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Changes in the External Environment and Corresponding Agriculture Policy in Japan: A Comparison with Agriculture Policy in the EU

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The objective of this study is to anticipate international negotiations and policy response in the next 20 years. The main results are as follows. Assuming the WTO negotiations proceed, it is possible to demand a shift to green box policies for domestic support measures and also aim to achieve a level that exceeds the level of existing EPA/FTA concessions. Assuming the WTO negotiations are not progressing, there is a possibility that EPA/FTA may further progress. It is most important for Japan to establish food security in order to supply food to Japanese citizens stably.

Key words: the EU's agricultural policy, the WTO negotiations, food security

1. Introduction

The Uruguay Round negotiations were started in September 1986 and were concluded in December 1993. After that, the temporary organization the GATT (General Agreement on Tariffs and Trade) was strengthened, and the WTO (World Trade Organization) was officially established as an international organization in January 1995. The WTO Agreement, which incorporates the results of the Uruguay Round, came into effect.

Under such circumstances, the Basic Law on Food, Agriculture and Rural Areas (hereinafter referred to as the "New Basic Law") was enacted in July 1999 after about 40 years from the stipulations of the Agricultural Basic Law (Ministry of Agriculture, Forestry and Fisheries, 2008). The Uruguay Round Agricultural Agreements related Measures in October 1993 stipulating "starting the examination toward the definition of a new basic law that will replace the Basic Law on Agriculture" triggered an end to the Agricultural Basic Law. As for the relationship between the WTO Agricultural Negotiations and the New Basic Law, in anticipation of the full-fledged WTO agricultural negotiations at that time, Japan decided aggressively to insist that the principles and measures stated in the New Basic Law should be structured as the WTO rules.

It has been about 20 years since the new basic law was enacted. Meanwhile, international negotiations surrounding trade have been shifting internationally from WTO to EPA

(economic partnership agreement)/FTA (free trade agreement). Therefore, in discussing the Japan's agricultural policy in the future since the enactment of the New Basic Law, changes in the external environment in consideration of international negotiations such as WTO, TPP/TPP11, and FTA, and corresponding agriculture policy in Japan will be analyzed.

Firstly, the WTO negotiations, that were considered to have a significant impact on Japan's agriculture when the New Basic Law was established, will be discussed. Secondly, TPP, which has already implemented domestic countermeasures in Japan, will be discussed. The TPP agreement concluded negotiations at a very high level of ambition for Japan, and therefore it is necessary to discuss the characteristics and evaluation of the negotiations when considering future international negotiations and corresponding domestic countermeasures. The EU's agricultural policy will be discussed at the same time. Then, ways to proceed with international negotiations and the prospect of policy response in anticipation of the next 20 years will be discussed.

2. Circumstances of International Negotiations and Corresponding Domestic Countermeasures

1) The WTO agricultural negotiations

(1) Japan's response

Japan recognized that the WTO agricultural negotiations

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were extremely important negotiations in which the fundamental direction of the world-wide agricultural policy in the 21st century would be determined. The negotiating proposal by Japan on the WTO agricultural negotiations (Ministry of Agriculture, Forestry and Fisheries, 2000) was presented to realize its contents to the WTO rules in December 2000. The root of the claims in the Japanese proposal is based on the basic philosophy of coexistence of diversity of agriculture. On that basis, it considered the multifunctionality of agriculture (Ministry of Agriculture, Forestry and Fisheries (2019)) and food security as global common issues, and corrected the unfairness in the rules of exporting countries and importing countries. Furthermore, the concerns of developing countries and civil society in each country should be taken into consideration.

(2) EU's response

The EC (the EU since the Maastricht Treaty came into effect in 1993) undertook a major policy shift from the consumer burden to the taxpayer burden by implementing the McSharry reform during the Uruguay Round negotiations in 1992. In particular, the support price (intervention price) by the EU was lowered. As a result, for agricultural products in the EU, prices fell and this has led to strengthening price competition and approaching international prices. In addition, producers' income decreased because the price of agricultural products in the EU decreased. Hence, direct payment with production adjustment (Set-Aside) was introduced in order to compensate for this income decrease. The reason for the condition of production adjustment was the suppression of overproduction. The direct payment was the so-called couple payment, which was paid according to the planted area, based on the payment unit price decided for each item.

The EU presented Agenda 2000 in 1999, which was intended to further promote the McSharry reform between 2000 and 2006. The main trigger factor in organizing Agenda 2000 was the existence of Central and Eastern European countries that were trying to join the EU.

Environmental protection measures were introduced as an optional provision as a matter of compliance (so-called cross compliance) for receiving direct payment accompanied by production adjustment. In addition, so-called modulation measures were introduced as an optional provision to reduce the budget for direct payment and transfer the resources to the rural development policy budget. Thus, price and income support policy (the first pillar) and rural development policy (second pillar) were introduced in the EU's agricultural policy.

The EU further implemented the Fischer reform in 2003. This reform was regarded as an interim review of Agenda 2000. With regards to direct payment with production adjustment, which is regarded as blue policy, there was also a movement that was targeted for reduction in the WTO negotiations, so it is also included to try to convert into decoupled payment which is regarded as green policy.

(3) Movement towards the conclusion of the WTO negotiations

Japan and the EU have made efforts to conclude the Doha WTO negotiations with the above negotiation policies. However, the WTO negotiations have not been concluded yet.

(4) Differences in response methods for negotiations between Japan and the EU

When comparing Japan and the EU policies regarding the response to the WTO agricultural negotiations, what is clearly different is whether it is proceeding with negotiations while advancing domestic reform.

As already stated, it was aggressive of Japan to have insisted that the principles and measures stated in the New Basic Act be firmly structured in the WTO rules.

On the other hand, for the EU, after implementing domestic reforms towards the WTO agricultural negotiations, the need to obtain strong negotiating power was obvious. For this reason, it was thought that the EU had taken a superior position on domestic support issues so that it would be able to deal on the WTO negotiations by advancing its own CAP reform.

2) From the WTO negotiations to the EPA/FTA negotiations

(1) Japan's response

Japan has implemented various domestic policy measures such as formulating food, agriculture and rural basic plans for measures based on the principles of the New Basic Act in response to the circumstances surrounding agriculture in Japan. In particular, Japan has established vitality creation plans for agriculture, forestry and fisheries, and the region since May 2013. Under these circumstances, Japan has been implementing various system reforms, such as the introduction of a Japanese-style direct payment system and cross-sectional management stability measures that have significantly changed the policy system in light of the WTO rules. In this way, agricultural administration reforms have implemented in Japan.

The first EPA negotiation between Japan and Singapore was started in January 2001. Then, Japan-Singapore EPA

came into effect in November 2002. Subsequently, 17 EPAs have come into force, from the EPA with Mexico, which came into force in April 2005, to the EPA with the EU, which came into force in February 2019 in Japan. Among them, domestic countermeasures, which are described in the comprehensive TPP-related policy outline, have been taken because the level of ambition was very high in TPP. In this respect, domestic countermeasures are implemented based on the results of international negotiations, which would affect domestic agriculture in Japan.

(2) The EU's response

The number of economic partnership agreements and trade agreements including customs union which become effective in the EU is now 36, of which 25 have been effective since the 2000 European Commission (2018b). The number is large compared with Japan. However, unlike the time of the WTO negotiations, the EU does not undertake domestic reforms to promote EPA/FTA, but rather focuses on the CAP budget, which accounts for about 40% of the EU budget in recent years as the reduction trend continues (European Commission, 2018a). The EU tries to focus on seeking understanding from the citizens of member countries to maintain the CAP budget.

The EU decided to implement decoupling policy from 2010 as a CAP reform in principle. As for modulation, it was decided to strengthen the phase out of the direct payment budget and allocate the modulation to meet new policy issues such as climate change, renewable fuels and appropriate water management in rural development policy.

While the EU put pressure on fiscal reduction, it was necessary to gain the understanding of citizens about the fiscal burden of the agriculture field by emphasizing the provision function as a public good such as environmental preservation possessed by agriculture. Then the EU decided to implement CAP reforms in 2013.

With regards to price and income policy (the first pillar), a full review was conducted on direct payments from the perspective of implementing imbalance correction among member countries. Concerning the rural development policy (the second pillar), member countries and regions are supposed to formulate a rural promotion program. It can be freely selected and executed under their own comprehensive operational plan. Furthermore, flexible budgeting between the first pillar and the second pillar (members can move up to 15% of budget in both directions) was chosen instead of the conventional modulation. In addition, member countries

with low direct payments can transfer to the first pillar up to 25% of the second pillar.

In this way, the CAP reform in 2013 can be said to be a reform with an increased degree of freedom in that the member countries and regions were given more discretion. In addition, it can be said that it is a reform that has been forced to implement environmental-friendly policies and strengthen the role of agriculture as a public good in order to respond to CAP budget reduction pressure.

The EU continues to support European farmers for sustainable and competitive agriculture as the next CAP reform plan (from 2021). The law (Legislative Proposals) was published with the aim of resonating with the current and future challenges by the EU in June 2018.

3. Prospective Ways to Proceed with International Negotiations and Policy Responses in Anticipation of the Next 20 Years

1) How to proceed with international negotiations

As for the WTO negotiations, Japan formulated and dealt with Japan's proposal as a negotiation policy. On the other hand, the EU dealt with domestic reform ahead in the WTO negotiations.

The fact that Japan has proclaimed Japan's proposal means in the WTO negotiations, in a sense, to clarify the negotiation policy to the other countries and regions. As a result, it would be possible for other countries and regions to respond based on the contents of Japan's proposal, and it would also make it easier to set up a strategy.

As in the EU, leading domestic reforms can be used as a shield in the WTO negotiations. As preceding domestic reforms in the EU, the negotiating partners make the EU's negotiation strategy clearer, which makes it easier to set up a strategy similar to Japan's proposal. However, as the EU has incurred the cost of preceding domestic reform, it is claimed that if the negotiating partners cannot give any concessions, it is not necessary to move even one step. In this way, it is possible for the EU to undertake a strategy to promote concessions of the negotiating partners by making a concession by itself. The EU's market size is large enough to have a significant impact on international negotiations.

Regardless of which strategy is used, Japan and the EU have in common that it is not possible to easily make concessions by exposing the inside of the hand to the negotiating partners. Japan is also implementing domestic reforms according to the situation surrounding agriculture in

Japan. However, it cannot lead domestic reform with international negotiations in mind as in the EU.

While it is difficult to conclude the WTO negotiations, many countries have shifted their focus to the EPA/FTA in order to promote free trade. Among them, Japan has dealt with the Japan-Australia EPA and TPP negotiations supported by the Diet resolution (House of Councilors, 2006, 2014, House of Representatives, 2014a, 2014b). As a result, those negotiations were concluded and in particular, a domestic countermeasure in TPP was compiled as a comprehensive TPP-related policy outline. Similarly, in the case of the Japan-EU EPA, a comprehensive package of policies related to TPP was put together. Above all, with regards to TPP/ TPP11, the Government's TPP Headquarters in the Cabinet Secretariat has centrally conducted negotiations and coordinated domestic countermeasures. Japan is in a situation where the KPI (Key Performance Indicator) with an FTA ratio of 70% or more is set by 2018 in the Japan Revitalization Strategy, and a further increase in the FTA ratio is required. For this reason, it is necessary to keep in mind movements such as the Japan-US Trade Agreement on Goods (TAG) in which the United States is a negotiating country.

When boldly looking at the next 20 years under such circumstances, the political and economic situation of each country and region will be completely different from the present. In particular, it is thought that there will be an increase in food demand due to population growth and other factors, and a decrease in production due to the effects of climate change. In this way, food demand and supply would be affected by various factors. With this in mind, looking at the next 20 years, with regards to international negotiations, each country and region, including Japan will consider the interests of the citizens of that country or region, and on that basis, the citizens will be able to accept the negotiation results.

In the case of Japan, how to establish Japan's food security is the most important. In other words, it will be fundamental to operate from the perspective of establishing food security in Japan when carrying out international negotiations. As for how to proceed with international negotiations in the future, it is necessary for all countries and regions to further develop and cope with the idea of strengthening global food security discussed at the G7 Niigata Agriculture Ministers' Meeting held in April 2016. However, the direct trading bargaining chips will be focused on the level of ambition in actual negotiations and the other factors are often not trading

bargaining chips. For this reason, it is necessary to have a firm theoretical armament so that food security can become a bargaining chip in the negotiations. In addition, it is thought that there may be further technological innovation and structural reform in agriculture through the use of artificial intelligence (AI) toward the realization of Society 5.0 in the future. Due to the diversification of technologies applicable to agriculture, the production cost of agricultural products in Japan will be lowered. In this way, if the agriculture sector is further developed as an export industry in Japan, it might possibly take a strong position in international negotiations as a result.

2) Policy response

In the future, looking at 20 years, it is necessary to consider cases where WTO negotiations proceed (Scenario A) and cases where WTO negotiations do not proceed (Scenario B).

Scenario A, unlike EPA/FTA, cannot deny the possibility that the rules of domestic support is strongly required. In this case, it may be possible to demand a shift in green box policies from yellow and blue box policies as to domestic measures that are required to be subject to reduction in the context of the WTO rules. There is also the possibility of aiming at a level exceeding the existing EPA/FTA concession level from the perspective of promoting free trade in the world as the WTO in view of the position of countries and regions left behind from EPA/FTA. If the WTO's concession level exceeds the so-called the mega-EPA/FTA's concession level and then are required to change domestic measures, it may be necessary to take domestic counter-measures such as legal reform and budgeting.

As for the treatment of developed countries, even though developed countries develop economically further, it would be possible for those countries to maintain treatment in developing countries for their benefit. In this case, it would be very difficult for the WTO negotiations to continue to move forward toward a conclusion. Therefore, it is needless to say that it would be necessary to have major political involvement such as at the leader's level of each country in order to proceed with the WTO. The WTO should be able to respond to countries and regions left behind from EPA/FTA because the WTO has an advantage in the fact that it is free from the complicated rules of various EPA/FTA.

In Scenario B, EPA/FTA may further progress. EPA/FTA is characterized by the fact that border measures can be determined much more flexibly and the domestic support rules cannot be required in comparison with the WTO. In a

sense, EPA/FTA is much easier to advance than the WTO. Non-participant countries and regions in EPA/FTA would be treated discriminatorily compared to participating countries and regions, because of losing profits from free trade.

Japan is currently in the process of negotiating the East Asia Region Comprehensive Economic Partnership (RCEP) and has agreed to start TAG negotiations with U.S..

Thus, if EPA/FTA is advanced with Asian countries, the United States and others, Japan will form a wide free trade zone with its major trading partners and regions. In particular, the level of ambition of the TAG, to which the U.S. with the greatest influence on the global economy, is a partner, would be important in the future.

4. Conclusion

While economic growth is required under a declining population in Japan, Japan has decided to extend a new economic order to the world based on free and fair rules. The political and economic situation in each country and region will change significantly over the next 20 years. In particular, the global population growth, the changes in eating habits due to income growth, the effects of climate change, and other factors affect the environment surrounding agriculture, including trade. Above all, the way of proceeding with international negotiations and the prospect of policy responses will differ greatly depending on how the WTO negotiations are progressed.

In scenario A (assuming the WTO negotiations proceed), it is possible to demand a shift to green box policies for domestic support measures and also aim to achieve a level that exceeds the level of existing EPA/FTA concessions. In this case, it may be necessary to take countermeasures such as new legal reforms and budgets. In addition, in scenario B (assuming the WTO negotiations are not progressing), there is a possibility that EPA/FTA such as RCEP and TAG may further progress.

As for how to proceed with international negotiations considering Japan's responsibility as a country, it is most important to establish food security in Japan, as it is necessary to supply food to Japanese citizens in a stable manner.

The policies of the EU focusing on the environment that emphasize the role of agriculture as a public good also need to be incorporated into the concept of food security in order to arm this theory. In addition, from the viewpoint of affecting international negotiations, it is necessary for Japan to make efforts to obtain support from various countries in

terms of strengthening food security in the world.

As for the policy responses required as a result of international negotiations, it is most important to have the Japanese citizens interested and to gain an understanding on this issue. In particular, it is considered necessary to take countermeasures to ensure that important items of agriculture, forestry and fisheries products can be reproduced continuously.

(All the opinions in the thesis are the author's personal views, and they do not represent the organization to which the author belongs.)

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