



History and Challenges of Agricultural Trade Negotiations in Japan (TPP and Other Negotiations) Part 3 (Conclusion)

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(3) Treatment of five sensitive products

In the TPP negotiations, 21 areas of negotiations are separately ongoing. While some areas are almost complete, other areas such as market access and intellectual property rights are not going smoothly.

Since the TPP's principle in the area of market access is complete tariff elimination, it is believed that Japan would face a tough negotiation process regarding whether all the five sensitive products can be exempted from tariff elimination. The outcome of such negotiation process is attracting a great attention while the resolutions by both houses of the Japanese Diet states that "the government should not hesitate to withdraw from negotiations" if it judges that the "sanctuary" (the five sensitive products) could not be protected.

The five products consist of 586 tariff lines while the number of all tariff lines is 9,018. If the five sensitive products are to be exempted, the liberalization rate would be 93.5%, while it is said that in the final stage of the negotiations Japan would be required to achieve something around 95.0%. Therefore, the rest of this paper will examine the things to bear in mind in case where Japan is forced to eliminate tariffs on these products, referring to the government's estimation of the economic effect of the tariff elimination.

(a) Rice

According to government estimation, with the assumption that no additional domestic support would be provided, about 30% of the domestic rice production would be replaced by imported rice from the U.S. (2.1 million tons) and Australia (0.6 million tons), which would have quality comparable with Japanese short-grain rice. While Vietnam, the second largest rice exporting country, is specialized in long-grain rice production, it also produces certain amount of short-grain rice. Therefore, it is also important to pay due attention to the growth of rice export from Vietnam to Japan.

Since rice is produced throughout Japan, the voice of demanding exemption is very strong. However, considering that complete elimination of tariffs is the principle of the TPP and Japan would be required to achieve a high level of liberalization rate, it is conceivable that certain number of tariff lines (such as mixed products and processed products) be eliminated after cautiously examining the impact of doing so.

(b) Sugar crops

According to government estimation, there is no quality difference between domestic and imported sugar and therefore 100% of domestic sugar production would be replaced by cheap foreign sugar. On the other hand, sugar cane is resistant against typhoons and droughts and is the main product in remote islands of Okinawa and Kagoshima prefectures. If the tariffs on sugar is eliminated and sugar cane production becomes unviable, then the local industries such as refining and transportation would decline, the regional economies in those remote islands would collapse and population outflow could occur. Since those remote islands constitute the national border, the outflow of population could also be a national security issue.

Sugar beet in Hokkaido, along with beans and potatoes, is an essential part of the crop rotation system in the area. Discontinuation of sugar beet production could destroy the crop rotation system and cause a serious damage to Hokkaido's agriculture. Local industries such as refining and transportation would reduce local employment and it could have negative impact on the local economy as a whole.

Moreover, if tariffs on sugar and sugar products are eliminated, then the levy revenues (US\$559 million in 2012) would be completely lost. Refiners and other companies which import foreign sugar pay the levies and a part of it is spent for supporting domestic sugar crop producers and sugar factories.

(c) Dairy products

As to processed dairy products such as butter, skim milk powder and cheese, while there is a large (3 times) price difference between domestic and imported products, there is little difference in terms of product quality. According to government estimation, almost all of these processed dairy products would be replaced by imported ones. Raw milk produced in Hokkaido, which is now used as a raw material for manufacturing these products, would need to find a new destination and it would be marketed for drinking purposes in other prefectures. Then dairy industry in other prefectures, which has mainly produced milk for drinking purposes, would be replaced by Hokkaido milk. Dairy factories in Hokkaido would be closed, causing serious damages to local economies.

(d) Beef and pork

According to government estimation, since the price of foreign beef is about one-third of domestic beef, high quality beef (grade 4 and 5) would remain but low quality beef (grade 3 or lower) would be replaced by imported beef. In the case of pork, the price of foreign pork is about 40% of domestic pork and there is little difference in terms of quality and is estimated that non-brand pork (about 70% of domestic production) would be replaced by foreign ones.

If tariffs on beef and pork are eliminated, there would be serious damages to local economies in Kagoshima, Miyazaki, Ibaraki and Hokkaido prefectures.

Moreover, tariff revenues from imported beef (about US\$700 million) would also be lost.

(e) Wheat and barley

According to government estimation, prices of foreign wheat flour and barley products are lower than half of the prices of domestic products and wheat and barley are imported in the form of grains and processed into final products in Japan. If tariffs on these processed products are eliminated, then wheat and barley would be imported in the form of flour and other intermediate or final products. Almost all of the domestic wheat and barley production would be replaced by imported foreign products except for limited cases such as "domestic wheat 100% flour" and barley for table consumption and miso making. There would be considerable damages to local economies in Hokkaido, Tochigi and Saga prefectures. In particular, like in the case of sugar beet, crop rotation system in Hokkaido would be destroyed.

In addition to that, the mark-up revenues (about US\$817 million, spent for management cost of state trading of wheat and barley and for supporting domestic production of these products) would be lost.

(4) Support policies for mitigating the impact of TPP on domestic agriculture

If tariff elimination is approved, then in order to minimize the impact, it would be necessary to design support for domestic agriculture. However, the government only states that it is necessary to vitalize domestic agriculture with or without TPP and it maintains the official position that it is not thinking about domestic support for mitigating the impact of TPP because it is believed that by doing so, it could convey a message that the government is ready to accept tariff elimination and weaken the government's negotiating position.

However, in the case of the Uruguay Round, the support package for farmers was hastily decided and it is pointed out that the support did not necessarily increase the competitiveness of Japan's agriculture.

Therefore, it is necessary to have more open discussion as to what kind of support would be needed and how much tax payers money can be spent taking consideration of the strict fiscal situation of Japan.

As to the magnitude of the additional spending, there is estimation that US\$17 billion would be needed to protect rice alone and US\$40 billion would be needed to protect all the agricultural products.

In any case, it is impossible to discuss the possible support policies without having information about the ongoing TPP negotiations. Therefore, more information disclosure, without breaching the non-disclosure agreement between TPP countries, is desired.

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