Prime Minister

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MR POWELL (10 Downing Street)

MS.

TOYKO ECONOMIC SUMMIT: AGRICULTURAL SUPPORT AND PROTECTION

As requested at the briefing meeting this morning, I attach -

(1) the note on Japanese agricultural support and protection to which the Chancellor of the Exchequer referred this morning.

(2) a short note on the United States Farm Act, which is derived from a much longer note prepared earlier this year by the Ministry of Agriculture, Fisheries and Food.

I am sending copies to Tony Galsworthy (FCO), Rachel Lomax (HM Treasury), Ivor Llewelyn (MAFF) and Sir Robert Armstrong.

D.F Williamson

D F WILLIAMSON

1 May 1986

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AGRICULTURAL SUPPORT IN JAPAN

1. Japanese agriculture considered as a whole has remained highly protected. The ratio of government expenditure on agricultural support to gross agricultural output rose sharply during the 1960s and 1970s from 7.2% in 1960 to 19.0% in 1970, and to 30.3% by 1980. This percentage fell to 29.3% in 1982, reflecting increased budgetary stringency. Annex 1 sets out the Government expenditure on agricultural price policy for the years 1976 to 1984. The Japanese authorities view protection against imports and maintenance of price control as necessary due to the extreme shortage of farm land, given very mountainous conditions and the need, for food security reasons, of improving generally low self-sufficiency rates.

2. As in many other countries, distortions are more marked in the agriculture sector than in other major sectors of the economy;

- For many land-extensive products (eg rice), import restrictions create a substantial gap between the prices facing Japanese consumers, and those on the world market.

- Direct subsidies and monopolistic state trading arrangements often raise the price paid to domestic producers well above the prices paid by consumers.

3. The mechanism and source of agricultural support depends on the product. In the case of rice, imports are virtually excluded and the price of rice to consumers is subsidised so that the wholesale price of rice is less than the government purchase price. For other products imports are generally purchased by a state monopsonist which can then re-sell in the domestic market and use the resulting profits to subsidise domestic output. Wheat is imported by the State Food Agency and then generally resold domestically at a substantially higher price. The profits that result are used to subsidise the relatively few domestic wheat producers. Similar arrangements apply to beef where the difference between import prices and (controlled) domestic prices becomes the trading profit of the Livestock Industry Promotion Corporation (LIPC) and is used to support the domestic beef industry and improve its infrastructure.

Broadly similar arrangements apply to sugar and to dairy products. For other commodities specific policy regimes apply to each product or product group. There is no comprehensive price policy or subsidy policy system as there is in the Community (the CAP). The attached table (Annex II) outlines the main price policies. Japan is the single largest importer of agricultural products in the world (17.1 billion dollars worth in 1983). In contrast it has never been a significant exporter in any major farm products after World War II (exports in 1983 - $1.5 billion); consequently no specific or strategic export policies such as export credits or export subsidies have been required so far.

Annex 1

Table 18

GOVERNMENT EXPENDITURE ON AGRICULTURAL PRICE POLICY

(Unit: Billion Yen)

	1975	1979	1980	1981	1982	1983	1984	1984/ 1975
1. Total Agricultural Expenditure	1 918.0	2 819.7	2 925.3	3 020.2	3 027.5	2 926.6	2 792.2	145.6
2. of which on price policies:	850.9	774.3	766.5	767.0	757.7	689.8	658.6	77.4
* Food control	811.5	667.8	652.2	652.0	640.3	572.5	540.3	66.6
Livestock products	22.8	47.9	49.4	49.8	49.7	49.6	51.1	224.1
Vegetables	8.0	15.9	11.2	12.1	12.1	10.9	10.1	126.3
Fruits	0.7	0.2	1.6	0.8	1.6	0.6	0.8	114.3
Soybeans and rapeseeds	1.1	8.8	18.1	16.1	16.7	19.2	21.9	1 990.9
Sugar and sugar crops	6.8	33.7	34.0	36.2	37.3	37.0	34.4	505.9

Source: MAFF, "Explanation on Government Budgets for Agriculture Forestry and Fisheries", various years.

* The food control law covers Rice, wheat and Barley

ADMINISTRATIVE PRICES OF MAJOR AGRICULTURAL PRODUCTS

Source OECD Country Report - 31 January 1986

Table 20
OUTLINE OF THE MAJOR PRICE POLICIES

Commodity	Type of Price Support	Major Characteristics	Regulating Law	Year Commenced	Govt. Expend-iture (1984) bill Yen	Related Trade Measures	Statutory Body
1. Rice	State control	Govt. regulates marketing of all commercial based rice. Govt. decides its purchasing and selling prices for Government, marketing rice.	Food Control Law	1942	503	State trading	Food Agency of the Govt.
2. Wheat & Barley	Minimum guaranteed price	Govt. guarantees unlimited purchase at given prices.	Food Control Law	1942 (1952)	25	State trading	Food Agency of the Govt.
3. Beef & Pork	Stabilisation within a price band	Market prices are guided to stay within the stabilisation price band through the market intervention of the statutory body (LIPC)	Law concerning price stabilisation of Livestock products	1961 (Pork) 1975 (Beef)	- -	Import quota (Beef) Countervailing duty (Pork)	Livestock Industry Promotion Corp. (LIPC)
4. Manufacturing Milk (Milk Products)	Deficiency payment + market intervention for the products	Difference between guaranteed price to producers and estimated cost price for manufacturers (standard trading price) is paid by the Govt. Prices of milk products are guided to stay around given prices through the market intervention of LIPC.	Temporary Law on Deficiency Payment to anufacturing Milk Producers	1966	46	State trading (Skimmed Milk powder, butter, etc.) IQ (Milk, Cream, Processed cheese) Automatic Approval(A.A) (natural cheese).	LIPC
5. Soybeans & Rapeseed	Deficiency payment	When market price falls below the base market price, the deficiency is compensated by the Govt. subsidy	Temporary Law for Subsidising Producers of Soybeans and Rapeseed	1961	22	A.A. duty free	
6. Sugarbeet & cane	Minimum guaranteed price for producers + stabilisation of imported raw sugar price within a price band	A statutory body (SSPSC) purchases domestic sugar at given supported prices and sells it at the market price equivalent. Loss generated is offset by the Government subsidies and levies from imported sugar. Import price of raw sugar is regulated through the various measures by SSPSC.	Sugar Price Stabilisation Law	1965	34	Specific duty Domestic variable levy	Sugar and silk Price Stabilisation Corporation (SSPSC)
7. Vegetables	Price stabilisation Fund	Funds assisted by the Govt. compensate for part of damage caused by the price fall below given levels	Vegetable Production & Marketing Stabilisation Law	1966	10	A.A. A.A.	Vegetable Supply Stabilisation Fund (VSSF)

(cont'd)

Table 20 (continued)
OUTLINE OF THE MAJOR PRICE POLICIES

Commodity	Type of Price Support	Major Characteristics	Regulating Law	Year Commenced	Govt. Expenditure (1984) bill Yen	Related Trade Measures	Statutory Body
8. 1) Beef calves	Price stabilisation Fund	Funds assisted by the Govt. compensate for part of damage caused by the price fall below given levels	-	1970	3	A.A. Specific duty	-
8. 2) Fruits for processing	Price stabilisation Fund	Funds assisted by the Govt. compensate for part of damage caused by the price fall below given levels	-	1972	1	A.A.(IQ for some products)	-
8. 3) Eggs	Price stabilisation Fund	Funds assisted by the Govt. compensate for part of damage caused by the price fall below given levels	-	1975	1	A.A. Specific duty for eggs without shells	-
8. 4) Formula Feed	Price stabilisation Fund	Funds assisted by the Govt. compensate for part of damage caused by the price fall below given levels	-	1975	4	A.A.	-

SOURCE. OECD COUNTRY REPORT _ 31 JANUARY 1986

US FARM ACT

1. The US Farm Act (or Food Security Act 1985 as it is properly called) was signed by President Reagan on 23 December. It

- sets out the levels of agriculture price support (within limits) for key commodities (wheat, feed grains, cotton, rice, soya, dairy products, wool, sugar, honey and peanuts)

- establishes acreage reduction and conservation programmes

- requires the Agriculture Secretary to make substantial amounts of export credit available

- makes mandatory the Export Enhancement Programme (EEP), which is, in effect, an export subsidy programme

- reauthorizes and revises rural credit and development programmes.

It is effective until 1990.

2. The declared aims of the Act are

- to begin a transition to a market orientated farm policy (by reducing loan rates)

- to maintain farm incomes during the transition (by high target prices and deficiency payments)

- to restore the competitiveness of the US farmer on world markets (by making the export enhancement programme mandatory and by extensive provision for 'blended' and low-interest credit).

3. The Act sets US agricultural support at its highest ever level at $52 billion over Fiscal Years 1986/88. However, if the Gramm - Rudman proposals do have a real effect, agricultural spending as a whole could be reduced. The budget for FY 1987 presented to Congress on 5 February proposes setting the budget of the United States' Department of Agriculture at $46 billion in FY 1987: in FY 1986 it was $57 billion. Outlays on commodity

/price

price support and related programmes are projected to fall from $20.4 billion in FY 1986 to $16.2 billion in FY 1987 but to rise again to $17 billion in FY 1988 and 1989. Sectors to be reduced include meat and poultry inspection, crop insurance, extension services and child nutrition and food stamps. The Administration expects that the modest reductions in target prices over the latter years of the Farm Act coupled with the anticipated growth in US exports will lead to significant reductions in outlays for federal farm price support after 1989.

4. In the 1986 crop programmes announced so far, the outgoing Agriculture Secretary Block has used his discretion to reduce loan rates and vary acreage reduction programmes to the full. Acreage reductions for wheat and corn have been set at maximum levels (25% for wheat, 20% for corn) with a further 10% voluntary reduction for wheat farmers who planted before the programmes were announced.

30 April 1986