

Financial Times

Japan: End of the rice age

Leo Lewis, Sept. 21, 2015

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The basin of the NP-WU10 is hand-moulded in an iron foundry for exquisitely even heating. The lid is platinum-coated to generate the perfect levels of amino acids. A digital sensor selects from 121 possible micro-adjustments until steamed perfection is achieved.

For a rice-worshipping nation, where the gleaming Japonica grains are both food and religious offering, and where rice production is politically sacrosanct, Zojirushi's \$1,500 rice cooker is the high altar. Or at least, it should be. The problem for the Osaka-based company, whose engineers, designers and rice-tasters have been developing the NP-WU10 for many years, is that Japan's daily rice consumption is falling — hard.



Japan's rice crisis starts with its older, smaller stomachs. As the population ages, appetites are shrinking. Diets among younger Japanese favour wheat and the country is eating about 20 per cent less rice than it did two decades ago.

Other sources of demand are also vanishing: Japan drinks about a third as much (rice-based) sake as it did in 1970 and consumption of fish — the traditional accompaniment to rice — is down 30 per cent since 2005. In desperation, the agriculture, forestry and fisheries ministry has been forced to find ways of promoting a grain whose very name in Japanese — gohan — means “meal”.

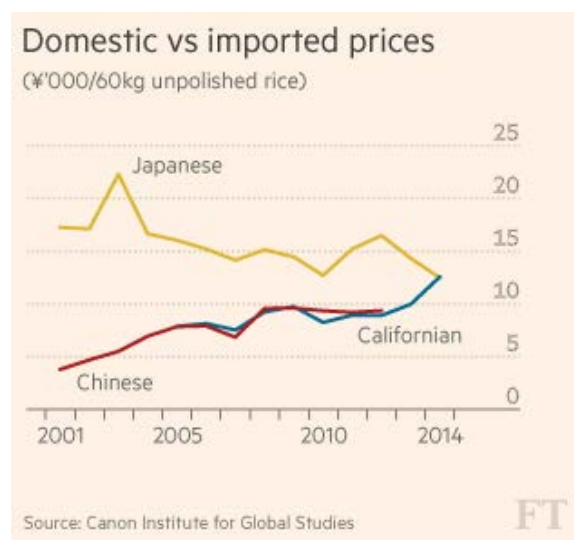
After hitting a peak of 2,670 in 2006, Japan's average daily calorie intake has been on the decline, falling to 2,415 last year, says a spokesman from the rice department of the ministry.

“The difference is that people are not eating as much because the population is getting older,” he says. “I think that peak of 2,670 was the limit of what Japanese people will eat.”

The industry has watched helplessly as Japanese-grown rice has become cheaper than its Californian-grown equivalent for the first time since 1953. The price may recover in the short term, but the fundamentals suggest it is the start of a long-term trend. This inflection point, say Japan's leading rice experts, demands a wholesale revision of the way the nation thinks about its staple.

Agricultural arrow

According to some, the politics and protectionism behind Japan's relationship with rice — defining features of the way the ruling Liberal Democratic party has maintained power and the country has been governed since the second world war — are already in flux. The public may see Prime Minister Shinzo Abe's new national security law, passed last week after the biggest protests Japan has seen since the 1960s, as his most radical bid at reform. But the changes he may have in store for agriculture could be far more profound, analysts say.



Earlier this year, Mr Abe's party forced the JA-Zenchu union to waive its right to supervise and audit farming groups — a move intended to dilute the power of the union. The idea, considered to be among the reforms that make up the "third arrow" of Abenomics, could give greater autonomy to co-operatives. The government has also relaxed some of the limits on corporate farm ownership and created ways to merge small holdings into larger ones. Mr Abe may seek to expand the policy.

JA's control over the distribution of Japan's crops gives it a stranglehold on farming. Breaking that is likely to remain a priority for the prime minister.

Despite its enduring status as the sole symbol of Japan's self-sufficiency in food, and the rescuer of a nation from postwar hunger, the rice industry has fewer defenders than in the past. The demographics of the rice industry, in which the average age of farmers is 70, are working against it. About 64 per cent of Japan's farmers grow a crop that represents just 21 per cent of the country's agricultural output by value, says the Canon Institute for Global Studies.

Japanese consumers may be wealthy enough to shun imports that have been 20-30 per cent cheaper. But former agriculture ministry sources say even they have begun to notice the absurdity of a system which funnels billions of their taxes into subsidies that cause more fields to lie empty and inflate prices.

The beef and wheat lobbies, say government insiders, now wield more influence at the top levels of government. It has finally become acceptable to question precisely how a rice industry this rickety holds the nation in its thrall. "As we are now starting to see very clearly, without its protections, Japanese domestic rice policy does not actually work at all," says Tokyo University's Masayoshi Honma.



For some, particularly the JA which has a 50 per cent stranglehold on Japan's ¥2tn rice industry, falling prices and falling demand are nothing short of disaster. JA owes much of its wealth to the 2-3 per cent commissions it levies on every rice trade, and much of its political power to the 4.6m farming households it counts as members.

The problem, admitted a Kanagawa-based JA member who gave her family name as Hayashi, represents an irresistible challenge to the historic power and wealth of the Japanese rice industry. "Rice is the heart of Japan, even if we eat less of it. But that feeling alone may not be enough any more. The farmers are old, the prices are falling and the battles are going to get harder to fight. Would you tell your children to become rice farmers in this situation?"

An industry exposed

For others, not least Mr Abe, the falling rice price helps uncover the long-term manipulations by the industry lobby. It may also offer a chance for Japan to approach global trade, especially ongoing negotiations on the Trans Pacific Partnership (TPP), with lighter baggage than in the past, diplomats say. If Californian rice remains more expensive than domestic rice, as seems likely if drought conditions persist in California, Japanese rice farmers should be less worried about imports.

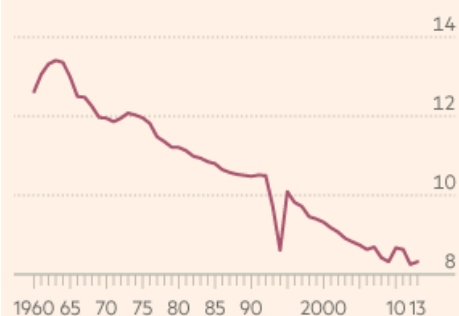
The underlying economics of rice is in perilous shape. Japanese domestic rice prices have trended steadily lower since 2003. As Prof Honma and others point out, if the Japanese rice market had ever been allowed to respond to supply and demand, domestic rice prices would have fallen sooner and deeper than they already have.

The current difference between Japanese and Californian rice, as defined by the average price of a 60kg bag, may only amount to a few hundred yen. But that difference, says Kazuhito Yamashita, a former agricultural ministry employee and research director at the Canon Institute for Global Studies, is significant.

It shows, he says, that despite JA's long-term efforts to maintain high prices, keep inefficient farms afloat and ensure the size of its membership, the rice price is becoming immune to support as the fundamentals desert it.

Rice demand

M tonnes



Source: Ministry of Agriculture, Forestry and Fisheries

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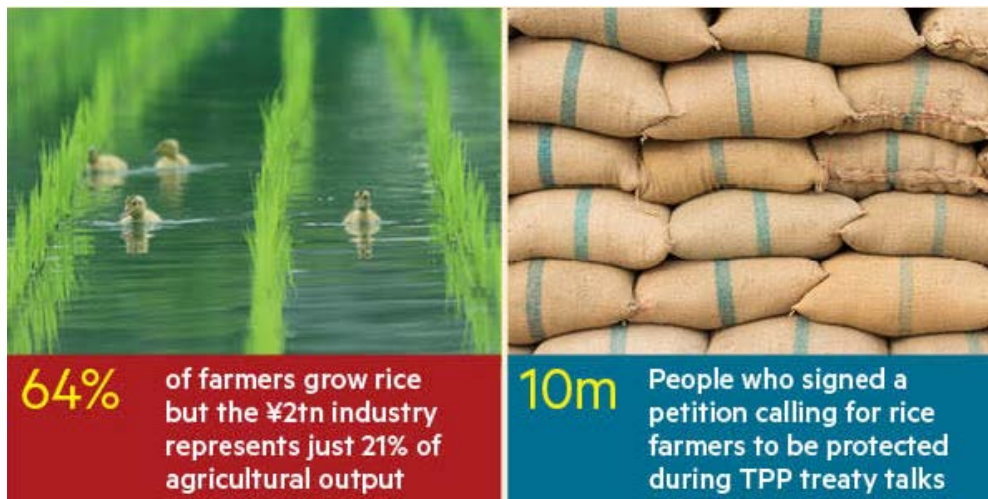
A key gauge of the ferocity of Japan's rice protectionism, says Mr Yamashita, is the high tariffs on imported rice. Two decades ago, Japan grudgingly agreed to an import quota of 770,000 tonnes a year of rice. This "opening" of the market, however, was mostly verbal: the rice arrived from the US and China, but barely any of it was ever released on to the market. With the total bill for this exercise now approaching \$3bn since 1995, a lot of the rice degraded to the point where it was only usable as animal feed. The rest was sent abroad as aid.

The true purpose of all this, says Mr Yamashita, has been the growth of JA's influence. Prices have been protected to ensure that millions of small rice farmers — all commission-generating members of JA, with votes that can swing elections — are not forced to stop farming.

Since the 1970s, Japan has effectively paid farmers not to grow rice, the so-called "set-aside" programme that has used hefty subsidies to encourage an ever greater proportion of Japan's 2.5m hectares of rice paddy to lie fallow. In 1971, some 541,000 hectares were out of use. Today, the total stands at just over 1m hectares.

"Even at that level of paddy fields out of use, JA is finding that it is still too small to maintain the desired price because demand is continuously declining. Also, rice farmers are reaching the limit of how much area they want to set aside: for emotional reasons, they want to keep on farming rice and are too old to learn the completely different skills of growing barley or wheat," says Mr Yamashita.

Does JA fundamentally want rice farmers to farm less? "Yes. There are some terrible distortions here. It's madness, but that is the basis they are working on. They don't care about actual rice farming," adds Mr Yamashita.

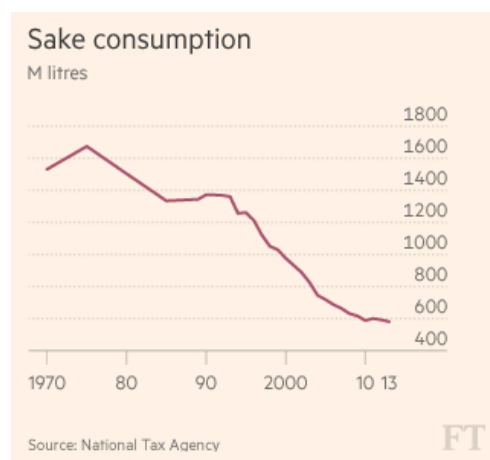


There are other price support efforts in play. The agriculture ministry and JA favour a system that incentivises farmers to produce rice as animal feed rather than for human consumption. Japanese cows and pigs would be consuming some of the most expensive feedstock in the world, but, in theory, their output would not drag rice prices any lower.

The irony here, says Mr Yamashita, is that Japan's government has talked enthusiastically about promoting Japanese rice as an export product — an option that would be considerably easier if prices were allowed to continue falling to settle at a level where it is competitive with Californian rice.

There is also debate over how many legitimate members JA has — it claims 4.6m from 3.94m farming households. Mr Yamashita, Prof Honma and others say many of those members are retired, and many may be illegally claiming membership to secure tax exemptions and lucrative deals on the sale of farmland.

“The difference between the real number of farming households and JA members is a real wonder,” says Prof Honma. “But JA's membership is the source of its political power. The distortions that have been created are definitely destructive.”



JA's power will begin to ebb as prices continue to fall, he says, but the group has mounted protests against the TPP. Earlier this year, JA mobilised some 10m to sign a petition arguing that Japan should not sacrifice the interests of its rice farmers during the TPP talks.

But analysts say that it was muscle-flexing by a stumbling giant. In the past, says Koichi Nakano, a professor of politics at Sophia University in Tokyo, the political influence of the JA was part of a three-way pact between itself, the ruling LDP and the Keidanren business lobby. As farmers have retired and the power of the rural vote has declined, the pact has now begun to fall apart.

“JA and the agricultural lobby have actually grown weaker as a direct result of Mr Abe's political strength and the demise of the [opposition] Democratic Party of Japan,” says Prof Nakano. “To have political power, you have to have a credible threat that you will switch your vote to another party, but they cannot use that with Abe.”

The effect, he adds, is that Mr Abe may be in a stronger position than any of his predecessors either to push through further agricultural reforms or, more immediately, sign up to a TPP deal without a damaging backlash in the rural ballot-boxes.

‘The weekend farmer’: Machines allow agricultural workers to diversify

If the pinnacle of rice consumption is Zojirushi's latest rice cooker, the secret of much of Japan's rice production is another intricate feat of engineering — the Yanmar RG8, a riding automated rice planter. It is this machine, along with its various predecessors and rival products, that has arguably done more than anything else to transform Japanese rice farming, narrow the urban-rural divide and help maintain the vast membership base of the JA-Zenchu union of agricultural co-operatives. The government's longstanding support of prices has gone a long way towards maintaining Japan's very inefficient rice farmers. But that was not enough on its own, analysts say. Operated by a single farmer, Yanmar's machine can plant in the space of 15 minutes an area that would otherwise take a person a full day of back-breaking labour.

In effect, it created the weekend farmer. Japanese farmers have become increasingly released from their fields since the first automated planters were introduced in the 1960s. That has allowed them to take on other, more lucrative jobs, meaning that the average income from agriculture for a typical Japanese farmer's total income is just 15 per cent, says Kazuhito Yamashita of the Canon Institute for Global Studies. The non-farming portion of their pensions is about 60 per cent.

The comparative ease with which an automatic rice planter can be operated by elderly farmers or their city-dwelling offspring allows them to plant their crops in a two-day blitz. Tens of thousands of households are able to continue farming when once they might simply have stopped. For JA, the mechanisation has allowed more Japanese to continue being registered as active farmers, boosting their numbers and their political muscle.