Frame and Emerging Reform of Agricultural Policy in Japan

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June 24, 2014
International Workshop on Collection of Relevant Agricultural Policy Information and Its Practical Use (COA-FFTC)
Taipei, Taiwan
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
• 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**”
• 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

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

(Source: MAFF)
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 rise 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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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)