

Frame and Emerging Reform of Agricultural Policy in Japan

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Introduction

- New Ag. Policy Reform
 - Addressing some of long-standing issues
 - Policy process is not ordinary one
 - Dealt with in existing/coming articles
- Frame of Existing Policy
 - Need of historical perspective (context of the reform)
 - Focusing on a few elements
 - Framework of policy planning

Contents

- 1. Frame of Agricultural Policy
 - Farmland Policy
 - Basic Acts
- 2. New Reform of Ag. Policy
 - 2-1. Decided in Dec. 2013
 - 2-1. To be decided in Jun. 2014
(additional)
- (Omitted 8 policy categories in handout)

Institutional Characteristics (not mentioned in handout)

- The Basic Act and individual laws (without expiration dates)
- The Basic Plan: every 5 years
- Budget is annual
 - but can introduce major change or new policy (without legislating)
- Policies are prone to frequent change
- Cf.) Multiannual budget and corresponding legislation in USA, EU & Switzerland

1. Frame of Agricultural Policy

Agricultural Land Reform (1947)

- Redistribution of land (1947-1950)
 - Under Allied Occupation after WWII
 - As part of democratization policy
- Generation of vast number of small owner farmers
 - **Remaining feature of agricultural structure in Japan**
 - Elimination of poverty, stabilization of society and investment in education

Agricultural Land Act (1952)

- 1952 - Recovery of sovereignty
- Aim: to maintain the outcome of farmland reform
 - “Owner farmer principle”
 - Prevent revival of landlord system
 - Control ownership, size, transaction, lease, and rent of farmland
 - (Gradually deregulated afterward)

Rapid Economic Growth (1954-1973)

- Comparative disadvantage of agriculture developed
 - Increase of labor cost & land price
- Agri. trade liberalization phased in
- Capital intensification
 - Mechanization of agriculture
- Rise and diversification in consumption

Agricultural Basic Act (1961)

- Aim: narrowing disparity of income between Agri. & other sectors
 - By **productivity enhancement**
- **“Selective expansion”** of production
 - Shift to products with increasing demand
- Modernization of Agriculture
 - #1 measure: **expansion of scale of farm**

Application of “Selective expansion”

- **Formation of current structure by sector**
- Shift to products with increasing demand (from shrinking ones)
 - **Animal Agriculture, Fruits & Vegetables**
- Rationalization of production of products in competition with import
 - **Rice: farm size should be expanded**
 - **Other land-extensive crops: import**

cf. “Selective Expansion” by FAO

- **Quite similar concept with the same name as Japan’s**
 - No direct connection found
- **Called on at FAO 1953 Conference**
 - Main topic of the agenda item III-B (world situation – food & agriculture policies)
 - “Selective expansion of production”
 - Criteria, problems of selection, help by FAO & other organizations, etc.
 - In the context of emerging surplus of product in some area

Surplus of Rice

- Demand decreased according to economic growth
 - Production increased by rise in yield
- Need to maintain income of farmers (Basic Act) and farmland (food security)
- **Production adjustment (1969 -)**
 - Crop diversion program: difficulty heightened as surplus expanded
 - Difficulty of promoting land-extensive crops in competition with import

Expansion of Farm Size

- Progress in land-saving sectors
 - Especially animal agriculture depending on imported feed crops
- Problems in land-extensive farming
 - Regulation under Agricultural Land Act
 - Rise in farmland price and expectation for conversion (to other land use)
 - Farmers stuck to their land
 - Difficulty to find good job opportunity
 - Memories of farmland reform
 - Life security, social status, human relationship, etc.

Control over land use

- Two separate systems: mutual penetration
 - City Planning Act (1968)
 - Urbanization Promotion/Control Area
 - Act for Improvement of Agricultural Promotion Areas (1969)
 - In “Areas for Agricultural Use”, conversion of farmland was prohibited
- Approval of conversion (Agricultural Land Act)
- Capital gain from conversion
 - Arbitrary operation of the control system
 - Lack of heavy taxation or other socialization
 - Farmland price much higher than break even

Facilitation of Farmland Liquidation

- **Expansion of farm size by lease**

- Practicable way: level of rent was reasonable for agriculture (controlled by Agricultural Land Act (ALA))

- Rise in illegal lease of farmland

- Under ALA, right of tenant is too strong

- Introduction of Provisions to legally bypass approval under ALA

- Condition: enhancement of farmland concentration to principal farmers

Bypassing Approval Under ALA

- Plans aiming to accumulate lands on core farmers are required
 - Agricultural Land Use Promotion Act (1980) / Agricultural Management Framework Reinforcement Act (1993)
- Individual contracts processed in bulk
- Or intermediation by some public organization
 - Organization at municipality level act as a representative of land owners
 - (municipality government, municipal public corporation, agricultural cooperative, land improvement district)
 - Or prefectural agricultural public corporation borrows or purchase lands by it self

System supporting local plans

- Building consensus in community through discussion
- “Certified Farmer” system (1993-)
 - To whom farmlands are accumulated
 - Certified by municipal government
 - 15.4% of all farmers (in 2013)
 - Low-interest loan, subsidies, etc.

Lease/Ownership by Corporation

- Agricultural production corporation system (1962-)
 - Deregulation of requirements evolved
- **Lease to general (non-agri.) corporation was liberalized (2009)**
 - Some conditions added
 - Deregulation evolved since 2003
 - Approval by Agricultural Committee still needed

Development of Situation 1990s

- Deepening fragility of agriculture
 - Further agricultural trade liberation
 - Aging and decrease of rural population
 - Decrease of agricultural land
 - Weakening in multiple functions of agriculture
- Decrease in food self-sufficiency as a symbol/epitome of the situation

Food, Agriculture and Rural Areas Basic Act (1999)

- Extended to food and rural area
 - Aim: “to stabilize and improve the life of the citizens and to develop the national economy” (Article 1) suggesting public goods
- 4 basic principles:
 - Food security
 - Multifunctionality
 - Sustainability
 - Rural development
- Basic Plan to be formulated

Securing of Stable Food Supply

- Article 2(2) “stable food supply to the citizens shall be secured by increased domestic agricultural production as a base together with appropriate combination of import and reserve.”

Sustainable Agricultural Development

- Article 4 “sustainable development of agriculture shall be promoted by securing agricultural facilities including necessary farmlands, water for agricultural use, other agricultural resources and workforce”

(Pricing of Agricultural Products and Stabilization of Farm Management)

- Article 30(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.**”
- **Who should be “encouraged” is problematic**

Food, Agriculture and Rural Areas Basic Plan

- Every 5 years (2000, 2005)
- Provides for
 - Basic policy direction
 - Target rate of self-sufficiency
 - Policies in need of comprehensive and systematic implementation
- Council of Food, Agriculture and Rural Area Policies
 - Shall study and deliberate **important matters for implementing the Basic Act**
 - members shall be appointed from person with relevant knowledge and experience

2. New Reform of Agricultural Policy

Background of Reform

- Liberal Democratic Party (LDP) won election December 2012
 - 2nd administration of Prime Minister Abe
 - Actively engaged in TPP negotiation
- Initiative of PM Abe's office
 - In various areas (medical, social security, etc.)
- Headquarters for Revitalization of Agriculture, Forestry, Fisheries and Rural Areas
 - Headed by PM
 - Drawing up direction of agri. policy
 - Cabinet members (including Agri. Minister)

2-1. The Plan for Revitalization of Agriculture, Forestry, Fisheries and Rural Areas

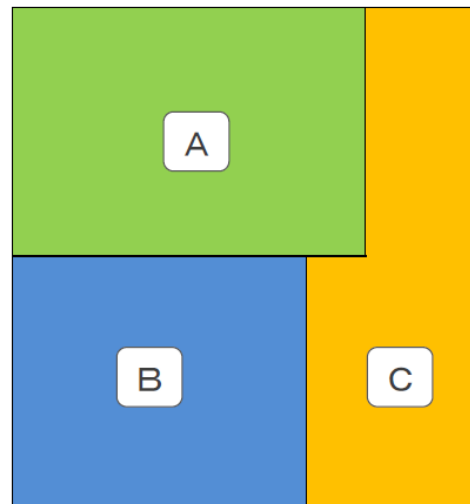
- Dec. 2013 decided
 - 9 directions of policy development
 - Of which 7 provide more detailed measures
 - To be revised June 2014
- Input from business community
 - Council for Regulatory Reform
 - Council for Industrial Competitiveness
- The next Basic Plan (2015) based on the direction of the Revitalization Plan
 - Derogation from ordinary process

Four major items

- Organization for Temporary Farmland Management (= Farmland Bank)
- Re-examination of direct payment system (rice & upland crops)
- Abolition of governmental rice production adjustment (& full-use of paddy fields)
- Japanese-typed direct payment (Multifunctionality payment)

Farmland Bank

- Similar to existing measures promoting farmland liquidation
 - Borrows farmlands and lends in a lump



(Source: MAFF)

- Another task for prefectural public agricultural corporation (having similar function)
 - Entrustment to municipality level is allowed

New Features

- Open recruitment of tenants
 - Request from Council for Regulatory Reform
- Reinforced authority of prefectural governor
- Subsidies for operation cost
- Land improvement at the expense of Farmland Bank
 - Without enough budget
- Subsidies for existing measures (premium for participant farmers) are discontinued

Friction surrounding Master Plan

- MAFF's idea: the **Bank = promotion tool** of Regional Agricultural Master Plan (“Farmers and Farmland Plan”)
 - Drawn up in municipalities since 2012
 - Based on discussion in community
 - Expected legislation – link with Farmland Bank
- Withdrawn by Strong opposition from Council for Regulatory Reform
 - Ensuring entry from outside of local community
- Backlash and restoration in Diet
 - Amendment of bill and additional resolution
 - Farmland Bank shall respect the Master Plan

Direct Payment for Rice & Upland Crops

- Return to LDP's tradition
 - Away from Democratic Party's measures
- Gradual elimination of fixed rate payment for rice
- Elimination of price smoother payment for rice
- Narrowing of eligibility: principal farmers only (requirement of operation size was eliminated)

LDP's Direct Payment System

- Fixed rate payment for upland crops
 - By crops
- Revenue smoother payment for rice & upland crops
 - Total revenue of all covered crops
 - Co-funded by farmers (insurance like)
- Both systems have been existing since the previous LDP administration

Abolition of Rice Production Adjustment by Government

- Expected in 5 years
- Measures to improve conditions
 - Increased payment for crop diversion
 - Meet needs of industries
 - Detailed
- There are concerns over exit of surplus paddy field

Measures for Full-use of Paddy Fields

- Payment for crop diversion
- Sometimes payment for feed rice is highlighted
 - Actual plan of increase is limited
 - 400,000 tons / 5 years
 - Corresponding to decrease in demand for food rice
 - Less than 5% of rice production

Rice: Concern over Production Surplus post Production Adjustment

- Current situation
 - Surplus is around 1/3 of paddy field
 - Demand is expected to shrink further
 - No administrative price since 1998
 - Downside trend of price
 - Fixed rate payment is phasing out
- Experience in 2007
 - MAFF stopped involvement
 - Significant drop in price
 - MAFF had to re-enter the system

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Japanese-typed Direct Payment (Multifunctionality Payment)

- Not quite new
 - Bundle & expand existing measures
 - Rather narrow scope: designations are exaggerated
- Support for joint activities
 - Management of waterways and farm roads
 - Improvement of such local resources
- Payment for hill and mountain areas
- Payment for environmentally friendly farming

2-2. Revision of The Plan for Revitalization

- By the end of June
 - Following Report from Council for Regulatory Reform (June 13, 2014)
- Report items regarding agriculture
 - Agriculture Committee (in municipalities)
 - Approval body of farmland lease/transaction
 - Relaxation of requirement for corporation which can possess farmland
 - Re-examination of agricultural cooperatives system

Reform of Agriculture Committee

- Abolish election of members
 - replaced with appointing by municipal mayor
- Eliminate authority to opine and propose to government regarding agriculture
- Re-examine roles of Chamber of Agriculture
(composed of chairs of agriculture committee)
- Halve number of members
- Focus on abandoned land, consolidation, new entrants
 - Set up committee for optimization of farmland use under Agriculture Committee
 - Investigate farmland use every year
 - Request governor to use power to rectify violative conversion

Corporation able to possess farmland

- Relax requirements for agricultural production corporation (less related to agriculture)
 - At least one officer or important employee should engage in farming
 - At least half of investors with right to vote should be farmers and relevant persons

Re-exam. of Agricultural Cooperatives

- Central (Zen-chu) & Prefectural Union will **shift** to autonomous system
- National (Zen-no) & Prefectural Economic Federation **consider** conversion to stock company
- Unit coops are **urged** to transfer credit business to Credit Federations (Norinchukin Bank or Prefectural Federation)
- Legislation to enable division/reorganization
- Constraint over associate members
- Discipline on consignment of governmental services

More Radical Opinion of Ag. Working Group under RR Council (not adopted)

- Notification system of farmland right transfer to individuals
 - shift from approval system
- Abolition of Chamber of Agriculture (National & Prefectural)
- Agricultural Cooperatives
 - Abolition of Central Union (Zen-chu) system
 - Conversion of National Federation (Zen-no) into stock company
 - Transfer of credit business to credit federations

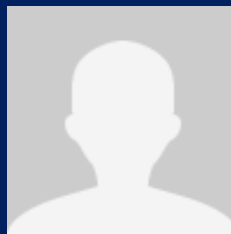
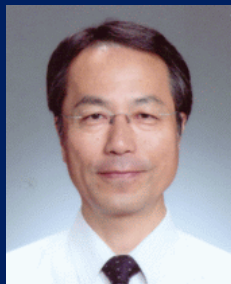
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 - Mr. Mitsuaki SHINDO
- Ag. Cooperative Group (Research Institutes)
 - Ms. Mari IZUMI
 - Dr. Akihiko HIRASAWA

Advance Notice of Articles

- Ag. **policy reform** [2 Long & 2 Shorten]
- **Whole sale market** system [L]
- Agricultural disaster **insurance** system [2 S]
- **Farmland** policy on the ground [S]
- Recommendation for **export** strategy [S]
- New **varieties** and technologies [S]
- Agricultural **trade negotiation** [S]
- **Food security** [4 S]
- And more

Thank you very much for your attention!



(Our Members in Japan)