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Communication from Australia

The following communication dated 24 February 1989 has been received from the delegation of Australia with the request that it be circulated to contracting parties.

The Government of Australia has decided to circulate for the information of contracting parties an independent study entitled "Japanese Agricultural Policies - A Time of Change".

The study has been prepared by the Australian Bureau of Agricultural and Resource Economics. The Bureau is an independent economic research agency responsible to the Minister for Primary Industries and Energy. It is not subject to direction as to the research methods employed or conclusions reached. It disseminates its findings widely through published reports.

The study is of direct relevance to on-going and future work in the GATT and in the Uruguay Round.

The contents of the study underline the importance of the high priority being given to negotiating measures to liberalize agricultural trade in the Uruguay Round. This objective is shared by the majority of contracting parties and circulation of the study is designed to assist them and others to realize this objective.

Some of the key findings of the study are that:

- (i) After years of inertia, 1988 has been a year of significant change in Japanese agricultural policies. While there is still a need for further reform of Japan's policies, there are now grounds for greater optimism regarding Japan's commitment to re-open world markets for agriculture.
- (ii) Support prices for a number of commodities, including rice and manufacturing milk, have been reduced in recent years. In addition, the new procedures, which have been developed

to set the prices producers receive for grains, should result in Japanese farmers receiving lower grain prices in the future.

- (iii) The number of product groups protected by import quotas will fall from twenty-two in 1988 to twelve by 1991 when quotas on beef and oranges are removed. In place of quotas, greater use will be made of tariffs. Thus world prices will have a greater influence on the prices that Japanese farmers receive and the prices that Japanese consumers pay for agricultural products.
- (iv) The replacement of import quotas by tariffs will introduce greater transparency into Japan's agricultural policy, since income between farmers, consumers and taxpayers will be more visible than is usually the case with quota protection.
- (v) Studies have shown that Japan's agricultural policies have lowered world prices for a number of agricultural commodities, have led to greater price variability in international markets where these commodities are traded and have reduced the volume traded. Ruminant meat provides an example of the magnitude of these effects. Japan's policies are estimated to have lowered world prices for this meat by 7 per cent, increased the variation in these prices by 59 per cent and reduced world trade by 27 per cent.
- (vi) Japan's agricultural policies have harmed the incomes of farmers in agricultural exporting countries, such as the United States, Australia and New Zealand, as well as the economies of these countries. Developing countries have also been disadvantaged, since many of these countries rely heavily on agricultural exports to finance development and balance-of-payments obligations.
- (vii) The policies used in Japan for much of the past forty years have become increasingly complicated as additional measures have been introduced to offset the effects of existing policies. For example, land diversion programmes, which result in farmers planting less rice, have been necessary to control rice production, while at the same time farmers are given an incentive to grow rice by government policies which in recent years have meant that rice prices were up to eight times the level of world prices.
- (viii) Japanese policy-makers have sought to improve the incomes and living standards of Japanese farmers by providing them with prices many times world prices. This has proved to be very costly since the cost to Japanese consumers and taxpayers of transferring US\$1 to Japanese farmers in the early 1980s has been put at US\$1.44.

- (ix) The cost of Japan's agricultural policies falls most heavily on low income households as these households spend a high proportion of their incomes on food. Operators of large farms receive most of the benefit from the heavily supported agricultural prices, yet these are the farmers who are least likely to require income support.
- (x) Since so many of Japan's farm households are now involved in farming on a part-time basis (around 85 per cent), government policies do not make much difference to their levels of income. In 1986, for example, 40 per cent of farm households operated 0.5 ha. or less of cultivated land and agricultural income provided only about 2 per cent of household income. A further 28 per cent of farm households operated 0.5-1.0 ha. of cultivated land and received less than 8 per cent of their household income from farming. Therefore, abolition of price support would have relatively little effect on the incomes of around 70 per cent of Japanese farm households.
- (xi) The effects of Japan's agricultural policies spill over into other parts of the Japanese economy, as is evidenced by growing domestic pressure for agricultural reform. Land in the crowded cities is used for agriculture rather than for other uses, such as housing and sport and other recreational uses. Wages in the manufacturing sector are lowered by agricultural protection since manufacturing output and hence employment demand are reduced by too many resources being attracted into agriculture through agricultural protection.
- (xii) Political, cultural and social factors play an important part in Japan's agricultural sector and changes in these during recent years have improved the climate for further reforms. The political influence of the rural electorate seems to be declining. Japan's farmers are much older than the rest of the population and farming in its present form does not appeal to the younger age groups, and the Japanese diet is becoming more Westernized. Many of Japan's agricultural policies were developed when the structure of the Japanese economy was quite different from today's. It is only recently that policy-makers have begun to take account of this development.

It should be noted that the report is not an official report of the Australian Government. The analyses and contents are solely the responsibility of the Australian Bureau of Agricultural and Resource Economics. The Australian Government, while agreeing with the conclusions of the report, has welcomed the recent agricultural reform undertaken in

Japan, and would encourage all participants to continue with their efforts to bring about a liberalized world agricultural trading environment.

Two copies of the full study by the Australian Bureau of Agricultural and Resource Economics on "Japanese Agricultural Policies - A Time of Change" have been distributed to each contracting party.

A copy of the summary of the study (English only) is attached to this document.