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# Revision of Japan's Basic Law on Agriculture and Its Features

—Improvement of food self-sufficiency ratio and agricultural price policy—

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## Abstract

The Agricultural Basic law was enforced in 1961 with the goal of modernizing agriculture under the three pillars of structural improvement, selective expansion and increase in management scale. It is true that the expansion in scale of agriculture and the enhancement of labor productivity have been promoted as a result of the agricultural modernization policy. Meanwhile, the "natural cyclical function of agriculture" has been substantially lost due to ; the excessive application of fertilizers and agricultural chemicals, soil compaction caused by the use of large machines, and environmental pollution caused by livestock feces. However, the New Basic Agricultural Law enacted in 1999 adopts the same methods and purposes of the old law.

The New Law permits the market to set the prices of farm products, which has resulted in the elimination of the price stabilization policy. This is a radical departure from the Old Law which required stabilization of farm products and securement of farmers' income as measures that should be carried out by the government in order to correct adverse production conditions and agricultural trade conditions.

## Introduction

In April 1997, the Investigative Council on Basic Problems Concerning Food, Agriculture and Rural Areas, an advisory council to the Prime Minister, was launched to start discussion on "revision of the basic policy concerning food, agriculture and rural areas". The Council released an interim report (interim summary) in December 1997 and submitted a report to the prime minister in September 1998. Based on this report, the government drafted a bill for the Basic Law on Food, Agriculture and Rural Areas (referred to in this paper as "New Basic Agricultural Law") and submitted it to the ordinary session of the diet. The bill was enacted as a law in July 1999 and promulgated in the same month. At the same time, the Basic Agricultural Law (referred to as "Old Basic Agricultural Law") which has served as the "constitution of agriculture" for 38 years was abolished.

In this paper, firstly, I will clarify the factors which lead to the enactment of the New Basic Agricultural Law by briefly looking into the background and purposes of the Old Basic Agricultural Law and tracing the development of the situation after its enforcement. Secondly, I will discuss my opinion on issues concerning the policy of improving the food self-sufficiency ratio which was stipulated in the provisions of the New Basic Agricultural Law. Thirdly, I will present my personal view on the virtual abolishment of agricultural price policy which was set forth in the New Basic Agricultural Law.

## 1. Features and results of the Old Basic Agricultural Law

### (1) Background and purposes of the Old Basic Agricultural Law

The preamble and Article 1 of the Basic Agricultural Law contains the phrase "to correct the disadvantages arising from natural, eco-

conomic and social restrictions on agriculture”.

This reflects the situation in the early 1960s when the law was established. At that time, disparities between manufacturing industry and agriculture in productivity and income were expanding under the high economic growth which began in the late 1950s. One of important challenges for the government was to rectify these disparities. Also, in order to stabilize the unsettled political situation following the campaign against new Japan-US Security Treaty in 1960, an agricultural administration was needed which could gain support from farmers and residents of rural villages who composed the majority of the population.

However, if the principle of competition were introduced in agriculture as in the manufacturing industry, the income gap between farmers and those who are engaged in other industries would be widened. Therefore, it was necessary to correct disparities between agriculture and other industries in productivity and income by providing political support for agriculture which had “disadvantages arising from natural, economic and social restrictions”. One of the purposes of the Basic Agricultural Law was to make people realize the circumstances surrounding agriculture and to set the goal of agricultural policy.

## (2) Agricultural price policy and import controls

The Basic Agricultural Law set forth the price policy of farm products and import control policy as means to “correct disadvantages” of agriculture and rectify disparities in productivity and income, as expressly stipulated in Article 2, Article 11 and Article 13 of the law.

Among the measures that the government is required to take under Article 2 is “to stabilize prices of farm products and secure agricultural income so that the disadvantageous production and trading conditions of agriculture

are improved” as stipulated in Section 5 of the same article. To this end, Article 11 provides that “necessary measures shall be taken to stabilize prices (of farm products) taking into consideration the production condition, supply-demand situation and commodity prices and other economic factors.” Also, Article 13 stipulates that, if prices of farm products decline due to imports and it is difficult to improve such a situation by the agricultural price stabilization policy, or by the more extreme measure in which, “adjustment of tariff rates, restriction on imports and other necessary measures shall be taken.”

At the time of enactment, the Basic Agricultural Law was criticized for “abandoning poor farmers” or “paving the way for the import of farm products”. The subsequent development proved these criticisms correct to some extent. However, it is obviously wrong to deny the Basic Agricultural Law in its entirety. Some aspects of the law are meritorious from the viewpoint of solving the problems faced by agriculture today. Among them, above-mentioned provisions (Article 11 and Article 13) are the most important in that they require the government to take measures to stabilize prices and control the import of farm products (adjustment of tariff rates, restriction on import, etc.) for the purpose of “correcting disadvantages” of agriculture.

Under the system of the Basic Agricultural Law, Japanese agriculture has drastically changed. In some cases, farm management utilizing modern machinery and facilities achieved an income level comparable to that of manufacturing workers. Behind the emergence of such upper class management was the price supporting policy based on the Basic Agricultural Law which functioned well at least during the period after the enactment of the law until the mid 1980s, during which farmers’ income had been secured. In addition, as the yen had not appreciated to

its current levels during that period, there had been minimal opposition, both outside and inside Japan, to imports of farm products. After these development, the liberalization of farm product imports progressed steadily. Still, Japan kept placing restrictions on the import of rice, wheat and other important products. What made this possible was the existence of the Basic Agricultural Law containing the import restriction provision as stated above.

**(3) Agriculture modernization policy and its results**

The Basic Agricultural Law primarily aimed at modernizing agriculture. As a means to achieve it, the agricultural structure improvement policy was instituted. Agricultural structure improvement projects that started in the year following the enactment of the law have completely changed the traditional form of Japanese agriculture which was practiced dispersedly on a small scale growing multi-crops with multiple works. Under the government subsidies, agricultural land was rezoned and larger farming lots were created. Then, large machines and modern agricultural facilities were introduced one after another. At the same time, specialization of farm management and the formation of production centers were promoted. Agricultural public works such as the construction of agricultural dams, development of farmland by reclamation and clearing, and construction of agricultural roads and airports, which are now condemned as a waste of money, were carried out as agricultural structure improvement projects or as projects based on the Land Improvement Law.

The agricultural modernization policy provided agriculture-related industries and civil engineering constructors with huge markets. Meanwhile, a number of farmers were forced to give up farming or engage in side jobs due to mounting debts or failure to keeping up with

modernization.

Under the slogan of "selective expansion", dairy farming and horticulture were promoted. On the other hand, production of wheat, beans, potatoes and other products which have traditionally been grown in Japan was reduced sharply. Although dairy farming has grown under the agricultural policy based on the Basic Agricultural Law, most of the feed essential for dairy farming is imported from abroad, which is one of the factors contributing to the substantial decline in Japan's food self-sufficiency ratio (on a calorie basis).

**(4) Deregulation policy and Uruguay Round Agreement**

Triggered by the Plaza Agreement among 5 industrialized countries in September 1985, overappreciation of the yen was effected. As a result, the difference between domestic and foreign prices of farm products widened. Also, as approaches to administrative and fiscal reform started in early 1980s in an effort to deal with the fiscal crisis, the agricultural budget, particularly those items related to the price policy, became subject to cutback. Since the mid-1980s, deregulation has been a basic policy with the ideological background of new liberalism and the idea of "small government". Under such circumstances, the opinion insisting that agriculture is overprotected gained momentum.

It was at that time when the Uruguay Round negotiation of GATT started. After 7 years of negotiation, international agreements including the agricultural agreement were concluded in December 1993 and WTO (World Trade Organization) was founded in January 1995. By accepting the WTO's agricultural agreement, Japan was forced to make a concession tantamount to complete trade liberalization. As for rice, Japan had to partially liberalize the market by accepting the "minimum access" import quota.

These changes in the environment surrounding Japanese agriculture both at home and abroad widened the gap between the actual situation and the Basic Agricultural Law which defined the need for agricultural price policy and import control with the aim of "correcting the disadvantages of agriculture". There emerged the idea of revising the Basic Agricultural Law as a political task. To put it simply, revision of the law was intended to restructure the Japanese agricultural policy to accommodate WTO agreement, or totally liberalized trade system.

## 2 Establishment of the New Basic Agricultural Law and issues to be addressed in improving the food self-sufficiency ratio

### (1) The new law clearly calls for improvement in the food self-sufficiency ratio and an increase in domestic agricultural production

After heated debates and political compromises, it was agreed that increase in domestic agricultural production and improvement of food self-sufficiency ratio be mentioned in the Basic Law on Food, Agriculture and Rural Areas ("New Basic Agricultural Law") enacted in July 1999. To be specific, Section 2 of Article 2 which stipulates the need for food security under the title of "Securing a Stable Food Supply" says, "in consideration of the fact that there are certain unstable factors in the world food trade and supply / demand, this stable food supply to the people shall be secured with increase of domestic agricultural production as a basis, together with an appropriate combination with imports and stockpiles."

Article 15 requires the government to establish a "Basic Plan for Food, Agriculture and Rural Areas" and specifies matters to be stipulated in the basic plan in Section 2, including the target for food self-sufficiency ratio in paragraph (2). Section 3 of the same article pro-

vides: "The target for the food self-sufficiency ratio shall be established in view of improving the ratio and as a guideline for domestic agricultural production and food consumption, while identifying issues which farmers and other relevant parties should address."

Although these provisions are considered insufficient in that they do not refer to concrete measures that the government should take, the fact that "improvement of the food self-sufficiency ratio" "with increase of domestic agricultural production as a basis" is called for by legal provisions is commendable. The question here is what are the "issues which farmers and other relevant parties such as food industries, distributors, and consumers should address".

### (2) Multifunctional roles and natural cyclical function of agriculture are respected

Firstly in this section, I will present my personal view on the issues that needs to be addressed in the agricultural production policy.

Effectiveness of the policy on agricultural production depends on how to put to practice in concrete measures what was required by the New Basic Agricultural Law "with increase of domestic agricultural production as a basis".

Article 4 of the New Basic Agricultural Law stipulates promotion of sustainable agriculture development, a point which I evaluate positively. The following is the full text of the article :

"In consideration of the importance of its conventional role as a primary food supplier and its multifunctional roles, the sustainable development of agriculture shall be promoted by securing agricultural facilities including the necessary farmlands and irrigation / drainage, and a workforce, establishing a desirable agricultural structure with an effective combination of the above elements, based on regional characteristics, maintaining and improving the natural cyclical function of agriculture (The latter

term means the function of agriculture in stimulating the biological and physical cycle in nature while being influenced strongly by the cycle. This is the meaning referred to hereinafter.)”

This article sets forth new roles and objectives of agriculture, which were not mentioned in the Old Basic Agricultural Law.

First, it is stated that agriculture plays multifunctional roles in addition to the role as the supplier of food and farm products. “Multifunctional roles” are defined as “multiple roles that agriculture plays through stable production in rural areas, from the conservation of national land, water resources, and the natural environment to the formation of a good landscape and maintenance of cultural tradition, in addition to its conventional role as a primary food supplier” in Article 3.

Secondly, it stipulates that the natural cyclical function of agriculture be maintained and promoted in order to ensure the sustainable development of agriculture.

Recent trends in the academic circle and public opinion show that necessity of the “multifunctional roles” of agriculture and fulfillment of the cyclical function of agriculture is totally supported. It is not an overstatement to say that national consensus has been formed in this matter. The most important feature of the New Basic Agricultural Law is that the need for fulfillment of the above two functions is stipulated for the first time. This feature is worthy of thought.

**(3) Conversion from the policy oriented on high productivity and large-scale agriculture is necessary**

It should be noted, however, that the two functions mentioned above have been lost under the Old Basic Agricultural Law. As is generally known, the law was enforced in 1961 with the goal of modernizing agriculture under three

pillar themes of structural improvement, selective expansion and increase in the management scale, and thus developing highly productive agriculture.

What was the outcome? As regards the above-mentioned two functions, first, it has become more difficult to perform “multifunctional roles of agriculture” due to the decline and graying of the farming population as well as the increase of abandoned cultivated land in mountainous regions and urban suburbs. Secondly, it is true that expansion of the scale of agriculture and enhancement of labor productivity have been promoted thanks to the agriculture modernization policy. Meanwhile, the “natural cyclical function of agriculture” has been substantially lost as a result of over application of fertilizers and agricultural chemicals, soil compaction caused by the use of large machines, and environmental pollution caused by spill of livestock feces.

Obviously, it is impossible to proceed to the next step without severe evaluation and reexamination of the methods and purposes of the policy under the Basic Agricultural Law, or “the creation of highly productive agriculture through modernization” that resulted in the loss of two functions of agriculture.

However, the New Basic Agricultural Law adopts the same methods and purposes as the old law instead of evaluating and reexamining them. This is evident in the phrases “to encourage the improvement of farm productivity” and “to encourage efficient and stable farm management” that are frequently used in the law. It would be correct to say that these phrases imply an intention to encourage large-scale farm management with high productivity. There has been no change in the methods and purposes of the traditional policy.

**(4) Trends in agricultural policy in Europe and U.S.**

In my opinion, in order to make use of “multi-functionality” and “natural cyclical function” of agriculture, drastic revision of the current large-scale oriented policy is required. Such a shift in policy has occurred in an increasing number of countries in Europe and U.S. The United States has been attaching importance to the study and development of cyclical and organic agriculture since the establishment of the Agriculture Law in 1985. This move came out of reflection on the agricultural modernization policy which gave rise to problems such as the outflow of soil and increase in those farm products whose safety is questionable.

In Europe, conversion from intensive agriculture to extensive agriculture has been promoted since long before out of concern over the situation in which intensive (modernized) agriculture caused over-application of chemical fertilizers and an increase in the rearing density of livestock. In the end, even the groundwater for drinking was contaminated with nitrate nitrogen. In recent years, they are trying to put the brakes on the rise in large-scale and highly productive farming with the aim of conserving the natural environment and securing employment.

The forerunner is France which established the New Basic Agricultural Law (the law for setting the future direction of agriculture) in May 1999. Under this law, the government and each farmer enter into a “national land contract” for the purpose of protecting the environment and supplying safe farm products, and contract farmers receive subsidy from the government. Areas covered by this system are not limited to “less favored areas”. The law requires farm managers including legal entities to obtain permission prior to expanding the farm area beyond the upper limit set by each province. This measure is introduced based on les-

sons learned from past experience that the scale expansion and modernization of agriculture caused many farmers to give up farm management and exacerbated unemployment situation in rural areas. For the future, France will shift its focus towards measures to prevent a further decrease in farmers while offering support to the young farmers of tomorrow.

**(5) Concrete incentive measures are needed for production increase of wheat and soybeans**

As stated above, the New Basic Agricultural Law can be appreciated in that it suggests a new form of agriculture putting emphasis on the multifunctional roles and natural cyclical function of agriculture that was not thought of in the old law. On the other hand, it still sticks to the policy of increasing productivity and the scale of farm management which brought about various problems under the agricultural administration based on the old law. Another problem is that the policy of stabilizing prices of farm products under the old law was abandoned to be replaced by the policy of compensating for the price decline as a perfunctory measure to ensure farmers income. I will discuss this issue later in this paper. This is a question of the basic position of the government: whether the government controls price fluctuation of farm products, or allows market mechanisms to set prices while providing a minimum support.

There is no guarantee that “increase of domestic agricultural production” will be realized. Still, it is apparent that the government is trying to hammer out measures to stabilize agricultural production in order to achieve “improvement of the food self-sufficiency ratio”. One example is its effort to encourage a production increase in wheat, soybeans and forage crops whose self-sufficiency ratios have dropped sharply due to increased imports.

Production increase of wheat and soybeans

was promoted in the mid-1970s when the country was under the threat of food crisis and some degree of success was achieved. At that time, farmers planted more wheat and soybeans because of the financial incentive program. This time, too, success of the production increase measures depends on whether such an incentive program will be introduced. As the price support policy which has long been implemented with respect to wheat and soybeans is to be abandoned, some sort of income compensation should be extended to prevent a decline in farmers' net income. Also necessary are quality improvements in wheat and soybeans as well as the improvement in drainage of paddy fields, which have been neglected so far.

**(6) Departure from reliance on imported feeds and re-evaluation of grassland dairy farming**

Basically, increase in the production of forage crop is attained by expanding grassland area and increasing yield. Another challenge is the departure from reliance on imported feeds. In this regard, the modern form of dairy farming relying on concentrated feeds and shed-rearing aimed to increase cattle numbers and milk production should be re-examined.

The practice of limiting the number of cattle to that which can be handled by family members and fed on the farmer's own grassland and thus reviving the grazing-based dairy farming, which is called "my pace dairy farming", is highly evaluated. This system will help reduce the purchase volume of concentrated feeds made from imported corn. If the dairy cattle were returned to their natural behavior of eating grass, they would become more resistant against diseases, live longer, and their depreciation expenses would be reduced. Moreover, labor in the shed such as feeding and feces removal would be reduced. These merits more than make up for the decline in the gross income re-

sulting from the decrease in cattle number and milk production.

Intensive grazing tried in the Tokachi region was developed based on the idea of the "my pace farming". In this method, the grazing land is divided into several blocks and a herd of cattle move from one block to another in order. It is effective at feeding cattle with nutritious young grass.

If grassland-based dairy farming were widely practiced, the self-sufficiency ratio of livestock feeds would increase. However, considering that the number of cattle and milk production per management unit would decrease, it is necessary to increase the number of dairy farmers in order to maintain and increase the self-sufficiency ratio of fresh milk. To this end, in addition to the maintenance and further promotion of price and income stabilization measures, measures to encourage the start-up of farming must be taken so as to make dairy farming an easy and lucrative business which attracts newcomers.

Along with the revival of grassland-based dairy farming, development and expansion of the method of stock farming that relies on domestic sources of feeds by utilizing feeding rice and turning food wastes and garbage into feeds are the keys to improving self-sufficiency ratio of livestock feeds.

**(7) Shift to the eating habit suitable for the natural features of this country and consumers' awareness**

Lastly in this section, I will touch upon issues relating to food consumption.

Around 1960, when the Japanese people were mainly eating rice and miscellaneous grains, vegetables, and inshore fish and shell fish, a high food self-sufficiency ratio of around 80% (on a calorie basis) was maintained. The self-sufficiency ratio of miscellaneous grains was almost on the same level. Today, that ratio

on a calorie basis and the grain self-sufficiency ratio have dropped to 40% and 30%, respectively. In addition to the decrease in domestic agricultural production, westernized eating habits are contributing to these declines. Specifically, consumption of stock farm products, oils and fats, wheat processed foods, fruits and luxury grocery items increased, while that of traditional Japanese foods such as rice, potatoes and vegetables decreased. Most of the foods whose consumption increased rely on imported livestock feeds and ingredients. Moreover, a large amount of foreign-made foods are imported. The percentage of imported fish and shell fish is also increasing.

Some highly regard the present eating habits as "Japanese eating style". However, it is impossible to improve the food self-sufficiency ratio substantially while continuing the eating habits that heavily rely on imported foods and feeds. With regard to domestic stock farm products, in particular, most feeds are using imported grains such as corn. Without changing this structure, the food self-sufficiency ratio on a calorie basis would never increase.

In order to improve the food self-sufficiency ratio, increasing domestic production is not enough. Today's eating habits must be changed. To be specific, we need to change our eating habits to eat more domestically-produced foods daily such as rice, grains, potato, vegetables, in-shore fish and shellfish and seaweed.

We need to eat stock farm products from time to time to maintain rich eating habits. Even so, we should reduce consumption of those products that rely on imported grains such as corn to the minimum necessary amount and basically consume those produced using domestic sources of feed. Also, as for luxury grocery items such as alcohol and beverages, consumption of sake brewed from domestic rice, shochu distilled from domestic potato or rice, Japanese green tea, and domestically-made orange juice

should be promoted.

The climate and topography of this country are suitable for paddy field farming (growing rice plus field crops and vegetables). Also, thanks to its location surrounded by sea, Japan is blessed with abundant aquatic resources. Promoting production of foods making use of such national resources and encouraging people to adapt their eating habits to such structure of food production should be fundamental to the food policy. In a large sense, we can help solve the world food crisis by reducing import of foods and feeds.

### 3 Income compensation to farmers and agricultural price policy

#### (1) The New Basic Agricultural Law abandoned agricultural price policy

The New Basic Agricultural Law contains another important problem.

That is, Article 30 of the law stipulates, "(The State) shall take necessary measures for allowing the prices of farm products to form appropriately reflecting the real supply / demand situation and quality evaluation". To put it simply, it means to let the market set the prices of farm products, implying abandonment of the price stabilization policy that had been adopted by the government. This is a complete about-face from the Old Basic Agricultural Law which required stabilization of farm products and securement of farmers' income as measures that should be carried out by the government in order to correct adverse production conditions and trade conditions of agriculture.

If the price stabilization policy is abandoned, farmers might be hard hit by the price fall. Therefore, Section 2 of Article 30 was inserted, saying "(The State) shall take necessary measures for mitigating the adverse effects of significant price changes of farm products on farm management supposed to be encouraged" in some consideration for farmers, though lim-

ited to “farm management supposed to be encouraged”.

Some interpret this provision as intending to introduce a scheme to directly compensate farmers for reduced income. They are wrong. Its purpose is to provide so-called price supplementation to mitigate influence of price fluctuation on farm management. The government intends to introduce these “management stabilization measures”, as they call it, in major farm product items starting with rice. However, as was revealed in the case of rice, under the “management stabilization measures”, the level of the standard price based on which supplementation is provided declines with the decline of the market price. In this sense, it does not stabilize farm management in the true meaning.

## (2) Utilization of market mechanisms

There are a variety of means to compensate farmers for reduced income. Today, the following 4 measures are mainly carried out in industrialized nations : 1 ) agricultural price policy ; 2 ) import restrictions on farm products ; 3 ) income insurance program and 4 ) direct compensation for income loss. The Old Basic Agricultural Law adopted 1 ) and 2 ) as policy instruments. The New Basic Agricultural Law indicates abolishment or scaling-down of 1 ) and 2 ) and introduction of 3 ) and 4 ) as income compensation measures.

The interim report by the Investigative Council on Basic Problems Concerning Food, Agriculture and Rural Areas (December 1997) pointed out the following problems of the agricultural price policy : it is difficult to convey the supply-demand situation and the consumer needs to farmers accurately because the policy has effects on all farmers, including small-scale farmers, and it restricts the improvement of the agricultural structure. The policy did not reduce the price gap between domestic and international agricultural products and contributed to

an increase in imports of finished and half-finished products and a hollowing-out of the food industry, resulting in a decrease in demand for the domestic products. The report, acknowledging that “market mechanisms have been utilized in the recent price policy” and that “a system has been established to set rice price based on market mechanisms”, suggests that “it is necessary to review the existing system and its operation concerning other products so that prices will be decided reflecting the market trend in a manner understandable to the people”.

“Utilizing market mechanisms” in the price policy means raising or reducing the price depending on the supply-demand situation of the farm product in question, or reducing government intervention to let the private market set prices basically. As a result of the acceptance of GATT agreement, import barriers have been lowered and domestic markets of farm products are in constant oversupply. This tendency is particularly evident in rice. The price of independent circulating rice, which has already been set by the private market, has dropped sharply due to the huge gap between supply and demand, giving exclusive paddy farmers too heavy a blow to deal with.

The report says, “It is necessary to make the prices function as a signal for reflecting the supply and demand situation of farm products and the people’s needs.” However, if no measure is taken to control the influx of minimum access quota of rice beyond the domestic demand, the price will continue sending a red signal (remains low) to have domestic rice wait to start. A car ignoring a red light will cause a traffic accident.

## (3) Introduction of “management stabilization measures”

The impact of price fall is most serious on enthusiastic farmers such as those engaging in

large-scale farm management. In order to help stabilize management of these farmers, the interim report suggests that “it should be considered to introduce measures to stabilize farm management according to the production and distribution conditions of each product.” It also says, “In a medium-to long-term perspective, management stabilization measures applicable to not each product but agricultural management as a whole should be considered.” This is considered as a proposal to expand the short-term “management stabilization measure” which started in FY 1998 for rice to cover other major products and, in a medium-to long-term perspective, to introduce the “income insurance system” which is carried out in some parts of Canada and the United States. In others, it suggests that the income compensation measure 3) in (2) above be put into practice in a concrete form.

However, the “management stabilization measure” of rice is only a modified version of the price supplementation system for designated vegetables. In this system, producers are required to pay contribution and if the guaranteed standard price is low, the amount of supplementation is small. The “income insurance system” is the same as generally available insurance in principle. Producers must pay large amount of premiums if they want to set a high level of guarantee standard. In any case, these “insurance type” measures cannot make up for the abandoned price policy.

#### (4) Direct payment to hilly and mountainous areas

A notable point in the New Basic Agricultural Law is that it launched a direct payment scheme covering hilly and mountainous areas. This is based on the direct income compensation system for less favored areas which has already been introduced in EU. This qualifies as 4) among the above categories of income com-

pensation measures.

I think the plan to provide subsidies to producers and organizations engaging in farming on terraced paddies or layered fields in mountainous areas and slopes is worthy of serious consideration because maintaining these cultivated land contributes to the preservation of the national land and the environment as well as the recharge of groundwater resources. However, as residents other than farmers also live in mountainous areas, it is difficult to obtain their understanding toward the income compensation. It is also difficult to clearly define “less favored areas”. There are many “less favored areas” even on flatlands.

The question that needs to be addressed now is by what means the income compensation should be provided. If the price policy was abandoned or the guaranteed prices fell by a large margin, direct income compensation would be considered. However, the price policy is still in place. Apart from the cases of cultivated land in certain conditions such as terraced paddies and layered fields, direct income compensation cannot substitute price policy.

#### (5) The welfare aspect of agricultural price policy

The conclusion is that price policy can be the most effective and reliable income compensation for farmers if it is implemented in a perfect manner. The price policy is often criticized as “requiring consumers to share costs”. This is based on the idea that if the market is allowed to set the prices of farm products, prices would decline under the present supply-demand situation, thus benefiting consumers. However, if farmers cannot maintain farm management and give up farming because of the price reduction, Japanese markets of farm products will be dominated by imported products. Is this to the “benefit of consumers”?

In order to keep making products, not just

farm products, prices must be set to cover the minimum production cost. Particularly in agriculture where production is affected by weather and soil conditions and a long time period is required for growing and feeding, it is essential for prices to be stabilized at levels that can cover the production cost.

The reason given by the supporters of direct income compensation is that it is "fiscal support". However, the "dual price system" and "deficiency payment system" under the price policy are also "fiscal support" because these systems are to supply farm products to consumers at low prices and make up for the price decrease down below the production cost with the government fund.

If the government is ready to make public spending, reinforcement of the agricultural price policy is obviously more effective than direct income compensation. Most farmers desire the continuity and reinforcement of price policy. Also, because the benefit of price stability is shared not only by the farmers concerned but also by the people who consume farm products, the price policy makes a far larger contribution to public welfare than direct income compensation which benefits only a limited number of individuals.

## Appendix

Around the time of the establishment of the New Basic Agricultural Law, policies related to income compensation for farmers have been modified one by one. Policy changes concerning each major product are summarized below. In general, these policies are to allow prices of farm products to be decided in free trading and take measures to mitigate the impact of price decline on producers using the fund created by producers and the government. With regard to wheat, soybeans and processed milk, a large amount of government subsidies had been included in the amount received by producers.

These subsidies are continuing for the time being. However, they might be cut down depending on the seriousness of fiscal difficulty and progress of the deregulation policy.

· Wheat : "New Wheat Policy" and transition to distribution by private sector

May 1998 : Outline of New Wheat Policy was drawn up

July 1999 : Implementation items of New Wheat Policy were decided (figures in parentheses are the amounts of subsidies per 60kg of wheat, etc.)

- ① Wheat should be basically distributed by the private sector and the sale by producer's groups should be carried out by bidding.
- ② As the bidding price, the standard price based on the former government sales price (2,434 yen) and the price range limit (standard price plus or minus 5%) should be established.
- ③ The amount equal to the former negative spread between sale and purchase prices of domestic wheat continues to be paid to producers as the Wheat Farming Management Stabilization Fund (6,958 yen).
- ④ Various incentives are paid to support distribution by the private sector for some time (at least 700 yen).
- ⑤ Purchase by the government will continue, although the amount paid to producers should be reduced to a level smaller than that paid through private sector distribution.

· Dairy farming : "New Measures to Promote Dairy Farming"

March 1999 : "Outline of New Measure to Promote Dairy Farming" was established

- ① The deficiency payment system of milk for processing should be abolished, and the subsidy to offset price differences

should be replaced by a new subsidy to be provided to producers of milk for processing.

- ② Prices of milk for processing, like those of milk for drinking, should be decided in direct transaction between milk processing companies and producer's groups.
- ③ The "Management Stabilization Fund" should be established by contributions from dairy farmers and government subsidy. The fund is used to make up for the decline in the price of milk for processing below the separately established standard price in the amount equal to 80% of the difference between the standard price and the sale price.
- ④ The target price system of dairy products should be abolished and dairy products should be dealt with by bidding between milk processing companies and users. For that purpose, a pilot market for dairy products should be established.

· Soybeans : "New Soybeans Policy"  
September 1999 : an "Outline of New Soybeans Policy" was established.

- ① A fixed amount subsidy uniformly applied to all varieties should be established. The subsidy amount will be reduced if the total of the subsidy and the sale price exceeds the upper limit.
- ② A Soybeans Farming Management Stabilization Fund should be created. If the sales price of soybeans produced in the current year is lower than the standard price (decided based on the average price in the past three years), the fund is used to provide producers with 80% of the difference between the standard price and the sales price. The fund should be established by contributions from producers equal to 3 % of the standard price and the government subsidy equal to 9 % of

the standard price.

· Direct payment to farmland in hilly and mountainous areas

- ① Eligible areas : Designated areas under the 8 regional development laws including the Law for the Development of Specific Rural and the Mountainous Villages, Mountainous Village Development Law and the Depopulated Areas Development Law.
- ② Eligible farmland :
  - a. Steeply inclined farmland (rice paddies with an inclination of 1 /20 or more and fields with an inclination of 15 degree or more),
  - b. Small sectional or irregular shaped rice paddies,
  - c. Areas with a high grassland ratio (municipalities in which 70% or more of the farmland is grassland),
  - d. Sloping grass croppings or pasture areas, etc.
- ③ Eligible activity : Agricultural production activities will be continued for a period of 5 consecutive years or longer based on a community agreement, etc.
- ④ Eligible recipient : Farmers, agricultural production corporations, third-sector organizations, land improvement districts, etc.
- ⑤ Unit amount : Ranks will be established according to whether the land is field, rice paddy or grassland and according to the inclination degree.
- ⑥ Upper limit : One million yen per

household (except for  
third-sector organiza-  
tions)

As for rice, the Outline of Rice Policy Reform was established in December 2002, based on which the Basic Plan for Rice Policy Reform was drawn up in July 2003. At the same time, the Law for Stabilization of Supply, Demand and Price of Staple Food was revised in its entirety. Main points of rice policy reform are as follows ; 1 ) producer's groups should take the initiative in rice production adjustment ; 2 ) the planned distribution system should be abolished and all the rice on the market should be freely distributed ; 3 ) the license system of rice dealers should be abolished to allow anyone who registered to sell rice ; 4 ) a budget for "subsidy to encourage development of rice production areas" should be earmarked and the use of the subsidy should be left to the discretion of local governments (they can use it to encourage production adjustment, to make up for price decline, or for whatever purpose at their own will) ; and 5 ) Farm Management Stabilization Measures targeting large-scale paddy-field farmers and agricultural corporations should be implemented (establish a fund of contributions from producers and the government subsidy to provide a certain amount of supplementation in the event of a decrease in the income from rice production in the current year).