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Global Agricultural Information Network

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## Japan

Post: Tokyo

### **Slow Reform of Japan Agricultural Cooperatives (JA)**

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**Report Highlights:**

The Government of Japan (GOJ) sees progress in the reform of Japan Agricultural Cooperatives (JA) following a five-year reform period. The GOJ is set to review whether to restrict associate members (non-farmers) use of JA services in 2021. If use is restricted, JA banking and insurance businesses could be negatively affected.

## General Information:

The GOJ Regulatory Reform Plan in 2014 established June 2014 to May 2019 as a period for intensive JA reform. In June 2019 the Council for Promotion of Regulatory Reform (CPRR) assessed that the JA group made some progress in restructuring their marketing and farm input supply businesses, but called for further efforts focused on raising member farmers' income, reducing farm input and equipment prices, and maintaining the soundness of JA's banking business.

Regulatory reform is an integral part of the Abe administration's growth strategy, which has targeted "bedrock" regulations, as they are considered impediments to Japanese economic growth. The CPRR, an advisory body to the Prime Minister, reviews reform progress and makes new reform recommendations every year. Based on their recommendations, the GOJ updates the Regulatory Reform Plan, which the Japanese Cabinet approves each June. In 2014 the Abe administration identified agriculture as a target sector in its Growth Strategy with a goal of doubling agricultural income. As Japan Agricultural Cooperatives (JA), one of Japan's heavily protected interest groups, is increasingly seen as an obstacle to growth in Japanese agriculture, the GOJ has been promoting structural reform of JA.

The first significant JA reform in 60 years was established in the 2014 Regulatory Reform Plan. The GOJ revised the Agricultural Cooperatives Law in 2015 to implement JA reform measures. An important reform was to overhaul the top-down JA system of control with the Central Union of Agricultural Cooperatives (JA Zenchu) at the top. Specific revisions are:

- 1) The purpose of JAs is redefined by removing a provision that prohibits JA from conducting business for the purpose of making a profit, and instead stipulates that JA must pay the utmost consideration to increasing agricultural income through the operation of its business.
- 2) JA Zenchu will be transformed from a special authorized corporation (its establishment was stipulated in the old Agricultural Cooperatives Law) into a general incorporated association by the end of September 2019.
- 3) The Prefectural Central Unions of Agricultural Cooperatives will be transformed from special authorized corporations (their establishment was stipulated in the old Agricultural Cooperatives Law) into Agricultural Cooperatives Federations by the end of September 2019.
- 4) JA Zenchu's authority to audit JAs management and financial statement is abolished and the function of JA Zenchu is redefined as coordination and representation of the overall JA group.
- 5) Audit by certified public accountants will become mandatory for JAs with a deposit balance of 20 billion yen or more<sup>1</sup> from October 2019.
- 6) The National Federation of Agricultural Cooperative Associations (Zen-Noh) and Prefectural Economic Federation of Agricultural Cooperative Associations, the marketing arms of the

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<sup>1</sup> Until October 2019, JA with a deposit balance of 20 billion yen or more is audited by JA Zenchu while an audit by certified public accountants (CPAs) is mandatory for all other banks.

JA group, can transform themselves into joint stock companies with capital investment by JAs.

- 7) Certified farmers<sup>2</sup> and sales/marketing professionals should make up more than half the board of directors of JAs from April 2019.
- 8) JAs which do not operate banking and insurance businesses can transform themselves into joint stock companies or consumer cooperatives.

## **Background**

The JA group is made up of organizations at the municipal, prefectural and national levels, with JA Zenchu representing the entire JA group at the top. Under JA Zenchu, there are 47 Prefectural Central Union of Agricultural Cooperatives (one in each Prefecture) to supervise municipal level JAs (hereinafter referred to as “JAs”). The National Federation of Agricultural Cooperative Associations (Zen-Noh) conducts an agricultural marketing and farm input and equipment supply business, with eight Prefectural Economic Federations of Agricultural Cooperative Associations. As credit business organizations, there are the Central Cooperative Bank for Agriculture, Forestry and Fisheries (the Norinchukin Bank) at the national level, 32 Prefectural Credit Federations of Agricultural Cooperatives at the prefectural level, and JA Banks that JAs operate at the municipal level. For insurance business, there are the National Mutual Insurance Federation of Agricultural Cooperatives (Zenkyoren) at the national level, Zenkyoren Prefectural Headquarters at the prefectural level, and JA Kyosai that JAs operate at the municipal level.

There are 657 JAs at the municipal level capitalized with 1.6 trillion yen (US\$14.7 billion) from 10.5 million members in 2017. These JAs provide extension service, agricultural marketing and farm input and equipment supply businesses, banking business as JA Banks, insurance business as JA Kyosai and other businesses. The purpose of JA reform is to overhaul the JA group’s hierarchy structure by stripping JA Zenchu’s authority to audit management and financial statements of JAs, and to encourage competition and infuse greater market orientation into JAs.

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<sup>2</sup> Farmers whose plans to improve farming management are certified by municipal governments. Certified farmers are eligible for the GOJ’s low interest financing and consolidated farmland utilization.

## The JA Group Structure

Municipal Level	Prefectural Level	National Level	Business
JAs (Japan Agricultural Cooperatives) (657*) (JA Banks and JA Kyosai are part of JAs' businesses)	Chuokai (Prefectural Unions of Agricultural Cooperatives) (47)	JA Zenchu (Central Union of Agricultural Cooperatives)	Represent and coordinate the JA group (JA Zenchu)
	Keizairen (Prefectural Economic Federations of Agricultural Cooperatives) (8)	Zen-Noh (National Federation of Agricultural Cooperative Associations)	Marketing and supplying
	Shinren (Prefectural Credit Federations of Agricultural Cooperatives) (32)	The Norinchukin Bank (Central Cooperative Bank for Agriculture, Forestry and Fisheries)	Credit business
	Zenkyoren Prefectural Headquarters	Zenkyoren (National Mutual Insurance Federation of Agricultural Cooperatives)	Life and non-life insurance
	Koseiren (Prefectural Welfare Federations of Agricultural Cooperatives)	Zenkoren (National Welfare Federation of Agricultural Cooperatives)	Welfare (operate hospitals and clinics and nursing care service)

Source: MAFF

\*in 2017

The JA share of Japanese agricultural production has gradually declined from 55 percent in 1995 to 49 percent in 2017 and their total agricultural sales decreased from 6.3 trillion yen (US\$58 billion) to 4.5 trillion yen (US\$41 billion). JAs have been suffering from a decline in the number of regular members (farmers), and incurring losses from the primary agricultural marketing business. In accordance with shrinking farming populations, the number of regular members decreased year on year to 4.3 million in 2017 while the number of associate members (non-farmers) increased steadily to 6.2 million exceeding the number of regular members since 2009.

In 2017, about 80 percent of JAs reported a loss in their agricultural marketing business while over 98 percent of JAs made profits from their banking (JA Banks) and insurance (JA Kyosai) businesses. On average, each JA incurred a 285 million yen (US\$2.6 million) loss from agricultural marketing business while generated a 349 million yen (US\$3.2 million) profit from banking business and a 234 million yen (US\$2.2 million) profit from insurance business, and as a result, one JA made a 298 million yen (US\$2.8 million) profit in 2017. JA Banks and JA Kyosai bear comparison with Japan's top banks and insurers<sup>3</sup>.

<sup>3</sup> Total deposit balance of JA Banks amounted to 101 trillion yen (US\$930 billion) in 2017 while the deposit balance of the Japan Post Bank was 179 trillion yen (US\$1.6 trillion), followed by three mega banks: 150 trillion yen (US\$1.4 trillion) of Mitsubishi Tokyo UFJ Bank, 121 trillion yen (US\$1.1 trillion) of Mitsui Sumitomo Bank, and 121 trillion yen (US\$1.1 trillion) of Mizuho Bank. JA Kyosai's total insurance in force was 117 trillion yen (US\$ one trillion) in 2017 just behind 161 trillion yen (US\$1.5 trillion) of Nihon Life Insurance Company, but above 113 trillion yen (US\$ one trillion) of Daiichi Life Insurance Company.

The Ministry of Agriculture, Forestry and Fisheries (MAFF) is concerned about JAs' management as JA Banks may not continue making profits in future due to negative interest rates and the deteriorating global investment environment. MAFF is worried that JA banks would become a burden for JAs management if JA banks started incurring losses. Therefore, the GOJ would like to separate banking and insurance businesses from JAs, and would like JAs to concentrate their efforts in their primary agricultural marketing business and return profits to member farmers. The JA Bank Law stipulates that if JAs wish, JAs can transfer their banking business to the Norinchukin Bank or JA Prefectural Credit Federations and provide banking service as their agents. However, the majority of JAs maintain profit making JA Banks to cover losses from the agricultural marketing business.

The 2015 revised Agricultural Cooperatives Law enables Zen-Noh to transform itself into a joint stock company, while Zen-Noh maintains its agricultural cooperative status. Also the 2015 revision enables JAs to transform themselves into joint stock companies, general incorporated associations, consumer cooperatives or medical institutions. The law also enables Agricultural Cooperatives Federations to transform themselves into joint stock companies, general incorporated associations, or medical institutions. By the end of 2018, 13 JAs transformed themselves into joint stock companies, and six JAs transformed themselves into general incorporated associations. One Agricultural Cooperatives Federation transformed itself into a joint stock company, and one Federation of Agricultural Cooperatives transformed itself into a general incorporated association. Currently associate members have no use restriction on JA services, and support to make JAs' banking and insurance businesses profitable although bank deposits by associate members are limited to no more than 25 percent of the deposits by regular members. However, the 2015 revised Agricultural Cooperatives Law stipulates that the GOJ investigates the use situation of JAs' services by associate members until March 2021 and consider whether use restriction should be implemented or not.

## **JA Reform Assessment**

Upon completion of the intensive JA reform period, the CPRR positively evaluated price cut efforts in farm input and equipment supply business by Zen-Noh. According to Zen-Noh, it reduced the prices of fertilizers, pesticides, tractors, cardboard boxes, and compound feed between 10 percent and 30 percent by reducing the number of brands and products. For marketing, Zen-Noh increased the purchase of rice and horticulture products from farmers for sale, rather than undertake commission-based marketing. MAFF pushed the JA group for price cuts in line with Agricultural Competitiveness Reinforcement Programs (see [JA7092](#)), for example by establishing a website where farmers can compare prices for farm input materials and equipment, and order products. Compared to 2014, the CPRR toned down its reform demand for the JA group, and CPRR is now looking at regulations that restrict use of artificial intelligence technologies in agriculture.

The CPRR came to an end on July 31, 2019. However, Prime Minister Abe is expected to establish a new body to succeed the CPRR sometime this fall. The new body is expected to continue deliberating use restriction of JA services by associate members.