JAPANESE AGRICULTURAL POLICY DEVELOPMENT:

IMPLICATIONS FOR NEW ZEALAND

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THE AGRICULTURAL ECONOMICS RESEARCH UNIT
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CONTENTS

PREFACE (i)

SUMMARY (iii)

1. INTRODUCTION 1

2. THE DEVELOPMENT OF JAPANESE AGRICULTURAL POLICY 5
   2.1 The Agricultural Basic Law 5
   2.2 The Rice Policy 11
   2.3 Agricultural Incomes 15
   2.4 Livestock Industries 20

3. THE CURRENT SITUATION IN LIVESTOCK PRODUCTS 25
   3.1 Beef 25
   3.2 Dairy Products 27
   3.3 Dairy Surpluses 29

4. THE FUTURE 33
   4.1 Japanese Policies 33
   4.2 Options for New Zealand 34

REFERENCES 41
This Discussion Paper is based upon a presentation made by Dr A. C. Zwart to the Sixteenth Foreign Policy School, held in May 1981, at Otago University. The opinions expressed in the paper have been formulated through Dr Zwart's involvement in a two year research programme carried out within the Agricultural Economics Research Unit, under the funding of the Japan Advisory Committee. In addition, Dr Zwart visited Japan late in 1980 as a recipient of a Japan Foundation Research Fellowship.

The AERU has a continuing interest in the study of Japanese agricultural policy and the interrelationships between Japan and New Zealand. The publication of this Discussion Paper forms part of this ongoing activity.

J. B. Dent
Director
SUMMARY

Agricultural policy in Japan has played an important role in limiting New Zealand's exports of agricultural products to that country. While there have been many specific changes in the policy over the last two decades, there does not appear to have been any major changes in the motivation of the policy makers.

The current agricultural policy has been developed with the aim of increasing rural incomes to levels comparable with urban workers, and this has been accomplished through the payment of high support prices, and other subsidies to rice producers. This support for rice production has led to surplus production and a need to export rice at a loss.

Throughout the 1970s further policies have been developed to divert rice production by supporting farmers who produce alternative products such as feed grains, vegetables and livestock products. This has led to the development of high support prices and extensive protection measures for many of these products, and forms the basis of New Zealand's difficulties in exporting to Japan.

This paper outlines the development of these policies and describes the resultant growth in the livestock industries in Japan. While the growth in demand has kept up with production of beef in Japan, this does not appear to have been the case in the dairy industry. In the last few years, stocks of traditional dairy products such as butter and skim milk powders have accumulated, and imports have been eliminated. More recent policy initiatives have attempted to reduce the level of imports of non-traditional dairy products and cheese. These moves
have been blocked to some extent by the food importing and processing sector in Japan who are concerned about their access to low priced imported products.

It appears that agricultural incomes in Japan will continue to be supported at very high levels. The adaptability which the producers have shown in their production of livestock is likely to cause continuing difficulties for New Zealand's exports of livestock products in their traditional form. This reduction in the potential market for traditional bulk products suggests that New Zealand should concentrate on the export of products which are not as openly competitive with local products. This includes more specialised food products and also products which are inputs into processing industries. This more positive approach to exporting would require less emphasis on government negotiations, which do not appear to have been particularly effective in New Zealand's case, and more emphasis on marketing and business skills.
1. INTRODUCTION

Developments in Japanese agricultural policy are very important for New Zealand's trade in traditional agricultural products. This paper will discuss the development of these policies over the last two decades and from this draw some implications for the future. The paper will develop the theme that while there have been many physical changes over the period, there have been very few changes in social attitudes and motivation. Rather, the developments appear to have been a set of compromise solutions to problems which have arisen. This situation has led to a sequence of events which has appeared to New Zealand policy makers to be a gradual restriction of agricultural trade with Japan. While this is almost certainly true for the basic and primary products such as carcase meat, butter or skim milk powder, it is not necessarily true for more diversified types of products. Before going any further, however, it is important to consider the overall importance of the Japanese trade for New Zealand, and the background to Japanese agricultural policies.

The trade figures for the year ended June 1980 show that Japan is New Zealand's third largest export market for all products and it is also the third largest export market for agricultural products after the United Kingdom and the United States of America. Table 1 shows the breakdown of this export trade into its major products. Of the total trade of $674 million, almost half comes from agricultural products. This trade is almost evenly divided between meat, wool and dairy products. This paper focuses on developments in the meat and dairy product industries. Japan does not have a sheep industry, therefore, New Zealand wool production does not
### TABLE 1

**New Zealand's Exports to Japan**

*Year Ended June 1980*  

<table>
<thead>
<tr>
<th>Product</th>
<th>($ mill.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meat</td>
<td>62.8</td>
</tr>
<tr>
<td>Wool</td>
<td>97.0</td>
</tr>
<tr>
<td><strong>Dairy Products</strong></td>
<td></td>
</tr>
<tr>
<td>Butter</td>
<td>0.5</td>
</tr>
<tr>
<td>Casein</td>
<td>28.9</td>
</tr>
<tr>
<td>Cheese</td>
<td>39.8</td>
</tr>
<tr>
<td>Milk Powder</td>
<td>15.6</td>
</tr>
<tr>
<td>Other Milk Products</td>
<td>14.5</td>
</tr>
<tr>
<td><strong>Total Agricultural Products</strong></td>
<td>99.3</td>
</tr>
<tr>
<td>Other Animal Products</td>
<td>29.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>288.6</td>
</tr>
<tr>
<td>Forest Products</td>
<td>146.7</td>
</tr>
<tr>
<td>Fish</td>
<td>37.3</td>
</tr>
<tr>
<td>Fruit and Vegetables</td>
<td>17.2</td>
</tr>
<tr>
<td>Other Primary Products</td>
<td>7.9</td>
</tr>
<tr>
<td>Manufactures</td>
<td>149.2</td>
</tr>
<tr>
<td>Minerals</td>
<td>27.5</td>
</tr>
</tbody>
</table>

Source: Reserve Bank of N. Z. Bulletin  
September 1980
compete with any local production and there have been relatively few problems in the trade in wool. In fact, Japan is now one of New Zealand's more reliable customers in the wool trade.

The major area of conflict in trade negotiations has been the trade in dairy and beef products. An example of this was the beef-for-fish negotiations of two years ago, and New Zealand is currently facing major problems in the trading of dairy products. While beef has probably received the most attention, it is in fact the trade in dairy products which is most important for New Zealand. The meat export figure given in Table 1 is almost entirely made up of exports of mutton and lamb. Beef trade has dwindled to a very low level, not because of access problems, but because of more profitable markets elsewhere. Before going into more detail on the current situation in Japan's agricultural trade with New Zealand it is important to look at the factors which have influenced the development of Japanese agricultural policy.

Chapter 2 of this paper reviews the development of Japanese Agricultural policy and Chapter 3 examines the current situation with regard to livestock products. In Chapter 4, some comments regarding the possible future scenario are made.
2. THE DEVELOPMENT OF JAPANESE AGRICULTURAL POLICY

2.1 The Agricultural Basic Law

Following the Second World War, Japanese agriculture underwent drastic changes, in terms of the reallocation of farm ownership, and it was some years before agricultural output returned to pre-war levels. Throughout the 1950s, agricultural production was increasing and farm incomes also increased, but, due to the rapid development of other sectors of the economy, agricultural incomes had fallen in relation to those in other sectors. Agriculture was being left behind by the economic miracle which was taking place in Japan at that time.

This situation led to the development of the Agricultural Basic Law of 1961 which has provided the basis for the current Japanese agricultural policy. This law was based on similar laws which had been developed in Germany and other European countries in the 1950s and had the objective of overcoming rural income problems through careful and planned structural change in the agricultural sector.

The background to the law is probably best summarised by the preamble to the law itself as translated by Ogura (1979). The preamble states:

"the agriculture of our country has contributed to the development of the national economy and the stabilisation of national livelihood through the supply of national food and other agricultural produce, the effective utilisation of resources, the conservation of national land, (and) the expansion of the domestic market, .... despite all the trials of its long history."
It then goes on to say,

"in response to the mission of agriculture and of the farming population, it belongs to the responsibility of our nation to enable the farming population to enjoy a healthy and cultural livelihood well balanced with the other strata of the nation by means of compensating for the disadvantages of agriculture."

The measures to be taken by the State in implementing this policy included the following:

(i) The promotion of a selective expansion of agricultural output towards products for which demand is rapidly increasing;

(ii) The promotion of increases in farm productivity and in gross agricultural output through effective use of land and other resources;

(iii) The rationalisation of land tenure and modernisation of farm enterprises by increasing the scale of management, by consolidation and joint use of farm land, by the introduction of livestock, and by farm mechanisation. Such measures are generally referred to as improvements to the farm structure;

(iv) The rationalisation of the marketing of farm products and the promotion of demand for these products;

(v) The stabilisation of farm prices and the support of farm incomes;

(vi) The rationalisation of the production and distribution of farm inputs;
(vii) The training of persons who can carry on modern farming and the provision of adequate alternative opportunities for employment for those who wish to leave farming; and

(viii) The furthering of the welfare of the agricultural population.

Although the law itself was stated in very general terms, it did require the Ministry of Agriculture and Fisheries (M.A.F.F.) to submit to the Diet (the Japanese Parliament) annual reports on the agricultural situation and the measures that were to be taken. Support for this policy at the time was not universal. Some people felt that the problems facing agriculture could be more suitably cured by the rapid exodus of people from agriculture. They felt that this could only happen with the continuance of the existing situation of low farm incomes. Other groups, such as the Socialist Party and the Communist Party, in Japan were opposed to the law because it suggested that the scale of farms would increase. They were opposed to any law which would force people to be removed from agriculture; and saw this eventuality in the parts of the law which referred to the increased scale of farming. It is possible that other people also paid little attention to the law because they felt that it was stated in such general terms that it could not be easily formulated into specific policies.

The Agricultural Basic Law was originally stated in very general terms and it has been mainly left to the Ministry of Agriculture to define the actual policy mechanisms which should be used. In the period since 1961 these have varied considerably between commodities and a wide range of different mechanisms have been introduced.
It is interesting and important to note that food self-sufficiency is not mentioned as an objective nor is it an important element of the Basic Law. Self-sufficiency of food had traditionally been the major objective of agricultural policy in Japan. In the early 1960s when this law was enacted, self-sufficiency in rice production and in total food production was at its highest level since the war, and it is possible that this caused the lack of emphasis on this objective in the original policy.

Since the early 1970s, however, more attention has been paid to national food self-sufficiency as a stated objective of agricultural policy and the importance of maintaining incomes has appeared to decrease. There are probably three major reasons for this: first, due largely to the diversification of the Japanese diet, the overall level of self-sufficiency in food products has declined (see Table 2); second, in international and domestic negotiations an objective of income support is seen as less politically acceptable than one of food self-sufficiency. Thus self-sufficiency could become a more convenient framework for offering continued support; third, the justification for the adoption of such an objective was provided by the shocks which occurred in international food markets in the early 1970s. These included the United States devaluation in 1971, the 1972 embargo on exports of soybeans, and the oil crisis.

All of the above factors have caused a renewed interest in food security as an objective of agricultural policy in Japan. This, however, has been the only major change in emphasis since the enactment of the Basic Agricultural Law in 1961. Even so, it would be difficult to prove if this is in fact a major change, or simply a more acceptable method of stating the objective of increasing agricultural incomes.
### TABLE 2

**Trends in Self-Sufficiency**

(Per Cent)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>90</td>
<td>83</td>
<td>76</td>
<td>74</td>
<td>73</td>
</tr>
<tr>
<td>Rice</td>
<td>102</td>
<td>95</td>
<td>106</td>
<td>110</td>
<td>111</td>
</tr>
<tr>
<td>Wheat</td>
<td>39</td>
<td>28</td>
<td>9</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>Soya Beans</td>
<td>28</td>
<td>11</td>
<td>4</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Milk</td>
<td>89</td>
<td>86</td>
<td>89</td>
<td>82</td>
<td>89</td>
</tr>
<tr>
<td>Meat</td>
<td>91</td>
<td>90</td>
<td>89</td>
<td>81</td>
<td>80</td>
</tr>
</tbody>
</table>

1 Measured in terms of total value

*Source: Ogura (1979)*
The stability of these objectives is undoubtedly due to the influence which rural people have retained over the policy-making process in Japan. The political influence of the Japanese farmers comes from two major sources: the stability of the electoral boundaries, which has led to a more proportionate share of seats in the Diet, as rural people have moved to the city; and the political importance of the agricultural co-operative organisations. These factors are to some extent inter-related, in that the agricultural co-operatives have influenced the stability of the electoral boundaries.

The agricultural co-operatives in Japan give the farmers the type of political power which would be the envy of any farm organisation in the world. Almost every farmer is a member of one of the 5,000 local co-operatives (Nokyo). These organisations provide not only a full commercial service to the farmer, including buying and selling produce, providing credit, and banking facilities, but they also act for the producers in political negotiations. There is further co-ordination between the co-operatives at both the prefectural (provincial) level and the national level. The most central organisation is called the National Central Union of Agricultural Co-operatives and this provides guidance for the individual co-operatives as well as representing farmers in negotiations with the government. Other studies by Saxon (1979) and George (1980) provide an excellent discussion of the role and importance of Nokyo in the policy process.

This section of the paper has briefly discussed the environment in which the food and agricultural policy in Japan has developed. To evaluate the impact of these policies on trade with New Zealand, however, the specific policies must be looked at in more detail. To understand how these particular policies have
developed it is particularly important to consider developments in the rice industry. Although rice does not appear to have a direct effect on New Zealand's trade relationship with Japan, it can be seen to have a major impact on the livestock sectors which are important in New Zealand's trade relationships.

2.2 The Rice Policy

Rice is the major agricultural product produced in Japan and, in 1960, accounted for 50 per cent of the value of gross agricultural output. Because of its importance as a source of farm income, the price of rice became a convenient policy instrument for the Japanese Government to use in implementing the Agricultural Basic Law. Rice prices were fixed by the Government in such a manner that they reflected changes in the costs of production and also wages in the non-farm sector. Prices, which had been stable since 1955, began to rise and have continued to do so till the present. As a method of controlling producers' income, this has been an extremely efficient policy, but the problems which have been generated are numerous. Falling consumption caused by slowly changing tastes and increased production resulting from the higher prices, meant that by 1963 the government was selling rice at a lower price than it was buying it from the farmer (although the price was still well above the world price), and by 1966 surpluses were accumulating to the extent that the government was forced to accumulate stocks and export the surplus production (See Figure 1). This programme was extremely costly as the rice was disposed of at a loss. A recent estimate suggests a cost of $4.5 billion between 1968 and 1974 (BAE 1980). In the early 1970s, programmes were developed to try to decrease the production of rice. It was at this stage
that selective expansion of agricultural production became important, as attempts were made to divert agricultural production away from rice and into other activities.

Between 1970 and the present, three different policies with the same objective have been in operation. It appears that over this period the schemes have become more tightly specified. For example, until 1973 payments were made simply for leaving paddy fields fallow, or not using them. This programme was successful. The second plan introduced in 1976 paid incentives for farmers to grow other crops, such as soya beans and vegetables, but as the rice price had increased at the same time, it was relatively unsuccessful. The latest programme introduced in 1978 is more specific and allows annual diversion payments of $2,500 per hectare to be paid for specified crops (soybeans, wheat, barley, pasture and fodder crops) and payments of $1,800 per hectare for other crops. Further subsidies are also available to farmers who diversify land on a co-operative basis. Usually this entails converting an area of small paddy fields into larger fields which are more suitable for mechanised harvesting and cropping. This is having the desired effect of increasing the efficiency and scale of the farming operations.

Table 3 presents a summary of the rice diversion programme, showing the crops whose areas have increased as well as indicating the overall success of the programme. The programme has been successful in that for most years the area diverted from rice production has exceeded the target areas. To get an idea of the scale of the programme, the 440,000 hectares diverted in 1978 equalled about 17 per cent of the area actually sown to rice in that year.
FIGURE 1

Trends in the Rice Industry

Trends in overall rice supply and demand

Demand and supply

Source: Ministry of Agriculture, Forestry and Fisheries
TABLE 3

Rice Diversion Programme
('000 hectares)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Area Diverted</td>
<td>541</td>
<td>566</td>
<td>562</td>
<td>313</td>
<td>264</td>
<td>195</td>
<td>214</td>
<td>440</td>
<td>472</td>
</tr>
<tr>
<td>Feed Crops</td>
<td>57</td>
<td>67</td>
<td>69</td>
<td>66</td>
<td>55</td>
<td>50</td>
<td>54</td>
<td>117</td>
<td>123</td>
</tr>
<tr>
<td>Vegetables</td>
<td>73</td>
<td>66</td>
<td>62</td>
<td>57</td>
<td>55</td>
<td>61</td>
<td>65</td>
<td>80</td>
<td>86</td>
</tr>
<tr>
<td>Pulses and Soybeans</td>
<td>43</td>
<td>47</td>
<td>49</td>
<td>48</td>
<td>34</td>
<td>22</td>
<td>29</td>
<td>83</td>
<td>71</td>
</tr>
<tr>
<td>Trees - Orchards and Forestry</td>
<td>33</td>
<td>47</td>
<td>55</td>
<td>61</td>
<td>58</td>
<td>13</td>
<td>9</td>
<td>44</td>
<td>N.A.</td>
</tr>
<tr>
<td>Other</td>
<td>335</td>
<td>339</td>
<td>327</td>
<td>81</td>
<td>62</td>
<td>49</td>
<td>57</td>
<td>116</td>
<td>N.A.</td>
</tr>
<tr>
<td>Success of Plan</td>
<td>98%</td>
<td>108%</td>
<td>112%</td>
<td>96%</td>
<td>108%</td>
<td>91%</td>
<td>99%</td>
<td>118%</td>
<td>121%</td>
</tr>
</tbody>
</table>

1 Includes fallow until 1973

2 Before 1975 targets were set in terms of production not area

Source: BAE (1981)
It can be seen that the largest part of the land diverted from rice production has been used in the production of feed crops, which include pasture and other types of roughage crops. The production of vegetables has increased, but the potential is limited by the fact that Japan is virtually self-sufficient and the markets are volatile. Whilst it has been desirable to expand the area of other crops which have low levels of self-sufficiency, such as wheat, barley and soybeans (see Table 2), the programme has only recently been successful in this area.

The fact that the programme has increased the area of feed crops grown has important implications for New Zealand. These crops are used as the roughage component of rations for ruminant animals - dairy and beef cattle. The rice diversion programme has had the effect of diverting farmers from rice to livestock farming. These changes have also been influenced by the specific policies for the livestock industries which are discussed in section 2.4 of this paper.

2.3 Agricultural Incomes

Largely as a result of the rice diversion programme, rice has decreased its share of gross agricultural output from 50 per cent in 1960 to only 35 per cent in 1976 and the balance has largely been taken up by vegetable or livestock production. Rice, however, still makes up the single largest part of income from agriculture.

The trends in farm income are best shown in a table taken from Ogura (1979) (Table 4). This table shows clearly that farm incomes have been increasing in relation to non-farm or wage-earner incomes although it was only in the early 1970s that the disposable income per member of a farm household exceeded
TABLE 4

Income Comparison of Family Farm Households and Wage Earner Households

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratios of Family Farm to Wage Earner:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Income per household</td>
<td>104.7</td>
<td>114.8</td>
<td>136.9</td>
<td>135.1</td>
</tr>
<tr>
<td>(ii) Income per member of household</td>
<td>81.5</td>
<td>92.3</td>
<td>114.4</td>
<td>113.0</td>
</tr>
<tr>
<td>(iii) Disposable income per member of household</td>
<td>82.8</td>
<td>91.6</td>
<td>113.1</td>
<td>112.2</td>
</tr>
<tr>
<td>Farm Income as a percentage of total income for farm households</td>
<td>43.7</td>
<td>31.8</td>
<td>28.9</td>
<td>27.0</td>
</tr>
</tbody>
</table>

that of a wage earner household. It is important to note, however, that over this period the share of farm income has decreased from 43 to only 27 per cent of total income earned by farm households. There has been a dramatic increase in the amount of farm household income which has been earned from non-farm sources, usually wages and salaries. Increasing technical efficiency of rice and crop production has meant that labour has been released from family farms to find work in factories. These changes are clearly seen in Figure 2 which shows the decrease in the total number of farming families as well as the increase in the number of part-time farmers. Typically the younger members of the farm households have been leaving the farm and seeking work in the city or at local factories, leaving their parents to operate the farm at the same level of output.

While it would be tempting to suggest that the increased returns to farm households shown in Table 4 were due to high prices paid for the agricultural products, this is probably not the case. This can be seen from Table 5 which shows the indices of the rice price and wages. These figures give a rough comparison of the profitability of rice production in relation to off-farm work and although there have been increases in the expected yield of rice over this period they would not have been enough to compensate for the higher wages. It must therefore be concluded that the increased return to farm households has not necessarily been due to the increased profitability of farming, but rather to the fact that production efficiency increases have allowed farm families to become increasingly involved in off-farm work. This leaves the suggestion that perhaps the net effect of the Basic Agricultural Law and rice policy has only been to slow down the net migration from agriculture.

The trend towards part-time farming has not been followed by all groups in agriculture, however, and a relatively small
FIGURE 2

Trends in Farm Households

Farm labor force and farm management

Number of farm households

- Full-time farm household
- Part-time farm household (Mainly engaged in farming)
- Part-time farm household (Mainly engaged in other jobs)

Source: Ministry of Agriculture, Forestry and Fisheries
TABLE 5

Indices of Wages and the Farm Price of Rice

(1975 = 100)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Index of Wages</td>
<td>22</td>
<td>42</td>
<td>100</td>
<td>112</td>
<td>122</td>
<td>130</td>
</tr>
<tr>
<td>Index of Price of Rice</td>
<td>40</td>
<td>52</td>
<td>100</td>
<td>106</td>
<td>110</td>
<td>111</td>
</tr>
</tbody>
</table>

group of farmers have become highly specialised in alternative enterprises such as livestock production.

2.4 Livestock Industries

It appears that Japanese farm households have made a decision to either specialise in rice production, and rely on off-farm work and rice prices to provide income, or they have made the conscious decision to expand vegetable or livestock production. The expansion into livestock production has allowed these producers to take advantage of the substantial economies of scale which exist in these industries. The livestock farmers have been able to take advantage of the rice diversion programme to produce feed crops such as grass and maize for their livestock, as well as receiving the high prices for any rice they may wish to grow. These changes have been documented in Tsuchiya (1976) and Yuize (1979).

In terms of the structure of these industries, there has actually been a dramatic decrease in the number of households who produce beef or dairy cattle, but these have most likely been the producers who had less than five cows and who have subsequently become specialised part-time rice producers (see Figure 3). It would be expected in this situation, that the part-time farmers would actually sell their land and become full-time workers, but this has not been the case. Because of the extremely high value of agricultural land, farmers in this situation are reluctant to sell their land when it continues to increase in value. This situation has proved to be one of the major problems in the attempts to increase the scale and efficiency of farming and there are now policies which support the leasing of land to livestock producers.
FIGURE 3
Trends in Beef and Dairy Industry

Source: Ministry of Agriculture, Forestry and Fisheries
Specific support for the livestock industries has mainly been developed around the institution known as the Livestock Industry Promotion Corporation (LIPC), which was initially set up in 1961 following the enactment of the Agricultural Basic Law.

Initially, the involvement of the Corporation was in the importation, purchase and sale of designated dairy products and pork, but by 1960 they had become involved in the subsidisation of milk for use in school lunch programmes, as well as milk used in the manufacture of dairy products. In 1966 the Corporation also took over control of imports and in 1975 it assumed responsibility for the stabilisation of the domestic beef market through the purchase and storage of the product. Further detail on the complicated operation of these schemes can be found in Longworth (1976) and Saxon (1979). Under the current mandate of the Corporation, it controls the importation of beef, butter and milk powders through an import tendering scheme which it operates in such a manner that domestic prices will be stabilised (i.e. they only import in periods when domestic prices are high and production is low).

As the LIPC is also the sole seller of imported beef, butter and skim milk powder, they have the ability of maintain the price of these products at levels well above world market levels and profits from import operations of the corporation have been used in the subsidisation of other aspects of livestock production.

The net effect of these policies is that consumers in Japan pay prices which are substantially above world prices in order to provide support for the producers of livestock products.

Although consumption of both beef and dairy products has expanded over the past twenty years, consumption levels are
well below those in other developed countries and there has been considerable pressure from exporting countries for imports of these products to be liberalised so that consumption would increase. There have been a number of studies which have clearly pointed out the costs which the consumers in Japan pay to support agriculture, but this appears to have had little impact on the actual policies (Hayami, Kagatsume, Bale and Greenshields).

Although self-sufficiency and food security are clearly stated as policy objectives, it has been shown that the Japanese dependence on imported feed for their livestock industry has meant that true self-sufficiency in terms of their ability to sustain food production is considerably less than is normally measured. The study by Sheppard and Beun (1980) shows that when the imported feed is taken into account the self-sufficiency of most meat products drops to about one third of the simple measure provided in Table 2. A paper by Kitson (1980) also points out this problem and suggests that total food supplies would be more secure if a better balance were maintained between imports of inputs (feed), and imports of finished product (meat). In this situation Japan would not be wholly dependent on any particular market for all of its food supply and consumers could benefit from the lower prices. The truth in this logic is perhaps another reason why the stated objective of food self-sufficiency, which is so prevalent in Japanese agricultural policy statements, should be questioned.
3. THE CURRENT SITUATION IN LIVESTOCK PRODUCTS

3.1 Beef

Both the production and consumption of beef in Japan have continued to grow as producer prices have been maintained and consumer tastes have become westernised. Although it has not been steady, there has been gradual growth in the level of imports which are necessary to satisfy the increases in consumption. As in other beef markets around the world, Japanese production tends to be unstable because of the long delay between decisions to increase production and the actual production being realised. Figure 4 clearly shows the fluctuations in domestic production and the manner in which imports have been used to stabilise consumption. New Zealand's share of the import market has been minimal and has declined from about 9.7 per cent in 1971 to 2.6 per cent in 1979. The growth in imports has largely been met with supplies of high quality beef from the United States, their share reaching a maximum of 20 per cent in 1979. The remainder of the imports are supplied from Australia.

For New Zealand to object to the lack of access to the market for beef in Japan appears to be somewhat unnecessary. Even though beef imports are mainly through tenders and other highly controlled mechanisms, the major factor which is holding back our beef sales to Japan is the competitiveness of the products which we are producing. While liberalisation of the Japanese beef market would undoubtedly improve the general conditions in the world beef market, New Zealand still must face the question of its ability to compete in this market. A study by Kagatsune measures the degree of substitution between Australian, American and New Zealand beef. His results show, that the lower quality of Australian and New Zealand beef makes them competitive with each other on the basis of price.
FIGURE 4

BEEF PRODUCTION, CONSUMPTION AND IMPORTS

'000 tonnes

YEARS

Consumption
Imports
Imports from N.Z.
Production
The beef industry in Japan is closely linked to the dairy industry in that about one half of the beef cattle are from dairy origin. Thus the growth which has taken place in the dairy industry has been a source of growth to the beef industry.

3.2 Dairy Products

In recent years the Japanese dairy industry has undergone very rapid structural changes and output has increased dramatically. For example, between 1972 and 1979 the number of cows per farm increased by 141 per cent, and, throughout this period, the efficiency of dairy farming improved to the extent that output per cow increased by 15 per cent. The net effect of these changes was an overall increase in output of 30 per cent. These changes are national averages and even more dramatic changes have been taking place in Hokkaido which is the centre of the dairy industry in Japan. The causes of these changes have already been discussed: the incentive to move out of rice production, the assistance available for structural adjustment and the direct price support and protection offered to the dairy industry.

Of the milk produced in Japan, almost 60 per cent is consumed directly as fresh drinking milk. There is currently no subsidisation for the production of this milk as it has natural protection by virtue of the fact that it is a fresh product. The remaining 40 per cent of the milk produced is used in the production of manufactured milk products, mainly butter, condensed milk, powders and cheese. The producer price for manufacturing milk includes a subsidy paid by the LIPC, which has increased from 15 per cent of the price in 1970 to 30 per cent of the price in 1977, but has remained stable since that time.
The increased output of milk has exceeded the growth of consumption in the past few years and, in an attempt to maintain the domestic wholesale prices of dairy products, the LiPC has been forced to cut back on imports and accumulate stocks of the products which are under their control. Until 1977, the Japanese market had been a useful, if somewhat erratic, market for New Zealand butter and milk powders but because of the tendering system which is used for imports, it could probably never have been considered a reliable market. Cheese imports, on the other hand, have continued to grow from about 10,000 tonnes in 1965, to a present level of 70,000 tonnes. A major part of this cheese is reprocessed within Japan. There are only tariff controls on imports and under the existing scheme, processing companies can import two units free of tariff for every unit of locally produced cheese they use in processing.

Other products from New Zealand which are used in processing, such as casein, are imported tariff free into Japan and have become an important part of our trade. Trade has also been growing in products which could best be called non-traditional dairy products. These are products which enter processing markets in such a form that they do not attract tariffs or come under any quantitative restrictions. Two such products are edible fats and food preparations containing cocoa. The trade in edible fats has been growing rapidly but has recently come under a voluntary quota agreement which will limit trade to a total of 27,000 tonnes over the next three years. With recent levels of trade, this should not create any major problems, but it could restrict growth in the future.
3.3 **Dairy Surpluses**

The Japanese policy response to their increasing surplus of dairy products is interesting and possibly suggests some direction for future changes.

With the realisation that surpluses were possible, the subsidies and prices paid to producers for manufacturing milk were fixed in 1977. Since this period, the real prices or returns to the producers have declined because of inflation in the economy in general and especially because of the increasing costs of livestock feed. This has meant a decrease in returns to farmers and, even though prices are meant to increase in the coming year, they will not be sufficient to compensate for the increases in costs. A second move has been the imposition of voluntary quotas to contain milk production over the past two years. Although small increases have been allowed, they have been limited to a percentage of production in 1979.

It is interesting to note that these latter controls are a part of a system known as "Administrative Guidance". The control of production is administered through the co-operative system with provincial, local and individual levels of output being decided by the producer organisations without any need for government administered penalties for over-production. Producers have been asked to utilise any surplus milk produced in the production of calves for the beef industry which appears to be the most viable expansion alternative for dairy farmers. Modern dairy farmers have become very experienced in bovine nutrition and the production of livestock feed and it would be logical for them to utilise any resources which could be taken out of dairy production, in beef production.
These policy measures have the effect of reducing local supply, but there have also been moves to provide protection for the local industry beyond that which would be offered by the LIPC in its normal role. The major initiatives have been the suggestion that a new cheese factory be built in Hokkaido to produce 10,000 tonnes of natural cheese that would normally be imported and, the banning of imports of the non-traditional dairy products, especially edible fats. As already discussed, voluntary quotas on edible fats have been imposed, but they were not as restrictive as originally desired by farming interests and it has taken considerably longer to introduce these regulations than was originally intended. The main resistance to the imposition of the ban came from the trade department who were presumably representing the interests of food processors.

In a similar pattern, the plans for the development of the new cheese factory which were originally put forward by a group which included the M.A.F.F., the LIPC, the farm co-operatives and the dairy processing companies has been stalled. Despite the attractive nature of the plan (the LIPC had agreed to pay half of the construction cost) it has collapsed because of the withdrawal of the dairy companies.

These companies stated the following reasons for their withdrawal: (Japan Economic Journal, 18 November 1980)

(i) They felt that domestically produced cheese would be more expensive in the long-run than the imported product;

(ii) They did not want to invite economic friction with the countries now selling cheese to Japan; and

(iii) Managerial difficulties in dealing with the co-operatives.
Although plans to increase cheese production are going ahead in Hokkaido it appears as though it will be developed mainly by the co-operatives and on a considerably reduced scale from that originally suggested by the M.A.F.F.

The outcome of these decisions are interesting from New Zealand's point of view, as they represent a weakening of the power that the M.A.F.F. and the LIPC have traditionally held over the future of farmers. It is also interesting to note that conflicts have arisen where food processing interests and large firms have become involved. Further support in this direction has recently come from the Japan Federation of Economic Organisations (Keidanren) which is normally known as a business organisation. In a report on agricultural policy, they express a desire to become involved in the long term planning for agriculture. They feel that the food products industry has been previously ignored, in discussion of agricultural policy, and that they are being seriously affected by the fact that they are denied access to low cost raw materials. While these comments are not particularly new, the fact that the recent decisions have supported these views is very important for New Zealand's future in these markets.
4. THE FUTURE

4.1 Japanese Policies

This paper has mainly dwelt on past events as it has attempted to lay out the developments in Japanese agriculture and food policy. This review can provide a useful basis for understanding and developing ideas about the future. It has been shown that the objective of maintaining parity between farm and non-farm incomes has led to the development of a highly protective rice policy which has improved incomes in agriculture. It was noted, however, that the major part of the increase in rural family incomes appears to have come from increasing the amount of off-farm work. The increasing production which has resulted from this policy and the desire to increase self sufficiency in certain products has led to attempts to diversify agricultural production. Rather than do this by decreasing the price of rice, the decision has been made to make the alternatives more attractive. This policy has now caused a potential surplus of dairy products (and also other products such as mandarin oranges).

The current state of the dairy industry presents the Japanese government with a critical decision; whether to limit dairy output and maintain the level of income by increasing prices, or whether to allow prices to decline in real terms so that farmers are forced into producing other products. This decision will test the commitment of the government to the principle of supporting farm incomes. Whatever the decision in the dairy industry, it is likely that the expansion of livestock production will now focus on the beef industry, which we could expect to become more self sufficient.

In discussing the future for Japanese agriculture, care must be taken to distinguish between the future as the M.A.F.F. and
farming interests in Japan would like to see it and the future as it is likely to happen. As a part of their brief under the Basic Agricultural Law, M.A.F.F. is required to develop five year plans of the trends in agriculture. In discussing these plans officials often describe how the Japanese diet should not follow the pattern of other western nations and consume increasing amounts of meat protein, but should be concentrated on plant and vegetable protein.

Recently the projections for 1990 have been released and it is interesting to compare these with the projections for 1985 which were released in 1975 (see Figure 5). The major change has been in the revision of the rate of growth in demand and supply of beef and vegetables. It is apparent that the westernisation of Japanese diets is not likely to be influenced by the desires of the farming interests.

The real future in Japanese agricultural policy is more likely to be a continuation of ad hoc policy making to solve particular problems as they arise. In doing this they will keep in mind the need to maintain rural incomes without disadvantaging any particular group in the sector. The recent developments in the dairy industry suggest that it is going to become increasingly difficult for the agricultural interests to increase the level of protection through the introduction of new policies. The opposition to increased protection has come largely from government ministries other than Agriculture and also from the food processing and importing industries.

4.2 Options for New Zealand

It is tempting for policy makers and economists to look at the situation in Japan and suggest ways in which they could adjust
FIGURE 5

PROJECTIONS OF SUPPLY AND DEMAND

Supply and Demand as a Percentage of 1978 Demand

RICE

<table>
<thead>
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<th>1978</th>
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<td>Demand</td>
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WHEAT

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<tr>
<td>Demand</td>
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VEGETABLES

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<td>Demand</td>
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MILK AND MILK PRODUCTS

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TOTAL MEAT

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<tr>
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<tr>
<td>Demand</td>
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BEEF

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Note: The 1985 projections were made in 1975 and the 1990 projections were made in 1980.
their policy framework to everyone's overall advantage. It is possible to point out the social costs of their current policies, the lack of security involved in the self sufficiency in their livestock industries, and it is right that this should be done. What must be realised however, is that the primary concern of their policy is rural welfare. This has been the case for a long time, and it has been reinforced in the Agricultural Basic Law. A current policy review is underway in the Agricultural Policy Council, but it is doubtful that the principles of the policies will change substantially.

Given that there is little possibility of any dramatic change in Japanese agricultural policy, New Zealand ought to look more closely at the alternatives to our traditional trade in primary agricultural products. The flexibility and adaptability of the Japanese agricultural sector has shown that there is not going to be any unsatisfied demand for these primary products despite New Zealand's hopes in the early 1970s. Agricultural policy in Japan has shown the policy makers are committed to expand the output of primary agricultural products such as meat and dairy products, and in doing this little attention has been paid to international prices as a guide for production and import decisions.

It has been argued that linking New Zealand's access to Japanese markets with their access to New Zealand's markets could provide sufficient leverage to cause a policy change. This does not appear to have been successful in the past, however. Perhaps the only situation in which this has occurred is between Japan and the United States. The United States has relatively free access for its exports of grain and oranges to Japan, but it should be noted that the free access for feed grains imports in Japan is also in the interests of livestock producers in that
country. This suggests that any effect that the United States trade leverage may have had on Japan's agricultural policy has been harmful to New Zealand's agricultural trade with Japan.

Rather than suggesting changes which should take place in the Japanese policy and production framework, it may be advisable for New Zealand policy-makers and researchers to consider ways in which New Zealand can change its policies and production patterns to fit in best with the changes that are likely to take place in Japan. In this more positive approach, New Zealand must show that it is prepared to adapt to the existing policy situation in Japan. For example, if Japan is committed to a future of imported livestock feed, it is important to look for ways in which New Zealand can become involved, perhaps in the export of feed products. Australia appears to have done well in this regard. They export not only beef to Japan, but also feed and young calves for fattening.

Another principle which should be followed, is to export agricultural products in a form which does not appear to compete directly with the primary product produced in Japan. This means that New Zealand should put more efforts into the export of products which are not produced in Japan, such as lamb, and also products which are an input into food processing in Japan. Export of edible fats has been a good example of the latter type of product, but, as in any marketing situation, the exporter must be prepared to diversify and continually search for new, if small, markets.

One part of this re-orientation involves a commitment to the importers of these types of products. It has been suggested, in this paper, that the major supporter of New Zealand's interests in Japan has been the food industry, and yet a major part of
New Zealand's official contact has been with the agricultural sector. Perhaps the effort which has been expended in developing relationships with Japanese farming interests could have been better spent in developing relationships with the actual importers and consumers of New Zealand products. It is possible that New Zealand's attempts to convince farmers in countries such as Japan that New Zealand is the most efficient producer of these products has only made the rural lobby more resolute in its stand against the import of these products.

More importantly, it is essential to convince the people who may wish to import the products, and who have a common interest in promoting the products, that New Zealand is an efficient and, above all, a reliable supplier.

Implicit in the above argument is the assumption that New Zealand's exports must move away from the traditional bulk primary products, imports of which are controlled by organisations closely aligned with producer interests. One method of aiding this diversification, is to ensure that no obstacles are placed in the path of exporters who may wish to develop small and specialised markets in Japan. Smaller exporting organisations, selling more specialised products can have more opportunities to avoid import barriers and are perhaps less likely to attract the attention of producer interest groups.

In conclusion, it should be noted that most of the ideas discussed above are not new. Some of the changes discussed have already come about because of the gradual reduction in markets for the traditional products in Japan. Trade has been diversifying into more specialised agricultural and horticultural products which are entering processing and consumer markets in Japan, and this trend will certainly continue in the future.
While it is important that New Zealand should continue to point out the inefficiencies in Japanese agricultural protection, it is also important that New Zealand should be seen to be promoting the more positive aspects of the trading relationship with that country, including the ability and desire to adjust to their import requirements.
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