

## Agriculture

### ASSURING THE LONG-TERM HEALTH OF JAPAN'S FOOD AND AGRICULTURE SYSTEM

- ▶ Japan's agricultural policy reform includes phasing out rice production targets and shifting to a more targeted income support system. While this is a positive step in the right direction, around 90% of producer support is still linked to specific commodities.
- ▶ If financial incentives to divert rice producing-land to uncompetitive crops were reduced, farmers would have more freedom to make their own production decisions in response to market signals.
- ▶ For business-oriented farms to grow and prosper, it is also necessary to unravel the land and tax policy measures that impede farm consolidation and contribute to land being left idle.
- ▶ The agricultural innovation system should evolve to meet the needs of business-oriented farmers, including reforms to public R&D funding, extension services and agricultural education.

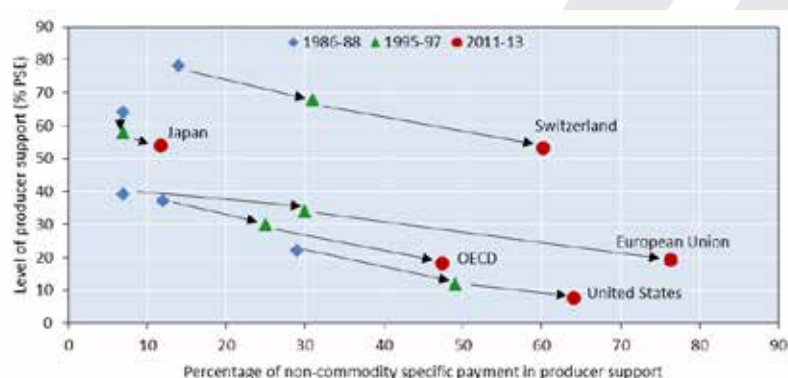
#### What's the issue?

Decades of restrictive policies have forced Japanese farmers to adapt to a highly directive agricultural policy framework that has isolated them from both markets and competition. The value of agricultural production and the rate of self-sufficiency continue declining, despite the fact that Japan grants one of the highest levels of support and protection to its farmers among OECD countries. Around 90% of producer support in Japan is linked to specific commodities, which constrains farmers' responses to market signals and hinders structural adjustment of the sector. Many major OECD countries have moved away from this type of intervention, while also reducing the level of support (see Figure).

To tackle the problems of the agricultural sector, Japan announced a comprehensive policy reform plan in December 2013. A central objective of the reform agenda is to promote the long-term growth and competitiveness of the food and agriculture sector, while at the same time allowing it to continue fulfilling its multifunctional role, such as conserving natural resources and the rural landscape. The reform includes the phasing out of the administrative allocation of production targets for table rice and shifting to a more targeted system of income support. Giving farmers more freedom to make their own production decisions is a step in the right direction.

#### Japan has made less progress than other countries in reducing the level of producer support and improving its design

Level and composition of producer support in selected OECD countries, 1986-2013



Source: OECD (2014), PSE/CSE Database.

The next step towards agricultural policy reform in Japan should be to gradually reduce payments for diversion crops, such as wheat and feed rice. This would boost production of table rice, thereby reducing its price and narrowing the gap with international prices. While lower rice prices would have a greater impact on farmers who produce rice as their primary commercial activity, as a transitional measure, business-oriented farms could be provided with temporary, declining levels of financial assistance to help them adjust. However, these payments should be decoupled from specific commodity production and, over time, either wound-down or integrated into a risk management policy package aimed at helping business-oriented farmers cope with income shocks.

For business-oriented farms to grow and prosper, it is also necessary to unravel the land and tax policy measures that impede farm consolidation and contribute to land being idled. To some extent, this is due to the production quota system and the complex web of laws governing land ownership, transfer, use and taxation. Japan's farm structure is dominated by very small rice farms and has only evolved slowly. Land-use regulation should be made more transparent, with a more predictable framework for conversion from farmland to non-farmland use. This would enable small farmers to make well-informed decisions on whether to hold their land or to transfer it to more efficient producers. Taxation on idle land should be increased, so as to encourage it to be put to productive use.

Finally, one of the most important next steps for Japan is to transform its agricultural innovation system to a demand-driven system that better responds to the needs of business-oriented farms by reforming public funding in R&D, extension services and agricultural education. Japan's current agricultural innovation system is characterised by a traditional top-down approach, where scientists in the public sector create new technologies that are disseminated by extension officers to farmers. However, agricultural innovation today is increasingly taking place in a network-based setting, in which a more inclusive, interactive, and participatory approach fosters greater innovation in response to emerging and pressing challenges facing food and agriculture systems. Extension services in other countries are evolving to a more competitive system that is demand-driven, more pluralistic and decentralised, and that mixes both public and private providers.

### Why is this important for Japan?

Japan has the potential to grow its agricultural sector, including by producing high-value products that reflect the country's growing reputation for sophisticated, healthy, and high-quality food. To assure the long-term health of Japan's food and agriculture system, it is critical to increase its capacity to respond to market demands.

Allowing farmers more freedom to make their own production decisions in response to market demands is a key reform

direction that would bring increased opportunities to farmers, and would allow the government to target policies to specific objectives. Reducing trade barriers would narrow the gap between domestic and international prices, open up new possibilities for farmers to exploit premium markets abroad, based on Japan's premium culinary reputation, and permit the economy as a whole to benefit from increased trade. This would allow Japan to meet its ambitious target to double food exports by 2020.

### What should policymakers do?

- ▶ Further advance agricultural policy reforms to give farmers more freedom to make their own production decisions by reducing support tied to the production of diversion crops and progressively opening up to international markets.
- ▶ Improve policy support to business-oriented farms by providing transitional adjustment payments and risk management instruments.
- ▶ Unravel land policy measures that impede farm consolidation, create obstacles for business-oriented farmers and contribute to land being kept idle.
- ▶ Review the agricultural innovation system, working towards a design that takes a more inclusive, interactive and participatory approach to ensure long-term growth of the food and agricultural sector.



### Further reading

OECD (2015), *OECD Economic Surveys: Japan*, OECD Publishing, forthcoming.

OECD (2010), *Evaluation of Agricultural Policy Reforms in Japan*, OECD Publishing. <http://www.oecd.org/japan/42791674.pdf>

OECD (2013), *Agricultural Innovation System: A Framework for Analyzing the Role of the Government*, OECD Publishing. <http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=TAD/CA/APM/WP%282012%2919/FINAL&docLanguage=En>