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# Mizuho Economic Outlook & Analysis

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## *Ongoing Agricultural Reforms Led by the Abe Administration*

### < Summary >

- ◆ The Abe administration is currently working on agricultural reforms in the areas of farm land policies, subsidies to farmers, and regulations on agricultural organizations.
- ◆ The administration can be commended for its attempt to review the set-aside policy and the regulations on agricultural committees and agricultural cooperatives, but there still remains many problems to be solved.
- ◆ The administration should take decisive actions in carrying out agricultural reforms so as to revitalize and raise the competitiveness of Japan's agriculture.

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Mizuho Research Institute Ltd.

**Chizu Hori**, Senior Research Officer    [chizu.hori@mizuho-ri.co.jp](mailto:chizu.hori@mizuho-ri.co.jp)

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## 1. THREE AREAS OF AGRICULTURAL REFORMS

The Abe administration is currently working on agricultural reforms in the areas of farm land policies, subsidies to farmers, and regulations on agricultural organizations (Table 1). The reforms are aimed at revitalizing Japan’s agriculture, which faces predicaments amidst aging farmers and the expansion of “abandoned cultivated land”<sup>1</sup>.

[Table 1: Outline of the Abe administration’s agricultural reforms]

Area	Reform measures
Farm land policies	Installation of the Farm Land Consolidation Banks (FLCBs)
Subsidies to farmers	Abolishment of the Income Support Direct Payment Program (ISDPP) <sup>[Note 1]</sup> — Simultaneous elimination of the set-aside policy
Regulations on agricultural organizations	Appointment of the members of agricultural committees <sup>[Note 2]</sup> according to the selection of local mayors instead of the elections by local farmers
	Raise non-farmers’ equity cap on agricultural production corporations <sup>[Note 3]</sup> from “less than 25% in general” to “less than 50% in all cases”
	Renewal of the nature of agricultural cooperatives’ nationwide entities

Note: 1. The government implemented the ISDPP in 2010, when the Democratic Party of Japan was the ruling party. After Shinzo Abe from the Liberal Democratic Party of Japan was elected as a Prime Minister in December 2012, the government decided to scale back on subsidies based on the ISDPP from FY2014.

2. Agricultural committees are municipal administrative committees that are authorized to approve farm land transactions.

3. Agricultural production corporations are the only type of corporations with legal rights to possess farm land.

Source: Mizuho Research Institute

As for farm land policies, the government executed a new law in 2014 which enabled prefectures to set up so-called “Farm Land Consolidation Banks (FLCBs)”. The FLCBs are not technically “banks”, but rather intermediate institutions dealing with farm land transactions. The FLCB’s role is to borrow uncultivated farm land plots from various land owners and lend them by bundles to farmers who are willing to expand production scale. All 47 prefectures set up the FLCBs by the end of 2014, and it is expected that the FLCBs would help farmers enjoy economies of scale and strengthen cost competitiveness.

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<sup>1</sup> Abandoned cultivated land is defined as arable land which was not cultivated within the past year, and is not intended to be cultivated for several years. According to 2010 Census, 395,981 hectares of land (equivalent of roughly 10% of cultivated land in Japan) was categorized as abandoned cultivated land.

With regard to subsidies to farmers, the government plans to abolish the Income Support Direct Payment Program (ISDPP) and eliminate the so-called “the set-aside policy” at the beginning of FY2018. Currently, the ISDPP offers subsidies to rice farmers who adhere to the production limit set out by the government under the set-aside policy. The essence of the policy is to discourage farmers from producing excessive amounts of rice so that the price of rice would be somewhat stable. However, the policy has been criticized for hampering farmers’ ambitions to expand their operations or to boost productivity. The government’s plan to eliminate the set-aside policy along with its incentives (i.e. the ISDPP) might help overcome such criticisms.

As for regulations on agricultural organizations, the government plans to amend the laws concerning agricultural committees (refer to Note 2 in **Table 1**), agricultural production corporations (refer to Note 3 in **Table 1**), and agricultural cooperatives (JAs<sup>2</sup>) in 2015. With the amendments, the government intends to a) appoint the members of agricultural committees according to the selection by local mayors instead of the elections by local farmers<sup>3</sup>, b) raise non-farmers’ equity cap on agricultural production corporations from “less than 25% in general<sup>4</sup>” to “less than 50% in all cases”, and c) renew the nature of the JA group’s nationwide entities<sup>5</sup> (ex. Central Union of Agricultural Co-operatives [JA-ZENCHU], National Federation of Agricultural Cooperative Associations [ZEN-NOH], etc.) which are criticized for preventing local JAs from making autonomous managerial decisions. The amendments are expected to revitalize Japan’s agriculture by bringing about a freer business environment for farmers.

## 2. CHALLENGES ACCOMPANYING AGRICULTURAL REFORMS

The Abe administration’s effort to review the set-aside policy and the regulations on agricultural committees and JAs can be commended, since they have long been criticized for hampering farmers’ business opportunities<sup>6</sup>. Reviewing the policy and the regulations would presumably help strengthen Japan’s agriculture.

The administration can also be commended for its well-timed achievement of

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2 JAs officially stands for Japan Agricultural Cooperatives.

3 Currently, around 90% of the committee members win the election by default.

4 The current cap can be extended to “less than 50%” in some exceptional cases.

5 The chart of JA group’s organizational structure and the roles of JA group’s nationwide entities can be found on the following URL (<http://www.zenchu-ja.or.jp/eng/organization>).

6 The set-aside policy started in 1970, while the laws concerning agricultural committees and JAs were both enforced around 1950. The policy and the laws are considered as so-called “bedrock regulations” that have endured over the years despite historical changes surrounding Japan’s agriculture.

establishing the FLCBs when more and more farmers in their 70s and 80s are retiring from farming, leaving the farm land uncultivated.

However, the administration faces various challenges accompanying agricultural reforms and the effect of the reform is yet to be seen (**Table 2**).

**[Table 2: The challenges for agricultural reforms and the possible solutions]**

Area	Challenges	The government's possible Solutions
Farm land policies	It is hard for the FLCBs to borrow farm land on a large scale mostly because of land owners' hope for selling the land for non-farming uses	Clearly set the rules on which farm land zones are ineligible for diverting to non-farming uses and strictly adhere to the rules
Subsidies to farmers	The government may be urged into reinforcing subsidies to farmers if the current trend of declining rice price continues	Refrain from giving out excessive sum of subsidies to farmers by carefully focusing eligible farmers and activities
Regulations on agricultural organizations	There lies a gap between the government and the JA group on the idea of renewing the nature of JA-ZENCHU and ZEN-NOH	Persuade the JA group to opt for changes by giving it an in-depth explanation as to the purpose and significance of the renewal

Source: Mizuho Research Institute

Firstly, it is hard for the FLCBs to borrow farm land on a large scale. According to a survey by a Japanese newspaper<sup>7</sup>, the FLCBs are estimated to borrow approximately 12,400 hectares of land in FY2014, while the government's target was set at 130,000-140,000 hectares. Farm land owners tend to be reluctant to lease their land because they can possibly make a huge profit should they be allowed by agricultural committees to divert the land for non-farming uses (ex. buildings, roads, etc.) and sell it in the future. The government should clearly set the rules on which farm land zones are ineligible for diversion and strictly adhere to the rules so that the farm land owners would not have unreasonable expectations and would be more willing to lease their land to the FLCBs<sup>8</sup>.

Secondly, the government may be urged into reinforcing subsidies to farmers if the current trend of declining rice price continues. At the beginning of FY2014, in an effort to mitigate sudden decrease in farmers' income caused by the cutback of subsidies based on the ISDPP, the government raised subsidies for high-yield production of forage rice<sup>9</sup>

<sup>7</sup> The survey was released from The Yomiuri Shimbun on February 1, 2015.

<sup>8</sup> The current rules on farm land zones are not so clear-cut and it is said that agricultural committees often decide the zones in farmers' favor after the applications for diversion of farm land into land for other uses are submitted.

<sup>9</sup> Forage rice as well as rice for export is dubbed as "new demand rice" by the government, and is exempt from the production limit.

and established the Japanese-Style Direct Payment System which offers subsidies to activities by farmers to maintain irrigation system and farm road. Further reinforcement of subsidies would carry the risk of discouraging farmers from struggling for better business performance, thereby offsetting the positive effects expected from the abolishment of the ISDPP and the elimination of the set-aside policy. Therefore, even if the government actually decides to reinforce subsidies, it should refrain from giving out excessive sums to farmers by carefully focusing eligible farmers and activities.

Thirdly, there lies a gap between the government and the JA group on the idea of renewing the nature of JA-ZENCHU and ZEN-NOH. On the one hand, the government, in its attempt to encourage autonomous management by local JAs, announced in June 2014 that it intends to a) remove JA-ZENCHU's function to advise and audit local JAs, and b) convert ZEN-NOH (the nationwide JA entity in charge of distributing agricultural produce and farm supplies) from a cooperative entity to a stock company<sup>10</sup>. On the other hand, the JA group claimed that JA-ZENCHU maintain its function to advise and audit local JAs and that careful consideration is necessary to decide whether or not it is appropriate for ZEN-NOH to become a stock company. The government and the JA group came to terms in February 2015 with the principles of removing JA-ZENCHU's function to advise and audit local JAs while enabling local JAs to appoint a new audit firm spun off from JA-ZENCHU as well as any audit firm outside the JA group, and giving ZEN-NOH the right to decide its type of business entity. Since the principles give the JA group some options to evade drastic changes, the government should keep trying to persuade the group to opt for the changes by giving it an in-depth explanation as to the purpose and the significance of renewing the nature of JA-ZENCHU and ZEN-NOH.

### **3. HOPES FOR THE REVITALIZATION OF JAPAN'S AGRICULTURE**

If the Abe administration succeeds to overcome the challenges mentioned in **Table 2** and improve the effect of agricultural reforms, the Japan's agriculture is likely to become more competitive and be revitalized. In the process, it is expected that new markets will be created through the expansion of agricultural export and the increase in the number of farmers entering agriculture-related businesses such as food

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<sup>10</sup> If ZEN-NOH becomes a stock company, it will no longer be exempted from the application of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade (Anti-Monopoly Act). Reform advocates argue that the application of the Anti-Monopoly Act on ZEN-NOH will encourage each local JAs to create their own marketing and procurement networks.

manufacturing, retailing, etc<sup>11</sup>. In 2012, the export value of agriculture, forestry, fishery products and foods was 450 billion yen and the total market size for agriculture-related businesses by farmers and fisheries-related businesses by fishermen was 1.9 trillion yen. The government aims to push the figures up to 1 trillion yen and 10 trillion yen respectively by 2020 with the help of agricultural reforms and various support measures for primary industry sectors, including the establishment of a new public-private investment fund (Agriculture, forestry and fisheries Fund corporation for Innovation, Value-chain and Expansion Japan) in 2013.

The path towards the success of agricultural reforms is quite rocky. However, Prime Minister Abe, with his strong leadership, will hopefully be able to pave the way to a brighter future for Japan's agriculture.

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<sup>11</sup> In Japan, farmers' entrance into agriculture-related businesses are considered as a part of so-called "sixth industrialization". The term derives from the idea that the integration or the collaboration among (1)primary, (2)secondary, and (3)tertiary industry sectors would synergistically create new-added value (1×2×3=6).