

Frame and Emerging Reform of Agricultural Policy in Japan

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ABSTRACT

Agricultural land reform in the aftermath of WWII generated agricultural structure of Japan with vast number of small owner farmers. Agricultural Land Act of 1952 regulated lease, transaction and possession of farmland to protect those owner farmers. The regulation became a constraint for expansion of farm scale which was pursued by Agricultural Basic Act of 1961, which promoted “selective expansion” of agricultural production leading to current composition of agricultural sectors. Because of steep rise in farmland price, a series of measures were introduced to promote expansion of farm scale by lease exempted from Agricultural Land Act. Use and possession by corporation have been gradually deregulated. On the other hand, issues regarding regulation over farmland diversion and abandoned farmland were not met fundamentally.

December 2013, the current administration introduced new reform package for agricultural policy. Among the reform measures, Farmland Bank and deregulation of farmland lease/possession by corporations address issued from decades ago. The reform also abolishes governmental production adjustment of rice.

Another reform items revealed June 2014 aims to reinforce the enforcement of regulation over abandoned farmland and farmland diversion, as well as to restructure farmers’ organizations.

Keywords: Agricultural Policy, Policy Reform, Farmland Policy, TPP, Policy Process

INTRODUCTION

The original aim, provided by FFTC, of this article is to give explanation to the “frame of agricultural policy” in Japan. On the other hand, now a new major reform of agricultural policy is emerging in Japan. Regarding this reform, already there are a few articles on AP web site and there will be another 3 articles this year. But unfortunately, because of the

nature of original documents for translation, the articles do not contain enough back ground information for the reform. I therefore chose some of essential elements of Japan's agricultural policy to describe which can provide a historical context of the current reform. Those are the Basic Acts and farmland policy. Such an approach is also intended to satisfy the original aim. I omit trade liberalization and the counter measures because I already dealt with them in Hiraswa (2013).

At the same time, another subject (the 8 categories of policy specified in the AP project) was added afterward for this article. Though I mention those areas as far as possible, given the constraint of space and time, description of each item is rather limited.

In the following passages deal with a frame of agricultural policy from the viewpoint as set forth above in Section 1, and then, the overview of and comments on new agricultural policy reform in Section 2. In the latter half of section 2, I will describe a reform recommendation for farmers' organization system a little bit in detail. In Section 3, I describe briefly the policy areas that are not covered by Section 1 and Section 2.

1 Frame of Agricultural Policy in Japan: A Historical Perspective

(1) Establishes of Agricultural Land Act

In Japan, the agricultural land reform was implemented as part of the democratization policy during the period of Allied Occupation after the World War II. The gap between the rich and the poor and the poverty of tenant farmers in rural area had become a breeding ground for militarism in the past. There were also concerns that they would become a cause of communization. The tenant land having a certain area was distributed to a tenant farmer from a land owner and most of farm households turned to owner farmers in Japan. As a result, vast numbers of small farm households become a dominant feature of the agricultural structure of Japan. The agricultural land reform is considered to contribute to elimination of poverty and stabilization of the society, as well as to the economic growth of Japan through the investment in education of children.

In 1952, when the Treaty of Peace with Japan with the Allies came into effect and Japan recovered its sovereignty, the Agricultural Land Act was established in order to maintain the outcome of the agricultural land reform. The Agricultural Land Act had a policy of the ownership of farm land by cultivator (the owner farmer principle) to prevent revival of the landlord system and strictly control the ownership and size of agricultural land, the ownership transfer including purchase and sale, the establishment and transfer of right of utilization including borrowing and lending and the land rent. The Act protected the right of borrower heavily in borrowing and lending agricultural land, and required permission by the agricultural committee, which was established in every municipality, for transaction of agricultural land.

After that, however, the increase of labor cost as a result of the economic growth, the expansion of capital equipment and the mechanization of agricultural work led to demands for improvement of agricultural productivity through expansion of farm size. The control under the Agricultural Land Act turned to one of the constraining factors for the movement.

(2) Policies of Former Agricultural Basic Act

The Agricultural Basic Act established in 1961 was intended to adopt agriculture to a rapid economic growth. The goals of agricultural policy were the improvement of productivity of agriculture targeting at narrowing disparities with other industries and the increase of income of farmers. At the same time, responses to the change in consumption, the influx of labor into other industries and the trade liberalization of agricultural products were required.

What was listed first as a measure to achieve these goals was the “selective expansion” of the agricultural production(*1). That was to say the increase of production of products having increased demand, the conversion from products having decreased demand on the contrary and the production rationalization of agricultural products that competed with imported products. Along this policy, the production of items such as animal products, vegetables and fruits was promoted in response to the diversified demand with the economic growth. For these items and rice, price policies and supports through trade protection were provided as needed. Grain and other products of the land-extensive farming, for which the production rationalization was required, began to rely mainly on import, except for rice. Thus, the current agricultural structure by sector was formed. As a result, the sector that needed less area of land, which was a scarce resource for Japan, grew. That growth was promoted by the policy.

As one of the policies, modernization of agricultural structure was also set out, and what was listed at the top was the expansion of scale of farm management. In the animal agriculture sector, a rapid expansion of management scale and a decrease in the number of operators advanced. Production of animal products (that depended on imported feed crops) and vegetables are capital-intensive and doesn't need a great deal of land. On the contrary, to expand the management scale of rice cropping, collection of area of paddy field is required.

However, the collection of agricultural lands for large-scale management did not progress. The constraint of the Agricultural Land Act was not the only problem. To collect agricultural lands, sufficient number of farm households is required to give up farming. Meanwhile, it is not easy for farmers to obtain a stable job in other industries. Therefore, they couldn't give up farming immediately. Moreover, the farmers would not sell the land they had obtained in the agricultural land reform. With the decrease of required labor power as a result of mechanization, they turned to part-time farmers while holding their lands. The Showa single-digit generation, who were born in between 1926 and 1934 and started farming in

great number before the period of rapid economic growth after the World War II, took root in the agricultural sector, and has supported Japanese agriculture until now. The agricultural land was the property that associated with life security, position and human relationship in the farming community, not just a subject of transaction based on profitability. Things got more difficult with a rise in land prices due to the demand for the lands other than agriculture.

Agricultural field plots of farm household are dispersed and small, and furthermore, they are arranged in mosaic pattern mixed with agricultural lands of other farmers. To improve the productivity, they needed to gather adjacent agricultural lands together as much as possible.

(3) Control over land use

The control over land use diversion of agricultural land in Japan is based on two separate systems.

To control disorderly development of urban neighborhood under the rapid economic growth, the City Planning Act was established in 1968, and urban areas and their neighborhood (city planning area) was classified into areas where urbanization was promoted (urbanization promotion area) and areas where urbanization was controlled (urbanization control area). However, as it covered agricultural lands despite the legislation by the Construction Ministry, the Ministry of Agriculture, Forestry and Fisheries (MAFF) enacted the Act for Improvement of Agricultural Promotion Areas against it in the next year, 1969. The Act specified agricultural lands and surrounding areas as areas for agricultural use and prohibited the conversion of agricultural lands in the areas for agricultural use.

However, as a result of arbitrary operation of the system, agricultural lands that had been located within the areas for agricultural use were often converted. Reflecting high prices of housing land and land for public project, prices of agricultural lands rose to the level that greatly exceeded the break-even line of agriculture.

Although the conversion of agricultural lands were necessary in the course of the rapid economic growth and population increase, they should have taken measures to prevent the influence on the price of agricultural land more effectively. However, more strict control for conversion of agricultural lands or the mechanism that could prevent generation of gain on sale of land was not realized. Moreover, there has been no unified regulatory framework for land use for agriculture and non-agricultural purpose until now.

As a result of price increase of agricultural lands, the expansion of management scale through purchasing agricultural lands became difficult gradually. On the other hand, as a rent level was controlled by the Agricultural Land Act, the expansion of management area scale was often done through borrowing land. However, borrowing of agricultural lands in conformity with the Agricultural Land Act wasn't realistic for lenders, because the right of

tenant was too strong (for example, when a lender rented the land, it was difficult for the lender to restore his/her land, if the tenant didn't agree to do so). As a result, illegal leases, which weren't in conformity with the Agricultural Land Act, increased.

(4) Policy of liquidation of agricultural land

Since the Agricultural Basic Act was established, various changes were made to the agricultural land system with the view to promoting liquidation of agricultural land in order to realize a targeted expansion of management scale.

The Agricultural Land Act was amended in 1970 on a large scale aiming at the expansion of renting agricultural land following the amendment in 1962. The control over renting agricultural land was substantially liberalized, and the owner farmer principle was converted to the cultivator principle that approved tenant farmers actively.

However, liquidation of agricultural land didn't advanced, measures to promote renting of land began to be taken separately from the Agricultural Land Act. The agricultural land use promotion project was established in 1975, and the expansion of the project was promoted with the Agricultural Land Use Promotion Act in 1980, the (renamed) Agricultural Management Framework Reinforcement Act in 1993 and the amendment in 1999. Its basic concept is that controls, such as permission for renting, specified in the Agricultural Land Act are exempted if certain conditions are satisfied. At the same time, it also aimed not only to promote liquidation of agricultural land but also to concentrate agricultural lands in the hands of principal farmers in the area through discussion in community.

Two major measures are as follows: 1) the municipal government process many lease/sales contract between farmers, etc. collectively based on the agricultural land use concentration plan (the right of utilization establishment promotion project) and 2) some public organization intervenes between a provider of the land and a receiver of the land for coordination. The relevant organization is expected to offer the lands of the provider after grouping neighboring lands in a large area as much as possible. There are two types of this public organization: municipalities and provincial organization. Their systems differ from each other. The former implements a project in which a municipal government, a public corporation, an agricultural cooperative, a land improvement district, etc. is entrusted to conclude a lease agreement with tenant farmer on behalf of land owner and leaseholder (farmland use accumulation facilitation project) and the latter implements a project in which an agricultural public corporation purchases or borrows agricultural land from land owners and leaseholders and sells or lends the lands to a farm household (agricultural land holding rationalization project). The actual performance in fiscal year 2012 was 39,520ha for municipalities and 9.973ha for provincial public organizations.

It was necessary to determine farmers whom lands were to be accumulated in each area, while advancing liquidation of lands after building consensus through discussion in the

community. To identify such principal farmers of agriculture in the community, the certified farmer system was introduced in 1993 (with the establishment of the Agricultural Management Framework Reinforcement Act). A certified farmer is a farmer who has his/her own Agricultural Management Improvement Plan certified by a municipal government. The number of certified farmers was 233,386 in 2013, which accounted for 15.4% of the total number of farmers. Under the Agricultural Management Framework Reinforcement Basic Plan, municipal governments accumulate agricultural lands to the certified farmers through the measures of liquidation of agricultural land as set forth above. The certified farmers are eligible for preferable treatment including low-interest loan and subsidy.

Another problem over agricultural land is a control of use and ownership of agricultural land for bodies other than farm household. Although the Agricultural Land Act had prohibited the acquisition of right by corporation, it introduced the agricultural production corporation system in the amendment in 1962. Control over farmland lease to corporation other than agricultural corporation had been deregulated in sequence since 2003, and the lease of land to general corporation was finally permitted by the amendment of the Agricultural Land Act in 2009. However, ownership of agricultural land has not been permitted for general corporation.

In the amendment of the Agricultural Land Act in 2009, provisions for investigation, instruction and assignment of right of utilization to reuse abandoned cultivated land were introduced.

(5) Food, Agriculture and Rural Areas Basic Act

The Food, Agriculture and Rural Areas Basic Act (1999), which altered the former Agricultural Basic Act, was established to address the problems, including a decrease in food self-sufficiency against the backdrop of the economic growth and the agricultural trade liberalization, aging and decrease of population in rural area, decrease of agricultural land and weakening in multiple functions of agriculture. Although the Agricultural Basic Act had covered only agriculture, the new Basic Act extended the coverage to food and rural area.

The new Basic Act established four basic principles and basic policies to realize the philosophies. The basic principles were securing of stable food supply, fulfillment of multifunctional role, sustainable agricultural development, and development of rural area. Especially concerning stable supply of food, the basic policy shall be the promotion of domestic agricultural production in an appropriate combination with import and stockpiling. Concerning the sustainable development, agricultural land, water and principle farmers shall be secured and natural cyclical function of agriculture shall be maintained and improved.

Those listed as basic policies were the Basic Plan for Food, Agriculture and Rural Areas and various policies that were organized under the basic principles. The Basic Plan is

formulated almost every five years, specifying the following matters.

- (i) Basic direction of the policies on food, agriculture and rural areas.
- (ii) Target rate of food self-sufficiency
- (iii) Policies that the Government shall implement comprehensively and systematically for food, agriculture and rural areas.

The Basic Plan was established in 2000, 2005 and 2010 until now. Agricultural policies were amended frequently in Japan and had been often ridiculed as agricultural policy changeable as a weathercock (“cat’s eye” in Japanese). In such a circumstance, the introduction of the Basic Plan imposed a medium-term view on agricultural policies explicitly.

Moreover, the introduction of target rate of self-sufficiency as element of the Basic Plan was groundbreaking. In the Basic Plan, target rate is established for per item food self-sufficiency and overall food self-sufficiency.

Other policies in the Basic Act are shown below. The letter of the law provides objectives and basic ideas of the relevant policies. Among the policies, “Establishment of Desirable Structure of Agriculture,” “Development of Farm Management by Fulltime Farmers,” and “Improvement of Agricultural Production Base” have clearly taken over the line of the former Basic Act that aimed for improvement of the productivity of agriculture.

Securing of Stable Food Supply

- Improvement of Food Consumption Policies
- Sound Development of Food Industry
- Measures for Imports and Exports of Agricultural Products
- Food Security in Emergencies
- Promotion of International Cooperation

Sustainable Agricultural Development

- Establishment of Desirable Structure of Agriculture
- Development of Farm Management by Fulltime Farmers
- Securing of Farmland and Its Effective Use
- Improvement of Agricultural Production Base
- Development and Securing of Human Resources
- Promotion of Women's Participation in Agriculture
- Promotion of Activities by Elderly Farmers
- Promotion of Activities of Agricultural Production Organizations
- Development and Dissemination of Technology
- Pricing of Agricultural Products and Stabilization of Farm Management

- Agricultural Disaster Compensation
- Maintenance and Promotion of the Cyclical Function of Nature
- Rationalization of Production and Distribution of Agricultural Materials

Development of Rural Areas

- Comprehensive Development of Rural Areas
- Development of Hilly and Mountainous Areas
- Exchange between Urban Areas and Rural Areas

Among the above, the letter of the law that corresponds to eight categories of the AP project is as follows. Corresponding letter of the law exists for every category except for Category 3 (Farmers' retirement system). Some parts of Category 1 (Trade liberalization countermeasures) and Category 6 (Production and marketing policies) overlap. This is because measures against decline in prices of agricultural products are not clearly specified as countermeasures against trade liberalization.

Category of Policy	Articles
1. Trade liberalization countermeasures	(Measures for Imports and Exports of Agricultural Products) Article 18 (1) The State shall take necessary measures for securing import of agricultural products for which domestic production cannot meet the demand; and shall take necessary measures such as tariff rate adjustments and import restrictions, where urgently required, when certain imports have or are likely to have serious adverse effect on the production of domestic agricultural products that compete against imports. (Pricing of Agricultural Products and Stabilization of Farm Management) Article 30 (1) The State shall take necessary measures for allowing the prices of agricultural products be set appropriately reflecting supply and demand situation and quality evaluation, in order to promote agricultural production that meets the consumers demand. (2) The State shall take necessary measures for mitigating adverse effects of significant price changes of agricultural products on farm management which should be encouraged.
2. Agricultural land policies	(Securing of Farmland and Its Effective Use) Article 23 The State shall take necessary measures such as securing agricultural use of land suitable for farming, promoting an intensive use of farmland by those farmers whose management is efficient and stable, and promoting effective use of farmland in order to secure and effectively use the farmland for the domestic agricultural production.
3. Farmers' retirement system	None
4. Agricultural disaster insurance	(Agricultural Disaster Compensation) Article 31 The State shall take necessary measures such as reasonable compensation for disaster losses in order to prevent any possible impediment to agricultural reproduction by disasters and help the stabilization of farm management.
5. Food security and safety	(Food Security in Emergencies) Article 19 The State shall take necessary measures such as increasing food production and restricting distribution in order to secure the minimum food required by the citizens in the events prescribed in paragraph 4 of Article 2. (Promotion of International Cooperation) Article 20 The State shall endeavor to promote international cooperation including technical and financial cooperation for the development of

	<p>agriculture and rural areas as well as food aid to the developing regions, in order to contribute to the longterm stability of the world's food supply and demand.</p> <p>(Improvement of Food Consumption Policies)</p> <p>Article 16 (1) The State shall take necessary measures such as improving food hygiene and quality management and proper food labeling, in order to secure food safety, improve food quality, and contribute to the consumers' reasonable selection.</p>
6. Production and marketing policies	<p>(Pricing of Agricultural Products and Stabilization of Farm Management)</p> <p>Article 30 (1) The State shall take necessary measures for allowing the prices of agricultural products be set appropriately reflecting supply and demand situation and quality evaluation, in order to promote agricultural production that meets the consumers demand.</p> <p>(2) <u>The State shall take necessary measures for mitigating adverse effects of significant price changes of agricultural products on farm management which should be encouraged.</u></p>
7. Agricultural science policies and technology development	<p>(Development and Dissemination of Technology)</p> <p>Article 29 The State shall take necessary measures such as setting specific goals for the research and development of technology, encouraging closer cooperation among national and local research institutes, universities and private bodies, and promoting the dissemination of agricultural technologies that suit the regional characteristics, in order to effectively promote research and development and dissemination of such technologies in the area of agriculture, food processing and distribution.</p>
8. Environment and natural resources	<p>(Maintenance and Promotion of the Cyclical Function of Nature)</p> <p>Article 32 The State shall take necessary measures such as securing the proper use of agricultural chemicals and fertilizers and improving soil fertility through effective use of livestock manure, in order to maintain and promote the cyclical function of nature.</p> <p>(Sound Development of Food Industry)</p> <p>Article 17 The State shall take necessary measures such as enhancing business base, encouraging closer cooperation with agriculture, streamlining its distribution system, in order to promote the sound development of food industry in view of an importance of its role in stable food supply with proper consideration to the reduction of adverse effects to be caused by the business operation on the environment and ensuring effective use of the resources.</p> <p>(Improvement of Food Consumption Policies)</p> <p>Article 16 (2) The State shall take necessary measures such as developing healthy dietary guidelines, broadening the citizens' knowledge of food consumption and providing relevant information, in order to contribute to the improvement of food consumption and effective use of agricultural resources.</p>

2 Overview of new agricultural policy reform

The Liberal Democratic Party (LDP), which is a current ruling party, ousted the Democratic Party of Japan (DPJ) in the general election in December 2012. Since then, the administration led by Prime Minister Abe (Abe's second administration) has worked towards the review of agricultural policies under the initiative of Abe's own office. It has been revealed that the review would involve a major change that goes far beyond just a swing-over as a result of the change of government.

The following passages describe the Plan for Revitalization that was determined in December 2013 and its amendment scheduled at the end of June 2014 separately.

(1) The Plan for Revitalization of Agriculture, Forestry, Fisheries and Rural Areas

In December 2013, the Plan for Revitalization of Agriculture, Forestry, Fisheries and Rural Areas was decided on at the Headquarters for Revitalization of Agriculture, Forestry, Fisheries and Rural Areas, which was headed by the prime minister and consisted of most of cabinet members including the Minister of Agriculture, Forestry and Fisheries. The Plan for Revitalization indicated nine directions of development of policies and concrete measures for seven directions out of nine. At the same time, it stated that the amendment of the Basic Plan for Food, Agriculture and Rural Areas scheduled for next 2014 would be done based on the basic directions provided in the Plan for Revitalization. In addition, it stated that it would revise the Plan for Revitalization in June 2014 based on the discussions at the Council for Regulatory Reform and the Council for Industrial Competitiveness, focusing on the roles of agricultural committees, agricultural production corporation and agricultural cooperatives.

As set forth above, the Basic Act on Food, Agriculture and Rural Areas stipulates the direction of the policy as a whole and the details of major policies under the Basic Plan. The next Basic Plan is expected to be decided in March 2015. However, the Plan for Revitalization has already established a basic direction of the Basic Plan. The Council for Regulatory Reform and the Council for Industrial Competitiveness are involved in planning a agricultural policy reform by the current administration, which means a strong influence by the business community. Through such a process, the agricultural policy reform that is under initiative of the prime minister's own office is becoming a big movement within a short period of time.

The Ministry of Agriculture, Forestry and Fisheries (MAFF) is promoting the following four points, which were among the agricultural policies indicated in the Plan for Revitalization in December, regarding them as the "four reformations." (See the translation of the brochure of the Ministry by Nishikawa. http://ap.ffa.agnet.org/ap_db.php?id=245)

- (i) The Organization for Temporary Farmland Management (Farmland Bank)
- (ii) Re-examination of the direct payment system for rice and upland crops
- (iii) Abolition of the rice production adjustment by government and measures for full-use of paddy fields
- (iv) Establishment of Japanese-typed direct payment system
(Multifunctionality payment)

(i) The Organization for Temporary Farmland Management (Farmland Bank)

Establish the Organization for Temporary Farmland Management (Farmland Bank) in each prefecture. The Farmland Bank borrows agricultural lands from farmers, and sublease such lands in an accumulated form to principal farmers to advance accumulation of agricultural lands. However, as set forth above, this type of policy has existed, and the Farmland Bank is to be established actually through reorganizing an existing prefectural agriculture public corporation. In addition, the Farmland Bank may entrust the service to a municipal government.

The major differences of the Farmland Bank from the conventional system are the open recruitment of tenants, the reinforced authority of the governor of a prefecture in making various decisions, the government subsidies for operation cost and the infrastructure development of borrowed land such as land improvement at the Farmland Bank expense.

The original plan by the MAFF assumed the accumulation of agricultural lands based on the Farmers and Farmland Plans (the Regional Agricultural Master Plan), and attach weight to the accumulation of agricultural lands to principal farmers as well as to prevention/resolution of abandoned cultivated land. The Regional Agricultural Master Plan was introduced to promote the accumulation of agricultural lands to principal farmers responding to the increase of abandoned cultivated land and a lot of farm retirements by the Showa single-digit generation, and have created in municipal governments nationwide since 2012. At the level of communities in each municipality, future principal farmers in the relevant community and providers of agricultural lands in the near future are identified through discussions in the community. The MAFF intended to legislate this system along with the Farmland Bank to realize the accumulation of agricultural lands in the Master Plan through the farmland.

However, the plan was opposed at the meeting of the Council for Regulatory Reform. Borrowers of agricultural lands were to be decided by the open recruitment system to equally treat new entrants from outside of the community and local principal farmers. Moreover, the positioning of response to the abandoned cultivated land rolled back and the legislation of the Master Plan was shelved. With these changes, a change in direction is regarded to be executed from the prevention/resolution of the abandoned cultivated land through the accumulation of agricultural lands to local principal farmers to the new entry into prime

agricultural land from outside of the community.

There was much criticism of this movement in Diet discussion on the bill. In consideration of harmonization with the community, a provision was added to the Act concerning Promotion of Temporary Farmland Management Project enacted in December 2013 such that municipal governments shall have a forum for discussion (that corresponds to the development of the Master Plan) and publicly disclose the results. Furthermore, an unusual additional resolution of 15 items was made. It stated that the Farmland Bank should focus on the areas for which the Master Plan has been developed, that the contents of the Master Plan should be respected, and “Opinions of the Council for Industrial Competitiveness and the Council for Regulatory Reform shall be considered as reference only and the system shall be operated in the light of the situation of the field and putting it first to enable the system to work sufficiently in the field.” In response to this, the MAFF is operating the Farmland Bank according to the Master Plan.

(ii) Re-examination of the direct payment system for rice and upland crops

The change in this area can be regarded as a return to the traditional line of the LDP. Until the DPJ took control of the government in 2009, there had been no fixed rate payment for rice in the direct payment system for rice and upland crops by the LDP administration, and that covered only principal farmers centering on large-scale management with some exception. The Income Support Direct Payment (ISDP) introduced by the DJP administration contained the fixed rate payment for rice (It is also called “Ge-ta” in Japanese.) and expanded the coverage to all commercial farm household and community-based farm cooperatives (It is also referred to as community farming or community farm. Please note that it differs in content from the term “community farm” used in AP article by Godo article.

http://ap.ffc.agnet.org/ap_db.php?id=244) that participated in the production adjustment.

Both of these are planned to return to the original system with this reform.

Until 2009, the direct payment was composed of the fixed rate payment for upland crops and the revenue “smoother” (“Na-ra-shi” in Japanese) for rice and upland crops. Among them, the fixed rate payment is composed of the area payment and the volume/quality payment by crop. The revenue smoother covers a shortfall against the average revenue of immediate few years for sum of all covered crops at each farm, and part of the source of funds are contributed by farm producers. It has characteristics close to the income insurance. Payment to those who implemented production adjustment other than principal farmers was separately made.

On the other hand, the ISDP for rice farmers, which was introduced in 2010, was composed of the fixed part (fixed rate payment with uniform rate per area) and the variable part (price smoother). Although the rice of price had dropped since 1995 when the control was lifted, no significant scale of compensation had been implemented for that (this was justified by the

existence of sufficient degree of border protection). Therefore, the introduction of the fixed rate payment was groundbreaking. The price smoother of rice was fully covered by the state contribution and farm producers needed to make no contribution. Furthermore, the payment of the price smoother of rice and that of the existing revenue smoother for rice and upland crops overlapped, the double counted portion was deducted. The ISDP was expanded to the fixed rate payment of upland crops, in 2011 which mainly improved and extended the existing system. The conventional system was maintained for the revenue smoother for rice and upland crops.

The LDP maintained the conventional system except for the change of the name during 2013 when it returned to power. It changed the system for rice in 2014, and then, the system for rice and upland crops in fiscal year 2015. The rate of fixed payment unit price for rice is to be reduced by 50% starting from 2014, and will be abolished in fiscal year 2017. Furthermore, the price smoother for rice is to be abolished in 2014, and the one-year-only impact mitigation measure was taken for non-participants of the revenue smoother for rice and upland crops. New eligibility requirements for the fixed rate payment and revenue smoother for rice and upland crops (Either of certified farmer, community-based farm cooperatives or certified new farmer. A requirement for scale of management won't be imposed.) will be established.

(iii) Abolition of rice production adjustment by the government and measures for full-use of paddy fields

There has been a tendency to decline in the consumption of rice since the 1960s and supply capability becomes excessive. Since the administrative price was done away with in 1998, supply-demand balance and price maintenance have been accommodated by the production adjustment (quota of planting area or production amount).

In the current system, the target volume of rice production is allocated to each prefecture. Allocating the quota according to sale results of each prefecture in the past 6 years, the allocation is decreased in the prefecture that has accumulated unsold rice. The quota is allocated from prefecture level to municipalities, communities and farmers, respectively.

In this reform, the improvements of conditions will be promoted beforehand and how they are established is reviewed. Meanwhile producers and rice collection vendors/organizations play the leading role in working toward production according to demand targeted for five years later, without depending on allocation of the target volume by the governments, taking into account the supply and demand projected by the national government. The proposed improvements of conditions contain expansion of the direct payment for crop production in paddy fields except rice for food (full-use of paddy fields), promotion of production to meet the needs of eating-out/home-meal replacement industry and of stable transaction, and provision of detailed market information. In five years from now, the fixed rate payment for rice that requires participation in the production adjustment of rice will be abolished, which will be

the timing of abolishment of the supply adjustment by the national government.

If the supply adjustment is abolished without administrative support price on an oversupply trend, it is conceivable that fall in price is hard to be avoided. In the full-use of paddy fields program, a boost in production of rice for feed is emphasized; however, actual estimates is only 400,000 tons in five years, offsetting the trend of decrease in demand for rice for food.

As for withdrawal from the production adjustment of rice by the national government, there was an example in 2007. The MAFF proposed the policy, in 2002, to abolish the supply adjustment by the national government on a long-term basis, and in 2007 it shifted to a production adjustment system where farmers and agrarian organizations voluntarily allocate production volume. As a result, however, the price of rice significantly dropped and the national government took measures such as emergency purchase of rice. The following year, the administration reinforced again involvement in the production adjustment of rice.

(iv) Installation of Japanese-typed direct payment (the direct payment for multifunctionality)

This system is mainly the bundling and expanding existing measures. It is broken down into four categories as described below. Among them, combination of the payment for conserving farmlands and payment for improving resources is referred to as the direct payment for multifunctionality (according to the brochure of the MAFF); the payment for conserving farmlands is newly established; the payment for improving resources is recombination of existing systems but its budget is expanded. Because the payment for conserving farmlands does not require the participation of non-farmers unlike the conventional system, it is pointed out that any approach to the upland fields and grass lands is expected. The remaining direct payment for hilly and mountainous areas and direct payment for environmentally friendly agriculture are existing systems. In this way, the scope of these systems is considerably limited, and comparing with the what is expected from the designation of the "Japanese-typed" and "direct payment for multifunctionality," the actual contents are not so comprehensive:

- * Payment for conserving farmlands: Supports joint activities to sustain multifunctionality. Management of waterways and farm roads that tend to center on the principal farmers is supported by the community. Unlike the conventional system, participation of non-farmers is not required.
- * Payment for improving resources: Supports joint activities to facilitate the quality improvement of local resources (including farmlands, waterways and farm roads).
- * Direct payment for hilly and mountainous areas: Fill up the gap of production cost between the less favored areas such as hilly and mountainous areas

(including slope lands) and the flatlands.

* Direct payment for environmentally friendly agriculture: Share additional expenses for the pertinent farming activities.

Influence of the TPP

It is assumed that the TPP under negotiation will make a big impact on the production adjustment of rice and current direct payments system. Especially, there are not a few viewpoints that, with regard to abolition of the production adjustment, the national government factors into results of the TPP.

In TPP negotiations, it is reported that the United States demands of Japan the minimum access expansion of rice and distribution of the minimum access rice for food. If the demand is realized, that will lead to a big supply pressure and the price of rice may significantly drop in the Japanese rice market on an oversupply trend.

On the other hand, the crop diversion rate of the participants in the production adjustment of rice is approximately 40%, and further cutting of quota is difficult due to collective crop diversion by the crop rotations enabled with conversion between rice paddy field and upland field. The production adjustment of rice has conducted continuously since 1969, but there are many viewpoints that the long-term continuation is doubtful. As described above, systematic fatigue of the production adjustment of rice gets worse and there is a concern that the system will not function if import of rice increases under the TPP.

In addition, substantial drop in the price of rice causes budget problem if the former ISDP program is maintained. The basic concept of the ISDP is to make up the difference with regard to the crops of which the average cost of production of the commercial farmers exceeds the sales price constantly. If the price of rice irreversibly and significantly decreases by the TPP, the ISDP will increase accordingly.

Taking into consideration the logic of the conventional agricultural policy of the LDP, or the application of the fixed payment according to the extent of border protection, it seems to be proper to compensate for the decline in the price due to the new trade liberalization in the fixed payment. It will be revealed whether such a measure is taken or not after the agreement of the TPP negotiations. Meanwhile, required measures will change, depending on how to treat with the drop in the price due to abolition of the production adjustment of rice and realizability of the target to reduce the costs of principal farmers' rice production by 40% set in the Plan for Revitalization in ten years.

(2) Reform proposal for the agrarian organizations

On June 13, 2014, the Council for Regulatory Reform submitted "the Second Report on the Regulation Reform" and indicated the study results of the way the Agriculture Committee, agricultural production corporation and the agricultural cooperatives are. In response to that,

the Plan for Revitalization will be revised by the end of June. The contents of the report are introduced below, but it is still unknown how much the report will be reflected in the Plan for Revitalization.

(i) Agriculture Committee

- Election of the committee members and recommendations of them by the agrarian organizations and municipal parliaments are done away with so that mayors of municipality will appoint them.
- Reduce the number of committee members in half as well as set up the committee on optimization of farmlands use under the Agriculture Committee in order to facilitate consolidation of farmlands for principal farmers, resolving of abandoned cultivated lands and new entrants.
- Conduct investigation of use situation in farmlands every year and release the use situation per farmland.
- With regard to the violative conversion case, the use of power can be requested of the prefectural governors or the Minister of Agriculture, Forestry and Fisheries, who are authorized to conduct any instruction, advise, and take an administrative measure to promote restore of farmlands.
- To focus on measures against unutilized farmlands and violative conversion, exclude publication of the opinion and any proposal to ministries and agencies from the duties based on the law.
- Re-examine the roles of the prefectural and national chamber of agriculture so that the Agriculture Committee can independently and voluntarily carry out activities.
- For any land required in setting of facilities necessary for the sixth industrialization of agriculture and farming, make it easy to convert from farmlands.
- To control inhibition of the farmland liquidation by expected farmland conversion, consider in the mid-and-long term any policies to return the conversion profit to local agriculture.

(ii) Relaxation of requirement for the corporation which can hold farmlands

- Relax the requirements for the agricultural production corporation and loosen the relation with agriculture. With regard to the requirements for officers, one or more should engage in farming among the officers or important employees. As for the requirements for members, farmers and relevant persons should account for over half of the investors having a right to vote.

(iii) Re-examination of the agricultural cooperative system

- The Union of Agricultural Cooperatives system based on the Agricultural Cooperatives

Act, comprising the Central Union (or Zen-Chu) and Prefectural Union will shift to a new autonomous system after arranging transition period. The new system is premised on the independence of unit cooperatives.

- Both of the National Federation of Agricultural Cooperative Associations (or Zen-No) and the Prefectural Economic Federation of Agricultural Cooperatives are urged to consider conversion to stock companies. They are marketing and purchasing arms of agricultural cooperative group.
- The unit coops are urged to transfer the credit business to the Central Cooperative Bank for Agriculture and Forestry (or Norinchukin Bank) or the Prefectural Credit Federations of Agricultural Co-operatives.
- The majority of the directors of the Agricultural Cooperatives should account for the certified farmers and professionals in the agricultural marketing and management.
- Take legal measures in order to realize the division/reorganization of the unit coops and federations and the conversion to stock companies, consumers' cooperatives, social medical care corporations, incorporated association and so on.
- Commence the examination of co-operative business use by the associate members, toward introducing specific rules related to co-operative business use of the full members.
- The MAFF treats the local agricultural cooperatives and other agrarian organizations as equals. When making a request for consignment of governmental services, fair rules should be clearly stated and a reasonable commission fee should be paid.

The Agricultural Committee is established in each municipality and acts as a regulator of farmland. Lease/sale of a farmland is required of a permission of the Agricultural Committee which, in obtaining a permission of the prefectural governor to lease a farmland (except as any farmland with no less than four hectares), represents an opinion to the governor as an application window. The reform of the Agricultural Committee, therefore, will not be a simple reform of an agriculture-related organization but relate to how to regulate farmlands under the Agricultural Land Act. Enumeration of policies concerning sublease of farmlands together with the reform of the Agricultural Committee suggests the strength of the relationship of the two matters.

Countermeasures against abandoned cultivated farmlands and farmland diversions in breach are urgent business since they contribute to farmland conservation. Redistribution of profits from farmland diversions to the regions also may be said to address the basic problems of the farmland system over the years. If a big scale redistribution of profits is realized, it may contribute to agricultural market soundness and farmland liquidation.

Meanwhile, whether change in the way to appoint committee members and reduction in the number of committee members indicated in the report or a change in the duties may have

any effect on opinions to lease/sale and diversion of farmlands or not is an important issue.

Also the Central Union of Agricultural Co-operatives and the National Chamber of Agriculture are influential agricultural organizations and have acted main roles in reflecting opinions of the entire agricultural industry to the governmental policies. If the statutory provisions which are the basis of such organizations' activities are removed, the voice of both organizations may decrease. In such case, it would be a problem to re-establish an entity which summarizes the interests of the agricultural sector and expresses them.

The contents of the report are to significantly review the farmland regulations and the way how the agricultural organizations should be in this way, but the written opinion of the Working Group on Agriculture from the Council for Regulatory Reform (dated May 14, 2014) included further radical contents, which were not included in the report, as follows:

- Transfer of farmland rights to individuals shall be subject to a notification system as long as such land is used as a farmland;
- Abolition of the National Chamber of Agriculture and the Prefectural Chamber of Agriculture;
- Abolition of the Central Union of Agricultural Co-operatives system;
- Conversion of ZEN-NOH into a stock company; and
- Transfer of credit businesses from agricultural co-operatives to the Federation.

This written opinion was attempting to drastically change the Agricultural Committee and the nature of its organization. And, for agricultural co-operative organization, it was attempting a mandatory conversion of organization. In contrast, the report of the Council for Regulatory Reform was to maintain the approval system for transfer of rights of farmlands, continue prefecture/nation-level organizations, and make conversion of agricultural co-operative organizations optional. This is due to opposition from agricultural organizations and agriculture-related Diet members in the LDP.

The policy process of reform mentioned above gives a few characteristics. The first is a strong leadership of the Prime Minister's Office. Involvement by agriculture-related Diet members in the LDP appears to be limited to arrangement at the final stage. The second is that while intention of the business community is reflected, opinions from main agricultural organizations and regions are not reflected. The third is that significant system change was proposed with such short-term consideration.

There are many opinions that, in the context of such an urgent reform concept, there is urgent preparation for countermeasures when TPP have reached agreement. Amid adverse circumstances with continuing reduction of agricultural production, farm retirement by people who were born during the first decade of the Showa period and expansion of abandoned cultivated lands, and assuming that TPP will be entered into in the near future,

there is, to say the least, not much time left to prepare agricultural sector which can remain viable under further agricultural trade liberalization by it.

Both an effort for accumulation of farmlands toward big-scale management and relaxation of regulations on use/possession of farmlands by enterprises further proceed with such stream over the past few decades. In contrast, a drastic review of agricultural organizations is, if realized, a new element and will be a big change. And redistribution of profits from farmland diversion to the society and countermeasures against abandoned cultivated lands are longstanding issues and, in particular, if the former would have realized, it is a breakthrough.

The report is to aim that most of the policies concerning the Agricultural Committee and agricultural co-operatives shall be concluded during the year of 2014 and, if there are policies that need statutory measures, relevant bills for such policies shall be submitted to the next ordinary Diet session starting January, 2015. And it is to set the coming five years as a reform intense promotion period for agricultural cooperatives. Attention will be paid for the progress of the situation.

3 Other policies

Lastly, I will briefly mention about policies of eight sectors that are the second issue of this article, focusing on sectors that are not mentioned through the preceding section.

(1) Trade liberalization countermeasures

Those for rice/field crops were mentioned in the preceding section. For border protection, see Hirasawa (2013). For domestic support, see also (6).

(2) Agricultural land policies

As mentioned through the preceding section.

(3) Farmers' retirement system

The pension system in Japan is divided into two parts that are the mandatory National Pension (Basic Pension) and added part. To farmers, the Farmers Pension is provided as optional added part. Enrollment conditions are a prescribed engagement in farming (sixty days or more per year) and age (twenty years or more, under sixty years). The design of the insurance is a funded whole life insurance and the level of the premium may be selected freely within a prescribed range. Bearers such as certified farmers are provided with subsidies for the premiums (between twenty percent and fifty percent) by national government.

(4) Agricultural disaster insurance

In Japan, a public insurance system has been established against losses due to natural disaster in agricultural sector (the Agricultural Disaster Compensation system). The system consists of mutual aid activities at regional level and reinsurance by national government. Mutual aid activities in various regions nationwide are operated by their agricultural mutual aid associations or municipalities and there are subsidies for mutual aid premiums, which are insurance premiums, (fifty percent in principle) and operating expenses.

Types of mutual aid activities include agricultural products insurance (rice, wheat and barley), livestock insurance (cow, horse, pig), fruit and fruit-tree insurance, field crop insurance and greenhouse insurance.

Risks covered by such insurance include deterioration of the yield/quality of crops, damage to body of tree (fruit-tree), death of livestock and damage to greenhouse, etc. In addition, introduction of agricultural revenue insurance which covers various production items is now under consideration.

(5) Food security and safety

The current Basic Act established the food security as a major policy. It has been expanded as a result of soar in prices of agricultural products worldwide since 2007 and has come to have comprehensive framework as follows:

- Approach during peacetime
 - Securing/improving domestic food supply capability
 - Stockpiling important agricultural products
 - Forming stable trade relationships with food-exporting countries
 - Collecting/analyzing information on supply and demand of food both within and outside Japan.

- System for emergencies: the Food Security Guidelines in Emergencies (as changed in name from the Food Security Manual in Emergencies at the time of revision in 2012)
 - Level 1 (Emergency increase of production, securing production inputs, emergency import, utilizing international stockpiling (APTERR), proper distribution direction, price regulation);
 - Level 2 (changeover of production, use of non-farmland, allotment/ration, official price, preferred securing/allotment/ration of oil);
 - Local/short-term emergencies (added in 2012).

(6) Production and marketing policies

See the preceding section and Hirasawa (2013). Details of livestock and vegetables/fruit

could not be discussed in this article. Please see OECD (2009) (some contents thereof, however, are already outdated).

(7) Agricultural science policies and technology development

(Omitted)

(8) Environment and natural resources

Policies with respect to environment and natural resources in agricultural sector are not necessarily integrated and various policies which give consideration to environment and resources are taken in various policy sectors.

- Containment of pollution by livestock excrement and promotion of utilization of livestock excrement (compost, energy);
- Promotion of environmentally friendly agriculture;
 - Certification of eco-farmers who/which introduce sustainable agricultural production practices;
 - Promotion of organic agriculture, direct payment for environmentally friendly agriculture, soil fertility promotion;
 - Direct payment for environmentally friendly agriculture is on the precondition of certification of eco-farmer and implementation of self-inspection based on the Code of Good Environmental Practice (established in 2005); and
- Direct payment for multifunctionality (as mentioned above).

Cross-sectional policies include promotion of production of environmental information, global warming countermeasures, conservation of biological diversity and promotion of biomass energy. In 2003, “the Basic Outline on the Agriculture, Forestry and Fisheries Environmental Policies” was published. And in 2009 for biological diversity, the Strategy for Biological Diversity of the MAFF was developed and thereafter revised in 2012.

4 AP Members from Japan and Advance Notice

On this occasion, I would like to introduce members of 2014 AP project Japan group. We are comprised of eight researchers, three members of which belong to the governmental agency, three to university and two to the research institute under the agricultural co-operative organization.

Dr. Akihiko HIRASAWA Norinchukin Research Institute Co., Ltd.

Dr. Yoshiaki IIGUNI Professor, Kochi University

Ms. Mari IZUMI JC General Research Institute
Dr. Fumihiro KABUTA Policy Research Institute, MAFF
Dr. Takayuki KIMURA Deputy Director, Management Improvement Bureau,
MAFF
Dr. Kunio NISHIKAWA Associate professor, Ibaraki University
Dr. Takumi SAKUYAMA Associate Professor, Meiji University
Mr. Mitsuaki SHINDO Director, Regional Policy Planning Division, MAFF
Regional Office
(MAFF: Ministry of Agriculture, Forestry and Fisheries)
(Listed in alphabetical order)

We are going to translate the articles on the following sector during 2014. Since April, several articles have already been posted on AP web site and hereafter new theses are planned to be provided every month in principle.

- Agricultural policy reform (2 full length and 2 shorten)
- Current situation and challenges for whole sale market system (full length)
- Agricultural disaster insurance system (2 shorten)
- Agricultural land policy on the ground (shorten)
- Recommendation for export strategy (shorten)
- Policy regarding new varieties and technologies (shorten)
- Developments and challenges regarding agricultural trade negotiation (shorten)
- Food security (4 shorten)
- And more

(*1) Interestingly, a quite similar concept with the same name “selective expansion of production” appears in *Report of the Conference of FAO Seventh Session, Rome, 23 November - 11 December 1953*, which says “the present situation requires a change of emphasis in policy for the immediate future in at least two important directions. First, the former emphasis on general expansion of food production, vital in the postwar crisis, must give way to a more selective approach. Production must be increased in the areas of greatest need, and in the commodities for which expanded consumption is needed and for which effective demand can be developed.”

It is the main topic of the agenda item “III. World situation, trends and policies in respect of food and agriculture - B. Policies in regard to food and agriculture.” The contents are as follows (underlines were added by Hirasawa).

- Selective expansion of production
- Criteria for selective expansion of production
- Raising per caput consumption levels
- How FAO and other International Organizations can help in problems of selection
- How Governments and International Organizations Can Help to Give Effect to policies on selective expansion
- Financing economic development in agriculture
- Adequacy of government services to agriculture
- General commodity problems
- Price stabilization

Dr. Isoshi KAJII, who belongs to the generation those witnessed the development of the Agricultural Basic Act, pointed to the similarity between the Japanese concept and “selective and effective expansion” called on at FAO conference, in the discussion part of Honma (2003). I confirmed it in the *Report of Conference* and found that the both concepts had actually the same name. But neither of us could find a direct evidence of the possible link between the both concepts by FAO and Japanese government.

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