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Agricultural Corporations Help Revitalize Japan's Farm Sector

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Report Highlights:

Japanese farmers and non-farming entities are establishing more agricultural corporations which can improve efficiency and profitability in farm operations. Agricultural corporations can help aging farm families continue to cultivate their fields, educate and develop next-generation farmers and newcomers to farming, and convert fallow farmland to operational fields. Agricultural corporations also provide an avenue for non-farming entities, such as supermarket and convenience store chains, restaurants, and other food manufacturing companies, to enter into agricultural production through partnerships with farmers. According to the most recent census (2010) by the Ministry of Agriculture, Forestry, and Fisheries, there were 17,040 agricultural corporations in Japan, an increase of more than 22 percent over the previous five year period. The Government of Japan has also made a number of agricultural policy changes which may further increase the number of agricultural corporations, as well as help encourage more farm consolidation.

Summary

Agricultural productivity in Japan faces a number of economic and demographic challenges, such as aging farmers, lack of successors, and fallow farmland. Additionally, legal hurdles often dissuade entry into or involvement with agriculture by non-farming entities, including companies wishing to lease farmland. Japanese farmers are also very dependent on the growers' organization Japanese Agricultural Cooperative (referred to as "JA") and its relationship with the Japanese government; this dependence plays an important role in farm business decisions.

Despite the above challenges, there have been a number of attempts, both by the government and private sector, to increase the scale of farming to boost production levels and profits. In terms of government action, the Japanese Agricultural Land Act was modified in 2009 to encourage more non-farming entities to start, or cooperate in, farming operations by relaxing regulations on farmland sales and leasing. Additionally, in April 2014, Japan's Ministry of Agriculture, Forestry, and Fisheries (MAFF) began the Farmland Intermediary Administration Organization, an intermediate or "middle-man" program, to promote leasing of farmland to help encourage more farm consolidation. Coinciding with these changes to agricultural land laws, farmers and non-farming entities are establishing more agricultural corporations which can help improve efficiency and profitability.

Agricultural corporations can help aging farm families continue to cultivate their fields, educate and develop next-generation farmers and newcomers to farming, convert fallow farmland to operational fields, and improve sound business decision-making. Agricultural corporations also allow farmers to combine their operations to better coordinate inputs and production. According to MAFF's most recent census (2010), there were 17,040 agricultural corporations in Japan, an increase of more than 22 percent over the previous five year period. Moreover, following the 2009 revision of Japan's Agricultural Land Act, the number of non-agricultural companies involved in farming has risen sharply. Agricultural corporations also provide an avenue for non-farming entities, such as supermarket and convenience store chains, restaurants, and other food manufacturing companies, to enter into agricultural production through partnerships with farmers. This increased involvement is vital as food service and retail companies provide stable supply chains to ensure efficiency and profitability for farmers, more funding and resources for investment, improved marketing, and consumer research.

Agriculture in Japan and Its Challenges

Japan has a well-established system for transfers of agricultural land and operations; however, this structure has also proved to be exclusionary. Traditionally, Japanese farmers inherit their farmland from their parents/relatives and then continue the farming operation. Until recently, it was uncommon for people or companies from non-agricultural backgrounds to take up farming, as Japan's 1952 Agricultural Land Act severely constrained sales of farmland to non-farming entities or individuals. Additionally, Japan's agricultural communities tend to be insular, exhibiting strong connections among themselves, not only through regular agricultural activities but also through traditional local cultural events such as farm festivals, Shinto rituals, etc.

The major player in Japan's farming community is the growers' organization, Japanese Agricultural Cooperative (JA), which caters to all requirements that a Japanese farm may have, from the procurement of agricultural materials, seed, supplies, and equipment to the marketing and selling of farm products.

JA also provides financial services to its members, including banking, insurance, and mortgage services, and operates a number of other businesses vital to the agricultural community, such as gas stations, supermarkets, and travel agencies. In terms of government policy, JA conducts lobbying activities by developing and maintaining strong ties with agricultural policy makers in the Government of Japan (GOJ). Given these important economic and political responsibilities, JA is a lifeline for Japanese farmers. However, this relationship has also meant that, for the past 60 years, Japanese farmers have been limited in their flexibility to make decisions for their own farm operations.

In addition to the above rigidity, Japanese agriculture currently faces a large number of challenges, both economic and demographic, some of the most pressing of which include:

- Aging farmers - According to a 2013 MAFF survey, over 61 percent of Japan's farmers are over the age of 65, and in some prefectures, the average age of farmers is 70 years old;
- Lack of Successors - In 2010, young farmers aged 39 and under accounted for just 4.7 percent of the total farming population, a decrease of more than eight percentage points from the previous agricultural census in 2005 (MAFF);
- Entry of new farmers - In 2012, the annual rate for entry of new farmers was 56,480 people, a decrease of 23 percent compared to five years earlier (MAFF);
- Income Disparity- Income from farming alone is relatively low compared to salaries in non-farming sectors, potentially dissuading many Japanese young people from a career in agriculture. According to the most recent Ministry of Health, Labor, and Welfare survey on household wealth, average income per household in 2011 was 5.48 million yen. According to MAFF, the average income per farm household was 4.63 million yen in 2011; however, this amount includes other sources of revenue in addition to farming, such as off-farm employment and retirement incomes. Income from farming alone accounted for only 1.204 million yen per farm household in 2011;
- Exiting of Farmers – Given the high cost of inputs and low profits, many farmers are exiting agriculture or have no intention to cultivate their farmland. This is especially true for farmers on the main island of Honshu, where the farms are, on average, only four acres.

Japanese Farmland Policy

During the 1950s, Japan emerged as a rapidly growing industrial nation, which resulted in a significant income differential between industrial workers and farmers. The Japanese government began a number of initiatives to preserve land for agricultural use, and as a result, the GOJ passed the 1952 Agricultural Land Act which sought to set aside more land for agricultural use by requiring approval from the local government or agricultural committee (whose members are elected by farmers) for any land transfers or leases. Although the Agricultural Land Act did, to a certain extent, limit the amount of farmland being converted to other uses, it failed to boost productivity.

Furthermore, farmers were still able to take advantage of a number of exemptions in the Act and thus continued converting their land to non-agricultural uses. In 1961, to address low farm incomes, the GOJ

also launched the Agricultural Basic Law (similar to the U.S. “Farm Bill”). Through this law, the government aimed to increase farm household income by consolidating small-scale farms into large-scale ones, which would allow for more use of large-scale machinery. Additionally, as Japan’s improving lifestyle resulted in greater purchasing power, the government encouraged farmers to produce more high-valued products such as fresh fruit and livestock products.

However, following its initial implementation, the Agricultural Basic Law failed to increase the scale of Japanese farming as many farmers elected to not sell or lease their land. In fact, the Agricultural Basic Law’s lack of success may actually have been a result of the earlier Agricultural Land Act itself, which strongly protected the rights of farmers who physically cultivated the land versus those of the landowners, who may have had concerns about retaining ownership in certain leasing scenarios. Moreover, at the same time the GOJ was implementing the Agricultural Basic Law; many farmers were switching to careers in the industrial sector to secure higher salaries and, instead of selling or leasing their farmland, became part-time farmers cultivating their land on weekends and holidays. Finally, Japan’s strengthening economy during this time caused a surge in land prices, motivating many farmers to keep their property as an investment.

In 1962, the GOJ amended the Agricultural Land Act to allow legal standing for agricultural production corporations. However, only farmers were allowed to establish agricultural production corporations and companies were unable to participate in agricultural activities as the government was concerned about the possibility of speculation in surging land prices at the time.

Since the original 1952 Agricultural Land Act, there have been a number of other government initiatives to help foster larger farms, including:

- The Establishment of Agricultural Promotion Areas Act (1980) was aimed at promoting the lease of large-scale agricultural operations by allowing management entities to consist of organizations formed by groups of individual farmers. In 2000, the act was rewritten to also allow stock companies (limited to companies with only nontransferable stocks) to establish agricultural production corporations for the purpose of leasing land.
- The Structural Reform Special Zone Act (2003) allowed non-agricultural sector companies to start agricultural operations in order to lease land; however, this was limited to only renting farmland owned by local governments.
- The Revised Agricultural Land Act (2009) aimed to increase production by shifting the focus of its legislation from “possession” of agricultural land to “use.” The GOJ hoped to accomplish this shift by allowing non-agricultural companies to lease farmland without going through local governments. Non-agricultural companies were allowed to increase their shares in agricultural corporations from 10 to 25 percent. Also, as special case, private companies who partnered with farmers, and were officially recognized by MAFF as part of the government’s agricultural revitalization efforts, were allowed to hold shares of up to 50 percent. Other major changes in the 2009 revision included:
 - Leasing of farmland:
 - In leasing farmland, corporations may engage in agricultural activities anywhere in

Japan.

- All lease contracts must state that the agreement will be void if the land is not properly used for agricultural purposes.
 - At least one member of the corporation must be involved in farming on a full-time basis.
 - The corporation must participate in regional agricultural meetings and activities for maintaining infrastructure such as farm roads and waterways.
- Purchasing of farmland:
- Individuals may purchase farmland if they are engaging in efficient and effective agricultural activities.
 - Purchasing individuals must have a good agricultural management plan that effectively utilizes machinery and labor.
 - Purchasing individuals must cooperate with neighboring farmers.

In 2014, the GOJ proposed a series of potential reforms to Japan's domestic agricultural policy, including changes to the treatment of agricultural corporations. At this time, potential changes could include:

- Allowing non-food related companies to participate in agricultural corporations;
- Allowing non-agricultural companies to increase their share in agricultural production corporations from 25 to 50 percent;
- Streamlining the approval process for land sales by individuals to farming corporations.

Note: Post will continue to report on potential reforms in Japanese agriculture in future reports.

The Farmland Intermediary Administration Organization (FIAO)

Starting in Japanese Fiscal Year (JFY) 2014 (April 2014- March 2015), the Japanese government has begun implementing the Farmland Intermediary Administration Organization (FIAO) in all prefectures to strengthen the agricultural sector and increase production by consolidating farmland. The FIAO, also known as the "Farmland Consolidation Bank," will act as a "middle-man" between renters and landowners to support farmland leasing. The FIAO also aims to increase farm size through several steps, including renting land from farmers/landowners and redistricting small farms to form larger plots in order to lend it to large-scale commercial farmers, such as agricultural corporations and business enterprises. According to MAFF's most recent data (2010), full-time commercial farmers operate about 50 percent of Japan's total arable land, and the GOJ aims to increase this to 80 percent within the next ten years. Japan also expects the FIAO to restore abandoned farmland (400,000 hectares as of 2010) and prevent more of Japan's countryside from being abandoned.

In terms of selecting land, the FIAO intends to work closely with prefectural (local) agricultural committees, whose members are elected by farmers or are recommended by local cooperatives, to conduct surveys of current farm owners to inquire whether they are willing to rent out their land. If the survey is unable to find sufficient willing participants, the agricultural committee, with the permission of the prefectural government, then has the authority to obtain the right to use any owned land that is idle. In the event the heirs of unused land are unknown or missing, the agricultural committee will make a public notice and obtain the right to use the land, also with the permission of the prefectural government.

Prior to the creation of the FIAO, MAFF attempted reform through a similar program known as the Farmland Ownership Rationalization Corporation (FORC). The FORC (in existence from 1970 through the end of JFY 2013) failed to have a substantial effect on Japan's land redistricting as it (1) centered only on the buying and selling of farmland rather than borrowing and lending; (2) forced buyers and sellers to negotiate directly with each other, and; (3) failed to provide adequate financial assistance. In contrast, the FIAO focuses on leasing farmland to commercial large-scale farmers and does not force landowners to sell or relinquish their land. FIAO will also provide rent to farmers who are forced to lease unused land. Also, companies or individuals wishing to rent land need only interact with the FIAO and not directly with the landowners. Finally, MAFF has openly stated that, compared to the FORC, it believes the FIAO budget will be well supported, with the JFY2014 budget set at 70.5 billion Yen (approximately \$700 million).

However, despite Japan's high expectations, the FIAO may face several potential hurdles according to informed sources. For example, the FIAO is required to pay rent to landowners voluntarily enrolled in the program, even if a renter for the land has not been found, potentially creating a financial burden on the program's budget. Additionally, although MAFF has requested agricultural committees to cooperate with the FIAO, many committee members themselves are farmers, and their goals could differ from those of the program. Prefectural governments can also deny enrollment of land into the FIAO should it conflict with their official position. A final hurdle may be the Agricultural Land Act itself, where under current farmland law, farmers have the option to convert their property to residential zoning and sell it for housing construction if real estate prices are more attractive, potentially limiting the amount of available farmland that the FIAO program can accumulate.

Agricultural Corporations

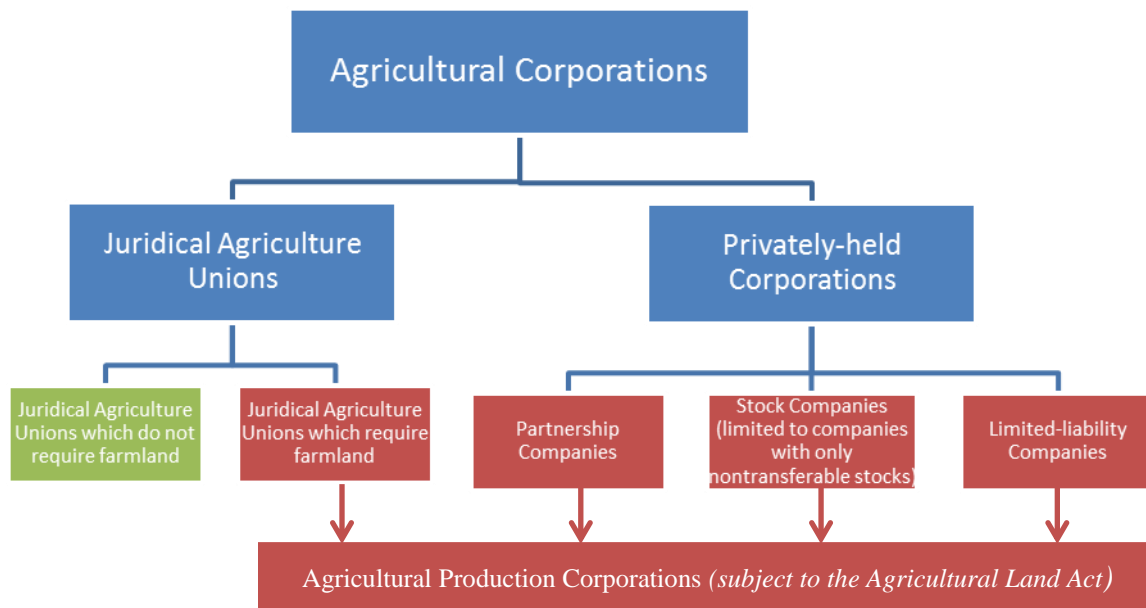
Agricultural corporations, groupings of several stakeholders in a farming operation, are becoming more prevalent in Japanese agriculture. According to MAFF's most recent census (2010), there were 17,040 agricultural corporations in Japan, an increase of 22 percent from five years earlier. The term "agricultural corporation" is generally used for an entity engaged in farming which has legal recognition as an individual, meaning it has rights and obligations under the law.

For farmers, agricultural corporations offer a number of benefits. By combining their operations, farmers can use their increased economies of scale to help reduce input costs. Partnering with a private sector company can also assist farmers in conducting marketing and research, as well as allowing for direct sales to consumers, restaurants, supermarkets, consumer coops, food processing companies or farmers' markets. Agricultural corporations can collect orders from their clients in advance to help plan production for the growing year, enabling them to effectively manage their employees, land, and machinery. Many agricultural corporations can harvest, package, and market their produce within days, allowing them to advertise the "freshness" of their products. E-commerce is also becoming an important

form of shopping and is being employed by a number of agricultural corporations.

Depending on the organizational structure, there are two types of agricultural corporations: “juridical agriculture unions” and “privately-held corporations.” A layout of the different types of Japanese agricultural corporations is included below (Chart 1).

Chart 1 – Types of Organization of Agricultural Corporations in Japan



Source: Japan Agricultural Corporation Association

Juridical Agriculture Unions

Juridical agriculture unions, in terms of a “legal-individual,” are union organizations which aim to increase profits for their members by fostering cooperation among farmers in order to improve efficiency. Only farmers can be members, and as a result, these unions tend to be small. Voting is based on a single vote per person system, and because farmers generally vote according to their own agricultural interests versus business-based agricultural operations, juridical agriculture unions are often considered “old fashioned” agricultural management entities. The system for juridical agricultural unions was established in 1962 and is regulated by the 1947 Agricultural Cooperative Law (separate from the Agricultural Land Act), which aims to create farmer cooperatives to support farming and increase production.

Privately-held Corporations

Privately-held corporations are profit-oriented enterprises and consist of three forms of corporations: partnership companies, stock companies (limited to companies with only nontransferable stock), and limited-liability companies. Please see the section below, “Agricultural Production Corporations” for more information.

Agricultural Production Corporations vs. General Agricultural Corporations

Agricultural corporations can be also classified into two different categories, depending on whether the corporation has the right to own agricultural land or not. Corporations that can own land are known as “agricultural production corporations” (as indicated in Chart 1 by the boxes in red), whereas those that cannot are classified as “general agricultural corporations” (indicated in Chart 1 in green).

Agricultural production corporations are mainly operated by growers cultivating land, whereas general agricultural corporations consist of operations that do not require much agricultural land as they utilize green houses, livestock farms, broiler houses, dairy facilities, etc. Agricultural production corporations are regulated by the Japanese Agricultural Land Act and, as a result, are required to satisfy certain conditions in order to own agricultural land, including:

- More than 50 percent of the corporation’s business sales must come from agricultural activities such as agricultural production, food processing of agricultural products, packing, warehousing and transportation of agricultural products, contracted agricultural farming, the production of agricultural materials such as fertilizer, greenhouses, etc.
- More than 50 percent of corporation members must be full-time agricultural workers.
- More than 50 percent of the board of directors participates in full time agricultural or agriculture-related work.
- Over 75 percent of the total voting rights must be held by agricultural workers.

Agricultural Production Corporations

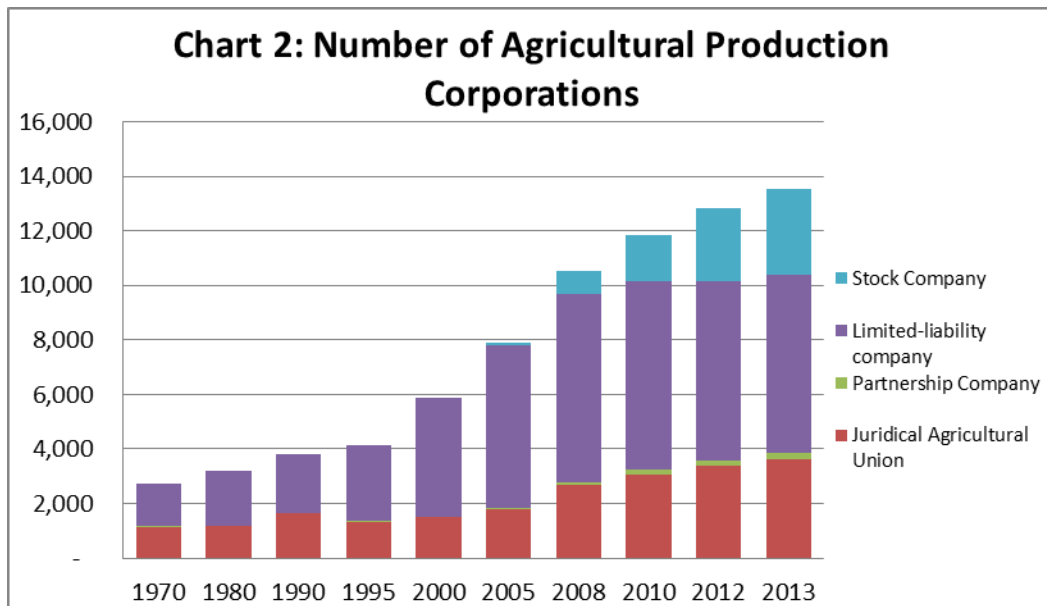
An agricultural production corporation can be formed by any of the following:

- A stock company that holds only nontransferable stock;
- A limited-liability company;
- A partnership company; or
- A juridical agriculture union which requires farmland.

Agricultural production corporations are profit driven, and voting rights are based on a one vote per share system. In terms of membership, stock companies may only participate as an agricultural production corporation if they consist of only nontransferable stock. “Limited-liability” companies are small-scale corporations, often owned by family members (also referred to as “closely-held corporations”). Partnership companies can either be unlimited (formed by members who bear unlimited liability) or limited (formed by two kinds of members who can bear either unlimited or limited liability).

By 2013, there were 13,561 agricultural production corporations in Japan, an increase of more than 22 percent over the previous five-year period (see Chart 2 below). According to MAFF, of these, 6,531 were limited-liability companies, 245 were partnership companies, and 3,616 were juridical agriculture

unions (with land). Most striking was the emergence of stock companies, which grew by more than 70 percent between 2008 and 2013 to 3,169 operations, a potential effect of the 2009 revision of the Agricultural Land Act which reduced barriers to their entry.



Source: MAFF/Management Improvement Bureau

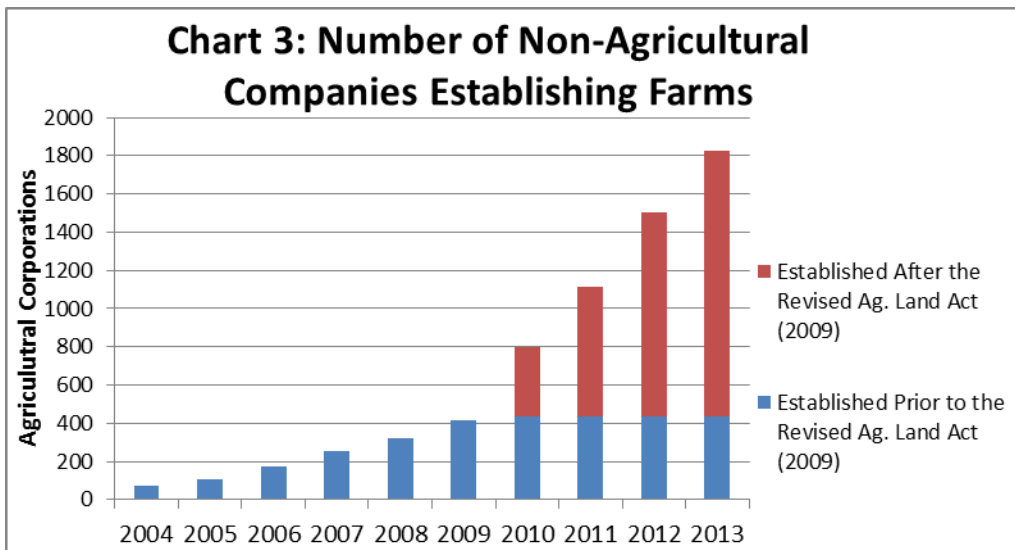
There are a number of benefits to forming an agricultural production corporation. As noted above, groups of small-scale individual farmers establish corporations to manage their operations in a more efficient and profitable way. For food-related businesses, such as supermarket and convenience store chains, restaurants, and wholesalers, forming such partnerships allows them to deal directly with farmers to better secure steady supply lines for their outlets. Below are common examples of how agricultural production corporations can be established:

- A farmer establishes a legal-person corporation as a private management entity;
- A group of farmers work together to create a legal-person corporation to manage their collective agricultural activities;
- People wishing to enter the agricultural sector jointly form a legal-person corporation to start farming activities;
- Food-related business entities, such as supermarket and convenience store chains, restaurants, and wholesalers join with a farmer group to create a legal-person entity.

The GOJ has also aimed to increase participation of non-farmers in agriculture by easing restrictions to new entrants, including those with business backgrounds. For instance, as long as an individual purchases more than 50 ares (0.5 hectare) of farmland, they can be officially designated as a farmer. Likewise, a person can be considered a farmer if he or she establishes an agricultural production corporation that contains an agricultural training school with over 200 trainees.

Booming Agricultural Business

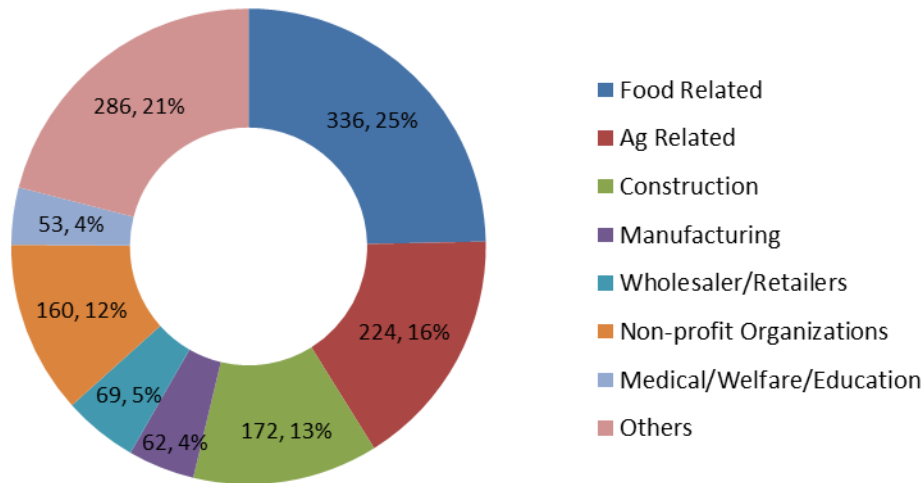
Since the 2009 Revised Agricultural Land Act eased restrictions on leasing land and allowed for non-farming entities to increase their share in agricultural corporations from 10 to 25 percent (with some food-related companies being approved to hold shares of up to 50 percent), there has been a significant upswing in the number of non-agricultural related companies establishing agricultural corporations, reflecting their strong interest in the production and marketing of farm products. Companies in the non-agricultural sector can establish an agricultural corporation by leasing farmland as opposed to owning it. In 2013, the total number of non-agricultural sector entities establishing farms reached 1,828 organizations, 1,392 of which entered farming after the Revised Agricultural Land Act took effect in December 2009 (see Chart 3).



Source: MAFF/Management Improvement Bureau

Of the 1,392 corporations that established farms after 2009, 858 entities were stock companies (companies with only nontransferable stock), 180 corporations were limited-liability companies, and 354 were non-profit organizations. In terms of who is creating these new agricultural corporations, food-related companies established 336 corporations, 224 were formed by agriculture-related companies, and 172 corporations were established by construction companies. A detailed breakdown of these entities can be seen in Chart 4 below.

**Chart 4: Companies Establishing Agricultural Corporations
--by Sector (2013)**



Source: MAFF/Management Improvement Bureau

Japan's large-scale food processors and restaurant chains are major investors in agricultural corporations and incorporate their integrated cultivation, processing, and marketing systems into these operations. By taking an integrated role in agricultural production, food processors and restaurants hope to reduce their overall operating costs, guarantee a stable and reliable supply, and ensure the safety and quality of their products. Seven and i Holdings (parent-company of 7-11 convenience stores) is one example of such increased participation (see the "Interview with Seven Farm Tomisato" section below for more detail). Another example is the major Japanese hamburger chain, MOS Burger, which established an agricultural production corporation with a group of farmers to ensure a stable supply of tomatoes for their restaurants.

Another group of investors are Japan's local construction companies, who form agricultural corporations to help transform abandoned farmland into cultivated land, ensuring continued employment for their construction machinery and staff during slow construction periods. Furthermore, construction staff can be easily trained to use agricultural machinery given its similarity to construction equipment.

Discussions with Agricultural Corporations

FAS Tokyo met with two agricultural corporations, Wagoen and Seven Farm Tomisato, to better understand how and why agricultural corporations form, their day-to-day operations, and whether these ventures have been successful. FAS Tokyo chose Wagoen and Seven Farm Tomisato as they represent examples of a juridical agriculture union and a privately-held corporation, respectively.

"Wagoen" Producer's Corporation

The juridical agricultural union "Wagoen" was created in 1991 by five young local farmers in the northern part of Chiba Prefecture. Today, the corporation has about 100 members whose average age is 43 years old. Total annual sales are 4 billion yen (approximately \$50 million), mainly from fresh vegetable sales (approximately 1.7 billion yen) and processed vegetable sales (approximately 1.2 billion

yen). The corporation focuses on vegetable production, as well as marketing and sales. Wagoen operates processing facilities and several natural food stores in downtown Tokyo. The corporation also has several subsidiary companies in other Asian countries, such as Thailand and Hong Kong, which carry out agricultural production and marketing activities.

How Wagoen Started

Chiba Prefecture, the headquarters of Wagoen, is located next to the Tokyo Metropolitan area and is known for its vegetable production. Mr. Hirokazu Kiuchi, the head of Wagoen, was born in Chiba, and after graduating from a government-run agricultural college, joined his parents in operating their family farm. Traditionally, his farm sold vegetables to a local wholesale market; however, the revenue from selling locally failed to cover their operational costs. As a trial to overcome this money-losing model, Mr. Kiuchi delivered his vegetables to a wholesale market in the Tokyo Metro area; as a result, he was able to double his income. Also, Mr. Kiuchi introduced short-cut burdock roots (“*gobo*” in Japanese) to supermarkets, which proved to be a tremendous success. Burdock is a root vegetable whose long length makes it difficult for consumers to carry to their homes.

Traditionally, in the Japanese market, it was assumed that cutting a long straight burdock into short pieces ruined its commercial value. But Mr. Kiuchi theorized that cutting burdock into two or three pieces would address consumer needs for convenience while maintaining quality. This change of practice proved to be a tremendous success as Mr. Kiuchi dramatically increased his weekly sales from 200 to 20,000 packages! Mr. Kiuchi’s business decision was not only profitable, but also demonstrated that individual initiative in agriculture could create new opportunities. Mr. Kiuchi then shared his business know-how with local farmers, and in 1991 started Wagoen as a juridical agricultural union.

Operational Strategy

Wagoen’s key strategy is an integrated operation system that begins with farm production and concludes with final product sales, thereby minimizing waste of produce. Wagoen receives production orders from its clients, such as supermarkets, consumer cooperatives, and restaurants, before finalizing a production schedule for the growing season, ensuring that there will always be guaranteed sales. As weather plays a key role in agricultural production, Wagoen always schedules extra production to ensure 100 percent of contracted volumes are filled, and as this production scheme may create surplus, leftover production goes into freezing or fresh-cut processing.

Wagoen’s integrated operation system is also evident in its recycling facility, which produces high-quality compost from vegetable residue and livestock waste that is collected from neighboring farms. Wagoen’s biomass plant then turns the vegetable waste and cattle manure into fertilizer, as well as methane gas, which is used to run an electric power generator and the mobile forklifts used in the plant.

Wagoen, which aims to help its farmers become more independent and business-oriented, notes that its members’ income increased significantly after joining. Wagoen also provides opportunities for farmers to learn new agricultural techniques and business practices by inviting speakers from academia and industry. Finally, Wagoen supports aging farmers who do not have successors by providing trained young farmers to assist them.

Wagoen's Management Structure

Wagoen's management system is as follows: (1) the company's sales division summarizes contracted production volume for the season; (2) member farmers then meet and allocate production volume for each farm; (3) if a farmer has more production than what was allocated to Wagoen, he/she is free to sell any surplus to JA or clients other than Wagoen.

It must be noted that when local farmers form an agricultural production corporation, the relationship with the local JA organization may change. In Wagoen's case, once profits increased, it became less reliant on JA's assistance and subsequently only interacted with JA when purchasing supplies or renting equipment. However, many of Wagoen's members belong to the local JA cooperative, and the overall relationship has remained positive.

Management Hurdles

Like any business, agricultural corporations like Wagoen do run risks, such as failing to collect on accounts receivable due to the bankruptcy of a client. This differs from farmers who sell only to JA and are always guaranteed payment.

A shortage of farm workers is also a problem for agricultural corporations. Wagoen has attempted to solve this by hiring agricultural interns and trainees from Thailand and China to engage in various agricultural activities. However, foreign agricultural employees cannot remain in Japan more than three years due to strict immigration laws. Wagoen has also attempted to solve labor shortages by hiring part-time workers, such as local housewives, to work at farms during peak cultivation times.



Tomato Greenhouses at Wagoen Farms *Photo by FAS Tokyo with permission from Wagoen*

Seven Farm Tomisato

Ito-Yokado Co., Ltd. (Ito-Yokado), a subsidiary of Seven & i Holdings Co., Ltd/Seven-Eleven Japan

Co., Ltd., is one of the largest general merchandising store chains in Japan with 182 outlets nationwide.

In 2008, Ito-Yokado established Seven Farm Tomisato, an agricultural production corporation in Tomisato City in Chiba Prefecture, 40 miles from Tokyo's city center. Ito-Yokado entered into farming as a result of a 2007 revision to Japan's Food Recycling Law, which set voluntary targets for food-related companies to recycle 45 percent of their food waste. For Ito-Yokado, about 80 percent of its waste was damaged or rotten vegetables and fruits, with each of the company's stores producing 300 kilograms of waste every day. Ito-Yokado decided to sell this waste as compost as it was more economical than other waste reduction methods, such as producing methane gas to generate power. However, Ito-Yokado had trouble finding customers for its food waste, as Japanese farmers rarely purchase compost, instead producing their own or obtaining it from other farmers. Ito-Yokado then decided to establish a farming operation to use its leftover waste to grow vegetables which it could then sell at its stores.

Partnering with farmers for this operation was an important goal for Ito-Yokado, so it consulted with the director of JA Tomisato City, a local agricultural cooperative that Ito-Yokado had worked with over many years. JA Tomisato City, mindful of the need to foster partnerships between farmers and the private sector, reached out to the leadership of its vegetable farmers to propose the establishment of an agricultural production corporation. Although Tomisato's farmers were content with their existing business relationship with JA as it ensured purchase of all of the produce from their farms which met JA's strict quality standards, they eventually decided to form a partnership with Ito-Yokado and JA Tomisato City.

In the resulting agricultural production corporation, Ito-Yokado has a 25 percent stake, JA Tomisato City has another 25 percent, and the one farm household controls the remaining 50 percent of the operation. Each of the Seven Farm Tomisato operations produces a number of vegetables, including carrots, sweet corn, daikon radishes, egg plants, and potatoes.

As start-up costs were minimal, Seven Farm Tomisato quickly became a successful and profitable partnership. Farmers provided the land and farm equipment necessary to begin the operation, and JA Tomisato assisted by providing a facility for collecting and shipping vegetables. As the farmers could utilize Ito-Yokado's stores as outlets to sell their vegetables, there was no need for intermediary distributors, such as JA, thereby reducing costs. Local farmers also benefited from this relationship as it increased their ability to obtain timely information on market and consumer trends to help determine which vegetables to plant. Also, as Ito-Yokado was skilled in selling irregularly-sized vegetables at their stores, farmers were able to sell off-spec produce. For Ito-Yokado, in addition to achieving its target rate of recycling at 45 percent, it was able to help revitalize rural communities, ensure a steady supply of fresh vegetables, and develop a connection with local farmers that can be marketed to Ito-Yokado's customers.

An official of Ito-Yokado noted that JA, and more specifically, JA Tomisato City, was key in developing the relationship between local farmers and Ito-Yokado that led to the creation of Seven Farm Tomisato. According to Ito-Yokado, without JA, its company never would have been able to obtain the trust of Chiba's farming community.

Ito-Yokado currently operates ten Seven Farms nationwide, including Seven Farm Tomisato, eight of

which are profitable. Two out of the ten farms are established agricultural production corporations, and Ito-Yokado invests, but does not own or lease land, in the other eight. It should be noted that Ito-Yokado's attempts to establish other agricultural production corporations was limited to those cases where there is JA participation.



Vegetable Plantings at Seven Farm Tomisato - Photo by FAS Tokyo with permission from Seven Farm Tomisato

Conclusion

Japan's past attempts to consolidate its small farms into larger operations met with limited success. While current demographic and economic factors are putting increasing pressure on Japanese agricultural production, previous government efforts, such as the original Japanese Agricultural Land Act, failed to significantly boost the leasing of farmland. Additionally, JA has played a factor in enabling the current system of small farms to continue operating despite the economic disadvantages inherent in that model.

However, there have been a number of recent developments, both in the government and private sectors, which have the potential to change the nature and scale of Japanese farming operations. On the government side, the 2009 revision to the Agricultural Land Act helped spur more involvement of non-agricultural entities in farming, by increasing their allowed share in an agricultural corporation to 25 (and in some cases, 50) percent, as well as making it easier to lease farmland. Furthermore, the GOJ is currently considering relaxing its regulations for agricultural production corporations with the intention of encouraging further private sector participation in farming. Although it is still too early to tell, the FIAO may also significantly increase the amount of rented farmland by acting as a liaison between renters and lenders, surveying available land for rent, and compelling farmers to lease out fallow or unused fields. Given the increasing interest of the private sector in farming, the establishment of the FIAO is a timely development.

Changes in the agricultural private sector are also evident, and the increasing numbers of agricultural corporations are helping farmers consolidate their operations. Through juridical agriculture unions, such as Wagoen, small farms with aging operators can work together as a single unit to better manage resources and distribution of products. Moreover, these unions can educate and train farmers, allowing

them to run better business operations. Member farmers can also inspire each other to take more initiative in their business decisions.

With relaxed regulation, more non-agricultural companies are partnering with farmers to develop privately-held agricultural corporations. These partnerships present good potential as large companies, such as Ito-Yokado, have the established consumer base, market research, and supply-chain to allow farmers to grow agricultural produce that is in demand. Likewise, farmers can offer their farmland and labor, as well as their experience, to these non-agricultural entities, allowing for a smooth entry into farming. Large non-agricultural companies can establish several agricultural production corporations, which will not only better coordinate production among different farmers, but could also help increase the size of Japanese farming operations. The involvement of non-agricultural companies may also foster assistance for successors to aging farmers, bolstering the economic viability of Japan's farming communities.

However, JA support is key to consolidating farmland in Japan. As noted in our meetings with both agricultural corporations, JA was extensively involved, either through membership of the corporation or by establishing the relationship between farmers and non-agricultural entities. If JA can boost the formation of more agricultural cooperatives, both juridical and privately-owned, as well as encourage its members to either individually lease their farmland or enroll in government programs like the FIAO, Japan may succeed in reforming and expanding its agricultural production.