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Global Agricultural Information Network

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MAFF 2018 Budget Proposal Shifts Spending to Income Insurance

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Agricultural Situation

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Report Highlights:

Japan's Ministry of Agriculture, Forestry and Fisheries (MAFF) has requested 2.65 trillion yen (roughly US\$24 billion) for the Japan Fiscal Year (JFY) 2018 budget, a 15 percent increase over last year. The budget request eliminates the direct payment subsidy for table rice production, but requests significant funding for a new income insurance program, agricultural export promotion, and underwriting goals to expand domestic potato production.

General Information:

On August 31, 2017, MAFF requested 2.65 trillion yen (roughly US\$24 billion) for its JFY 2018 budget, a 15 percent increase over JFY 2017. The request coincides with the budget ceiling set earlier by the Ministry of Finance (MOF).

In accordance with abolishing the rice acreage reduction program in 2018, the direct payment subsidy to table rice producers will be eliminated in JFY2018 (the program accounted for 71.4 billion yen in the JFY2017 budget). Reallocating the future savings was a major focus of MAFF's budget request for JFY2018. Ultimately, MAFF requested 53.1 billion yen to implement a new income insurance program, which will become operational to support crop production in 2019.

Other major programs would promote production conversion from table rice to other crops, encourage consolidation and enlargement of farmland, support agricultural export promotion, promote "Good Agricultural Practices" (GAP), and encourage increased potato production. Proposed program adjustments are as follow:

Implementation of Income Insurance Program (new)

Funding level: 53 billion yen (roughly \$475 million)

MAFF-defined policy targets:

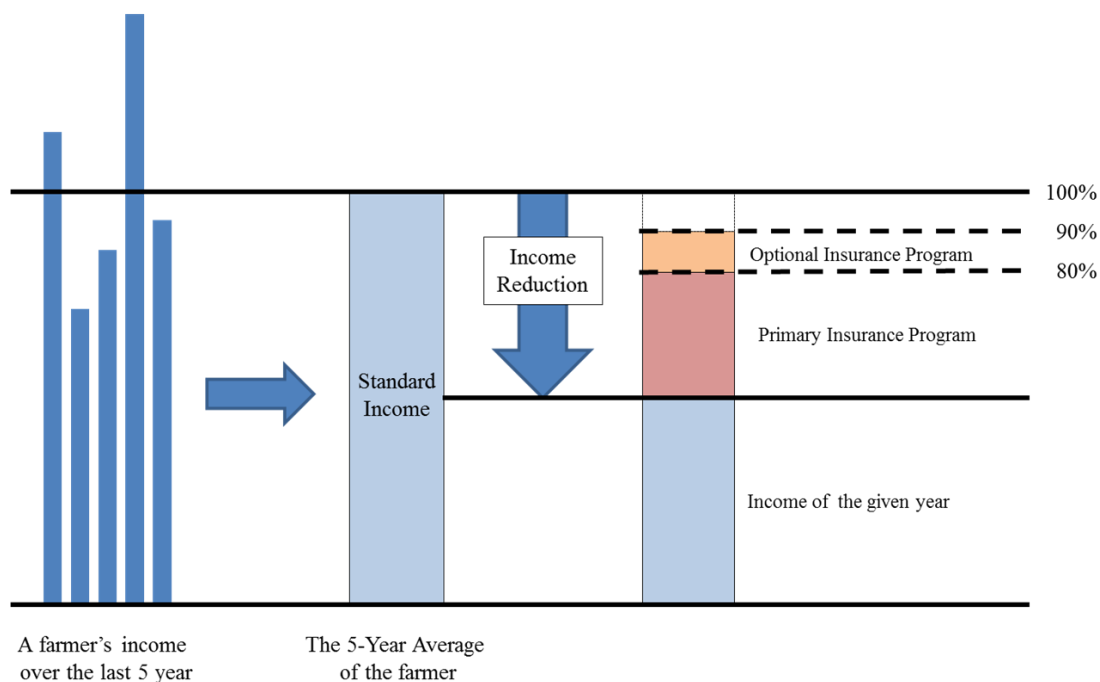
- Increase the number of incorporated farming entities to 50,000 by 2023.
- Promote farmland consolidation to ensure that certified farmers are farming 80 percent of Japan's total farmland area by 2023.

The Income Insurance Program would compensate for income loss, not only from natural disasters, but also as a result of price reductions. Payments will be based on an individual producer's total income, covering all crops, rather than by individual crop. The Income Insurance Program is a voluntary program and farmers can choose to join this program, other existing insurance programs, or other commodity-specific compensation programs. However, farmers are not permitted to join multiple programs. Individual farmers and incorporated farming entities with business income tax reports over the last five years are eligible to join the Income Insurance Program.

Individual farmer compensation is determined as follows. When annual sales income falls below 90 percent of the average sales income of the last five years (known as the standard income), a maximum of up to 90 percent of the difference between the standard income and the sales income for the year can be compensated using a combination of:

- a primary (non-refundable) insurance program covering 80 percent of the difference (the premium is not returned to the payees at the end of the year if a claim is not filed) and
- an optional insurance program which covers an extra ten percent of the difference (where the premium is carried over when a claim is not filed).

An example of how compensation is determined for an individual farmer



Under the JFY2018 budget, MAFF requests 6.1 billion yen (approximately \$55 million) to cover 50 percent of the insurance premium for the primary insurance program (the remaining half will be paid by the insured farmer), and 45.7 billion yen (approximately \$410 million) to fund the optional insurance program (three times the insured farmer's contribution, or 75 percent of the fund).

Farmland Consolidation and Intensification by Farmland Banks

Funding level: 36.6 billion yen (roughly \$330 million) requested, up 32 percent from last year.

MAFF-defined policy targets:

- Promote farmland consolidation to ensure that certified farmers are farming 80 percent of Japan's total farmland area by 2023.

Farmland Banks were established in each of Japan's prefectures in 2014 to accelerate farmland consolidation. The MAFF requests 21.3 billion yen (approximately \$190 million) to continue operating the Farmland Banks system, which includes rent and management fees for farmland and subsidies for farmland owners who lease farmland to Farmland Banks. Furthermore, 18.3 billion yen (approximately \$165 million) is requested to fund local agricultural committees' activities to prevent farmland from being fallow.

Farmland Improvement Program related to Farmland Banks (new public works)

Funding level: 86 billion yen (roughly \$770 million)

MAFF-defined policy targets:

- Promote farmland consolidation to ensure that certified farmers are farming 80 percent of Japan's total farmland area by 2023.

Readjusting farmland blocks and infrastructural developments will be carried out for no less than 10 ha of farmland controlled by farmland banks (i.e., land leased by farmland banks from inactive farmers) as prefectural government public works activities. As a condition for carrying out improvement works, after completing the project, 80 percent or more of farmland should be consolidated and leased to certified farmers within five years, and the profitability of farms should increase 20 percent or more. This is a new program as part of the agricultural reform package released in November 2016 (see [JA6065](#), [JA7092](#)).

Direct Payment for Full Rice Paddy Utilization

Funding level: 330.4 billion yen (roughly \$3 billion), up 4.8 percent from last year.

MAFF-defined policy targets:

- Increase production of rice for feed and flour (1.1 million MT for rice for feed by JFY2025).
- Cut production costs for rice for feed produced by certified farmers by 50 percent by JFY2025.
- Expand the planting areas of wheat and soybeans to 281,000 ha and 150,000 ha respectively by JFY2025.
- Improve the feed self-sufficiency ratio to 40 percent by JFY2025 (it was 27 percent in JFY2016).

The Direct Payment for Full Rice Paddy Utilization provides subsidies to wheat, barley, soybeans, feed crops (including corn), whole crop silage rice, rice for processing, rice for flour and feed rice produced on rice paddies. The subsidy level is based on the area of production. All producers who produce these crops for commercial sale are eligible for the subsidy.

Crops	Subsidy
Wheat, Barley, Soybeans, Feed crops	350,000 yen/hectare
Whole Crop Silage Rice	800,000 yen/hectare
Rice for Processing	200,000 yen/hectare
Feed Rice, Rice for Flour	The subsidy increases according to the yield from 550,000 yen/hectare up to the yield of 3.81MT/hectare to 1,005,000 yen/hectare up to the yield of 6.81MT/hectare (800,000 yen/hectare for the average rice yield of 5.31MT/hectare).

Of the 330.4 billion yen requested, 105.74 billion yen is earmarked for the program “**Subsidies for the Creation of Production Regions.**” Under this program subsidies are paid to Prefectural governments,

and Prefectural governments and Agricultural Regrowth Councils.¹ The scope and subsidy levels are set at their discretion based on the Full Rice Paddy Utilization Vision, an annual production plan established by each Prefectural and municipal government for rice and other crops on rice paddies in the respective prefecture or a region.

In addition to the subsidies set by the Prefectural governments and Agricultural Regrowth Councils, the GOJ provides the following subsidies under the program Subsidies for Creation of Production Regions.” From JFY2018, the GOJ will increase its efforts to facilitate an agricultural production shift away from table rice towards other crops as follows.

JFY2017	JFY2018
120,000 yen/hectare for feed rice, rice for flour when planting high yield varieties	Continued
120,000 yen/hectare for rice for processing (for only those with the existing three year sales contract including the years of 2014, 2015, and 2016)	Continued
200,000 yen/hectare for buckwheat and rapeseed when planting as a staple crop	Continued
75,000 yen/hectare for rice for GOJ reserves	Eliminated
50,000 yen/hectare for table rice when Prefectures reduced the planted area of table rice more than the allocated quota under the acreage reduction program	Eliminated
	New: 100,000 yen/hectare for Prefectures where planting areas of other crops increased and the planting areas of table rice decreased.
	New: 200,000 yen/hectare for rice when developing new markets.
	New: 1,050,000 yen/hectare when converting paddies to dry field (only for the first year)

Program to Strengthen Export Capabilities of Agriculture, Forestry and Fisheries

Funding level: 7.7 billion yen (roughly \$69 million), up 48 percent from last year.

MAFF-defined policy targets:

- Increase exports of agricultural, forestry and fisheries products and food to one trillion yen (approximately \$9 billion) by JFY2019.
- Of the 7.7 billion yen requested, 4.85 billion yen (approximately \$43 million) is earmarked for a comprehensive export support program by the Japan Food Product Overseas Promotion Center

¹ Each Prefecture and municipality is required to establish Agricultural Regrowth Councils whose members consist of officials from prefectural or municipal government, JAs, Agricultural Committees, and/or community farming groups and producers.

(JFOODO)², and 1.2 billion yen (approximately \$11 million) is earmarked for facilitating phytosanitary and animal quarantine negotiations to promote overseas market access and provide technical support to farmers for exports.

Promotion of Good Agricultural Practices (GAP) (new)

Funding level: 883 million yen (roughly \$7 million)

MAFF-defined policy targets:

- Train 1,000 or more international level GAP (Global GAP, J GAP and J GAP Advance, etc.) advisors in JFY2018.
- Triple the number of farmers with international level GAP certification.³
- Obtain international recognition of Japan's GAP certification system.
- Increase the number of farmers with Japanese livestock GAP certification and improve consumer appreciation for domestic livestock products with GAP certification.

The subsidies would support Prefectural governments' activities to help farmers obtain international level GAP certification in order to supply domestic agricultural and livestock products to the 2020 Tokyo Olympic and Paralympic games and for exports.

Promotion of Production Increase and Crop Rotation for Potatoes (new)

Funding level: 3.0 billion yen (roughly \$27 million)

MAFF-defined policy targets:

- Increase production of potatoes for processing by 180,000 MT to 770,000 MT by 2021 (590,000 MT in 2015)
- Increase production of seed potatoes by 15,000 MT to 160,000 MT by 2021 (145,000 MT in 2015)

To meet growing Japanese demand for potatoes for processing, MAFF will carry out the following three programs to increase potato production:

1. To improve productivity of seed potatoes, MAFF will provide assistance to nurture new production areas and to purchase labor-saving machinery for farmers.
2. To increase production of potatoes for processing, MAFF will provide assistance to implement new agricultural drainage technology (to improve yield), to plant pest and disease-resisting varieties, to purchase labor-saving machinery and technology, to outsource farming works, to carry out soil improvement works, and to hold seminars for increasing the planting areas of potatoes for processing.

² JFOODO was established in April 2017 as an independent organization within the Japan External Trade Organization (commonly referred to by its acronym – JETRO) to promote and support Japanese agricultural and food exports.

³ Other reports indicate the increase goal may be as high as 10 percent of Japanese farmers by 2020.

3. To prevent soil contagious diseases, such as scab, and avoid repeated cultivation damage, MAFF will encourage farmers to shift crop rotation from three crops to four crops, and provide assistance to plant beans in crop rotation and to improve soil by using green manure crops. MAFF will also provide assistance to purchase labor-saving machinery for sugar beet production whose farming works coincide with potato production.

Next Steps

MAFF will negotiate the JFY2018 budget with MOF during the budget compilation period in December 2017. Ministry budget proposals are often reduced by MOF during this period. The budget for countermeasures implemented in response to the Japan-EU Economic Partnership Agreement is expected to be earmarked in the JFY2017 supplementary budget, after countermeasures are finalized (possibly in November 2017).