

# Japanese Agricultural Policy Reforms Under the WTO Agreement in Agriculture

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## 1. Introduction

The World Trade Organization (WTO) requests member countries to reduce fiscal expenditures for amber box programs, that is, those alleged to have the most trade-distorting effects. The WTO sets rules for capping and reducing trade-distorting domestic agricultural support. Domestic support policies are divided into three boxes—amber, blue, and green—depending on their effects on production and trade. During the implementation period from 1995-2000, non-trade-distorting policies are put into the green box and were exempt from reductions. Further exemptions fall into the blue box, including production-limiting policies that base payments on fixed yields and acreage. Japan's first blue box program was introduced in 1998, but government expenditures for the blue box program have remained at an insignificant level thus far. All other trade-distorting support policies are put into the amber box. Developed countries committed to reduce the total value of these policies by 20%, as measured by the AMS, during the implementation period. However, product-specific domestic support that does not exceed 5% of the total value of production of a basic agricultural product and non-product-specific domestic support that does not exceed 5% of the value of the total production are not required to be included in the AMS. (These amounts are called *de minimis*.)

Following this three-box categorization, the Japanese government has submitted its notifications on its domestic agricultural support programs to the WTO for 1995–2009. In addition to these official notifications, this paper presents my estimates of Japan's "shadow" notifications for 2010–2011 in order to trace Japan's most recent agricultural policy reforms.

## 2. The 2007 rice policy reform and Japan's new "official" notifications

Before discussing the 2007 reform, we quickly review Japan's rice policy prior to 2007. Since the 1960s, the Japanese government has provided heavy protection for rice farmers through rice importation regulations and the procurement of rice at a higher price than that of market equilibrium. As a result, except in extraordinarily bad harvest years, the rice market functions was in an oversupply condition. The government's

expenditures for the management of old rice stock often reached intolerable levels. In order to reduce rice over-production, the government launched in 1970 a special program, the across-the-board acreage control program. This program can be seen as a government-led rice-production cartel. Under it, the government set annual targets for the acreage of paddy fields that were to be diverted from rice planting so as to curtail rice production. The target acreage was allocated among all the villages of the country, and all rice farmers who lived in them collaborated to achieve it. About one-third of the paddy fields were diverted from rice planting. Farmers grew less profitable, alternative crops, such as wheat, soybeans, and vegetables in the diverted paddy fields. The Japanese government provided subsidies according to the acreage redirected from rice planting. These did not fully compensate for the reduction of the rice income of farm households. However, in the aggregate, the cartel effect of the across-the-board diversion program benefited rice farmers by maintaining high rice prices.

The subsidies for the alternative crops grown in the diverted paddy field were reported as “environmental payments” in the green box of Japan’s “official” notifications. The Japanese government’s reasoning for treating them in this manner is as follows: If the state did not provide these subsidies, rice farmers would not have grown any crops in the diverted paddy fields. Consequently, these fields would become overgrown with weeds, resulting in the spoliation of the agrarian landscape. Thus, the alternative crops subsidies maintained the diverted paddy field in an environmentally good condition. The government’s reasoning is open to challenge. Theoretically, one can argue that the subsidies for the alternative crops should be removed from the green box because they encourage farmers to grow crops. In any case, the Japanese government’s notion of “environmental payments” has not been challenged in the WTO.

In 1999, the Japanese government announced that its procurement of rice would be limited to that of an emergency stock. Based on this statement, it removed rice from the list of commodities with market price supports, although the government sometimes procured rice to influence prices after that year.

In 2007, the acreage control program was changed from the former compulsory across-the-board type to a voluntary one. This revision gave individual farmers the discretionary power whether to participate in the diversion program in exchange for subsidies or to grow rice freely without them.

Subsidies for wheat, barley, potatoes, soybeans, and sugar beets--the five primary crops grown in paddy fields set aside from rice farming--were also replaced by a new type of direct payment program with two components: One is *Midorigeta* (its

literal meaning is “green colored jack-up”) payments, based on fixed average agricultural production in the base years 2004–2006. The other is *Kigeta* (its literal meaning is “amber colored jack-up”) payments linked to annual agricultural production.

The new direct payments were unique in that there was an additional prerequisite for recipients: they had to be “core” farmers, that is, those designated by the municipal governments as the standard-bearers of local agriculture. More precisely, there are two types of core farmers: the individual and the group core farmers. The former are owners of single households with farms larger than four hectares. The latter are agricultural groups composed of farmers in the same community who collectively utilize more than 20 hectares. According to its announcements, the Japanese government sought to raise agricultural productivity by promoting large-scale farming by channeling agricultural subsidies to core farmers.

This 2007 reform conformed to the objectives of free trade and “small government.” Traditionally, Japan has provided heavy protection against rice imports. From the viewpoint of the market mechanisms, it is desirable to remove import protection and compensate rice farmers through decoupled payments. By improving the international competitive power of domestic rice farmers through the promotion of large-size farming, the Japanese government can reduce its compensation payments. Thus, the 2007 reform can be seen as a preparatory step toward the rice import liberalization of the near future (Shogenji, 2008)<sup>1</sup>. In fact, the WTO Doha Round negotiations in this period put heavy pressure on Japan to have significant rice trade liberalization.<sup>2</sup> The new direct payment plan was first discussed in an agricultural council of the Japanese government in 2001.

The Japanese government reported *Midorigeta* and *Kigeta* as a “decoupled direct payment” and *de minimis* respectively.

### 3. Agricultural policy after the power shift in 2009

After the Democratic Party of Japan came into power in 2009, it abolished the subsidy program that had been introduced in the 2007 reform and launched a new direct

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<sup>1</sup> Shogenji, S. 2008. *Nogyo Saiken* [Agricultural Reform]. Tokyo: Iwanami-shoten. Shogenji was the chairperson of the advisory board for the Minister of Agriculture, Forestry and Fisheries in that period.

<sup>2</sup> The Doha modalities on agriculture proposes 70% reduction for Japan’s rice tariff.

payment program, called the Income Compensation Program (ICP)<sup>3</sup>. Under the ICP, various new subsidies were introduced. For rice, subsidies are counter-cycle payments. For crops other than rice, subsidies are provided according to acreage and production. However, there are no decoupled payments in the ICP. Unlike the 2007 rice policy reform, both large and small farmers can be recipients of the ICP subsidies.

Up until now, the Japanese government has not announced how the ICP subsidies will be treated in Japan's future "official" notifications. Making the best guess, I estimate Japan's "shadow" notifications for 2010 and 2011 from government documents. Some of the ICP subsidies require recipient farmers to join the acreage control program. This part should be reported in the blue box. Theoretically, the other part of the ICP subsidies should be reported in the amber box. However, as discussed in the previous section, the Japanese government is likely to use *de minimis* and "environmental payments" in order to underrepresent the CTAMS (Current Total AMS). The result is shown in the last two columns of Table 1.

In my "shadow" notifications for 2010 and 2011, Japan's CTAMS is below the commitment level of 3972.9 billion yen. Thus, Japan satisfies the Uruguay Round Agreement on Agriculture. However, the Doha modalities require more severe capping from member countries (more precisely, developed countries). According to the Doha modalities, Japan's CTAMS and blue box should be less than 1191.9 billion yen and 245.8 billion yen, respectively. In addition, the Doha modalities oblige Japan to keep its OTDS (Overall Trade-Distorting Support) at less than 1362.0 billion yen.

As shown in Table 1, Japan's AMS and OTDS for 2010 and 2011 remain under the required levels. However, Japan's Blue Box exceeded the required level in 2010, before declining below the limit again in 2011. Thus, if the Doha Round were to reach a conclusion and new support rules and commitments to come into effect, the Japanese government would have to carefully manage how it operated its agricultural support programs and notified its latest agricultural subsidies.

#### 4. Conclusion

A majority of Japanese consumers and business leaders now show emotional support for the idea that Japan should increase its food self-sufficiency. They also strongly tolerate fiscal supports for the agricultural sector. This tolerance was not

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<sup>3</sup> Because of the time-lag between policy decisions and the execution of the budget, a portion of the subsidies introduced in the 2007 reform continued through 2010.

observed in the period of the Uruguay Round negotiations. Considering this social atmosphere, whichever party (the DPJ or the LDP) takes power, the Japanese government will increase its trade-distorting and other agricultural subsidies. By using *de minimis* and “environmental payments,” the government will be able to keep its CTAMS below the commitment level required in the Uruguay Round agreements. However, it may be more difficult for it to maintain the nation’s OTDS or Blue Box below the commitment level entailed by the Doha modalities.

Table 1. Summary Japan's domestic support notifications, 1995-2011, billion yen

	Official notifications <sup>a</sup>																Shadow notifications	
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 <sup>b</sup>	2011 <sup>b</sup>	
Green box	3,169.0	2,818.1	2,651.7	3,001.6	2,685.9	2,595.3	2,546.9	2,275.2	2,086.3	2,098.3	1,916.3	1,802.4	1,882.2	1,837.3	1,848.4	1,408.5	1,730.8	
of which, environmental payments	80.7	133.3	132.9	115.6	123.4	145.3	176.3	210.2	195.4	167.1	176.7	170.0	241.8	225.2	291.5	231.3	228.4	
of which, decoupled income support	-	-	-	-	-	-	-	-	-	-	-	-	101.3	102.3	102.3	102.3	-	
Blue box	-	-	-	50.2	92.7	92.7	91.1	86.5	68.2	67.8	65.3	70.1	42.4	32.4	21.8	337.1	192.9	
Current Total AMS	3,507.5	3,329.9	3,170.8	766.5	747.8	708.5	666.7	730.0	641.8	607.8	593.3	571.2	416.9	520.4	564.8	564.8	564.8	
<i>De minimis</i> (total)	36.6	37.3	36.1	75.5	32.6	31.7	32.1	43.6	35.0	41.1	41.3	37.6	104.9	153.0	173.1	166.8	341.1	
OTDS	3,544.1	3,367.0	3,206.9	892.2	873.1	832.9	789.9	860.1	745.0	716.7	700.2	674.9	564.2	705.8	759.7	1,068.7	1,098.8	
<b>Total</b>	<b>6,713.1</b>	<b>6,185.3</b>	<b>5,858.6</b>	<b>3,893.8</b>	<b>3,559.0</b>	<b>3,428.2</b>	<b>3,336.8</b>	<b>3,135.3</b>	<b>2,831.3</b>	<b>2,815.0</b>	<b>2,616.2</b>	<b>2,481.3</b>	<b>2,446.4</b>	<b>2,543.1</b>	<b>2,608.1</b>	<b>2,477.2</b>	<b>2,829.6</b>	

Note - zero

a: submitted by the Japanese government to the WTO in August 18, 2011

b: my new estimates

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