

# Changes in Japan's rice policies: looking back on 15 years since the Principle and Outline of Rice Policy Reform in 2002

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## ■ Abstract

In November 2017, the Panel of Experts on Staple Food set up in the Council of Food, Agriculture and Rural Area Policies, an advisory body for the Minister of Agriculture, Forestry and Fisheries, approved the “Basic Guidelines to Ensure the Stabilization of Supply-Demand and Price of Rice”, stating that allocation of target production volumes by the administration shall be ceased in the rice production adjustment program from the 2018 crop onward, as well as that rice producers, commercial shippers like agricultural cooperatives and related organizations shall be instead required to play a central role in promoting the demand-oriented production. Many parts of the Guideline are consistent with contents of the policy measures implemented for the 2007 crop in the “Rice Policy Reform”. The whole system of rice policies, however, experienced great changes through repeated reviews of the policy measures during about ten years since 2007. To consider how the rice policies should be carried out in the future, the administration will be required to re-examine the existing entire system of rice policies based on the great changes.

A brief overview of previous changes made in rice policies from a viewpoint of the freedom degree of farmer's agricultural management tells us that the policies have been shifting from the system of production adjustment, making farmers have a compulsive feeling, led by the national government before the Rice Policy Reform was put into practice, to an opposite policy direction aiming at raising their freedom degree. On the other hand, however, repeated reviews of the rice policies have made it hard for stakeholders to find out not only how the production adjustment has been placed in the entire system of rice policies, but also which direction the adjustment program will proceed in the future. The administration, moreover, will be required to pay careful attention to actual conditions that those changes in the policy measures for rice production have simultaneously made it difficult for producers engaged in land-extensive farming to make a projection for the future of their production or their management decision.

## ■ Introduction

The Government of Japan made a change in its rice policy in the fiscal year of 2018 and ceased to allocate target production volumes from the 2018 crop onward to respective local municipalities in the country.

The latest review of rice policies, which was highlighted with keywords of “demand-oriented production” and “abolition of allocation of target production volumes by

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the administration”, overlaps in not a few aspects with a changeover to the “voluntary supply-demand adjustment system of farmers and farmer’s organizations” (hereinafter referred to as the “new system”) that was applied for the 2007 crop in the “Rice Policy Reform” triggered by the “Principle and Outline of Rice Policy Reform” that was decided in December 2002. However, both of current conditions surrounding rice production and the rice policy system itself have undergone considerable changes and become much different from those in almost ten years back, while the rice policy measures have been repeatedly revised for over a decade since 2007. To make consideration on how the rice policy should be implemented in the future, therefore, it will be necessary for the administration to have a full grasp of the existing entire system of rice policy measures after sorting out the policy changes made in past years. From such a viewpoint, this paper will review Japan’s rice policies by tracing changes in the policy implementation particularly since the “Rice Policy Reform” was put into practice in 2004.

## **1. Production adjustment scheme worked out in the Rice Policy Reform**

First, let us sort out information not only on the basic philosophy of the Rice Policy Reform, but also on the production adjustment scheme worked out based on the philosophy.

### **1.1 Basic philosophy and an overall picture of the Rice Policy Reform**

The Rice Policy Reform was greatly characterized by its demonstrations of “basic philosophy” of the reform, an overall picture of the policy reform to be promoted with the “philosophy”, and a process of the reform, which were all made public based on reviews and evaluations concerning implementations of previous policy measures for rice production adjustment. The Policy Reform had another characteristic feature that it incorporated a policy framework of the rice production adjustment, a legal status of which had been not necessarily clear, into the “the Act on Stabilization of Supply, Demand and Prices of Staple Food” enacted in 1995 (hereinafter referred to as the “Staple Food Act”).

The basic philosophy of the Rice Policy Reform was emphasized in three aspects: (i) being a clear-cut and straightforward policy, (ii) being an efficient and functional policy, and (iii) being a policy ensured with transparency of the process from decision to implementation.

Under this basic philosophy, it was provided that necessary measures should be taken to promote the rice production adjustment by (i) “taking the initiative to change an existing policy program, mainly aiming at achievement of production adjustment, to a structural reform scheme of regional agriculture, seeking to realize an ideal situation of rice production in the country, which should be implemented in a united and comprehensive manner at each regional society”, and (ii) promoting implementation of a future vision of regional paddy field farming, that should be created in close cooperation among stakeholders in the region, aiming at making the “new system” become firmly established among rice producers, as well as by (iii) incorporating a basic idea that “production adjustment shall be organically linked with the structural reform of regional agriculture”, which was above indicated in (i) and (ii), into the Staple Food Act to take necessary measures for creation of production regions of non-staple rice crops.

### **1.2 Production adjustment scheme worked out under the amended Staple Food Act**

The Staple Food Act already provided, at the time of its establishment in 1995, that “the

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government shall make an accurate projection for the supply and demand of rice to ensure stabilization of its supply, demand and price, and thereby promote smooth implementation of rice production adjustment (partially omitted) in consistency with achievement of the supply-demand balance of rice” (Article 2, The Staple Food Act).

When the Act was amended in 2004, furthermore, the production adjustment system changed from the government-driven scheme to a so-called voluntary scheme or a farmer-driven scheme. That is, the amended Act stated that the national government should provide supports to farmers and their organizations, under this institutional framework, in making their voluntary efforts to promote the production adjustment of rice (Article 6 of the Act). The Act also stipulated that endeavors should be paid by local governments of prefectures and municipalities to provide farmers and their organizations with suggestion and guidance on appropriate application of the policy for rice production adjustment (Article 7 of the Act).

### **1.3 Allocation of target production volumes and policy measures as incentives**

#### **(a) Allocation system of target production volumes: a shift from “negative allocation” to “positive allocation”**

To implement allocation of quantitative targets of rice production adjustment among local governments in the country based on the principle of “demand-oriented production”, the government changed its allocation system for the 2004 crop. In other words, the system was shifted from the previous one or so-called “negative allocation system”, which had allocated acreage reduction targets or an acreage of paddy fields not for planting rice of staple food, to a new one or so-called “positive allocation system”, initiating allocation of “target production volumes” which indicated eligible quantities of staple rice that farmers could produce in their respective municipalities. It was also ruled out in the rice crop year of 2004 that the national and local governments should take charge of allocating the target production volumes jointly with farmer’s organizations at national, prefectural and local levels as a temporary policy that was to continue only until the year of 2006 (See Note 1). In addition, at the municipality level, the target production volume started to be allocated together with an acreage conversion value of the target production volume (hereinafter referred to as the “acreage conversion value”), which was calculated by dividing the target production volume by an average yield of rice per unit area of paddy fields in respective regions.

From the 2007 crop onward, however, information on the rice quantity demanded by consumers (hereinafter referred to as the “demand quantity information”) started to be provided by the national government instead of the target production volume. The demand quantity information was routed to producers’ organization as follows: (i) the national government estimates and provides the demand quantity information to prefectural governments based on forecasted national demand and prefecture-wise past records of demand for rice, (ii) the prefectural government estimates and provides the demand quantity information to respective municipalities in the prefecture after adjusting the information with the prefectural council for paddy farming promotion as well, and (iii) the information is to be provided to the regional council for paddy farming promotion organized at respective municipalities. Furthermore, the regional council, which generally consists of representatives of a municipal government, an agricultural cooperative, producers’ organizations, consumer groups and other related bodies, formulates a general rule or a calculation system for allocation of target production volumes among rice producers in the region based on the said information provided by the municipal government. According to this general rule, a maker of the policy for rice production

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adjustment in each region, who is to be certified by the national government from among representatives of farmer's organization, agricultural management corporations and individual farmers, finally allocates target production volumes to respective farmers who plan to join the rice production adjustment scheme.

Although the target production volumes were allocated to rice producers by the maker of the certified policy for rice production adjustment as mentioned above, the said regional council was required to substantially play a leading role for practical adjustment of target production volumes to be allocated to farmers in the region (See Note 2).

In addition, the national government requested the local governments at both prefectural and municipal levels to implement the allocation of target production volumes from a viewpoint of promoting demand-oriented production of rice based on the purpose of the amended Staple Food Act. Therefore, the calculation system for allocation of target production volumes was required to be worked out at municipal level to reflect respective local conditions on past production adjustments by taking into consideration the actual situation of agricultural management trends of farmers, rice planting records and other factors.

**(Note 1)** This is stipulated in Article 2 of the supplementary provision of the Staple Food Act.

**(Note 2)** Decision on target production volumes to be allocated to respective farmers requires data of the paddy field register such as individual farmer's acreage of management under cultivation, which register have been kept and managed in most cases by the regional council for paddy farming promotion. Due to small-scale farming management of producers, furthermore, only a few farmers can accept an initial allocation of the target production volumes. It becomes necessary for farmers to adjust their excess or deficiency of target production volumes among themselves. Under such conditions, the adjustment to be made by the regional council, which has an ability to play this function in the region, is indispensable for implementation of the production adjustment scheme (KOBARI, 2010).

#### **(b) Subsidy for cultivation of non-staple rice crops: creation of a new subsidy with discretion being left to the regional council**

To support paddy field diversion to cultivation of crops other than staple rice, the national government introduced a new subsidy which replaced the former subsidy paid to eligible farmers with a fixed rate across the country. That is, how to use the new subsidy, which was to be paid to a regional council for paddy farming promotion, was to be left to the discretion of the council. This initiative was taken based on evaluation for the previous policy measures adopted for rice production adjustment, pointing out that "support payments for paddy field diversion paid with the single unit rate and the unified requirements across the country have been lacking in a perspective to create a new production region of a non-rice crop by taking advantages of a characteristic feature of the respective regional agriculture". More specifically, a "support measure for creation of production regions" was newly taken to provide a certain amount of the support payment to regional councils organized mainly at municipal level, which were given the discretion to make decisions on how to use the subsidy for their own regional project as well as how to set a unit amount to be paid to member farmers of the council on the basis of a future vision created by the council for their regional paddy farming.

In this context, it should be added that the support payment for creation of a non-staple rice commodity production region was regarded as an incentive providing advantages to farmers who had achieved an allocated target of production adjustment (hereinafter referred to as the "production adjustment implementor(s)"). In other words, achievement of the allocated production volume target was imposed as one of the requirements for beneficiaries of the support payment similarly as in the previous policy measures taken for the adjustment of rice production.

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**(c) Support payment for production of staple rice: a shift from policy measures for stabilization of paddy farming management to policy measures for stabilization of management income**

Measures to provide subsidy payments for production of staple rice, targeting the production adjustment implementors, was taken to mitigate adverse effects of an income decrease caused by decline of rice price in the market. In the first stage of the Rice Policy Reform (fiscal 2004 to 2006), these support payments had been paid in two programs as follows: “Measure to Ensure Producer’s Income Base for Rice Production” targeting all the implementors of production adjustment and “Measure to Stabilize Agricultural Management of Core Farmers” providing additional support payments exclusively to paddy farming management entities operating farms larger than a certain scale. In fiscal 2007, furthermore, the latter Measure targeting only core farmers engaged in rice production was transformed into the “Measure to Mitigate Adverse Effects of Farm Income Decrease” which was taken as a part of the cross-item management stabilization measures (See Note 3). Regarding the requirements for application of this Measure’s benefits, achievement of the rice production adjustment target was not directly regarded as one of the requirements. Substantially, nevertheless, only the implementors of rice production adjustment became eligible among rice producers to apply for benefits of the cross-item management stabilization measures, since the achievement of production adjustment was specified by local governments of municipalities as one of requirements for certification of a management improvement program which farmers were required to submit to respective offices of local government to apply for benefits of the new Measure.

**(Note 3)** Eligible applicants for benefits of the cross-item management stabilization measures were specified as certified farmers with a land holding of more than 4 hectares (more than 10 hectares in the case of Hokkaido prefecture), or community-based agricultural management entities operating farms of more than 20 hectares. This policy measure was a system aiming at providing producers of upland crops like wheats and soybeans as well as rice with compensation for their farm income loss. When those producer’s sales income declined to less than the national standard farm income, a maximum of 90 percent of their income decline was to be compensated by the special fund contributed by both the national government and farmers.

## **2. Changes of rice policies implemented by the government since the autumn in 2007**

Since fiscal 2004, the first year of the Rice Policy Reform, necessary measures had been taken to change the previous policy system of rice policies into a new one aiming for an early establishment of the “new system”. These policy measures, however, have experienced a continuous series of changes until today, which were highlighted with reviews of the rice policies led by the ruling Liberal Democratic Party (LDP) beginning in the fall of 2007, introduction of the direct income compensation program for farmers in 2009 when a regime change was undergone from the ruling coalition of LDP and the Komeito party to the Democratic Party of Japan, and repeated changes of rice policies made after the revival of the ruling coalition of LDP and Komeito in December 2012 as well as in a change in the political environment following the said revival of the ruling coalition (See Table 1). In this section, contents of the policy changes made in several periodical stages from 2007 to the latest years will be traced.

Table 1 Major movements in Japan's rice policies in 2000s and 2010s

Month/Year	Major movements
Jan. 2002	Start of the Study Group on Rice Production Adjustment
Dec. 2002	Decision on the "Principle and Outline of Rice Policy Reform"
Apr. 2004	Enforcement of the amended Staple Food Act Launch of the Rice Policy Reform
Mar. 2005	Establishment of the Basic Plan for Food, Agriculture and Rural Areas
Oct. 2005	Decision on the "Outline of Management Income Stabilization Measures and the Like"
Apr. 2007	Introduction of the cross-item management stabilization measures Shift to the supply-demand adjustment system led by producers and their organizations
Jul. 2007	A huge defeat suffered by the Liberal Democratic Party (LDP) in the elections for the House of Councilors
Sep. 2007	A great decrease in price of the 2007 rice crop
Oct. 2007	"Emergency Measures for Rice Market" "Steady Promotion of Three Measures for the Agricultural Policy Reform"
Aug. 2009	The Democratic Party of Japan's (DPJ) victory in the general election to gain a majority in the upper house of the Diet Start of the DPJ government
Mar. 2010	Establishment of the new Basic Plan for Food, Agriculture and Rural Areas
Apr. 2010	Launch of the Model Measure for Direct Income Compensation for Farmers
Jul. 2010	DPJ's defeat in the elections for the House of Councilors
Dec. 2012	LDP's victory in the general election to regain the majority in the upper house of the Diet
May 2013	Establishment of the "Headquarters for Agriculture, Forestry and Fisheries and Regions Vitalization Creation"
Jul. 2013	LDP's victory in the elections for the House of Councilors to regain the majority in the lower house of the Diet
Dec. 2013	Announcement of the "Agriculture, Forestry and Fisheries and Regions Vitalization Creation Plan" Announcement of the "Four Reforms"

SOURCE: Prepared by the author.

## 2.1 Emergency Measures for Rice Market (from October 2007 to fiscal 2009)

In fiscal 2007, which was the year that second step of the transition to the "new system" and the newly introduced policy of the cross-item management stabilization measures, a significant decline of the rice price took place in the harvest season of autumn which triggered a great change of policies in the Japanese rice sector. The government decided the "Emergency Measures for Rice Market" in October 2007 and took necessary measures not only to increase government's purchase of newly harvested rice in the market, but also to provide a subsidy to the National Federation of Agricultural Cooperative Associations or ZEN-NOH to compensate its cost for uses of staple rice produced in 2006 as livestock feed. Furthermore, changes in implementation measures of the rice production adjustment program for the year of 2008 were also made to fully achieve its target.

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**(a) Concept of production adjustment and roles to be played by the administration: strengthened administrative guidance and possible penalty suggested by the government**

On January 31, 2008, former guidelines on promotion of rice production adjustment, named the “Rice Production Adjustment Implementation Guidelines”, were all revised to ensure an effective implementation of rice production adjustment as well as to aim at realizing full utilization of faddy fields in the country. The revised guidelines emphasized, for this purpose, that “the administration shall also maximize its efforts (partially omitted) to achieve the target of rice production adjustment in all the prefectures and local regions throughout the country”.

Based on the new guidelines, a “statement of mutual agreement” pledging to work toward achievement of the production adjustment target was concluded respectively at national, prefectural and local levels by representatives of the administration, agricultural cooperatives and other related farmer’s organizations. At the national level, moreover, the National Paddy Field Farming Promotion Council was newly set up jointly by “JA-ZENCHU” (Central Union of Agricultural Cooperatives), “ZEN-NOH” (National Federation of Agricultural Cooperative Associations), farmer’s organizations like the Japan Agricultural Corporation Association, related organizations including the National Rice Marketing and Insurance Business Cooperative Association, and the Agricultural Production Bureau of the Ministry of Agriculture, Forestry and Fisheries (MAFF) to take necessary measures aiming for a steady implementation of supply-demand adjustment of rice. In addition, MAFF consolidated its measures for achievement of the rice production adjustment in its whole policy implementation for paddy field agriculture by announcing its policy direction, as a special measure to secure fairness of the production adjustment policy, that the highest priority would be possibly given to the extent of the said achievement in deciding requirements for various policy programs related with paddy field agriculture as well as in allocating its budget to these programs.

It is worth noting here, nevertheless, that the Basic Guidelines on Stabilization of Supply, Demand and Prices of Rice, decided in November 2009, clearly stated, “Necessary policy measures shall be taken to achieve the target of rice production adjustment”, moving away from the original philosophy demonstrated in the Rice Policy Reform which emphasized that “initiatives should be taken to change an existing policy program mainly aiming at only a achievement of production adjustment to a structural reform scheme of regional agriculture, seeking to realize an ideal situation of rice production that should be put into practice in a united and comprehensive manner at each regional society”.

**(b) Allocation of target production volumes: presentation of acreage conversion value**

Regarding the demand quantity information based on the volume of rice production, which was to be provided by the national government to prefectural governments as well as by prefectural governments to municipal governments, the national and prefectural governments began to present the demand quantity information together with an acreage conversion value. Therefore, the system of providing the information, which continued its format based on the demand quantity information, substantially returned to the previous system of allocation of target production volumes for the 2004 to 2006 rice crops, resulting in strengthened guidance on the production adjustment by the administration.

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**(c) Subsidies for non-staple rice: support payments to rice crops with growing new demands**

In the Emergency Measures for Rice Market, the national government launched a new subsidy program to provide support payments to producers of non-staple rice crops such as feed rice and rice for flour with new demands growing in the market as a budgetary step to promote an increase in the acreage of paddy field diversion, in addition to the subsidy program for creation of non-rice commodity production regions which provided a certain amount of subsidy to eligible regional councils of paddy farming promotion. Most of measures to provide these subsidy payments, nevertheless, were taken within a framework of emergently revised budgets of MAFF (See Note 4).

Specifically, a budgetary measure for the “Paddy Field Effective Utilization Promotion Program” was taken in the fiscal 2009 initial budget of MAFF to provide a fixed subsidy to all the farmers across the country that expanded an acreage of paddy fields diverted into cultivation of non-rice and non-staple rice crops. The subsidy payment for non-staple rice with growing new demands was fixed at 50,000 to 55,000 yen per 0.1 hectare. In MAFF’s supplementary budget for fiscal 2009, furthermore, a budget for the “Emergency Program for Development of Demand-Response-Production and Distribution System” was allocated to substantially increase an additional payment to producers of the non-staple rice crops with growing new demands to 80,000 yen in total per 0.1 hectare.

**(Note 4)** Although respective measures were taken as fully appropriate ones coping with the situations changing from time to time, they brought about side effects that promotion of the measures became more complicated and a work burden of persons in charge of implementation of the measures increased, because administrative consideration was not fully given to mutual relations and consistency among those measures (KOBARI, 2009b).

**(d) Support payments for production of staple rice: improvement of measures to mitigate adverse effects of decline in farmer’s income**

In fiscal 2008, the cross-item management stabilization measures were revised and newly named the “Paddy Field and Crop Land Management Income Stabilization Measures”, easing requirements for application for the income support. The system of the Measure to Mitigate Adverse Effects of Farm Income Decrease was also revised so that it would be able to cope with a maximum price decline of 20 percent, depending choices to be made by applicant farmers.

Regarding this income support payments provided to rice producers by the national government, an amount of the total payments reached 24.3 billion yen in fiscal 2008 compensating for the income loss of the 2007 crop, 5.4 billion yen in fiscal 2009 compensating for that of the 2008 crop, and 14.2 billion yen in fiscal 2010 compensating for that of the 2009 crop respectively.

**2.2 Direct Income Compensation Program for Farmers (from fiscal 2010 to 2013)**

Since the Democratic Party of Japan (DPJ) replaced the ruling coalition of LDP and the Komeito party in 2009, preparation for introduction of direct income compensation programs for farmers, which had been announced in DPJ’s manifesto, was made in a rapid manner. An income compensation program for rice producers was put into practice in fiscal 2010, prior to similar programs for producers of other commodities, as the “Model Measure for Direct Income Compensation for Farmers” (hereinafter referred to as the “Model Measure”). In this way, the direction of Japan’s rice policy was dramatically changed again (See Note 5).



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**(Note 5)** In fiscal 2013, the Direct Income Compensation Program was renamed the Measure for Management Income Stabilization by the second Abe administration. Since contents of the Program basically continued in fiscal 2013, however, the second Abe administration's Measure was also put into a periodical stage from fiscal 2010 to 2013 shown as in the above "2.2".

**(a) Concept of production adjustment and roles to be played by the administration: a shift from imposing penalties to providing advantages**

Under the DPJ's administration, the basic concept of policy implementation promoting the rice production adjustment was formulated to "ensure the effectiveness of the production adjustment by implementing the Model Measure for Direct Income Compensation for Farmers to persuade as many as farmers to produce rice in conformity with their production volume targets respectively", emphasizing necessity of "joint efforts to be made for achievement of production volume targets in appropriate collaboration among farmers, their organizations and the administration". Moreover, the administration urged "the National Paddy Field Farming Promotion Council to promote measures necessary for a steady implementation of rice's supply-demand adjustment", expecting a similar role to be played by the national organization for the production adjustment that was set up in the above-mentioned Emergency Measures for Rice Market.

On the other hand, the administration abolished measures, leading to penalties to be imposed on unachieved production adjustment by giving the highest priority to the extent of the adjustment achievement in deciding beneficiaries of related policy programs as announced in the Emergency Measures (See Note 6). Instead, as will be explained later, a new measure was introduced to provide advantages directly to cultivation of staple rice acreages of the implementors of production adjustment. Based on this policy change, in short, the DPJ's administration adopted a system of so-called selective production adjustment, leaving to farmers' judgment whether they would participate in the adjustment program or not.

**(Note 6)** In the system of the Certified Farmers, the extent of achievement of the production adjustment was simultaneously removed from requirements for the certification.

**(b) Allocation of target production volumes: an increase in regional councils adopting an allocation system for every producer across the region**

From the 2011 crop onward, the national government began to provide a calculation value, which had been notified as the demand quantity information in previous years, to respective prefectural and municipal governments as the target production volumes together with the acreage conversion value. Based on a new rule that achievement of the production volume target shall be one of the requirements for application of the direct income compensation, the respective regional councils started to allocate target production volumes also to farmers who had not been provided with the allocations since they had not agreed with the certified policy for rice production adjustment.

Regarding the allocation rule, furthermore, allocation of target production volumes to respective prefectural governments continued to be based on calculation of the past record of rice demand basically in the same way as in previous years. In an actual allocation made at prefectural and municipal levels, however, the number of regional councils, which reduced a part or whole of the differences in target production volumes among municipalities as well as among farmers respectively, began to increase. This seems to be influenced by the guidance of the national government recommending that the regional councils should make no difference in the target production volumes among farmers from a viewpoint of realizing fairness among themselves since a planted acreage of staple rice became one of the requirements for their application for benefits of the direct income compensation program.

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### **(c) Subsidy for non-staple rice crops: restoration of a fixed subsidy payment across the country**

In the “Emergency Measures for Rice Market”, various policy measures had been concurrently taken along with previous measures, which made the entire system of support payments extremely complicated. The DJP’s administration integrated these support measures into a single measure named the “Food Self-sufficiency Improvement Project with Efficient Utilization of Paddy Fields” when the Model Measure was put into practice. However, the degree of regional council’s discretion to use the subsidy shrunk as a unit amount of subsidy payments started to be fixed as a rule across the country (See Note 7). In addition, the subsidy was provided in this Project to every regional council without regard to the degree of farmers’ achievement of their production adjustment targets.

**(Note 7)** Payment only of the subsidy based on the fixed unit amount of support payments across the country, however, brought about a result of large decreases in subsidy payments among many farmers, because additional subsidy payments had been paid to producers through their regional councils which had been promoting consolidations of cultivation lands of wheats, soybeans and feed crops into an enlarged area of farmland plots as well as into operation by core farmers in their own efforts made for promotion of the rice production adjustment in their respective regions. A kind of the “Shock Absorbing Measure”, therefore, was newly implemented to adjust the declined receipt of the subsidy payment, which has been subsequently maintained as a policy measure of the “Fund for Non-Staple Rice Production Regions (Subsidy for the Creation of Production Regions)”.

### **(d) Subsidy for staple rice: introduction of the direct income compensation system**

From the 2010 crop onward, the DPJ’s administration introduced a direct subsidy system for the first time, providing implementors of the rice production adjustment with a support payment based on their respective planted acreages of staple rice. Specifically, commercial farm households or member farmers of a community-based farm work contracting organization (See Note 8), who produced rice in conformity with their respective production volume target, became entitled to be paid with a fixed amount of subsidy, 15,000 yen per 0.1 hectare. When a sales price of rice produced in the current year declined below the standard sales price, furthermore, the eligible producers were also entitled to be paid with the difference between these two prices as the “Rice Price Fluctuation Compensation Subsidy”. This initiative has virtually ceased implementing the Measure to Mitigate Adverse Effects of Farm Income Decrease.

Regarding actual payments of the subsidies in fiscal 2010 when the rice price significantly declined in the market, the above-mentioned eligible farmers were respectively paid with a “fixed amount of subsidy”, 15,000 yen per 0.1 hectare, which was renamed the Direct Income Compensation Subsidy for Rice Producers since this system was applied from the 2011 crop onward, together with a “variable part of subsidy”, 15,100 yen per 0.1 hectare, which was renamed the Rice Price Fluctuation Compensation Subsidy applied from the 2011 crop onward. The payment of these subsidies in fiscal 2010 totaled 306.9 billion yen. In fiscal 2011 and 2012, the system of the Rice Price Fluctuation Compensation Subsidy did not function because of a higher price in the rice market. The government paid only the subsidy of the Direct Income Compensation for Rice Producers totaling 153.3 billion yen in fiscal 2011 and 155.2 billion yen in fiscal 2012 respectively.

**(Note 8)** This is a farm-work contractor organized by multiple commercial farm households, definition of which is different from that of a community-based farm management organization that has been promoted in the policy measure for the farm management stabilization. The community-based farm work contracting organization is entitled for application of this subsidy if the organization not only has its own regulations and the representative person, but also manages its joint marketing account for production and sales of commodities eligible for the subsidy.

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## 2.3 Four Reforms (from fiscal 2014 to 2017)

The Headquarters for Agriculture, Forestry and Fisheries and Regions Vitalization Creation set up by the second Abe administration decided the “Agriculture, Forestry and Fisheries and Regions Vitalization Creation Plan” in December 2015, in which the Headquarter abolished the Direct Income Compensation Subsidy for Rice Producers and other relevant measures, judging that the policy measures for rice production adjustment based on the precondition of allocation of target production volumes by the administration were a major factor hindering an effective production of rice to be promoted by motivated core farmers. Responding to this movement, MAFF also worked out “Four Reforms”.

### (a) Concept of production adjustment and roles to be played by the administration

Based on the Four Reforms, all the guidelines on promotion of rice production adjustment were again revised into the “Guidelines on Promotion of Demand-oriented Rice Production”. In the Guidelines, the basic policy on the promotion of demand-oriented rice production was clarified as follow: “The administration, producer’s organizations and farmers on the site shall make united efforts to create a new situation, in which rice producers, shippers like agricultural cooperatives and relevant organizations will be able to play a central role in smoothly promoting the demand-oriented production of rice, based on the demand quantity information estimated by the national government, without depending upon allocation of target production volumes by the administration. Continuous implementation of these united efforts shall be closely monitored aiming at creating the said situation in five years”. In the annual Basic Guideline on Stabilization of Supply, Demand and Prices of Rice, however, the wording of “Farmers, farmer’s organizations and the administration shall make an appropriate collaboration to achieve the target of rice production adjustment” continued to remain until the annual Basic Guideline was announced at the end of July 2017, similarly as it had been maintained in the previous guidelines made by the DPJ’s administration.

### (b) Allocation of target production volumes: accelerating improvement of supply-demand condition by promoting excess achievement of production adjustment target

For the 2015 crop, the administration began to provide local governments with the “Reference Value for Voluntary Efforts”, which was calculated by taking into consideration rice stocks kept by private companies to further reduce the quantity of the target production volume, in addition to the national target production volume estimated based on the latest supply-demand trend.

For both the 2016 and 2017 crops, the production volume target was notified to every prefecture together with the Reference Value for Voluntary Efforts similarly as for the 2015 crop. At the same time, furthermore, the administration decided to allocate the targets to prefectural governments in these two years by maintaining the ratios of respective prefectures’ shares in the national total of target production volumes at the same level of those for the 2015 crop (See Note 9).

**(Note 9)** The prefecture’s shares were fixed at the previous level not to provide disadvantageous conditions for the allocation in the following year to prefectures that voluntarily reduced some of staple rice production from their target production volumes based on the past record of rice demand.

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**(c) Subsidies for non-staple rice crops: introduction of incentives for increased yields of feed rice and other types of rice**

The “Income Compensation for Paddy Field Utilization”, which had been paid to eligible farmers in the Direct Income Compensation Program, was maintained as the “Direct Payment Subsidy for Paddy Field Utilization”. Out of the subsidies paid in this system, a unit amount of subsidy for feed rice and rice for flour was raised to a maximum of 105,000 yen per 0.1 hectare by fixing the unit amount according to yields of respective crops. Moreover, the support payment for creation of non-staple rice crop production regions was additionally paid to prefectural regions which had reduced their planted acreage of staple rice (voluntary adjustment so-called “Fuka-bori”) more than that of their respective targets of production volumes originally allocated by the national government with the Reference Value for Voluntary Efforts being imposed as a maximum limit of the reduction. The additional subsidy was paid with a rate of 5,000 yen per 0.1 hectare of the paddy field converted to cultivation of non-staple rice crops.

**(d) Subsidy for staple rice: halved unit amount of direct payment subsidy for rice production and restoration of the income compensation measure “Narashi” (leveling of income)**

In fiscal 2014, the unit amount of the “Direct Payment Subsidy for Rice Production” was halved to 7,500 yen per 0.1 hectare with an announcement that the subsidy was to be abolished in fiscal 2018. Regarding the subsidy to be offered for compensation of farmer’s income reduction caused by declined prices of rice and other farm commodities, it was again introduced as the measure to mitigate adverse effects of farm income decrease or so-called “Narashi” (literally, leveling of income). Certified farmers, community-based farm management organizations, and certified new farmers were only entitled to apply for benefits of this income compensation program without being imposed any requirements on the scale of farm management. However, the administration imposed a requirement on rice producers that only “farmers who produced rice in conformity with the production volume target” became eligible to apply for the benefits of the income compensation program.

### **3. Framework of policy measures for the 2018 rice crop**

In the Basic Guidelines on Stabilization of Supply, Demand and Prices of Rice decided on November 30, 2017, it was indicated that “From the 2018 crop onward, (partially omitted) the administration shall cease allocations of target production volumes to respective prefectures. Instead, based on the information on supply-demand of rice estimated by the national government, rice producers, shippers and related organizations shall play a central role in smoothly promoting the demand-oriented production of rice”. The message delivered in the previous Basic Guidelines saying, “Farmers, farmer’s organizations and the administration shall make an appropriate cooperation to achieve the target of rice production adjustment”, was deleted. From the “Guidelines on Promotion of Demand-oriented Production and Marketing of Rice” as well, all the provisions regarding “establishment of production volume targets for staple rice” were simultaneously deleted.

These amendments of the Guidelines, however, were not implemented along with revisions of the Staple Food Act, leaving untouched legal provisions regarding certification of the policy for rice production adjustment and allocations of target production volumes by the maker of the certified policy for rice production adjustment.

As far as subsidies for non-staple rice crops are concerned, the “Direct Payment Subsidy for Paddy Field Utilization” is maintained in MAFF’s estimated budget for fiscal 2018.

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Regarding distribution of subsidies for creation of the non-staple rice crop production regions, MAFF plans to provide a new subsidy to producers of rice for export (20,000 yen per 0.1 hectare) as well as to increase a unit amount of the subsidy to be paid to farmers who reduce an acreage of staple rice by diverting cultivation of some paddy fields into that of non-staple rice crops from 5,000 yen per 0.1 hectare of the reduced acreage to 10,000 yen per 0.1 hectare of the said acreage.

On the other hand, the direct payment subsidy for staple rice production is to be abolished. Although the Measure to Mitigate Adverse Effects of Farm Income Decrease is to continue, MAFF plans to remove a previous requirement for the subsidy payment that has limited the beneficiaries only to “farmers who produced rice in conformity with the production volume target”, along with abolishment of the system of target production volume allocations by the national government.

As a measure to mitigate the adverse effects of farm income decrease, moreover, MAFF has decided to introduce a new scheme of agricultural income insurance from the 2019 rice crop onward, which system will be considered by farmers as an additional option to secure their farm income. The agricultural income insurance, nevertheless, has some similarities with other systems of the Agricultural Insurance and the Measure to Mitigate Adverse Effects of Farm Income Decrease. Farmers will be required to choose one from among these systems.

## ■ Afterword

In the afterword, changes in Japan’s rice policies, which we have seen above, will be briefly reviewed to consider the challenges to be faced by the Japanese rice farming sector during years to come.

### **A.1 Enlarged scope for discretion in farmer’s independent judgement and improved degree of freedom in their farm management**

In the Rice Policy Reform, it was considered vital and essential for farmers to promote diversification of production, that should be full of originality and ingenuity, in paddy fields based on their own judgement to realize an ideal situation of rice production in the country. This basic policy of the administration was demonstrated in a result of the rice policy reform, namely, a change in the allocation of target production volumes from the so-called negative allocation system to the positive allocation system, which has been firmly established in today’s rice policy. In fiscal 2010, subsidies for production of non-staple rice crops in paddy fields started to be paid to farmers regardless of their achievement of production adjustment of staple rice. At the same time, the administration abolished not only measures leading to penalties to be imposed on the unachieved production adjustment, but also those giving priorities to a higher extent of farmers’ adjustment achievement in accepting their application for benefits of other related policy programs. Furthermore, the administration began to promote production of rice crops with growing new demands in the latest policy reform, providing more options for achievement of the production adjustment to farmers who wish to continue their production of rice.

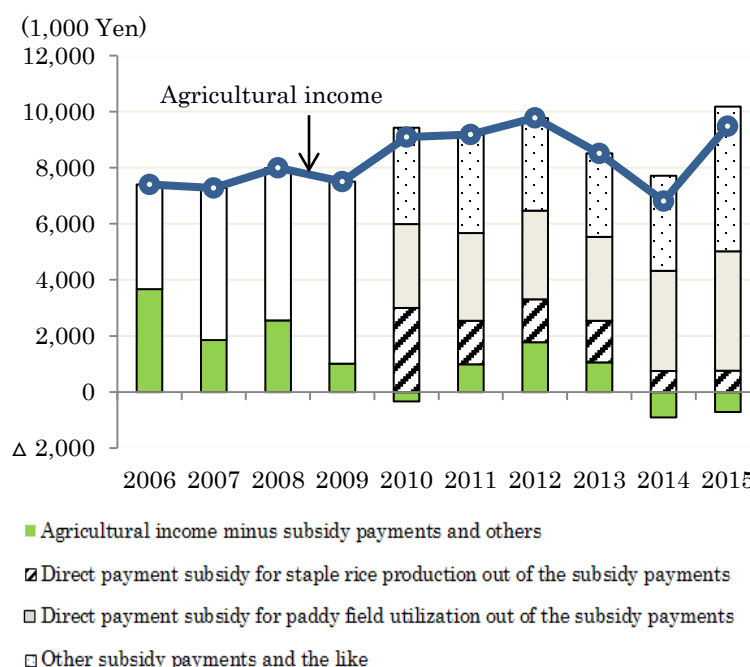
In this way, today’s system of rice production adjustment, we can say, has improved the degree of freedom in farmer’s management, which system is far different not only from the former one of uniform production adjustment, with farmers having the compulsive feeling, implemented by the national government throughout the country, but also from the past “rice acreage reduction program (Gentan)” although some of media people use this word of “Gentan” even today.

## A.2 Side effects caused by repeated reviews of rice policy measures

Careful attention should be paid to the situation, in which scales of core farmers' farm management entities, playing a central role in activation of paddy field agriculture in respective regions, become the greater, they are forced by changes in the rice policy measures to have the greater impacts on both of their management balance and agricultural income.

The Figure 1 shows changes in agricultural incomes and their composition of paddy field farm management entities operated by individual producers with paddy fields of 10 hectares and more since the year of 2006. A part of the income composition, "agricultural income minus subsidy payments and others" showing the difference between sales amount of rice and production expenses, tells us that it has been almost linked to fluctuations of rice prices (See Figure 2). When the rice price greatly declined in 2010, 2014 and 2015, the said difference turned negative. Although the agricultural income in 2010 increased with receipt of subsidy payments under the Model Measure for Direct Income Compensation for Farmers, the income was reduced in 2014 by as much as 20 percent due to a decrease in rice price and reduction of the direct payment subsidy for staple rice production. Even though prices of the 2014 rice crop showed a nation-wide decline, the difference in price falls significantly expanded among branded local varieties of rice in major producing regions. It is supposed, therefore, that revenues of management entities in the regions which experienced greater price falls showed further steeper reductions.

Figure 1 Changes in composition of agricultural incomes of paddy field farm management entities operated by individual producers with a land holding of more than 10 hectares

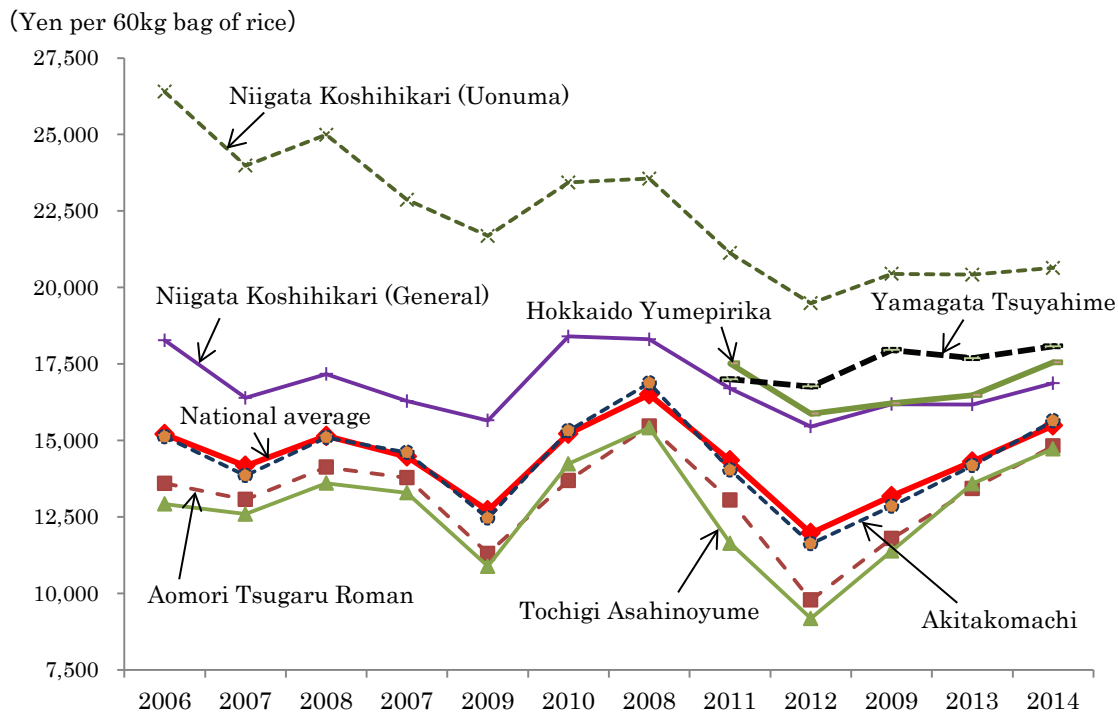


SOURCE: Compiled from the "Agricultural Management Statistics Research" of the Ministry for Agriculture, Forestry and Fisheries (MAFF) (in Japanese).

(Note) 1. Data on the composition of subsidies and others before the year of 2009 are not available in the above-mentioned source.

2. "Other subsidy payments and the like" are an amount of "receipts of subsidies for agricultural insurances and others" in the Agricultural Management Statistics Research.

Figure 2 Changes in prices of major branded local varieties of rice in direct negotiated transactions



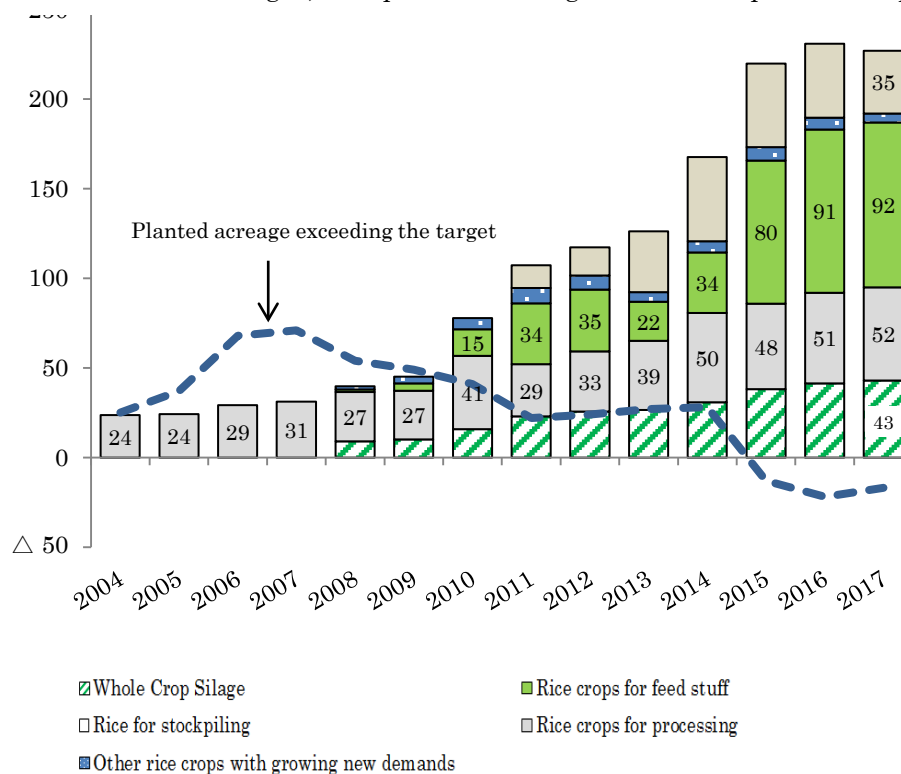
SOURCE: Compiled from data of the “Changes in the Situation of Rice Prices, Quantities, Contracts and Sales in Direct Negotiated Transactions, Rice Stocks of Private Companies and the like”, MAFF (in Japanese).

(Note) Rice prices in the direct negotiated transactions include the amount equal to the consumption tax of 5 percent until March 2014 as well as the said tax of 8 percent from April 2014 onward.

Moreover, detailed statistics on subsidies, publicized by MAFF since fiscal 2010, tell us that the composition of various kinds of subsidy payments in farmer’s income has also experienced a great change due to reviews almost annually made in rice policy measures.

Particularly, payments for production of feed rice made a great influence on an increase in the outlay of the Direct Payment Subsidy for Paddy Field Utilization in fiscal 2015. Figure 3 shows two changes in an acreage of non-staple rice and that of staple rice exceeding the production adjustment target, telling us that the acreage of non-staple rice considerably increased in 2015, which eliminated the exceeded acreage of staple rice. If the total acreage of the feed rice is classified by rice acreage scale-wise management entities, we can find out that agricultural management entities with the rice acreage of more than 5 hectares, which account for only less than 5 percent of the total entities in the country, occupied almost 70 percent of the acreage of the feed rice in 2015. Out of these entities, those with the rice acreage of more than 10 hectares occupied about 50 percent (See Figure 4). Price decline of the 2014 staple rice crop is considered as a major factor in this change, leading to a shift in cultivation of some paddy fields particularly of larger management entities from staple rice to feed rice, since their receipt of subsidy payments for the feed rice was firmly ensured.

Figure 3 Changes in planted acreage of staple rice exceeding the production volume target, and planted acreages of non-staple rice crops



SOURCE: Compiled from the “Reference Information Materials on Rice”, MAFF (in Japanese)

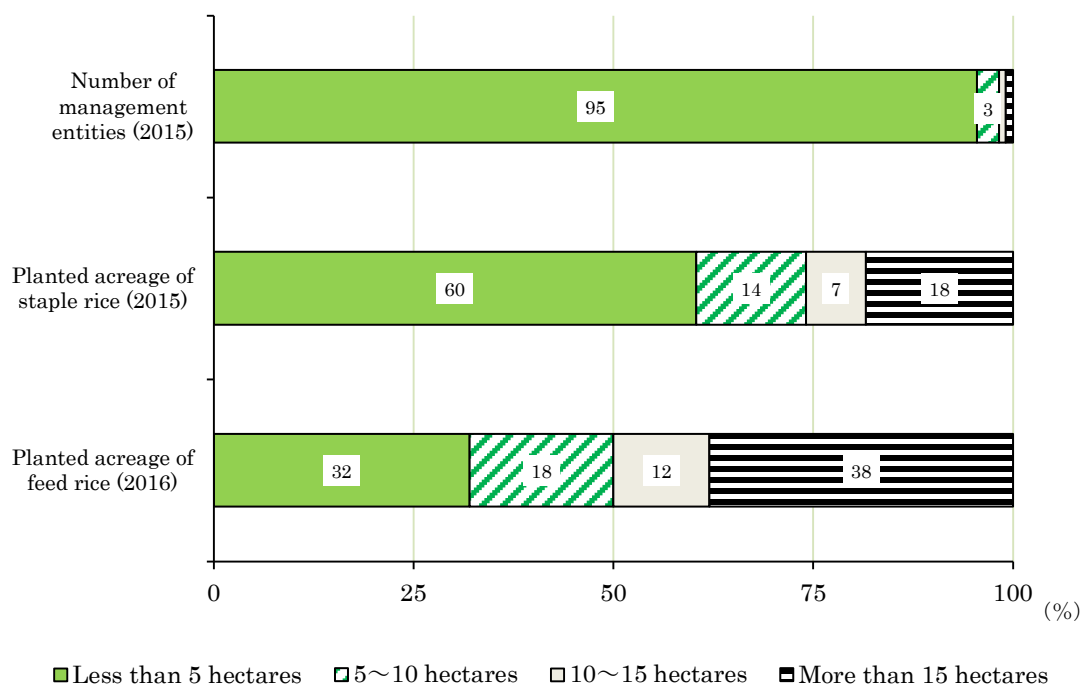
Regarding a percentage of the Direct Payment Subsidy for Paddy Field Utilization in farmer’s gross income in 2015, it was averagely 5.4 percent among farmers engaged in paddy field cultivation. The greater their management scale is, however, the higher percentage the direct payment subsidy has. At agricultural management entities with rice acreage of more than 10 hectares, the direct payment subsidy has a share of more than 30 percent of their gross income, showing a growing tendency of the share in recent years. This tells us that the Direct Payment Subsidy for Paddy Field Utilization has become a major income source substantially supporting the agricultural management of core farmers.

The overall system of subsidy payments, however, has been repeatedly revised, which makes it difficult for the administration to properly conduct a follow-up examination on how the governmental expenditure for subsidy payments has been contributing to management stabilization of core farmers. The repeated reviews of rice policy measures concurrently make it harder for producers engaged in management of land-extensive farming, on which the policy measures have a great impact, to make a projection for the future or a management decision.

When the government makes consideration on policy measures as well as decisions on future rice policies, it will be required to return to the basic philosophy demonstrated in the Rice Policy Reform as follows: (i) being a clear-cut and straightforward policy, (ii) being an efficient and functional policy, and (iii) being a policy ensured with transparency of the process from decision to implementation.



Figure 4 Number of paddy field farming management entities classified by planted acreage and their compositions of shares in planted acreages of staple rice and feed rice (Unit: percent)



SOURCES: Compiled from “Census of Agriculture and Forestry in Japan” and “Reference Information Materials on Rice”, MAFF (in Japanese)

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