

ARTICLES

Features and efficiency of direct payment in Japan

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Abstract

This paper aims to overview current agricultural reforms in Japan and examines the features and efficiency of the reforms. In the reforms implemented from 2007, several new types of direct payment will be introduced for accelerating structural change and conserving rural resources. One of the typical features of these reforms is strong control over farming for increasing the size of farms and the number of principal farmers. However, the measures carry the risk of distorting resource allocation and hindering the development of farmers suited to each area. Moreover, the complicated procedures decrease the degree of transparency of the measures. Introducing direct payment with less intervention under lower prices of products would be desirable.

Keywords: direct payment; agricultural reform; structural improvement; Japan

1. Introduction¹

A new "Basic Plan for Food, Agriculture and Rural Areas" was released in 2005. One of the main purposes of the basic plan is to convert existing measures targeted at all farmers and to support production by individual crop. The new measures target selected principal farmers with nonproduct-specific support. This reform was set out in the "Outline for Farm

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Management Stabilization Program (OFMSP)” in October 2005, and formulated as “Direct Payment for Land-extensive farming (DPL)” in “Measures for Farm Management Stabilization (MFMS)”, which will be implemented from April 2007.

OFMSP involves other measures as well, namely “Measures related to Rice Policy Reform (MRPR)” and “Measures to Conserve and Improve Rural resources: Land, Water and Environment (MCIR)”.

MRPR aim to harmonize MFMS with existing support for rice production by separating measures for large farmers from other farmers. MCIR consists of direct payment for conserving common rural resources such as waterways or roads and direct payment for ecological farming. Direct payments for hilly and mountainous areas, etc., also relate to environmental problems, as they were introduced in 2000 for the conservation of multifunctionality, but are classified as direct payments for less favorable areas. Thus, MCIR are the first direct payments for ecological conservation in Japan. These measures are planned to be closely connected and to induce fundamental change in Japanese agriculture.

This paper aims to provide an overview of the current agricultural reforms that will be implemented from fiscal year (FY) 2007 and to examine the features and efficiency of the measures. In the next sections, we first provide an outline of each measure and then an analysis of the efficiency of direct payment in Japan.

2. Outline of agricultural reform and direct payment in Japan

2.1. Measures for Farm Management Stabilization (MFMS)

(1) Purpose

The aim of the measures is to facilitate a response to the strengthening of international regulations as well as to accelerate structural agricultural reforms by limiting targeted farmers.

(2) Outline of implementation

1) Eligible farmers and eligible community-based farming organizations

² Certified farmers and SFOs should be involved in the new system of adjusting supply and demand; rice production quotas are assigned to them, and they should also be involved in measures to increase collection and shipment efficiency (MAFF, 2005d., p. 3-4, 5).

Eligible farmers of all three measures in MFMS consist of certified farmers and members of Specific Farmers Organizations (SFOs)² above a certain standard.

[1] Certified farmers

Certified farmers are expected to be the leaders of the agriculture sector and are defined by the Agricultural Management Framework Reinforcement Law (AMFRL). To be a certified farmer, the farmer should design an improvement plan for his or her farm's management and submit it to a municipality in the region. The application will be accepted if a) the plan is consistent with the basic agricultural plan laid down by the municipality, b) the plan is feasible and c) the plan is satisfactory in regard to efficient land use. Certified farmers benefit from low interest rate loans and various support from the government related to land leases, land consolidation, and pensions, etc. In the case of Shiga prefecture, the targeted annual working hours for certified farmers is 2,000 hours and the targeted annual income is around five million yen. Additionally, to be an eligible farmer, the cultivated land should be at least 10 ha or more in Hokkaido and 4 ha or more in the other districts.

[2] Specific Farmers Organizations (SFOs)

The AMFRL also defines designated community-based farming organizations. They should be Specific Farmers Organizations (SFOs) satisfying the following conditions. The organization is formed voluntarily by local farmers and has partial farm work contracts (e.g., planting and harvesting works and so on) with local farmers in the area (e.g., in the village) where labor for agriculture falls short. The acreage under the contracts should be more than two thirds of total farmland acreage in the area. The organization must also be, or will be, an agricultural corporation that can acquire rights regarding farmland.

The minimum standard for eligible SFO farming is 20 ha, which can be relaxed for less favorable production conditions, ratio of farm income to total income and proportion of farmland involved in production adjustment programs, etc., to reflect regional conditions.

2) Composition of MFMS

MFMS consists of three measures. The first measure is the Direct Payment for Land-extensive farming (DPL) for the four commodities - wheat, soybeans, sugar beet and starch potatoes - to compensate for income

loss because of disparity in production conditions compared with other countries. The second program is the Measure for Mitigation of Revenue Fluctuation (MMRF) designed to mitigate the impact of fluctuating sales revenue on farm businesses and includes a fifth commodity, rice, in addition to the four mentioned above. The third measure is a complementary program to DPL and MMRF.

[1] Direct Payment for Land-extensive farming (DPL)

The direct payment is divided into two parts, a fixed payment and a variable payment. The fixed payment amounts are decided on the basis of past production records³ and compensate for differences between production costs and sales revenue of farms. The payment amounts are linked to the commodity but not to the current level of production. Then, the fixed direct payments are classified into green boxes and called “Green geta” (Japanese wooden sandal).

Table 1 Amounts of DPL based on quantity and quality (yen)

Crops	Payment amounts		Note
	Payment per 10a	Payment per 60kg	
Wheat	27.740	2.110	Rank A and 1st class
Soybeen	20.230	2.736	2nd class
Sugar beet	28.910	2.150	the minimum sugar content is 17.1%
Starch potatoes	37.030	3.650	the minimum starch content is 17.4%

Source: MAFF, 2006a, p.5.

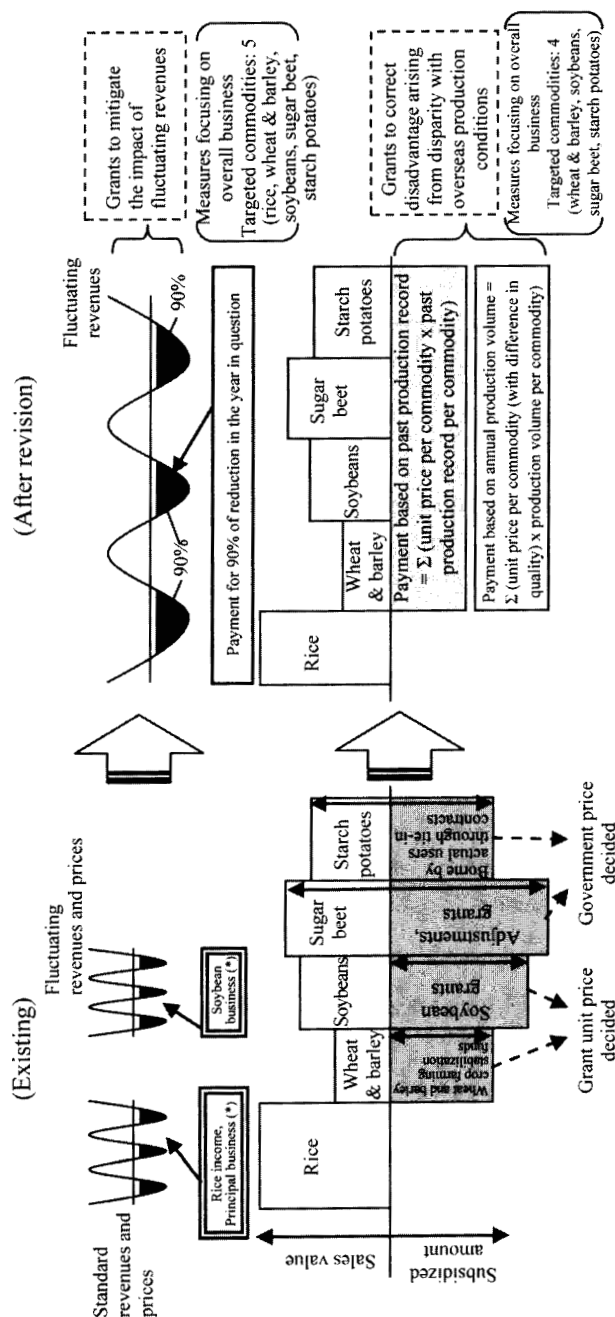
Table 2 Average amounts of DPL (yen)

Crops	Payment amounts	
	Payment per 10a	Payment per 60kg
Wheat	40.400	6.250
Soybeen	28.900	8.540
Sugar beet	41.300	7.170
Starch potatoes	52.900	12.160

Source: MAFF, 2006a, p.5.

The variable direct payment is linked to current production, and the amount of the direct payment for each crop is divided into two types of pay-

³ Records include data from FY 2004 to FY 2006.



Note: (*) Rice income = measures to secure an income basis for rice cultivation, Principal business = measures for business stability of principal farmers, Soybean business = soybean cultivation business stability measures

Figure 1. Comparison of measures supporting land-extensive farming

Source: MAFF, 2005a, p.65.

ments based on quantities and quality of the crops produced at the farm (Table 1). Table 2 shows average payment amounts to a farmer per 10 acres and 60 kg after adding up the two types of payments. The variable direct payment is called “Amber geta” because of the direct link to current production.

Figure 1 depicts how measures for land-extensive farming will be shifted from existing schemes to the new ones. By introducing DPL, support for land-extensive farming will be partially decoupled from production and harmonized with WTO rules much better than support for existing measures, which are perfectly linked to the current level of production of each crop.

The DPL budget will be allocated 170 billion yen in FY 2007. Payment period is five years and payments will start from FY 2007.

[2] Measures for Mitigation of Revenue Fluctuation (MMRF)

Farmers eligible for DPL are also targeted farmers under this measure. MMRF compensates 90% of the difference between the current revenue and the average revenue calculated by yields of the past five years, except for maximum revenue and minimum revenue (see Figure 1). The amount of payment is restricted to the size of the funds reserved by the government for farmers. Target crops include rice and the four crops targeted in DPL. The MMRF budget is 30 billion yen for FY 2007. These measures are called “narashi” in Japanese, meaning “smoothing”.

[3] Comprehensive Measures to Foster and Secure Principal Farmers (CMFSPF)

These measures aim to accelerate structural improvements by introducing new measures, including financial support, for newly entering farmers who are expected to be principal farmers in the future. The budget for this program is 18 billion yen.

2.2. Measures related to Rice Policy Reform (MRPR)

(1) Purpose

The existing rice policy reform needs to be revised to ensure consistency with DPL under the Principle and Outline of Rice Policy Reforms.

(2) Outline of MRPR

MRPR are composed of Measures to Create Producing Areas (MCPA), Measures to Increase Collection and Shipment Efficiency (MICSE) and Measures for Active Use of Paddy fields (MAUP). Eligible farmers under these measures are limited to participants of a new system of adjusting

supply and demand.

1) Measures to Create Production Areas (MCPA)

These measures are introduced to promote voluntary activities to plan regional farming reflecting real situations within areas. Under these measures, three types of grants will be provided, one for establishing a production area, another for securing the basis of rice farm income, and the third for implementing a new system of adjusting supply and demand. The first grant relates to land-extensive farming and promotes conversion of rice production in paddy fields to the other crops' production. The grant will be provided in nonproduct-specific form, and will be divided into two parts, basic and supplementary. The latter part is provided for areas with converted crops in accumulated form. The amounts of the grants are under discussion. Farmers should apply to MICSE for grants.

The grant for improvements in rice farming aims to induce farmers who do not receive DPL to join a new system of adjusting supply and demand by mitigation of income loss⁴. The grant is divided into two parts, general and supplementary. The latter is provided for paddy fields accumulated by principal farmers. The general part of the grant pays 4,000 yen per 10 acres and the supplementary part will provide 3,000 yen.

The grants for these measures are first pooled at the municipal level. A regional council for paddy field agriculture consisting of municipal, agricultural cooperatives and agricultural commissions decides how to use the pooled grants, namely, whether the grants are to compensate for income loss or to promote conversion programs and/or the bringing up of principal farmers.

The grant to fix a new system of adjusting supply and demand aims to encourage farmers to participate in the supply adjustment program for rice. The amount of the grant is under discussion.

The budget for MCPA is 177 billion yen in FY 2007, of which 133 billion yen will be paid as grants to create production areas.

2) Other measures

The Measures to Increase Collection and Shipment Efficiency (MICSE)

⁴ The relationship between mitigation of income loss of nonprincipal farmers and increase of principal farmers is not clear. However, according to MAFF, 2005e, p.12, mitigation of income loss by grant for nonprincipal farmers will contribute to adjusting the rice supply to the rice price and developing principal farmers.

provide subsidies of 4,000 yen per 60 kg of rice shipped to market and encourage participation in a new system of adjusting supply and demand. The Measures for Active Use of Paddy fields (MAUP) promote the production of livestock feed in paddy fields.

2.3. Measures to Conserve and Improve Rural resources (MCIR)

(1) Purpose

The purpose of the Measures to Conserve and Improve Rural resources (MCIR) is to encourage initiatives in the community aimed at conserving and improving the quality of resources such as farmland and irrigation water as well as the environment by supporting collective action of diverse actors in the region and pioneering farming activities in the form of groups.

(2) Outline of implementation

MCIR consists of three pillars, namely, support for ecological collaborative activities undertaken collectively by communities, support for ecological farming activities undertaken by farmers' collectives, and support for stepping up collective activities that initiate advanced ecological farming and raise awareness of environmental issues among citizens. Figure 3 provides an overview of MCIR. The details of the measures are summarized as follows.

1) Support for ecological collaborative activities undertaken collectively by communities

This support aims to keep rural resources, such as farmland and waterways that are social overhead capital, for the provision of staple food and for activating multifunctional agriculture. The requirements for this support are: a) local organizations involving not only farmers but also other local residents or actors (for example, residents' association, PTA, local fire-fighting team, nonprofit organization for environmental activities), to conserve and improve local resources formed in the region, b) local organizations that conserve local resources by checking and cleaning up canals or repairing farm roads, etc., and improve resources for activities such as research of a variety of living in paddy fields or detailed maintenance of common resources⁵.

The support will be paid as of FY 2007 for five years and in the form of

⁵ It is not clear whether or not involvement in production supply adjustment is a precondition of eligibility (MAFF, 2005e, p.4).

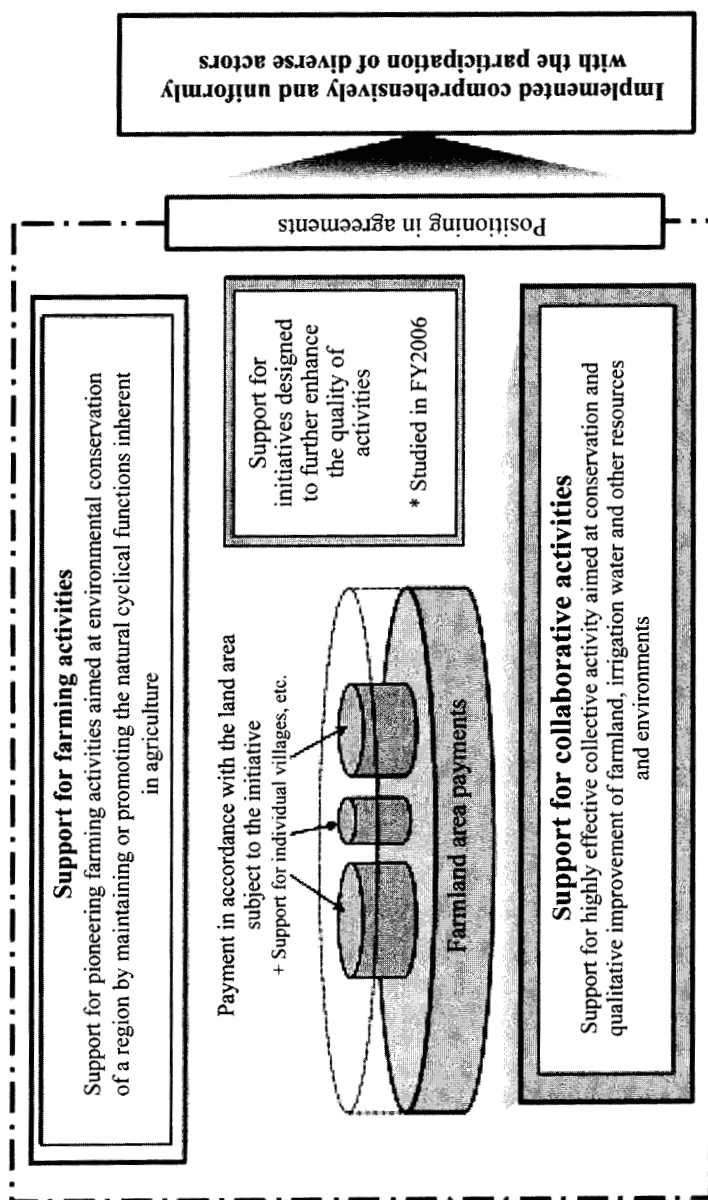


Figure 2. Outline of Measures to Conserve and Improve Rural resources
Source: MAFF, 2005a, p. 71.

direct payments named “basic support” or “farm area payment” based on the acreage of cultivated land. Based on the terms of payment, the support is classified as direct payment. The payment amounts are summarized in Table 3.

Table 3 Amounts of direct payment for ecological collaborative activities (Basic support) (yen/10a)

Land category	Area	The amount of payments
Paddy field	Hokkaido	2.200
	Other areas	1.700
Upland	Hokkaido	1.400
	Other areas	600
Grass land	Hokkaido	200
	Other areas	100

Source: MAFF, 2006a, p.12.

2) Support for ecological farming activities

This support aims to encourage ecological group farming and is limited only to areas where local organizations receive the “basic support” mentioned above. Eligible activities are ecological group farming based on agreements to reduce environmental load from farming and to promote local agriculture. To be specific, the activities should satisfy the following two requirements:

- a) Collective activities joined by most of the local farmers reduce environmental load through shallow plowing to keep clean water, apply compost instead of chemical fertilizer and investigate a variety of living in canals, etc.; and,
- b) Pioneering farming activities carried by a large part of the local farmers to conserve good environments⁶ by reducing chemical fertilizer and pesticide use by more than half the amount used in conventional farming. Innovative farming dramatically reduces these chemicals.

Support is again divided into two parts, basic farming activities and pioneering farming activities. Under the first support program, 100,000 yen is paid to a farmers' group engaged in the activities satisfying requirement

⁶ The farming should be carried out according to the methods defined by the Sustainable Agricultural Law.

(a) above. Support for pioneering farming activities is paid to a farmers' group engaged in activities listed in requirement (b) above, and thus this direct payment is related to acreage managed by ecological farming and offsets the difference in production costs between ecological farming and conventional farming. The payment amounts are summarized in Table 4.

Table 4 Direct payment amounts for collaborative ecological activities (Basic Support)

		(yen/10a)
Crop	Amount of payment	
Rice	3.000	
Wheat, Beans	1.500	
Potato	3.000	
Edible leaves, flowers and stems	5.000	
Vegetable grown in greenhouse	20.000	
Fruits, Tea	6.000	
Flowers	5.000	
Others	1.500	

Source: MAFF, 2006a, p.13.

3) Support for stepping up collective activities

This support aims to promote advanced management of waterways or canal channels for irrigation, e.g., voluntary repair and planting of cover plants on dykes. This support also aims to encourage rural environmentally friendly activities such as building fish ladders in channels, and to encourage establishment of nonprofit organizations (NPOs) for ensuring sound environmental practices. The grant is provided in the form of "promotion costs". The amount of the grant is 100,000 yen or 200,000 yen per group, depending on the level of achievement.

The budget for MCIR in FY 2007 is 30 billion yen, of which 27 billion yen will be provided for support of ecologically collaborative activities.

2.4. Direct Payment system in Hilly and Mountainous Areas, etc. (DPHM)

(1) Purpose

In areas with multifunctions such as conservation of land, watershed protection and the provision of beautiful landscape, it is feared that the multifunctions will be decreased by a reduction in the number of farmers and an increase in abandoned areas from aging and less favorable

agricultural productivity compared with flat areas. The DPHM is paid to maintain multifunctionality by preventing increases in abandoned fields⁷.

(2) Outline of the implementation

1) Eligible regions and farmland

Eligible regions are limited to naturally, economically and socially handicapped areas that are principally confined to the designated regions or areas by laws⁸ for regional promotion in disadvantaged areas. Eligible farmland should be “a mass of farmland” of more than 1 ha, and satisfy one of the following conditions: (1) farmlands whose slope is more than 1/20 in the case of paddy and more than 15 degree of steepness in other cases, (2) farmlands of small size without consolidation, (3) grassland in regions where more than 70% of their total agricultural land is grassland because of low average temperatures, and (4) farmland designated by mayors or governors.

2) Eligible farming activities and amount of payment

A precondition for receiving the payment is to conclude a five-year agreement keeping agricultural production to prevent the abandonment of farmland. Involvement in a production adjustment program is also required in these measures⁹.

[1] Community agreement

In the case of a community agreement, a farmers' group and has to carry out the activities listed in Table 5, which contain both obligatory and selective requirements.

The master plan for community farming includes a perspective of farming of the community for 15 years and an action plan for five years to realize the master plan. Other requirements are related to good agricultural practices or other activities favorable to the environment that enhance the multifunction of agriculture. If the farmers' group satisfies the activities listed in Table 5, basic payments summarized in Table 6 are paid based on the category of land.

⁷ MAFF, 2005b

⁸ The laws are as follows: the Law Concerning the Promotion of the Improvement of Basic Conditions of Agriculture, Forestry and Other Business in Hilly and Mountainous Areas, Mountain Village Development Act, the Depopulated Area Independence Promotion Special Measures law, the Peninsula Development law, and the Isolated Islands Development law.

⁹ MAFF, 2005b, p.30

Table 5 Requirements for basic payment in DPHM

Requirements	Contents
Obligatory requirements	Drawing up master plan of community farming Activities against abandonment of fields Maintenance of waterways and roads
Selective requirements*	Activities promoting land conservation Activities promoting recreation function of agriculture Activities conserving nature

Note: *) One of the activities under selective requirements should be carried out.

Source: MAFF, 2005b.

The payment amounts in undertaking agricultural production in the prescribed area and are determined at a level of 80% of the cost-difference between steep and less steep farmland and plain farmland (see Table 6).

Table 6 Basic payment and additional payment in DPHM

(yen/10a)			
Land category	Classification	Basic payment	Additional payment for improving production system
Paddy field	steep slope	16.800	4.200
	less steep slope	6.400	1.600
Upland	steep slope	9.200	2.300
	less steep slope	2.800	700
Grassland	steep slope	8.400	2.100
	less steep slope	2.400	600
	grassland dominating over farmland	1.200	300
Pasture	steep slope	640	160
	less steep slope	192	48

Source: MAFF, 2005b, modified by the authors

Additional payments for improving the production system are provided only to the farmers' group satisfying the conditions in Table 7, which are divided into two parts: obligatory requirements and selective requirements. Obligatory requirements include creating a plan for conservation activities on farmland that identifies places to repair waterways, build fences to protect against wild animals, recover abandoned lands and so on. The plan has to be carried out by the group. Selective requirements consist of category A and B, which may be chosen by the group. Except for some items like

Table 7 Requirements for additional payments in DPHM

Obligatory requirement	Making a map for activities to conserve farm land, and implementation of the activities		
	A	Increase in productivity and/or profitability ...	Common use of machine and collective work
			Promotion of agriculture with high value added production
		Development of principal farmers	Processing and sale of regional specialties
			Promotion of new entries into agriculture
	B	Activation of multifunction	Increase of certified farmer
			Concentration of cultivated land to principal farmers**
		Development of village farming collectives	Promotion of contract farming to principal farmers
			Promotion of exchange program with people in urban areas
		Concentration of cultivated land to principal farmers**	Program for conservation of nature with school etc.
Cooperative activities for keeping multifunctionality with non farmer in the community			

*) If item A is selected, the farmers' group should carry out two items listed under A, otherwise one of items listed under B should be implemented.

**) Practical requirement of "Concentration of cultivated land to principal farmers" of B is stricter than that of A

Source: MAFF, 2005b, modified by the authors

activation of multifunction and promotion of agriculture with high value-added production as listed in category A, all of the requirements are related to structural improvement measures.

DPHM has an additional payment, named additional payment, for the active improvement of a production system. Table 8 summarizes this payment. For instance, as noted in the first row of the table, enlargement of farming scale indicates that land newly rented to or contracted with a certified farmer or a new entry for more than five years is eligible for the payment. The requirements of this payment are more strictly oriented to structural improvements compared with other payments in DLHM.

[2] Individual agreement

A principal farmer can receive DPHM if his total farmland area, including rental and contracted land, is more than 1 ha in a mass form or 3 ha in any form¹⁰.

¹⁰ In Hokkaido, the threshold is 30 ha to paddy and upland and 100 ha to grassland.

Table 8 Additional payment for active improvement of production system
(yen/10a)

Category of additional payment	Type of land	Amounts of payment
Enlargement of farming scale	Paddy field	1,500
	Upland	500
	Grassland	500
Accumulation of farmland to principal farmers	Paddy field	500
	Upland	500
Recovering of abandoned farmland	Paddy field	1,500
	Upland	500
	Grassland	500
Establishment of Specific Farmers Corpotation	Paddy field	1,000
	Upland	750
	Grassland	750
	Pasture	750
Establishment of agricultural production corporation	Paddy field	600
	Upland	500
	Grassland	500
	Pasture	500

Source: MAFF, 2005b

3. Features of direct payment in upcoming policy in Japan

Direct payment implemented in Japan has common and unique features summarized as follows.

3.1. Organization-oriented measures

One of the outstanding features is that organization-oriented measures are combined with direct payment. Tables 9 and 10 summarize major direct payments mentioned in previous sections in terms of purpose, eligibility, size of payment, budget and so on. These tables show that all of the direct payments have preconditions requiring organizational activities. For example, in the case of support for ecologically collaborative activities by the community, a local organization consisting of farmers and nonfarmers (residents' association, PTA, local fire-fighting team, etc.) should be newly organized to receive the payment. Two types of direct payment under MCPA require Regional Councils for Paddy Field Agriculture that decide how to

Table 9 Overview of direct payment in Japan (1)

Direct payment	Direct payment to farmers in hilly and mountainous areas	Direct payment for land-extensive farming (DPL)	Grant to create production area
Year of introduction (FY)	2000	2007	2007
Name of measures		Measures for Farm Management Stabilization	Measures to create production area
Purpose of introduction	Maintenance of multifunctionality by keeping farmland	Strengthening of fitness to international regulations and acceleration of structural reform	Promoting voluntary activities to plan regional farming based on the real situation
Eligible farmers	A farmer or community based farming group with agreement to keep farmland for 5 years	Specific farmers organizations and certificated farmers of which size over thresholds	Farmers involves with adjustment program of supply and demand of rice and measures to increase collection and shipment efficiency
Area (1,000 ha)	654	270	?
Regulation for multi-functionality	Selective requirement for keeping multi-functionality	—	—
Basic payment (yen/10a) *	300-21,000	28,900-52,900	?
Involvement to production adjustment *	Yes	Yes	Yes
Budget (billion yen in 2007)	21,8	140	133
Measures to promote organization	Farmers should form a group with an agreement and cultivate more than 1 ha.	In the case of specific farmers' organization, more than 2/3 of farmland of the region should be managed by the organization so on.	A regional council decides how to use lands pooled at level of municipal.
Measures to improve structure	Additional payments for improving production system	Eligibility is given only to certified farmers and specific farmers organizations	The payment can be used for bringing up principal farmers
	Additional payments for active improvement of production system	The threshold which farm size of applicants should cross is set much higher than average farm size.	
Linkage to current production level	Yes	?	Yes
Note	Budget value is from 2006 and area is 2005 acreage	The basic payment is an average value. The area is an estimated value (see. MAFF, 2006b).	

Note: *) Basic payment shows basic part of each direct payment without additional payments.

*) Involvement to a new system adjusting supply and demand

Table 10 Overview of direct payment in Japan (2)

Direct payment	Grant to secure basis of rice farming income	Support for ecological collaborative activities by communities (SECA)	Support for ecological farming activities by farmers' group
Year of introduction (FY)	2007	2007	2007
Name of measures	Measures to create production area	Measures to conserve and improve rural resources	
Purpose of introduction	Mitigation of income loss due to price reduction of farmers who do not receive DPL	Maintenance of rural resources	Encouragement of ecological group farming
Eligible farmers	Farmers involved with adjustment program of supply and demand of rice and measures to increase collection and shipment efficiency, and not involved with DPL.	Farmers involved in local organization for maintenance of rural resource	Farmers who are involved in SECA and ecological group farming based on agreements to reduce environmental load by farming and promote local agriculture
Area (1,000 ha)	500	?	?
Regulation for multi-functionality	—	Maintenance of common resource by local organization	Eligible area limited to region that receives SECA/Collective activities by most of local farmers for reduction of environmental load Pioneering farming activity carried by large part of local farmers for environmental conservation
Basic payment (yen/10a) *	4,000 as basic part, 3,000 as additional part	100-2200	1,500-20,000
Involvement to production adjustment *	Yes	?	?
Budget (billion yen in 2007)	29	26	3
Measures to improve structure	The payment can be for bringing up principal farmers	—	—
Measures to promote organization	A regional council decides how to use pooled grant at level of municipal.	Local organization concerning local resource involving not only farmers but also other local residents or actors is required	Large part of local farmers for environmental conservation should be formed
Linkage to current production level	Yes	No	Yes
Note	The area is an estimated value by MAFF, 2006b. Eligibility of farmers is defined by MAFF [4].		

Note: *) Basic payments shows basic part of each direct payment without additional payments.

*) Involvement to a new system adjusting supply and demand

allocate the payment among farmers. The regional council was initially established to draw up a vision for regional agriculture under the Guidelines for Reform Measures of Agricultural Structure of Paddy Field in 2004.

Organizing farmers for keeping farmland in hilly and mountainous areas (DPHM), enlarging farm size (DPL) and promoting ecological farming (MCIR) are also required. DPHM and MCIR encourage farmers to form a new group and DPL requires establishing farmers' group activities that can manage almost all farmland in the region and also manage the land under the corporation in the future.

Above all, activities of community-based farming groups are expected to play an important role in Japanese agriculture, and MAFF (Ministry of Agriculture, Forestry and Fishery) puts emphasis on these activities in its measures. According to MAFF¹¹, community-based farming is defined as cooperative farming by farmers living in a specially united region such as a hamlet with activities like conversion of crops produced in paddy field from rice to other crops in massive form, common use of machines bought by the group, collectively conducting production and sales and so on.

Except for a few measures, most of the measures characterizing direct payment in Japan's agriculture are not seen in other countries¹². A considerable number of researchers in Japan have thought that this type of collective farming is crucial for keeping farmland among northeastern Asian countries. In reality, it is quite special to Japan's agriculture policy.

3.2. Structural improvement measures incorporated in direct payment to compensate for income loss

Structural improvement measures linking direct payment to compensation of income loss is common in Japanese policy, but quite exceptional in other parts of the world¹³. A typical direct payment of this kind is DPL, which will be introduced in 2007 to compensate income loss resulting from low price levels, but only for certified farmers with cultivated land over 4 ha or SFOs with cultivated land over 20 ha. The uniqueness of DPL is shown in

¹¹ MAFF, A glossary of agriculture

¹² Direct payment to farmers keeping Alp or Alm might require collective work in some cases, and direct payment for ecologically friendly farming and less favorable areas in Korea require group activities.

¹³ Direct payments for retirement are a well known measure to encourage structural improvement by retirement.

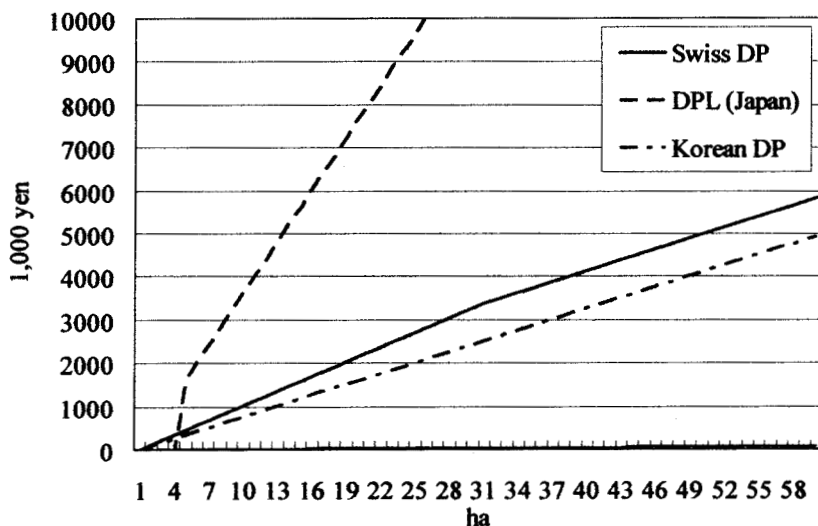


Figure 3 Comparison of major direct payments among Japan, Switzerland and Korea

Notes: Data sources are MAFF, 2006a, FOAG, 2006 and Kuramochi, 2005.

The amount of payment is expressed in yen. Exchange rates are 95 yen/Swiss franc and 0.12 yen/won.

The DPL line indicates the amount of payment to wheat.

Figure 3, which compares the relationship between size of eligible cultivated land and total payment of major direct payment linked to income compensation in Japan, Switzerland and South Korea.

In the figure, the Swiss direct payment (DP) shows “general payment for all agricultural land” and the Korean DP expresses “direct payment for compensating income loss due to rice farming”. The Swiss DP accounts for more than 40% of the total budget for direct payments¹⁴ and the Korean DP accounts for more than 80% of total direct payments. Japan’s DPL has also been assigned the largest budget among all direct payments in Japan (see Table 9, 10). All of the payments in the figure play a central role in the direct payment program in each country.

The amount of the Swiss payment per unit area is reduced in stages if

¹⁴ FOAG, 2004, p.149

farm size is over 30 ha¹⁵. Swiss DP is provided regressively and supports small- and mid-sized farmers, and apparently slows down the speed of structural improvements, which is in striking contrast to the Korean DP and Japan's DPL. The Korean DP had an upper limit, namely 2 ha in 2002, 3 ha in 2003 and 4 ha in 2004. However, the limit was abolished from 2005 and the payment is provided proportional to size of cultivated land without any restriction. DPL is provided only to larger farmers with the threshold set at a level 2.5 times larger than the average size of Japanese farms. Both payments contribute to enlarging the average farm size. In particular, DPL is more sharply oriented to cut off small size farmers and to promote structural improvements, in contrast with the Korean DP¹⁶.

According to the MAFF planning board, three reasons were behind the introduction of DPL: a) to ensure stable farming of the principal farmer for the middle and long term, b) to motivate farmers to reorganize regional agriculture and to center land use on principal farmers, and c) to make the purpose and target for acceptance of measures clear to the nation¹⁷. The board judged that budgets in which funds are distributed to all farmers rather than a specific target group would not be accepted.

Embedding measures for structural improvement into direct payment for compensating income loss are common. As shown in Tables 9 and 10, the measures are also incorporated into DPHM and MCPA. In DPHM, additional payment is provided if a farmers' group satisfies preconditions related to structural improvements, such as concentration of cultivated land to principal farmers or establishment of some type of corporation¹⁸. In MCPA, after direct payment is allocated to a regional council temporarily,

¹⁵ The reduction rate is 25% if farm size is over 30 ha and less than 50 ha; reduction rate is 50% if farm size is over 50 ha and less than 100 ha; no additional payment is provided if farm size is over 100 ha.

¹⁶ Note: direct payment to small size farmers will be carried out by grant to create production area under MCPA. Then the actual difference in direct payment between large and small farmers is not large, as depicted in Figure 3. However, the basic payment structure is not changed in the figure even if the grant mentioned above is considered because payments to smaller farmers are much smaller than payments to larger farmers.

¹⁷ Planning board, 2004, p.10

¹⁸ Generally, direct payments for less favorable areas aim to maintain the agricultural structure by compensating for income loss, which is not easily consistent with structural improvement. In the EU, Switzerland and Korea, the payment has been clearly separated from structural policy.

the council should decide how to allocate the payment among farmers. As a major option of the allocation, it is listed and recommended that the payment be used for bringing up principal farmers or to accumulate farmland to them.

3.3. Late implementation of measures for ecological activities and farming

Japanese direct payment for ecological farming will be introduced in FY 2007. The introduction is far behind the Swiss agricultural policy that introduced direct payment named "ecological direct payment" during the agricultural reform in 1992. The Korean government introduced direct payments in 1999 that included grants for "ecologically friendly agriculture" and "ecologically friendly livestock production".

Japanese direct payments for ecological activities lag in terms of their share of total direct payment. In Japan, 30 billion yen will be provided as support for ecological activities and farming, and the share remains at 0.8% of the total direct payment budget listed in Tables 9 and 11. However, the Swiss government has so far provided 495 million francs as ecological direct payment to farmers, which accounts for 20.0% of the total direct payment budget.

4. Effectiveness of direct payment in Japan

4.1. Selective payment or uniform payment

Needless to say, efficiency of direct payment in Japan cannot be discussed based on performance because most of the direct payments will only be implemented from April 2007. In this paper, effectiveness will be argued from the viewpoint of fitness for its purpose.

As mentioned in the last section, structural improvement measures incorporated into direct payment for compensating income loss are the outstanding feature of direct payments in Japan. The measures are carried out in line with a perspective that accelerates expansion of farm size and reduces the burden of the government in earlier stages. However, the measures might risk market distortion, because they force farmers to increase farm size more than the threshold level or to form new community-based farming satisfying the SFO condition for receiving DPL. Direct payments targeted at

large farmers would temporarily increase their rent-bearing capacity and land would accumulate in their hands. However, the farming may not be sustainable in the long run. Removing the obstacles that have hindered structural improvement for long time rather than introducing selective direct payment is more important¹⁹.

DPL is also noted to cause a new problem called “Kashi hagashi”. This problem is where small farmers take back their farmland lent to large size farmers to satisfy DPL preconditions such that the size of SFOs should be over 20 ha, and/or that SFOs should contract farmland more than two thirds the total farmland in the area.

This reality is inconsistent with principles mentioned in the outline of the rice policy reform²⁰ that aim to stabilize and develop paddy field farming based on “market-led production”.

According to provisional information concerning applications to DPL implemented in 2007, more than 1,000 certified farmers and around 400 SFOs in Shiga prefecture are expected to apply for DPL in the autumn of 2006 and the spring of 2007. Contrary to Shiga prefecture, in the Kochi prefecture the number of certified farmers is only one or two and the number of SFOs is estimated to be zero. While Shiga is well known as a chief production area of rice, Kochi is a chief production area of vegetables grown in greenhouses.

Table 11 compares agriculture between both prefectures. Area of cultivated land and paddy field in Shiga prefecture is almost double that of Kochi prefecture. The average size of farms in Shiga prefecture is 37% larger than that of Kochi prefecture. A remarkable difference between the prefectures is the planted area of soybean and wheat that is converted from rice production. In Kochi prefecture, converting rice production to other crops is not easy because of heavy rain and high temperature that cause disease and low yields in other crops. Vegetable production in greenhouses, which are scattered all over the area, prevent land consolidation and development of land-extensive farming. Shiga prefecture is favorable for land-extensive farming, especially in the eastern part, where farmers cultivating more than 100 ha have emerged.

¹⁹ See Okamoto et al., 2006

²⁰ MAFF, 2002, p.1

Table 11 Comparison of agriculture between Shiga prefecture and Kochi prefecture

	Shiga	Kochi
Total cultivated land (ha)	54,800	28,900
Paddy field (ha)	50,400	21,800
Upland (ha)	4,350	7,080
Number of farmers	45,250	32,840
Average size of farmer (ha/farmer)	1.21	0.88
Planted area of rice (ha)*	35,100	16,100
Planted area of soybean (ha)*	4,050	316
Planted area of wheat (ha)*	7,160	3

Source: MAFF, 2005. Pocket edition of statistics on agriculture, forestry and fishery

As a result, MFMS will support farmers in favorable areas like Shiga prefecture by DPL, but will not support farmers in less favorable areas, which is not inconsistent with the purpose of MFMS. However, it should be discussed whether or not support targeted at larger farmers is necessary to promote structural improvements. In favorable areas like Shiga prefecture, where large farmers have emerged, structural improvements will be accelerated by a proper combination of low price levels and decoupled direct payment.

Moreover, although DPL has been emphasized as a decoupled payment, the payment is actually linked to the conversion program requirement for a certified farmer, who should be involved with the system for adjustment of farmers' supply and demand. The farmer should assign a prescribed part of the paddy field for crops except rice. SFOs are required to join the system as well²¹. In this sense, DPL is implicitly linked to current production, which becomes one of the immense obstacles for farmers in Kochi prefecture in accessing DPL.

Examining these domestic and international problems, an alternative to DPL might be simpler payments, namely decoupled and uniform payments to paddy fields with a lowered price of rice.

²¹ MAFF, 2005d, p.4

4.2. The necessity of enforcing ecological payment

Contrary to heavy intervention in farming to accelerate larger farm sizes, control over farming by MAFF concerning the ecology is not as strict. Support for ecological farming activities involving MCIR surely requires the reduction of chemical fertilizer and pesticides used on farms, and support for stepping up collective activities will also require a high level of activities to conserve the environment. Other MCIR and DPHM measures require only maintaining the conventional management of resources.

In 2005, MAFF released “Standard of Agricultural Activities Harmonized with Environment”²², a Japanese version of cross compliance. For crop production, seven items are listed as standard activities to be followed. For livestock production, six items are listed (see Table 12). However, except for the treatment of livestock excrement and compliance of laws related to the environment, the standard activities are ambiguous, are not defined by laws and are not explained with numerical criteria.

Relaxed ecological regulations are partially supported by the multifunctionality argument for agriculture. Since the establishment of the Basic Law of Agriculture in 1999, multifunctionality is stressed as a base for supporting existing agriculture. The logic is that agriculture should be supported to maintain multifunctionality because the basis of multifunctionality is existing agriculture. A typical example of this is DPHM. The direct payment is paid according to differences in costs between flat and hilly or mountainous areas, and contributes to maintaining existing farming in these areas.

It should be noted, however, that multifunctionality can be retained not only by supporting existing farming. For example, open spaces in rural areas can be maintained not only by rice production but also by pasturing cows, which has a much lower cost than rice production. Moreover, terraced paddy fields do not always contribute to the flood mitigation thought to be a representative multifunction of paddy fields. Many terraced paddy fields on landslide areas still easily have landslides after floods²³.

Before discussing the importance of existing farming, specifying which multifunction should be maintained and what sort of production is suitable

²² MAFF, 2005g

²³ Japan Society of Erosion Control Engineering, 1992

to it should be more practically discussed. Such argument will encourage conversion farming and stretch the direct payment budget related to conservation of the environment.

Table 12 Standard agricultural activities harmonized with the environment

Crop production	Livestock production
Active use of organic fertilizer	Compliance of the Law of Livestock Excrement
Effective and efficient use of fertilizer	Prevention of effluvia and insects
Effective and efficient use of agrochemicals	Active use of excrement of livestock
Optimal treatment of waste	Compliance of the Law related to the environment
Reduction of energy use in production	Reduction of energy used in production
Collection of new information	Collection of new information
Use record of agrochemical and fertilizer	

Source: MAFF, 2005g.

5. Concluding remarks

The Japanese government has closely monitored, guided and controlled farming practices since before World War II, and this is still the case in the current reform. MAFF prescribes strict requirements for providing direct payments. The new requirements are designed to help farmers achieve the goals defined by MAFF.

This type of policy has been outdated. In the case of ecological direct payments, farm activities being restricted by the government to conserve the environment and landscape and to protect animal welfare is justified and accepted. However, intervention in farming for accelerating the enlargement of farm size should not be treated as equal to that of ecological direct payments. Such intervention has the risks of distorting resource allocation, violating international agreements, and decreasing the degree of transparency of the measures because of complicated implementation.

The introduction of direct payment means that the burden of agricultural protection is transferred from consumers to taxpayers. Then, policy transparency and consensus on direct payment among taxpayers are indispensable. However, the current system of direct payments does not fully satisfy

these conditions. Because of its complexity, neither taxpayers nor researchers are able to easily understand the whole system.

Further reform will be necessary to introduce new measures that ensure that the activities of farmers are independent of the government and that establish the transparency of the policy.

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