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Report Highlights:

The Agriculture, Forestry and Fisheries and Regions Vitalization Creation Head Quarters (headed by Prime Minister Abe) in the Cabinet approved an “Agriculture Competitiveness Reinforcement Program” and incorporated it into an “Agriculture, Forestry and Fisheries and Regions Vitalization Creation Plan” on November 28, 2016. The program sets out reform programs for agricultural industries and pushes the National Federation of Agricultural Cooperative Associations (i.e., JA Zennoh) towards voluntary reform to increase farmer income.

General Information:

Background

Envisioning the Trans-Pacific Partnership Agreement (TPP), in December 2013 the Abe Cabinet established the “Agriculture, Forestry and Fisheries and Regions Vitalization Creation Plan” (hereinafter referred to as the “Vitalization Plan”) with an ultimate goal of doubling the income of farmers and farming villages. The Vitalization Plan established measures to turn agriculture into a growth industry (an industrialization policy) while still maintaining agriculture’s multiple functionalities in farming regions (a policy to support regional development). The Vitalization Plan was revised in June 2014 to incorporate reform measures for Japan Agricultural Cooperatives (JA)¹ – specifically, to reform JA’s top-down structure by removing the authorities of the Central Union of Agricultural Cooperatives (i.e., JA Zenchu)², allowing more corporate interest in farming and farmland regulations.

Incorporating reform recommendations by the government’s Regulatory Reform Council, the Agriculture Competitiveness Reinforcement Program sets the reformation measures for 13 subject areas. Incorporating the “Agricultural Competitiveness Program,” the “Strategy for Strengthening Export Capability of Agriculture, Forestry and Fisheries”³, and the “Agricultural, Forestry and Fisheries Products Export Infrastructure Improvement Program”, the Vitalization Plan was revised on November 28, 2016. The main points of the Agricultural Competitiveness Reinforcement Program are outlined below.

Agriculture Competitiveness Reinforcement Program (November 2016)

1. Review of the Mechanism for Farm Input Price Formation

During a government-led review of the mechanism for purchasing farm inputs in Japan, the Government of Japan (GOJ) found that retail prices in Japan for fertilizer, agricultural chemicals, and agricultural machinery are twice, three times and five times, respectively, higher than the prices in South Korea. The GOJ also determined that the efficiency of farm input manufacturing is lower than South Korea,

¹ JA (Japan Agricultural Co-operative) reports it “is organized in every prefecture and municipality throughout the country, based on the principle of mutual cooperation, with the purpose of protecting farming and living of its individual members. To this end, JAs are engaged in various activities including farm guidance, marketing of farm products, supplies of production inputs, credit and mutual insurance businesses, while they are referred to as ‘multi-purpose agricultural co-operatives’.” (See <http://www.zenchu-ja.or.jp/eng/multipurpose/>).

² JA-Zenchu is an organization designed to represent the entire JA Group. Its main activities are “1) to promote better farming and better living activities of JAs, 2) to give guidance to JAs on their management and organization, 3) to audit organizations, 4) education and public relations activities, 5) farm policy legislative activities, and 6) to make liaison and collaboration with international organizations, and so forth.” (See <http://www.zenchu-ja.or.jp/>)

³ The Agriculture, Forestry and Fisheries and Regions Vitalization Creation Head Quarters established a “Strategy for Strengthening Export Capability of Agriculture, Forestry and Fisheries” in May 2016, renewing the goal of one trillion yen (roughly \$8.5 billion) in agricultural exports by 2019.

which is considered to be the primary cause for higher farm inputs prices in Japan. For agricultural machinery, four manufacturers dominate the market, and the group's business practices are believed to have also directly led to higher prices in Japan.

Accordingly, the Agriculture Competitiveness Reinforcement Program (hereinafter referred to as "the Program") sets measures to reduce farm input and equipment prices. Specifically, the GOJ will facilitate the industrial reorganization of fertilizer and feed mills and encourage new manufacturers to enter into the agricultural machinery market to increase competition through financial support and tax incentives. Also, to improve transparency for farm input prices, the GOJ will publicize price information to enable farmers to compare prices⁴, and the Japan Fair Trade Commission (see, e.g., http://www.jftc.go.jp/en/about_jftc/index.html) will monitor market prices for farm inputs to ensure the prices are equivalent to levels in other countries.

As JA Zennoh is the major supplier of farm inputs and machinery in Japan⁵, the Program requests JA Zennoh to streamline its farm input supply business to cut prices and improve transparency in pricing. The Program also requests JA Zennoh to establish an annual plan to implement reform measures in order to produce results within a five year reform period (i.e., June 2014 – May 2019).

2. Industrial Reorganization of Distribution and Processing industries

In order for farmers to supply their products consistently and under better trading conditions, the GOJ considers it necessary to improve efficiency in Japan's distribution and processing industries through restructuring. Specifically, the GOJ will facilitate the transfer of inefficient companies to other, more efficient businesses through financial support. The GOJ will also encourage farmers and farmer groups to sell their products directly to end-users and consumers (as opposed to intermediaries), and establish a system for farmers to compare fees and terms of conditions for various distribution routes with one another. The GOJ will also review the Wholesale Market Law to abolish unnecessary regulations.

Although JA Zennoh's share of marketing agricultural produce has declined over recent years, it remains significant⁶, and markets farm produce on commission for farmers. The Program requests that JA Zennoh buy products from farmers (rather than work on commission) and market them to take on supply risks, etc., and to increase farmer income.

Japan's Ministry of Agriculture, Forestry and Fisheries (MAFF) is currently working to introduce new legislation, similar to the Industrial Competitiveness Enhancement Act,⁷ to lead and support

⁴ A budget of 100 million yen (roughly \$850,000) is already earmarked in JFY2016⁴ supplementary budget to establish a farm input price information disclosure system as a TPP countermeasure.

⁵ JA Zennoh is supplying 29 percent of compound feed consumption in Japan (34 percent by JA group), 40 percent of agricultural chemicals (60 percent by JA group), 55 percent of fertilizers (74 percent by JA group), 30 percent of agricultural machinery (50 percent by JA group) and 50 percent of cardboard boxes.

⁶ JA Zennoh has marketing shares of 30 percent (40 percent by the JA group) for rice, 30 percent (50 percent by the JA group) for fruit and vegetables, 19 percent for beef, 13 percent for pork, 15 percent for eggs.

⁷ The Industrial Competitiveness Enhancement Act was established in January 2014 under the jurisdiction of the Ministry of Economy, Trade and Industry (METI). It encompasses various measures to enhance industrial competitiveness, including tax incentives and financial assistance to facilitate business restructuring. Article 50

restructuring the farm input, distribution, and processing industries. MAFF intends to submit the legislative proposal during the next ordinary Diet session, and begin investigating the market structure of certain industries after the establishment of the legislation. However, one billion yen (nearly \$8.5 million) is budgeted for restructuring flour millers, sugar refineries, meat processors, and dairy manufacturers in the JFY2016 supplementary budget.

3. Nurturing Human Resources

The Program sets measures to nurture and increase the next generation of farmers. The GOJ will review the current agricultural education system, and transform Prefectural agricultural universities to technical colleges (vocational schools) to set a career path for next-generation farmers. Also the GOJ will establish agricultural management schools for farmers to learn management, marketing, and export businesses skills. To increase the number of young people entering into farming, the GOJ continues to provide financial support for new farmers and employment in farming corporations. To secure labor, the GOJ will consider a scheme to utilize foreigners in support of agriculture, separate from the existing training program for foreign workers.

The JFY 2016 supplementary budget earmarked 200 million yen (roughly \$1.7 million) for preparation of establishing agricultural management schools.

4. Establishment of Strategic Export System

To implement measures in the “Strategy for Strengthening Export Capability of Agriculture, Forestry and Fisheries”, the Program sets measures to strengthen the GOJ’s support for export facilitation: the GOJ will establish and improve export infrastructure, and designate 41 ports/markets/factories as export hubs for concentrating improvement activities. To strengthen support for exporters and promote branding, the GOJ will create a Japanese version of SOPEXA (see, e.g, <http://www.sopexa.com/en/agence/japon> -- “an international communication and marketing agency for food, wine and lifestyle” under the auspices of JETRO which specializes in export promotion of Japanese products, including agriculture, forestry and fisheries products, and food. To facilitate exports, the GOJ will review the Japanese agricultural system (known as JAS) to harmonize international certification and labelling standards, and to set standards for production and distribution management.

The GOJ earmarked 27 billion yen (approximately \$230 million) to improve infrastructure for agricultural products exports in the JFY2016 supplementary budget as a TPP countermeasure.

5. Introduction of Country of Origin Labeling for Ingredients of Processed Foods

The Program states that the GOJ will implement country of origin labeling (COOL) requirements for all processed foods. Japanese processed food manufacturers will be asked to list, in order from highest weight to lowest, the name of countries supplying the heaviest ingredient (see, [JA6048](#) and [JA6044](#)).

of the Industrial Competitiveness Enhancement Act also stipulates the GOJ’s authority to investigate market structure (i.e., supply and demand trends and whether the industry structure is in excess supply or not).

The enhanced labelling requirement is reportedly needed to allow consumers to select food more appropriately, and to ensure that food production meets the needs of consumers.

6. Consideration for Introduction of Check-Off System

The Program states that the GOJ will establish a procedure for industries that wish to introduce a check-off system (the industry must establish an organization which solicits farmer interest and eventually develops/manages the industry-specific check-off system). Contribution payments will become mandatory for all producers in the industry if/once the check-off system is legislated, and thus legislation will require no less than 75 percent of producers in the industry to agree to the check-off system.

7. Introduction of Income Insurance System

The Program states the GOJ's intention to establish an income insurance system to strengthen the safety net for farmers as the existing (albeit similar) schemes do not cover all products or income loss from anything other than a disaster. After conducting experiments with farmers for three years, MAFF has finalized the following details of the plan and will submit a bill during the next Diet session to implement the income insurance system.

- The average income of the last five years for each farmer is set as the Standard Income, and if/when the income of a year falls below 90 percent of the Standard Income, 90 percent of the difference between the income of the year and the Standard Income would/will be compensated.
- Farmers are, in principle, to decide to join either the new income insurance system or the existing similar income compensation system. However, producers of beef cattle, beef calves, hogs, and poultry for eggs are excluded from the income insurance system as they are covered by support programs, such as *Marukin*, to compensate for income loss. If producers of beef cattle, beef calves, hogs, and poultry for eggs also grow other crops, those producers are allowed to join the income insurance program only for the other crops.
- The income insurance system will be operated by a national organization established by the National Agricultural Insurance Association http://nosai.or.jp/nosai_kasou/nosai_eng_01.html

8. Review of Farmland Improvement System

To accelerate farmland consolidation to certified farmers⁸, the Program states to relax requirements to implement farmland improvement works utilizing the existing farmland bank⁹ system. The GOJ will

⁸ Certified farmers are those whose plans to improve agricultural management were certified by the municipal governments. MAFF set a target to consolidate 80 percent of farmland to certified farmers in the next decade, which requires at least 140,000 hectares of farmland to be consolidated to certified farmers annually.

⁹ Farmland banks were established in each Prefecture in 2014 to facilitate the lending and borrowing of farmland.

establish a system to allow Prefectural governments to carry out farmland improvement works¹⁰ on land controlled by farmland banks (i.e., land which is leased by farmland banks from inactive farmers) without requiring those land-owning, inactive farmers to consent or provide financial input on the condition that improvement works are expected to increase farmland consolidation for certified farmers and profitability in the area. The GOJ will also promote conversion of rice paddies into fields, and improve irrigation/drainage and reservoir systems.

9. Improvement of Employment in Farming Villages

To secure employment in rural areas and to increase income of farming villages, the Program states that the GOJ will review the current legislation which allows only five sectors (i.e., manufacturing, storage, transportation, packing and wholesale) to be located in certain agricultural areas, and allow more industries, such as the service sector, to be located in the areas. The GOJ proposes to provide tax incentives to companies which establish businesses in agricultural areas.

10. Promotion of Feed Rice

To achieve a feed rice production target of 1.1 million MT, the Program states the necessity of establishing a sustainable feed rice production cycle. To ensure sustainable production, the GOJ will continue subsidies, introduce high-yield varieties to cut production costs, and promote branding of livestock products derived from rice-fed livestock.

11. Reinforcement of Production Infrastructure for Beef Cattle and Dairy Farming

To secure a stable supply of beef cattle and milk and dairy products, the Program confirms the continuation of a livestock cluster project¹¹ to increase breeding cattle and improve productivity. The GOJ will increase support for increasing *Wagyu* production by expanding utilization of superior genetics, and promote utilization of information technologies, contractors, feed centers, milking robots and parlors, public ranches for raising heifer to reduce labor, especially for dairy farming. The GOJ also promote reduction in feed costs by increasing production and utilization of domestic feed crops and grassland.

12. Stable Operation of the Compound Feed Price Stabilization System

To support stable livestock production, the Program confirms the continuation of the Compound Feed Price Stabilization System¹² which has been in place since 1968. In relation to the aforementioned livestock cluster program, the Program also states to strengthen efforts to increase feed crop production and move away from heavy reliance on imported feed materials.

13. Reform of Milk and Dairy Products Production and Distribution

¹⁰ Farmland improvement works must be requested by 15 or more farmers and require support of two thirds of farmers in the area concerned.

¹¹ Livestock farmers, veterinarians and feed suppliers, etc. establish a group in an area and work together to increase profitability through fertility improvements, increasing the number of breeding cattle, outsourcing raising heifers and feed production. The Livestock Cluster Program has been running since JFY2015.

¹² The Compound Feed Price Stabilization System, funded by producers, feed millers, and the GOJ, compensates producers when the import cost of ingredients exceeds the average import cost of ingredients in the previous year.

The Program reviews the current subsidy for processing milk in which subsidy is paid to farmers who consign milk to designated cooperatives. In a new system, the GOJ will provide subsidies for processing milk to all farmers wherever they consign milk on condition that farmers, and JAs and other organizations (when farmers consign milk to JAs or other organizations) report their annual shipment plan and sales volumes of milk for drinking and processing (and sales costs for JAs and other organizations) to the GOJ. Also the GOJ will extend subsidy payments to farmers who do not entirely consign milk¹³, but partially to designated cooperatives. The GOJ will establish specific rules for a new subsidy system.

¹³ Currently when consigning milk to designated cooperatives, a farmer must consign the entirety of the milk he/she produces, except for 3 MT/day when a farmer uses it to produce dairy products by him/herself.