

## **8 Agriculture, Forestry, and Fisheries**

### **[Awareness of the Issues]**

While Japan has favorable climatic conditions and strong needs for “food” exists among people, its food self-sufficiency ratio tends to decrease. However, the ratio remains among the lowest of the major industrial nations. This greatly attributes to the fact that market mechanisms did not work sufficiently and domestic production has not responded to demand changes.

With regard to the structure of agricultural production in Japan, competitive large-scale advanced farms and farming corporations have appeared, but most agricultural land is owned by small-scale farms dependent upon the earnings of side-line business.

However, potential agriculture growth in Japan is large. International competitiveness in the agricultural sector will be accomplished if agricultural lands mainly concentrate on those farms with efficient production activities and production costs of agricultural products decrease. Therefore it is necessary to promptly review the existing policies for revitalization of the food industry and move towards reform of agricultural structure.

### **1 Regulation of farmland utilization**

In Japan’s agricultural sector, the usual competitive mechanism whereby the agricultural land possessed by small-scale farms with low productivity are integrated into large-scale farms has not worked sufficiently so far. This greatly attributes to the fact that in particular, small-scale farms are still eager to possess their agricultural land as property and expect to earn capital gains by diverting it.

There are two laws that regulate the diversion of agricultural lands: the Agriculture Promotion Law (Law regarding the maintenance and improvement of agriculture promotion areas (Law 58, 1969)) and the Agricultural Land Law (Law 229, 1952). As for the actual operation of the laws, there are many cases where the zoning of the Agriculture Promotion Law is reviewed in accordance with individual items for the purpose of diverting agricultural land.

To operate the Agricultural Land Law and the Agriculture Promotion Law, the

Agricultural Committee in each city, town and village plays a major role. For example, when you divert agricultural land, you should send application forms with opinions from the Agricultural Committee to the governor of each prefecture who is authorised to give permission through the committee. Number of members of the committees throughout Japan amount to some 60 000, some of whom are elected by farmers and the rest of whom are local parties elected by the recommendation of an agricultural cooperative association or municipal assembly. Therefore, it is pointed out that opinions from the rightful claimants of farmlands can be easily reflected in decisions on the diversion of farmland. Moreover, particularly regarding decisions on the regulation of farmland diversion outside agricultural areas, the zoning of Grade A farmlands or farmlands of the first grade to the third grade is decided in accordance with the case each time diversion issue occurs. Therefore some point out that the regulation method is insufficient.

In addition to the regulation on utilization of farmlands, it is considered that the tax system on farmlands is a major factor in prompting substance farms to possess their property. Generally speaking, the appraised value of farmlands for a fixed property tax is considerably lower than that in commercial or industrial areas. Moreover, with respect to inheritance tax, it is considered that inheritance tax is not imposed actually because the appraised value of taxation is considerably low. Moreover, even when inheritance tax is imposed, there is a case that the postponement system of tax payment is applied.

## **2 Regulation of the Agricultural Cooperatives**

The Agricultural Cooperative (Nokyo) is a farmers' voluntary mutual aid organization and the majority of agricultural cooperatives belong to the Japan Agricultural Cooperatives (JA), the so-called Nokyo Keito. Its form of organization is changing due to the merger and integration. However, the individual cooperatives have been established in each area and there are union confederations in all prefectures and nation level.

The business areas of agricultural cooperatives consist of a wide range of services that include support of agricultural business activities (Joint purchase, shipment, common facilities management, etc) which is primitive activity for a cooperative, the daily life associated business (Supermarkets, gas stands, travel

agencies, etc) and the credit and benefit society business (Savings/loans, life and property insurance, etc). Non-farmers are allowed to become associate members of agricultural cooperatives and the number of households who are associate members numbers 3.16 million. The organization is a huge existence in farming areas. The number of households who are regular members of agricultural cooperatives in FY 2000 exceeded the total number of farmers (based on census data in the agricultural sector) by 1.45 million. Thus, it is doubtful that only people who are really qualified farmers to be members have in fact become agricultural cooperative members. The operations of agricultural cooperatives are carried out under a one-person, one-vote system by regular members with the principle being that each agricultural cooperative member is equal. As a result, there is a tendency to prioritize the benefits for a large number of substance farms over those for a few large-scale farms. That large-scale farms have a tendency to leave the agricultural cooperative businesses remains an issue, while small-size farms are becoming increasingly dependent on the agricultural cooperatives.

Agricultural cooperatives are considered to have played a certain role so far in developing the agricultural sector in Japan while keeping in close contact with agricultural administration. Nevertheless, the agricultural sector in Japan is in a serious situation whereby it cannot get out of the small size farming operations, while agricultural cooperatives were developed into a huge organization responding the demand of each phase of the nation, prefectures, cities, towns and villages. Therefore, it is necessary to drastically review the issues such as the current operations of agricultural cooperative businesses, the administrative participation in agricultural cooperatives, and so on.

As for the profit and loss by each sector of the agricultural cooperatives, for example, according to the Agricultural Cooperatives Management Analysis and Survey in FY 2000, there was an average surplus of 1.86 million yen per coop as a whole. However, this surplus is attributed to the fact that the earnings of 2.23 million yen from the credit business section and 3.56 million yen from the benefit society business compensated for total deficits from the purchase/sales section, the utilization service section and others. Thus, in fact the earnings from the credit/mutual aid business covered the deficits from other sections of economic activities. This can affect sound management.

Policy implementation in agricultural sector has been substantially dependent on the agricultural cooperatives until now. For example, the agricultural

cooperatives play a key role regarding subsidies on common facilities, and in many cases, subsidy applications for farms are made through the agricultural cooperatives. A situation may arise where it is actually difficult to establish competition among the agricultural cooperatives and as a result, the preservation of small production structures continues. At the same time, it also causes a delay in agricultural structure improvement.

Moreover, the application of the Antimonopoly Law is exempted for the cooperative association (including the confederation) organized by small business partners which cannot compete with a big company by itself considered except when its dealing falls under an unfair transaction method, etc. With respect to nation-wide economic activities, etc., cases have occurred where recommendation and caution to remove it were made because of the unfair transaction method. Also, there are no guidelines for definite action regarding the exclusion of application of the Antimonopoly Law.

Furthermore, both daily-life associated and credit/benefit society businesses are often used by non-members of the JA and it is necessary to get hold of its actual situations.

### **3 Further promotion of joint-stock corporations to enter agricultural business**

According to the current Agricultural Land Law, to acquire farmland rights by the corporation is approved in principle only by farming corporations.

On the other hand, according to the “Structural Reform Special Zone Law” established in December 2002, on the assumption of the following requirements, an exception to the Agricultural Land Law was prescribed, in which corporations other than the farming corporations are approved of the acquisition of farmland rights.

To be in the Structural Reform Special Zone established by the municipalities (local governments) with their approval of which there are a large number of fallow farmlands or agricultural land for efficient use.

To be entitled the right of use loan, or lease rights.

One or more people among the directors of the corporations shall be regular farmers

In order to contribute to agricultural structure reform such as the

revitalization of agriculture, an increase in the number of sound workforce of farming businesses, an expansion of employment opportunities in rural areas and so on by promoting diverse competition, it is necessary to promote the diversification of management forms through becoming a joint-stock company with agricultural business administration promoting the Structural Reform Special District system and examination of it.

## **[Specific Measures]**

### **1 Preservation of good farmland by the optimization of regulations on farmland use [Examination to start in FY 2002 and to be implemented in FY 2003]**

Good farmlands provide preferable conditions for use as urban areas such as being flat, well-rezoned, and having good drainage, so, there is big demand for potential diversion. Therefore, the sparse diversion of farmland cannot be avoided without a strict regulation on diversion in accordance with a definite land use plan. It is quite often seen that in fact disorderly diversion is implemented. This has disturbed the effective use of national land and thereby brought inefficiency of not only agricultural business but also the whole society. On the one hand, the system to avoid abandoning cultivated lands has sufficiently improved due to the Promotion Law for Strengthening the Agricultural Administration Base, but the advice for promoting its utilization of idle farmlands on the basis of the Promotion Law for Strengthening the Agricultural Administration Base (Law 65, 1980) has been let go due to decisions of the municipalities. Finally, the issue of the abandonment of cultivated farmlands has not been effectively solved. Therefore, the following reviews are looked for.

In order to optimize the approval operations for diverting farmlands and the zoning of farmlands for agriculture promotion, taking into account the actual situation regarding the system of diverting farmlands and the operations for zoning farmlands for agriculture promotion and its consideration, the required measures for optimizing regulations on farmland use should be taken. At the same time, the establishment of a structure for strengthening the work of preserving good farmlands should be considered.

In terms of securing greater transparency in the process of the decision and operation of agricultural committees regarding the regulation of diverting farmlands and with implementing a comprehensive information disclosure and considering the

current procedures of agricultural committees for optimizing regulations on farmland use, the required measures should be taken.

## **2 Regulation of agricultural cooperatives**

Agricultural cooperatives perform a wide variety of activities, but their management largely depends on the earnings from credit/benefit society businesses. It is necessary to drastically review the current management system, while some have pointed out the need for a reconsideration of the operation of the agricultural policy which has largely been dependent on the agricultural cooperatives.

Moreover, as for the exclusion of the application of the Antimonopoly Law, the confederation is dealt with in the same way as that of a single agricultural cooperative, but it is necessary to examine it from the viewpoint of promoting fair competition.

### **(1) Review of the business operation of agricultural cooperatives**

In order for the agricultural cooperatives to seek benefits for the farmers who really undertake agricultural production and use their function as a cooperative organization to the full, a drastic review of the way of securing sound management and business administration should be promoted. **[Consideration/conclusion concerning the Basic line in FY 2002 and to be implemented in successive steps after FY 2003]**

If violations of the law are found after investigating the actual situations of the JA membership system and the use ratio of non-members, the required measures such as guidance to correct the above problem should be taken. **[To be implemented in FY 2002]**

### **(2) Review of the business chain of agricultural cooperatives [Establishment of the accounting allocation standard by division, to be implemented in FY 2002; the complete accounting by division, to be implemented in successive steps after FY 2003; initiation of examination/conclusion about the basic line in FY 2002 and to be implemented in successive steps after FY 2003]**

Regarding the way that a wide variety of businesses of the agricultural cooperatives chain and their organizations, it is necessary to drastically review the

above and establish a management system so that sound management can be implemented even if they don't run credit/benefit society businesses and the merits for member farmers (particularly leading farmers) can be improved. In order to help such a system be established, first of all, it is necessary to set up different accounts by indicating a standard to rationally allocate common expenses. At the same time, it is necessary to consider the current credit/benefit society businesses, and consider measures that allow for splitting up these businesses including the credit/benefit society a reorganization of business transfers to other forms.

**(3) Connection of administrative bodies with the agricultural cooperatives  
[Consideration/conclusion about the fundamental direction in FY 2002 and to be implemented in successive steps after FY 2003]**

That administrative management through agricultural cooperatives, such as the implementation of subsidized work, the promotion of all kinds of measures should be comprehensively verified and optimized.

**(4) Securing conditions for fair competition**

After the system regarding the application exclusion of the Antimonopoly Act for the cooperative organizations is verified, if problems that impede fair competition are found, they should be solved. **[Examination to start in FY 2002, conclusion about the fundamental direction in FY 2003 and to be implemented in successive steps after FY 2003]**

In addition to the above, the control on Antimonopoly Act violations should be tightened so that the unfair transaction method and predatory pricing cannot be implemented. **[To be implemented in successive steps after FY 2002]**

Moreover, in order for service competition among the agricultural cooperatives to be promoted, the measures for improvement of conditions so that the diverse associations can be easily established should be taken. **[Examination/conclusion about the fundamental direction in FY 2002 and to be implemented in successive steps after FY 2003]**