



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Voluntary Report - public distribution

Date: 12/8/2000

GAIN Report #JA0141

Japan

Agricultural Situation

Japan Gears-Up to Stem Further Concessions in the WTO 2000

Approved by:

Suzanne Hale

U.S. Embassy, Japan

Prepared by:

Casey Bean

Report Highlights: Learning from what Japan sees as its policy failures of the Uruguay Round, Japan's objective in agricultural negotiations appears to be to limit the WTO negotiating mandate. Japan has latched on to Article 20, where Uruguay Round members agreed to take into account "non-trade concerns". By equating multi-functionality and non-trade concerns, Japan will likely resist any concessions on access and domestic support. In this report we discuss the underpinnings for Japan's position on agricultural policy and what it means for the upcoming trade talks. In a follow-up report, FAS/Japan will discuss MAFF's just released WTO proposal.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Tokyo [JA1], JA

TABLE OF CONTENTS

<i>Summary</i>	Page 2 of 12
<i>MAFF/JA/LDP: Japan's Triad Supporting Agricultural Interests</i>	Page 2 of 12
<i>Japan's Failure in the Uruguay Round</i>	Page 3 of 12
<i>Japan Takes the Policy Initiative to Rectify UR Agreement</i>	Page 3 of 12
<i>Aggressive Agriculture Policy Measures: Start by Reforming the Basic Agriculture Law</i>	Page 4 of 12
<i>Calls for Increased Food Self-Sufficiency</i>	Page 4 of 12
<i>Rolling-Out FTA's to Build International Support</i>	Page 5 of 12
<i>Multi-functionality</i>	Page 6 of 12
<i>Tariffication of Rice</i>	Page 7 of 12
<i>Price Supports for Rice Receive Lion's Share of AMS</i>	Page 7 of 12
Table 1: Comparing U.S. and Japan's Agriculture Sector AMS	Page 7 of 12
<i>Japan's Latest Policy Moves Towards "Market Principles"</i>	Page 8 of 12
<i>Strong Support for Reducing Minimum Access and Maintaining High Tariffs</i>	Page 9 of 12
<i>U.S. WTO Proposal: Japan Is Ready to Defend Support for Rice</i>	Page 9 of 12
<i>Japan's WTO Response—What Lies Ahead?</i>	Page 9 of 12
<i>Reality Check for Japan</i>	Page 10 of 12
<i>Food Security is Enhanced--Self-Sufficiency is a Myth</i>	Page 10 of 12
<i>Japanese Consumers Benefit from Liberalization</i>	Page 11 of 12
<i>Japan's Processing Sector Benefits Too</i>	Page 11 of 12
<i>Japan's Rice Producers the Ultimate Losers</i>	Page 11 of 12

Summary

Learning from what Japan sees as its policy failures of the Uruguay Round, Japan's objective in agricultural negotiations appears to be to limit the WTO negotiating mandate. Japan has latched on to Article 20, where UR members agreed to take into account "non-trade concerns". By equating multi functionality and non-trade concerns, Japan will likely try to limit concessions on access and domestic support.

Japan's new Agricultural Basic Law laid the *legal* groundwork for agricultural trade policy to ensure the survival of the nation's farm sector and stem demands for increased market access. Establishing specific targets may imply a strategy to expand domestic production through additional support measures.

Japan's efforts to shield any reductions in its massive domestic support payments will focus on the rice sector, the centerpiece of its multi-functionality efforts. According to OECD estimates for 1999, Japan's share of farm income funneled by the government was about 65%, three times the level of the United States, while the OECD average was about 40%. Japan's final bound AMS is \$32.4 billion compared with the U.S. bound AMS of \$19 billion, despite the larger size of the U.S. agricultural economy.

U.S. negotiators might naturally focus on Japan's domestic support for rice, precisely the area where Japan has constructed its strongest defense through food security and multi-functionality. However, food security is a compelling argument favoring greater trade liberalization, not less. Imports play a critical role in Japan food security, and a return to self-sufficiency is unrealistic.

In the next report, FAS/Japan will discuss MAFF's recently released WTO proposal.

MAFF/JA/LDP: Japan's Triad Supporting Agricultural Interests

Farming in Japan represents the classic case of an inefficient, protected industry contrasting with a world-class, competitive manufacturing sector. Despite the gradual economic decline of farming as a sector of Japan's economy, farmers still wield considerable political power through the support of the bureaucrats, politicians, and agricultural cooperatives.

Politicians are the outspoken defenders for protection of Japanese agriculture. The farm sector's power stems from the deep penetration into the Diet and the Liberal Democratic Party policy processes, the backbone of support for agriculture since the end of WWII. The LDP's long-standing pro-farmer bias and electoral dominance are features of Japanese politics. Despite the dramatic decline in numbers of farmers, rural votes by farmers and non-agricultural people (largely pro-agriculture), remain disproportionately strong.

Nokyo, aka JA (Japan Agricultural Cooperative), is Japan's powerful farmer organization that acts as the lobbying arm of the industry. The role of JA far exceeds the influence of agricultural cooperatives in the United States. In addition to agricultural activities including producer prices, market liberalization, budget subsidies, levels of crop incentive payments, JA services encompass social, cultural, and political activities. Norinchukin Bank, the central banker for

agricultural, forestry, and fisheries cooperatives, is also one of Japan's largest banks with assets in 1995 valued at about \$400 billion. (Note: Today Norinchukin's situation approaches insolvency because of collapsing real estate values.)

The third pillar of support for agriculture is the Ministry of Agriculture, Forestry, and Fisheries. MAFF controls agriculture by drafting agricultural legislation and the budget, negotiating agricultural policies, and administering all legal, institutional, and financial aspects of the industry. Further, to bridge the gaps between administrators and producers, MAFF established a myriad of advisory councils whose role is to implement new policies and manage.

Despite the decline of agriculture in Japan, these 3 groups remain firmly entrenched in their fight against deregulation and liberalization.

Japan's Failure in the Uruguay Round

Nokyo's campaigns against market opening for farm commodities began in the early 1960's during the liberalization of the soybean and lemon markets, and intensified during the market openings for grapefruit, beef, and citrus. The second phase of anti-agricultural trade liberalization began in the late 1970's and accelerated in the 1980's due to U.S. pressure for market access of beef, oranges, and citrus juice during the Uruguay Round of the GATT. By the end of 1982, Zenchu had gathered millions of signatures from those opposing agricultural trade liberalization and sent letters to the U.S. government, Congress, and agricultural groups. (see *The Politics of Japanese Agriculture* by Dr. Aurelia Mulgan)

However, during the late 1980's and early 1990's, Nokyo failed to win any battles over liberalization and producer prices (see above reference). During negotiations of the Uruguay Round, Japan maintained its stance that not a single grain of rice should be imported, however,. Japan eventually accepted a policy of minimum access to its rice market. The Japanese public even began to negatively view the agricultural lobby as self-interested. More recent criticism has focused on the agricultural lobby's demands for higher prices, border measures, and subsidies—all failing to meet the needs of farmers for real change.

Japan Takes the Policy Initiative to Rectify UR Agreement

Despite Japan's efforts to build support for its opposition to agricultural trade liberalization, Nokyo's campaign never reached the international exposure beyond the United States needed to build broader support. Nationally, Japan lacked a cohesive strategy to protect agriculture based on a legal framework and quantifiable targets. MAFF officials have stated they paid a heavy price by agreeing to market liberalization policies, perhaps implying these concessions won't be offered again.

Learning their lessons from the concessions made in the Uruguay Round, Japan's agricultural cooperatives began early planning for the next round of WTO talks. As early as 1997 they began supporting and voted for Diet members elected in 1998. These politicians would be involved in WTO negotiations and could be committed to support a protectionist agricultural policy. MAFF explained its views to consumer and industry groups, such as KEIDANREN, to try to ensure a

solid GOJ position with support from the people on the value of agriculture.

Aggressive Agriculture Policy Measures: Start by Reforming the Basic Agriculture Law

The new Agricultural Law (Food, Agriculture, and Rural Area Basic Law) enacted during the summer of 1999, aims to raise self-sufficiency levels, assure food safety, promote the multi-functionality of agriculture and maintain the livelihood of rural, particularly mountainous areas. Ultimately, the basic law appears to set the stage for slowing concessions in upcoming WTO trade negotiations.

The new law laid the *legal* groundwork for agricultural trade policy to ensure the survival of the nation's farm sector and stem demands for increased market access which threaten Japan's inefficient agricultural producers. Through the law, food security is no longer just a national goal endorsed by the Diet, but a mandated, non-negotiable aspect of Japan's position at the WTO. The Law, which represented the first revision of Japan's Basic Agricultural Law in 38 years, included the following policy objectives:

- increasing Japan's self-sufficiency rate (see below)
- setting production targets for major commodities such as rice, wheat and soybeans
- introducing a food supply system to cope with emergency situations
- restructuring paddy fields to increase production of wheat and soybeans
- price policy based on market principles and stable farm management
- revitalization of agricultural businesses by introducing non-farm corporations into agricultural production under limited conditions
- introduction of direct income supports for producers in mountainous and hilly areas
- strengthening relations between producers and the food industry
- appropriate labeling of food

The Basic Law makes, which focuses on food security and the multi-functionality of agriculture and rural development, makes little mention of how these policies will reduce the high cost of food in Japan. Ultimately, the taxpayers and especially consumers are left to pay the heavy financial burden of these policies.

Calls for Increased Food Self-Sufficiency

The Ministry of Agriculture, Forestry and Fisheries predicts that if current trends were allowed to continue, Japan's food self-sufficiency rate would drop to 37-38% by fiscal 2010, down 2-3 percentage points from fiscal 1998. The decline in the level of self-sufficiency is attributed to flat or declining production of staple foods, partially rice. Rice self-sufficiency is seen dropping to 96% in fiscal 2010.

To prevent a further decline in self-sufficiency, MAFF will attempt to attain self-sufficiency targets by expanding the domestic production of wheat and soybeans, advocating a return to the traditional Japanese diet; and advocating decreased food waste. GOJ has specified a self-sufficiency target of 45% on a caloric basis for Japanese Fiscal Year 2010, and has also

recommended a self-sufficiency target of 74% on a value basis. On a volume basis, target ratios include: main staple grains (62%); all grains including feed grains (30%); and feed grains (35%). Target figures were set for 14 major agricultural products including grains, rice, soybeans, potatoes, dairy products, fruit, vegetables, meat, poultry products, sugar, and tea.

To encourage farmers to shift production from rice to soybeans, wheat and feed grains, the maximum subsidy for rice diversion will be increased 46 percent from the current maximum level of 50,000 yen per 10 ares to 73,000 yen. MAFF expects increased rice division as the total income from producing wheat and soybeans increases.

Establishing self-sufficiency targets implies a strategy to expand domestic production through additional support measures. Moreover, any increase in self-sufficiency implies a decrease in imports, so trade would be impacted by these policy.

Establishing specific targets may imply a strategy to expand domestic production through additional support measures. Moreover, any increase in self-sufficiency implies a decrease in imports and may signal the use of food security concerns to justify tariff protection and other import restrictions during upcoming WTO talks.

Rolling-Out FTA's to Build International Support

Over the last 2 years Japan has taken steps toward negotiating Free Trade Agreements (FTA's) with Singapore, South Korea, Mexico, Canada, Australia, Switzerland, and Chile. Over the past two years, led by MITI, Japan has successfully reversed the country's long-standing aversion to regional free trade agreements (FTA's). The Ministry argues that FTA's can serve as building blocs to build a stronger multilateral trading system by promoting incremental trade liberalization and by encouraging cooperation in new areas such as investment, competition policy, and export credits.

A WTO-focused strategic motive might be to build alliances with other countries who can be relied on to support Japan's positions in agricultural trade reform. Japan is also the only major nation with no preferential trade agreements with other countries.

Keidanren, the Japan Federation of Economic Organizations, released a paper in July 2000 urgently calling for promotion of FTA's in the trade policy area. The organization warns that the U.S. and other countries are pressing ahead with FTA's, while Japan has yet to undertake a single FTA, placing itself at a competitive trade disadvantage.

During October 2000, in a GOJ-sponsored a symposium called " Free Trade Agreements and Options for Japan", a MOFA panelist argued that the agreements must be "WTO consistent" and that the agricultural sector should be covered. He stated that agricultural tariffs are now down to 1% (not true of processed goods), so if there is a need for protection, it should be in the form of border measures. MAFF is considering income support measures that are WTO-consistent, according to MOFA.

Though free trade agreements (FTA) must be consistent with the WTO agreement on trade and

tariffs, MITI is pressing for agreements that exclude sensitive sectors. The Ministry of Foreign Affairs, while recognizing the difficulty of including sensitive sectors like agriculture, prefers comprehensive agreements.

In August 2000 the GOJ released a draft of the Japan-Singapore FTA which excluded agriculture. When questioned about this position, MAFF responded that application of rigid FTA's, such as complete abolishment of tariffs between two countries, would be difficult considering the effects on domestic agriculture, forestry, and fishery areas.

Though the WTO states that any FTA's "must cover substantially all trade", Japan might have room to exclude sectors given the precedents set by NAFTA and the EU's agreements with certain Eastern European countries.

Despite the efforts of MITI and the Ministry of Foreign Affairs to promote FTA's, the battles between the various ministries is making it difficult for the GOJ to conclude such agreements.

Multi-functionality

Japan began using the term multi-functionality as early as 1988 during Nokyo's 7 year long campaign to oppose rice market liberalization, and the government's environmental defense of agriculture first began during the UR negotiations (see reference above). Then, beginning in 1999 Japan ratched-up its promotion of multi-functionality.

At a July 2000 Conference on Non-Trade Concerns in Agriculture, country representatives recognized the multi functional characteristics of agriculture. A group was formed called the "Friends of Multi-functionality" which included Japan, the EU, Republic of Korea, Switzerland, Norway, and Mauritius. Multi-functionality thus became a name for "non-trade" concerns.

Leading up to WTO talks in Seattle, MAFF worked hard to expand understanding and support for the importance of multi-functionality among foreign countries through the many levels of negotiations, including those involving the government, the Liberal Democratic Party and non-governmental organizations. Unlike the effort 10 years ago, Japan skillfully engaged the support of other countries.

More recently, MAFF continues to stress the importance of "comprehensive WTO negotiations". The stance is often reiterated when the issue of the Accelerated Tariff Liberalization initiative or any outcome from APEC is discussed.

Japan's objective appears to be to limit the WTO negotiating mandate. Japan has latched on to Article 20, where UR members agreed to take into account "non-trade concerns". By equating multi functionality and non-trade concerns Japan will likely try to limit concessions on access and domestic support for agriculture.

MAFF, supported by JA Zenchu and farmers, continue to rely on the concept of the "multi-functionality of agriculture" to rationalize high tariffs, but the basic problem in Japan's agricultural industries remains unsolved: inefficient production.

Tariffication of Rice

Japan implemented tariffication of rice in December 1998. This move accomplished two things. Tariffication enabled the government to reduce levels of obligatory rice imports, and Japan ensured that rice would be a key agenda item of WTO farm trade talks (see reference above).

Rice remains the focus of Japan's efforts to shield the agriculture sector from concessions. On July 28, 2000 Japan adopted the Tokyo Declaration, at the International Commission on Irrigation and Drainage 2000 Tokyo Workshop, which states that "paddy-farming is endowed with multi-faceted functions such as national land and environmental conservation and rural area revitalization. MAFF evaluated the adoption as a positive move, reports the Japan Agrinfo Newsletter, stating it "supports Japan's claims regarding the multi functional nature of agriculture at the WTO". Japan's efforts to shield any reductions in domestic support will focus on the rice sector.

Price Supports for Rice Receive Lion's Share of AMS

According to OECD estimates for 1999, the producer support estimate for Japan (share of farm income from the government) was about 65%, three times the level of the United States while the OECD average was about 40%. Japan's final bound AMS is \$32.4 billion compared with the U.S. bound AMS of \$19 billion.

Rice remains Japan's most important crop both economically and culturally, despite the fact that the total value of fresh produce exceeded that for rice last year for the first time. The paramount importance of this crop was illustrated during the Fall of 2000 when policy discussions on the domestic rice surplus situation involved the Prime Minister.

During FY1997 rice accounted for \$22 billion (2.397 trillion yen) of Japan's total \$29 billion (3.170 trillion yen) in aggregate measures of support, almost entirely price-support, for agricultural products. (Source: WTO Notification 2/21/2000 re. domestic support commitments)

Japan's JFY 2000 cap level for Aggregate Measures of Support, 3,972.9 billion yen (\$37 billion @107yen/\$) set by the World Trade Organization is much higher than that of agricultural exporting countries. Market price support for rice accounts for more than 70 percent of Japan's total AMS.

Table 1: Comparing U.S. and Japan's Agriculture Sector AMS

	Japan	United States
Gross agricultural income	\$80.128 billion (1997 latest)	\$203.884 billion (1997 latest)
Final Bound AMS (Aggregate Measure of Support)	\$32.405 billion (3,972.9 billion yen)	\$19.1 billion

AMS Percent of Agriculture Income	40.4%	9.4%
Gross agric. income as % of GDP	0.8%	1.3%
Producer subsidy equivalent ^{2/}	77	13
Average total farm income per farm (1997)	\$71,800	\$51,400

Source: Agricultural Affairs Office, U.S. Embassy, Tokyo

WTO's "agric. production values", G/AGRICULTURE/NG/S/15

WTO's "Domestic Support", G/AGRICULTURE/NG/S/1

Japan Agrinfo Newsletter

1/Sum of price supports, direct payments, and other support as % of total agricultural production.

Exchange rate is 122.6 y/\$ based on WTO FY1997 beginning April

Japan's Latest Policy Moves Towards "Market Principles"

Last year MAFF took steps to introduce market principles, but do these measures really reduce the amount of government support, particularly for rice farmers?

MAFF implemented price stabilization policies in 1998 when it abolished the obligation of farmers to sell rice to the government, and established a "reserve stock" level of 1.5 MMT. Second, MAFF removed the price band system for voluntarily marketed rice.

During August 2000 MAFF implemented law to make its rice crop reduction (*gentan*) policy more market-oriented. The plan includes measures to step up efforts to encourage farmers to grow other crops, namely wheat and soybeans, as principal crops instead of rice, in order to improve Japan's food self-sufficiency.

The current rice policy allows MAFF and the Central Agricultural Coop (Zenchu) to allot required reduction areas to farmers. Under the new policy, MAFF would only decide a total reduction acreage and individual local authorities would coordinate the reduction areas considering the price and market for their rice. MAFF denies the plan will involve "compulsory enforcement" but expects rice farmers will voluntarily switch their principal crops (to wheat or soybeans) or else grow "marketable" rice.

The rice diversion program, aimed to encourage farmers to shift production from rice to soybeans, wheat and feed grains, resulted in increased government outlays. The maximum subsidy for rice diversion will be increased 46 percent from the current maximum level of 50,000 yen per 10 Ares to 73,000 yen. The maximum subsidy level for the current rice diversion program has been the main reason why rice farmers have not shifted to other crops as the average income for rice production per 10 Ares is about 62,000 yen.

Strong Support for Reducing Minimum Access and Maintaining High Tariffs

Imported rice outside of the Minimum Access volume faces some of the highest tariffs in the world. Tariff rates, implemented ahead of the WTO schedule, now stand at 341 yen/kg during FY2000, driving the price to more than 4 times international prices. Substantial reduction in tariffs, one of the centerpieces of the U.S. WTO position, would mean that Japan would have to reduce tariffs still further.

MAFF announced the week of December 4th it will propose in WTO trade talks a reduction in the Minimum Access volume for imported rice. Details on this proposal will follow in FAS/Japan's next WTO report.

U.S. WTO Proposal: Japan Is Ready to Defend Support for Rice

The U.S. WTO proposal, submitted to the WTO on June 23, 2000, focuses on reform in the areas of export competition, market access, domestic support, and differential treatment for developing countries. Under market access, the U.S. proposal calls for reductions in all tariffs, increases in all TRQ quantities, and disciplines on state trading enterprises handling imports. On export competition, the U.S. proposal requests elimination of export subsidy ceilings, prohibitions on export taxes, and disciplines on export trading enterprises.

The U.S. proposes to reduce trade-distorting domestic support and simplify calculations of DS. Examples of minimally trade distorting: income safety net, risk management, domestic food aid, environmental/resource protection, rural development, new technologies, etc. The 2 domestic support categories are exempt support (minimal trade distorting effects or effects on production), an aggregate measure of support is reduced to a bound level equal to a fixed percentage of member's value of total agricultural production in fixed base. Non-exempt support: minimal trade distorting effects or effects on production.

U.S. negotiators might naturally focus on Japan's domestic support for rice, precisely the area where Japan has tried to construct its strongest defense based on food security and multi-functionality. Japan's posturing about the environmental benefits of rice paddies is consistent with the U.S. definition of domestic support under "non-exempt" as minimally trade distorting, despite the obvious trade impacts of Japan's subsidized rice production.

Japan's AMS as a percent of agriculture production, 40%, far exceeds that of other countries.

Japan's WTO Response—What Lies Ahead?

Japan's new Basic Law and the call for multi-functionality and food security are opportunistic responses to the UR and WTO negotiating contexts. (reference: Mulgan's *The Politics of Japanese Agriculture*) Agricultural support measures that enable agriculture to help protect the environment and conserve natural resources can be categorized as 'Green Box' (or under the U.S. proposal, "non-exempt"), and therefore exempt from reduction commitments. Furthermore, they can be increased without any financial limitation.

Article 4 (sustainable agricultural development) provides a legal justification for continuing government expenditures on agricultural public works, namely the reference to sustainable development being 'promoted by securing agricultural facilities including the necessary farmlands and irrigation/drainage, and a workforce. Thus, "pork barrel" politics can become even more firmly entrenched—in part due to the GOJ's penchant for fiscal stimulus to revive the economy.

Japan and the EU's insistence on "comprehensive negotiations" is a strategy to reduce the focus on agriculture and possibly make it easier for Japan to minimize concessions on rice tariffs or domestic support measures. Japan's strong international alliances, forged through efforts like the "friends of multi-functionality" and promoting food security with developing countries, has strengthened its negotiating position. Through these alliances, Japan asserts that food security and multi-functionality are "global principles".

What policy steps lie ahead, and the resulting impact on market access, will become more clear after Japan's submits its WTO proposal this month.

Reality Check for Japan

Despite the best intentions of Japan Agriculture Inc, MAFF-driven policy changes will not induce Japan's agriculture sector to become more efficient, productive, or competitive. Corporatisation of the agriculture sector, leading to increased scale, is likely the only way to revamp the system. Thus far, the manufacturing giants of Japan like Toyota and Sony have not stepped-in to introduce larger economies of scale or investment. Short of this corporate involvement, reform of Japan's agriculture sector will likely remain a question of pace and compensation.

Food Security is Enhanced--Self-Sufficiency is a Myth

Food security, an issue constantly cited by MAFF officials, is arguably the most compelling argument favoring greater trade liberalization. Imports play a critical role in Japan's food security, and a return to self-sufficiency is unrealistic because farming is not a profitable or attractive employment option for most Japanese.

Maintaining a steady supply of stably priced, imported food will become even more vital in the years to come. MAFF's efforts to increase self-sufficiency should not compromise Japan's food security by increasing the government's intervention in the food sector and stymying the marketplace.

Japan and the United States share positions on export subsidies and food security, while we disagree on market access and internal supports. The EU accounts for about 80% of the world's export subsidies, and these measures lead importing countries like the United States and Japan to implement import protection steps like counter-veiling duties and safeguard measures. The United States has proposed that export subsidies be eliminated, a move that would alleviate Japan's concerns about being flooded by cheap, subsidized commodities.

Japanese Consumers Benefit from Liberalization

According to GOJ cost of food indexes, inhabitants of Tokyo pay far more for food than those in any other capital in the world. Food costs in Tokyo average 50% higher than in New York, and consumers spend about 23% of their disposable income on food consumption compared with 11% in the United States. (Ref: ACCJ viewpoint) This fact of life in Tokyo is never mentioned in the GOJ's agricultural policy measures.

Removing barriers to imported foodstuffs would lower food costs in Japan, the most expensive country in the world. One of the important factors leading to higher food prices is the relatively high level of tariffs in Japan. Consumers carry the burden of high tariffs on imported dietary components such as rice (700%), beef (38.5%), oranges (32%), and particularly processed food such as processed cheese (40%), frozen potatoes (32%), and ice cream (21%).

Japan's Processing Sector Benefits Too

Food processing is one of the largest manufacturing sectors in Japan, employing 11% of all manufacturing labor. But according to a recent report by the McKinsey Global Institute, the sector's productivity is only 35% of U.S. productivity. Though the main source of the productivity gap is the small scale of production, external barriers contribute to the problem. These barriers include high import tariffs and government controls on trade of key product ingredients. Japan's processors, in effect, remain less productive because the government is trying to shelter them from competitive pressures.

Pork is an example of a commodity with an aggressive GOJ intervention which includes domestic price and volume controls coupled with a complicated import regime to designed to shelter Japan's domestic producers and ensure a steady supply of cheap, raw material for the powerful ham and sausage manufacturers.

To realize the full potential of Japan's food processing industry, import barriers and price/volume restrictions should be removed. These basic foodstuffs become ingredients of the processed food industry. Thus, the protection of agriculture spills over to the processing industry and the industry will ultimately pass these import costs on to Japan's consumers.

Japan's Rice Producers the Ultimate Losers

Ultimately, Japan's rice and livestock producers stand to lose the most from the inevitability of agricultural trade liberalization. Until farmers become laborers and managers working on larger farms managed along entrepreneurial and profit-driven principles, land-intensive, rice-focused, part-time farm households will remain the Achilles heel of Japanese agriculture. Japan's farmers may hold some comparative advantage in products like high quality beef/pork, citrus, and some vegetables. But the only difference introduced by Japan's existing policy changes to the mainstay of agriculture, rice farming, is the mix of policy support measures (reference: Mulgan's *The Politics of Agriculture in Japan*).