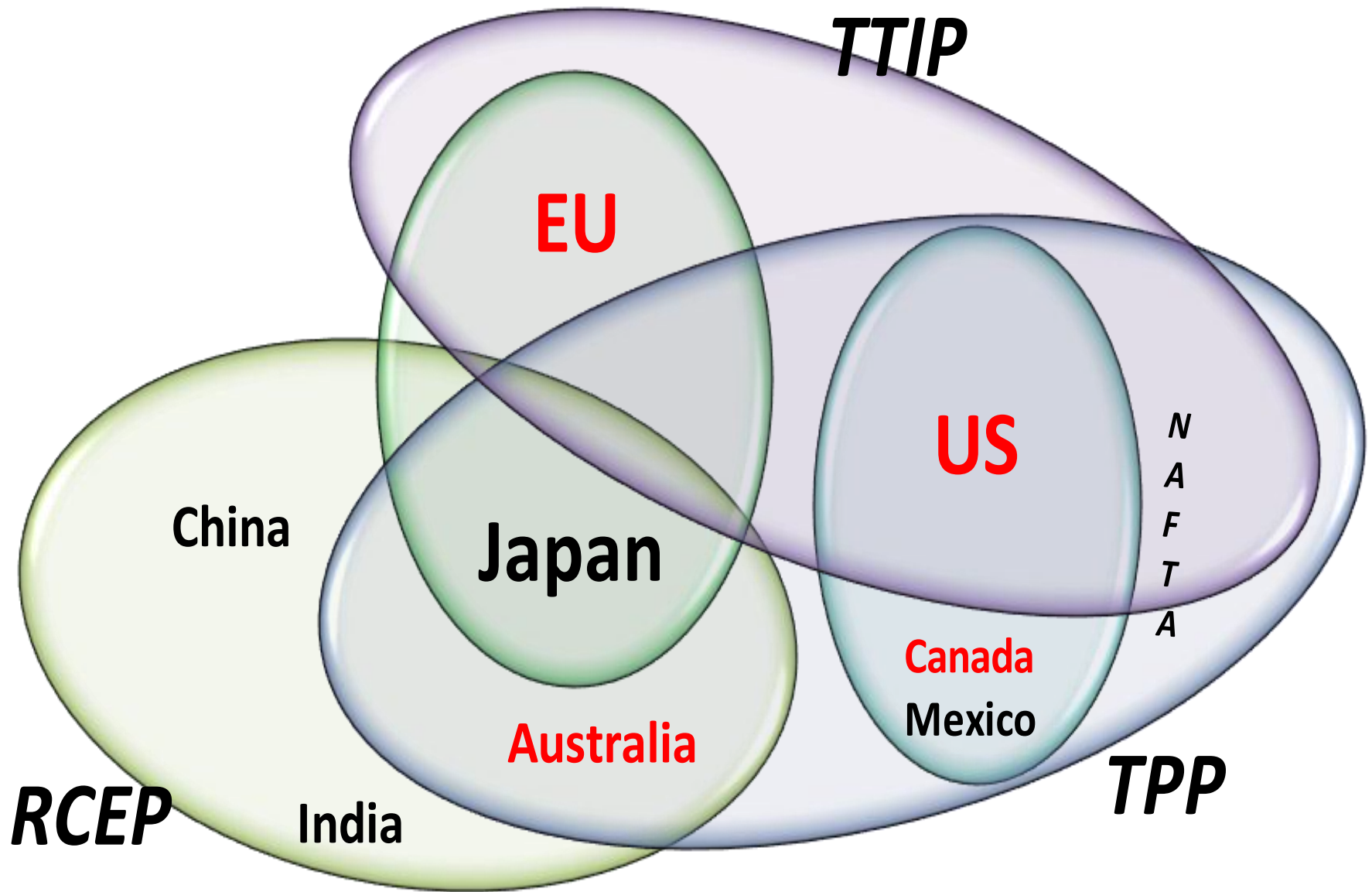


The Effects of the TPP on Japanese Agriculture

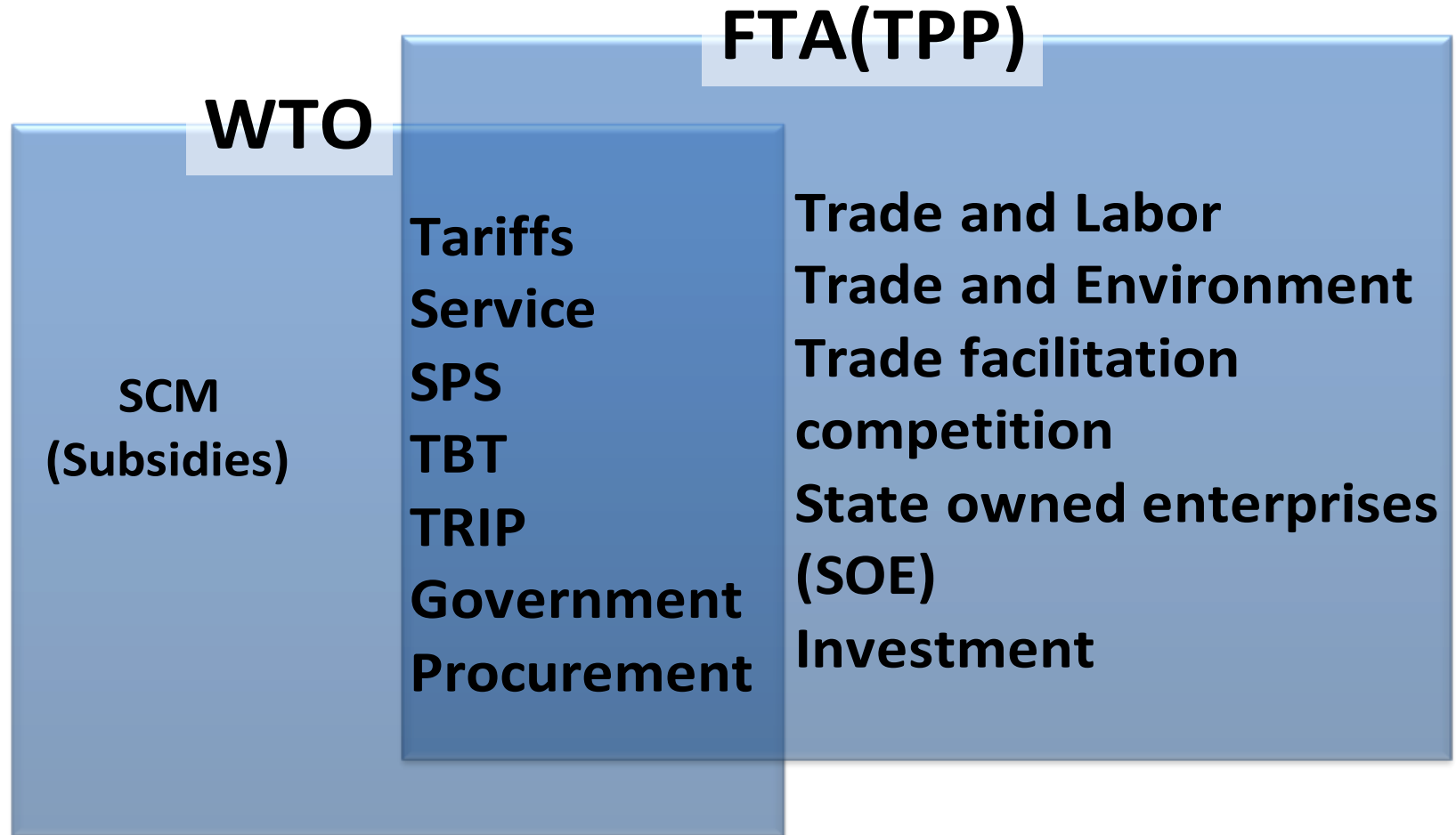
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Provisional Translation by FPCJ
(Foreign Press Center of Japan)

Mega-FTAs



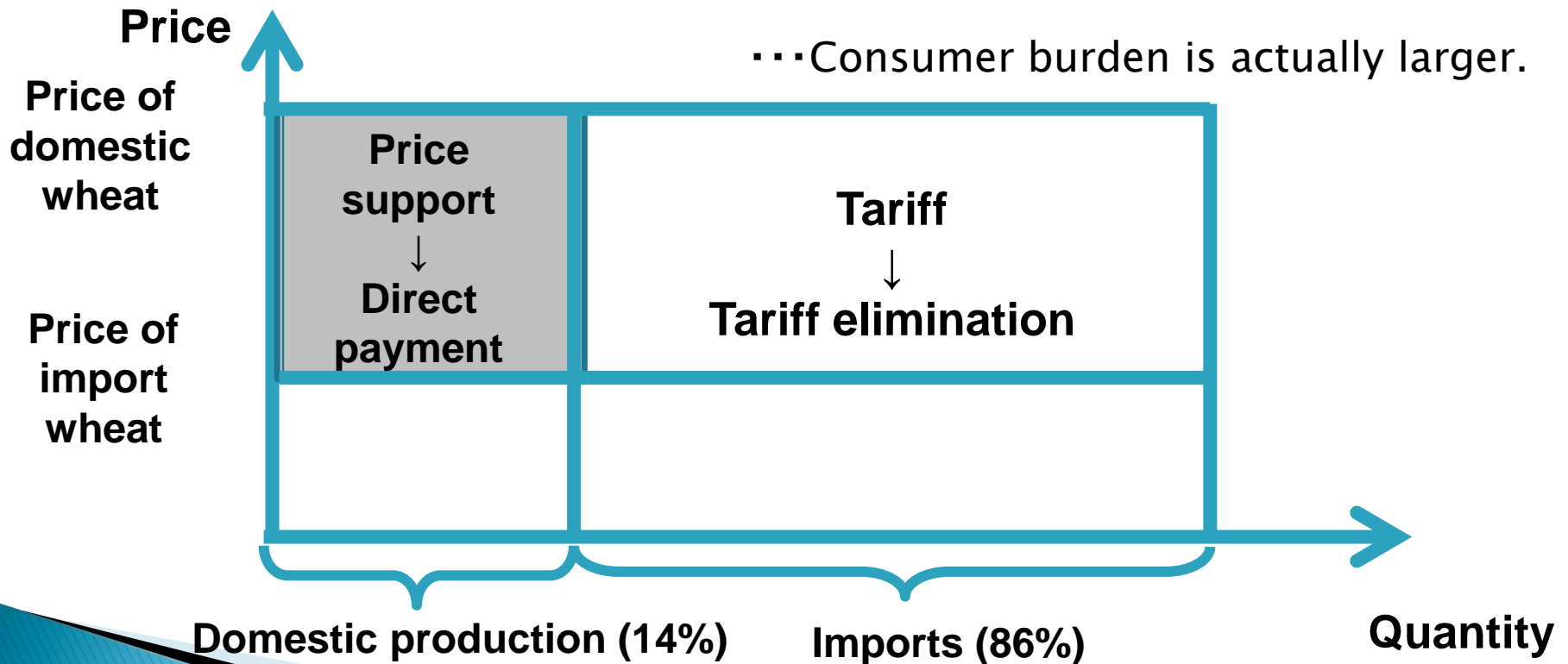
The relationship between WTO and TPP



Tariffs profit the nation?

Regressive agricultural policies

- ▶ Will it cause a major fiscal burden if tariffs are eliminated?
⇒ The argument that it will cause a “major fiscal burden” means that currently they are causing a “major consumer burden”



Issues with anti-TPP (ISDS clauses)

Will Japan be sued by foreign companies and have to change regulations?

ISDS clauses already exist in 24 agreements Japan has signed with countries such as China and Thailand. Why is it fine for Japanese companies to sue the Thai government, but not for American companies to sue the Japanese government?

American companies in Thailand and other places can already sue the Japanese government.

The USA isn't winning. (Of 16 cases against the Canadian government, they've won 2 and lost 5)

The USA has adjusted the ISDS clauses.

Environmental protection and public health regulations that do not discriminate against foreign companies are not included.

This is important to protect the investments of Japanese companies.

Future of TPP negotiations

- ▶ Opposition over data protection period for biopharmaceuticals

USA 12 years vs. other countries 5 years (Japan 8 years)

Generics cannot be made during protection period ⇒ increased health care costs

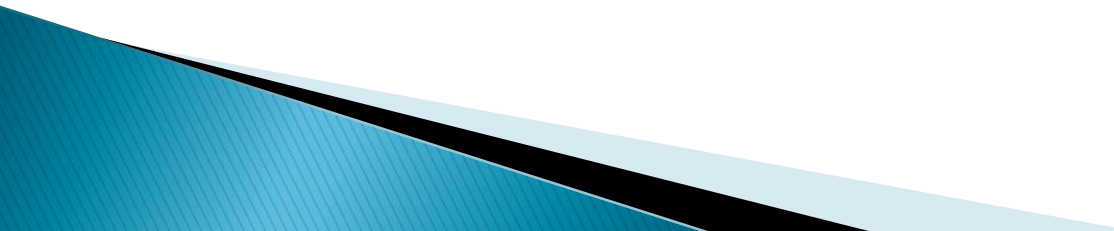
- ▶ Dairy products

New Zealand vs. Japan, Canada, USA

NZ has a stronger argument. USA concessions to NZ require Canada to open their market (Canada's Quebec problem, October election)

- ▶ Obama's level of commitment: if he can't pass the TPP to Congress, it won't be his legacy. Rebalancing. AIB (China makes the rules)

The TPP and Japan's agriculture problem

- ▶ The Diet Committee on Agriculture, Forestry and Fisheries resolved that rice, wheat, beef and pork, dairy products, and sugar must be excluded from having tariffs eliminated, and if that is not possible Japan should withdraw from negotiations
 - ▶ Possibly rice, wheat and sugar tariffs will be maintained + increased rice import quota; decreased surcharges on wheat within quota; decreased tariffs for beef, pork and dairy products + safeguards
- 

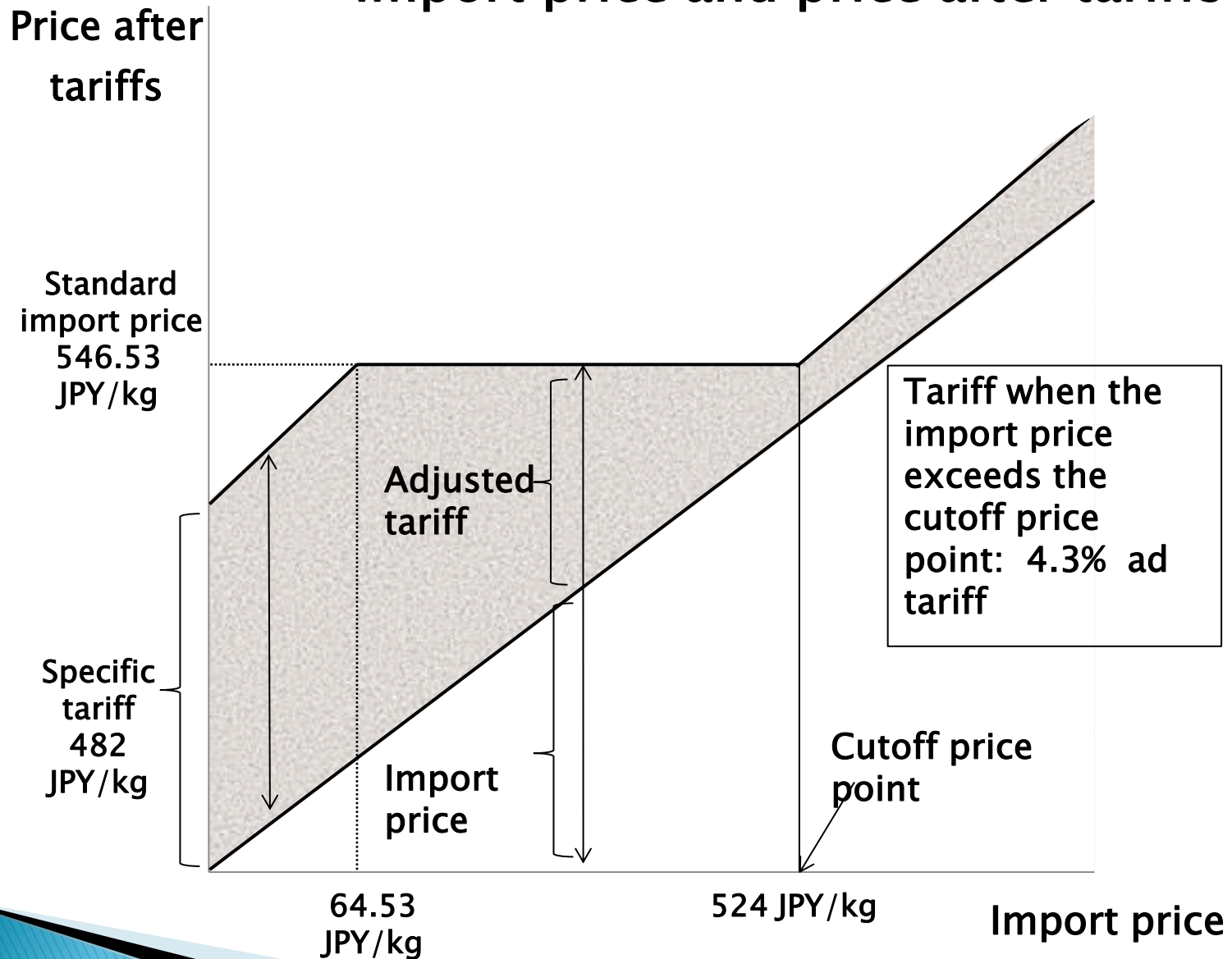
The TPP and beef

- ▶ Since import restrictions were lifted and imports liberalized in 1991, tariffs decreased from the original 70% to about half at 38.5%. The production of Wagyu beef increased (137,000 tonnes in FY2003⇒171,000 tonnes in FY2012)
- ▶ Transplantation of fertilized Wagyu eggs in dairy cows became common.
- ▶ The exchange rate of the yen has decreased by 50% since 2012. Beef that was imported for 100 JPY in 2012 would have a 38.5% tariff applied to it and enter the country at 138.5 JPY. At the current exchange rate, that beef would be imported for 150 JPY. Even without the tariff, the situation is more advantageous than 2012.

The TPP and pork

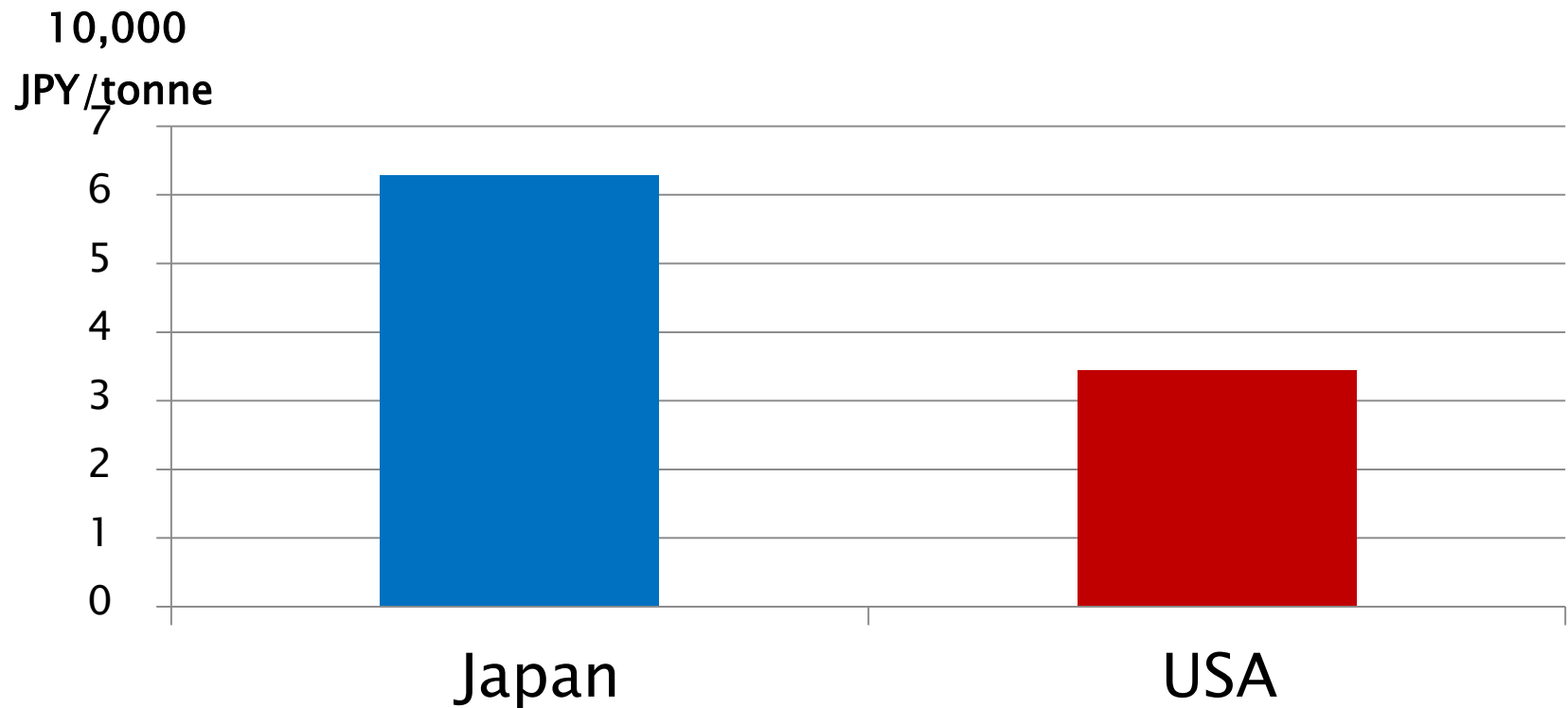
- ▶ Importers carefully mix high-quality cuts for filets and roasts and low-quality cuts for ham and sausage to get close to the cutoff price point for the lowest tariff.
- ▶ Questionable whether this minimum import price system is functioning.
- ▶ Japanese pork production feed conversion is inefficient: To produce 1 kg of pork, Japan: 5 kg feed \Leftrightarrow Denmark 2 kg feed

Import price and price after tariffs



Feed: Raw material is tariff-free American corn, but the product costs twice as much as the USA

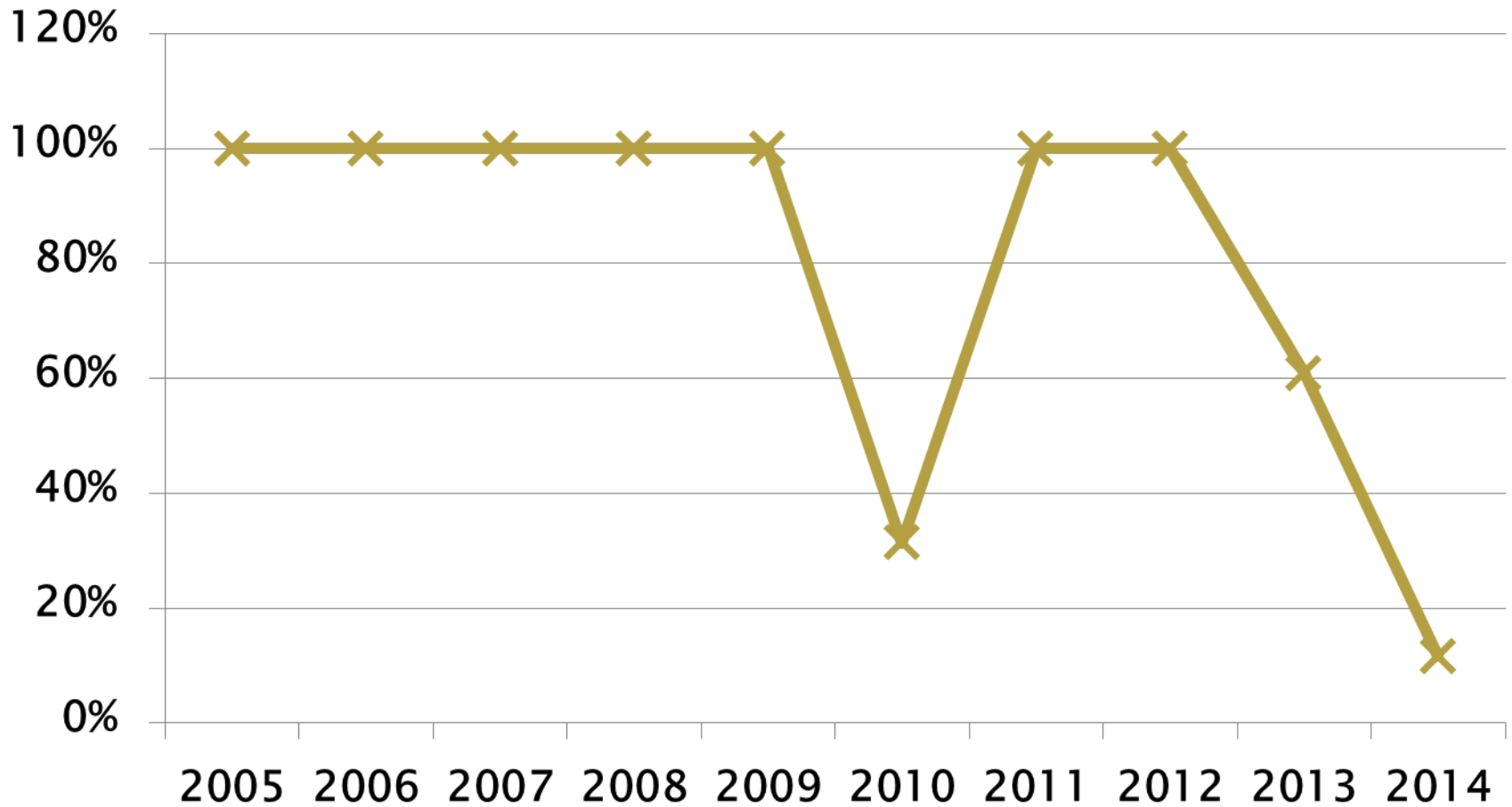
Dairy feed 15-18% protein



The TPP and rice

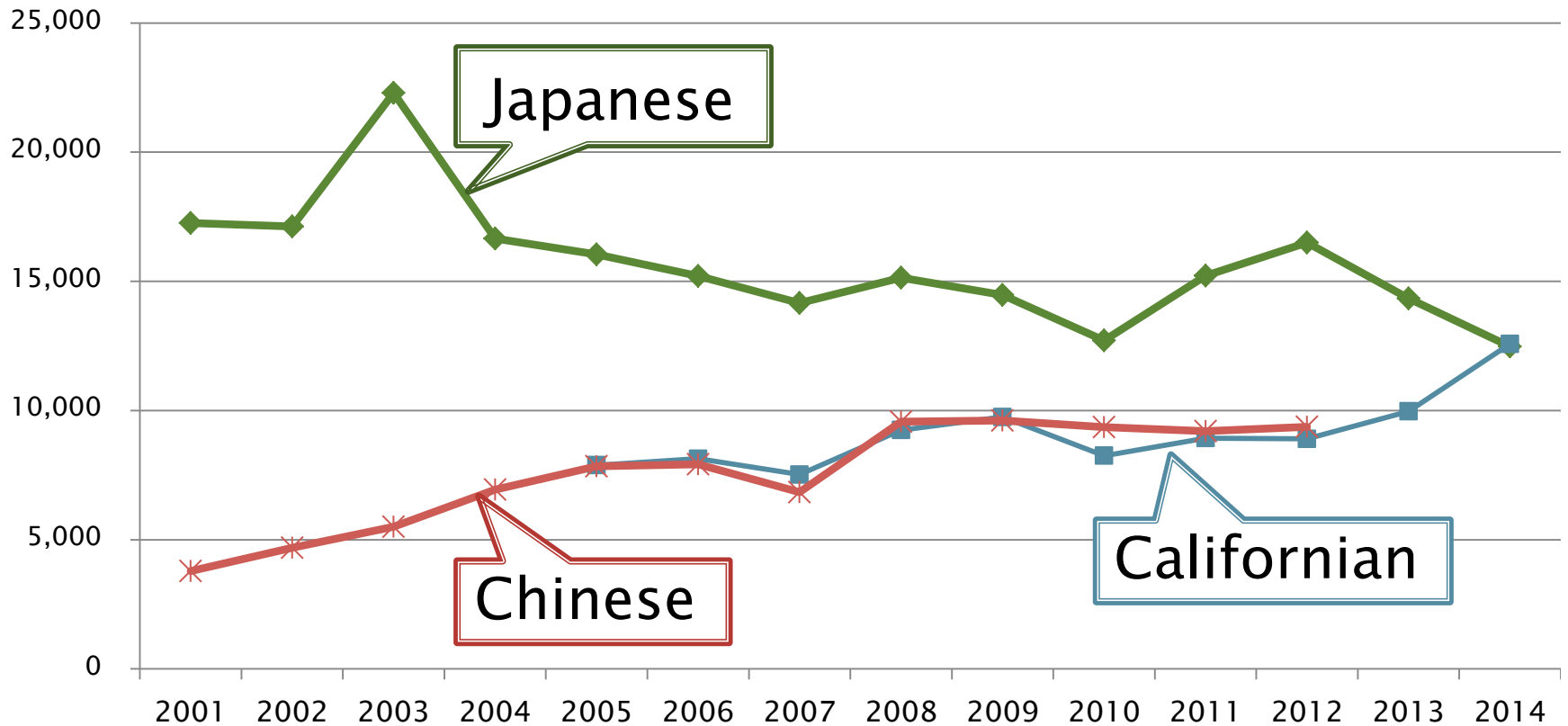
- ▶ Establishing a tariff-free quota in exchange for maintaining the tariffs on rice was anticipated since before joining TPP negotiations.
- ▶ UR negotiations rice tariffication exception⇒ Increase MA (Minimum Access) rice from 5% to 8%. In the WTO Doha Round, MA was supposed to expand in order to avoid major reductions on tariffs. So far, 270 trillion JPY has been spent disposing of MA rice.
- ▶ USA demanding 215,000 tonnes (175,000 for direct human consumption). Japan is arguing for 50,000 tonnes. However,
 - ① The fill rate for human consumption MA rice in FY2014 was 12%. At the last auction in March, of the 88,610 tonne quota 216 was sold, for a consumption rate of 0.2%=the price differential between domestic and foreign rice has disappeared.
 - ② American short-grain rice production is 140,000 tonnes. California is in a major drought. Drawing up large quantities of ground water, using it up⇒what if the future of rice production in California?

Fill ratio of rice tariff rate quota



Price differential between domestic and foreign rice disappears

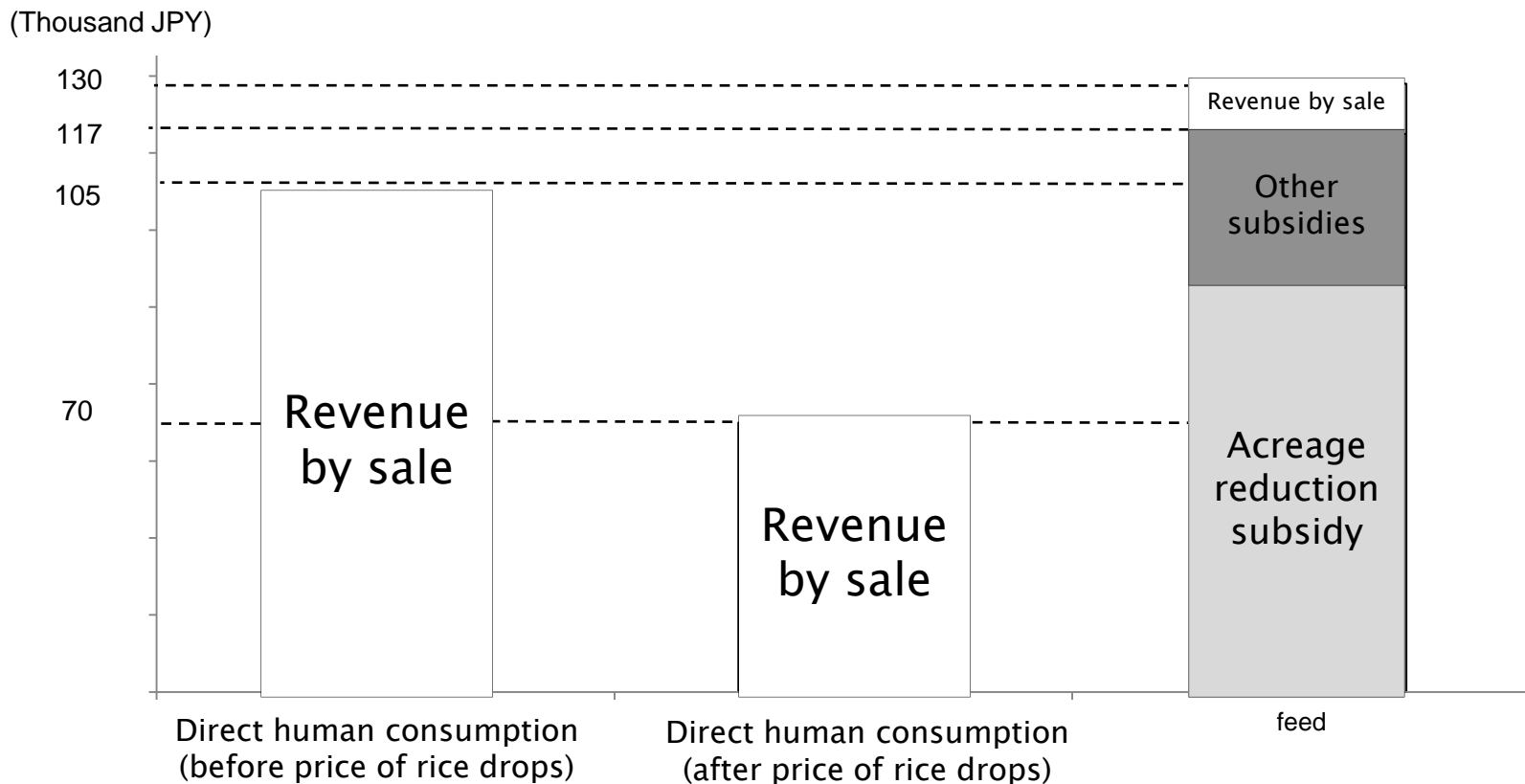
(JPY/60kg unpolished rice)



Issues from revision of acreage reduction subsidy

- ▶ The mass media falsely referred to the household income indemnity paid to farmers that met production goals (introduced by the DPJ in 2010, now half abolished) as the “acreage reduction subsidy,” and reported the abolishment of acreage reduction
- ▶ Acreage reduction subsidies for **rice produced for use as flour or feed were significantly increased**: 80,000 JPY \Rightarrow 105,000 JPY/10 ares=equivalent to income from sales of rice for direct human consumption in 2013.
- ▶ Price for rice in 2014 collapsed \Rightarrow **increase in rice production for use as flour or feed**
- ▶ Significant fiscal burden
- ▶ **Substitute for imports of wheat and corn from the USA** \Rightarrow USA responds with retaliatory tariff on automobiles.

Comparison between revenue from rice for direct human consumption and for feed use



Are tariffs necessary because Japanese agricultural is small-scale and not competitive?

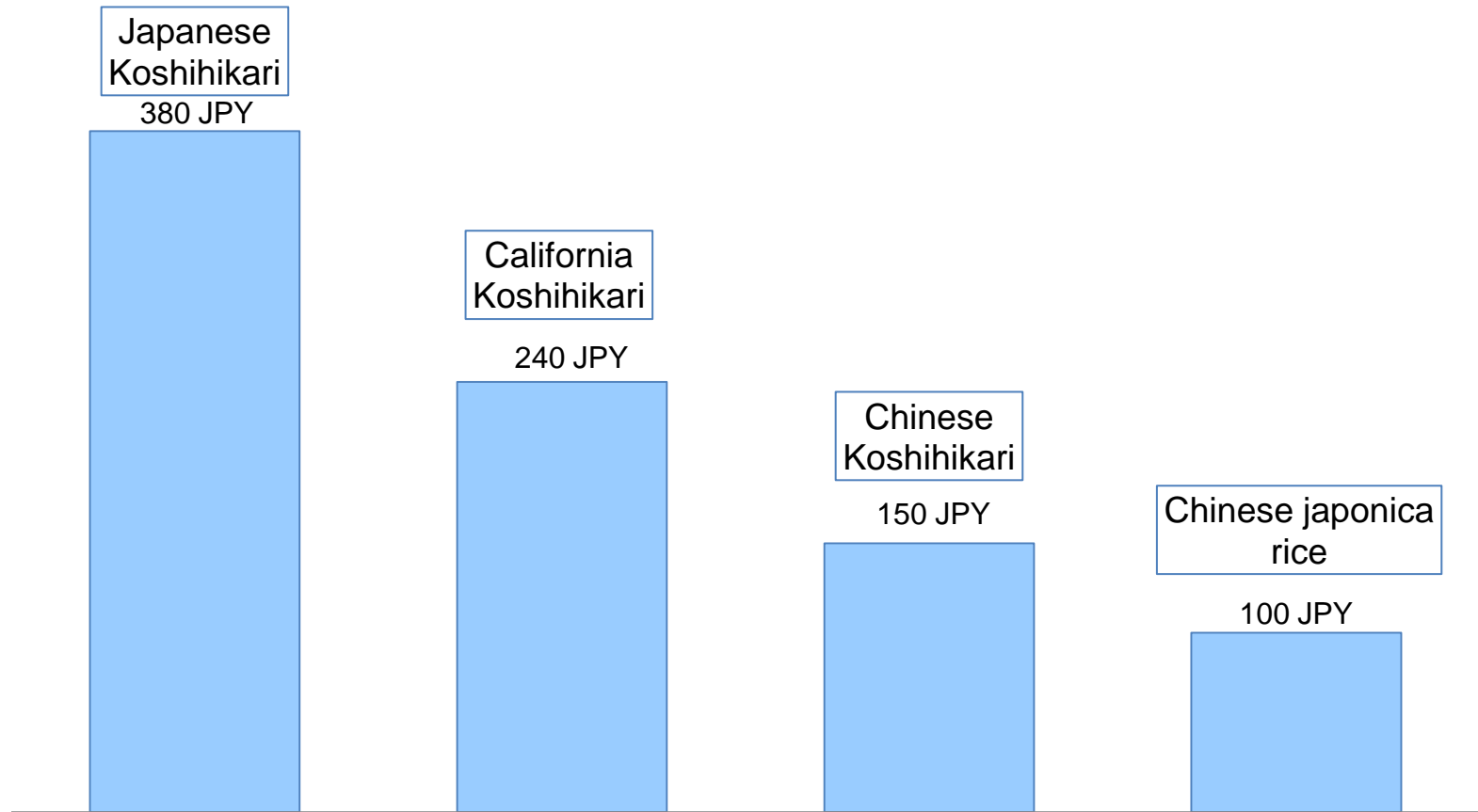
Average area of land managed per farmer

Japan	USA	Australia
2.27 ha	169.6 ha	2970.4 ha
1	: 75	: 1309

Although size is important,

- ① Ignoring **land productivity** = **differences in crops and yield/area** (The USA, the world's largest exporter of agricultural products is 1/18 the size of Australia; Australian wheat yield/area is 1/5 of the UK)
- ② Most important is **the difference in quality**

Rice Prices in Hong Kong (/kg)



Structure of the anti-TPP argument

- ▶ Unlike during the UR negotiations, according to public opinion polls by Kyodo News, **only 45% of agriculture and fishery operators are opposed, and 17% support the TPP**. Full-time farmers support the TPP. If the tariff is eliminated and the price of agricultural products lowers⇒farmers can be directly paid, so it will not cause them problems.
- ▶ However, the agricultural cooperatives will be affected due to their transaction handling fees being based on the price. So it isn't "agriculture against the TPP," it's **"agricultural cooperative against the TPP."**

Limiting factors for agriculture

Decreased birth rate, aging society, and declining population

The volume of rice produced in 1994 was 12 million tonnes, dropping significantly to 8 million tonnes in 2012.

The domestic market that was protected with high tariffs will shrink even more with the ageing and declining population.

Agriculture needs a free market with agreements such as the TPP to decrease tariffs in other countries, for the sake of exports

Comparison of agricultural policies

Country	Japan	US	EU
Decoupled direct payments	No	Yes/No	Yes
Environmental direct payments	Partial	Yes	Yes
Direct payments for less favorable regions	Yes	No	Yes
Production restriction program for price maintenance	Yes	No	No
Tariffs* over 1000%	1 (tubers of konnyaku)	None	None
Tariffs of 500-1000%	2 (rice, peanuts)	None	None
Tariffs 300-500%	2 (butter, pork)	None	None
Tariffs of 200-300%	6 (wheat, barley, skim milk powder, starch, beans and raw milk)	None	None

* Specific tariffs are applied to tariffed products in Japan. Here, these specific tariffs are estimated as equivalent ad valorem tariff rates, taking into account international prices.

Overview of rice agricultural policy

One trillion JPY burden
on consumers

Reduced supply from acreage reduction

400 billion JPY fiscal burden
300 billion JPY acreage reduction
subsidies
100 billion JPY direct payments
for rice with acreage reduction
as a condition

High price of rice

600 billion JPY consumer
burden

High cost structure of rice

- High cost of rice encourages small part-time farmers, **the scale of full-time farming does not increase**
- Acreage reduction means **the yield by area does not increase** (60% less than yield in California)

Negative influence on food safety assurance

Reduction in rice consumption

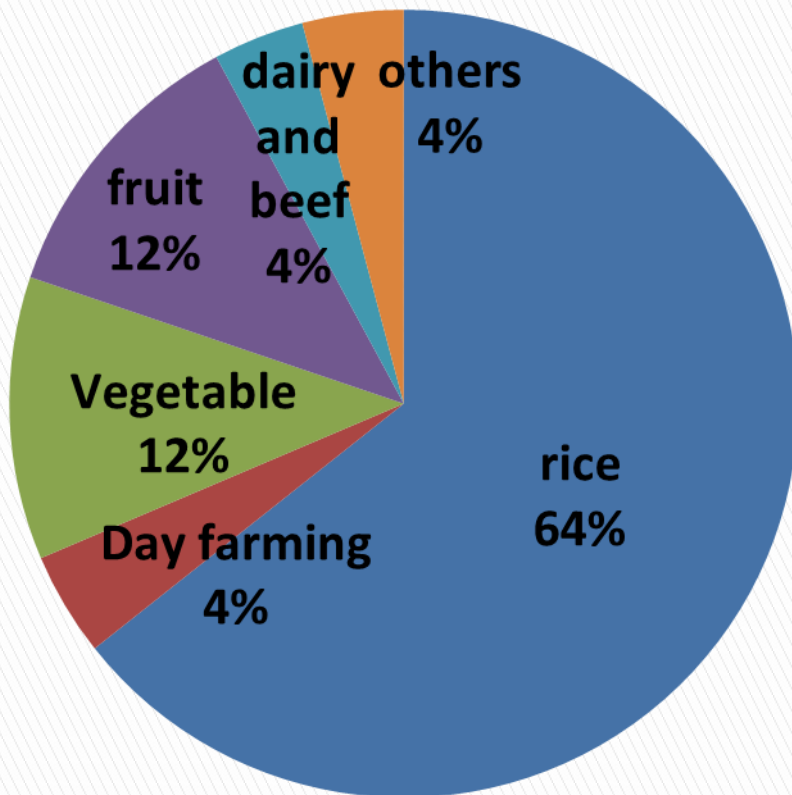
5 million tonne decrease in rice
production, import 7 million tonnes of
wheat (lower food self-sufficiency)

Reduction in paddy field area

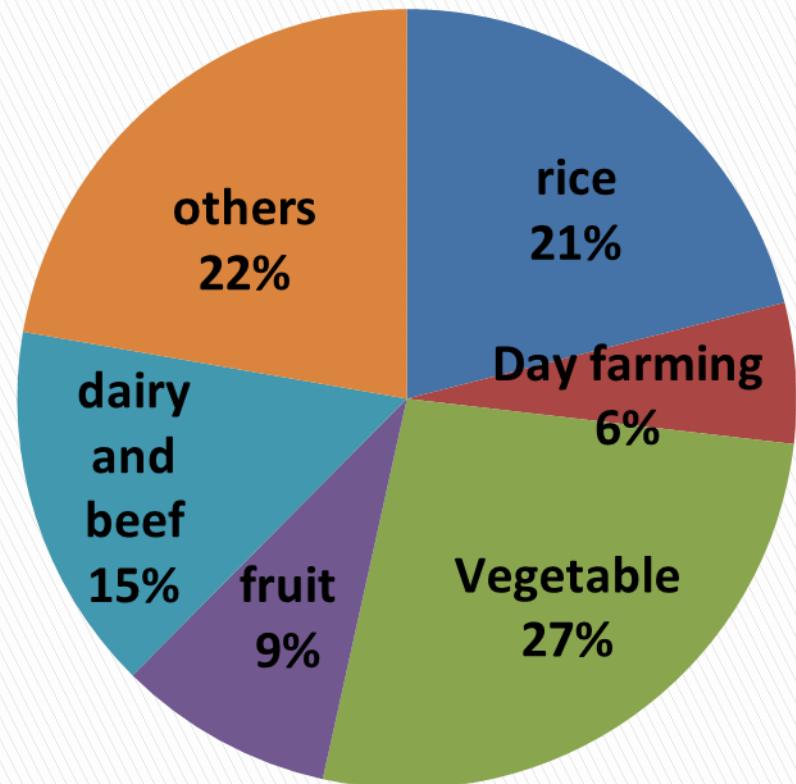
3.5 million hectares ➡ 2.5 million hectares

Number of farms and price value

The number of farmers



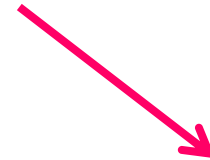
The value of production



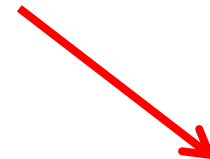
Income=sales (price × amount
produced) – cost

How to lower costs

Cost per tonne



Cost/hectare

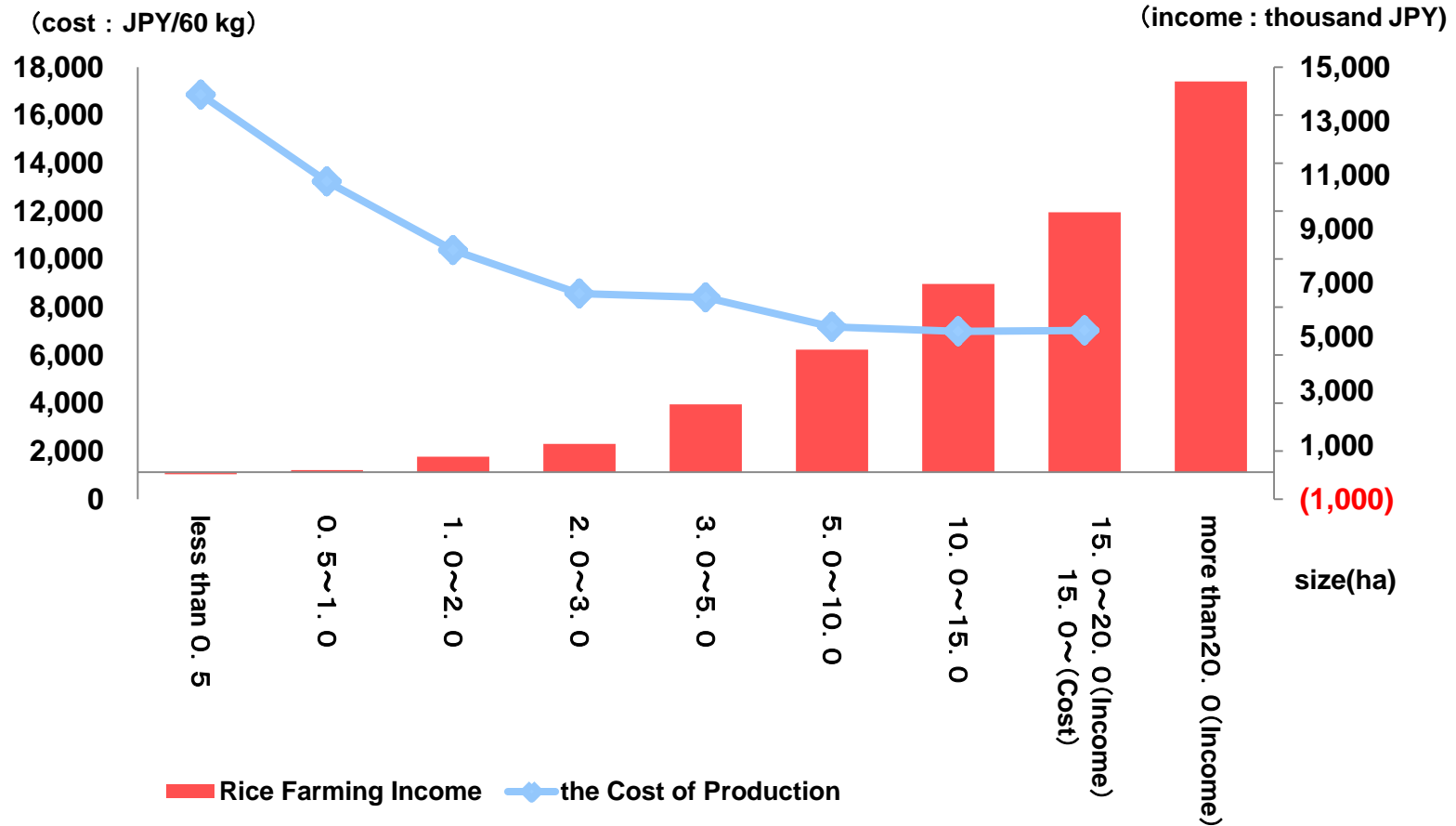


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Harvest/hectare

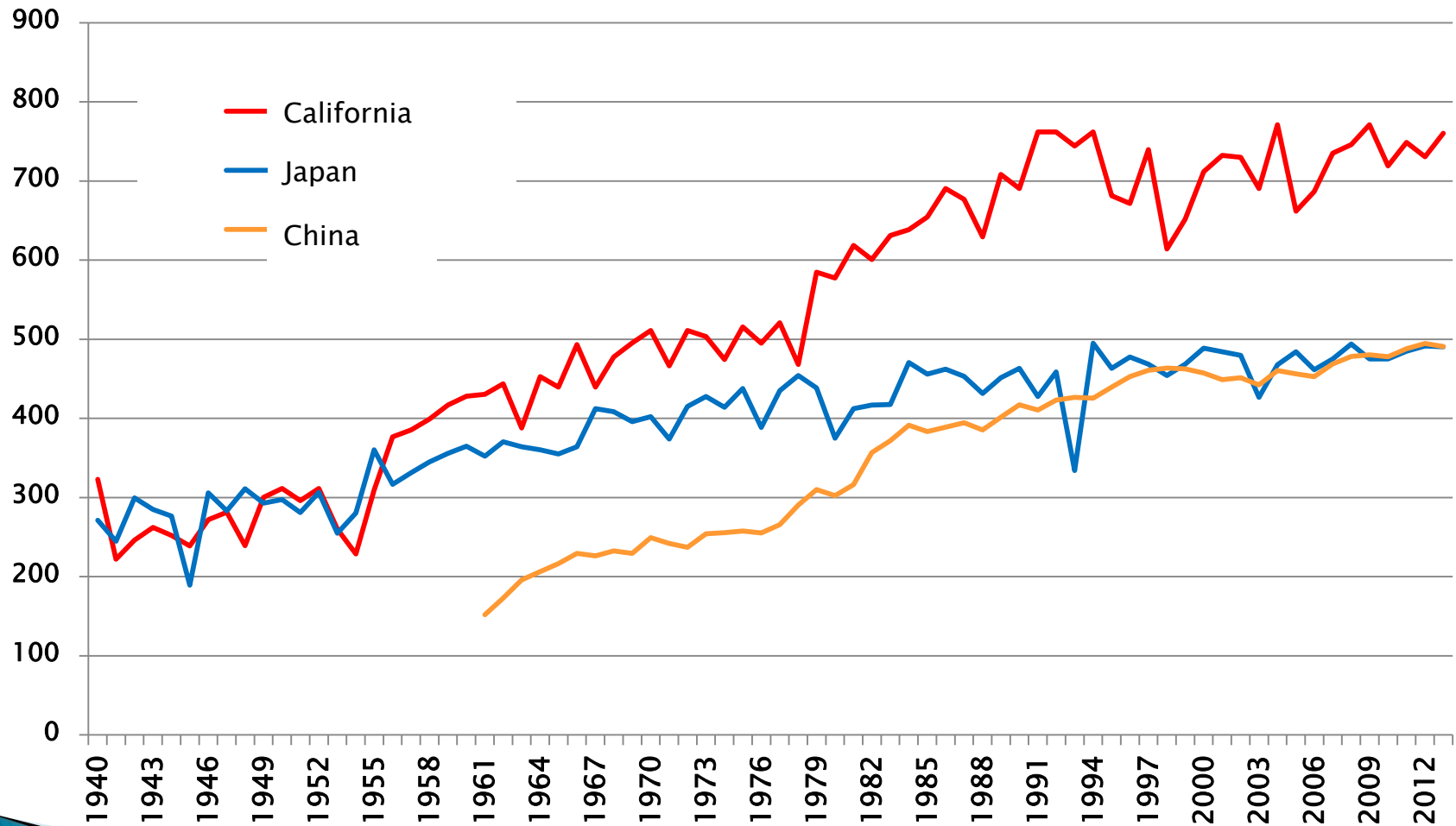


Cost of production and income

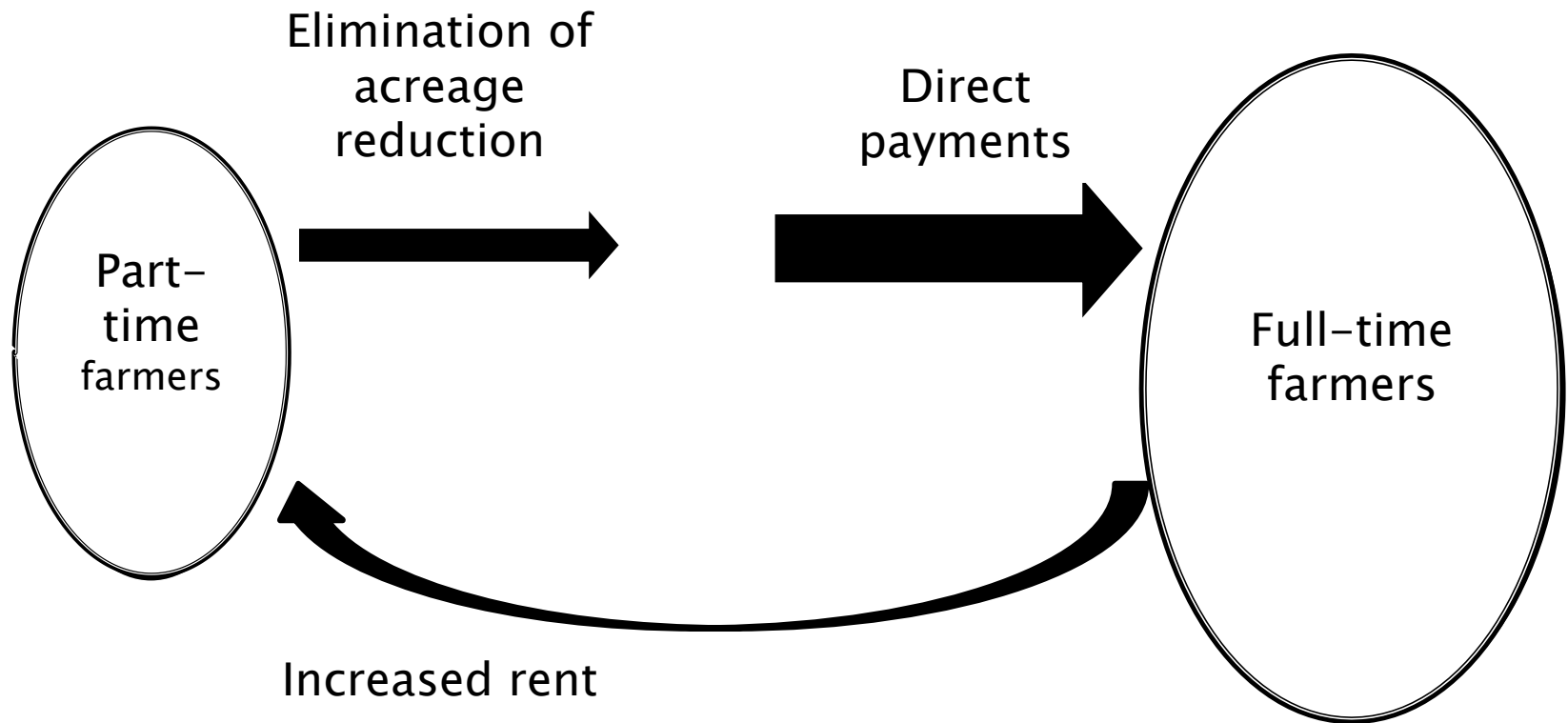


Stagnation of yield by area due to acreage reduction

(kg/10a)

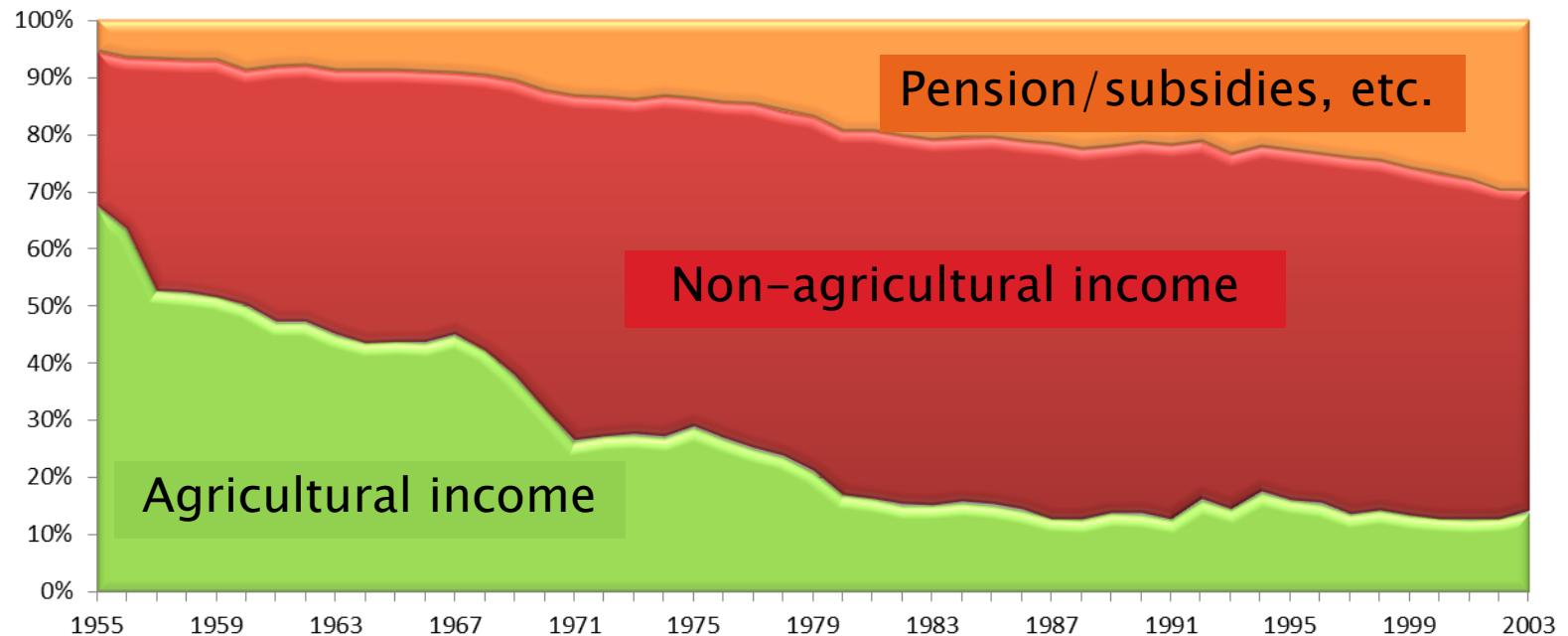


Proposal for rice policy reform



Agricultural cooperatives prosper as agriculture declines

- ▶ Of all the co-ops and corporations in Japan, only JA agricultural cooperatives can **simultaneously operate banks, life insurance and property insurance**. The system for **associate members** is recognized only for agricultural cooperatives.
- ▶ **Policy for high rice price + [part-time income + credit business + associate members]** ⇒ JA Bank, with the second-highest amount of deposits.



出所) 農林水産省『農業経営動向統計』より作成。

To ensure food safety

- ▶ Decrease in demand for food due to population decline⇒ In order to maintain the agricultural land resources critical to food safety assurance, it will be necessary to export as part of a free market. In an age of population decline, a free market is the basis for food safety assurance.
- ▶ The issue is not whether to protect agriculture or not, it is whether to take a policy to support prices or to make direct payments. Instead of waiting for Japanese agriculture to collapse, we should take our chances on structural reforms with direct payments.