企画論文

Limitations to the Development of Corporate Agriculture in Japan

LOLLINI Niccolo

This paper analyses participation in farming by non-agricultural corporations. I discuss the limitations of different modes of entry, arguing that the phenomenon is unlikely to contribute significantly to agricultural or rural development.

Introduction

Corporate access to farmland in Japan has long been restricted by law, but has gradually expanded through successive deregulations since the early 2000s. The Farmland Act (*nōchihō*) of 1952 posed stringent requirements on the ownership of farmland. The general principle was that only farmers should be entitled to own farmland in order to prevent land speculation and the resurrection of the pre-war landlord system. The entry of general (i.e. non-agricultural) companies into farming in particular raised concerns that corporate management would not be in harmony with that of family farms and might compromise the regional utilisation of farmland and water (Ōnaka and Ando, 2014: 15). The policy shift that has occurred since the early 2000s was justified by appealing to the rapid shrinkage of the farming population, the growing amount of abandoned farmland, and the consequent need to expand the pool of "bearers" (*ninaite*) of Japanese agriculture. As Yamashita (2008: 3) puts it, "joint-stock companies will not necessarily succeed in farm management, but why should they not be regarded as potential successors to Japanese farms?" Entrepreneurial, corporate agriculture is one the slogans of the current prime minister Shinzo Abe, and part of a rhetoric depicting agriculture as a new growth-leading industry. Over the last decade a growing number of companies from various sectors established new farming ventures nationwide, but overall their achievements fell short of expectations. Why is corporate agriculture unsuccessful despite the welcoming governmental atmosphere? This paper is based on a review of existing literature and on interviews with representatives of general companies participating in agriculture, farmers, and members of Japan's National Chamber of Agriculture.

Modes of entry

Since the early 2000s, entry of general corporations in agriculture has been promoted in two ways: by relaxing restrictions to their participation in Agricultural Production Corporations (*nōgyō seisan hōjin*) and by allowing the direct lease of farmland. Agricultural Production Corporations (APCs) were first introduced in the legislation in 1962 as the only legal persons allowed to own farmland. APCs were established to allow companies operating in food-related business to engage in farming operations under strict rules, but have long played a minor role in Japanese agriculture. Only in 2001, following a revision of the Farmland Act, general corporations were allowed to participate in APCs, with total corporate shares restricted to 25% of the total capital and individual shares limited to 10%. Another revision of the Farmland Act in 2009 allowed individual corporate shares up to 25% and a successive amendment in 2015 (enforced from 2017) up to 50%.

The number of general corporations investing in APCs has arguably increased following successive deregulations, but there are currently no statistics available. However, statistics released by the MAFF on incorporated joint-stock APCs (which also includes incorporated family farms) show that between 2001 and 2017 their number reached 5,445 units (MAFF, 2018a).

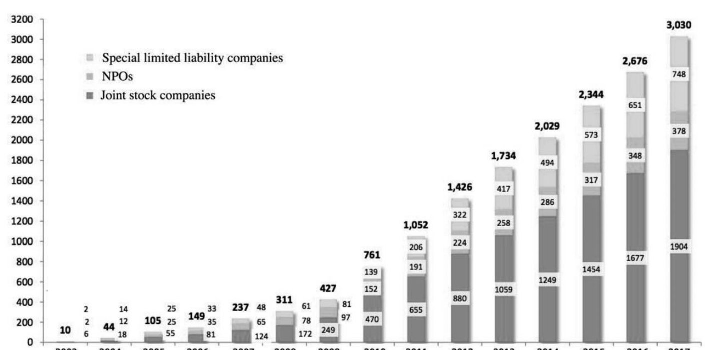
The lease of farmland by general corporations was first introduced in 2002 as an experimental case in special structural reformation districts, limiting farmland available for lease to fields left idle (Godo, 2014). The scheme was extended nationwide in 2005, and in 2009 the restriction on abandoned farmland was removed, allowing general corporations to lease any plot of farmland nationwide directly from landowners. Under the early lease system, centred on the reclaiming of abandoned farmland, lots available for lease were identified by local authorities, and local companies such as construction companies and food manufacturers were the majority (OECD, 2009: 77). However, especially following the institution of Farmland Banks[1)] (*nōchi chūkan kanri kikō*) in 2014, the role of local authorities as mediators has been partly reduced. There are three major requirements for general corporations adopting this scheme: farmland must be used exclusively for agricultural purposes, the management must share the responsibility of collective works in rural areas, and at least one executive officer of the corporation must be engaged in farming on a full-time basis (MAFF, 2018d). Details concerning the arrangements between leaser and landlord are regulated on a contractual base.

The lease system

Compared with the restrictions and the legal hurdles involved in the establishment of (or participation in) an APC, the lease system is quite straightforward. Although only APCs are allowed to own farmland, the purchase of farmland is often prohibitive and general companies prefer leasing arrangements regardless (Muroya, 2013). Between 2003 and 2017, 1,904 joint-stock companies, 748 NPOs, and 378 limited-liability companies leased farmland under the lease system (MAFF, 2018b).

New entrants come from a variety of sectors. In contrast to the previous lease system, where construction companies were the majority, currently they only represent 11%. Agriculture/livestock companies and food-related companies (processors, wholesalers, retailers) account respectively for 21% and 24% of the total. Manufacturers represent 4% and general wholesalers/retailers 5%. Educational, medical, and welfare-related companies account for 4%. NPOs (any non-profit organization including

General Corporations Accessing Farmland through the Lease System



Source: MAFF 2018b

1) Administrative bodies instituted on a prefectural base managing farmland under unconditional authority.

public administrations, educational and medical institutions) account for 9% while the remaining 21% includes companies operating in the service industry, local administrations, and waste collectors, among others (MAFF, 2018b). Vegetables represent the most widespread produce accounting for 41% of the total. Vegetables can be harvested soon after singing a leasing contract and generally do not require high technical knowledge or investments. Grains (rice, wheat, beans, etc.) only account for 18%. This is unsurprising considering that land-intensive crops are only profitable when farmed on vast areas, which are typically precluded to external investors. Local construction companies, whose employees are often part-time rice farmers, most likely represent the majority share of rice farming, together with Japanese wine brewers and local municipalities (Ōnaka and Ando, 2014). New farms are established all over Japan, with a higher concentration in semi-urban areas close to major cities (MAFF, 2018c). The top five prefectures by number of entries are Hyogo (185), Shizuoka (166), Nagano (143), Yamanashi (133), and Aichi (111). These areas are easy to access, well served by infrastructures, and better connected to market outlets. Corporate agriculture is by no means large-scale agriculture. The average size of farmland leased by new entrants is 2.9 hectares,[2)] and 58% of all farms are less than 1 hectare (MAFF, 2018b).

According to a survey conducted in 2013 by the Japan Finance Corporation (JFC, 2013) on 138 companies entering agriculture under the lease system, only 30% of them operated on a budget surplus. Wholesalers and retailers were the most successful (58%), followed by food processors (35%) and construction companies (23%). Only 13% of companies from the remaining sectors showed a positive budget. There are numerous cases of large companies that withdrew from farming operations because of financial losses (Muroya, 2013; Hasegawa, 2016). Two notable examples are Uniqlo and Omron.

Disadvantages of general companies

Smallholdings constitute the core of Japanese agriculture. Compared to family farms, corporate farms display few strengths, several weaknesses, and many similar problems. Common problems are certainly the most significant. These are in turn the key problems of Japanese agriculture at large: land fragmentation and high production costs (i.e. labour). Securing a reliable, profitable market outlet also represents a widespread problem among new entrants. In particular, companies unrelated to food business often report difficulties in marketing their products (JFC, 2013). Although it is theoretically possible to argue that large companies can benefit from their expertise and management know-how (for instance in the organization of human resources, the standardization of production processes, investment planning, logistics, etc.), these strengths only play a marginal role in the typical setting in which most farming ventures operate: small, fragmented farms. The most significant advantage of large corporations is arguably represented by their financial resources: investment and working capital. Cover capital is also important to assure that farms can continue to operate despite prolonged deficit (Muroya, 2013). This is indeed a quite common circumstance: of the few companies that achieve a budget surplus, only a minority do so within the time originally planned (JFC, 2013). Even for Kagome, a large food manufacturer, it took over 10 years to make its farming business profitable (Ishida, 2015).

Compared to small farming households, general companies encounter greater difficulties in acquiring farmland and farming know-how, as well as a stable, financially viable labour supply. Farmland transfers in Japan usually take the form of informal deals based on relationships of mutual trusts among members of the same cohort (Isaka, 2015). Rural landlords are generally reluctant to entrust farmland to outsiders of the community and are often sceptical about entrusting

2) The average farm size in Japan is 2.46 hectares (MAFF, 2016).

newcomers with the responsibility of shared works and farmland preservation. Because outsiders are not bound to the community by kinship relations or other social obligations, they must first demonstrate their commitment and slowly earn trust. Large companies in particular can be seen as impersonal, dubious entities. Members of rural communities fear that new entrants might carelessly withdraw from operations overnight or be inconsiderate in their farm management, for instance, by depleting soil fertility and damaging neighbouring fields through improper use of fertilizers and pesticides. These concerns are not entirely baseless, as cases have been reported of companies suddenly withdrawing from farming operations as well as cases of reckless behaviour (Godo, 2012: 85). One of the farmers interviewed mentioned the case of a construction company that obtained farmland from a local municipality but soon withdrew after extracting gravel from it, irremediably compromising the soil quality. The establishment of good relations with the farming community is paramount in order to guarantee the success of new farming ventures, for instance, to ensure that leasing contracts are renewed and that further (and better) plots of land will be made available. Not only new entrants participate in communal activities such as the maintenance of waterways and the organization of local festivals, but interviews with company representatives revealed that fertilizers, pesticides, and farming appliances were mostly purchased from local cooperatives despite cheaper options available. Cost efficiency in input procurement, supposedly another strength of general corporations, is therefore subordinated to the establishment of good relations with the farming community. Farmland accessed by general corporations through the lease system often constitutes of fields left idle or of low agricultural value (irregular, small, or isolated plots often of poor soil quality). New entrants thus have to deal with problems related to soil improvement. It usually takes between one and two years to prepare a field for the beginning of farming (Muroya, 2013). One of the company representatives interviewed described the problems encountered in the establishment of a new farm:

> ‘We wanted to build a tomato greenhouse in a mountainous area of Kumamoto Prefecture. The field was in terrible conditions but the local government said it was our responsibility to restore it. We spent about 2.5 million yen, but at least this helped to improve our reputation among local residents. They thought that we were serious about agriculture and this was the beginning of good relations with them’[3)]

Together with constraints limiting access to farmland, new entrants must also deal with problems related to securing workforce. Labour shortage is a widespread problem in Japanese agriculture and company representatives interviewed emphasized that they face difficulties finding workers during the harvest season. Seasonal workforce mainly constitutes of a mix of part-time workers, retirees, and trainees.

> You can’t find people to harvest all at once. There’s a limit to overtime work you can ask of employees. So instead of having farms specialized in one or two products we have to cultivate different crops. In this way we can divide the harvest in different stages and manage it with fewer people. Of course this reduces efficiency.[4)]

Together with securing seasonal workforce, the high cost of labour represents another weakness of general corporations participating in agriculture (Ishida, 2015). This is especially true for companies relying heavily

3） Interview with company representative (restaurant chain), January 2017.

4） Interview with company representative (food retailer), January 2017.

on regular employees. Unlike family farms, whereby most of the workforce constitutes of family members, companies must pay yearly salaries and benefits to their employees. As previously mentioned, general corporations can engage in farming either through participation in an APC, or through the lease system. Especially when operating under the lease system, different companies choose to rely to a lesser or greater extent on company employees or local partners (farmers) for their operations. In most cases, under the label of direct farming, companies engage de facto in contract farming. This mode of entry presents several advantages including lower costs, better access to farmland, and lower risk of early mistakes determined by the lack of farming expertise. On the other hand, a minority of companies rely more heavily on company employees in order to achieve greater autonomy from local partners and to secure the continuity of farming knowhow within the company. The choice of whether to invest in an APC or use the lease system depends on the above considerations as well as on the availability of local partners with which to team up in the establishment of an APC. Two of the companies included in this study (a large restaurant chain and a large food retailer) were at the same time participating in various APCs and leasing farmland through the lease system. Both companies were relying highly on local farmers for their operations. On the contrary, another company (another large food retailer) was mostly relying on regular employees exclusively leasing farmland in different parts of Japan.

Conclusions

General corporations engage in farming operations in a variety of fashions and for different reasons, but are generally at a disadvantage when compared to family farms or local agricultural corporations. In spite of that, while not particularly successful, why should general corporations not be regarded as legitimate contributors to agricultural and rural development? As small as any contribution can be, the creation of new job opportunities is a welcome occurrence for the rural economy. However, as demonstrated by the concentration of new entrants in areas near major cities, it appears clear that rural development is not a priority for general companies, and that any contribution will occur on their terms. Moreover, as Jentzsch (2016) points out, while local public corporations and agricultural cooperatives might be willing to farm unattractive plots of land as a form of community service, this cannot be expected from external investors. Finally, together with that of appropriate farmland use, another crucial issue is represented by employment policies adopted by new entrants, and whether they will offer decent working conditions to local employees or mostly provide low-pay part-time jobs (Hisano and Sekine, 2009). In the case of large companies investing in agriculture as a form of corporate social responsibility or as a marketing strategy, management practices are likely to be in line with the expectations of the rural community. As for food-related companies investing in order to profit from the procurement of raw materials as well as companies participating in agriculture to absorb their redundant workforce (e.g. construction companies), not unlike any other farm or agricultural corporation, only the punctual implementation of regulations by local authorities will ensure the adoption of appropriate management practices.

Bibliography

Godo, Y. (2012). *Nihon Nōgyō He No Tadashii Zetsubō* (The Right Way To Despair About Japanese Agriculture). Tokyo: Shinchōsha.

Godo, Y. (2014). Non-Agricultural Companies' Entry into the Agricultural Industry in Japan. FFTC Agricultural Policy Platform. Retrieved from http://ap.fftc.agnet.org/ap_db.php?id=192&print=1

Hasegawa, M. (2016). *Susoya ga hirogaru nōgyō bun'ya e kigyō san'nyū* (Participation in the expanding field of agriculture). *Kabushikigaisha Asahi Risāchi Sentā* No. 72. Retrieved from https://www.asahi-kasei.co.jp/arc/topics/

pdf/topics_072.pdf

Hisano, S. and Sekine, K. (2009). Agribusiness Involvement in local agriculture as a 'white knight'? A case study of Dole Japan's fresh vegetable business. *International Journal Of Sociology Of Agriculture And Food*, 16(2): 70-89.

Isaka, Y. (2015). *Shakai kankei kara mita nōchi shūseki no jittai* (The Reality of Farmland Consolidation from the Perspective of Social Relations). *Tochi to Nōgyō* 45: 66-93.

Ishida, K. (2015). *Kigyō San'nyū to Chiiki no Nōgyō* (Corporate participation in farming and local agriculture). *In Nōgyō He No Kigyō San'nyū - Arata Na Chōsen* (Corporate Participation in Agriculture - New Challenges), edited by Yoshihara, S. et al., 1-77. Kyoto: Minerva Shobō.

Jentzsch, H. (2016): Abandoned land, corporate farming, and farmland banks: a local perspective on the process of deregulating and redistributing farmland in Japan. *Contemporary Japan*, 29: 31-46.

JFC (Japan Finance Corporation). (2013). *Kigyō no Nōgyō sannyū ni kan suru cyōsa* (Survey on the entry of corporations in agriculture). *AFC Fōramu Repōto* 36. Retrieved from https://www.jfc.go.jp/n/findings/pdf/topics_130425_2.pdf

MAFF (Ministry of Agriculture, Forestry and Fisheries). (2016). FY 2015 annual report on food, agriculture, and rural areas in Japan (Summary). Retrieved form http://www.maff.go.jp/e/data/publish/attach/pdf/index-35.pdf

MAFF (Ministry of Agriculture, Forestry and Fisheries). (2018a). *Nōchi shoyū tekikaku hōjin no nōgyō san'nyū ni tsuite* (Regarding the entry in agriculture of legal persons allowed to own farmland). Retrieved from http://www.maff.go.jp/j/keiei/koukai/sannyu/kigyou_sannyu.html

MAFF (Ministry of Agriculture, Forestry and Fisheries). (2018b). *Ippan hōjin no nōgyō san'nyū no dōkō* (Movement of general companies entering agriculture). Retrieved from http://www.maff.go.jp/j/keiei/koukai/sannyu/kigyou_sannyu.html

MAFF (Ministry of Agriculture, Forestry and Fisheries). (2018c). *Ippan hōjin no nōgyō san'nyū-sū* (Number of general companies entering agriculture). Retrieved from http://www.maff.go.jp/j/keiei/koukai/sannyu/kigyou_sannyu.html

MAFF (Ministry of Agriculture, Forestry and Fisheries). (2018d). *Hōjin ga nōgyō ni san'nyū suru baai no yōken* (Conditions for legal persons entering agriculture) Retrieved from http://www.maff.go.jp/j/keiei/koukai/pdf/hy.pdf

Muroya, T. (2013). *Kigyō ga sanka wo mezasu sangyō no kōzō to seidoteki wakugumi no henka* (Transformation of the structure and framework of the industry which companies are trying to access). *Business Labor Trend*, 92: 22-28.

OECD (Organization for Economic Cooperation and Development). (2009). Evaluation of Agricultural Policy Reforms in Japan. Paris: OECD Publishing. Retrieved from https://www.oecd.org/japan/42791674.pdf

Ōnaka, K. and Ando, M. (2014). *Kigyō no Nōgyō Sannyū* (Corporate Participation in Agriculture). Tokyo: Tsukuba Shobō.

Yamashita, K. (2008). The issues in the farmland system. *The Tokyo Foundation*. Retrieved from http://www.tokyofoundation.org/en/articles/2008/the-issues-in-the-farmland-system