

Japanese agriculture in 20 years — Building a new food industry

Issues

Established in March 2015, the Takagi Committee spent two years of extensive discussions and studies regarding Japanese agriculture, and this report brings together the Committee's findings, and presents the recommendations derived from those findings and their implications. First, I would like to express my appreciation to the Japan Economic Research Institute for giving me the opportunity to examine Japanese agriculture at this Committee. I would also like to extend my gratitude to each committee member for taking part in the lively debate.

As stated in the prospectus, the Committee's initial theme was "The food industry in 20 years — Formulating a Japanese-style food export model". This theme was set in the belief that future Japanese agriculture should develop and grow by reaching out to the rest of the world in the midst of globalization and discovering new opportunities in international markets. This belief still holds. With the inauguration of the Trump Administration in the U.S., the future of the TPP (Trans-Pacific Partnership), which had been agreed upon, became less clear as each country's motivations became entangled, but the FTA (free trade agreement) between Japan and the EU, and RCEP (Regional Comprehensive Economic Partnership) are moving ahead, and there is a possibility that a bilateral FTA will be signed between Japan and the U.S. There is no doubt that economic globalization will continue to advance, albeit with a few twists and turns.

When considering the progress of this globalization, we should assume a future Japanese agriculture independent of tariffs, so we assumed 20 years as that future timeframe. Moreover, when considering future agriculture, we have to look at the food industry as a total economic activity that includes secondary and tertiary industries, and not just agriculture as a primary industry. In the food value chain that views production through to consumption as an integrated process, not only are tariffs removed, but there is the possibility of market entry by multinational companies through overseas direct investment. It is forecast that in the future, the agriculture and food environment will undergo significant change at the international level.

Agriculture independent of tariffs means that domestic markets will be linked to overseas markets, and that Japanese farm produce, which had been limited to the domestic market, will also be

available in overseas markets. That is, Japanese farm produce will be exported. Our understanding was that there would be a growing need over the next 20 years to build a structure that would enable Japanese agriculture to withstand overseas competition, and develop export strategies for overseas markets, which are far larger than the domestic market.

However, while discussing this at depth within the Committee, we came to the understanding that there are a mountain of issues that have to be addressed before we reach that stage, and that without resolving these issues, establishing agriculture independent of tariffs is impracticable.

Therefore, after discussions in the Committee that we should put forward recommendations for the transformation of Japanese agriculture over the next 20 years, while maintaining the overtone of the prospectus, we changed the title to “Japanese agriculture in 20 years”. In addition, “food industry” in the initial title does not equate to agriculture and the food industry as it is today, but a new industry form that takes agriculture beyond agriculture from production through to consumption, and we reflect this in the subtitle.

How, then, will the agriculture and food environment change over the next 20 years? It is difficult to forecast socioeconomic change, so before gazing into the future, we should look back at what has happened over the past 20 years. Twenty years ago takes us back to 1997. In agriculture, this was a time when WTO agricultural accords were being implemented, but the expansion of Japan’s minimum access imports of rice as a trade-off to avoid tariffication gradually began to apply pressure to the domestic rice market, leading to the start of debate on the acceptance of tariffs on rice. This was also the year that the Council on Basic Issues Concerning Food, Agriculture and Rural Areas discussed the establishment of a new basic law to replace the old Agricultural Basic Act, enacted in 1961.

In 1995 the food control system was replaced by the Staple Food Act, in 1999 rice tariffication was implemented, and also in 1999, the Food, Agriculture and Rural Areas Basic Act was established. This was also a period in which reform gained momentum through the GATT Uruguay Round. The series of institutional reforms, however, did not alter the fundamentals of Japanese agriculture.

Japan’s agricultural output exceeded eleven trillion yen in the 1990s, but since then, it has dropped to its current level of around eight trillion yen. The number of (commercial) farming households fell from 2.65 million in 1995 to 1.33 million twenty years later in 2015, while the area of farmland also dropped from 6 million hectares in 1965 to 4.5 million hectares in 2015.

Agricultural aging is especially marked among rice growers with the percentage of core rice growers aged 65 or older reaching 80% of the total number. However, we need to look closely at this last value. Rice cultivation can also be done by older people, so while the main farm workers are engaged in outside work, the older family members are able to continue running the farming operation, provided it is on a small scale.

What is needed to invigorate Japanese agriculture so that it can achieve self-reliance in 20 years? To date, agricultural policy has focused on raising average values. It was as if policy makers had the view that most farming households operate on an average scale, and are engaged in rice cultivation, livestock raising, or fruit and vegetable growing. And the various agricultural statistics are designed around this view.

However, in reality there are major variations in each crop, and the capabilities required also vary. Even growing the same crop, farming scales and capabilities, marketing, labor management, and utilization of human resources vary tremendously. The first aspect that needs to be considered for agriculture in 20 years is breaking free from agricultural policy based on average values to policy that can expand frontiers. These frontiers must be fundamental to future agricultural policy as a concept that encompasses distribution, processing through to final consumption, and not just the place of production.

Over the next 20 years, the world will change, not just Japan. According to the Future Timeline produced by Hakuho Institute of Life and Living, in 2028 robots will be developed to fully automate farm work, and in 2030, more than half of farm produce will be produced in factories. In 2030 the global population with rice as a staple diet will reach five billion, although in Japan, rice consumption will stagnate, falling to 3.5 million tons in 2050. Japan's paddy field area is forecast to be no more than 500,000 hectares. Even in the face of this growth in world demand for rice, will this decline in rice in Japan become reality?

One thing that is lacking in most discussions centering on Japanese agriculture 20 years in the future is a sense of crisis. The number of farming households in terms of farming entities was 1.38 million in 2015, but over the past 20 years, on average 60,000 farming households or farming entities have walked away from farming each year. Should this trend continue, there will only be 180,000 farming entities in 2035, and in 20 years from now, the number will drop below 100,000. The number of farming entities is not a problem. If each entity achieves a production

amount of 100 million yen, agricultural output of 10 trillion yen could be maintained by 100,000 farming entities.

The issue is how to achieve such a framework. Decisive and extensive structural reform is critical, and to this end, national and local governments must join forces to formulate and implement a range of measures. But is the current classification of prefectures and municipalities or local administration up to this challenge? Vertically segmented agricultural administration will lead nowhere. This, though, applies not just to farming. Fundamental changes must also be made to the very structure of local administration.

The Japan Policy Council once estimated that 896 municipalities throughout Japan would face a crisis of “extinction” in 2040 because of an outflow of young females, but in the face of concerns about collapsing local communities and deadlocked local public administration, the development of vibrant agriculture is also in danger. Although this report does not touch on this, but such local socioeconomic trends and agriculture are closely linked, and to achieve structural reform in agriculture, the way in which local government functions also has to be subject to an exhaustive review.

The Committee examined and discussed various issues against this backdrop, and puts forward the following recommendations for the development and growth of Japanese agriculture.

Recommendation 1. Agricultural policy that supports frontiers

- Abolish rice acreage reduction policies, and promote unregulated rice production
- Establish a farmland system that sets farmland as a management resource and production element
- Promote the use of the tax system for farmland consolidation

Recommendation 2. Extensive reform of the domestic distribution system

- Build a food value chain beginning with distribution reform
- Establish farm produce distribution centers and set up a national network
- Organize and establish the base for large-scale vegetable cutting processes

Recommendation 3. Integrated cooperation between the food industry and other industries

- A “market-in” approach is the basis of the food value chain

- Create food valleys through collaboration within the food industry
- Create new agriculture through cooperation with the IT industry

Recommendation 4. Aggressive business activities in overseas markets

- Strengthen overseas marketing for Japanese farm produce
- Acquisition of international certification standards is essential for exports
- The basic export strategy must be an “All-Japan” collective effort

Recommendation 5. Reform of higher education in agriculture and food

- Reform agricultural departments to focus on training for actual farmers
- Promote agricultural education that is practical and can contribute to the local area
- Train food and farming personnel at the agricultural version of business schools

Recommendation 6. Utilize the attraction of farming in the service industries

- Consider the attraction of farming as a service industry
- Farming in semi-mountainous areas with the potential of forming the basis of theme parks
- Promote exchanges to reduce the perceived distance between cities and rural areas

Recommendation 7. Establish agriculture that is independent of tariffs

- Agriculture that adapts to the global economy can survive without tariffs
- Remove border protection measures necessary for expanding exports
- Accelerate agricultural reform necessary for realizing zero tariffs

Summary: Role of the state in building a food industry

- The food value chain views food and farming as a whole
 - Agricultural policy should become detached from social policy and remain solely industrial policy
 - Food security should be incorporated into comprehensive national security
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