

## **The Rice Management System under the Staple Food Law**

Shoichi TASHIRO

*(Laboratory of Agricultural Economics)*

Received for Publication September 10, 1997

### **Introduction**

Rice is not only the staple food of Japanese people but also a major farm product of Japan. In respect of supply, it is cropped once a year, and at the same time its production greatly fluctuates depending on bumper crop or poor harvest. The demand for rice is characterized by stable consumption lasting throughout the year and covering over the country. Therefore, to ensure stable supply and demand situations, the production and distribution of rice have so far been controlled by the government with various regulations. It was the Food Control Law that had been regulating the production and distribution of rice in Japan over this half a century. Although the law had been in force for more than 50 years since its enactment in 1942, it was finally abolished in 1994 when the new Staple Food Law was enacted. The purpose of this paper is to examine the circumstances leading to the establishment of the Staple Food Law and to review the new rice management system.

### **Changes in the Food Control System, 1942-1994**

The Food Control Law had, for a long time, provided the framework for the rice control system in Japan. The main purpose of the law was to ensure stabilities in the supply and demand as well as in the price of staple food, particularly of rice. In order to achieve this purpose, the law provided for a severe rice distribution system. Precisely, it was mandatory for producers to sell all their rice products, except a fixed amount for their own consumption, to the government. Moreover, in respect of distribution, the rice collecting business traders, wholesalers and retailers were the designated agencies of the government. Thus, a straight link was established from producers to the government, and then from the government to consumers, and any other rice distribution system was prohibited on principle.

The social and economic conditions surrounding Japan's rice farming greatly changed with the vicissitude of the age, and the provisions of the Food Control Law were also amended to match with the needs of the time. For instance, taking the opportunity of a bumper rice crop in 1955, the producers' obligation to sell out was changed from the delivery quota system practiced so far with a quota unilaterally fixed by the government to the pre-harvest rice-sales contract system based on the producers' own judgements. Besides, the voluntarily marketed rice system was introduced in 1969 as a system of distribution of rice bypassing the government. In addition, the specially produced rice system was introduced in 1987, allowing producers to sell a certain amount of their products directly to consumers on the condition that they would obtain permission from the head of the Local Food Agency office.

The two significant occurrences, namely the acceptance of the GATT Uruguay Round

Agreement on agriculture and the unprecedented poor rice harvest, changed the year of 1993 into a year that deserves special attention in the long history of the food control system. The Uruguay Round Agreement in December, 1993 pressed the Japanese government to review the rice control system. It was fixed to be obligatory to expand our import volume of the minimum access quantity of rice of 380,000 tons for 1995, up to about 760,000 tons in the coming year of 2000. It was a great change from the principle of the food control system that had regarded the self-sufficiency of rice as a matter of course.

Moreover, the extraordinarily poor rice harvest brought about at a crop situation index of 74 (an index of 100 represents an average year's crop) in 1993, had shaken the public. This also rocked the food control system. At this time, a particularly baffling problem was the fact that the government did not have enough stockpile of rice at its disposal to cope with such a poor harvest. The stockpile of rice had swelled up to 2.22 million tons in 1987, therefore, since then the government has aggressively reduced the stock to mitigate the financial burden. Consequently, the stockpile came down to 260,000 tons at the end of October, 1992. As the extraordinarily poor harvest hit this country right at that time, the government had to make an emergency import of up to 2.59 million tons of foreign rice in 1994 rice-year (the year ended on October 31, 1994).

In August, 1994, the Agricultural Policy Council, an advisory panel to the prime minister, prepared a report under the title of "The Direction of Policy Development in Japanese Agriculture in a New International Environment". With regard to the post-Uruguay Round rice policy, the report offered such recommendations as summarized in the following.

Firstly, the government should continue rice production control by encouraging the voluntary participation of farmers' organizations, because the gap between the supply and the demand for rice will continue. The new control system should not be enforced by a penalty system; instead, it should be promoted by positively and individually motivating farmers as well as by getting regional consensuses on the use of water and farmland. Those who participate in the control program should be entitled to government-rice-purchases and production control subsidies.

Secondly, a rice reserving system should be incorporated into a new rice policy. The rice reserving should include the imported rice under the minimum access provision. Moreover, the government should not hesitate in using the reserved rice for food aid. The reserve should be plentiful enough to enable the government to supply rice in abundance when necessary. However, the government should seek a national consensus on the need to raise funds to maintain the rice reserve.

Thirdly, the imported rice should be dealt by an authorized state enterprise and be sold mainly for staple and processing use. The enterprise, i.e., the Food Agency, should introduce a system for simultaneously buying and selling a certain quantity of the imported rice in order to objectively evaluate the rice price. The money obtained through the markup fixed on the imported rice would be one possible means to finance the cost of the reserve.

Fourthly, in a new rice policy, voluntarily marketed rice — rice marketed through the private-sector marketing system — should be the core of the nation's rice distribution, so that the pricing of rice can reflect actual supply and demand situation in the market. The government, by means of its operation of government-held rice, should direct its efforts toward the proper maintenance of rice stockpiles and the management of the imported rice.

Finally, the more diversified opportunities to sell their products should be given to rice

producers. In addition, the functions of rice traders, from primary collectors to retailers, should be reviewed and their operations must be revitalized so that consumers might have more choices at the store. Consequently, any illegal distribution will have to disappear so as to avoid harming the credibility of the new rice system. On the other hand, a stabel collection and distribution system that can be revived in case of a serious rice shortage must be arranged.

### **A Brief Outline of the New Staple Food Law**

The government called a cabinet meeting on October 24, 1994, to discuss the measures for implementing the Agricultural Policy Council's report. At the meeting, a decision was made to abolish the Food Control Law and to establish a new Staple Food Law, or the Law for the Stabilization of Supply, Demand and Price of Staple Food. The bill was submitted to the Diet on the same day and was passed on December 8, 1994. The provisions related to foreign trade and those related to other domestic distributions came into effect on April 1 and on November 1, 1995, respectively. An outline of the new law is as follows:

#### *General Rules*

The government will prepare a projection for the supply and demand of rice for the purposes of ensuring the stabilization of supply and demand and of fixing the price of rice. The government will use these projections for planning the smooth implementation of production adjustments and for coordinating a flexible stockpiling system to secure proper and smooth distributions. The government will also purchase, import and sell rice in accordance with these purposes. (Articles 1-2)

#### *Basic Plan*

Each year, the Minister of Agriculture, Forestry and Fisheries will prepare and announce a basic plan. The plan will make public such points as in the following: the projection for supply and demand; the targets of production and production adjustment; the targets and the operation of stockpiles; and the amount of planned distributions of governmental purchases and imports. The minister will also announce the guidelines for production and the requests for shipments. (Article 4)

#### *Rice Producers*

Rice producers must market the amounts of rice allocated to them by the minister, shipping them through the voluntarily marketed rice-channel or through government-channels. Any intended revisions of these amounts must be approved by the minister, who will only be able to turn down such requests in exceptional cases. Sales to the government by participants in the production adjustment program will be accepted when they are within the allocated amounts, basing on the total amount of government-purchases contained in the basic plan. Rice producers may sell their rice through channels other than the voluntarily marketed or the government channels. However, the amounts so marketed must be reported to the minister. (Article 5)

*Shippers*

People engaging in the shipment of rice must register themselves at the minister's office. The minister can reject applicants who do not meet the requirements. Registered primary shippers collecting rice from producers will not be permitted to receive rice from producers in the areas other than the prefecture or the prefectures in which their businesses have been registered. They must sell their rice only to the following agents, namely: secondary shippers, voluntarily marketed rice distribution corporations, registered wholesalers or the government. Secondary shippers are not permitted to conduct transactions with primary shippers dwelling in prefectural areas other than the territories in which their businesses have been registered. They must channel their rice to voluntarily marketed rice distribution corporations or to the registered wholesalers. (Articles 6-27)

*Voluntarily Marketed Rice Distribution Corporations*

Upon the receipt of an application, the minister may designate the noncommercial corporations that meet certain criteria as voluntarily marketed rice distribution corporations. These corporations will buy voluntarily marketed rice from the registered shippers and sell them to the registered wholesalers. They will also be able to maintain stockpiles and to withhold some amounts of rice from the market if necessary. Their operations will be managed in accordance with the voluntarily marketed rice distribution plan approved by the minister. (Articles 28-34)

*Wholesalers and Retailers*

Wholesalers and retailers must register themselves at the office of the governor in each of their respective prefectures. A governor will be able to reject an applicant if the wholesaler or retailer does not fulfill the required terms. Registered wholesalers will be able to make purchases only from the registered shippers and voluntarily marketed rice distribution corporations, and they can only sell rice to the registered retailers. Only the registered retailers will be able to trade with the registered wholesalers. (Articles 35-47)

*Voluntarily Marketed Rice Price Formation Center*

The minister may designate a public corporation, or the Voluntarily Marketed Rice Price Formation Center, for formulating an appropriate price level both to serve as a reference for the trading of voluntarily marketed rice and to contribute toward the stable buying and selling of rice. (Articles 48-58)

*Governmental Purchases and Sales of Rice*

The government will buy rice from participants in the production adjustment program, with the aim of ensuring proper management of stockpiles. The minister will decide the government purchase-prices based on the following: the views of an advisory council; trends in the price of voluntarily marketed rice and in the supply and demand in that market; and factors directly related to rice production and other economic conditions, making sure that prices are set at a level that will enable the production of rice in the following years.

On the other hand, the government will sell government-held rice to wholesalers at the standard sales prices that will be set by the minister, paying considerations to the following points: the views of an advisory council; the supply and demand of rice; the cost to

households; and prices and other economic conditions, bearing in mind the stabilization of the household economy. The government sales-price of the imported rice must not exceed the level reached by adding internationally approved markups to the purchase-price. (Articles 59-65)

### *Emergency Measures*

In the event of serious rice shortages in which it becomes difficult for long periods of time to ensure the proper and stable supply of rice in accordance with the basic plan, the government is allowed to declare an emergency and to issue orders to the traders engaged in rice distribution, namely corporations, shippers, wholesalers and retailers regarding the trade, transportation, warehousing and prices of rice. In such cases, the government may give compulsory directions to the rice producers regarding their rice shipments to ensure the stable and proper supply of rice. (Articles 80-83)

### **Conclusion**

According to the governmental basic plan established in March, 1997, the supply and demand situation of rice is expected to be eased during the 1997 rice-year, owing to the consecutive bumper crops in the preceding three years. The total supply of rice in the 1997 rice-year is estimated to be 13,770,000 tons. This includes 2,940,000 tons carried over at the end of the 1996 rice-year, 10,320,000 tons produced during the 1996 calendar-year and 510,000 tons imported in line with the principle of minimum access. On the other hand, demand for rice for table use in the 1997 rice-year is expected to be between 9,750,000 and 9,850,000 tons. Demand for rice for processing is estimated at between 900,000 and 950,000 tons. As a consequence, the volume of the rice that will be carried over at the end of the 1997 rice-year will likely to be between 3,000,000 tons and 3,100,000 tons, including 100,000 tons of the imported rice.

Only two years after the introduction of the new Staple Food Law, we are threatened to face the difficulty of excessive amount of rice supply. Although the rice reserve system was set up to be prepared for the rice shortage in the law, the countermeasures against excessive rice at bumper harvest time were not sufficiently provided. As mentioned above, voluntarily marketed rice distribution corporations are able to withhold some amount of rice from the market if necessary. However, nowadays it seems that the corporations have not sufficient buying powers. Therefore, the situation of potential oversupply will continue for a while and a strengthened production adjustment program will be required in the near future. The reform of the food control system was initiated to revitalize Japan's rice farming under the slogan of "Producers should be given a greater freedom to produce and sell rice". The enactment of the new Staple Food Law was the first step for the reform and not the terminal point.

### **Summary**

It was the Food Control Law that had been regulating the production and distribution of rice in Japan over this half a century. The main purpose of the law was to ensure stabilities in supply-demand, and in price of rice. In order to achieve this purpose, the law provided for a severe rice distribution system. Under the law, a straight link was established from rice producers to the government, and then from the government to consumers, and any other rice distribution system was prohibited on principle.

The two significant occurrences, namely the acceptance of the GATT Uruguay Round Agreement on agriculture and the unprecedented poor rice harvest, changed the year of 1993 into a year that deserves special attention in the long history of the food control system. The former pressed the government to review the rice control system, the latter also rocked the food control system.

In August, 1994, the Agricultural Policy Council prepared a report under the title of "The Direction of Policy Development in Japanese Agriculture in a New International Environment", which offered the following recommendations: (1) the government should continue rice production control by encouraging the voluntary participation of farmers' organizations, (2) a rice reserve system should be incorporated into a new rice management system, (3) the imported rice under the minimum access provision should be dealt by the Food Agency, (4) voluntarily marketed rice should be the major emphasis on distribution, and (5) more diversified opportunities to sell their products should be given to rice producers.

In 1994 a new Staple Food Law was enacted to implement the Agricultural Policy Council's report. Although the rice reserve system was set up to be prepared for rice shortage in the new law, the countermeasures against excessive rice at bumper harvest time were not sufficiently provided. In the near future, the situation of potential oversupply will not be changed and a more strengthened production adjustment program will be necessary.

#### References

- 1) Food System Research Group in the General Affairs Bureau of the Food Agency: *The Staple Food Law : It is Desirable to Understand*. Ministry of Finance Publications Bureau, Tokyo, pp.179 (1996) (in Japanese)
- 2) Ministry of Agriculture, Forestry and Fisheries (MAFF): *The Direction of Policy Development in Japanese Agriculture in a New International Environment*. MAFF, Tokyo, pp.16 (1994)
- 3) MAFF : Summary of draft report of Agricultural Policy Council. *MAFF UPDATE*, 89 (1994)
- 4) MAFF : New rice management system to be established. *MAFF UPDATE*, 101 (1994)
- 5) MAFF : Basic plan established for stabilization of rice supply, demand and price. *MAFF UPDATE*, 208 (1997)
- 6) Ouchi, T. and Saeki, N. (eds) : *The New Staple Food Law and Suddenly Changing Rice Distribution*. Ienohikari Kyokai, Tokyo, pp.269 (1995) (in Japanese)