

Interview with Kazushi Saito, President and Owner of “Izumi No San”, “Shonai Kome Kobo” and “Maister”.

Will Agriculture Be a Leading Industry in Japan Following Conclusion of TPP?

By Japan SPOTLIGHT

The Trans-Pacific Partnership (TPP) trade negotiations were finally concluded on Oct. 5, 2015 in Atlanta in the United States at the Trade Ministers Meeting of the 12 member countries. Although it will take time for the member countries to ratify the agreement, the trade liberalization agreed upon in this mega-regional FTA will soon begin to impact the industries and economies of these countries. Japanese agriculture is one such industry. But irrespective of the TPP, Japanese agriculture is expected to play a key role in the restoration of local Japanese economies, the key theme of our cover story in this issue. At present, Japanese agriculture is not considered a very competitive sector in Japan and objections to the conclusion of the TPP were concentrated on this sector during negotiations. So how can Japanese agriculture live up to this expectation? Will the TPP strengthen its role and contribution to local economies by encouraging Japanese farmers to export more if their partners' trade barriers are lifted?

Japan SPOTLIGHT interviewed Mr. Kazushi Saito, president and owner of three farming companies — “Izumi No San” (Agricultural Production), mainly engaged in the pig livestock business, “Shonai Kome Kobo”, a rice distribution business, and “Maister”, a rice-cleaning factory. He is considered one of the most innovative and ardent advocates of agricultural reform in Japan and of turning Japanese agriculture into a key exporting industry.

Introduction

JS: “Abenomics” is now trying to revitalize Japan’s local economies, on the assumption that young people with good jobs in restored local economies will be happy to have a family and many kids and thus stop the trend of depopulation, a primary reason for continuing deflation. Agriculture, whatever the effects of the TPP, will be one of the sectors expected to contribute to such restoration.

I believe you have done lots of work so far on promoting the renovation of Japanese agriculture. Could you briefly introduce yourself and your farming business?

Saito: I am running three companies now: “Izumi No San”, the parent company focusing on pig farming and rice retailing, and its two subsidiaries, “Shonai Kome Kobo”, a rice distributor, and “Maister”, a rice-cleaning



Kazushi Saito, President and Owner of “Izumi No San”, “Shonai Kome Kobo” and “Maister”.

factory. My father founded a farming corporation in 1970, when it was unusual. In 1990, in succeeding him, I turned it into a limited liability company. Our main business is pig farming. In 1993, when we had a serious shortage of rice production due to an unprecedentedly cool summer, our company was asked by many people to sell rice by contract, since they found it difficult to buy rice in Tokyo. Fortunately, we had many friends among the rice farmers in our neighborhood, because our pig farm was located in the midst of rice fields and we could provide fertilizers to them. In 1994, one year after the serious shortage of rice, we started collecting rice from our rice farmer friends and distributing it to consumers' homes in collaboration with the farmers. Though more than 20 years have passed since then, we have long-time customers such as those continuing to buy rice from us following their parents' generation.

I myself have been involved in the agriculture ministry's Advisory Committee activities since 1995 when the Staple Food Control Act enabling the government to intervene in

agricultural production was abolished and a new policy encouraging freedom in producing and selling agricultural products started to prevail.

Our rice distribution business gradually grew bigger and bigger and finally 100 rice farms joined us and sales totaled 500 million yen. Then we decided to found a new company invested in by each farm. In 2003, we founded “Shonai Kome Kobo”, in which 120 rice farms currently invest.

After that, we thought it would be useful to have a rice-cleaning factory in distributing rice among consumers or supermarkets and restaurants. So we established “Maister” which has a rice-cleaning factory and rice-cake assembling factory and also a 9-hectare field for rice crops.

Current Situation of Japanese Agriculture

JS: Could you tell us your views on current Japanese agriculture and how you think the TPP will affect it?

Saito: We are certainly not living in a rosy world. Agriculture in local Japanese economies has, I believe, begun to collapse. I have been at the forefront of TPP promotion in Japan and saying that with the TPP we can expect a change of rules in Japanese agriculture and a change of the agriculture protection mechanism. Without these changes, we cannot save our farm sector from collapse. Our farming population is seriously aging; its average life span is now 67 years and the population itself has declined to less than 2 million and the farms to 1.15 million. In less than 10 years, these numbers will be half and so our agricultural production will come from a farming population of less than 1 million and only 500,000 farms.

In “Shonai Kome Kobo” our 120 farms learn agriculture technology from each other and young competent farmers are emerging. In “Maister” we promote a variety of technological developments enabling us to provide useful advice for new entrants into agriculture, such as large business enterprises, correctly predicting the future drastic decline of the farming population. We feed the outcome of these developments to the farms joining “Shonai Kome Kobo”. For example, cultivation by direct seeding is now considered a cost-saving technology as you do not have to raise seedlings, compared with transplanting rice seedlings which is a traditional Japanese rice-planting method. Through this mutual learning process, around 100 of our farms have mastered this technology. A couple of years ago, we also became engaged in producing rice for feeding pigs and the facility for this was built up last year and is now working at full capacity.

We will also have to be well prepared for frequent changes in agriculture policies. We feed such information on agricultural policy changes as well as the changing economic environment to our members and try to use the land given up by farming owners due to their age for continued agricultural use. It is by these means that we can feel the collapse of Japanese agriculture is proceeding at a high speed now.

Young People & Agriculture

JS: Are there young people working for your companies?

Saito: We actually have very few people working in our three companies, only a little more than 10. We outsource all kinds of work to experts in each area. For example, shipments of rice — since many tons need to be moved immediately — are outsourced to transportation companies during the high season. With such outsourcing we can save costs. At this moment, in our company we have one 25-year-old woman running an 8.8 ha farm. We are doing our best to achieve a management scheme in which one person can run 20 ha of farmland. I believe that would be the most efficient production system.

Photo: Shonai Kome Kobo



JS: I have heard about a number of corporations trying to enter the agriculture business recently and also that young people seem to be getting interested in starting up their own business in the agriculture sector. The current policy of changing the Agriculture Association Law does seem to be encouraging such new entries. Could this revitalize our local economies?

Saito: To be frank, this law revision will not be good enough for such revitalization. Many farmers and people within the Agriculture Association have not yet fully understood its implications. We will see a visible impact after April 1, 2016 when the new law comes into effect.

JS: What do you think about education for the young people interested in agriculture?

Saito: The Japanese government has created a new system to subsidize the people newly employed in agriculture to the tune of 1.5 million yen. They have a keen interest in human resources development for such newly employed.

However, they cannot start in agriculture only with such a subsidy, since as all farming people know, you need 100 million yen to start a rice farm and 30 million yen to start a vegetable farm. You cannot start it without any trucks, combine harvesters, rice-planting machines, greenhouses or operating facilities. Farms like ours have been working in agriculture for a long time and are all equipped with such machines. The newcomers do not have even a spade or a schop.

We will need to think about our own food security very carefully. This could lead to the restoration of our agriculture and an increase in the farming population. At this moment, Japan imports more than 60% of its total food consumption. Will this work well in the future too?

I believe time will fix this problem. With the decline of Japanese agriculture due to aging, the farms with good technology and sufficient land, having established a cost-efficient production method, would survive and play a pivotal role in fulfilling the needs of food security.

Technology & Agriculture

JS: What do you think about the utilization of information and communications technology (ICT) and other new technologies in raising competitiveness?

Saito: Knowledge alone is not good enough to achieve success in agriculture. You need to have working experience and statistical information in your mind. It is difficult to explain this clearly in words. But, for example, you should be able to predict today's weather simply by judging from the clouds of the sky. An analysis using climatical data would not be good enough to achieve good crops in agriculture.

Yes, of course, I know that there would be a sensor with a solar panel to control the water levels used in farming by automatically opening and closing the sluice gates to the farms. But this is the simplest technology and in countries like the United States or European countries this was already in use decades ago. We cannot catch up with them even after adopting such technology at this stage.

In those countries even harvesting is done mechanically now, though in Japan it is still done by human manual labor. For example, in the case of vegetables, in taking plant leaves and washing the mud from them and packing them for the market the cost of such manual labor would be around 30% of the total harvesting cost. The technology applied to similar kinds of operation in other private business fields is widely used as a matter of course, but there seem to be lots of such technologies that are not used in agriculture at all.

Impact of TPP on Pig Breeding & Rice Growing

JS: That means there must be lots of room for improvement in the productivity of Japanese agriculture. Will the TPP have any impact on your other business, pig breeding?

Photo: Shonai Kome Kobo



Rice farmers in Nagai city, Yamagata Prefecture. They produce rice named Nogawa Seiryu Mai, grown by using clean and fresh water from the Nogawa River without active drainage.

Saito: There will be little impact. Even now, we import 50% of domestic pork consumption. The challenge for pig breeding is not the TPP but the drastic fall in grain prices which we are facing now. In the US, they have produced abundant crops these past two years and we have an excessive inventory of feed. In the US, they increase the stock of pigs by breeding by twice or three times as the price of grain falls. At this moment, China imports most of this increased pork production by the US. However, if China does not import such quantities as now in the future, there will be a huge excess capacity of pigs. Since agriculture is global, US grain production would easily affect Japanese agriculture overall, including pig breeding and cow breeding.

As I said, Japanese agriculture is now facing the question of aging. While the farming population is being halved, how can we respond effectively to market pressure to double pig breeding due to the falling price of grain and the US production increase? In reality, farms expanding production in response to this would go bankrupt. Generally speaking, a business could gain profits by expanding its scale of production, since that would lead to cost reductions. But this theory of the merit of scale does not work in agriculture. In particular, in the case of vegetables, the season of production is fixed and if too much is produced in a certain period, it would lead to excess supply and a drastic fall in price at the moment of shipment to the market. Thus it is very difficult for a farm to control the appropriate amount of production.

In the case of rice, with government controls the price of rice will not decrease in response to excessive supply. In 2012, the year following the Great East Japan Earthquake, rice prices increased significantly due to a drop in production caused by the disaster, so sushi restaurants and convenience stores made their sushi and *onigiri* (rice balls) smaller at the same cost in responding to this. Now we have price stability, but they have not restored their sushi or *onigiri* to the original size. At the time of the disaster, not only the price of rice but also those of vegetables and meat soared and restaurants suffered from a loss of profits. But these past couple of years they have been enjoying high profits due to high prices and revived demand. Consumers in Japan should take note of the reality

of the market and apply pressure to lower these increased prices in the market. But that is not the case.

I assume it will take around 10 years for the TPP to be put into effect following its ratification. Before then we will probably see many farmlands abandoned in the next five years in Japan due to the aging of the farming population, and then food retailers and restaurants will not be able to provide enough food in our country. The food distribution business will need to be involved in planning to build up new farms by taking advantage of these abandoned farmlands. Even after this year's harvest, there are many farms that will not produce any more next year. There have been some so far that would like to expand their cultivation area by taking those farms that cease to produce, but since they know that scale expansion will not lead to cost reduction, those farms that cease to produce next year will, I guess, be eventually abandoned forever.

Exporting Japanese Agriculture

JS: As the aging of society continues in Japan, do you think there will be many newcomers to agriculture, assuming that Japanese agriculture becomes an export business due to the growing popularity of Japanese cuisine overseas?

Saito: Yes, and that is the only way for Japanese agriculture to survive. Keeping a farm that has been inherited from one's ancestors will not produce any profits. I truly expect that young people will get involved in agriculture after the older people retire over the next five years. Some large companies in the food service industry are already starting to enter the agriculture sector.

Exporting has not started in earnest yet, because prices are not low enough yet for exports. However, the needs of Japanese restaurants abroad are increasing and there are many requests for exports of Japanese agricultural products. The rice production capacity in Japan is around 12 million tons a year and our domestic consumption of rice is around 8 million tons, and thus 4 million tons would be excess supply. Total rice consumption around the world is about 40 million tons. This means that we should get around 10% of the world rice market. I think this is possible. We can provide Japanese rice to all the Japanese restaurants in the world.

But to achieve this, we should lower the domestic price of rice to make Japanese rice competitive enough to win the competition against imports from overseas and also enable Japanese rice farmers to export. Japanese agricultural policy needs to shift from protection by tariffs to subsidies for farmers. Direct subsidies for farmers, as in Europe, will be necessary to make it possible to lower domestic prices.

JS: In other words, if we can change our existing policy we will be able to realize the great potential of Japanese agriculture. Would it be possible for agriculture to be a staple exporting sector in Japan?

Saito: Yes, indeed. Japan is the only country that can produce very sticky Japanese rice. There is a strong need for it among all the

Japanese restaurants in the world.

JS: As the number of retired farmers increases from now on, we will need great efforts to promote the potential of Japanese agriculture and encourage young people to enter the sector.

Saito: Yes. But since our time is limited, I guess large enterprises' entries into agriculture would be the most effective way, rather than educating young people interested in agriculture, to prepare for the TPP and turn Japanese agriculture into an export business. We should create large companies at 100-500 million yen in investment per company and recruit people who have already worked in agriculture as their employees. It would be much more beneficial for a farmer now in Japan to be an employee of a farming company running 300 ha rather than continue to run his or her 3 ha farm.

JS: What would be the merits of such incorporation for farming, as opposed to family-run farms?

Saito: We can share the best know-how in a company like ours with all 100 employees, since each of the 100 workers will think about the best technology individually and we will be able to select the best of these 100 ideas. This is one difference from a family-run farm.

Our company, for example, finds out each year who has produced the most delicious rice and tries to reflect this result in the following year's entire performance in terms of rice quality. The cumulation of such knowledge would be useful for large enterprises in entering into large-scale agriculture with hundreds or thousands of hectares under cultivation. We will be interested in consulting with such big companies entering the agriculture sector from now on.

JS: With regard to exporting Japanese rice, how do you think overseas consumers will evaluate it?

Saito: They like Japanese rice very much. Taiwan and Hong Kong consider Japanese rice to be of the highest quality, though it is very expensive. The same in Europe, though it would take time and money to get there. But Japanese rice suits Japanese cuisine very well, so Japanese restaurants around the world which now have no choice but to use the rice produced locally or imported from elsewhere would be a market we have not exploited yet. Although we are trying to sell our rice to these restaurants overseas, we have not been successful yet in exporting to them, partly due to our government's policy of keeping rice prices high. If the price of rice falls and rice is exported, I think we would produce a large quantity and maybe we would need more rice fields for this increased production. That would be the moment when our agricultural regions would be revitalized and many young people settle in rural places. This would also reverse the trend of depopulation. **JS**

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