農経論叢 Vol. 53 (1997) Mar. pp. 193−209
The Review of Agricultural Economics

Purpose and Mechanism of Agricultural Price Policy in Japan

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Introduction

In January 1995, the World Trade Organization (WTO) was established and an agricultural agreement came into effect. This prompted member countries to reduce agricultural price support systems and promote free trade. Compared with other advanced capitalist countries, Japan has more firmly entrenched agricultural price support systems. Japan has therefore come under strong pressure from both within inside the country and abroad to review its price support systems. As a result, in December 1994, the Food Control Law, which had served as the pillar of Japan's price support systems, was abolished. This triggered a comprehensive review of agricultural price supports. This review process, however, does not negate the need for policies to ensure stable prices for agricultural products. Past agricultural price policies must be re-evaluated and their functions improved.

As a preliminary part of function improvements, this paper focuses on clarifying the objectives and mechanisms of Japan's agricultural product price policies by major agricultural product. This paper consists of (1) the historical background of the introduction of agricultural price policies in Japan and their later development, (2) classification of Japan's agricultural price policies by price support system and outline of their mechanisms and distribution routes by item for each classification, and (3) recent trends in agricultural price policy budgets and the latest development in price and distribution policies.

1. Historical backgrounds of the introduction of agricultural price policies and their objectives

(1) Historical backgrounds of the introduction of agricultural price policies and later development

Rice provides a fair representation of Japan's agricultural price policies. Control of the rice market began as a response to the rice riots of 1918. When World War I ended, Japan sent troops to Siberia, in an attempt to interfere in Russian affairs after the Russian Revolution of the previous year. Rumors spread throughout the country that large amounts of rice would be transported to Siberia. Merchants anticipating sky rocketing prices attempted to corner the rice market. Over several months, prices of polished rice for general consumption doubled or tripled. Workers and housewives, enraged over the high price of rice, attacked rice merchants, warehouses, municipal offices and police stations. Rioting spread across Japan and more than 8,000 people were arrested.

The rice riots convinced the National Government of the necessity stabilizing the price of rice, Japan's staple food. Accordingly, the Rice Law was enacted in 1921. The Law allowed the National Government to purchase and sell rice, but had little effect. As a result, the Rice Control Law was enacted in 1933. This Law allowed the National Government to purchase and sell rice within a fixed price range. In other words, the Law enabled indirect control of rice prices based on free trade and setting prices for rice. However, the Sino-Japanese War broke out the same year and the Rice Distribution Control Law was enacted in 1939

as a wartime restraint measure. In the following years, the food situation worsened and free rice trading was prohibited. The National Government ordered producers to sell their rice at official prices and distributed rationed amounts of rice to consumers. This process was made into law under the Food Control Law of 1942. The Law defined products such as rice, wheat, potatoes, vegetables, marine products and processed foods as controlled materials, and they were distributed to consumers by the Food Corporation (Shokuryo-eidan).

After the end of World War II, the food situation improved and food controls under the Food Control Law were gradually abolished. Only rice and wheat remained under direct control. In 1952, indirect controls on wheat were initiated.

Even after food controls were abolished and agricultural products and food were distributed in a free market system, the need remained for stabilized management of agricultural producers and consumers' household economies through agricultural price policies. In the 1950's, it was necessary to support prices of agricultural products so as to increase food production. In the 1960's, the growing economy created income differences between urban commercial and industrial workers and farmers, and agricultural price policies were used as a means to reduce this difference. Consumers faced rapidly increasing prices due to Japan's economic growth, and it therefore became necessary to stabilize prices of food essential to everyday life. However, when Japan's economy was opened to the rest of the world in the early 1960's, agricultural trade was also liberalized. Many agricultural price policies after the 1960's were established to ease economic burdens on agricultural producers which accompanied liberalization of agricultural trade earlier in the decade and the fall of domestic prices for agricultural products.

After World War II, agricultural price policies in Japan covered an increasing number of items. In recent years, approximately 80% of agricultural output has been directly or indirectly subject to price policies.

However, in the early 1980's, agricultural production in Japan had actually become excessive and need grew across the country for a government response to the financial crisis and international trade policies. Since the mid-1980's, agricultural price policies have been reduced and restructured and have adopted market mechanisms. Agricultural price policies are supposed to be reorganized to serve as deregulation measures. However, importance of domestic agriculture and the need for stable food prices means there is no likelihood of abolishing price policies.

(2) Objectives of agricultural price polices

Agricultural price policies, which are popular not only in Japan, but also in Europe and America, serve the following four objectives :

1) Ensuring farmers' incomes

2) Easing consumer food expense burdens

3) Preventing price fluctuations in prices of agricultural products

4) Adjusting supply and demand for agricultural products

In postwar Japan, agricultural price polices were developed primarily for objectives 1 and 2. However, in the 1980's, these objectives became less important than the latter two. Objective 4 is particularly important, as it concerns responding to food excesses caused by increase of food imports and changes in consumption patterns. Since the latter half of the 1980's, this objective has specifically been realized by the reduction of administrative prices for agricultural products.

Characteristics of Japan's agricultural price policies are that price policies are executed after the organization of distribution systems by agricultural product. The following section will offer 6 classifications of agricultural price policies and explain price policy mechanisms for each major product. Distribution systems will be later shown in figures, where required.

2. Classification of Japan's agricultural price policies and outline of major agricultural products

(1) Controlled price systems (rice, tobacco)

Through official price systems, the National Government controls all of a given product on the market, including imports and exports. When purchasing such a product, the National Government determines purchase prices (producers' price) from producers and sale prices to wholesalers.

A typical product subject to an official price system is rice, which comes under the Food Control Law, enacted in 1942 during World War II. The Law required that farmers sell all their rice to the National Government (excluding that for their personnel consumption). Distribution routes were specified, and rice assemblers were designated by the Minister of Agriculture and Forestry and rice sellers were licensed by prefectural governors. The Food Agency, an external organ of the Ministry of Agriculture and Forestry, and prefectural food offices were in charge of controlling distribution and purchasing and selling rice for the National Government. Based on consultations with the Rice Price Council, the National Government determined purchase and sale prices of rice. According to the Law, purchase prices were maintained at levels high enough to ensure continued production of rice and sales prices to wholesalers were set so as not to hurt consumers' household economies. In the late 1950's, however, a "back spread" appeared, with the government purchase price exceeding the sale price. Producers had little economic motivation to sell rice through distribution routes other than via the government. The National Government determined distribution expenses, including those for assembling, storing and refining rice, as well as profit margins for wholesalers and retailers. Rice distributors appeared to operate on behalf of the National Government.

However, this changed with the enactment of the Voluntarily Marketed Rice System in 1969. As amounts of rice distributed through the system have increased, system's identity has changed. Under the Voluntarily Marketed Rice System, the National Government approves the amount of rice to be distributed and assemblers' organizations (e.g. the National Federation of Agricultural Co-operative Associations, in the case of agricultural co-operative assemblers) and wholesalers hold negotiation to determine rice prices. Under the Voluntarily Marketed Rice System, varieties of rice which are more popular command higher prices than those which are less popular. As a result, the official price system has fallen apart due to the introduction of the Voluntarily Marketed Rice System. Furthermore, an increase in amounts of rice not approved by the National Government for government distribution or voluntarily marketed rice (called illegal or "free" rice) has led to existence of both controlled and free distribution of rice.

Rice shortages caused by a poor harvest in 1993 and acceptance in the Uruguay Round negotiations of minimum access for foreign rice, led to the Diet abolishing the 50-year-old Food Control Law and passing the Law Concerning Supply and Demand of Staple Food and Their Price Stability (the Food Law) in December 1994. According to the Food Law, producers do not have to sell rice to the National Government, which purchases rice only for storage purposes. Ordinary distribution rice consists of voluntarily marketed rice, non-planned distribution rice (rice which can be sold freely after contacting to local Food Agency offices) and free distribution rice (illegal rice). Rice prices fluctuate based on supply and demand. Government rice control systems under the old Food Control Law have completely collapsed.

Figure 1 shows the current rice distribution system under the present Food Law. Besides distribution routes under the old Food Control Law, various distribution routes are now approved. However, the Center for Pricing of Voluntarily Marketed Rice (non-profit foundation) plays a central role in rice price formation. In the Center, bidding for rice is conducted within a certain range.

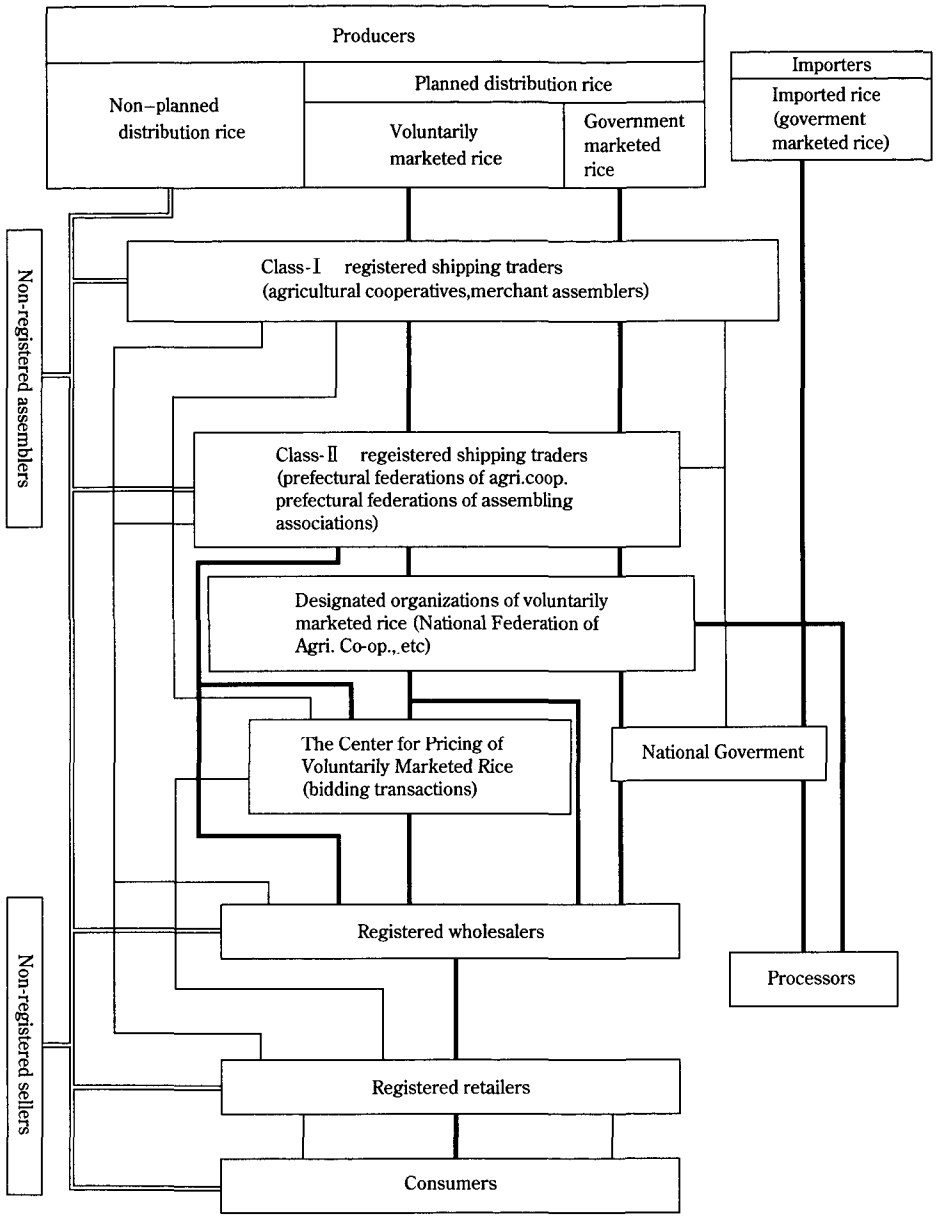

Fig. 1 Rice distribution routes under the new Food Law

Routes under the Food Control Law

Planned distribution rice under the new law

Non-planned distribution rice under the new law

Source : Q & A regarding the new law and rice distribution 1995,Shokei Advice

Tobacco was originally subject to a government monopoly to secure tax revenue and tobacco cultivation was permitted by the National Government. The Japan Monopoly Corporation purchased all production of leaf tobacco at specific prices. In 1984, the tobacco monopoly was abolished and the Tobacco Business Law was enacted. Under the Law, the Japan Monopoly Corporation was reorganized as Japan Tobacco Inc., a special corporation, which purchases all produced leaf tobacco at specific prices, as in the past, based on purchase agreements with producers.

(2) Minimum price guarantee system (wheat, sweet potatoes, potatoes, sugar beets, sugar cane)

Although the minimum price guarantee system is based on free market mechanisms, the system aims to ensure producers' incomes by preventing prices for agricultural products from falling below a given level. Under this system, the National Government, or government-affiliated organizations, purchase the agricultural products, or primary processed products, and guarantees, either directly or indirectly, a minimum price.

Wheat has been covered by the minimum price guarantee system longer than any other crop. When the Food Control Law was revised in 1952, the minimum price guarantee system excluded wheat from direct control.

Since then, wheat has in principle been freely sold and distributed. At the same time, the free sale and distribution system allows the National Government to purchase, at producer request, unlimited amounts of wheat, at prices determined separately by the government (Fig. 2). In practice, a large back spread has emerged between the government purchase price and sale price (government sale price to millers, refiners, etc.). Producers sell all their wheat to the government, and the

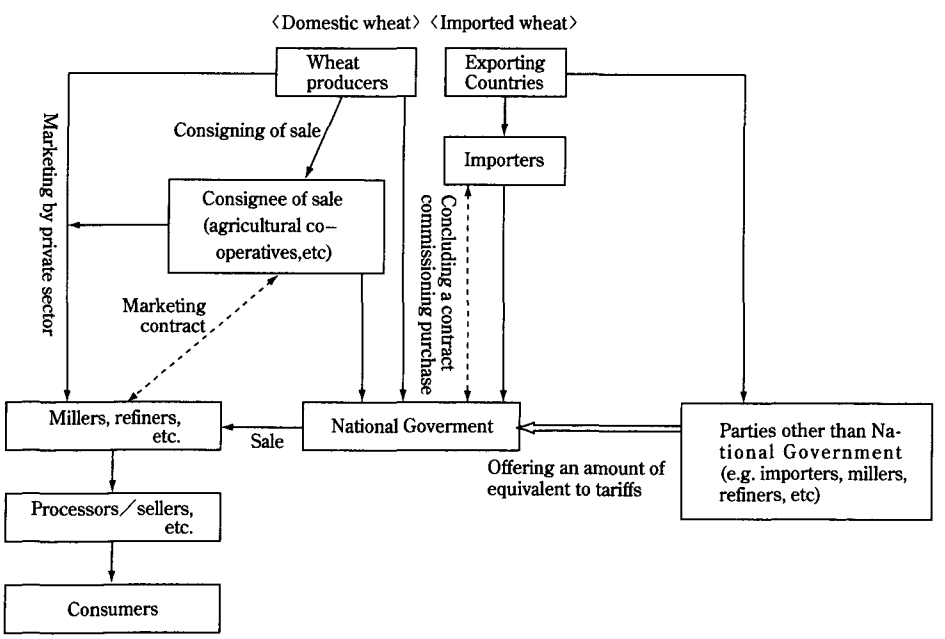

Fig. 2 Mechanism of wheat distribution

Source : Ministry of Agriculture, Forestry and Fisheries materials

free sale and distribution system is almost identical to the government sale and distribution system. Barley for brewing of beer however is produced based on agreements between producers and breweries, and the National Government does not purchase barley for brewing of beer.

Imported wheat is also controlled by the government, based on purchase commission agreements with importers. The National Government purchases all imported (foreign) wheat and sells it to millers and other traders. A wide regular spread exists between the government purchase and sale prices of imported wheat and the National Government's Food Control Special Account realizes large margins. However, as shown earlier, there is a large back spread between the government purchase and sale prices of domestic (homegrown) wheat. Consequently, the cost pool system for domestic and imported wheat, as shown in Fig. 3, was established in 1980 to ease public financial burden.

Furthermore, based on the Uruguay Round agreements, cross-border wheat transactions are subject to tariffs. Wheat can be imported privately on condition that importers offer Tariff Equivalent (TE), an amount of money equivalent to tariffs, to the National Government. While conventional government imports have continued and expanded as Current Access, gaps between the government purchase and sale prices have been recognized internationally as mark-ups (However, mark-ups will be reduced by 15% over a 6-year period).

Based on the Agricultural price Stabilization Law (enacted in 1953), the National Government determines standard prices for sweet and white potatoes used as raw materials of starch. In regards to starch made from sweet potatoes and potatoes purchased at prices above the standard price, when the market price for starch stagnates, the National Government purchases starch from producers' organizations at the standard purchase price ; when the market price for starch recovers, the government sells the purchased starch above the standard purchase price. Through this process, the National Government guarantees a minimum price for producers. However, the government has not purchased starch since FY 1978 and all starch stockpiles were sold in FY 1980–82. Since FY 1981, the National Government has had no financial burdens regarding potatoes used for the

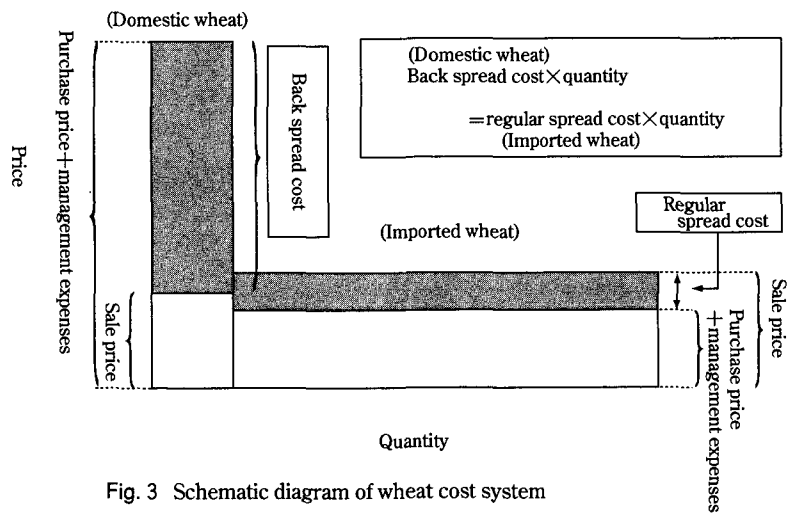

Fig. 3 Schematic diagram of wheat cost system

Source : Overview of Agricultural Price Stabilization Systems 1996, Ministry of Agriculture, Forestry and Fisheries

production of starch. Furthermore, combination sales of imported and domestic potato starch are conducted based on a tariff quota system applied to corn used for corn starch, so that the prices for domestic potato starch can be stabilized indirectly.

As for sugar beets and sugar cane, a corporation (currently the Japan Raw Silk and Sugar Price Stabilization Corporation) purchases and sells sugar made from these plants to guarantee minimum prices for producers of sweetening resources, based on the same practices as those used for potato starch. A portion of corporation's budget for purchase and sale is subsidized by the National Government. Furthermore, a certain portion of budget is appropriated from the profit obtained through the linked operation of the price stabilization systems of domestic and imported sugar. The linked operation includes unitary imports of foreign sugar (raw sugar) and the resale of imported sugar through Shunkantacchi (simultaneous purchase and sale). This operation is based on the Law Regarding Sugar Price Stabilization (1965).

The minimum guaranteed price of the above-mentioned crops (dry field crops) is calculated, in principle, based on the standard price (the previous year's determined price × the rate of increase of the agricultural parity index over the previous year), taking into consideration production costs, commodity prices, supply and demand, and other economic factors. The agricultural parity index indicates rates of increase of costs for agricultural production and consumption goods bought by the average farmer over costs for the basic year. This calculation method is intended to slide price increases for agricultural products in proportion to increases in prices of goods purchased by farmers. This calculation method is disadvantageous to producers because the agricultural parity index does not reflect salary levels of urban workers. However, it favors producers because increases in production and labor productivity are positively reflected in their net incomes.

(3) Price stabilization range system (pork, beef, cocoon, raw silk)

Although the price stabilization range system is based on free market distribution, the system is intended to stabilize market prices within a certain range through purchases and sales by government-affiliated organizations. Designated meat (pork, beef) are typical products of Japan's price stabilization range system. Similar price stabilization range systems are conducted for cocoon and raw silk.

Figure 4 shows Japan's distribution routes for meat (pork, beef). Most meat is distributed through the Meat Processing Center (integrated processing facility for slaughtering, dismembering and cuts, established with subsidies from the National Government and with capital investment by local governments, federations of agricultural cooperatives, meat processors, etc. The carcass price is determined by the wholesale meat market and becomes the standard for meat trading. It is therefore necessary to maintain meat prices at certain levels on the wholesale market to ensure stability for meat production and stockbreeders in Japan.

In 1961, the Law Regarding Livestock Product Price Stabilization was enacted. The Law specified pork as a designated meat (beef was so designated in 1975). The Livestock Industry Promotion Corporation, a corporation wholly owned by the National Government, purchases and sells meat to maintain the market price within a certain range. After hearing the opinions of the Livestock Industry Promotion Council, the government determines the standard stabilization price (floor price) and the ceiling stabilization price for the year. When the market price (price on the wholesale meat market) falls below the floor price, producers' organizations conduct adjustment-storage of designated meats (for which interest and storage charges are covered by the Livestock Industry Promotion Corporation) or the Corporation conducts purchase-storage of designated meats. When the market price exceeds the ceiling price, the Corporation sells its stored

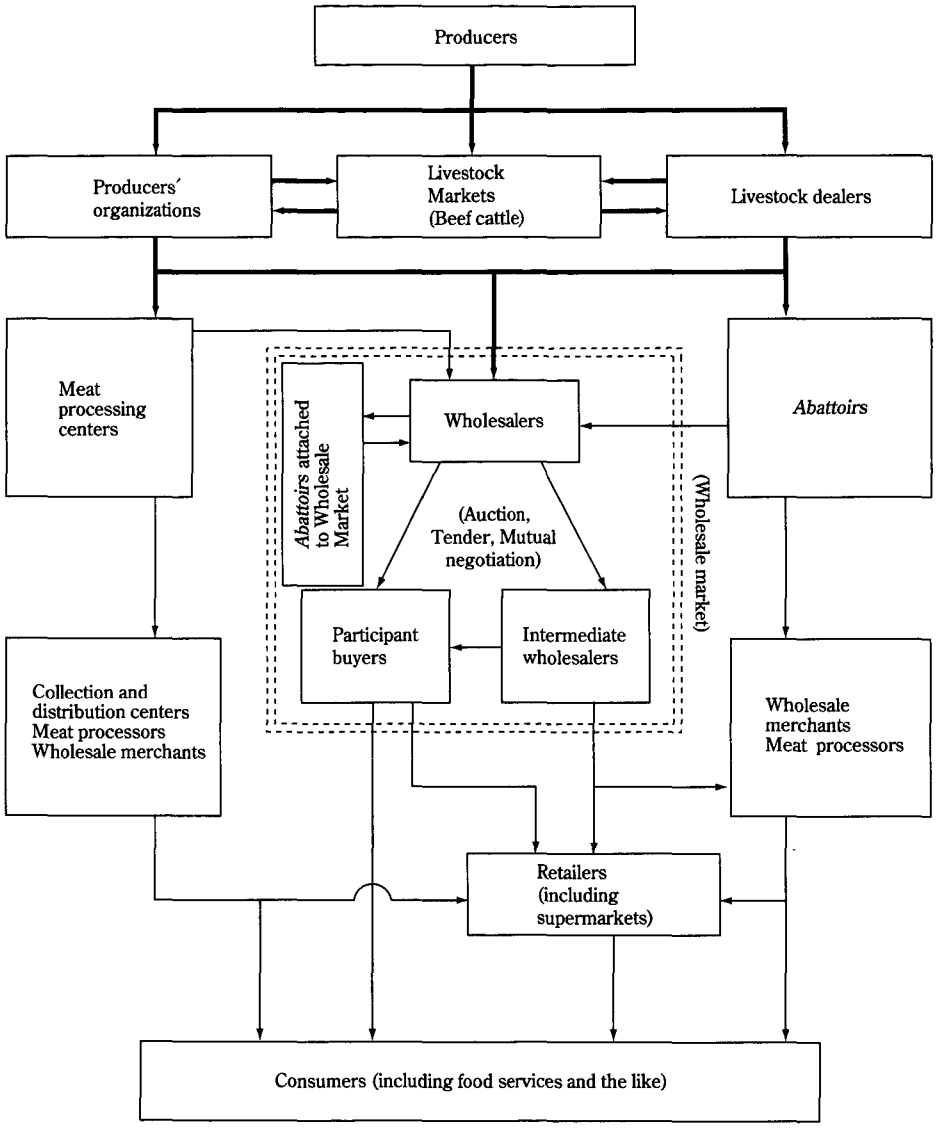

Fig. 4 Distribution routes for meat (beef, pork)

Note : ━━━ : Marketing of livestock.
——— : Marketing of carcasses, cut meat and others.

Source : Ministry of Agriculture, Forestry and Fishries' materials

meat. Furthermore, tariffs are reduced or exempted to promote imports when pork prices rise sharply (Fig. 5).

As for cocoons and raw silk, the Japan Raw Silk and Sugar Price Stabilization Corporation, a corporation wholly owned by the National Government, purchases and sells raw silk to maintain its price, as stated in the Raw Silk Price Stabilization Law (enacted in 1951), within a range between the standard stabilization price (floor price) and the ceiling price. This process indirectly ensures acceptable cocoon prices. In the past, the Corporation was the sole importer of raw silk. However, based on the Uruguay Round agreement, this monopoly was abolished and the private sector can import raw silk. However, the Corporation continues to collect and utilize some raw silk equivalent to tariffs through the Shunkantacchi-hoshiki (simultaneous purchase and sale method), to stabilize sericulture management.

(4) Subsidy (deficiency payment) system (soybeans, rapeseeds, milk for processing)

Before the passage of the Agricultural Act 1996, subsidies (deficiency payments) served as the pillar of the U.S. agricultural price support system. In Japan, soybeans, rapeseeds and milk for processing are covered by a subsidy system. Under the subsidy system, the National Government determines the required standard price to ensure continued production (or the guaranteed price), based on the freely-established market price. When the market price falls below the standard price, the National Government pays the difference out of the budget.

In regards to soybeans and rapeseeds, measures to compensate for import liberalization are taken according to the Law for Provisional Measures of Subsidy for Soybeans and Rapeseeds (1961). Under these measures, the National Government gives the deficiency payment (subsidy provision) equivalent to the difference between the standard price and the average sale price (amount obtained by deducting marketing cost from average sale price for producers' organizations) for soybeans and rapeseeds, the sale of which farmers commission to producers' organizations (Fig. 6). However, only producers' organizations which conduct adjustment sales (through open bidding) in accordance with adjustment sale plans approved by the Minister of Agriculture, Forestry and Fisheries are eligible to receive grants. In reality, subsidies are offered only for soybeans and rapeseeds, the sale of which is commissioned by producers to agricultural cooperatives → prefectural federations of agri-

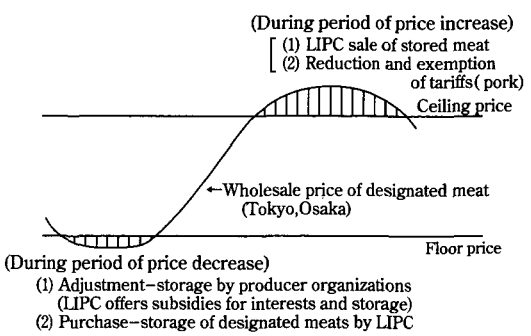

Fig. 5 Mechanism of designated meat price stabilization systems(pork,beef)

Note : LIPC=The Livestock Industry Promotion Corporation

Source : Overview of Agricultural Price Stabilization Systems 1996, Ministry of Agriculture, Forestry and Fisheries

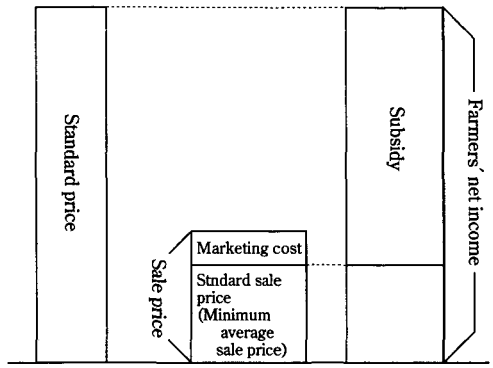

Fig. 6 Mechanism of subsidy system for soybeans and rapeseeds

Note : Standard soybean prices are determined according to type (varieties, brands, grades).
Source : Ministry of Agriculture, Forestry and Fisheries' materials

cultural cooperatives → National Federation of Agricultural Co-operative Associations. In 1987, the Law for Provisional Measures of Subsidy for Soybeans and Rapeseeds was partially revised. A floor price was established as the minimum standard price. Standard prices for soybeans can be established separately by varieties, brands and grades.

In the past, through the Law Regarding Livestock Product Price Stabilization (1961), the Livestock Industry Promotion Corporation tried to indirectly guarantee raw milk prices and stabilize dairy product prices within a certain price range by purchasing and selling designated dairy products (butter, skim-milk powder, etc.). However, in reality, there was a wide gap between milk prices based on supply and demand for designated dairy products, and prices to ensure continued production. As a result, the Law for Provisional Measures of Subsidy for Raw Milk for Processing (Deficiency Payment Law), was enacted in 1965.

The guaranteed price is intended to ensure continued production of raw milk in areas where milk for processing is produced. The standard transaction price is calculated by deducting the standard production and sale costs from the manufacturers' sale price (stabilization index price in the case of designated dairy products) of major designated dairy products. The Deficiency Payment Law stipulates that the National Government is to pay the difference between the guaranteed price and the standard transaction price. However, payment of subsidies to producers places a heavy financial burden on governments. Each prefecture determines maximum amounts to be subsidized. Subsidies are offered through milk producers' organizations designated by prefectural governments. Only one producers' organization is now designated in each prefecture.

In other words, the standard transaction price is the milk price which can be paid by dairy product manufacturers. As a prerequisite for the standard transaction price, the Livestock Industry Promotion Corporation purchases and sells designated dairy products to stabilize their prices. The specific procedure is as follows. The stabilization index price is established for designated dairy products. When the market price falls 10% below the stabilization index price, the Corporation purchases domestic dairy products ; when the market price rises to 4% above the stabilization index price, the Corporation sells its stored domestic and imported dairy products (based on the Law Regarding Livestock Product Price Stabilization).

Figure 7 shows the price of raw milk for processing and designated dairy products and amounts of subsidies in FY 1996.

In the past, the Livestock Industry Promotion Corporation alone imported designated dairy products. However, the monopoly import system was abolished because the Deficiency Law was revised to conform with the Uruguay Round agreement. Imports of designated dairy products and other products are now allowed on condition that Tariff Equivalents are offered. Tariff Equivalents are calculated based on differences between domestic and imported products and therefore for the time being are very high. However, the Japanese government is obligated to reduce Tariff Equivalents by 15% over the next 6 years. As in the case of wheat, the National Government must also ensure current access. Furthermore, the Japanese government pledges that tariffs on designated dairy products and the like will be reduced an average of 36%, and at least 15% for each item, over the next 6 years.

(5) Stabilization fund system (vegetables, eggs, fruits for processing)

The stabilization fund system is intended to

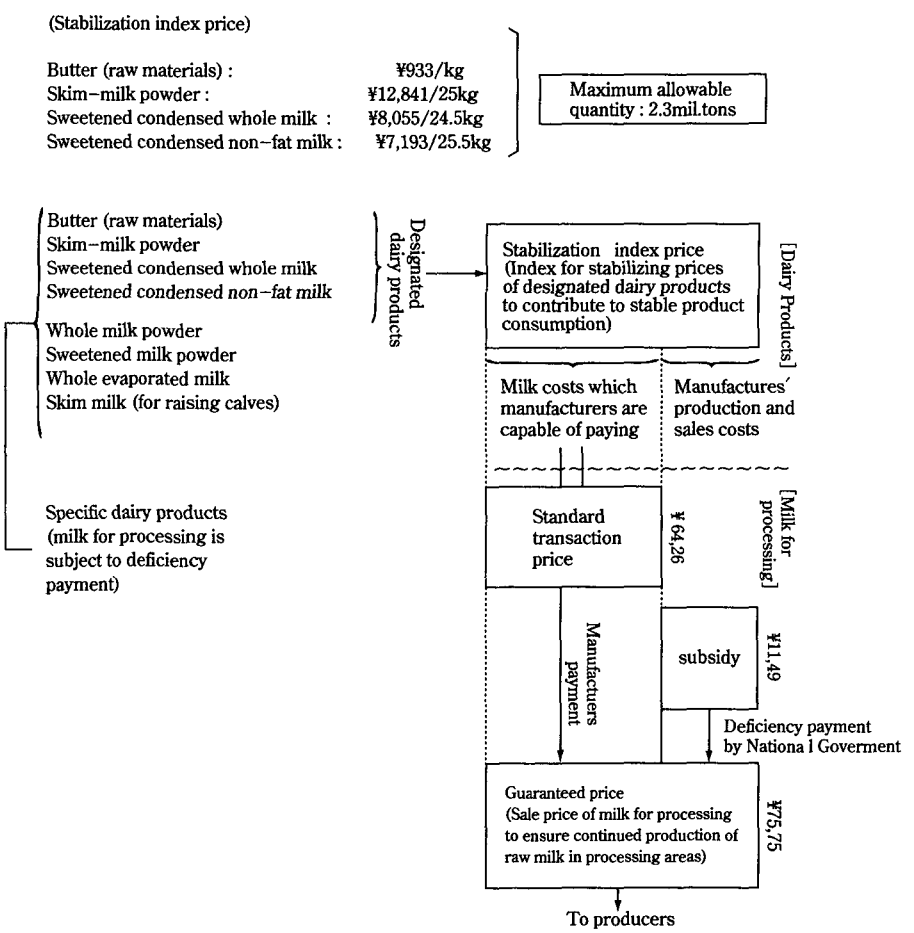

Fig. 7 Price relationship between raw milk for processing and designated dairy products (per kg, FY 1996)

Source : Overview of Agricultural Price Stabilization Systems 1996, Ministry of Agriculture, Forestry and Fisheries

stabilize prices through systematic production and shipping adjustment by producers' organization to prevent price fluctuations. When the price of agricultural products falls below the standard price, a portion of the difference between the standard and the market prices is to be compensated by the fund established mainly by producer deposits. The fund is paid mainly by the national and prefectural governments.

In Japan, 70–80% of fruits to be eaten uncooked and vegetables are distributed through the wholesale market. The establishment of a wholesale market requires permission from the National Government (in the case of central wholesale markets) or prefectural governments (in the case of local wholesale markets). In wholesale vegetable and fruit markets, wholesalers commissioned by producers, shipping and other organizations sell the crops to intermediate wholesalers through auctions, as shown in Fig. 8. Prices established through auctions tend to fluctuate, based on production amounts and shipping.

Therefore, the Law for the Stabilization of Vegetable Production and Shipping was enacted in 1966. The price compensation system for major vegetable items is operated based on the Law. In 1976, the Law for the Stabilization of Vegetable Production and Shipping was partially revised. The Vegetable Supply Stabilization Fund, a national organization subsidized by the national and prefectu-

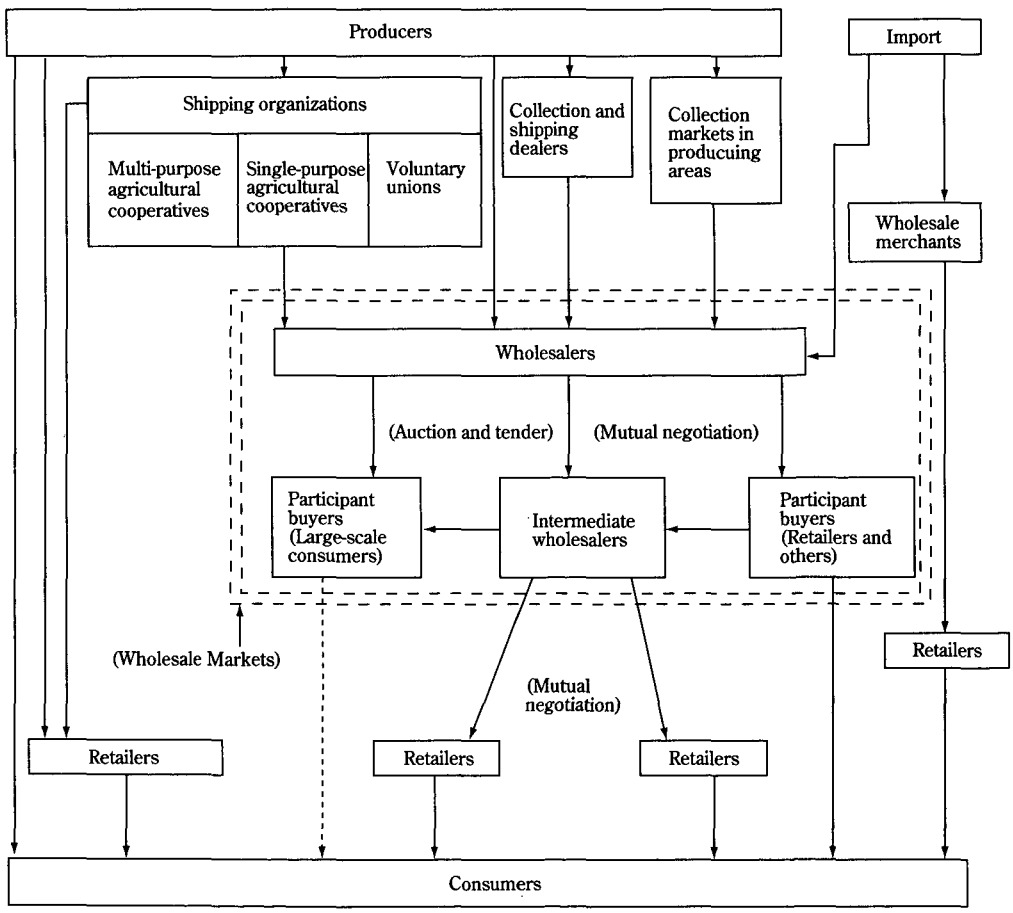

Fig. 8 Distribution routes for fruits and vegetables

Source : Ministry of Agriculture, Forestry and Fishries' materials

ral governments, is in charge of the price compensation system. Specifically speaking, when wholesale market prices of designated vegetables produced in designated vegetable production areas drop significantly in designated consumption areas, the Fund offers subsidies to producers through registered shipping organizations. Fourteen kinds of vegetables are designated : cabbages, cucumbers, taro roots, Japanese radishes, onions, tomatoes, eggplants, carrots, leeks, Chinese cabbage, potatoes, green peppers, spinach and lettuce. Every shipping season for respective designated vegetables (e.g. spring, summer / fall and winter), designated production areas are established by Cabinet order on condition that these areas meet specific requirements, such as size of growing areas and shipping needs. Designated consumption areas are also established by cabinet order in large cities and their adjacent areas. Registered shipping organizations are federations of prefectural agricultural cooperatives, etc., which are commissioned by producers in designated production areas to ship their vegetables. These organizations apply for subsidies from the Vegetable Supply Stabilization Fund and pay burden charges. The fund for price compensation of ordinary designated vegetables is granted by registered shipping organizations (20%) and subsidized by the National Government (60%) and prefectural governments (20%).

The actual mechanism of price compensation is shown in Fig. 9. The average price is calculated based on past market prices adjusted by the wholesale price index, among other indices. The guaranteed price is 90% of the average price. The general subsidy is calculated by multiplying the difference between the guaranteed price and the average sale price (in principle, calculated every season) by 0.9. In the case of general designated vegetables, the general subsidy is offered to producers through the above process. In the case of important vegetables (cabbages, onions, etc.), special subsidies (the above difference × 0.1) are added to the general subsidy. In principle, 55% of the average price is the minimum standard price. When the average sale price falls below the minimum standard price, the difference between the guaranteed price and the minimum standard price multiplied by 0.9 (general designated vegetables) or 1.0

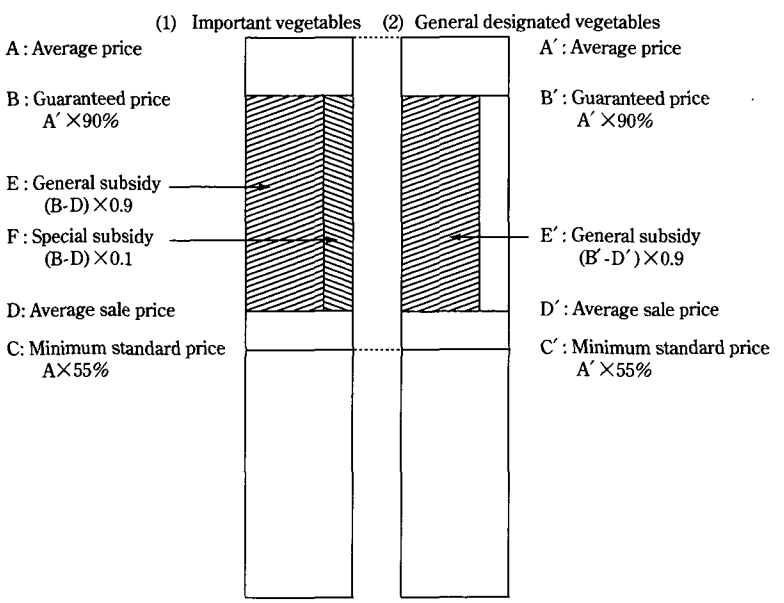

Fig. 9 Subsidy for producers of designated vegetables

Source : Ministry of Agriculture, Forestry and Fisheries′ materials

(important vegetables) is offered to producers as subsidies.

There are two funds for eggs : the National Egg Price Stabilization Fund, established by general agricultural cooperatives and the All-Japan Egg Price Stabilization Fund, established by special agricultural cooperatives. The National Government subsidizes both funds, in accordance with the Guideline for the Enforcement of Egg Price Stabilization Projects (notice from the Administrative Vice-Minister of the Ministry of Agriculture, Forestry and Fisheries). When the standard transaction price falls below the minimum standard price, 90% of the difference between these prices is offered to producers as price compensation through member agricultural cooperatives.

For fruits for processing ("Unshu" oranges, mandarin oranges and apples were originally designated and hassaku and iyokan oranges, peaches and pineapples for juice, as well as Unshu oranges, peaches and pineapples for canning were added.), national and prefectural fruit production and shipping stabilization associations were established. The prefectural associations conduct price compensation projects, subsidized by the National Government. When the average transaction price is lower than the guaranteed price, 90% of the difference between these prices is offered to producers as price compensation through member agricultural cooperatives.

(6) Subsidy system + stabilization fund system (beef calves)

Subsidy and stabilization fund systems are applied for beef calves. When the price of beef calves falls, the National Government offer subsidies to a fixed amount. When the price of beef calves falls beyond this predetermined amount, producers are compensated from a fund established by them.

In 1988, beef imports liberalization from FY 1991 were determined. To deal with the impact of liberalization on beef calf producers in Japan, the Law Regarding Special Measures for Stabilizing the Production of Beef Calves was passed in December of the same year. The producers' subsidy system has existed since FY 1990. Mechanism of the system is shown in Fig. 10. The specific procedure is as follows. When the average quarterly sale price of beef calves (national average) falls below the separately defined guaranteed standard price, subsidies are offered to producers who have concluded a subsidy agreement. Subsidies for producers consist of two portions. When the average sale price of beef calves is between the guaranteed price and the target price for rationalization, subsidies are offered to producers through the National Government → the Livestock Industry Promotion Corporation → prefectural fund associations for stabilizing the price of beef calves. When the average sale price of beef calves is lower than the target price for rationalization, producers are compensated for 90% of the difference between the target price for rationalization and the average sale price. Such compensation is granted by reserves (subsidized by the above Corporation and prefectural governments) for producers of beef calves.

The guaranteed standard price is established to ensure continued production of beef calves. The target price for rationalization is determined through conversion from the domestic beef price to compete with imported beef every five years. The target price for rationalization is now established as 70–90% of the guaranteed price. Both the guaranteed and target prices for rationalization are established for (1) Japanese black cattle, (2) Japanese brown cattle, (3) other types of beef cattle and (4) types of cattle other than beef cattle (e.g. dairy cows).

3. Restructure of Agricultural price Policies and Deregulation of Distribution

(1) Curtailment of agricultural price policy budget

As mentioned earlier, in the early 1980's, the objectives of Japan's agricultural price policies

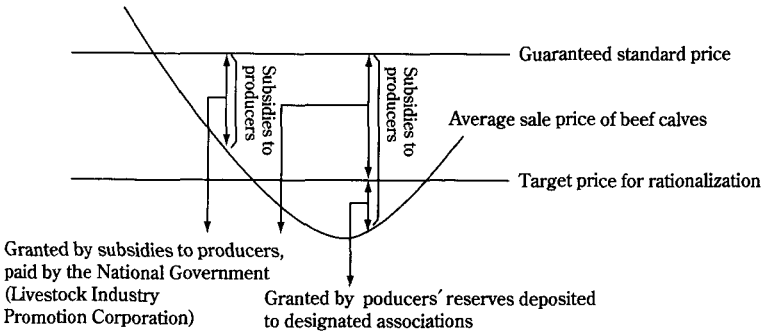

Fig.10 Mechaism of subsidy system for producers of beef calves

Source : Outline of Agricultural Price Stabilization Systems 1996. Ministry of Agriculture, Forestry and Fisheries

shifted from guaranteeing farmers' income and reducing food expense burdens on consumers to price policies reflecting the supply and demand situation. Furthermore, since the Plaza Agreement in September 1985, the function of reducing gaps between domestic and foreign prices has been added to agricultural price policies. As a result, as shown in Fig. 11, administrative prices for all items were pegged in the first half of the 1980's and decreased in the latter half of the decade. The rate of reduction in terms of the government purchase price (1986–1991) for unpolished rice was 12.2%, 17.9% for wheat in the government purchase price (1985–1991), 17.4% for soybeans in terms of the standard price (1985–1991), 17.6% for potatoes in terms of the standard price for raw materials (1985–1991), 16.7% for sugar beet in terms of the minimum producers price (1985–1991), 15.9% for raw milk for processing in terms of the guaranteed price (1985–1991), 26.8% for beef in terms of the standard stabilization price (1985–1996), 37.8% for pork in terms of the standard stabilization price (1978–1996) and 58.0% for raw silk in terms of the standard stabilization price (1980–1995) (figures in parentheses are fiscal years from the peak to the lowest). The rates of reduction for meat and raw silk were large because administrative prices for these products were determined based on supply and demand and reflected increases in exchange rate of the yen and amounts of imports.

As for changes in budgets for agricultural price policies, the peak was FY 1974, more than 20 years ago, with a budget of ¥907.8 billion. Since then, however, the budget for agricultural price policies has been reduced. In FY 1995, the budget was ¥284.8 billion, only 31% of the peak amount. In FY 1974, the budget for agricultural price policies accounted for 45.2% of the agricultural budget ; in FY 1995, the budget for agricultural price policies accounted for only 8.3%. However, expenses for food control necessary for the controls of rice and wheat accounted for 95% of the FY 1974 budget for price policies. The decrease in the budget for price policies reflects the decrease in expenses for food control.

One important point is the budget for agricultural price policies has never been reduced in response to financial crises, a major problem for Japan. This is proved by the fact that in FY 1995, the overall agricultural budget increased to 1.7 times that of FY 1974 and in FY 1985, when the reduction of administrative prices for many agricultural and livestock products began, the overall budget increased to 1.26 times that of FY 1974. This shows that while the budget for price policies has decreased, other agricultural expenditures have increased. The budget for public works, including expenditures for construction and improvement of agricultural infrastructure, have accounted for the majority of budgetary increases. Although the

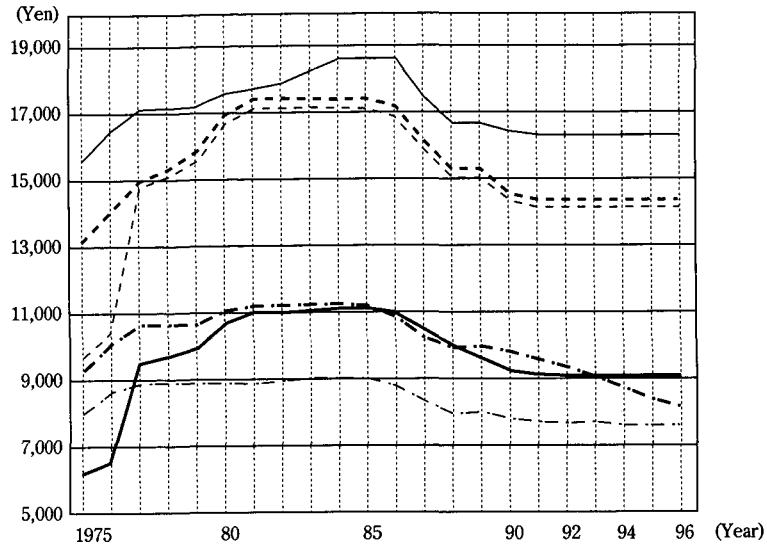

Fig.11 Change in administrative prices of major agricultural and livestock products

——— Goverment purchase price of rice/60kg of unpolished rice
- - - - Standard price of potatoes for raw materials/ton
- - - - Standard price of soybeans/60kg
——— Government purchase price of wheat/60kg
·· —·· — Beef standard stabilization price/10kg
·· —·· — Guaranteed price of milk for processing/100kg

Source : Ministry of Agriculture , Forestry and Fisheries' materials

budget is intended for "public works," major beneficiaries are businesses of civil engineering, construction, iron & steel, cement and machinery. Although the National Government offers large subsidies for public works for agriculture, farmers are required as "beneficiaries" to share such expenses. These expenses are sometimes very large and hinder agricultural management.

Farmers prefer the improvement of agricultural price policies to "public works." However, since the 1980's, Japan's agricultural administration has not been in the hands of farmers or agricultural organizations, but, rather, in the hands of large businesses. It can be said that changes in political powers regarding agricultural administration reflect changes in the above-mentioned agricultural budget expense structure.

(2) Trends in deregulation and its risks

I would like to conclude this paper by introducing the recent trends in agricultural policy and distribution policies.

In December 1994, the Foods Control Law was abolished and the Food Law was enacted (enforced the following year). Due to this change, the National Government plays a much less important role in rice control. It is believed that expenses for food control except production adjustment subsidies will be further reduced. Furthermore, the abolition of the Food Control Law offered the chance for domestic and foreign distribution businesses to participate in the rice market.

The Food Control Law symbolized Japan's postwar policy of protecting agriculture (specifically

speaking, price support systems and regulation of distribution). Japan's large business circles were encouraged by the abolition of the Law. Business circles represented by the Japan Federation of Economic Organizations (Keidanren) have repeatedly asked for further deregulation and urged the overall abolition of economic regulation. To respond to such requests, the Deregulation Subcommittee of the Administrative Reform Committee finalized a report in December 1996. The report focused on (1) the price system of wheat (review of the cost pool system of domestic and imported wheat), (2) raw milk (making prefectural systems of designated raw milk producers' organizations more flexible and abolishing regulations on construction and expansion of dairy plant facilities), and (3) cocoons and raw silk (abolition of the price stabilization system and voluntary inspections). The report suggested that, in regards to competition policies, cartels of various associations, including agricultural cooperatives, not subject to the Anti-Monopoly Law be abolished. Should such cartels be abolished, joint sales and purchases currently conducted by agricultural cooperatives will violate the Anti-Monopoly Law and the entire reason for agricultural cooperatives' existence may be denied.

As the 21st century nears, business circles will take every opportunity to ask for further liberalization of agricultural product distribution (abolition of regulations on participation) and reorganization of price policies. However, if the government readily accepts such requests, Japan's agricultural industry will be forced into a very dangerous situation and the nation's food self-sufficiency rate (present : less than 50% by calorie) will further decline.

Although it is natural to respect the freedom of business in the field of agriculture, it is not reasonable to leave everything to the market economy, given natural constraints upon agriculture and its importance to the national economy. It is essential that the National and local governments regulate and plan agricultural activities. The agricultural price system and distribution regulations serve as 2 pillars for the protection and development of agriculture.

Conclusion

This paper clarifies the following points.

First, Japan's agricultural price policies are divided into the following 6 types : (1) price control system, (2) minimum price guarantee system, (3) price stabilization range system, (4) subsidy (deficiency payment) system, (5) stabilization fund system and (6) subsidy system + stabilization fund system. Depending on types, the degree of government involvement in these systems differs. The difference is due to the characteristics and importance of the agricultural products covered by price policies. Second, since the early 1980's, the objectives of government agricultural price policies have changed. In other words, the ensuring farmers' income and reducing food expense burdens on consumers are now less emphasized than the utilization of price policies for the adjustment of supply and demand for agricultural products. As a result, while the budget for agricultural price policies has greatly decreased since the 1980's, expenditures for agricultural public works have increased.

Note : In 1996, as a result of administrative reforms, the Livestock Industry Promotion Corporation was merged with the Japan Raw Silk and Sugar Price Stabilization Corporation, forming a new corporation, the Agriculture and Livestock Industries Corporation (ALIC).

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