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## **THE REORGANIZATION AND FUTURE OF THE RICE CONTROL SYSTEM IN JAPAN**

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### **Introduction**

Japanese agriculture, especially rice farming, is now subjected to a market opening offensive by other countries. The purpose of this report, in connection with protecting rice and paddy field farming in Japan, is to describe, firstly, the basic function of the food control system and its historical changes in Japan, and secondly, to suggest how to reform this system.

### **Historical Changes in the Food Control System**

Japan's food control system was established in 1942 with the major aim of securing a stable food supply during the Second World War. Since the postwar, the food control system has been modified on several occasions before reaching its present state.

As a result of the modifications, the nature of the food control system, including application of the underlying law, has experienced significant changes that have taken it far from what it was in its initial stage. These changes were achieved in the following two stages : the first stage spanned a quarter of a century from the end of the Second World War to the end of 1960s, and the second stage from the subsequent years to the present.

In the first stage, the system, which was essentially a tool of the government's control over the food supply, was subjected to drastic changes that can be called the "postwar reform of the food control system". Thus the system that emerged was one that could contribute to both producers' and consumers' interests, and its fundamental functions include the following four points :

- (1) The system ensures the stable supply of rice, a staple food for Japanese, by allowing the central government to purchase the total rice output and to sell it.
- (2) The system assures a rice price that can compensate producing farmers for production costs and income necessary for the continued production of rice, and it maintains a price level that will not hurt the household economy of consumers.

Each year, the government determines the purchase price of rice from producers and the sale price to wholesalers. Usually, the former is higher than the latter, resulting in a price difference. The government pays for the difference, as well as administrative costs for the system, from its tax revenue. Such price setting is called the dual price system, for the government's purchase price and the sale price are established on different standards.

(3) The system entrusts the government with total control of the rice distribution system. The rice distribution business can only be carried out by those who have central or prefectural government permission. The distribution routes are also determined by the government.

(4) The overseas trade of rice is controlled by the government, which means that the export and import of rice and wheat is actually carried out by the government itself.

However, since the end of 1960s, these four fundamental functions of the food control system gradually have become inoperative, thus demonstrating the second stage of the postwar reorganization. In this second stage, the reorganization of this system became inevitable due to changes in the Japanese society. One of the important undercurrents was the change in the rice supply/demand and distribution situation. From the latter half of 1950s, the crop was abundant throughout Japan, relaxing the rice supply/demand situation. At the same time, people were becoming quality-oriented and demanded better tasting rice. The increase in rice production and the changes in consumer behavior called for a new rationale for the food control system, which was essentially a delivery and rationing system that operated during hard times when the rice supply was inadequate.

In this period, our consumption of rice was being reduced by other food staples. This meant a change of rice's nature, that is to say, rice was no longer a major rationing food but a commodity that should correspond to the diversified needs of consumers. These new conditions have widened the gap between the nature of the past food control system, focusing on the unified control of price and distribution of rice, and the real economic and social conditions in the society.

In addition, the situation of excessive rice production surfaced beginning around 1968, leading to a controversy over the "food control system that suffers large financial burdens despite excessive rice production". The system became subject to reexamination from the viewpoint of the government's financial capabilities.

At the same time, as a means to cope with issues including excessive rice production and deficits in the food control account, the voluntarily marketed rice (VM rice) system and the production diversion program were introduced in 1969 and 1970, respectively. The VM rice system allows nationwide organizations of

rice assemblers and wholesalers to directly trade rice other than the government marketed rice (GM rice). This is not a totally free marketing rice system because VM rice is still under governmental control in terms of its volume, pricing, and distribution routes, and so on. The production diversion program is designed to reduce the area of paddy fields, where rice is cultivated, and to increase the cultivation of other farm products, by granting government subsidies. In 1971, the government adopted an additional measure to limit the volume of rice to be purchased by the government from each rice-growing farmer.

These two measures exerted a substantial impact over the food control system, which in principle assumes that the total rice crop should be purchased by the government. Above all, in 1969, the consumer's rice price was removed from the governmental control.

The dual price system, the second basic factor of the food control system, has faced growing difficulties since the latter half of the 1960s due to excessive rice production. This is because increases in the rice purchasing price encourages farmers to produce more rice and lead to an even greater surplus. In the government, too, the financial agency has increased pressure on reducing the amount of the food control budget.

This is the background of the changes in the government policies to limit increases in the rice purchase price paid to producers and to raise the sale price to wholesalers. As of 1975, the sales price of rice to wholesalers was as low as 50% of the purchase price from producers. Since then, however, the government has worked hard to gradually cut back the spread between these two rice prices. In the period from 1976 to the early 1980s, in particular, the government limited the increases in the rice purchase prices to almost zero and significantly increased the sale prices. From 1987 on, despite strong resistance from rice producers, the government has successfully reduced the purchase price. As a result, regular spreads have materialized since 1988, which means the government sales prices have become higher than the purchase prices. The financial subsidies for the food control system have been largely cut down, too.

It should be noted that, since VM rice markets were opened in Tokyo and Osaka in the fall of 1990, the decision of rice price has become more affected by the rice supply/demand situation.

The third fundamental function, the control of distribution by the government, is now losing its dominance, which reflects *de facto* liberalization of rice distribution. In fact, such a process usually starts at the distribution level and is followed by official system reforms. In production districts, for example, more and more producers are selling their rice to traders other than government-designated assemblers. On the other hand, there is an increasing number of retailers who are freely selling rice in consumer districts other than the government-authorized retailers. Wholesalers and retailers are often purchasing rice from routes other than those specified by the government.

To deal with such a de facto liberalization of rice distribution, the government has relaxed its control by allowing new rice retailers to enter the distribution system and by expanding business operation areas for existing retailers. As a result of such deregulation over the rice distribution system, the food control system is now gradually declining.

Now it should be noted that the only remaining fundamental function of the food control system is the state control over the overseas trade of rice. However, this last stronghold of the system has been under pressure of increased imports of processed foods such as rice powder or rice cakes, slightly reducing the degree of self-supply of rice.

### **The Reform Directions and Future of the Food Control System**

There is a variety of opinion among Japanese people about how the food control system should be. It can be said, however, that there is a general consensus that the self-supply of rice should be maintained in the future for several reasons. Firstly, rice is the people's staple food. Secondly, rice is ranked first not only in the amount of production in Japanese agriculture but also in the number of farmers who are engaged in. Thirdly, rice is a farm product suitable for the monsoonal climate that covers most of the Asian nations, particularly Japan where the warm and rainy climate is believed to be the best natural environment for rice cultivation.

Furthermore, rice is produced in paddy fields, one of the best agricultural production installations. Seventy percent of Japanese land area is occupied by forest where water from rain and snow is stored in the earth and gradually flows down to rivers. The water from the forest contains rich nutrients that are taken to irrigate the paddy fields. Therefore, a paddy field can be used continuously without reducing its productive power. Besides, a paddy field can prevent the erosion and oxidization of land and limit the growth of weeds. Hardworking Japanese farmers have cultivated improved varieties of rice in paddy fields by applying intensive farming technologies, resulting in an agriculture depending on rice with high productivity per unitary area of cultivation.

It is not only rice that can be cultivated in paddy fields, but also wheat, other staple crops and vegetables can be planted after the water is drained. In some areas where snow is relatively rare, double cropping is possible, rice in the summer time and wheat and vegetables in the winter season. As such, productivity per unitary area of paddy field is ranked the highest in the world. This has been an essential condition for Japan to support a large population through a relatively narrow amount of cultivated land.

Thus, the food control system has to be maintained even in the future, with necessary policies to keep all rice production under the control of the government, in order to protect rice farming as the core of Japanese agriculture and to

maintain the stable supply of rice. That means that the public control and regulation functions of the central or local governments have to be fully exercised when necessary for the stable supply of rice.

If rice is treated in the same manner as other commodities and is fully subjected to the market mechanism and competitive principles, rice will be traded by commercial capitals for profit. Therefore the supply of rice with stable prices could be hindered and Japanese paddy field farming could be aggravated through the liberalization of imports.

As stated earlier, the food control system itself has recently been largely modified toward the direction of partial control. Therefore, the system has to be reorganized and rebuilt once again to make it a system that can protect Japanese agriculture and maintain the stable self-supply of rice. For this purpose, the following three basic viewpoints should be kept in mind.

The first point is that control of total rice production is necessary to continue the import restriction of rice. Clause 2, Article 11 of the GATT, which stipulates exceptions for the general prohibition of import restrictions, includes a provision, Subclause (c), that prescribes that a commodity can be subjected to import restriction when the quantitative restriction in sales or production of such a commodity is imposed as a governmental measure. It seems to us that an adequate rationale for the import restriction of rice exists as the production and distribution of rice are controlled by the government through the food control system. Thus, this provision can be applied to rice.

If, on the contrary, the responsibility of the production diversion programs is transferred from the government to agricultural cooperatives, the quantities of GM rice are reduced, or rice prices are determined on the market, the substance of the governmental control on the production and distribution will become diluted, resulting in the loss of the foundation to continue the import restriction of rice.

The United States, for example, has a number of items that are exempted from the import liberalization obligation under the condition of adequate domestic measures to protect agriculture, including the enactment of the Agricultural Adjustment Act. Following the model of the United States, Japan should take effective protective measures and fully insist upon its position at the negotiation table of the GATT on the import restriction of items that Japan believes are necessary.

The second point is that public agencies should identify the field where they are responsible for control and regulation over the rice market. The current food control system is often criticized as bureaucratic and rigid, partly due to the lack of this identification.

In order to guarantee the freedom of business for producers and distributors, it is necessary to restrain the behavior of large businesses that exert great influence over markets in modern capitalism. If the freedom of business is fully

allowed, only large businesses can freely pursue profits, making business operations of farm producers and small- or medium-scaled distributors very unstable.

The Japanese Food Control Law is, along with the Agricultural Land Law (1952), designed to protect the interest of agricultural producers and the general public by building obstacles for entry against large businesses. In the meaning of jurisprudence, these two laws can be categorized into social law.

The third point is the issue of the financial resources necessary for the direct control of staple foods such as rice by the government. In order to guarantee total control of rice production, the government should substantially increase the quantity of GM rice and decrease that of VM rice. For that purpose, the most economical and sound way would be for the government to return to and even enlarge the back spread of rice trading prices by raising its purchase price and lowering its sales price. If the back spread in GM rice is restored to an adequate level, producers may find it more attractive to sell their rice to the government than to sell it as VM rice or free rice. Rice distributors would choose to buy rice from the government at cheaper prices than those in the market.

It is obvious that the recent unusual increases in the quantity of VM rice has been caused mainly by a shift of rice trading prices from back spread to regular spread. Therefore, the revival of the back spread system is indispensable to restore the smooth distribution of GM rice and achieve the stable supply of rice.

Needless to say, the return to the back spread will require a considerable increase in government expenditure. However, such increased expenditures will be permissible by securing national consensus that financial measures are essential to protect rice farming as the core of Japanese agriculture and to maintain the stable self-supply of rice. It is worthy to note that the ratio of the expenditures for agriculture in the total governmental budget is lower in Japan when compared with other advanced nations.

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