

Japan's unique system of group farming: Agricultural Producers' Cooperative Corporation

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Introduction

Japan has a unique system of group farming, called the Agricultural Producers' Cooperative Corporation (APCC). In 1962, the government established this system as part of its agricultural policy reform. Currently, Japan has nearly 9,000 APCCs. This paper outlines the APCC system and its history.

Evolution of the APCC

Before discussing the details of the APCC system, it is useful to quickly review its historical background.

In the 1950s, Japan entered a high growth era. Heavy industry grew sharply in urban areas. The income level of urban dwellers increased faster than that of farmers¹. The lifestyles of urban dwellers also changed. Many of them became salaried workers and their interpersonal relationships became individualistic.

In contrast with the rapid industrialization in urban areas, farmers' lives in the rural areas were slow to change. A majority of farmers were self-employed, but they often practiced some aspects of group farming in some aspects (e.g., growing seedlings at joint agricultural facilities). Personal relationships among farmers (including family members in farm households) were still strongly influenced by traditional feudalism. Left behind by the modernization in urban areas, farmers (in particular, young farmers) felt unequal to urban dwellers. How to modernize rural life was recognized as a fundamental problem of agricultural policy².

The incorporation of traditional farming groups into modern corporations was part of the government's attempts to modernize rural life. In 1962, the government introduced the APCC as a new type of agricultural cooperative³. Previously, even if farmers engaged in joint farming by sharing farmland and/or labor with one another, it was recognized only as a voluntary group and did not have the status of a legal entity. In contrast, the APCC is seen as a legal entity and this allowed the modernization of group farming. For example, an APCC can get a loan on its own. It can also enter into formal contracts with member-farmers, suppliers of agricultural inputs, and buyers of agricultural commodities.

Businesses of the APCC

Since the APCC is recognized as a type of agricultural cooperative, it must abide by the regulations of the Agricultural Cooperative Act (ACA). The ACA stipulates that the purpose of the APCC is to increase the joint profits of its members (Paragraph 1 of Article 72). For this reason, the ACA prohibits APCCs from doing non-agricultural businesses. The following are the types of businesses that APCCs are allowed to engage in:

- i. Construction of joint-use agricultural facilities (e.g., agricultural warehouses and rice stations)
- ii. Operation of joint-use agricultural facilities
- iii. Operation of group work in the field
- iv. Farm management on the APCC's own agricultural holdings
- v. Agriculture-related businesses (e.g., food processing, production of agricultural inputs, and contract farming) that are directly related to the APCC's farming activities (i.e., businesses covered under point (iv) above)
- vi. Forestry that is integrated with the APCC's own farming
- vii. Businesses incidental to the above-mentioned six types of businesses

The ACA groups the first three as type-one businesses and the remaining three as type-two businesses. As of March 31, 2013, there were 8,509 APCCs. Of these, only 1,585 APCCs were engaged in type-one businesses, and only 1,087, in type-two businesses; and 5,837 APCCs engage in both types.

If an APCC engages in farm management (i.e., businesses covered under point (iv) above) over its own farmland, it must be recognized as an Agricultural Production Corporation based on the Agricultural Land Act⁴. As of March 31, 2013, 3,616 APCCs were recognized as Agricultural Production Corporations (note 5).

The ACA allows non-members of an APCC to use the services of the APCC's businesses. However, the total amount of non-members' use of type-one businesses must be less than one-fifth of that of members. There is no such regulation for type-two businesses.

APCC membership

APCCs that engage in only type-two businesses are called Type-Two Agricultural Producers' Cooperative Corporation (T2APCC), and the ones that only engage in type-one businesses are called Type-One Agricultural Producers' Cooperative Corporation (T1APCC). The membership qualifications for the two are different. Only farmers qualify for membership to T1APCCs. In contrast, besides farmers, agricultural cooperatives, Agricultural Land Hold Rationalization Legal Persons⁶ who provide farmland as contributions in kind to the T2APCC, and non-farmers who steadily use the services of T2APCC businesses, are allowed to take membership in T2APCCs.

Every member is required to invest money and/or in kind in T2APCC. Although most T1APCCs actually have equity capital, the ACA allows a T1APCC to go without equity capital. As of March 31, 2013, there were 362 T1APCCs without equity capital.

An APCC (both T1APCC and T2APCC) must have at least three members. If a member-farmer retires from farming or dies, the legal heir is allowed membership in the APCC even if the successor does not engage in farming.

Article 20 of the ACA stipulates that, in principle, an agricultural cooperative cannot refuse any application for membership from those who satisfy the conditions for membership stipulated by its articles of association. While the ACA recognizes the APCC as a type of agricultural cooperative, it stipulates that Article 20 should not be applied to the APCC. This is because the APCC relies heavily on personal trust among members, and this is difficult to articulate in written articles.

Structure of the APCC

The typical structure of the APCC is shown in Figure 1. The general meeting is the top decision-making organ of the APCC. It comprises the regular general meeting and the extraordinary general meeting. The regular meeting takes place once a year. The extraordinary general meeting is held whenever notice for such a meeting is received from an authorized person, who is usually the chief director of the APCC. Every member has the same voting right at general meetings of the APCC.

Directors and auditors must be appointed at a general meeting. The ACA requires that every APCC must have at least one director while the ACA allows the APCC to have no auditors if its members so decide at a general meeting.

Management of the APCC

Labor allocation in the field

Usually, APCC members are divided into two groups: a smaller number of core workers and a larger number of supplementary members. Core workers spend a long time working in the field and operate agricultural machineries. Supplementary members do nothing in the field or, at most, are involved in supplementary works such as weeding. It is often the case that an aged farmer retires from farming by renting out his (or her) farmland to, or investing in kind in, an APCC and becoming a supplementary member of the APCC. Given the aging in Japanese rural communities, many APCCs are faced with a shortage of core workers. Some of them outsource the jobs of core workers from local construction companies. While such outsourcing is still not common, this trend is likely to accelerate.

Labor contract

There are two systems governing APCC's labor contracts with members. One is the dividend system: members receive payments in the form of dividends based on their labor input into the APCC's businesses. In this case, the amount of payment changes according to the business performance of the APCC in the business year. The other is the pre-determined wage system, whereby the APCC enters into ordinary employment contracts with its members. Each APCC determines the system that will be employed. As shown in Table 1, the two systems are subject to different legal treatments.

Treatment of surplus

Along with a business report, a balance sheet, and a profit-and-loss statement, the dispersal of surplus funds is a decision that is taken at a general meeting of the ACPP. If there is a loss carried over from the previous business year, making it up is the first priority. If there are surplus funds (after deduction of any loss carried over from the previous business year), the ACA requires the transfer of at least one-tenth of the surplus funds to the account of "reserved surplus." If the total amount of "reserved surplus" exceeds the total amount of equity capital, further reservation is possible under "voluntary reserve." When an APCC has a

loss in a business year, the loss should, at first, be made up from the “voluntary reserve.” If the “voluntary reserve” is not enough to make up the entire loss, the “reserved surplus” should be accessed.

“Reserved surplus” should not be used for any other purposes than making up a loss from the APCC’s businesses. Only if surplus funds remain after transferring to “reserved surplus,” is the APCC allowed to offer dividends.

Dividends

There are three types of dividends: dividends on labor inputs for APCC’s businesses, dividends on use of APCC’s businesses, and dividends on share capital. As discussed above, the APCCs that choose the pre-determined wage system do not pay any dividends on labor inputs. Details on how to allocate dividends are determined at a general meeting of the APCC.

Footnotes

- 1) Because of heavy agricultural protection, farmers’ income increased faster than non-farmers’ income in the 1960s. As a result, farmers’ income levels were almost on par with those of non-farmers around 1970. Since then, farmers’ income levels have been higher than those of non-farmers. For further details, see Godo, Yoshihisa, “The Changing Economic Performance and Political Significance of Japan’s Agricultural Cooperatives,” *Asia Pacific Economic Papers*, No. 318, 2001.
- 2) In the early postwar period, Japan was plagued by food shortages. At that time, the expansion of food productivity was the foremost priority of agricultural policy. As the economy recovered from the war, the fear of food shortages disappeared in the mid-1950s. Instead of increasing food productivity, reducing the income gap between farmers and non-farmers was declared the most important outstanding problem in the Agricultural Basic Law of 1961.
- 3) In some APCCs, businesses and management are similar to those of ordinary corporations. Thus, some academicians have questioned whether APCCs should be seen as a type of cooperatives.
- 4) The requirements for being considered an Agricultural Production Corporation are discussed in Godo, Yoshihisa, “Non-agricultural Companies’ Entry into the Agricultural Industry in Japan,” *Agricultural Policy Database*, 2014 (downloadable at http://ap.ffc.agnet.org/ap_db.php?id=192).
- 5) Some types of farming, such as livestock and beekeeping, do not need the use of farmland.
- 6) The Agricultural Land Hold Rationalization Legal Persons is the sub-government body that promotes farmland use under collaboration with the local government.

Figure 1. A model of the structure of the Agricultural Producers' Cooperative Corporation.

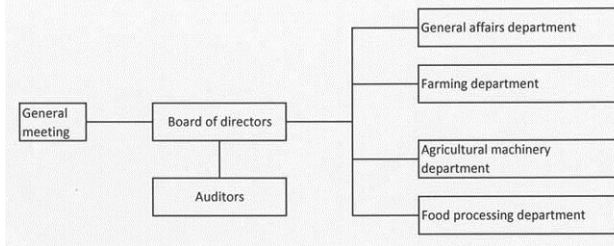


Table 1. Differences in legal treatments between APCCs that pay dividends for members' labor and those that pay pre-determined wages for members' labor.

		APCCs that pay dividends for members' labor	APCCs that pay pre-determined wages for members' labor
Minimum wage regulation		Not applicable (if the APCC does not have sufficient profits, the payment to members can be less than the minimum wage stipulated by the local government)	Applicable
Taxation of APCCs	Treatment of taxation	Cooperative (tax burden is lighter than for an ordinary legal person)	Ordinary legal person
	Taxable purchases of the consumption tax	Applicable	Not applicable
Taxation of members		Business income tax	Wage income tax

Notes: 1. APCC stands for Agricultural Producers' Cooperative Corporation.
2. Taxable purchases are purchases whose prices can be deducted from taxable sales.

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