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# Reviews

# Japanese Agricultural Policies Towards 2000: Swimming with the Tide

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Japanese agricultural policy has undergone substantial change in the last year. Since the completion of the Uruguay Round, the rice market has been partially opened, import quotas on agricultural products have been replaced by tariffs and there has been a general shift away from consumer funding of agricultural programs to funding by taxpayers. These changes are making Japanese agricultural policies more transparent and more open to scrutiny. There is now recognition in Japan that the changes are irreversible and that agriculture will be faced with increasing competition from imports.

## 1. Introduction

The purpose of this paper is to outline developments that have occurred in the Japanese agricultural sector since it was last reviewed in 1991 (Kobayashi, Morison and Riethmuller). A number of major changes have occurred since that paper appeared. First, the Liberal Democratic Party, which had ruled Japan continuously since 1955, was replaced by a new administration in July 1993. Then in October 1994, the Diet (Japanese parliament) passed laws establishing single member electorates. Second, in the latter part of 1993, a poor season meant that Japan had to turn to rice imports to satisfy its domestic requirements. In 1995 the government amended the Food Control Act and introduced a Simultaneous Buying and Selling system for rice. At the moment, the system relates only to a small percentage of the rice that Japan agreed to import as part of the December 1993 GATT settlement. Third, economic conditions in Japan have worsened, as has its trade imbalance with the rest of the world. Finally, the Uruguay Round of trade negotiations was completed with Japan accepting that it should provide less support to its agricultural sector. In this paper, these and other developments will be described and where possible, an assessment will be provided of what their likely implications are for Japanese agriculture.

## 2. The Japanese Economy

Since 1991, the Japanese economy has been in recession, although by late 1995, there were signs that economic conditions were improving. By the standards of many western economies, the economic slowdown in Japan has not been severe - official levels of unemployment have been between 2.5 and 3.5 per cent, the inflation rate (measured by the change in the consumer price index) has been in the zero to 1 per cent range, and nominal interest rates have been the lowest among the OECD countries. However, from the Japanese viewpoint, the slowdown is significant and it has had several effects. One of these is that it has led to declines in corporate profitability and placed the lifetime system of employment under pressure[1,2]. It has led also to calls for changes to the conduct of economic policy in Japan, including modifications to the taxation system and to spending on social amenities. The slow-

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[1] The lifetime employment system has never been a general feature of the Japanese economy. Rather it has been limited to the major corporations and to the public sector. The major corporations have many subsidiary companies and it has been their practice to transfer staff between these companies, depending on their career progressions.

[2] The Japan Research Institute has estimated that 1.8 million Japanese, or about 3 per cent of the workforce, are superfluous, even though they remain on company payrolls. The Institute predicted in October 1993 that they were unlikely to be made redundant (Japan Times 1993).

down has also affected asset prices (particularly land prices) with the government setting aside funds to bail out some of the companies that had overcommitted themselves during Japan's boom period of the late 1980s[3]. In 1995, roadside land prices in Tokyo prefecture declined by 19.4 per cent to ¥804,000 per square metre while other prefectures, including Osaka, Hokkaido and Miyagi, also recorded double digit declines in land prices. These changes mean that since 1983, increases in land prices have not matched wages growth (Kido).

The downturn in the economy has influenced the markets for some agricultural commodities. Cutbacks in corporate entertainment allowances[4] have led to a drop in business at restaurants and this has been one of the factors causing the prices for Wagyu beef to fall[5]. Of course, Wagyu beef prices have also been affected to some degree by the removal of import quotas on beef, but not to the same extent as the prices for beef from dairy steers. For some consumers, imports of grain fed beef from the United States are a partial substitute for domestically produced Wagyu beef.

The production of the most heavily marbled beef - with a marbling score of A5 or A4 - has declined. In 1992, this beef represented 50.2 per cent of Wagyu beef, 7.5 per cent of the beef from dairy steers and 5.1 per cent of beef from dairy cows[6] (MAFF). In 1990, 24.1 per cent of grain fed beef produced in Japan was classed as A5, while in the period from January to September 1994, 18.5 per cent of beef was classed as A4 or A5. This change came about because producers shortened the fattening period from 22 months to 18 months in an attempt to cut costs (Nikkei Shimbun)[7].

The dairy industry is another industry to have been affected by the recession in the economy. The consumption of high quality products such as premium grade ice cream is sensitive to economic conditions and has fallen with the decline in the economy. Also, business at fast food restaurants has suffered and this has contributed to a fall in dairy consumption. Food industry sources in Japan claim that while in the past, the food sector has been generally immune to economic downturns, this has not been the case in the current recession.

## 3. The Trade Imbalance

The trade imbalance between the United States and Japan has continued, so much so that it was a major issue during the 1992 United States presidential campaign. To some degree, it was also an issue during the Japanese elections held in mid 1993. In the year ended 31 March 1994 (Japanese fiscal year 1993), the trade surplus was a record US$121.8 billion. This was about 1 per cent higher than the surplus for the same period the previous year and more than double the 1990 level of US$52 billion. Export volumes grew only moderately by 1.7 per cent compared to imports. These increased by 13.4 per cent in fiscal year 1993. However, the yen appreciated against other currencies during this period, more than offsetting the larger increase in import volume over the export volume. In fiscal year 1994, ended 31 March 1995, Japan's custom-cleared trade surplus declined to US$118.0 billion, the first fall since 1990. The decline was due to a 18.9 per cent growth in imports, to US$290.5 billion. Reflecting the J-curve effect, exports also grew by 11.5 per cent to US$408.5 billion[8].

The value of the yen against the United States dollar and the Australian dollar has increased by more than 30 per cent over the last few years. This has led to some Japanese and foreign firms based in Japan relo-

[3] The 1996 budget contained provisions for ¥685 billion to cover part of the massive losses incurred by seven "jusen" housing loan companies. The fund, listed under what the government calls an "emergency fund for the stabilisation of the financial system" will be financed by issuing ¥680 billion in deficit covering bonds and ¥5 billion in construction bonds (Japan Times 1995a). The agricultural cooperatives were heavy investors in the "jusen" companies. In March 1996, the Australian $ exchanged for ¥81.

[4] From February 1991 until January 1992, corporate entertaining expenses were ¥6.14 trillion. Japan's GNP for 1992 was ¥470.67 trillion. The top spending industry was the construction industry, followed by the wholesale industry including trading companies (Ashai Shimbun Publishing Co. 1994). More recently, in 1993, companies spent ¥6.2 trillion while in 1994, ¥5.95 trillion was spent. The 1994 figure translates into ¥3.82 on entertainment for every ¥1,000 in operating profit (Japan Times 1995c).

[5] The fall in Wagyu beef prices has been much less than for dairy beef. Wagyu beef producers keep their animals in the feedlots for 30 months to maintain the quality of Wagyu beef and to differentiate it from the imported product.

[6] This was 28.5 per cent of beef produced in Japan.

[7] Some farmers have been using Vitamin A in the concentrates fed to cattle in the belief that this would offset any decline in marbling caused by reducing the feeding period. According to animal health specialists, this does not occur.

[8] In yen terms, the fall in Japan's trade surplus is more apparent. The surplus was ¥11.76 trillion in fiscal year 1994, down 10.6 per cent on a year earlier.

cating production and product development facilities offshore, continuing a trend begun in the late 1980s. Supermarkets and other retailers have used the appreciation of the yen in promotion of imported products, urging consumers to buy because of special prices caused by "yen appreciation".

Despite the growth in Japanese imports, the United States has continued to pressure Japan over its trade policies. During the Group of Seven Meeting held in Tokyo in July 1993, for example, the United States attempted to lock Japan into agreeing to achieve particular targets for imports. This followed earlier United States requests for Japan to provide imported semi-conductors sourced mainly from the United States with 20 per cent of its market. Although in that case, Japan made an attempt to comply with this, so far it has resisted these more recent moves by the United States for numerical targets. In 1995, the photographic film market, involving the Japanese company Fuji Photo Film Co., and Eastman-Kodak Co. of the United States, has been a cause of dispute between the US Trade Representative's Office and the Japanese Ministry of International Trade and Industry. The US company has claimed that distribution arrangements involving Fuji and retailers has prevented it gaining access to the Japanese market. Kodak has also claimed that Fuji film is sold in Japan at higher prices than in foreign markets. Fuji has refuted the claim, arguing that Kodak's small share of the market is due to inadequate product strategies.

# 4. Policy Issues in Agriculture

The agricultural policy environment in Japan has changed dramatically since the Uruguay Round was completed in December 1993. Those negotiations called for drastic upheavals in Japan's agricultural sector, with many of the new measures being introduced from April 1995. However, while the Uruguay Round outcome was perhaps of most interest to foreign observers, other important changes were also taking place in Japan. The next part of the paper will describe these changes before moving on to a discussion of new policy arrangements that Japan has made for the rice industry and the dairy industry. The focus is on these industries because they are the ones where the changes have been the greatest. Both industries are also of importance in the trading relations between Australia, New Zealand and Japan.

## 4.1 The 1993 New Directions Report

The Japanese government released a major policy document, entitled The Direction of New Food and Agricultural Policies, in 1993. This document is meant to provide a general direction for the sector rather than a detailed listing of policies. The thinking behind the report represented a marked change from the Agricultural Basic Law of 1961. This Law (as described in ABARE) made the family farm - and its preservation - the centrepiece of the government's policy arrangements for agriculture. The Law has been the cornerstone for Japanese policy since 1961.

While again restating the importance of the family farm, the government recognized that corporate Japan had a part to play in agriculture in its 1993 document. This is because the government believed that the establishment of larger scale farms under corporate ownership would stem the decline in the agricultural labour force and rural communities generally through providing a more stable work environment and through higher and more certain income levels for farmers and associated rural workers. While specific details are not given in the report, it sets as a target annual labour hours and life time wages almost equal to the non agricultural sector. The writers of the report hoped that this would see young people again entering agriculture. As noted in Riethmuller and Kobayashi (1993), the successor problem and the general lack of appeal of agriculture to young people is a major concern for Japan's agricultural policy makers.

Under the Farm Land Act, only farmers[9] and the sons and daughters of farmers (the farmer's successors) and agricultural production corporations are permitted to purchase farm land in Japan[10]. Joint stock companies are not permitted to purchase land. The purpose of the Law is to protect small family farms from large companies and to maintain relative homogeneity in the agricultural sector. It has its roots in Japan's prewar land ownership system where much of the land was concentrated in the hands of a relatively small number

[9] It is not necessary to own land to be considered a farmer, but intending farmers do need to rent and cultivate land before they qualify as farmers. Renting 50 ares ($500m^2$) of farmland entitles the renter to be classed as a farmer. However, it is difficult to find 50 ares of agricultural land to rent.

[10] Agricultural production corporations are limited liability companies and farming association corporations.

of families. The Law was brought in after the war to break this pattern of ownership. Under the New Direction document, Japan's agriculture will consist of a few large scale corporate farms[11], complemented by many small scale family farms. The writers of the report also recognized that there was a need for further deregulation and review of production arrangements if this was to occur. The thinking behind the 1993 document is thus a major policy break with the past.

It is well known that Japan's farms are small, but it is perhaps not so well recognized that even the smallest farms may be made up of a number of separate parcels. The New Direction paper argued that the quality of the farm lands could be maintained if these small parcels of land could be amalgamated - or in the wording of the report "effectively utilised". The 1993 document recognized the importance of large scale cooperative farms, but stressed that the role of rural society is not only to produce food efficiently but to maintain the environment, especially in the mountainous areas.

In this *Review*, Kobayashi *et al* previously described the importance of agricultural self-sufficiency to Japan. In the New Directions document, self-sufficiency was again recognized in that the writers argued that to maintain a certain level of self sufficiency, some form of protection, including border protection is needed.

## 4.2 Rice: The Replacement of the 1942 Staple Food Control Act

In November 1995, the new Food Control Law replaced the Staple Food Control Act. The replaced legislation dates back to 1942 when Japan's rice production was insufficient to meet domestic demand. Under the 1942 law, every aspect of the rice business - from production to retailing - was effectively controlled by the government. Apart from the rice consumed by the farm household, rice was classified into government marketed rice and voluntary marketed rice. The term voluntary marketed rice is misleading. Although the price of voluntary marketed rice is not controlled directly by the government, farmers could only sell this rice - as is the case with government marketed rice - to designated intermediaries. These were mainly agricultural cooperatives. They would then sell the rice to wholesalers. These wholesalers finally sold the rice to licensed retailers, mostly small operations with little capital. Often the day to day activities of these retailing operations were in the hands of an elderly person - perhaps the father or mother of the owner of the business who might have been an office worker. Leading national supermarket chains were excluded from rice retailing, although some were able to "borrow" licences from smaller outlets. Keidanren (representing Japanese business interests) had been critical of the licensing procedures in the retailing of rice and had been calling for the system to be changed (Keidanren). Reportedly since the changes were made in regulations (described below), perhaps 100 of the small rice retailers have gone out of business in the Tokyo area alone. Some large businesses have also entered the industry.

The new Food Control Law has altered the marketing system for rice. The two categories of rice mentioned earlier - the voluntary marketed rice and the government marketed rice - are maintained, but they are now named "planned distribution rice". The quantity of government marketed rice in the planned distribution rice is limited to the quantity that the government requires to replenish the government rice stockpile. This is about 1.5 Mt each year. The new law allows for rice, collected at the local level, to be sold to wholesalers and retailers. Under the old system, the rice had to go to a prefectural collection point, and then to one of two central agencies (Zennoh or Zenshuren) before being sold to the wholesaler, and then to the retailer. Obviously, the new arrangements have shortened the distribution system.

The new Food Control Law has created a new category of rice, "outside planned distribution rice". Under this category, farmers are allowed to sell as much as they wish directly to retailers, so long as the retailers are registered with the Ministry of Agriculture, Forestry and Fisheries and provided the farmer notifies the government of the quantities involved. Although in principle farmers have the opportunity to by-pass the agricultural cooperatives, in the short term at least many are still likely to make use of the cooperatives in disposing of their rice. However, the door is now open for large trading companies such as Marubeni to compete with the cooperatives for the farmers' rice business.

[11] Joint stock companies are not permitted to buy and sell land, but farming association corporations are allowed to buy and sell land. Farming association corporations are companies established by farmers. There are strict rules as to what constitutes a farming association corporations. For example, its members must be farmers, and most members should be actively involved in farming.

With regard to prices, the Rice Price Council through negotiations involving farmers, consumers, the agricultural cooperatives and government officials, still advises the government in setting the price of the government marketed rice. In November 1995, the decision was taken by the government to keep the price fixed at its 1995 level for five years. This action has been viewed by many in Japan as a concession to the agricultural sector. The price of the voluntary marketed rice is determined through a tendering procedure in the Voluntary Marketed Rice Price Formation Center. This price should more accurately reflect supply and demand conditions than the price set for government marketed rice.

As explained in the ABARE paper, Japan has used area set-aside programs to handle the build up of rice stocks. Farmers were given incentive payments not to grow rice. At the time of the poor harvest in 1993 when Japan had to import rice, this became a controversial issue. Under the new Food Control Law, the administrative guidance on the distribution of paddy field diversion remains virtually unchanged. The national area of paddy fields to be diverted to other uses is determined by the government and then administratively rationed among prefectures. Each prefecture allocates the quota to townships, who then allocate the quota among farmers. While under the new law, the government purchases rice only from those farmers who have diverted at least part of their rice land to other uses, the price of the government marketed rice has not been as attractive as the prices received for other categories of rice.

As noted already, the Japanese government will now have a more limited involvement in the rice market. The main part of this involvement will relate to control of inventory and rice imports. For all the post-war period, imports and exports of rice have been under the control of the Japanese government through the provisions of the Food Control Law. Although the US strongly criticised Japan's protection of its rice industry during the Uruguay Round, the final agreement reached in December 1993 gave rice special status. It specifically exempted rice from coverage under the tariff system which will result in a 35 per cent average tariff decrease over the period 1994 to 2000 for other agricultural products. Import quotas will remain in place for rice as a state trading item, although Japan agreed to provide the opportunity for limited access. The volume of rice covered by the limited access arrangement is 4 per cent of domestic consumption during the 1986-88 base period in 1995, rising to 8 per cent in 2000. Profits earned by the Food Agency on rice imports are limited to an amount based upon sales results during the 1986-88 period. How these profits arise will be explained below.

Owing to the bad weather including low temperature, a lack of sunshine and typhoons, Japan's rice production in 1993 dropped to 7.83Mt, or about 74 per cent of the average harvest. This was the worst result since 1945 when the harvest volume was 68 per cent of the average harvest. In September 1993, the government decided to import about 2 Mt of rice to meet demand. Altogether during the 1993 harvest year, Japan imported 2.6Mt of rice from China, Thailand, the US and Australia (Table 1). However, by the end of April, the authorities had been unable to sell about 0.87Mt of this rice, since it was mainly a long grain rice unpopular with Japanese consumers. At one stage, it was thought that this rice would be kept with the surplus of rice from the 1994 harvest as stocks. However, the government decided in June 1995 to sell 300,000t of this rice to North Korea as a food aid following a request by the North Korean government for assistance in eliminating a food crisis in that country.

**Table 1: Japanese Rice Imports in 1993 Fiscal Year, By Source**

| Item | China (000t) | Thailand (000t) | United States (000t) | Australia (000t) | Total (000t) |
|---|---|---|---|---|---|
| Imports | 1,080 | 770 | 550 | 190 | 2,590 |
| Sales | 600 | 490 | 450 | 180 | 1,720 |
| Stocks | 480 | 280 | 100 | 10 | 870 |

**Source**: MAFF

The international rice market is a very thin market. Thus although world production reached 314Mt (on a polished rice basis) in 1993, only 4 per cent of production was traded in the world market. This is extremely low compared with wheat, where typically 20 per cent of production is traded. Moreover Japanese consumers prefer only short grain rice, and only 1.5Mt out of the 14Mt traded internationally in 1993 was short grain rice. Because of the above situation, there were some anxiety that the sudden appearance of a big importer may create chaos in the international market. Reports in Japan said that Japan's purchases caused the international rice price in 1994 to jump by somewhere between US$200 and US$300 over the 1993 level to US$500 per tonne.

**Table 2: Rice Import Commitment Given by Japan, 1995 to 2000**

| Commitment | 1995 (t) | 1996 (t) | 1997 (t) | 1998 (t) | 1999 (t) | 2000 (t) |
|---|---|---|---|---|---|---|
| Minimum access (milled basis) | 379,240 | 455,088 | 530,936 | 606,784 | 682,632 | 758,480 |
| Minimum access (brown basis) | 426,270 | 511,520 | 596,780 | 682,030 | 767,290 | 852,540 |
| SBS (milled basis) | 5,000 | 10,000 | 20,700 | 31,400 | 54,600 | 75,800 |
| SBS (brown basis) | 5,600 | 11,200 | 23,300 | 35,300 | 61,400 | 85,200 |
| Number of SBS auctions per year | 2 | 3 | 3 | 3 | 3 | 3 |

**Source**: MAFF

As part of the commitments it gave during the GATT negotiations, the Japanese government agreed to import certain minimum quantities of rice up until 2000 (Table 2). Most of the rice will come in as general imports, but a small - though increasing - quantity will be imported under a Simultaneous Buying and Selling System (SBS). Trading companies importing rice as general imports are told by the Japanese authorities where they should source the rice, the quality they should buy, how it should be shipped and where it should be landed in Japan. However, under the SBS system, rice will be sourced according to the requirements of the wholesalers who will buy the rice from the trading companies. The advantage of the SBS system is that consumers will be given more influence over the type of rice that is imported into Japan.

The SBS system operates in the following manner. There are 34 wholesalers recognized by the government that are permitted to participate in the SBS process. The government, through the Food Agency, finds out from these wholesalers what quantities they want to buy. The Food Agency then determines buying and selling prices for rice. These prices are not made public prior to the bidding for rice taking place. The firms involved in importing rice and the firms that market the rice in Japan then get together and jointly submit a selling price and a buying price to the government. This involves the firms entering into a contractual agreement with one another. After all joint buying and selling prices have been submitted by the firms, the government selects the successful bids. The government retains the difference between the buying price of rice and its selling price. If this difference - the markup - is the same for two competing bidders, the government selects the bid where the selling price is the higher. If the markup and the buying price are the same, the successful bidders are drawn by lot. Once the successful bids have been determined, the Ministry of Commerce and Industry assigns the importing firms the quantities that they are permitted to import. The size of the markup is effectively set by the commitment Japan gave on rice in the Uruguay Round of trade negotiations.

The Food Agency is thus a kind of "go between" in that it purchases all rice from the importing firms that have been permitted to import rice at a price that the Agency selects. Then it sells the rice to the successful bidders at the prices that the Agency has selected from the competing joint bids submitted to the Agency.

On 26 July 1995, the Japanese Food Agency finalised its first allocation of imported rice to importers and wholesalers under the SBS arrangement. This auction was originally scheduled for May, but was postponed until July because of opposition from politicians representing Japan's rice farmers. The results of this auction appear in Table 3.

Shortly after this auction, imported rice began to appear on the shelves of Japanese retailers. A 5kg bag of Australian rice, called "Mirin", was priced at ¥2,140, scarcely cheaper than the ¥2,200 for domestic rice. According to Kido, retailers anxious to get it into their stores as a promotional aid pushed up the price.

The second SBS auction was held on 26 December 1995. An amount of 7,135t of rice destined for food use went through the auction. A further 759t of crushed rice for industrial use was also sold. The results from the auction of rice for food use appears in Table 4.

In the December auction, the average selling price per 60 kilograms was about ¥15,000. This was approximately ¥8,000 less than in the previous auction. The markup - defined already as the difference between the

Food Agency's buying price and its selling price - was below market expectations. According to industry sources in Japan, Australian rice was not as popular as US and Chinese rice since it was not new season rice. The Thai rice sold was produced under the direction of a Japanese wholesaling company.

**Table 3: Result from First SBS Auction for Rice, 26 July 1995**

| Source | Quantities Proposed by Wholesaler (t) | Description of Rice | Quantity Sold at SBS Auction (t) | Price at Which the Food Agency Buys from Importer (Y/t) | Price at Which the Food Agency Sells to Wholesaler (Y/t) |
|---|---|---|---|---|---|
| USA | 8,619 | brown, short grained | 329 | 102,271 | 394,271 |
| | | milled, short grained | 17 | 85,400 | 377,400 |
| | | brown, medium grained | 643 | 99,794 | 391,794 |
| | | milled, medium grained | 578 | 105,468 | 397,468 |
| Australia | 13,261 | brown, medium grained | 732 | 82,540 | 374,540 |
| | | milled, medium grained | 136 | 87,913 | 379,913 |
| China | 4,354 | milled, short grained | 209 | 83,286 | 375,286 |
| Thailand | 428 | milled, short grained | 54 | 88,100 | 380,100 |
| Pakistan | 51 | milled, long grained | 51 | 116,000 | 408,000 |
| Uruguay | 306 | brown, short grained | 51 | 85,000 | 377,000 |
| Total | 27,019 | | 2,800 | | |

**Source**: *Shokuryo Journal* 8 August 1995

**Table 4: Result from Second SBS Auction for Rice, 26 December 1995**

| Source | Description of Rice | Quantity Sold at SBS Auction (t) | Price at Which the Food Agency Buys from Importer (Y/t) | Price at Which the Food Agency Sells to Wholesaler (Y/t) |
|---|---|---|---|---|
| USA | brown, short grained | 2,992 | 112,208 | 262,264 |
| | milled, short grained | 340 | 89,215 | 237,550 |
| | brown, medium grained | 396 | 87,036 | 257,423 |
| | milled, medium grained | 36 | 88,000 | 268,000 |
| Italy | milled, shortgrained | 153 | 139,390 | 284,390 |
| Australia | brown, medium grained | 833 | 90,749 | 223,480 |
| China | milled, short grained | 1,505 | 85,431 | 228,396 |
| | milled, long grained | 676 | 85,671 | 257,859 |
| Thailand | milled, short grained | 51 | 69,500 | 219,500 |
| Pakistan | milled, long grained | 153 | 112,000 | 283,111 |
| Total | | 7,135 | | |

**Source**: *Japan Agricultural News* 28 December 1995

It is still early days as far as the new SBS marketing system is concerned. Some in Japan believe that the SBS system will assist Japan make a transition to a deregulated rice market when the present arrangements expire in 2000. They believe that the system will bring more commercial reality to the rice market in that market forces will influence the type of rice imported into Japan.

Rice farmers continue to receive direct government assistance. In 1996, for example, the government allocated ¥119.4 billion in subsidies to help farmers adjust to the new Food Law. This compares with ¥115.3 billion allocated under a 1995 program (Japan Times 1995a).

## 4.3 Developments in the Dairy Industry

The dairy industry is also undergoing change, with a quota system being introduced, and changes taking place in the way milk is distributed through marketing boards. The system of quotas will be discussed first.

Under the old arrangements, estimates of milk requirements would be made by the government in consultation with the industry. Quotas would then be allocated to each prefecture. After passing through authorities at the town and village level, a quota would be allocated to each farmer. This system was inflexible in that it was very difficult for those farmers who wished to expand to get additional quota. The Japan Dairy Council tried at different times to redistribute quotas from prefecture to prefecture, but those prefectures asked to give up quota entitlement were reluctant to do so.

From 1995, and motivated by the Uruguay Round agreement, the government will now permit farmers to buy and sell their milk quota. The price of the quota in 1995 was set by the Japan Dairy Council at ¥20 per kilogram. The government involvement (through the LIPC) comes about because it will subsidise half of the difference between the ¥20 selling price of the quota and the buying price offered by the farmer. This subsidy is not a direct cash grant, but rather is a subsidy on the cost of purchase of additional milking cows by the farmer purchasing the quota. As an example, a farmer who purchases quota to produce an extra 7,000kg of milk and who needs to increase cow numbers by one to produce the 7,000kg, could expect to receive ¥70,000. Farmers not needing to increase cow numbers do not receive any subsidy. Farmers buying a quota are obliged to maintain the quota for five years, and are not allowed to sell the quota in that period. Farmers selling their quota are required to dispose of at least 80 per cent of their dairy cows for the sale to be accepted. Farmers are only permitted to offer to buy or to sell the quota once a year; in 1995, these offers were made in October. In 1995, the government set aside US$84 million for the subsidy, while for 1996, it has increased the budget to US$91 million.

The volume of milk quotas farmers wanted to buy in 1995 was about 40,000t. However, only 11,000t was offered by farmers wishing to cut back on their production. This was below the 60,000t the Japan Dairy Council had expected farmers would offer. The small volume traded meant that the amount of the subsidy was only a little over US$2 million. Approximately 6,000t of the 11,000t was transferred between farmers living in the same prefecture. The remaining 5,000t was allocated between the prefectures on the basis of the quantity of milk that farmers in the prefectures offered to buy. According to industry sources, as few as 1,100 of Japan's 40,000 dairy farmers participated as buyers in the quota scheme. Although there are no exact estimates, farmers selling their quotas tended to be old farmers wishing to leave the industry.

A number of reasons have been advanced for the low level of interest in the quota transfer scheme in its first year of operation. First, farmers apparently did not have sufficient time to make plans. Secondly, some of the prefectures were worried about the longer term implications of giving farmers quotas. Besides, the system as it had operated in the past did not involve formal quotas. Finally, 22 of the 46 prefectures - including the major milk producing regions of Iwate and Hokkaido - did not participate in the program. Some of the prefectures not participating were those where milk production has been declining. This was because of their concerns that if farmers were allowed to give up their quotas, the industry in the prefecture would decline even more rapidly.

Based upon the experience of 1995, the procedures are being changed in a number of ways. In 1996, the price of the quota will be reduced by the Japan Dairy Council because of a decline in the milk price and because of increases in the price of feed concentrate. From 1997, the period when offers can be made by farmers will be changed from October to August or July. The reason for this is that it will enable farmers to make annual production plans more efficiently, because this timing fits in better with the Japanese financial year. New entrants into dairying will be given a quota at no cost

from 1997. This is being done in an attempt to stem the decline in farmers.

The second change to affect the dairy industry relates to the marketing system. As part of its Uruguay Round commitments, Japan needs to expand its imports of dairy products. Therefore, for the industry to be able to compete with imports, it will need to lower production costs so that the price of manufacturing milk can be lowered. The thinking in the industry is that the price of market (drinking) milk will need to be maintained at around its current levels to protect the incomes of farmers. On the cost side, the Japanese industry accepts that farmers need to reduce production costs, and that distribution costs need also to be reduced. While decisions about production costs are being left to the individual farmers, many in Japan recognize that distribution costs will fall only if action is taken to make the prefectural marketing boards operate more efficiently. As explained in Riethmuller and Kobayashi, there are 46 of these - one in each prefecture, except for Okinawa.

In December 1994, a proposal to amalgamate Zennoh and Zenrakuren - these are the two main national federations involved in the distribution of milk - into one national body failed. The reasons for this appear to be related to the fact that both organisations have had a long history as competitors. Opponents to the merger of Zennoh and Zenrakuren felt that the establishment of a national organisation formed from these two organisations to negotiate with the dairy companies on matters of the price of drinking milk might lead to a breaking of the Antimonopoly Law and might therefore result in criticism of the industry by the public.

While the merger at the national level did not go ahead, a marketing board representing prefectural organisations on Kyushu Island (excluding Fukuoka) was set up in 1992. A second board is to be set up in the Kanto area in April 1996. These boards are intended to be models for the future, when perhaps five or six regional marketing boards replace the 46 prefectural organisations. The advantage of having a smaller number of large regional marketing boards is that the milk distribution system should become more efficient, transport costs should be reduced and it should be easier for the regional boards to arrange for their milk to be marketed in the major population areas. (Currently, each prefecture has to negotiate with the national organisation Zennoh or Zenrakuren for this to happen.)

Under the laws that govern Japan's dairy industry, each prefecture is required to have its own marketing organisation. It seems that these laws will not be changed, so that in practice the regional boards will only be informal organisations, with few employees and only a very limited budget. Besides the practical difficulties this would obviously create, the pooled price of milk in prefectures that will be expected to deliver to the same regional marketing board are sometimes different. In Ibaraki prefecture and Kanagawa prefecture, both of which will deliver to the Kanto board, the difference in pooled price is about ¥7 per kilogram. Farmers currently receiving a higher pooled price are likely to oppose delivering milk to a regional board if the pooled price they receive from the regional board is lower than the price they now receive. A final problem said to exist is that many of the dairy factories have special links with the prefectural based cooperatives. These links have developed because of differences in production conditions between prefectures.

The developments just described for the dairy industry are in a state of flux at the moment and will probably remain so for the next couple of years at least. However, they are important because they reflect the recognition in Japan that the dairy industry will need to become more efficient both on and off farm if it is to be competitive with imports.

## 5. Agricultural Adjustment to the Uruguay Round

Japan was a target for criticism by the agricultural exporting nations during the Uruguay Round because of the protection it gave to agriculture. In the end, Japan agreed to comply with the Uruguay Round Agreement, and improve market access to itself. Not surprisingly, the government has taken steps to assist the agricultural sector adjust to its new operating environment.

Details of the adjustment assistance were announced on 25 October 1994. The amount of money available to agriculture under this scheme - known formally as the Agricultural Policy Principle in Relation to the GATT Uruguay Round Agricultural Agreement - for the remainder of this decade amounts to ¥6.01 trillion from the Ministry of Agriculture, Forestry and Fisheries (MAFF) and another ¥1.2 trillion from the Ministry of Home Affairs (MHA). The broad targets for the policy are as follows:

- to amalgamate more of Japan's farm land into efficient and stable agricultural enterprises. This includes large family farms and also corporations. The agricultural corporation in each prefecture (this is a semi-governmental organisation) will be the intermediary between the small/part-time farmers and the large farmers, buying land from one and selling it to the other. The corporations are permitted to do this by an amendment of the Farm Land Act;

- to place a high priority on schemes to enlarge the size of paddy fields towards a more efficient scale. Such schemes should be accelerated by 2000;

- to increase the rate at which new entrants go into the farming sector. To do this, the following measures will be used: (a) the farmer's debt will be eliminated by giving the farmer a special loan; (b) the farmer's contribution to the Farm Land Improvement Scheme will be reduced; (c) special interest free loans will be given to increase the number of young people entering into agriculture; (d) special loans at reduced interest will be provided to encourage the development of mountainous regions; (e) support will be given to newly introduced farm products. (Specific products are not mentioned - only those that return a high profit.)

The amalgamation of Japan's paddy fields is perhaps the most important part of the program just outlined.

Of the ¥6 trillion, ¥700 billion was available for loans, ¥3.55 trillion was available for the agricultural rural adjustment scheme (to enlarge and amalgamate the family farm), and ¥890 billion was earmarked for the agricultural structural improvement scheme. Another ¥600 billion was made available for new entrants and to assist in the development of new products. The debt relief scheme has an interest rate of 2.5 per cent and is financed by ¥300 billion, available over 6 years. Another ¥1.2 trillion allocated from the Ministry of Home Affairs was allocated to the Home Town Scheme. This scheme had the broad objective of encouraging farm successors to return to their home town. It includes provisions for road construction and improvement, possibly providing most benefit to the construction industry.

# 6. Agricultural Trade

With the completion of the Uruguay Round of trade negotiations in December 1993, Japan has taken a number of steps to improve market access for agricultural commodities. The dramatic appreciation of the yen has contributed to the increase in imports. Japan continually runs a trade deficit in agriculture, forestry and fisheries products, since its exports are tiny in comparison with imports.

## 6.1 Japan's Net Imports

Japan is now the world largest net importer of rural products including forestry and fisheries products. The total value of imports was US$69.4 billion in 1994. In US dollar terms, this was an increase of 13.2 per cent over the previous year and a record[12]. As noted already, the growth in imports was due mainly to the yen appreciation and the removal/relaxation of some of the barriers to imports of agricultural products (these are described later in this paper). Rural imports accounted for 25.3 per cent of total imports. Furthermore, since exports of rural products -including forestry and fisheries products - amounted to only US$2.9 billion, the agricultural trade deficit reached US$65.5 billion, another record.

The most important source for Japan's rural imports was the United States. It held a 29.1 per cent share of total rural imports; next in importance came the People's Republic of China followed by Canada. These two countries accounted for 8.8 per cent and 7.0 per cent of the value of Japan's rural imports, respectively.

One of the results of Japan's rapid expansion of rural imports has been a fall in its self-sufficiency rate of food. On a calorie basis, this dropped in 1994 to 37 per cent, 9 per cent lower than the previous year. Moreover in terms of foods that are cropped, the rate was only 22 per cent, a drop of 7 per cent from 1993. Although this decline was mainly due to the exceptionally poor harvest of rice in 1993, Japan has perhaps the lowest self-sufficiency rate among the developed countries.

[12] In terms of their yen value, imports increased by 4.2 per cent in 1994 to ¥7.1 trillion.

**Table 5: Tariffication and Market Access, Japan**

| Item | Tariff Equivalent Base Period (¥/kg) | Tariff Equivalent 2000 (¥/kg) | Market Access 1995 ('000t) | Market Access 2000 ('000t) | Comments |
|---|---|---|---|---|---|
| Wheat | 65 | 55 | 5,565 | 5,740 | State trade maintained. Maximum markup ¥53/kg down to ¥45/kg |
| Barley | 46 | 39 | 1,327 | 1,369 | State trade maintained. Markup ¥34/kg to ¥29/kg |
| Skim milk powder | 466 (25%) | 39 (21.3%) | 137.202 (milk equivalent) | | State trade maintained. Markup SMP ¥358/kg to ¥304/kg. Butter ¥950/kg to ¥808/kg |
| Butter | 1,159 (35%) | 985 (29.8%) | | | |
| Starches | 140 | 119 | 157 | | |
| Dried leguminous vegetables | 417 | 354 | 120 | | |
| Ground nuts | 726 | 617 | 75 | | |
| Konnyaku | 3,289 | 2,796 | 2,670 | | |
| Cocoons | 2,968 | 2,523 | 7,980 | | State trade maintained for raw silk |
| Raw silk | 8 209 | 6,978 | (raw silk equivalent) | | |

## 6.2 Import Access for Agricultural Commodities

Since agreeing in the late 1980s to change import access on a number of products including beef, citrus and some processed foods, Japan has agreed to a lowering of protection of agricultural commodities as part of its commitment to the Uruguay Round. As explained earlier, Japan committed itself to providing minimum access for imported rice, as well as implementing tariff conversions of dairy products, starches and other products. According to Jetro, the Uruguay Round agreement entailed the most sweeping changes ever to Japan's tariff rates and tariff administration system. Details of the changes are shown in Table 5 and Table 6. But briefly Japan committed itself to the following:

- products still subject to import quotas, with the exception of rice, will undergo tariff conversion, or tariffication. This means that non tariff restrictions will be dropped and tariff coverage substituted. These products include wheat, barley, some dairy products, starches and pork;

**Table 6: Reductions of Existing Tariffs**

| Item | 1994 (%) | 2000 (%) |
|---|---|---|
| Beef | 50 | 38.5<br>50 if imports grow by more than 20% |
| Oranges | | |
| June to November | 20 | 16 |
| December to May | 40 | 32 |
| Orange juice | 30 | 25.5 |
| Natural cheese | 35 | 29.8 |
| Ice cream | 28 | 21 |
| Candies | 35 | 25 |
| Marcaroni spaghetti | ¥40/kg | ¥30/kg |
| Biscuits | 24 | 15 |
| Soybean and rapeseed oil | ¥17/kg | ¥10.9/kg |

- tariff rates will be reduced so that they are lowered on average by 35 per cent over the six year period 1995 to 2000. Tariffs on any particular product will be reduced by a minimum of 15 per cent.

In the period just prior to the completion of the Uruguay Round, Japan had not made any change of significance to import access. The only exception to this relates to apple imports. The experience with apples will be briefly described because it illustrates that removal of trade barriers does not guarantee success in the Japanese market. Quantitative restriction were removed on apples in 1971, however phytosanitary regulations effectively prevented imports from entering Japan. In 1993, imports from New Zealand were permitted by Japan, but none took place because by the time the ban was lifted the harvest was already over.

More recently, the Japanese government decided to permit imports of apples from the United States, although only Red Delicious and Golden Delicious are permitted[13]. The first shipment arrived from Washington State in January 1995. A heavy advertising program by Japanese supermarkets resulted in sales of about 7,000t in the first month. Japanese growers responded to the competition from the US by discounting less than perfect apples that would otherwise have been juiced. By the end of the season (31 March), only 9,000t had been sold, well below original expectations of 12,000t to 15,000t. The US apples retailed for about ¥78 for a 220 gram apple. Local apples, which are much larger, are sold for about ¥100 each in bags of four or six. Prior to the arrival of the first shipment, price was expected to be ¥100 per apple. As a condition for importing, the apples have to be chilled for 55 days and fumigated. Daiei, the largest supermarket operator in Japan, sold 1 400t after setting a target of 1,900t. In the coming year, the supermarket will sell only 490t. It is claimed that Japanese consumers prefer a sweeter, domestically grown apple to their US counterparts, meaning that the apple has to be left on the tree longer. Also, last year's imports from the US were waxed, giving the apple a shiny appearance that looked unnatural to Japanese consumers (Japan Times, 1995b).

Mangoes also began to arrive in Japan in early November from Queensland. About 1,000t of mangoes were airfreighted to Japan in November 1994 with a price of ¥500 each. Mediterranean fruit fly has been a problem with shipments to Japan but heat treatment using steam has been approved by MAFF. The Philippines and Mexico already supply mangoes to Japan in the period March to September.

Data presented by Riethmuller and Chai show that the removal of a quantitative restriction does not necessarily have a marked effect on import volumes. For example, while imports of beef have expanded since quotas were removed in 1991, citrus imports have remained almost unchanged since quotas were removed, also in 1991. The reason for this is not clear. The removal of import quotas on commodities has often been accompanied by a surge in the number of firms interested in importing the commodity losing quota protection. Many of these firms drop out of the import business after a relatively short time because of the poor financial returns they receive.

## 7. The Long Term Outlook

In December 1995, the Japanese government released the Long Term Outlook for Agricultural Products. This document describes the projected market balance in 2005 for the major commodities. However, the Outlook should not be interpreted as an objective prediction, particularly as far as production is concerned. As with many of the earlier outlook documents, this one is fairly ambitious. Nevertheless, it is a useful source of information and provides a reference point for understanding the future direction of agricultural supply and demand in Japan.

Table 7 shows the outlook for domestic production, consumption and self sufficiency in 2005 by product. The consumption estimates come from demand models with population and per person income as the main determinants. The production estimates come from models that include different factors. Moreover, the production estimates assume that policy measures will be successful and that technical progress will continue. Compared to 1992, domestic production of dairy products and beef is expected to expand, although not to the same extent as demand. On the other hand, rice production and consumption are both expected to contract.

[13] At the time of writing (early 1996), US plans to import Fuji apples were still under negotiation.

**Table 7: Outlook of Domestic Production and Consumption of Major Agricultural Commodities, Japan**

| Item | 1992 | | | 2005 | | |
|---|---|---|---|---|---|---|
| | Consumption (000t) | Production (000t) | Self sufficiency (%) | Consumption (000t) | Production (000t) | Self sufficiency (%) |
| Rice | 10,050 | 10,570 | 101 | 9,730-10,250 | 9,380-9,900 | 96-97 |
| Wheat | 6,270 | 760 | 12 | 6,450 | 770-940 | 12-15 |
| Barley rye | 2,750 | 290 | 10 | 2,830 | 380 | 13 |
| Soybean | 4,820 | 190 | 4 | 4,830 | 260 | 5 |
| Food | 840 | 190 | 22 | 830 | 260 | 32 |
| Vegetables | 17,340 | 15,610 | 90 | 17,880 | 15,650 | 88 |
| Fruit | 8,200 | 4,860 | 59 | 9,070 | 4,600 | 51 |
| Dairy products | 10,700 | 8,620 | 81 | 12,590-13,630 | 10,100 | 77 |
| Meats | | | | | | |
| Beef | 1,220 | 600 | 49 | 1,820-2,140 | 800 | 40 |
| Pork | 2,090 | 1,430 | 68 | 2,160-2,200 | 1,450 | 67 |
| Chicken | 1,750 | 1,370 | 78 | 1,930-2,000 | 1,410 | 72 |
| Eggs | 2,670 | 2,580 | 97 | 2,820 | 2,720 | 96 |
| Sugar | 2,560 | 880 | 35 | 2,290 | 880 | 38 |

# 8. Other Issues

This review has outlined the major changes that have occurred in Japanese agriculture over the past few years. There are a number of other issues that are also important influences on agricultural industries. Two of the more important of these -the food distribution system and the food processing sector - will now be briefly discussed.

## 8.1 The Distribution System

Since the 1991 review by Kobayashi, Morison and Riethmuller, the distribution system in Japan and the laws regulating this system has continued to be a target for United States and other foreign criticism. Details of the distribution system and the changes to it over the last two to three years are described in Riethmuller, and Tsuchiya and Riethmuller. Hence only the major points as they relate to the food industries will be made in this paper.

One controversial and important issue had to do with what date should be placed on processed foods. In a departure from the practice of other countries, Japanese food manufacturers have routinely placed the date of manufacture on processed foods. The view among consumer groups in Japan is that Japanese consumers place a high degree of importance on food freshness and so the date of manufacture is an important piece of information for them. Perishable products such as milk and chilled dairy products are substantially discounted relatively soon after the date of manufacture because of consumer reluctance to purchase products which are not freshly packed. Having a date of manufacture stamped on a product clearly disadvantages foreign suppliers of many food products because of the transportation time[14].

The United States requested that the Japanese government amend the regulations so that manufacturers are required to only place the 'use by' date on perishable

[14] The date of manufacture is not put on all products entering Japan. For some, the date of entry into Japan is placed on the product. According to industry sources, Japanese consumers are sometimes reluctant to purchase products because of the time taken for them to be transported from the country of manufacture to Japan.

products[15]. The United States argument - which was supported by the European Community - was also based upon international convention. As mentioned already, in other countries only use by dates are placed on processed foods. The government of Prime Minister Hosokawa acquiesced to this request shortly after it took office in mid 1993. The move was popular among some Japanese food manufacturers because it is often the case that unsold products are returned to them by retailers[16]. They believed that removing the date of manufacture from the product labelling would make this more unlikely, providing them with cost savings. Another reason for supporting the change was that Japanese food manufacturers are keen that international conventions for food processing industries be followed in Japan. Consumer groups, on the other hand, oppose the change. The government legislated in the latter part of 1994 that only the use by date will appear on products from 1995. Manufacturers have until July 1997 to fully comply with this requirement.

The regulations governing the establishment of large style supermarkets have been changed because of foreign pressure and possibly also because of social realities of present day Japan. The regulatory changes have resulted in an increase in the numbers of supermarkets, particularly in the dormitory suburbs of the major urban centres. The small "mom and pop" stores, which have been very much a part of the food retailing industry in Japan for decades, are disappearing. Some are going out of business, selling out to convenience store chains such as Seven Eleven or Lawsons[17], or are forming their own independent chains, with the backing of wholesalers. Limited resources, particularly financial and managerial skills, are making it extremely difficult for many of the small retailers to compete with the large chains.

The growth of the large supermarkets is important because some (e.g. Daiei) are aggressively developing their own brands, and moving away from national brands. In some cases, they have sourced the inputs for these "home" brand products from overseas suppliers. Orange juice (from Brazil) and detergents (from South Korea) are two examples. In other cases, they have sourced foreign brand products and marketed these foreign brands. Ice cream from Australia and beer from the United States are examples. Such products are offered at discounts of 15 to 40 per cent to their national brand rivals. A second development in the food retailing industry is the establishment of distribution centres owned by the retail chains. While this is common practice in the west, generally retailers have not owned their own centres. This will eliminate some of the middlemen and lower consumer prices. The strategy mentioned earlier of wholesalers helping the "mom and pop" shops establish independent chains has probably been motivated partly by the wholesalers interest in self preservation.

Regulations governing the number of licences retailers must obtain to operate are being modified to make it easier to obtain the licences[18], as are the rules relating to price setting and the offering of rebates by manufacturers. These changes when fully implemented will result in a more deregulated retailing environment in Japan.

Catalogue sales, involving the purchase of foreign goods by Japanese consumers, are also proving popular in Japan. Special shops have been established to sell catalogues advertising products such as western wear, fishing tackle and outdoor equipment to consumers. In some cases (for example, in Izumisano, Osaka prefecture), these shops have been cosponsored by the

[15] Determining what is the "correct" use by date is a controversial issue between Japanese food manufacturers and retailers. Some retailers insist on a use by date as part of a marketing strategy which is intended to stress the freshness of their product. Often the use by date set by retailers has no scientific basis. When different retailers set different use by dates for the same product this creates problems for the product manufacturer. The use by dates set by the manufacturers are scientifically based.

[16] The return of unsold product is not a universal practice. The arrangements between manufacturers and retailers will vary depending on the terms on the contract conditions negotiated between the manufacturer and the retailer.

[17] The "mom and pop" stores with liquor licences are particularly attractive takeover targets to convenience store operators since once they have taken over the "mom and pop" store, the convenience store is able to sell liquor. Some small stores have two or more liquor licences. It is often the case that they are willing to lease the licence to a newly established store without a licence, which allows the newly established store to sell liquor.

[18] In practice, the licences that are most difficult for retailers to obtain are those that allow them to sell liquor and medicines. The regulations are somewhat complicated. For example, when a store obtains a licence to sell liquor, it is not permitted to sell sake or beer for three years. The exception to this rule are supermarkets with a store area of over 10,000m$^2$. They are permitted to sell beer immediately but only imported beer. This policy clearly disadvantages the domestic brewing industry and is probably partly behind the increased volume of beer imports into Japan.

US Department of Commerce and prefectural governments. The appreciation of the yen means that the products available through these catalogues now cost about half what they cost ten years ago (Japan Times 1994).

### 8.2 The Japanese Food Processing Industry

As explained by Riethmuller and Chai, the food processing industry is an important part of Japan's agricultural sector. Until the early to mid 1980s, Japanese food processors were mainly interested in obtaining their raw materials at the lowest price and servicing the domestic market. This meant that they were often critical of Japan's barriers to agricultural imports. Then they went through a period when the highest priority was attached to importing processed or semiprocessed foods from low cost countries for sale within Japan. Recently though, food processing companies have shifted their emphasis towards locating food processing facilities in foreign countries. For example, Snow Brand - a major Japanese dairy processor - has established production facilities in Australia. This factory will be used to exporting to south east Asia and India, although the commercial centre of this operation is Singapore. Nissin Food Products Co., Ltd, a manufacturer of instant ramen (or noodles) has established factories in the USA, Singapore and has plans for setting up a factory in Holland in 1996. Its sales outside of Japan exceed those made inside Japan. Sometimes, the Japanese investment takes the form of joint venture arrangements with other firms, some of which may be local firms. Traditionally, Japanese food processors have focussed on Australia, Canada and the USA. In the last several years, however, their interest has shifted towards south east Asia because of lower labour costs and improvements in the agricultural industries of those countries. China is an important part of the future plans of Japanese food processors. They regard China as a number of economic regions, with currently the most emphasis perhaps being placed on the Shanghai district with its 40 million or more people.

## 9. Concluding Comments

The Japanese agricultural sector has been experiencing major change. The replacement of the Food Control Law, the access granted to rice imports and the reduced border protection for agricultural commodities will force the sector to become more efficient if it is to survive. Part of the adjustment that Japanese agriculture will need to make will be for an increase in farm size. Such a development would seem to be inevitable if Japanese farms are to achieve scale economies. The implications of a move away from small farms to large farms on the environment and on rural communities are unclear. However, it will almost certainly hasten the exodus from agriculture by Japan's aging farm population. This may well lead to social problems in the depopulated rural communities.

The changes that Japan has made to its agricultural policies are irreversible. Agriculture's political influence domestically is waning and the sector is now being forced to move with the global tide of reduced intervention in agriculture. This will create increased opportunities for producers in Australia and New Zealand in the Japanese market.

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