

Minister's Summary by Minister Ota



11th Meeting (May 14, 2008)

- (1) On agricultural reform
- (2) On sector-by-sector productivity improvement

Hiroko Ota here. Today, the Council on Economic and Fiscal Policy (CEFP) held its 11th meeting of the year and conducted discussions on agricultural reform and sector-by-sector productivity improvement.

Regarding agricultural reform, the expert members recommended that “agricultural management by corporations” and “agricultural land reform in the Heisei era” should be encouraged and implemented in order to boost the nation’s food self-sufficiency ratio. They pointed out the need to formulate an agricultural reform plan that includes the nine-point policy package manifested in the expert members’ paper.

Temporary Member Wakabayashi (Minister of Agriculture, Forestry and Fisheries) made the following explanation:

We have pushed forward a farmland system reform in accordance with the plan formulated in last November. We will complete the final draft on the entire reform by the end of the year and start putting the plan into action in fiscal 2009.

I have basically agreed to the expert members’ recommendations. The farmland system reform is now being launched. Speaking of the “agricultural management by corporations,” family-based farmers are the main players in the agricultural sector both in Japan and elsewhere. For example, even in the United States, family-based farmers account for 98% of agricultural management entities, and we should foster more business-minded family-based farmers.

Of the nine points referred to in the Expert Members’ Paper, the “reviewing of the requirements for applying as agricultural production corporations” and “the use of farmland should be monitored and corrected by third-party organizations” cover topics related to legal structures. We will discuss these issues and we would like that what comes out of our discussion will be entirely left to our own discretion.

In response, the following comments were voiced:

Expert member: It is true that family-based farmers are the main players in the agricultural sector overseas, too. However, the size of Japanese family-based farming operations is much smaller than those elsewhere. Larger scale farming will pose fewer problems even if they are family-run. However, when thinking of Japanese small-scale family-based farming, it is necessary to expand

corporate farming. At the same time, the nation's food self-sufficiency ratio has kept declining, while the total area of abandoned farmland is on the rise. Accordingly, major innovative breakthroughs are definitely required. In this sense, too, we would like the nine-point policy package that the expert members have recommended be put into action by all means.

Expert member: We need to facilitate larger-scale farming operations. Farming of larger scale can deliver products at lower costs. An entity farming 15 ha or more can bring the rice production cost down by 50%. The rice produced by Japanese larger farmers will be relatively cost-competitive, if the rice current production cost is halved, and they will be possibly delivered at twice as high as the rice price produced in China. Japanese-made agricultural products will be more cost-competitive if the size of farming operation is expanded to 50 ha or 100 ha per farming entity. For this reason, authorities must make a declaration that they will put the nine points referred to in our recommendation into action, and it is equally important that farmers should pursue the realization of their goals in a positive manner. When a number of smaller-sized farmers make a concerted effort for sharing agricultural equipment and making better use of their workforce, they will make greater gains. Accordingly, what is essential are facilitating larger-scale farming operations and bringing the production cost down to make the country's agricultural sector more competitive. To this end, agricultural land reform is necessary. Converting farmers into members of joint stock companies is not an objective itself. What is more important is the shift to larger farming operations. For that purpose, these nine recommendations should be put into practice.

Expert member: What is most important is the shift to larger farming operations. Unless the cost is reduced, what we can do for greater consumption of rice will be limited. Uniformly imposing nationwide production adjustment is unreasonable. The challenge for the agricultural sector in Japan is to establish a cost structure that can survive at lower prices.

Member Amari (Minister of Economy, Trade and Industry): It is important to promote the agricultural management by corporations and the "agricultural land reform in the Heisei era." Even in the face of the increasing world cereal price, the rice production adjustment program is still carried out in Japan and there is a lot of idle farmland, an area almost equal to that of the Yamagata Prefecture. We need to use the current change as a springboard for reforming the sector in order to provide agricultural products sufficiently competitive in the market, by making better use of farmland and human resources. Market-conscious farming management is important. In addition, equally necessary is to cultivate new demand in Japan and overseas. For example, we should market good-tasted, high-quality, Japanese-made agricultural products overseas for cultivating overseas markets. Our efforts to export more of Japanese-made farm products will eventually enhance the nation's food self-sufficiency ratio. Then, in case of farm product shortage, we will be able to supply farm products, which are intended for the export, for domestic demand instead. Among industrialized countries, both German and British export promotion efforts have

contributed to a 30% increase in their food self sufficiency, and French effort has contributed to a more than 100% increase. In other words, these nations have succeeded in boosting their food self-sufficiency by promoting their farm product export. On the other hand, Japan's farm products export contributes an only 0.4% increase in food self-sufficiency. For encouraging new farming management practices, Ministry of Economy, Trade and Industry is willing to encourage collaboration among agriculture, commerce and industry.

Expert member: It is necessary to introduce business management practices into the agricultural sector. Technology innovation applicable to agriculture, such as biotechnology, has progressed and agricultural equipment has advanced. I know a company which is growing flowers in one of the Asian-largest greenhouses taking advantage of biotechnology. To make better use of technology innovation, the agricultural production corporation system must be ready to learn more from business management practices and should change its character into the one more adaptable to corporate management practices. It is necessary to newly establish a longer-term lease on farmland system and to grant drastic tax-incentives applicable to the taxable inheritance for separating the land ownership and the land use.

Member Masuda (Minister of Internal Affairs and Communications): Municipalities are supposed to formulate plans to make better use of abandoned farmland, and they are in charge of conversion of agricultural land. It is necessary to more properly regulate the conversion of farmland to other use, and I wonder whether the central government has to give permission for each conversion case. I believe that it will be more appropriate to leave it to the discretion of municipal governments according to actual conditions of each region. We are now actively discussing this issue with the Committee for Promotion of Decentralization Reform.

Member Machimura (Chief Cabinet Secretary): I think what the expert members have proposed is, basically, similar to what Temporary Member Wakabayashi argues. They sound significantly different from each other, but I find similarity in what the both parties are aiming for. Then what is difference between them?

Temporary Member Wakabayashi: Basically, we have been making much effort to achieve what the expert members have recommended, by actively encouraging larger-scale farming operations and facilitating the lease of farmland. I am second to none in my respect for the importance of large-scale farming operations. However, from practical points of view, incorporating farmers as legal persons will not necessarily encourage large-scale farming operations. The "agricultural land reform in the Heisei era," which the expert members have recommended, is exactly what we are doing now. We are making efforts to separate the farmland ownership and the farmland use to liberate the use in principle. It is all right that joint stock companies also take part in farming. In principle, we will liberate the farmland use. For this purpose, we would like to establish a 20-year or longer-term lease on farmland system and abolish the standard farmland rent. Regarding the

expert members' proposal of "the monitoring and correction of farmland use by third party organizations," I do not think it will work well in rural agricultural communities. Nor the private-sector farmland brokerage, which the expert members have also recommended, will work well, I believe, since the relationship of mutual trust is prerequisite for farmland brokerage service. We are now considering the revision of the Farmland Act for liberating the farmland lease in principle. However, strict adherence to the "nine-point policy package" may hinder further discussion on the revision. Basically, we would like you to leave the issue to our discretion. I am totally against what Member Masuda pointed out. Considering the central government's responsibility to secure a stable supply of food for its people, I believe that the Government is required to have effective control measures on the farmland use and farmland conversion. For this reason, I am against the control of farmland conversion by municipal governments. (In response, Member Masuda and Member Niwa expressed their disagreement with Temporary Member Wakabayashi's argument. However, they would like to discuss the issue at a later date.)

The Prime Minister made the following statements:

Japan is in a critical situation with its food self-sufficiency ratio hovering below 40%, in the face of increases in world food demand. At the same time, consumers and distribution industries have a higher expectation for high-quality domestic farm products, and we should use the current change as a springboard for improving the nation's food self-sufficiency.

In addition, the population aging rate in the farming workforce is high, and aged farmers will eventually retire from the workforce. We have to do something to stop the downward trend in agriculture. In this sense, too, we have to make the best use of the current change for establishing a new structure in the agricultural sector. For this purpose, it is important for us to discuss and identify what we can do at the moment.

The Government must implement without delay political measures that will unmistakably bring about changes in agricultural policies for dramatically improving and enhancing the way agriculture works in Japan. The nine-point policy package that the expert members proposed will offer a breakthrough in our agricultural policies.

I would like Temporary Member Wakabayashi to work out by this fall a plan that will incorporate what we have discussed today for expanding the agricultural management by corporations and carrying out the "agricultural land reform in the Heisei era." Then I would like to discuss the plan here in CFP later.

Regarding sector-by-sector productivity improvement, Member Amari presented his report. However, as time pressed, we could not have an in-depth discussion on the issue.

At the meeting of the CEFPP held on February 28, 2008, the expert members recommended the Government to formulate and implement the sector-by-sector productivity improvement program without delay, and the Prime Minister instructed each ministry to formulate fine-tuned programs for each category of industry. Today Member Amari gave a brief explanation on the program for the services industry, over which the Ministry of Economy, Trade and Industry holds jurisdiction. The programs for other categories, over which other ministries hold jurisdiction, will be reported here at the meeting of the CEFPP later as soon as they are available.

Member Amari has presented a very ambitious program. The productivity of the Japanese services industry is extremely low, and this is the first time that we have worked out a full-fledged productivity improvement program for the services industry, and this will surely pave the way for an increased productivity. We need to incorporate in the “Basic Policies 2008” the program for the services sector as well as those due to be prepared by other ministries for further encouraging the government-wide effort to improve productivity.

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