

Agricultural Reform Should Give Importance To Core Farmers

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A major task in structural reform of Japan's agriculture is to secure new types of agricultural operators who make up for the plunging number of farmers. It is necessary to aggressively nurture a wider variety of agricultural operators by reinforcing tie-ups with local concerns in sectors other than agriculture as well as middle- and down-stream businesses like food processors and sales companies and by opening agricultural land to business corporations.

Drop in Farming Population Posing Serious Problem

Last-ditch international efforts led to a framework agreement in late July on trade liberalization through the new round of global trade talks under the World Trade Organization (WTO), while Japan has started negotiations with other Asian countries such as South Korea to conclude free trade agreements (FTAs).

Under the circumstances, there is no doubt that the liberalization of agricultural trade will make further progress and no delay is allowed in structural reform of Japan's agriculture.

But the reform is slow. Although the 1998 outline of agricultural reform included a review of the Agricultural Land Law limiting the ownership of farmland to farmers and measures to stabilize the management of agricultural households, no specific directions of reform are in sight.

Based on arguments at the agricultural study panel, chaired by University of Tokyo Professor Masayoshi Homma, in the Japan Center for Economic Research, this essay focuses on ways to revive the nation's agriculture led by core farmers.

The delayed reform has blurred the outlook of agriculture, dampened investment by motivated farmers, caused a decrease in the number of farmers and made more

fields lie fallow. The delay is also behind Japan's shortage of bargaining chips in WTO and FTA negotiations.

In particular, the decreasing number of farmers is serious. According to estimates by the Ministry of Agriculture, Forestry and Fisheries and other concerns, the number of people primarily engaging in agriculture is expected to drop by as many as 1 million to 1.84 million in 2010 from 2.9 million in 1990, while the ratio of farmers aged 65 and older to the total farming popular is forecast to jump to 59.8% from 26.8%.

Agriculture is supported by "farmers," "farmland" and "technology." Even if farmland is secured, the following-out of farmers with technology means a fall in agricultural production and adversely affects food security. A major task of agricultural policy is to secure farmers including new types of agricultural operators.

With economic activities becoming more and more borderless, agriculture is being forced into a situation where competition between farming districts is intensifying as is between domestic and imported farm products. Agricultural households can by no means become winners if they cope with the competition on their own. They need systematic approaches such as forming corporations.

In Japan, it is difficult for farmers to form an organization because agriculture is merely a sideline for 90% of farming households as they engage in other trades as well. In addition, farmers are hardly willing to form an organization because of their rapid aging.

Agricultural operators that can bundle farming households are indispensable for forming agricultural organizations.

Moves to organize farmers under the leadership of such agricultural operators are spreading across Japan. Agricultural corporations with advanced marketing and technological prowess are combining farmers into groups in their localities in order to reduce agricultural costs through such means as shared use of farming equipment.

For example, an agricultural corporation in the town of Takahata in Yamagata Prefecture has established a locally cyclical farming method as part of its bid to

become “the most advanced agricultural technology group in the world.” The corporation, called Yonezawago Bokujo, leads a group of 300 neighboring farming households, which support its agricultural method, and has won more than 10 patents, such as those on cultivating technology and a system to trace shipped products, in cooperation with a university, research institute and private company.

When prices of agricultural products rose every year as a result of the government’s pricing policy, farmers could sell whatever they produced. Farmers did not have to take management into consideration because all they had to do was to farm out sales of their produce to agricultural cooperatives.

But now that market principles have been introduced while the sense of value is diversifying, farmers need to produce “products that can sell.” Farmers without management capacity must join a group led by a core farmer.

The problem is that any organization needs expertise. At the age of globalization, general business corporations have become expert groups in various fields such as development, sales and information technology. Likewise, agriculture also needs professionals for cultivation, marketing, research and development, and market analysis. But as it is extremely difficult to gather such talents in the field of agriculture, there is no other choice but to tie up with other industrial sectors and borrow corporate knowledge and know-how.

Moves To Combine Agricultural and Nonagricultural Concerns

Recently, moves to combine agricultural and non-agricultural concerns within a locality are emerging. While such moves are slow among manufacturing groups sticking to vested interests, local tourist, construction and food industries are starting to join hands with agriculture to develop specialties and lure tourists.

A cut in public works spending and the stagnation of local economic activity are behind such a development. As local firms fear that they cannot survive as long as they stay within their business sectors, they are trying to create food businesses through collaboration with agriculture in their localities. Moves to establish a “comprehensive industry” by combining traditional performing arts, history, climate and rural village scenes are also progressing.

A discussion panel of representatives from various quarters in the Tohoku Region, set up by the Tohoku Regional Agricultural Administration, issued an analytical report saying that “a business category called region” is being established through collaboration within the region. And this development leads to the creation of regional communities and grow wider as businesses.

In addition to collaboration within a region, exchanges between food systems, i.e. flow of foods from production to households, are being activated.

Consumption expenditure on foods in Japan totaled some 80 trillion yen in 2000, with mid-stream sectors, such as food makers and wholesalers, and retailers, restaurants and other downstream concerns accounting for more than 80% of the total. This means that Japan’s agriculture, forestry and fisheries change greatly depending on whether mid-stream and downstream sectors use domestic materials. It is therefore important for agriculture to tie up with the food industry.

There also are noticeable cases in which food companies integrate upstream sections of agriculture, forestry and fisheries or start agricultural production on their own. Toyota Motor Corp., Kirin Brewery Co. and many others companies from non-agricultural sectors entered the agricultural business in the 1990s in a bid to grab business opportunities expected to be created by deregulation. Subsequently, however, the entry boom subsided, with Japan Tobacco Inc. and Omron Corp. pulling the plug on the agricultural business.

Business corporations’ entry into the agricultural business has become reactivated since the outbreak of mad cow disease and other problems related to the safety of foods. As typical examples, vegetable juice maker Q’sai Co. has set up a corporation for agricultural production to secure safe materials, while Watami Food Service Co. has developed its own farms in regulation-free special zones for structural reforms in Chiba and Hokkaido prefectures. In addition, wine maker Mercian Corp. has started grape production on its own in anticipation of a supply decrease as a result of the aging of growers.

There also are companies that conclude cultivation contracts with agricultural cooperatives or farmers near their farms in order to realize supply increases.

It is no longer a surprise that farmers, wishing to emerge from the upstream operation of supplying materials alone, move into distribution and processing services. The cooperation and integration of upstream and mid- and down-stream operations create a reliable relationship in which consumers' needs and ideas are conveyed to farmers who in turn supply good products to consumers.

Although the number of new core farmers is still limited, agricultural organizations will change into a wider variety of forms. While farmers have so far been bundled only by agricultural cooperatives, a wide variety of organizations will be created, such as agricultural corporations, community-wide farming operations having leaders with management prowess, groups led by farmers having effective sales routes and farming technologies, and tie-ups or integration of management with non-agricultural concerns. From such organizations, farmers will choose those they should belong to by analyzing their purposes of work and management risks.

The birth of various core farmers testifies that the centralized flow of agricultural policies from the Ministry of Agriculture, Forestry and Fisheries to prefectures, to cities, towns and villages, to agricultural cooperatives and to farmers is coming close to its limit. Agricultural policy is now expected to offer measures to nurture core farmers responsive to the growing diversification of agricultural operations.

What needs to be done first of all is to focus policy measures on core farmers. The agricultural ministry used to have a heretical view of large-scale agricultural production corporations which therefore could not receive enough benefits such as subsidies. Although the situation has somewhat improved recently, there remain many systems that cannot be virtually used because required conditions to clear are too strict. Policy measures should be changed so as to become readily usable for large-scale farmers.

A safety net should be introduced to reduce management risks, such as price falls, for core farmers. In other words, direct payments by the government should be introduced to make up for a fall in farmers' income when prices of agricultural products drop, while the prices are left to the market.

Needless to say, such payments should be made to selected farmers in order to

prevent pork-barrel subsidy programs. New-type core farmers should be included when eligible farmers are selected.

Farmland Should Be Opened

A second necessary step is to review the agricultural land system that deters highly motivated corporations and people from entering agriculture by purchasing farmland. An increase in farmland out of action, despite the presence of such corporations and people, testifies that the agricultural land system has come to malfunction.

The Agricultural Land Law limits the ownership of farmland to farmers on the assumption that farmland is cultivated by farmers. The law should abandon such a formalism and open farmland to people and organizations that are willing to engage in agricultural operations.

Promotion of tie-ups between agriculture and food businesses is a third step that should be taken. Agriculture is now supported by not only farmers but also manufacturers, distributors and service companies. Projects to create new production centers through cooperation between food companies and farming groups should be aggressively supported.

Agriculture should be promoted as an industry in order to improve its competitiveness. To this end, the government should attach much importance to core farmers and consider ways of creating a combination agriculture and food industry.

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