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## Japan

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### **Supplementary Budget Anticipates Impact of FTAs**

**Report Categories:**

Agricultural Situation

Agriculture in the Economy

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**Report Highlights:**

The Government of Japan's 2017 supplementary budget provides the Ministry of Agriculture, Forestry and Fisheries (MAFF) with an additional 317 billion Japanese yen (US\$ 2.9 billion) for support measures in response to the Trans Pacific Partnership Agreement and the Japan-European Union Economic Partnership Agreement. A new measure to support cheese production was introduced. The 2017 supplementary budget is the third consecutive annual supplemental budget to provide more than 300 billion Japanese yen (US\$ 2.75 billion) in support of Japanese agricultural improvements.

**General Information:**

On February 1, 2018, the Japanese Diet approved a Japanese Fiscal Year<sup>1</sup> (JFY) 2017 supplementary budget of 2.7 trillion yen (US\$ 24.5 billion), of which 17 percent (468 billion yen - US\$ 4.3 billion) was earmarked for the Ministry of Agriculture, Forestry and Fisheries (MAFF). Of the 468 billion yen allocation to MAFF, 68 percent (or 317 billion yen) is specifically allocated to support measures in response to the Trans Pacific Partnership (TPP)<sup>2</sup> Agreement and the Japan-European Union (EU) Economic Partnership Agreement (EPA) -- down eight percent from 345.3 billion yen (US\$ 3.18 billion) in the JFY2016 supplementary budget. Despite the decrease in funds, the 2017 supplementary budget allows for some carryover of unspent funds from JFY2016.

Following the conclusion of negotiations on the TPP Agreement, the Government of Japan (GoJ) developed the “Comprehensive TPP Policy Framework” in November 2015. In addition to non-agricultural activities, this Framework set policy goals of increasing Japanese farm product exports and accelerating structural reforms of Japanese primary industries in anticipation of increased foreign market access as well as domestic market competition from foreign products. Subsequently, after negotiations were concluded on the Japan-EU EPA in 2017, the GoJ revised the Framework to incorporate measures in response to the Japan EU EPA and renamed it the “Comprehensive TPP etc. Policy Framework.” To support MAFF’s efforts towards these goals, the GoJ has appropriated over 300 billion yen (US\$ 2.7 billion) to MAFF each year since JFY2015 (as shown in the table below).

The centerpiece in the JFY2016 supplementary budget allocation for TPP support measures was the development of export infrastructure at ports and wholesale markets in an effort to achieve one trillion yen (US\$ 9.2 billion) in Japanese exports of agricultural, forestry and fisheries products and foods by 2019.<sup>3</sup> In JFY2017, as a result of anticipated competition stemming from the Japan-EU EPA, a measure to support cheese production was created and the budget to support plywood, glue-laminated woods, and lumber was increased. Other than these changes, however, the budget allocation for the support measures has remained relatively unchanged for three years running. Roughly one-third of the budget has been allocated to fund financial support for farmers to purchase machinery and facilities, roughly one-third has been allocated to public works for enlarging farmland and improving farmland and grassland infrastructure, forests, and fishing ports, and the remaining third has been allocated to improve farming productivity.

In addition to the 317 billion yen allocated to support measures in response to the TPP Agreement and the Japan-EU EPA, 124 billion yen (US\$ 1.1 billion) has been allocated for disaster prevention projects, 12.5 billion yen (US\$ 115 million) for foreign fishing vessel control in Japanese waters, and 14.6 billion yen (US\$ 134 million) for productivity improvements for crops produced on rice paddies, sugar crops, sugar beets and potatoes in the JFY2017 supplementary budget.

**MAFF’s Supplementary Budget for JFY2015, JFY2016 and JFY2017 Activities Under the Framework (billion yen)**

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<sup>1</sup> The Japanese fiscal years runs from April 1 to March 31.

<sup>2</sup> Since the withdrawal of the United States, the TPP Agreement has come to be known as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Despite the agreement’s new nomenclature, the GoJ’s support measures still make reference to the agreement by its original name.

<sup>3</sup> Japan agricultural, forestry and fisheries exports were valued at 750 billion yen (US \$6.77 billion) in 2016.

Framework Activities	Amount Budgeted in JFY2015	Amount Budgeted in JFY2016	Amount budgeted in JFY2017
<b>Nurture Future Generations of Business-Minded Farmers</b>			
<ul style="list-style-type: none"> <li>Financial support for purchase/lease of machinery and construction of facilities</li> </ul>	5.3	5.3	5.0
<ul style="list-style-type: none"> <li>Extend zero-interest loans</li> </ul>	11.0	4.6	100.0 <sup>4</sup>
<ul style="list-style-type: none"> <li>Enlarge plots of farmland and establish underground irrigation systems</li> </ul>	37.0	37.0	35.0
<ul style="list-style-type: none"> <li>Convert paddy fields to dry fields, and establish production/sales facilities in mountainous and hilly areas [public works]</li> </ul>	1.0	10.0	10.0
<ul style="list-style-type: none"> <li>Support establishment of agricultural management schools</li> </ul>		0.2	
<b>Promote Innovation in Rice, Field Crops, Vegetables and Fruit Producing Areas to Improve International Competitiveness</b>			
<ul style="list-style-type: none"> <li>Provide financial support to upgrade machinery and facilities and to re-planting profitable crops (fund)</li> </ul>	50.5*	57.0 <sup>5</sup>	44.7 <sup>6</sup>
<ul style="list-style-type: none"> <li>Turn rice paddies into fields, and improve infrastructure of fields and orchards [public works]</li> </ul>	40.6	49.6 <sup>7</sup>	45.7 <sup>8</sup>
<ul style="list-style-type: none"> <li>Provide support to research institutions, universities, producers and companies which team up to develop new varieties and technologies, carry out verification tests and implement new technologies in practical use.</li> </ul>	10.0**	11.7	6.0
<ul style="list-style-type: none"> <li>Provide support to flour millers, sugar refineries, potato starch factories and meat processing facilities for restructuring and improving productivity, and to dairy manufacturing facilities to switch production to high demand products (such as soft cheese, fresh cream, concentrated skim milk, etc.)</li> </ul>	4.6	1.0	2.5
<b>Comprehensive Project to Improve Profitability of Livestock and Dairy Farmers</b>			

<sup>4</sup> A credit line of 100 billion yen (US\$ 910 million) includes the existing fund

<sup>5</sup> Includes a 5 billion yen (US\$ 45.5 million) quota giving priority to hilly and mountainous areas

<sup>6</sup> Includes a 4 billion yen (US\$ 36 million) quota giving priority to hilly and mountainous areas

<sup>7</sup> Includes a 10 billion yen (US\$ 91 million) quota giving priority to hilly and mountainous areas

<sup>8</sup> Includes a 1.2 billion yen (US\$ 11 million) quota giving priority to hilly and mountainous areas

<ul style="list-style-type: none"> <li>• Expansion of the livestock cluster project - support for the purchase of machinery, facilities and livestock (fund)</li> <li>• Provide support to dairy farmers and cheese factories for improving the quality and productivity of raw milk and cheese production, and for purchasing machinery and facilities</li> <li>• Improve and enlarge grasslands to improve productivity of feed crop production (public works)</li> <li>• Increase <i>Wagyu</i> production, improve raw milk supply capacity, and improve the supply of superior swine genetics (fund)</li> <li>• Establish technologies to improve the taste/flavor etc., of <i>Wagyu</i> to add value</li> <li>• Provide support to control weeds, to renovate bunker silos and to improve utilization and operation of public ranches</li> <li>• Mitigate existing loans by providing long-term and low interest loans, and provide interest subsidies for loan refinancing. Exempt farmers from the guarantee fee payment for loans for increasing dairy cattle and breeding cattle (fund)</li> </ul>	61.0 *	68.5 <sup>9</sup>	66.5 <sup>10</sup>
			6.0
	16.4	9.4	9.5
	3.0	1.6	1.0
	**		
	0.7	0.9	0.5
	2.0 *	1.7	13.0 <sup>11</sup>
<b>Develop Demand Frontiers (such as Exports) of High Quality Agricultural, Forestry and Fisheries Products</b>			
<ul style="list-style-type: none"> <li>• Implement export promotion measures to TPP and EU countries, and reinforce technical support for exporting to EU countries</li> <li>• Improve export infrastructure for wholesale markets, container yards, , HACCP<sup>12</sup> certified processing facilities, and meat processing facilities</li> <li>• Establish Japan standards - export GAP<sup>13</sup> and HACCP-based food safety management standards, and promote protection of intellectual property rights (e.g., plant variety</li> </ul>	8.8	6.7	3.6
	4.3	20.3	17.1
	0.01		0.8

<sup>9</sup> Includes a 5 billion yen (US\$ 45.5 million) quota giving priority to hilly and mountainous areas

<sup>10</sup> Includes a 4 billion yen (US\$ 36 million) quota giving priority to hilly and mountainous areas, and a 9 billion yen (US\$ 82 million) quota for raw milk for cheese production with participation of cheese manufacturers

<sup>11</sup> A credit line of 13 billion yen (US\$ 118 million) includes the existing fund

<sup>12</sup> Hazard Analysis and Critical Control Points

<sup>13</sup> Good Agricultural Practices

rights) overseas			
<ul style="list-style-type: none"> <li>Develop new products through tie-ups between farmer groups and the food service industry</li> </ul>	3.6		
<ul style="list-style-type: none"> <li>Promote sales of agricultural, forestry and fisheries products to foreign tourists</li> </ul>	0.4		
<b>Strengthen International Competitiveness of Plywood, Lumber and Structural Glue Laminated Timber</b>			
<ul style="list-style-type: none"> <li>Improve forestry roads and wood processing facilities, and utilize timber from thinning, and promote Cross-Laminated Timber use</li> </ul>	29.0 *	33.0	40.0
<ul style="list-style-type: none"> <li>Promote use of legally-logged wood and collect information on illegal logging</li> </ul>	0.2	0.2	0.2
<b>Turn Fisheries into Sustainable and Highly Profitable Operations</b>			
<ul style="list-style-type: none"> <li>Provide financial support to upgrade fishing vessels, machinery and facilities</li> </ul>	22.5 *	25.5	23.0
<b>Strengthen Communications with Consumers</b>			
<ul style="list-style-type: none"> <li>Implement projects to increase consumer understanding of domestic agricultural, forestry and fisheries products and food to contribute to their food selection/purchase (introduction of country of origin labelling for ingredients of processed foods, geographical indications system)</li> </ul>	0.4	0.2	
<b>Establish Price Information Disclosure System for Farming Input Materials to Help Farmers Compare Prices</b>		0.1	
<b>Total</b>	312.2	345.3	317.0

\*Establishment of a fund where the budget amount is used over a period of several years

\*\* Two projects under one program, with a total budget of 10 billion yen (US\$ 91 million)

### Future Support

In conjunction with the effectuation of the TPP Agreement and the Japan-EU EPA,<sup>14</sup> the GoJ will implement the following countermeasures outlined in the Framework for the so-called five sensitive items (i.e., rice, wheat, beef/pork, dairy products, and sugar crops) in an effort to maintain current production levels (the funding for which has yet to be determined):

1. To alleviate the impact on domestic table rice from rice import Country Specific Quotas (CSQ), the GoJ will purchase the amount of domestic rice equivalent to the CSQ import total for use as GoJ reserves, and will shorten the storage period of GoJ reserve rice from five year to three years.

<sup>14</sup> As a temporary measure for JFY2018, the GoJ raised the income loss compensation ratio from the current 80 percent to 90 percent for the Beef Cattle Fattening Business Stabilization Program.

2. To counter tariff elimination for pasta, biscuits, etc. under the Japan-EU EPA, the GoJ will abolish the markup for Durum wheat imports and will reduce the markup for imports of wheat for confectionary use.<sup>15</sup> Domestic pasta manufacturers and confectionary manufacturers will become subject to support measures under the Management Improvement Temporary Measures Law for Specific Agricultural Processing Industry.<sup>16</sup>
3. Under the legislated Beef Cattle Fattening Business Stabilization Program and the Hog Growing Business Stabilization Program (both are more commonly known as *Marukin*), the income loss compensation ratio will be raised from 80 percent to 90 percent, and the portion of the GoJ's contribution ratio to the Hog Growing Business Stabilization Program will be raised from the current 50 percent to 75 percent (GoJ: producers = 1:1 → 3:1).
4. The Standard Guarantee Price for beef calves will be reviewed to ensure it is consistent with the current situation.
5. The subsidy for producers of raw milk for processing has been expanded to include payments for raw milk processed into liquid dairy products (such as fresh cream) in JFY2017. Moreover, the subsidy payment for each individual commodity was abolished and combined into one uniform payment implemented before the effectuation of Japan-EU EPA.<sup>17</sup>
6. For the stable supply of domestic sugar crops, imported sugar-added products will become subject to a markup which will be collected under the revised Sugar Price Adjustment Law.

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<sup>15</sup> See [JA7153](#) for additional information on the increase in market competition for wheat and wheat product exports to Japan that is anticipated from the CPTPP and Japan-EU EPA Agreements.

<sup>16</sup> The GoJ provides financial and taxation assistance to specific agricultural processing industries when their management improvement plans are approved by municipal governments.

<sup>17</sup> See [JA7125](#) for additional information on the GoJ subsidy payments for factory use.