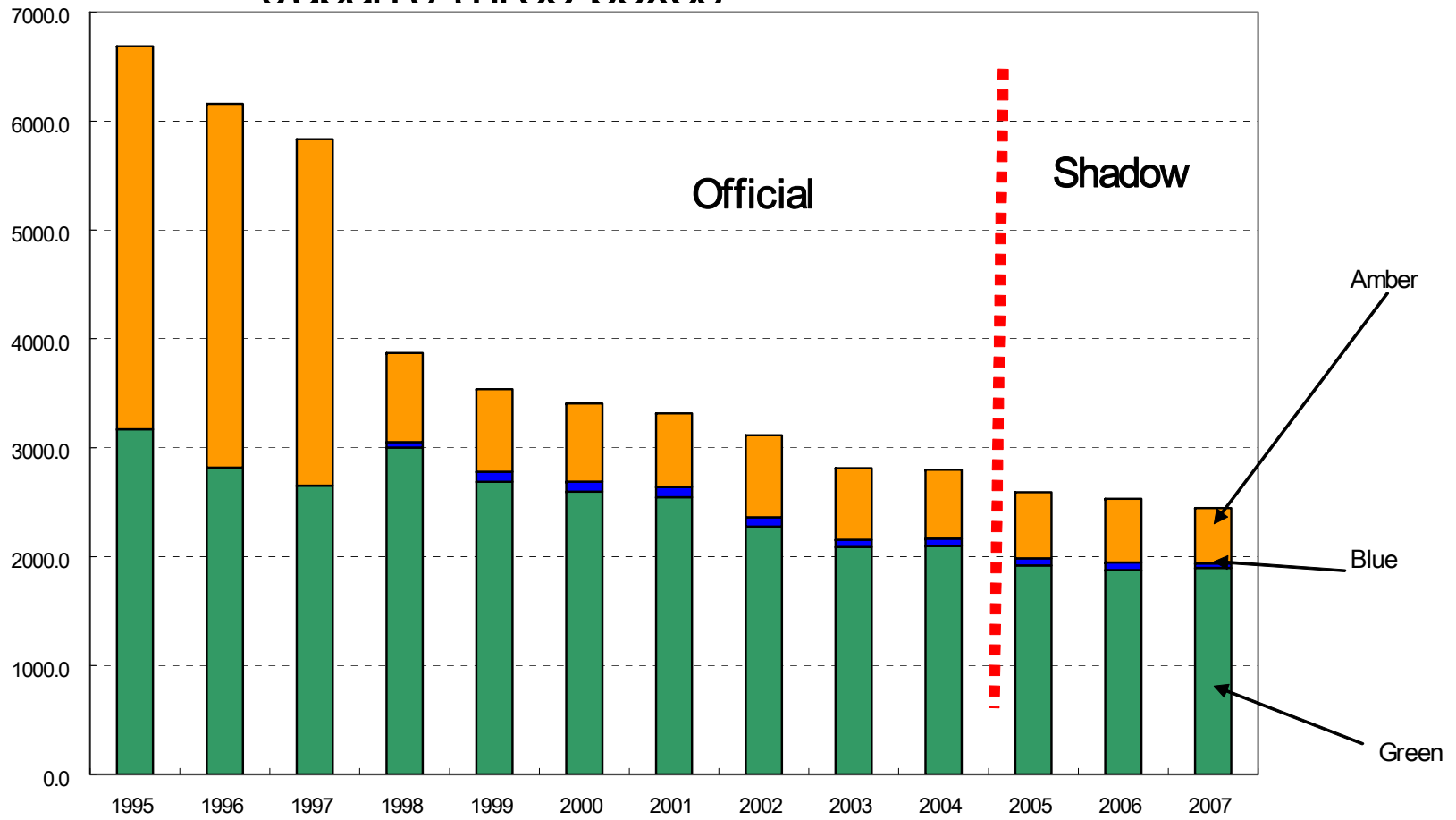
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IFPRI Shadow Notifications Project: Japan

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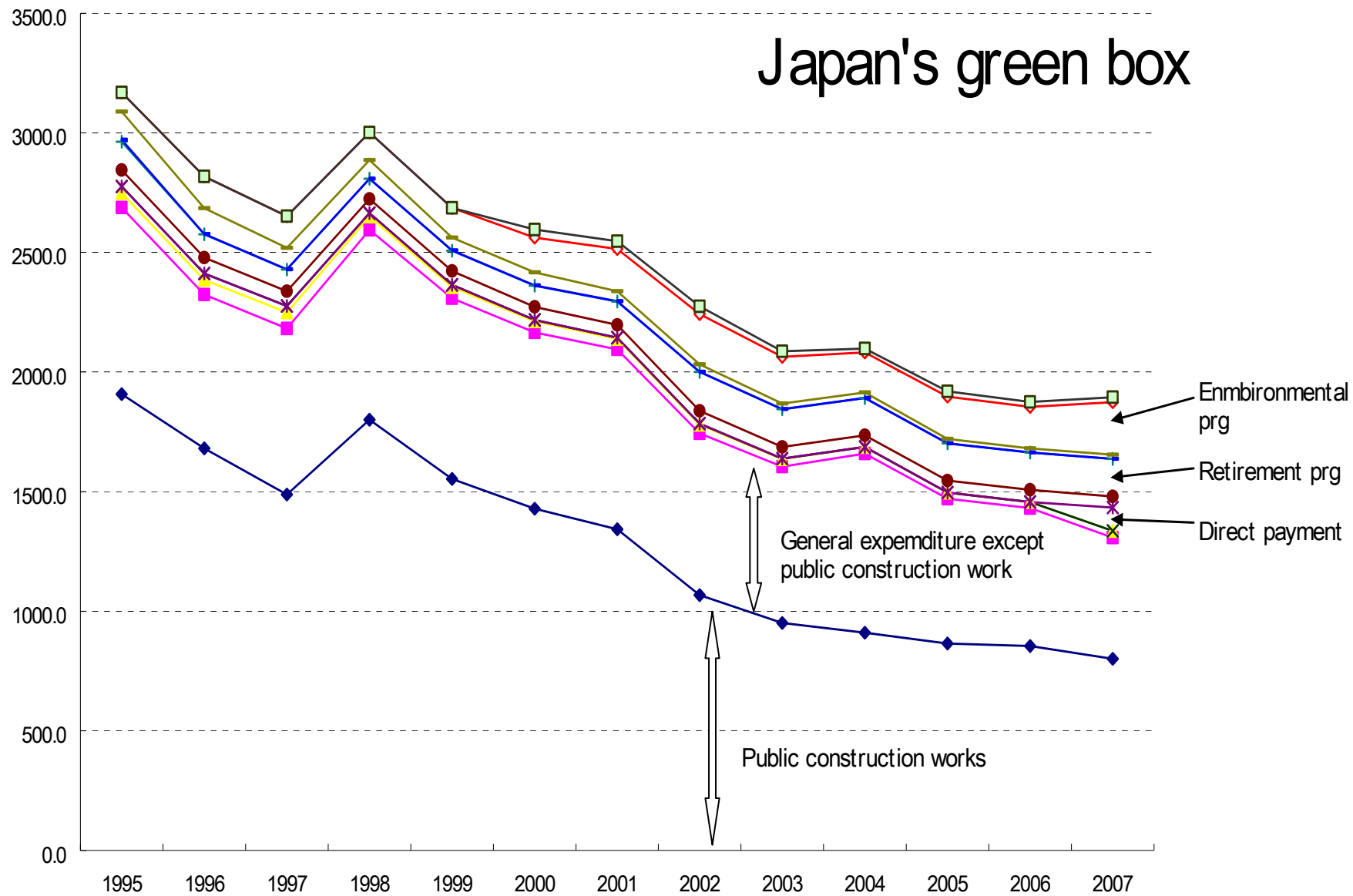
billion yen

Japan's three boxes

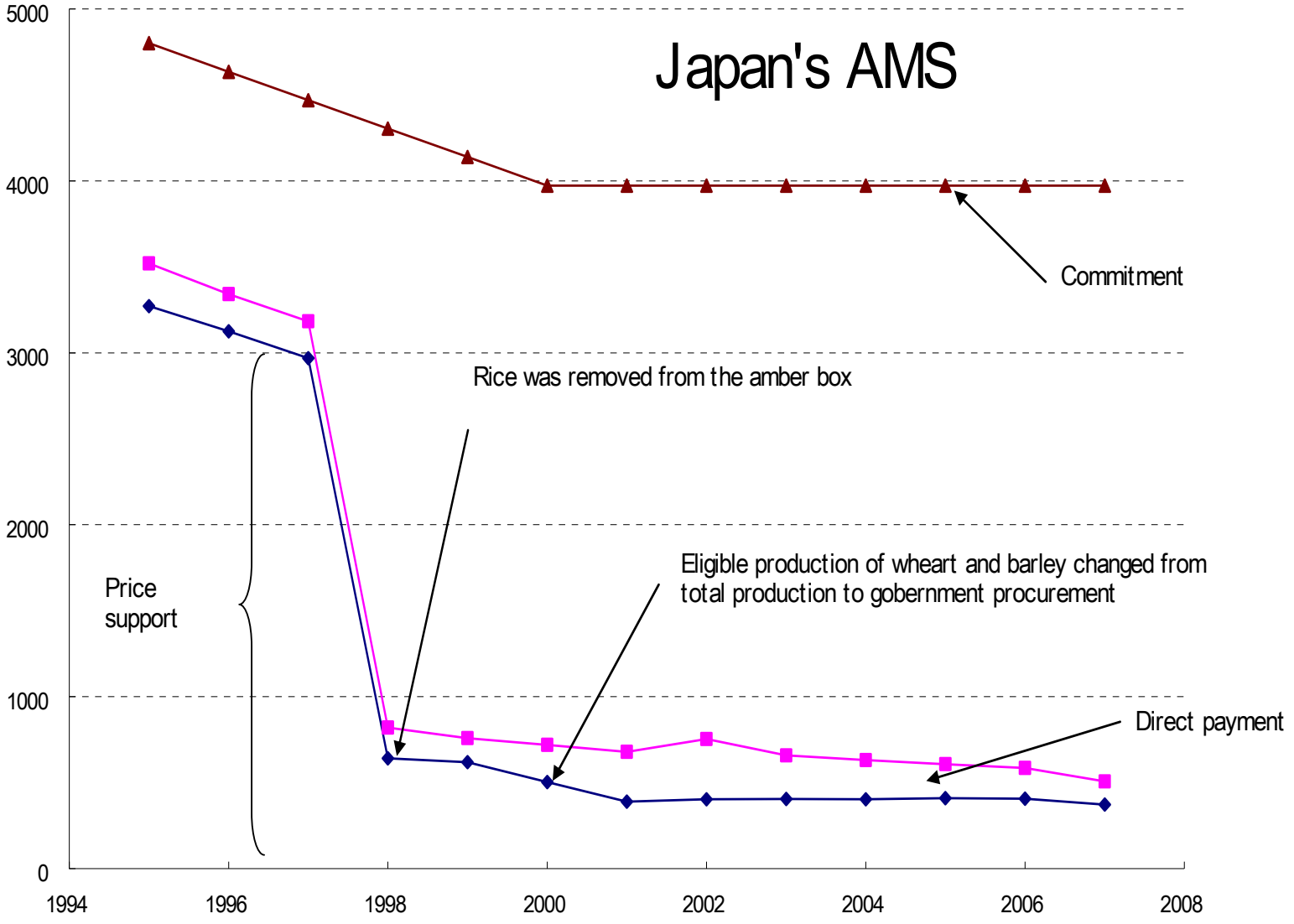


billion yen

Japan's green box



Japan's AMS



JAPAN's Domestic Support

- Expenditures of all the boxes are declining
- Significance of public construction and environmental program in the green box
- Sharp decline of the amber box in 1998
- New direction from 2007

Plan

0. Puzzles

1. Overview of Japanese Agriculture

2. Japan's Rice Policy

(1) Rice Distribution System

(2) Set-aside Program

(3) 2007 Reform

3. Japan's Official and Shadow Report

(1) Green Box

(2) Amber Box

4. Transparency of Notifications

A1. Political Dynamics of Japanese Agriculture

A2. Japan's Rice Trade Policy

Three puzzles of Japanese agriculture

{ Nasty boy for border protection
but
Good boy (at least apparently) for domestic support

{ Huge protection for the agricultural sector
but
Decline of food self-sufficiency ratio

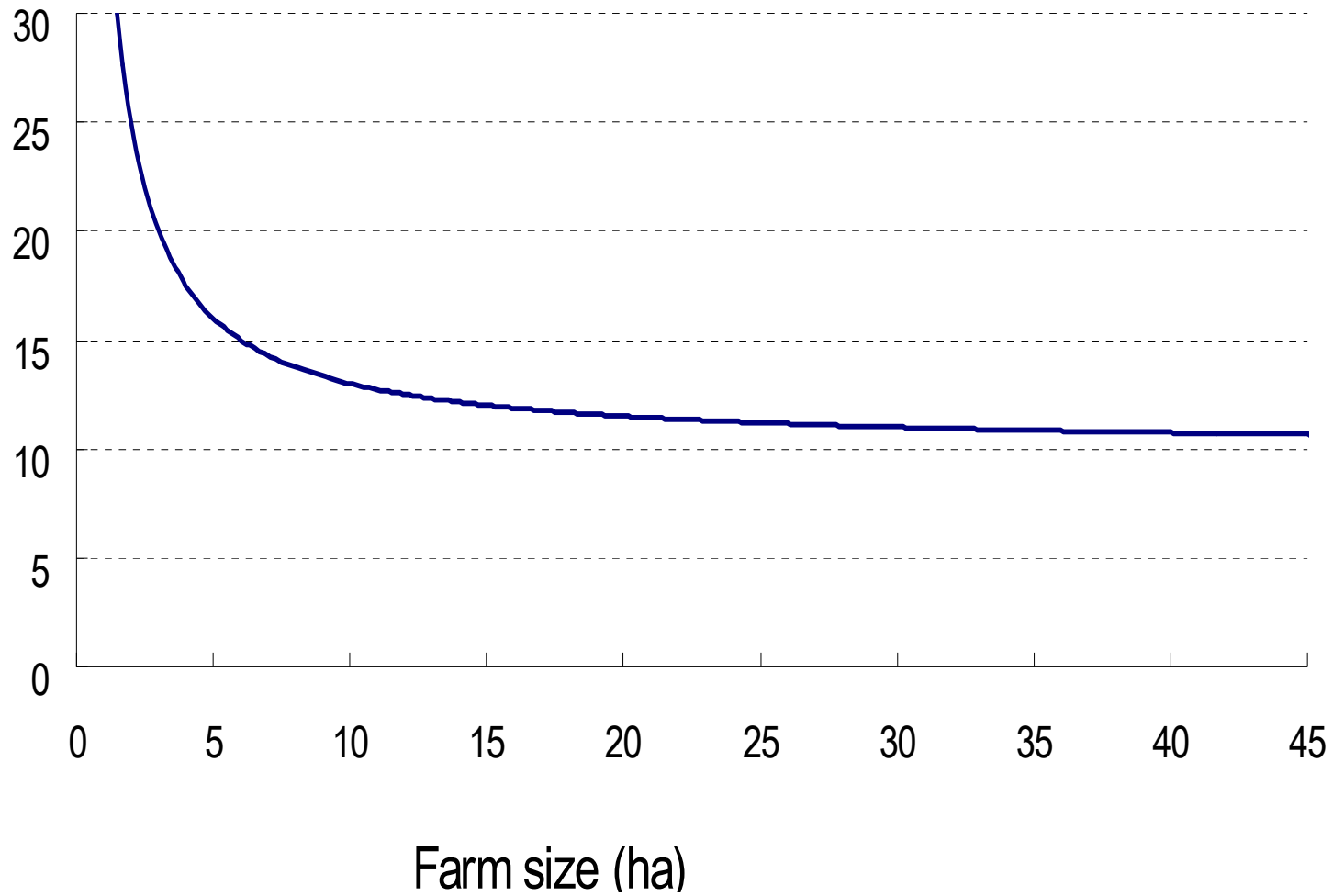
{ Optimal farm-size is over-15 ha
but
Actual farm-size is around 1ha

Double personality of Japan's agriculture

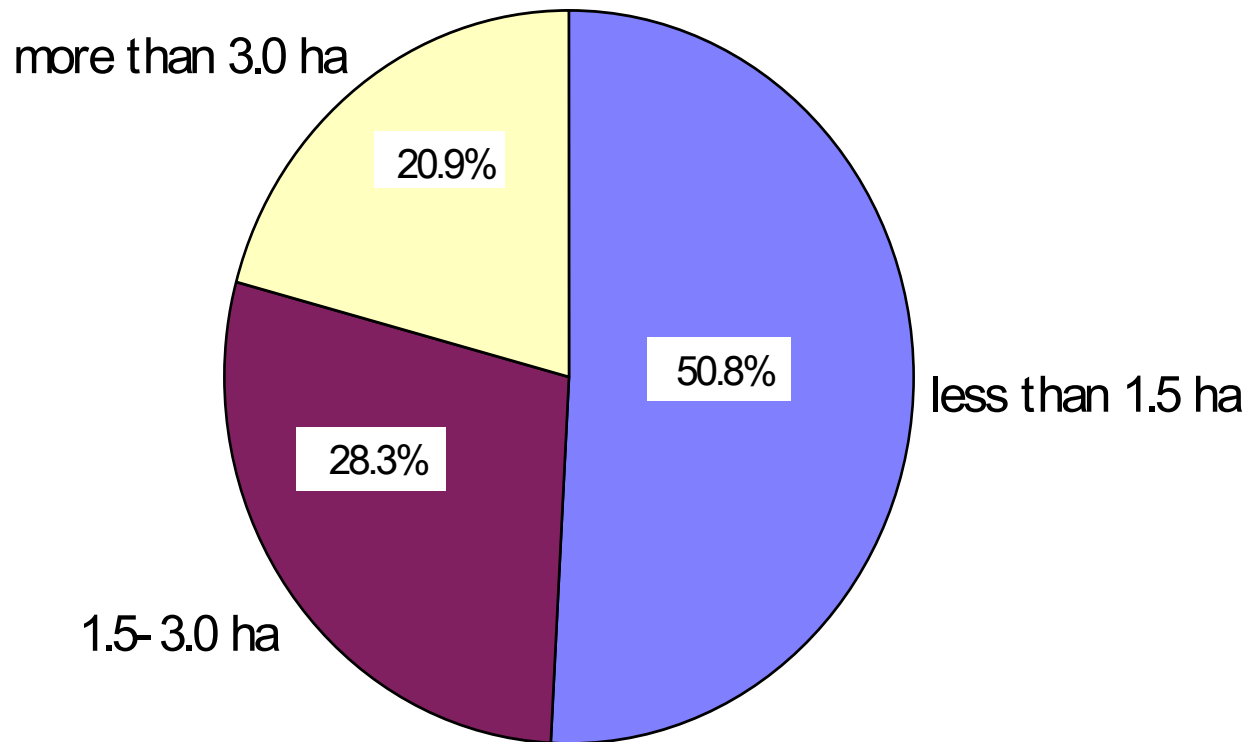
- As a nasty boy
 - Stubborn opposition against rice import liberalization
 - High border protection
- As a good boy
 - Decline of food self-sufficiency ratio
 - Decline of amber box expenditure
 - 2007 reform (from amber to green)

Average cost curve

('000 yen/60 kg)



Distribution of the total farmland area by farm size



Note. Total farmland area is 3.1million hectar

Source. 1995 Agricultural Census

1. Agriculture and Rice in Japan(1/2)

- Agriculture shares 1% of GDP, 4% of employment
- Engel coefficient is 15%
- Rice shares 30% of agricultural GDP, 1% of living cost
- Paddyfield shares 50% of farmland and rice is grown at 70% of paddyfield
- 80% of farmers grow rice

1. Agriculture and Rice in Japan(2/2)

- Farmers (in particular small-size part-time farmers) are wealthier than urban workers. Their biggest concern is 'alchemy' of farmland (getting easy money from manipulation of farmland-use regulations)
- Rice income is not important for most of rice farmers. Growing rice is easiest way for small-size farmers to maintain farmland.
- JA (nationwide system of agricultural cooperatives): giant of agribusiness, political group, de facto sub-governmental body

Comparison of household income

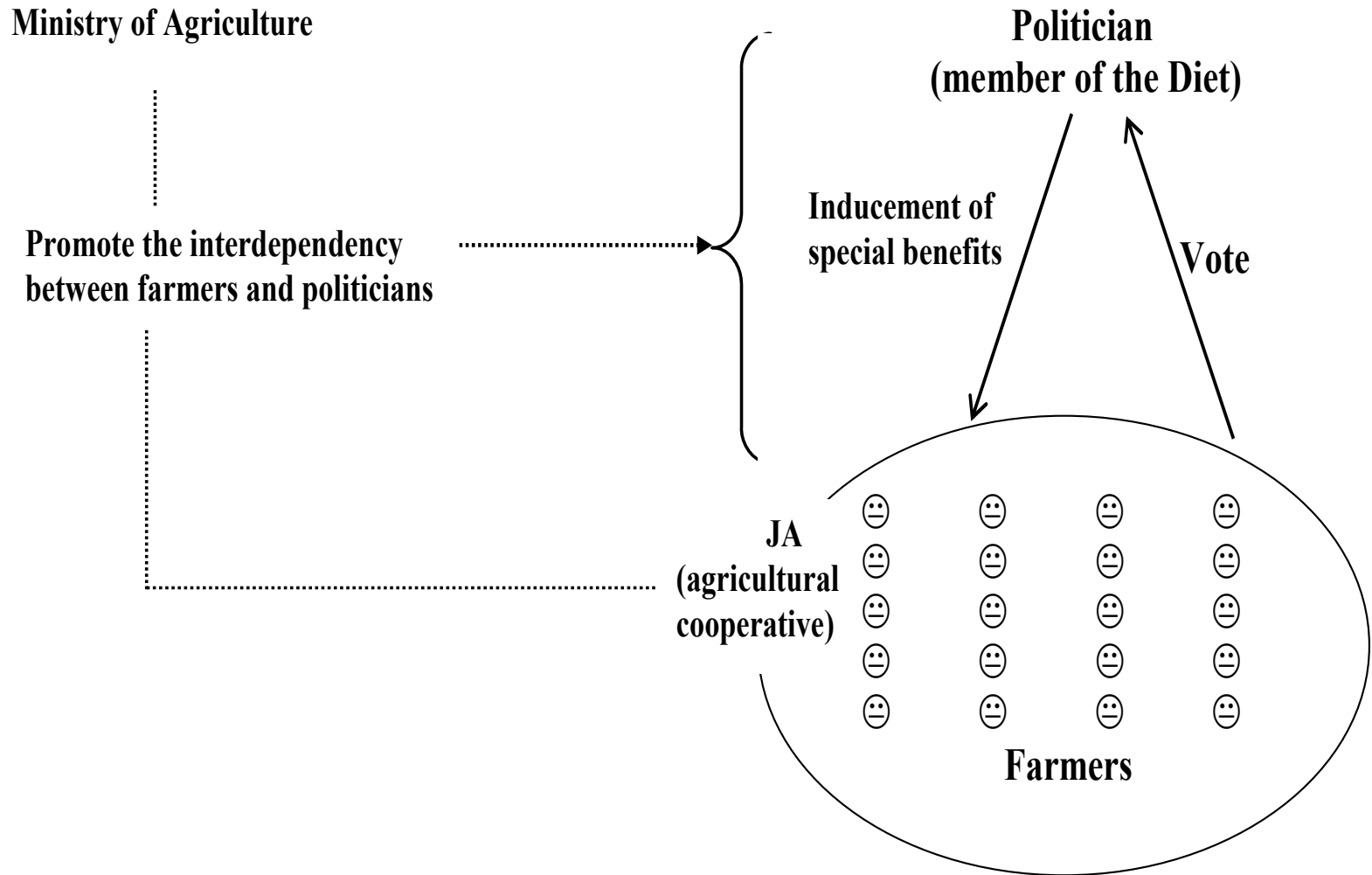
(as of 2003)

	Farm size	Number of farm households (in thousand)	Household income per head (in thousand yen)	Percentage of farm income in total household income (%)
Commercial Farm household ^a	Total	1911	1693	19
	Below 0.5 ha	436	1763	4
	0.5- 1.0 ha	673	1786	8
	1.0- 1.5 ha		1579	13
	1.5- 2.0 ha		1684	22
	2.0- 3.0 ha	159	1561	34
	Above 3.0 ha	144	1678	54
Salaried worker household	1515

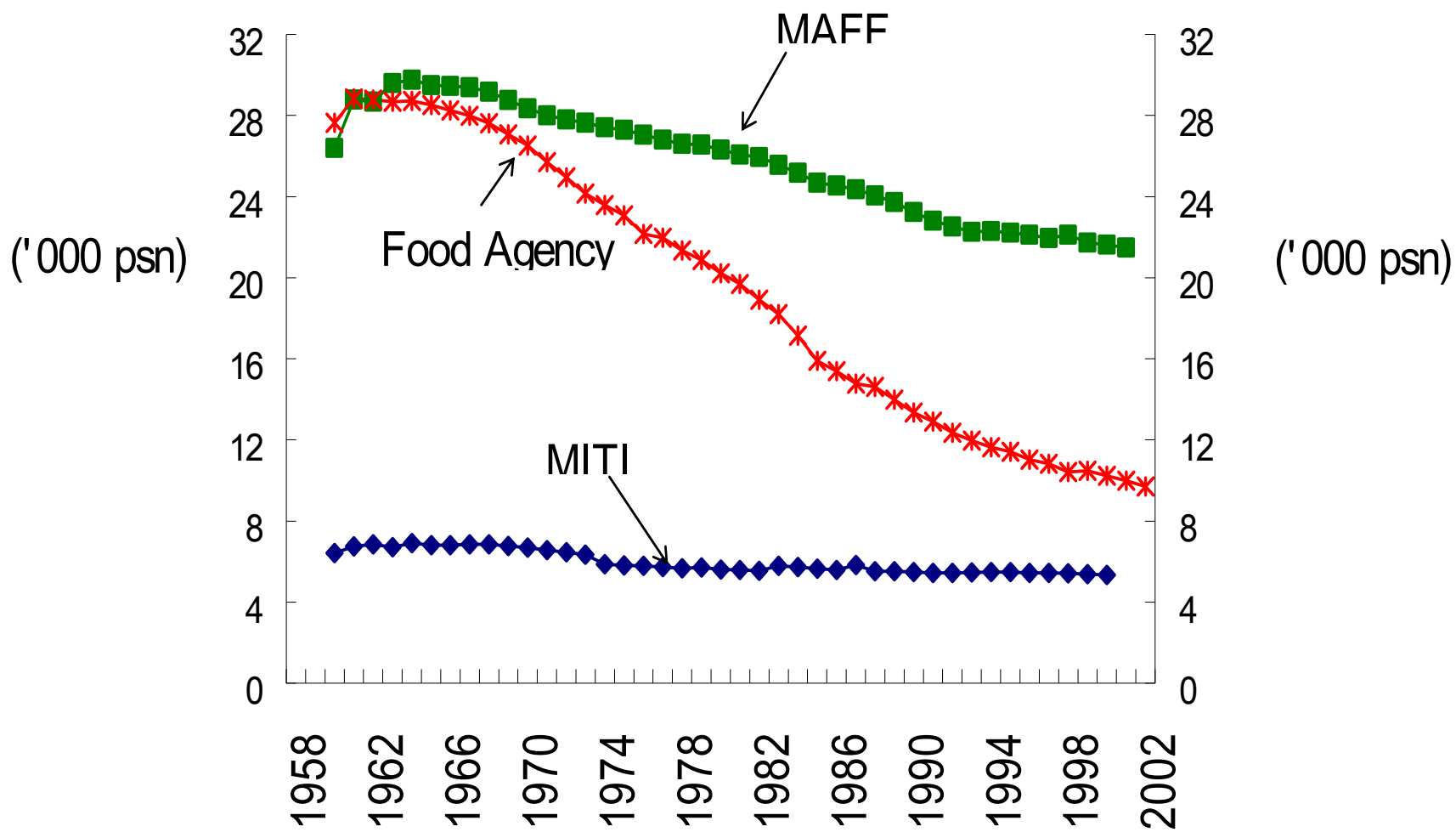
Note a. Commercial farm households is defined as farm households whose farm size is over 0.3 ha or whose agricultural revenue is over 0.5 million yen.

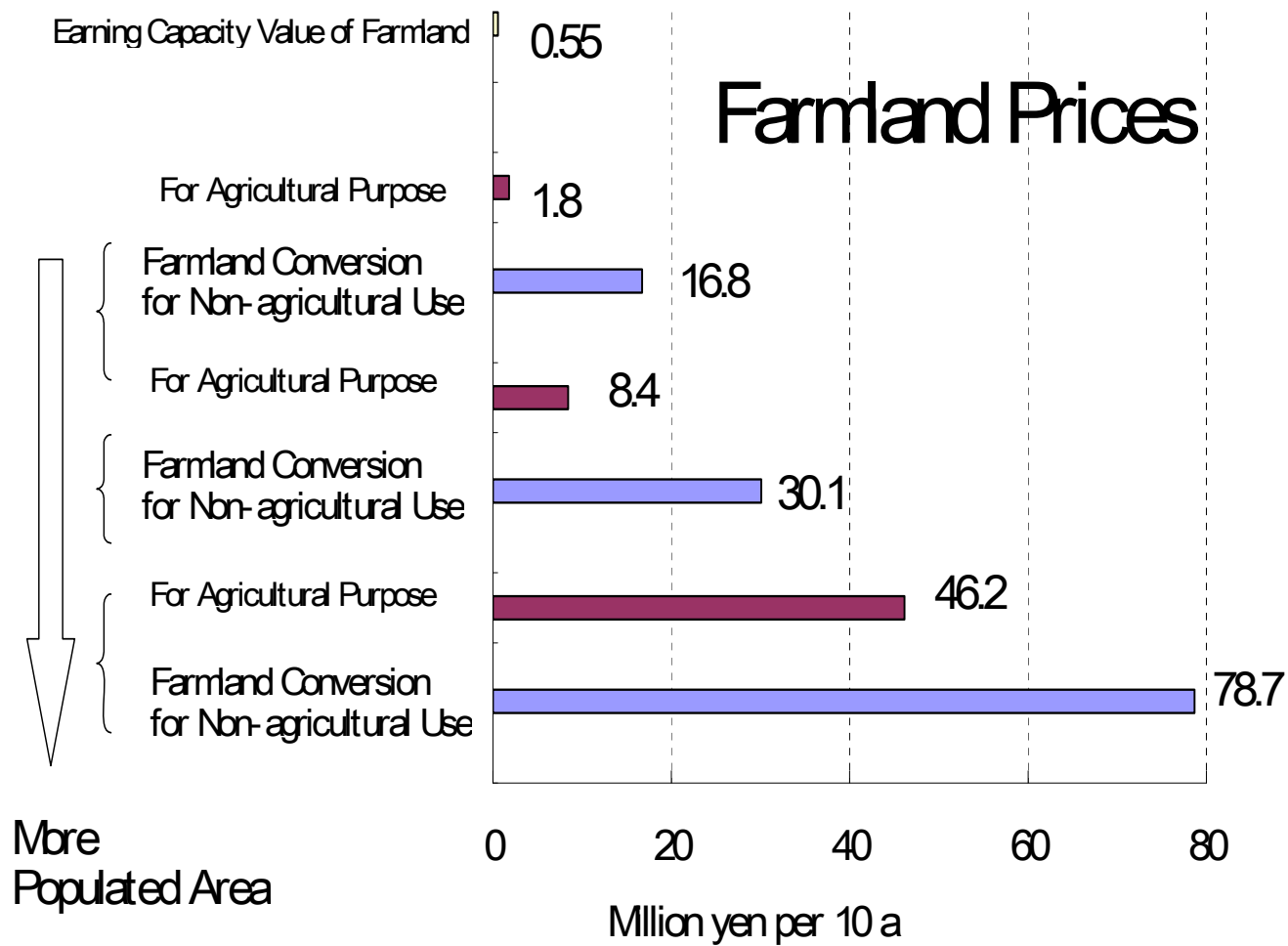
Source: Ministry of Agriculture, Forestry and Fisheries. *Statistical Survey on Farm Management and Ecor*
Ministry of Internal Affairs and Communications. *Family Income and Expenditure Survey*.

Political Dynamics in Agriculture



Comparison of Employment

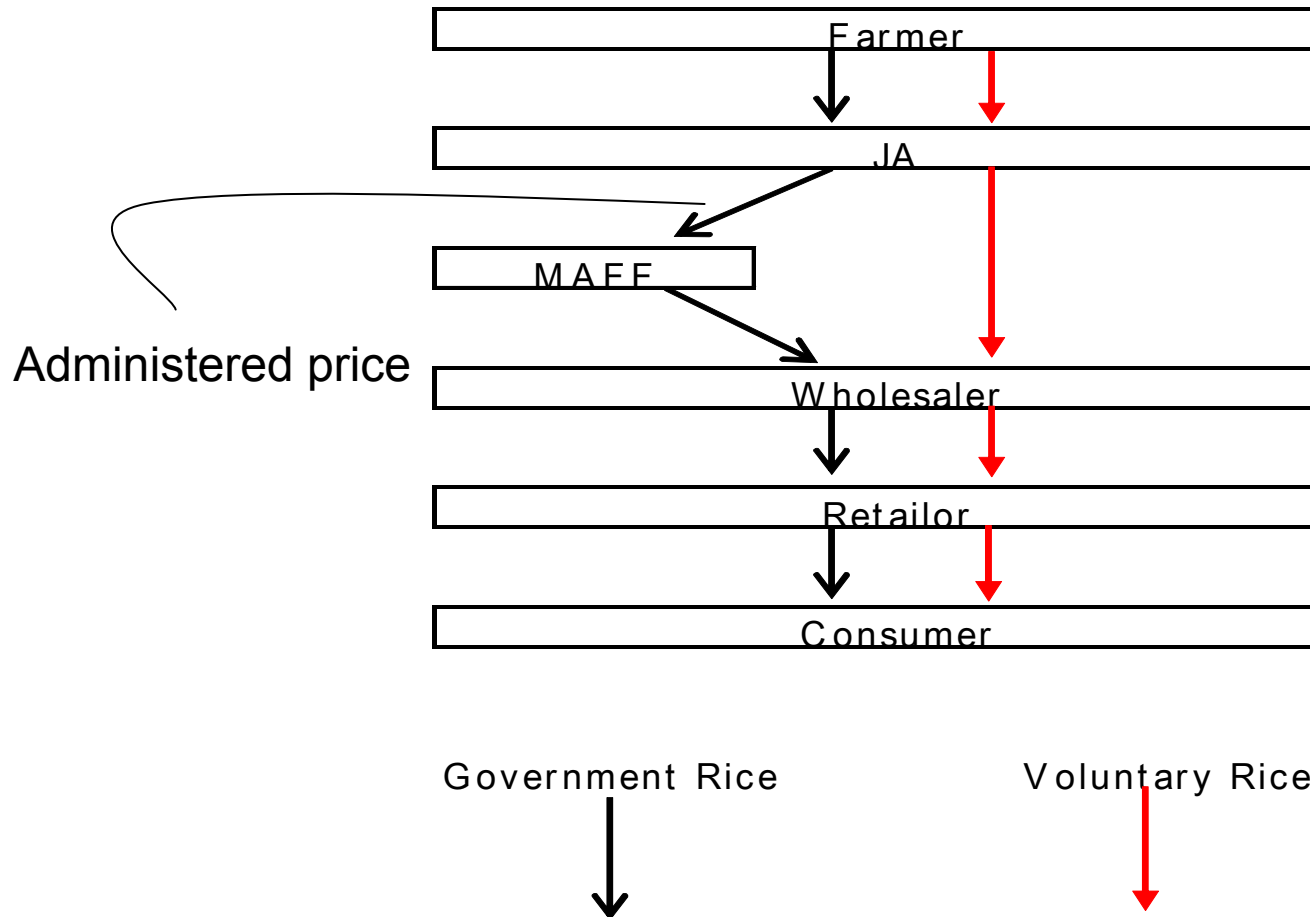




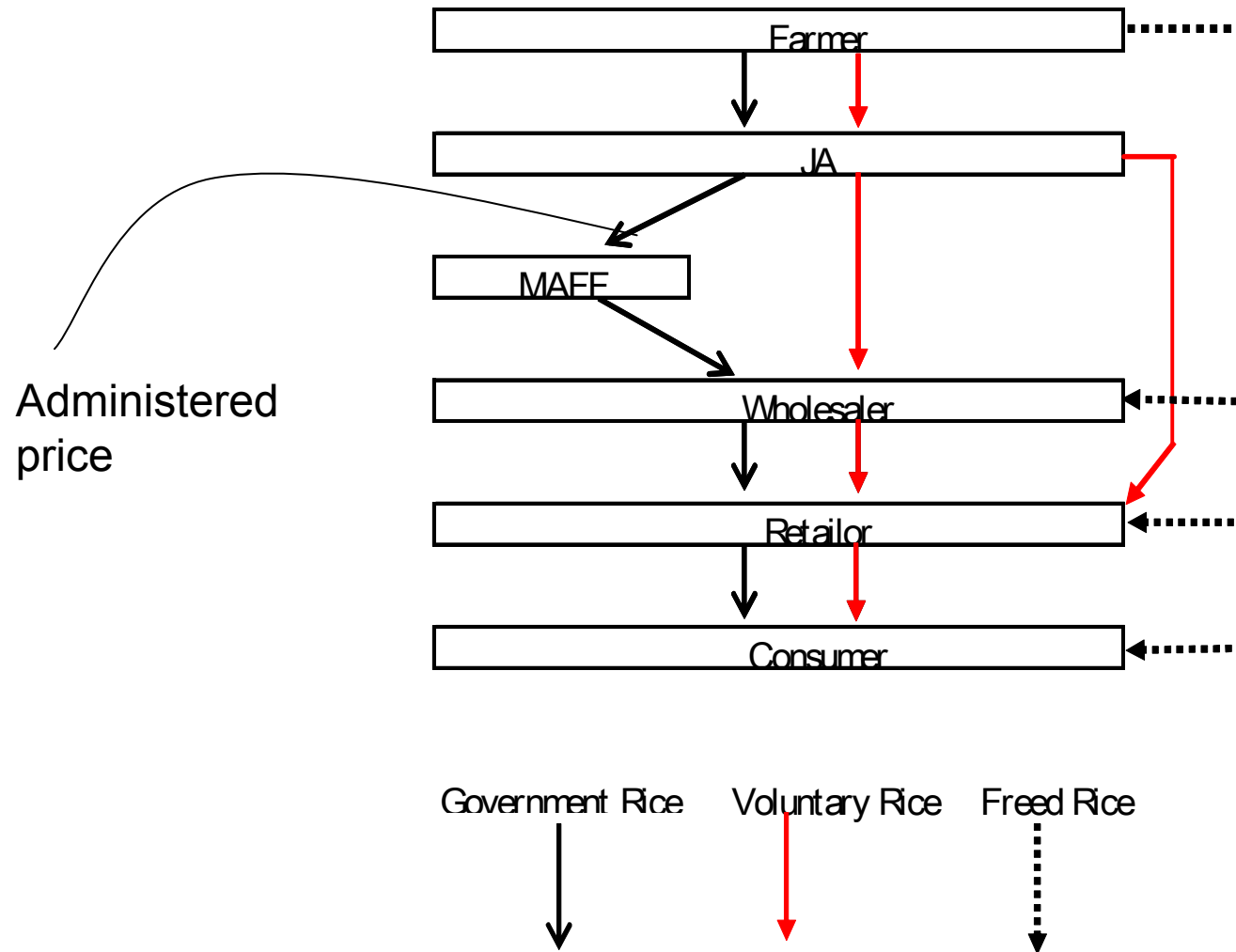
2. Japan's rice policy

- 1970 Set-aside Program
- -1994 Food Control Law
- 1995 Staple Food Law
 - Minimum Access Rice Import
- 1998 Removal of Rice from AMS
- 1999 Rice Tarrification
- 2004 Revision of Staple Food Law
- 2007 Revision of Set-aside Program

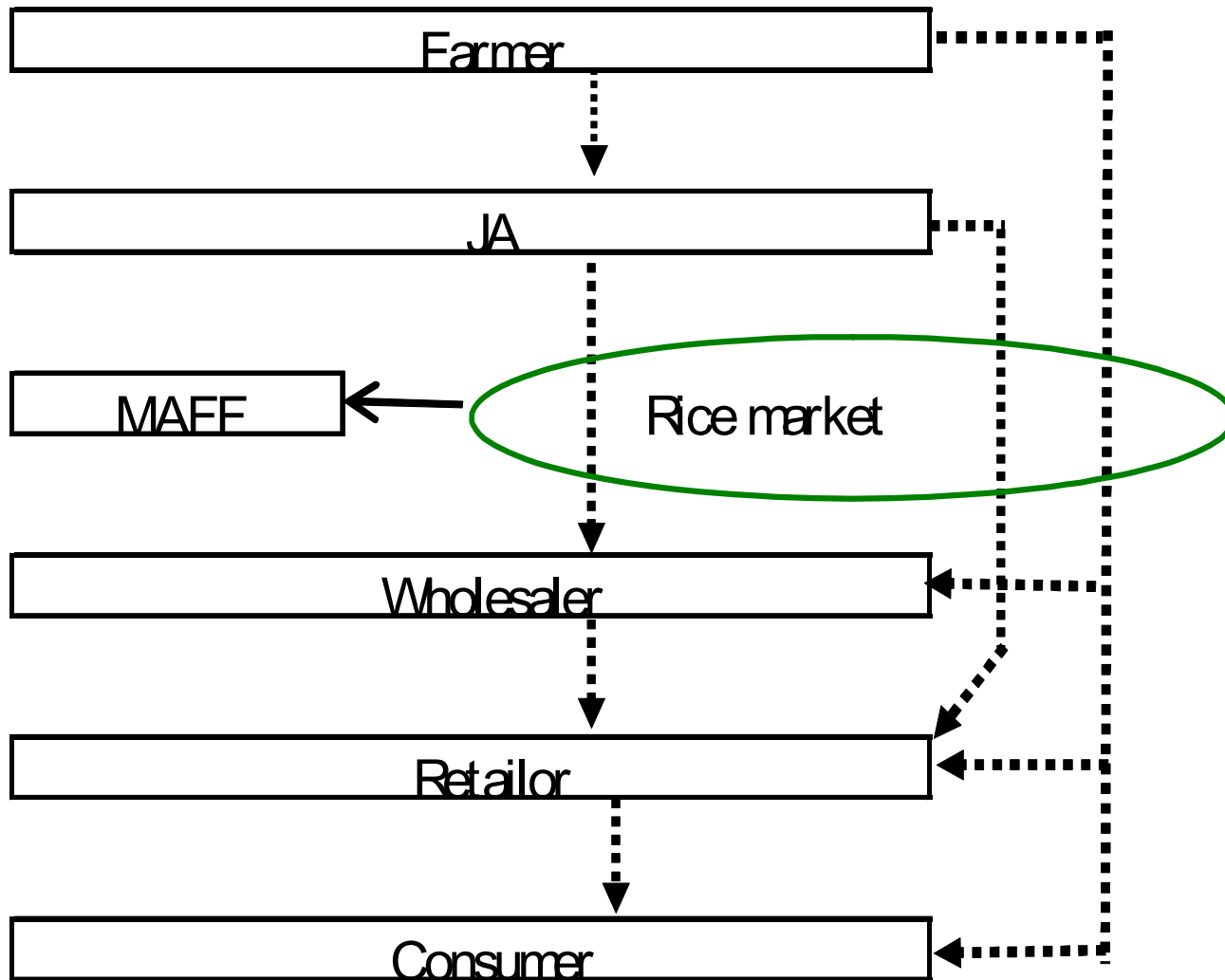
Rice distribution system: -1994

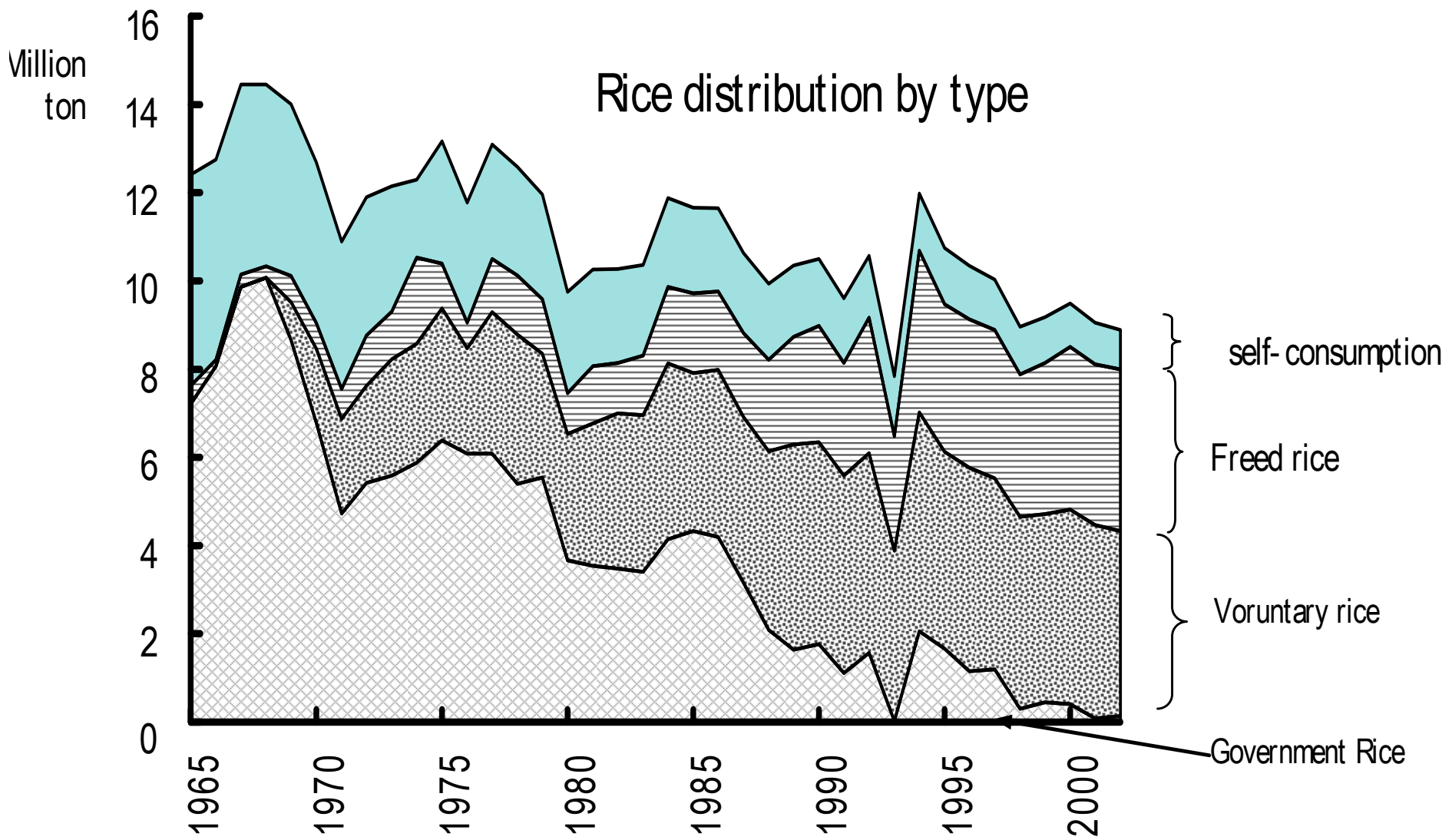


Rice distribution system: 1995-2003



Rice distribution system:2004-





Set-aside program and subsidies up until 2006

- Across-the-board set-aside program:
Government-led rice production cartel with close collaboration of JA (Nationwide System of Agricultural Cooperatives)
- Subsidies for set-aside program (blue box)+
amber box support for wheat, barley, potato
sugar bet, soybean
- All the farmers in villages collaborated to
achieve the allocated acreages under JA's
guidance and supervision.

2007 Reform

- Voluntary set-aside program
- New subsidies =direct payment for wheat, barley, potato sugar bet, soybean (amber + green, linked to the average production of 2004-6)
- Two requirements for recipients of new subsidies:
 - (1)Join the set-aside program
 - (2) either individual core farmers (over-4 ha individual farmers, or over-20 ha group farming organized by JA)

- Background of 2007 Reform
 - Decline of JA's organizing ability
 - Cutback of Agricultural budgetary
- Impacts of 2007 Reform
 - Rice production was stimulated
 - Impacts on wheat, barley, potato sugar bet, soybean productions are unclear
 - JA was relieved

3. JAPAN's Official and Shadow Notifications

- Expenditures of all the boxes are declining
- Significance of public construction and environmental program in the green box
- Sharp decline of the amber box in 1998
- New direction from 2007

Three major characteristics of Japan's green box

1. Significance of public construction work
(infrastructural services for agricultural
sector and rural area)

Brings huge capital gains for farmers

Used for antirecession fiscal policy

2. Environmental payment=subsidies for set-
aside program

3. New Subsidies of direct payment from
2007

Removal of rice from AMS in 1998

- In 1998, MAFF announced that the government rice procurement should be limited for the purpose of adjustment of rice stock for food security .

For 1995-97; Rice's AMS=total production multiplied with (administered price-reference price)

Is this announcement meaningful?

- No revision on the Staple Food Law
- Government procurement was already less than 5% of total production before 1998
- Rice is protected by 700% tariff

Change of AMS calculation for wheat and barley in 2000

Eligible production changed

- For 1996-1999, total production
- For 2000-, government procurement

Import of wheat and barley are also controlled by MAFF

4. Transparency Problem

- MAFF seems to exclude some of MAFF's expenditures from WTO notifications assuming that they are not related to the agricultural industry.
- Treatment of agricultural subsidies from local governments is not clear (and difficult to collect data).
- Classification of 'green vs. amber' 'product specific vs. non specific' are unclear

A1 C o n c e a l e d Reality of Agri. Political Dynamics

Small-size Farmers :

Support LDP politicians by **vote**

LDP Politicians:

Win small-size farmers' favor by **porkbarreling**

MAFF's **Real** Objective:

Protect traditional **small-size farmers** by
sacrificing agriculture

JA's **Real** Function:

Block market mechanism in order to protect
small-size farmers

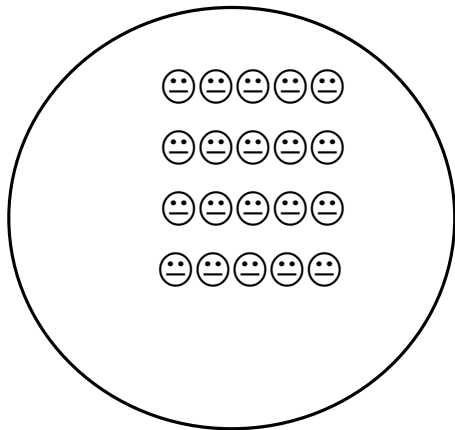
Characteristics of Japanese (or East Asian) Agriculture

- Limited Flat Area
- High Population Density
- No Continuous Cropping Hazard
- Water Runs through Other Farmers' Farmland
- Environmental Externality

Urban Land Use **vs.** *Agricultural* Land Use
(**Good for Non-agri. Use = Good for Farming**)

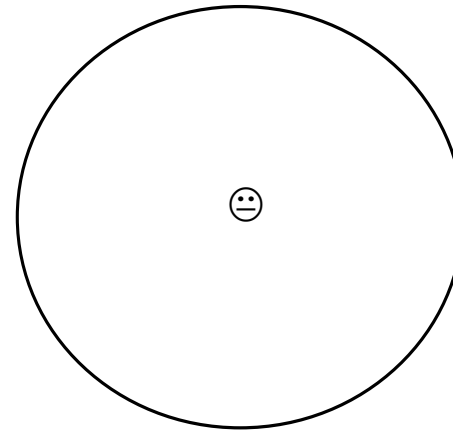
Small-size Farming **vs.** *Large-size* Farming

Voting Power vs. Efficiency



Traditional Community
(20 farm households in 20ha)

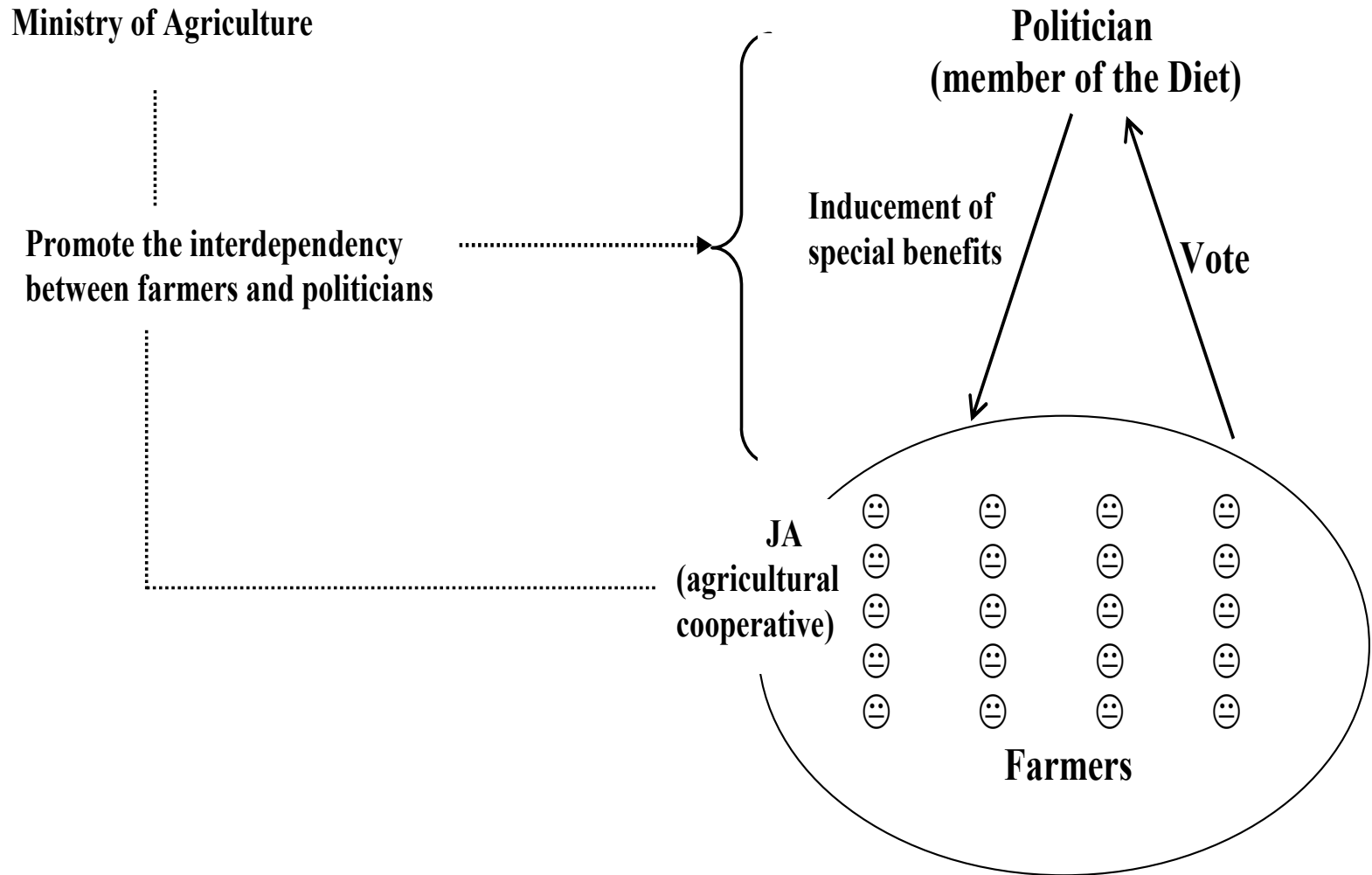
Inefficient in farming
Strong as a voting group



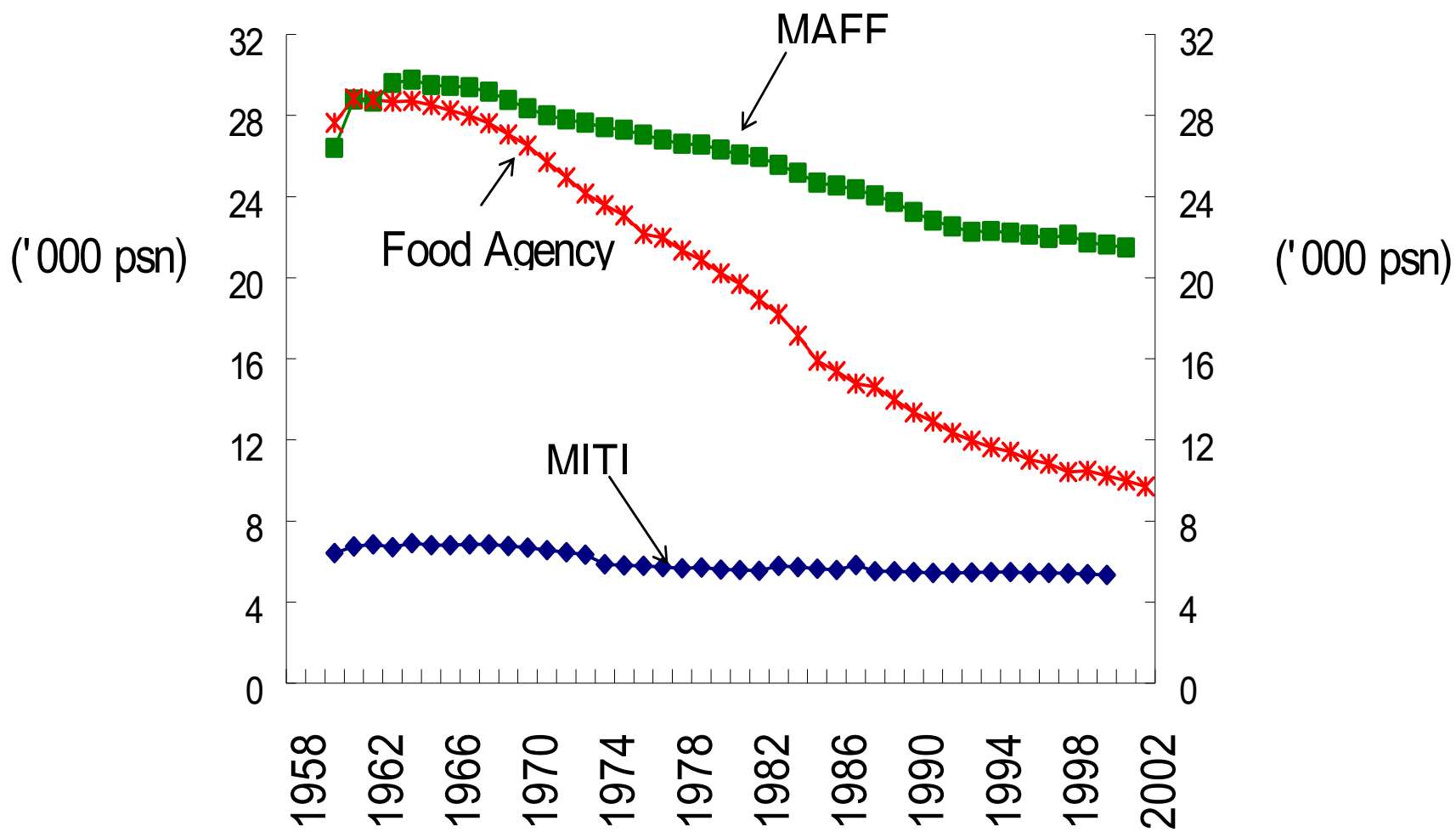
Large-size Farming
(1 farm household in 20ha)

Efficient in farming
Weak as a voting group

Political Dynamics in Agriculture

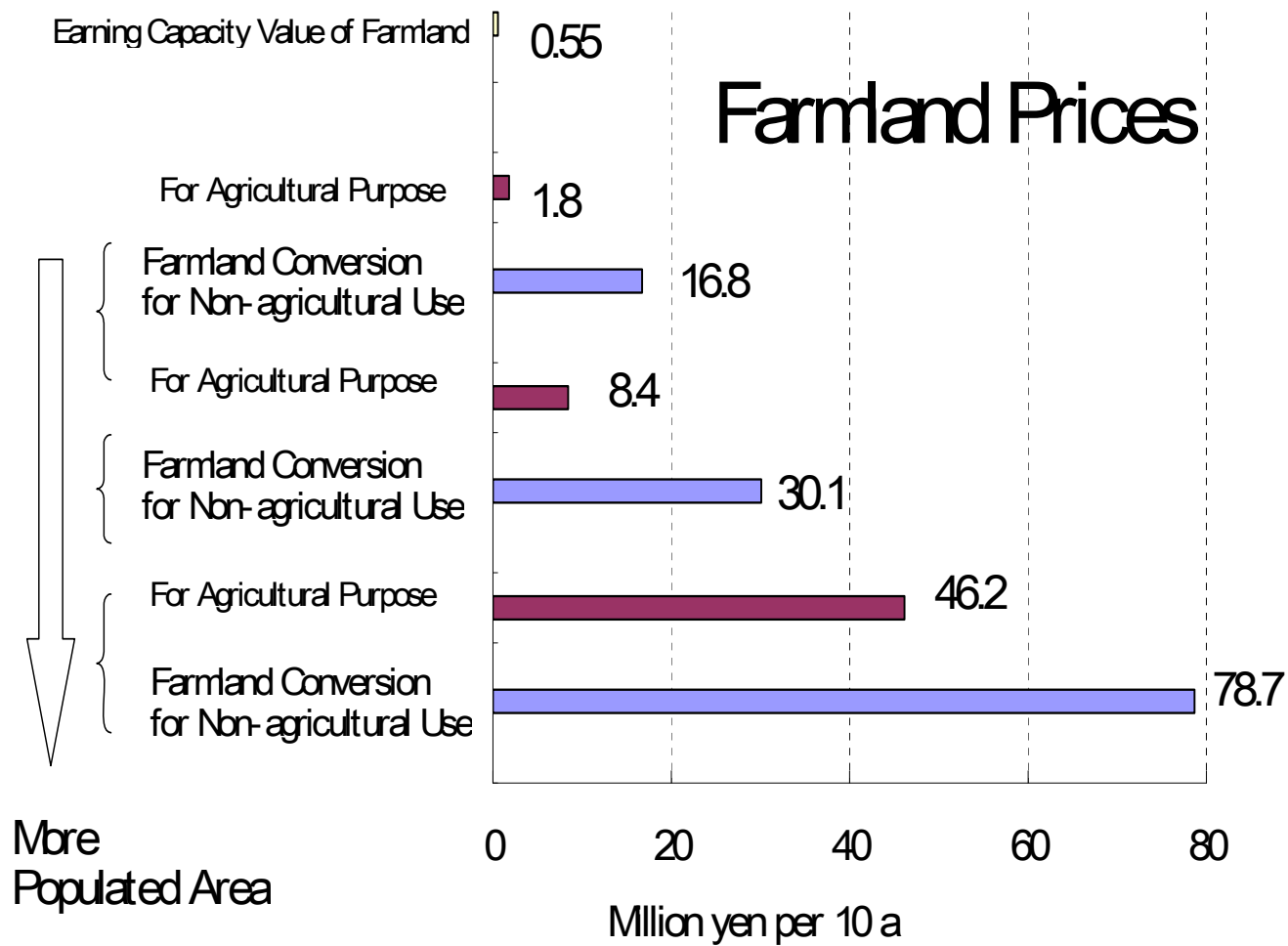


Comparison of Employment



Traditional Farming Community as a Voting Group

- Stable
- Large in number
- Observe each other
- Conservative



Capital gain from farmland conversion

(the author's estimates)

	Percentage of farmland conversion in total farmland	Farmers' revenue from farmland conversion (1990 yen)	Ratio between Farmers' revenue from from farmland conversion and total farm production
	(%)	(billion yen)	(%)
.....44 Prefecture.....			
1975- 79	0.50	2,986 (4,096)	48
1980- 84	0.47	4,420 (5,046)	66
1985- 89	0.48	6,347 (6,667)	92
1990- 94	0.57	10,026 (9,594)	138
1995- 99	0.49	6,835 (6,611)	103
2000- 03	0.39	4,787 (4,884)	82
.....35 Prefetures (out of three megalopolises).....			
1975- 79	0.45	1,490 (2,044)	28
1980- 84	0.41	1,961 (2,239)	35
1985- 89	0.41	2,520 (2,647)	44
1990- 94	0.50	3,668 (3,510)	61
1995- 99	0.45	3,133 (3,030)	57
2000- 03	0.34	2,338 (2,385)	49

Small-size Farmers vs. Large-size Farmers

	Small-size farmers (traditional)	Large-size farmers (innovative)
Typical size	1 ha	20 ha
Share in rice production and farmland use	Majority	Minority
Productivity of rice	Low (high cost, low quality)	High (low cost, high quality)
Major income source	Off-farm income	Farm income
Purpose of possessing farmland	Capital gain from farmland conversion for non-agri. use	Farm income

“Delicious” scenario for farmers (as well as JA, MAFF, politicians)

So-so level Farmland



Land investment by MAFF

Top-quality farmland

(better condition for agri. land use
as well as for urban land use)



Removal of land use regulation

Capital gain by farmland conversion