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Japan's Food and Agricultural Policy

David Salmon*

Although its food and agricultural policy is complicated and restrictive, Japan is still the United States' biggest customer for agricultural products. The following table indicates the importance of the Japanese market as an outlet for many U.S. products. Despite this trade volume, agricultural policy has proved to be a serious point of disagreement between the U.S. and Japan. The recent Tokyo/Geneva trade negotiations have cooled the heat of this conflict only slightly.

The cause of this disagreement centers around Japan's policy of restricting imports of many food products. Some imports are allowed to enter Japan only under a strict quota system. Other items are carefully controlled by government intervention. A U.S. supplier of even items not subject to formal control will usually find it impossible to conduct activities with as much independence as could be done in other countries.

This article looks at the political and economic factors in Japan which have produced this restrictive policy and examines Japan's import methods for several specific agricultural products. These products are citrus fruits and beef, imported under strict quotas; wheat and barley, controlled directly by the Japanese government; and soybeans and other feed grains, entitled to enter Japan without quotas or tariffs.

U.S. agricultural exports to Japan*

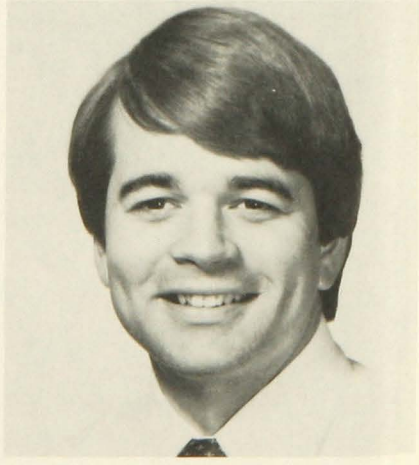
Product	Percent of total—1977
Soybeans and products	25
Feed grains	28
Wheat	10
Cotton	8
Tobacco	7
Hides	5
Other	17
Total ($3.9 billion)	100

*From U.S. Senate Committee on Finance, June 1979, MTN Studies 2 Tokyo/Geneva Round: Its Relation to Agriculture.

*David Salmon is a graduate student in the Department of Economics, University of Minnesota.

Important Features of Japanese Agricultural Policy

Probably the most important feature of Japanese agricultural policy is the goal of making Japan as self-sufficient in food as practical. Self-sufficiency is a difficult goal since Japan has extremely limited agricultural capabilities and cannot hope to compete successfully on the international market. Only about 15-16 percent of Japan's land is arable and even this area is not conducive to efficient, large scale farming. The Japanese farm averages 2.5 acres and only 6 percent of Japan's farms exceed 5 acres, so the cost of producing food domestically is generally higher than of purchasing food abroad. Clearly, the Japanese consumer would be able to eat more cheaply if Japan abandoned much of its agricultural capability and imported food with the proceeds from its impressive industrial capability. However, this would leave Japan dangerously vulnerable to abrupt changes in the international food market and this is a risk that Japan does not want to take.



David Salmon

Japan's agricultural self-sufficiency—1972*

Food	Degree of self-sufficiency (percent)
Rice	100
Vegetables	99
Eggs	98
Milk	88
Meat	83
Fruits	82
Feeds	40
Sugar	19
Wheat	8
Soybeans	4
All foods	72

*From U.S. Senate Committee on Finance, June 1979, MTN Studies 2 Tokyo/Geneva Round: Its Relation to Agriculture.

Japan produces about 50 percent of its total calorie intake. Even this is misleading since Japanese agriculture depends heavily on fertilizers made from imported oil. Clearly, Japan has important national security reasons for wishing to minimize dependence on foreign food. However, even the present, relatively small rate of self-sufficiency is the result of considerable government effort and economic hardship for the Japanese consumer and taxpayer.

Since most Japanese farms are best suited for rice production, the government has encouraged rice as the country's food staple. Today it accounts for 35 percent of farm output and 33-34 percent of the Japanese calorie intake. After each harvest the government buys the rice crop at a price usually set at about three times the world price. It is then sold to the Japanese public at a much lower price than that received by the farmer. This policy creates a large surplus of rice and a large deficit that the government must finance. Also, since other crops must compete with rice for land use, the artificially high rice price raises the price of other farm products and creates protectionist pressures virtually everywhere in the farm economy.

Japanese farm, industry, and government organizations communicate and cooperate to a degree that would be astonishing in the U.S. Such cooperation (referred to as Japan, Inc.) enables Japanese agricultural policy to be tough, internally consistent, and well executed. A foreign supplier of food to the Japanese market cannot expect to do business except on the terms dictated by Japanese policy and is likely to find doors closed to many potentially profitable activities.

The Policy Environment

Japan has a two house parliamentary system based on the British model, but the actual running of the government is unique to Japan. The Liberal Democratic Party (LDP) is by far the most important political party. The LDP has been in power continually since 1948 and nearly all government and lobbying agencies are firmly connected with it. An important feature of the Japanese parliamentary system is that voting in the Diet, or legislature, is strictly along party lines. Therefore, virtually all important decisions are hammered out beforehand within the various factions of the LDP.

The LDP draws its strength from two main constituencies: big business and rural districts. The voting districts in Japan have been apportioned so that the rural vote is overrepresented in national elections. For this reason, the LDP is particularly influenced by Japanese farm interests.

The most important agency in the Japanese government that deals with agriculture is the Ministry of Agriculture, Forestry, and Fisheries (MAFF). Its responsibility is to promote Japanese agriculture and to improve Japan's food self-sufficiency. The MAFF, as with all Japanese ministries, is staffed with career bureaucrats who enjoy considerable influence with the LDP and often shuttle back and forth between ministry and political posts. For example, the present chairman of the LDP's Overall Agricultural Research Council was formerly vice minister of the MAFF.

Within the MAFF is a Secretariat in charge of policy formation and several intra and extra ministerial bureaus. One of these, the Economic Affairs Bureau (EAB), is most involved in imports and a variety of negotiations including the Tokyo/Geneva round of multilateral trade talks. Other related bureaus within the MAFF are the Animal Industry Bureau, which handles the distribution of quotas for beef imports, and the Agricultural Production Bureau, which handles quotas for orange imports. A very important extra ministerial organization is the Food Agency, which controls the production and distribution of rice and wheat. This agency sets the rice price each year, buys rice from Japanese farmers and wheat from foreign sources, and sells it to domestic dealers.

The MAFF is charged with improving the farmers' position and has developed strong ties with farm interests through contacts with the farmers' cooperative organizations and LDP contacts. As with most Japanese government ministries, the MAFF is independent of other government agencies and jealously guards this independence. While the MAFF will "consult" with other agencies such as the Ministry of Finance and the Ministry of International Trade and Industry, the MAFF is fairly well insulated from them and has a long history of going its own way.

For this reason, only the highest levels of the LDP can bring effective pressure to bear on the MAFF. Then, too, the MAFF can, and often has, successfully resisted this pressure. This resistance is strengthened by the MAFF's role of proponent for the farmer's interests and the LDP's dependence on the rural vote.

By almost any standard, Japanese farmers are well organized for political and economic action. Three organizations are particularly important. The first is Zenno, the largest farmer's cooperative in Japan. Over 95 percent of the rice crop and 15-20 percent of the mikan, or mandarin orange, crop is produced by Zenno members. Although Zenno is concerned with political matters that touch on the livelihood of its farmers, it is primarily a business organization. Zenno runs purchasing facilities as well as outlets for members' crops. An affiliated company, Unico-op, sells 35 percent of all Japanese feed grain imports, imports other food crops, and exports Japanese mikans. Because of these services, Zenno is extremely important to its members and can command considerable loyalty from them.

Nichienren is a smaller co-op primarily aligned with the mikan growers. Its member farmers account for nearly all of the remaining 80-85 percent of the Japanese mikan crop. Nichienren also commands considerable loyalty from its members but its smaller size has enabled Zenno to overshadow it.

Another very powerful farmers' group is Zenchu. Zenchu is primarily a political organization rather than a business co-op. Zenchu commands extensive farmer backing and conducts extremely effective lobbying and other political action. It claims the ability to draw 10,000 farmers to a demonstration in Tokyo on 48 hours' notice. This capability is often exercised when

the Food Agency is deliberating the new rice price.

These farmers' groups are all well led, strongly motivated, and have clear goals. If a sizable number of Japanese farmers produce a certain product, the farmers' groups will support measures to restrict the importation of that product or any of its substitutes. An American businessman who has dealt with the farmers' groups for years has characterized them as " extremely firm-handed and tough." Since the co-op's and government agencies' goals are generally the same, MAFF, Zenno, and Zenchu are powerful factors in the decisionmaking process within the MAFF. This is especially true since the co-ops strongly influence a large bloc of votes that are important to the LDP. Then, too, many observers believe that the LDP's support in the cities is waning and the party's dependence on the rural vote may increase. For these reasons, the LDP cannot afford to abandon the Japanese farmers' interests in spite of international pressure to liberalize Japan's import policy.

After a particular agricultural policy is decided, obtaining a reliable supply at a favorable price is often left to a Japanese trading company. These are not small, specialized firms but large trading organizations that are extremely important to Japan's trade efforts. In 1971, the six largest Japanese trading companies had combined sales of $57 billion and handled 40 percent of the country's imports and 60 percent of the exports. Most of these firms were organized before World War II as trading arms of huge industrial groups to secure raw materials from abroad. Today it is still left to the trading companies to obtain cheap, reliable supplies of items Japan must import. These companies have worldwide facilities for buying and handling farm products. They are very familiar with the U.S. market and own extensive storage and grain handling facilities in the U.S. Recently, increased instability in the world agricultural markets has encouraged trading companies to invest heavily in establishing offices and storage capabilities closer to the sources of supply in the U.S. and other countries.

Citrus Fruits and Beef

The Japanese government severely restricts imported citrus fruits and meat and sees to it that the Japanese consumer pays high prices for what is bought. Many Japanese farmers raise mikans, and the various farmers' groups are committed to protecting these interests. The MAFF decides on a quota of citrus fruits allowed to enter Japan and grants the right to import these products to a small number of private firms. Not surprising, the Japanese consumer must pay a high price for these imported items and the importing firms realize a high profit on the transaction. The recent Geneva trade talks have led Japan to agree to increase the quotas, but the farm lobby pressure still prevents a free market.

Beef comes into Japan in a similar fashion. The Japanese consumer pays roughly three times the world price for beef and this profit remains with a Japanese public corporation probably as a fund to subsidize development of the Japanese domestic beef industry.

Wheat and Barley

Japan cannot hope to be self-sufficient in wheat and barley and significant quantities must be bought from foreign sources. Yet, these products can substitute for rice, so little is imported and the price must be kept high for rice to remain the primary food staple. The Food Agency carefully controls the amounts of the products imported and the domestic price by requiring that foreign wheat and barley be purchased by the Food Agency on a competitive bidding system. However, the Food Agency will only accept bids from Japanese firms and almost all of these contracts are won by the major Japanese trading companies which then acquire the grain and arrange for delivery to Japan. Since the trading companies have extensive facilities and knowledge of the U.S. market, a U.S. grain dealer may be selling to the trading company one day and competing with it for grain supplies the next.

Once the Food Agency receives the grain, it resells it to domestic dealers at a much higher price. This has two effects that are desirable for the Food Agency and the MAFF. First, the high price of wheat discourages its consumption and encourages rice consumption. Second, the high profit the government realizes on the transaction helps offset the government's losses on rice sales to the domestic market.

Soybeans and Other Feedgrains

There are no tariff or quota restrictions on soybeans, corn, or sorghum for feed. However, the government and trading companies do not like to see this trade handled by non-Japanese firms. A number of trade laws, customs, and informal restrictions prevent foreign firms from selling these agricultural products directly to local Japanese customers. Instead, almost all of these items are handled either by Japanese trading companies or by the buying arm of one of the Japanese farmers' co-ops. Again, these trading companies obtain a supply as close to the sources as possible in as many different countries as they can. Japan's efforts to minimize its dependence on any one source has increased since the soybean embargo in 1973 and the OPEC oil embargo the same year. Mitsui Trading Company has invested heavily in grain handling facilities in the U.S., and Zenno, the farmers' cooperative, plans to build extensive storage facilities in the U.S. In addition, Japanese trading companies have strengthened ties with non-U.S. suppliers such as Brazil. These factors combine to limit the possible activities of U.S. firms even for agricultural products which Japan does not formally control.

Conclusion

Whether justified or not, Japan's desire to be self-sufficient in food is a pivotal factor in an overall trade policy —a policy unlikely to change soon. Japan has developed methods of implementing this policy which have succeded remarkably well in nurturing domestic food production and controlling the consumption of imported agricultural products. The Tokyo/Geneva trade negotiations have had some limited success in persuading Japan to accept foreign food, but the basic policy of self-sufficiency remains. Japan will continue to be an important customer for U.S. agricultural products but on Japanese terms.

USSR Agriculture and Agricultural Policy

Recent U.S. actions to withhold grain exports to the USSR above the 8 million tons permitted under the grain agreement raise important questions about future Soviet trade. If other exporting countries cooperate, this cancellation of some 17 million tons of sales can have a sizable impact on the Soviet livestock sector. The resulting reduction in livestock numbers will reduce import demand for grains in the years immediately ahead. If because of the withholding of sales the Soviets return to a policy of self-sufficiency, reduction in import demand will be even greater. If, on the other hand, the Soviets only diversify their imports away from the U.S., total world demand may be reduced only slightly, but there would be a shift in trade patterns as other exporting countries pick up a larger share of the Soviet demand while we in turn pick up some of their displaced markets. At this writing, it is too early to say just how things will work out.

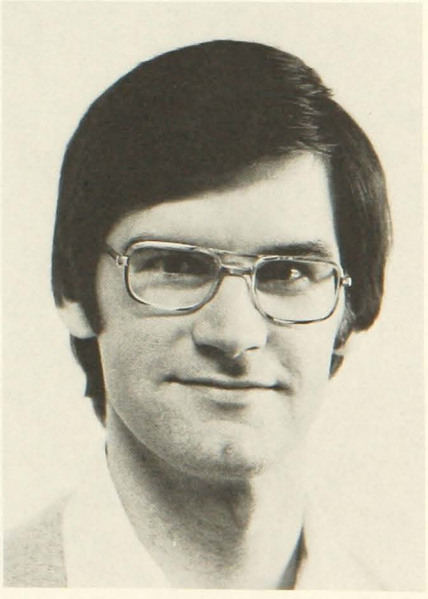
Chris Hodges**

Two characteristics highlight United States-Soviet Union agricultural trade of the 1970's. First is the *dramatic rise* in agricultural imports from the U.S. due to a major shift in Soviet domestic policy. In 1971, U.S. agricultural exports to the USSR were worth only $44 million or $1.6 billion less than the record 1978 export level of almost $2 billion. Second, U.S. agricultural exports to the USSR are marked by *great fluctuation* due mainly to weather patterns in fertile USSR areas. The Soviet Union's agricultural imports from the U.S. fell from $1.8 billion in 1976 to $1 billion in 1977 and rose again, to almost $2 billion in 1978. This article analyzes the growth and fluctuation of U.S. agricultural exports to the USSR and present and future implications.

Agricultural Policy

Soviet agricultural policy went from one of exploitation under Stalin in the 1930's and 1940's to one of modernization under Khrushchev and Brezhnev in the last 25 years. Before World War II the landowners were the main political threat to the new Communist regime and the leadership favored industrial development for reasons of foreign policy and Marxian philosophy. As a result, all economic planning favored industrial development and agriculture suffered from deprivation and a destructive land reform. After World War II, the USSR was a military and industrial giant, but was embarrassingly deficient in food and other consumer goods. Khrushchev tried to transform the typical Soviet diet of bread and potatoes into one of steak and vegetables. His goal was to overtake the U.S. in per capita food consumption of meat and milk in 19 years by increasing both the investment in agriculture and the grain acreage. Under Khrushchev, grain output doubled as did livestock production, but the rate of growth slowed appreciably in the early 1960's. Most of the gains came from increased acreage and livestock numbers, not yield or production per animal. Increasing productivity was more of a problem.

The new Brezhnev government faced two major economy-wide problems in 1964: low productivity and increasing demand for consumer goods. The past industrialization policies created a more affluent and urban population wanting more meat and other preferred foods. Meanwhile, agricultural output lagged. The 1970 worker riots in Poland and several disturbances in the USSR over food prices and shortages heightened Soviet concern over agricultural output. These shortages, especially of livestock products, continue to exist today in the Soviet Union.



Chris Hodges

**Chris Hodges is a research assistant in the Department of Agricultural and Applied Economics, University of Minnesota.

Table 1. 1976 comparison: US and USSR food production*

Item	US	USSR
Percent of labor in agriculture	3	26
Percent of investment in agriculture	5	27
Rate of growth of agricultural output (1950-1971)	2.0	3.9
Wheat output (1,000 metric tons)	58,400	96,900
Wheat yield (bu/acre)	30	23
Corn yield (bu/acre—1967-1975)	75	45
Average annual variation of grain output from trend (1960-1976)	6%	17%
Livestock (hogs and cattle, million head)	178	169
Average beef animal production—time and yield (live weight)	18 months for 1,050 lbs	24 months for 620 lbs
Per capita meat consumption	235 lbs	120 lbs
Acres per farm unit	390	22,920

*Table is a composite of USDA, CIA, and other sources.

Soviet policymakers have several choices: permit continued rationing and queuing, decelerate income growth, increase retail prices, accelerate domestic livestock production, or increase imports. Current evidence indicates that the last two choices are being pursued. Prices offered livestock producers have increased while retail prices have remained at 1962 levels. This gap between on-farm prices and retail prices created a 1974 food subsidy of $21 billion which was twice the entire 1974 U.S. Department of Agriculture budget. Even with the subsidy, the Soviet housewife had to pay nearly twice as much as her American counterpart—at the official rates of exchange—for a "family foodbasket." The high subsidy and relatively high retail food prices suggest that costs of Soviet food production are much higher than costs in the U.S.

Table 1 compares key areas of the two nations' food sectors in 1976.

Geoclimate and Technology

The soils in the agricultural regions of the USSR are similar to those of the U.S. Upper Midwest and Southern Canada. These soils stretch from east to west 2,500 miles at roughly the same latitude as the North American wheat belt. The main geoclimatic problem of Soviet agriculture is the fact that where moisture is adequate (over 24 inches per year) the frost-free period is short (120 days). Unlike the American Midwest, the farther south one moves in the USSR, the lower the rainfall. As a result, there is no U.S.-type cornbelt in the USSR.

The fluctuation of Soviet grain production is extreme (table 1) due both to climatic problems and poor farming practices. The Atlantic Ocean provides 85 percent of the area's total precipitation, yet it lies over 1,500 miles west and beyond the Alps. As a result, rainfall variation is high in wheat-producing regions which already receive less than 18 inches per year. The moisture problem is aggravated by the lack of summer fallow which enhances soil moisture.

The main grain crop in the USSR is wheat, barley production is second at 69 million metric tons in 1976, and oats third at 18 million metric tons in 1976. Sunflowers are the main oilseed crop. Sunflower seed production has remained at roughly 5 million metric tons over the last 10 years. Corn planting peaked in 1961 when it was used mainly for silages. However, the short growing season prevented corn from maturing. Khrushchev recognized this and stated that "corn silage without ears is an inferior feedstuff."

While feedgrain production has exhibited sluggish growth, the Soviet livestock numbers have grown steadily. The feed gap becomes worse with the high proportion of cattle found in confinement facilities which require more feedgrains than a system with more extensive grazing. Stall-feeding consists of a high proportion of silage, tubers, and green feed supplemented by barley, wheat, and oats. The result is a lower protein diet for cattle, longer life spans, and lower yields per animal (table 1). The mixed feeds for hogs and poultry also lack protein leading to results similar to those in the cattle industry.

Agricultural Imports from the U.S.

Graph 1 indicates Soviet imports of agricultural goods from the U.S. Considering these factors, three statements can be made about the data. First, grain exports to the USSR are volatile, peaking in years of adverse weather: 1972/73 and 1975/76. Second, U.S. grain exports to the USSR rose throughout the 1970's because of the Soviet commitment to higher feedgrain use in animal rations. Third, a more recent trend is appearing in Soviet imports of soybeans which can be attributed to increased protein ratios in Soviet feeds.

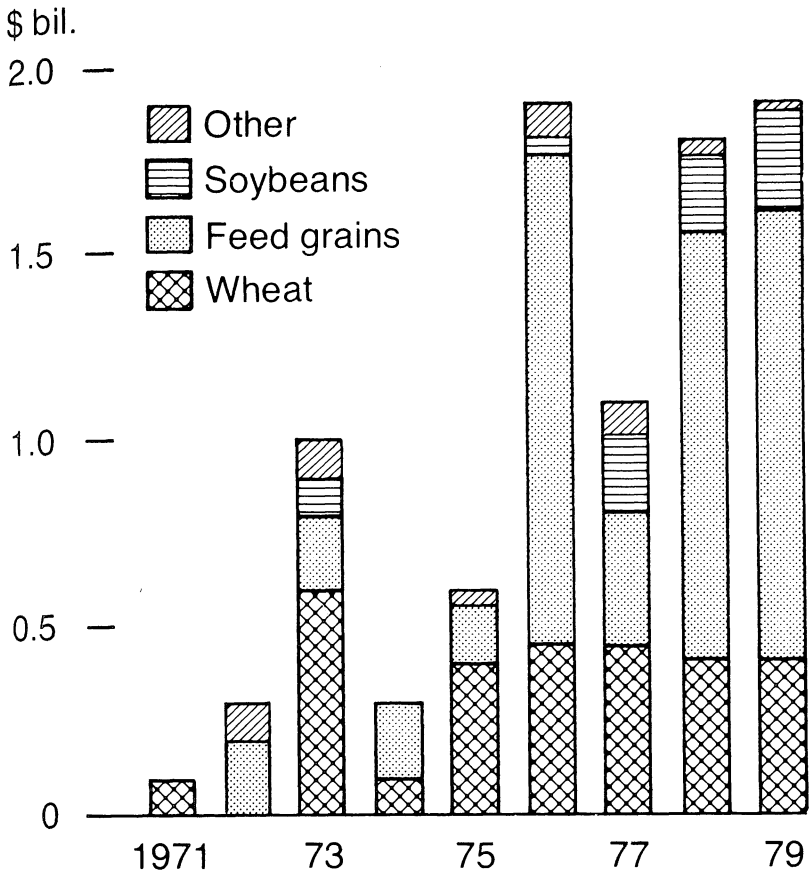
The U.S. agricultural community will benefit from these trends because the U.S. is the Soviet Union's number one source of wheat, corn, and oilseeds.

All Soviet grain imports are managed by a central trading agency, Exporthkleb, which has tremendous power in the world grain market because of the large Soviet grain purchases and the information advantages it possesses. This agency demonstrated its effectiveness in 1972 when it purchased wheat from the U.S. at an average price of $1.02 per bushel while the Japanese paid an average price of $2.23 per bushel. Often, Exporthkleb's strategy is to contract for a full year's imports early in the season. Little is known by the rest of the world about the USSR grain crop early in the season so world grain prices do not reflect poor Soviet crops. As a result, Exporthkleb enters the world market with some knowledge of the Soviet crop and buys grain at lower prices than would prevail if other traders knew the Soviet crop situation. Exporthkleb also knows policy shifts in the USSR first—another information advantage over other world traders. The large increases in Soviet grain imports which occurred in 1972 partly resulted from just such a policy shift when the Soviets decided to increase grain feeding of livestock.

Soviet opportunism in the world grain market is limited by availability of storage facilities. An opportunistic importer with adequate storage space could buy grain in the world market and store it when prices are low for use in future bad years. (Poor crops occurred once every four years on an average between 1960 and 1976.) The current 5-year plan calls for construction of elevators to store 30 million tons of off-farm grain. This would increase total off-farm storage capacity

U.S. Agricultural Exports to the Soviet Union

Source: USDA



Year ending September 30. 1978/79 partially estimated.

to about 170 million tons by 1980 or over two-thirds of one year's total grain production. Considering the poor quality of current storage facilities and the need for working stocks, this level of storage capacity does not permit extensive long-term grain storage. This storage may reduce the size of grain imports after a bad crop, but it will not allow the Soviets to import and store enough grain to cover future shortfalls. Paradoxically, new storage capacity may increase imports because Soviet demand will continue to remain ahead of Soviet grain supplies.

To limit the variability of Soviet grain imports from the U.S. in 1975, the two countries concluded a 5-year Grain Supply Agreement which requires the USSR to purchase a minimum of 6 million tons of wheat and corn annually. The Soviets need not consult the U.S. government for purchase of up to 8 million tons unless the U.S. grain supply drops below 225 million tons. All Soviet purchases beyond 8 million tons in any one year require U.S. government consultations. This permits the U.S. to withhold grain exports over 8 million tons until more is known about the U.S. and Soviet crops. For example, if the 1979 Soviet crop suffered damage last spring and Exporthkleb wants to buy 20 million tons of U.S. grain, the U.S. could stop all grain sales to the USSR over 8 million tons until more is known about the Soviet crop. By then world grain prices will be reflecting the Soviet crop conditions.

Besides the official consultations mentioned in the Grain Supply Agreement, there are additional ways of monitoring Soviet grain purchases. One U.S. government monitoring system is a requirement that exporters report all sales over 100,000 tons. Another monitoring mechanism is travel of U.S. scientists and USDA personnel through USSR grain producing areas during the growing season. These mechanisms inhibit Exporthkleb's ability to purchase in a "blind market" and make another "great grain robbery" of 1972 all but impossible. The sensitivity of the U.S. grain market to Soviet crop conditions was revealed in June 1979 when July wheat futures hit $4.30 after "hints" of a poor winter wheat crop and late spring planting in the USSR.

Conclusion

The value of U.S. agricultural exports to the USSR will increase with the rising USSR demand for livestock products. The USSR climatic obstacles to corn production and oilseed production are fundamental to this continued growth in Soviet grain imports. The high variability of Soviet grain imports is mostly due to USSR weather patterns. The Soviets have limited storage capacity for coping with variable production so imports must make up the shortfalls. The 1975 US-USSR Grain Supply Agreement should limit Soviet opportunism in the world grain markets and moderate possible price effects in the U.S. With a continuation of current Soviet commitments to consumer goods and low agricultural productivity, U.S. agricultural exports to the USSR should remain high.

Please send all address changes for Minnesota Agricultural Economist to Nancy Van Hemert, 231 Classroom Office Building, 1994 Buford Ave., University of Minnesota, St. Paul, MN 55108.

Jerome W. Hammond. . . . . Editor
Prepared by the Agricultural Extension Service and the Department of Agricultural and Applied Economics. Views expressed are those of the authors, not necessarily those of the sponsoring institutions. Address comments or suggestions to Professor Jerome W. Hammond, Department of Agricultural and Applied Economics, 1994 Buford Avenue, University of Minnesota, St. Paul, MN 55108.

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U.S. DEPARTMENT OF AGRICULTURE
UNIVERSITY OF MINNESOTA
ST. PAUL, MINNESOTA 55108

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