

Chapter 1 Introduction

1.1 What the agricultural cooperative is

The agricultural cooperative or *nokyo* is a cooperative society which is formed by farmers including small-scaled agricultural corporations in Japan. It is abbreviated to *nokyo* and the general agricultural cooperative is nicknamed JA, its abbreviated name.

The agricultural cooperative is cooperative societies which are voluntarily established by farmers under the Agricultural Cooperative Association Law of Japan aiming at helping one another, and have a corporate status. It also aims at helping farmers who are small-scale operators and called the socially vulnerable to achieve the improvement of their economic and social status through mutual assistance and cooperation in production and consumption activities.

The agricultural cooperative provides various kinds of services relating to agricultural management and living for its farmer members in a comprehensive way.

Main businesses of the agricultural cooperative

Agricultural management/economic business	Guidance for ensuring the improvement in the agricultural economy and techniques of member farmers; marketing of commodities produced by member farmers; supply of commodities necessary for businesses and livings of member farmers
Credit business	Loan of funds, acceptance of savings or fixed-term deposits, etc.
Mutual insurance business	Mutual life insurance, mutual aid fire/building renovation insurance, mutual aid auto insurance, etc.
Welfare business	Provision of supports of nursing care, etc. for member farmers

1.2 History of the agricultural cooperative

Japan's agrarian organization system saw, upon the enactment of the 1900 Cooperative Society Law, industrial associations developing as the collegial organization of farmers. The Cooperative Society Law was a law, which was beyond industrial sectors, allowing marketing, purchasing, credit and growers' associations, regardless of business category, to be organized. In rural areas, the so-called "Rural Industrial Association," etc. engaged in economic and credit businesses. During the World War II, in 1943, the Agrarian Organization Law changed the "Rural Industrial Association" into the "Agricultural Association" in which farmers were made to compulsorily participate according to the smallest units of the administrative organization. The "Agricultural Association" was positioned under the Law as an organization conducting economic control in an integrated manner.

After the World War II, under the directorship of the Allied Forces, for the purposes of promoting the democratization of farming communities and ensuring the improvement of the economic and social position of farmers, the established systems and organizations were abolished and the "Agricultural Cooperatives," which are newly based on voluntary association rules, that is, free-will formation and free-willed participation, were established by city, town or village, or in smaller units than such municipalities. (The "Agricultural Cooperative Law of Japan" was enacted in 1947.) In Japan, the

land reform implemented between 1947 and 1950 produced much more independent farmers owing 90.6% of the total cultivated acreage and resulted in the demise of the pre-war ownership of farm land (landlord system). The disappearance of the landlord-tenant relationship and farmers of more similar economic scale becoming the members of agricultural cooperatives made more democratic operation of the agricultural cooperatives possible.

1.3 Policy of general agricultural cooperatives

The agricultural cooperative is divided into two types: general agricultural cooperatives and specialized agricultural cooperatives. General agricultural cooperatives mean agricultural cooperatives which also engage in various kinds of businesses including marketing, purchase, credit and mutual insurance businesses. In Japan, the general agricultural cooperatives are common.

Specialized agricultural cooperatives are agricultural cooperative organizations focusing on product-based marketing businesses such as products of dairy farming, fruits growing and horticulture. In Europe, the specialized agricultural cooperatives are mainstreams.

In Japan, general agricultural cooperatives are much more common because Japanese farmers are smaller in management scale than those in Europe and the U.S. so that they conduct farming supplementing their income with a side job. Furthermore, Japanese farmers needed a system for dealing with not only all articles produced by farmers but also savings and mutual aids because most of them engaged in multiple farming such as vegetables, fruits, rice and livestock raising.

1.4 Members

As the agricultural cooperative is an organization for farmers, its constituent members, in principle, are farmers. The members who are farmers are generally called “regular members.” However, there are cases in which it is good for persons other than farmers to use the services provided by agricultural cooperatives if they pay a certain amount invested so that such persons are also allowed to become members as “associate members.” Each member has an equal voting right for one vote.

All the services provided by the agricultural cooperative become available to associate members who join (or put money into) an agricultural cooperative. The membership for an associate member, however, is basically granted only to residents in the area over which each agricultural cooperative has control. In some cases, however, persons not living in such area whose working place is located in the area may be allowed to become associate members.

Furthermore, the Agricultural Cooperative Association Law and the Articles of Association stipulate that certain services including a part of credit business, mutual insurance business and A Coop stores are available to everyone as non-member use, even if he or she does not offer contributions to an agricultural cooperative at all.

Chapter 2 Outline of the organization and businesses

2.1 Organization of the agricultural cooperative

The activities of the agricultural cooperative are wide-ranging, usually engaging in economic

business combining the service of selling members' products with the (purchase) service of supplying fertilizer and manure, agrichemicals and farm machines necessary for agricultural production and food needed for daily life, agricultural management guidance, deposits, loans, credit business conducting securities business, and mutual insurance business which is cooperative insurance, etc. The agricultural cooperative, engaging in credit business, is equated with banks under the Check Act. Economic, credit and mutual insurance businesses are generally called the "three businesses of the agricultural cooperative."

In addition to the above, the agricultural cooperative runs, as a part of its purchase business, "JA-SS" (filling stations), and "A Coop" (supermarkets), as well as engages in businesses for ceremonial occasions, mainly for funeral service, and conducts tours, so-called agricultural cooperative tours, and entrusted service of postal office counter work (postal agencies).

The agricultural cooperative affiliated organizations consist of:

- Agricultural cooperatives where farmers become their members to engage in various businesses (Primary-level agricultural cooperatives);
- Federations where agricultural cooperatives become their constituent members and supplement their business activities (Prefectural federations, national federations); and
- Central unions which are organizations providing guidance to agricultural cooperatives and federations (Prefectural central unions, national central unions).

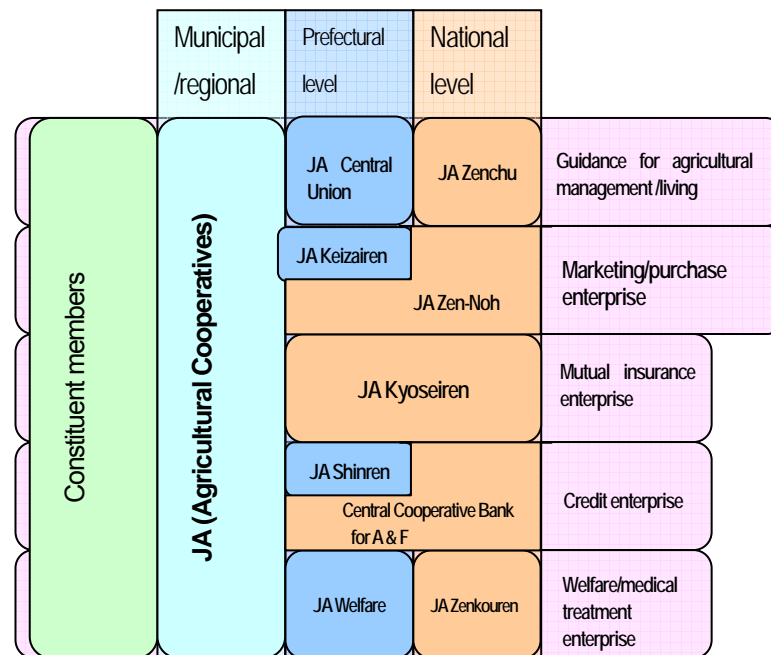
With regard to federations and central unions, there are organizations by business as follows:

- (1) National Central Unions of Agricultural Cooperative (*JA Zenchu*) [Guidance, audit and PR activity of primary-level agricultural cooperative (JA)]
- (2) Prefectural Central Unions of Agricultural Cooperative [Central Unions by prefecture]
- (3) National Agricultural Cooperative Federations (*JA Zen-Noh*) [Economic business (marketing, purchase) federations]
- (4) Economic Agricultural Cooperative Federations (*Keizairen*) [Federations by prefecture (11 prefectures)]
- (5) National Mutual Insurance Agricultural Cooperative Federations (*JA Kyosairen*) [Federations of mutual insurance business]
- (6) National Welfare Agricultural Cooperative Federations (*JA Zenkouren*) [Federations of welfare business (mainly medical treatment or hospitals, etc.)]
- (7) Prefectural Welfare Federations [Federations by prefecture (36 prefectures)]
- (8) Central Cooperative Banks for Agriculture and Forestry [Central cooperative banks for the savings of agricultural cooperatives and fisheries cooperatives (management agencies)]
- (9) Prefectural Credit Federations [Federations' credit business by prefecture]

Those higher organizations are cooperative organizations (excluding Central Cooperative Banks for Agriculture and Forestry) in which primary-level agricultural cooperatives and federations, constituent members, have interests, and, as they are organizations supplementing the primary-level agricultural cooperatives' businesses from a professional position, their relations are different from general relations of a parent company and its subsidiaries. Recently, the merging of *JA Zen-Nohs*

and prefectural *Keizairens* have been implemented and there are many cases in which prefectural headquarters which are the main bodies of *Zen-Nohs* become a higher organization of economic, marketing and purchase businesses.

Figure 2.1 Main Organizational Chart of the Agricultural Cooperative

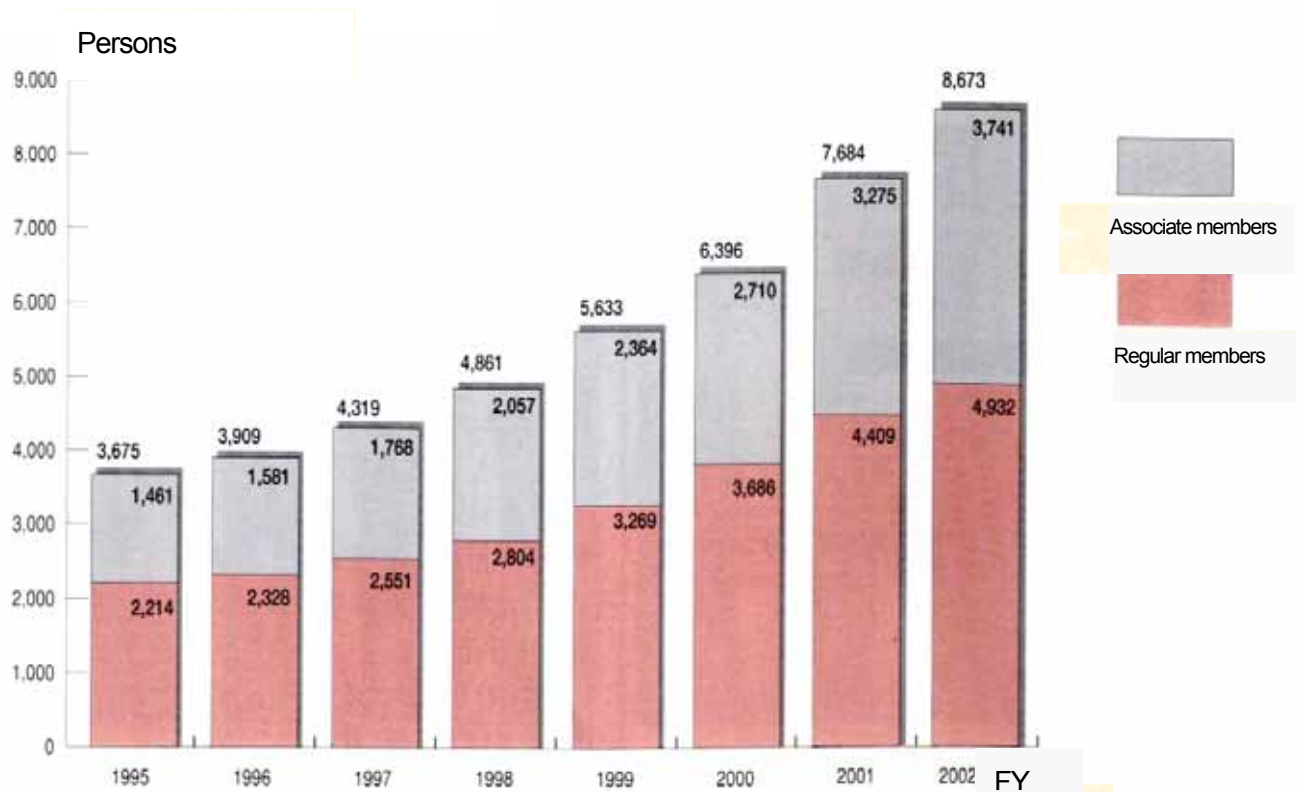


2.2 Merger of agricultural cooperatives

The agricultural cooperative, in order to meet the demands by its members who form its base, conducts mergers and forms management foundations stronger enough to stand competition. Through merger, it secures able persons, expands facilities, reinforces financial bases, strengthens the functions of management and administration, etc.

As of April, 2007, the number of general agricultural cooperatives was 813, which showed a fall of less than one tenth of 13,314 agricultural cooperatives in 1950. On the other hand, the national averages of the numbers of members per agricultural cooperative are 4,932 for regular members and 3,741 for associate members, amounting to 8,673 in total in 2002, which were 2.4 times more than 3,675 in 1995.

Figure 2.2 Changes in Nos. of Members per Agricultural Cooperative



Source: "Statistical Chart of General agricultural cooperatives" by the Ministry of Agriculture, Forestry and Fisheries of Ja

2.3 Businesses of the agricultural cooperative

The agricultural cooperative engages in wide-ranging businesses. With regard to the purpose of the businesses conducted by agricultural cooperatives, Article 8 of the Agricultural Cooperative Association Law stipulates that cooperatives shall carry out businesses aiming at providing best possible services for their farmer members and members and shall not do for profit-making."

2.3.1 Guidance business

The agricultural cooperative is providing agricultural management guidance associated with members' improvement of agricultural management and techniques and better living guidance offered for bettering their living.

Those guidance businesses are, at the prefectural level and the national level, the work of JA Central Unions. No profits are produced from the guidance business itself. However, offering opportunities for workshops to meet the needs of members and guidance for technique improvement in order to improve agricultural management of members and better their living conditions forms a basis for agricultural cooperatives. Enhancing it results in members' deepening the understanding of and support for agricultural cooperatives.

(1) Agricultural management guidance

The agricultural management guidance is an important business to give instructions on agricultural management to constituent members in order to ensure the improvement in farming and the maintenance and improvement of general agricultural productivity at the regional level. The agricultural management guidance by the agricultural cooperative is more than technique guidance. It aims at the development of agriculture contributing to the vitalization of communities, working to establish robust agricultural management by setting up a system for effective use of agricultural land in communities. To achieve this, by ensuring the enrichment of the quality and quantity of instructors for agricultural management and the establishment of the agricultural management guidance system to support the scheme from production to distribution with the comprehensive power of the agricultural cooperative, this sector makes efforts to establish streamlined agricultural management and vitalize agriculture at the community level.

(2) Better living guidance

Better living guidance is to ensure the betterment and improvement of life of constituent members and in communities, giving instructions about everything in life of member farmers. It ranges extensively over consumption, health, culture, entertainment and so on. This sector is actively working to form agricultural communities of vitality covering welfare for elderly and home delivery service for locally-produced agricultural products, etc.

2.3.2 Economic business

The economic business consists of the “marketing business” which sells agricultural products produced by farmers and the “purchase business” which buys commodities necessary for farm production or everyday life in bulk on a systematic basis. The purchase business is a sector which buys jointly and supplies commodities necessary for business or daily life of the constituent members, aiming at supplying such commodities not only at lower prices but also of high quality as well. On the other hand, the marketing business is a sector which jointly sells agricultural products produced by the constituent members to maximize the disposable incomes of farmers, and also engages in transport, processing and storage of agricultural products.

(1) Marketing business

Agricultural cooperatives’ collecting and marketing agricultural products produced by farmers is called marketing business. This is the most important business implemented by agricultural cooperatives because how well they market what farmers produce in favor of the farmers invites the increased income of the farmers. In some cases, products are preserved or stored for some time or processed in the process of marketing activity for supply and demand adjustment or improvement of added value, and those storage and processing businesses are the important part of the marketing business as well.

Agricultural cooperatives’ marketing business is carried out in the form of “cooperative selling” so

that it is also called “*kyohan*.” To sell jointly, agricultural products having similar quality are collected to be grouped, which make it possible to sell them to farmers’ advantage.

In addition, recently more consumers have been oriented toward safe agricultural and stock farm products. To respond such consumers’ voice, efforts are made to deliver the production and distribution of safe and secure domestic agricultural and stock farm products trusted by consumers by taking measures for safety including the posting of production records and encouraging communication with consumers.

(2) Purchase business

The purchase business of the agricultural cooperative is to provide stable supply of production materials of good quality including fertilizer, agrichemicals, agricultural machinery and feeding stuffs and living material for farmers at the lowest prices.

The purchase business is roughly divided into two, that is, one is production material purchase to supply items necessary for constituent members’ agricultural management activity including fertilizers, agrichemicals, feeding stuffs and agricultural machinery, and the other is material purchase for living to supply items necessary for constituent members’ living including food, everyday sundries and consumers’ durable goods.

Its core activity is to receive pre-orders from constituent members and negotiate with manufacturers based on the buying power utilizing the advantage of scale to provide materials having safety and good quality at lower prices. In some cases, however, like feeding stuffs, it supplies products produced by the JA Group itself at its own factories after importing raw materials with its constituent members.

(3) Characteristic features of the economic business of Japan’s agricultural cooperatives

i) Consignment sale/purchase system

Japan’s agricultural cooperatives take a consignment system for both sale and purchase businesses.

The “consignment sale system” is a system under which the agricultural cooperatives sell products not by buying them from its constituent members but on the behalf of its constituent members.

The “consignment purchase system” is a system under which the agricultural cooperatives receive pre-orders of materials from its constituent members and, when the quantities ordered come to a certain level, negotiate directly with manufacturers.

Primary-level agricultural cooperatives, which sell and buy on a small scale, take a system to “reconsign” sale and purchase to federations at the prefectural and national levels.

The consignment system makes all costs open by presenting selling prices and buying prices from manufacturers by the agricultural cooperative to its constituent members and adjusting actual costs spent in sale and purchase. This system allows the agricultural cooperative to implement sound management because there are no risks on fluctuations in the market and inventory to be taken.

At the same time, a mechanism allowing for a trusting relationship between the agricultural

cooperative and its constituent members and the openness of transaction contents is important because, under this consignment system, constituent members will consign their products to the agricultural cooperative before determining how much their products sell or how much materials cost.

To increase the take-home amounts of constituent members, in addition to a bargaining power for sale, producing agricultural products which fetch higher prices is required so that it is important to carry out marketing and purchase businesses together with “agricultural management guidance” in an integrated manner.

ii) Actual costs, commission charges

Because the marketing and purchase businesses of the agricultural cooperative take the consignment system, its operating income comes not from the turn of the market like ordinary transactions but from commission charges for handling amounts. The commission rates are determined at its annual general assembly according to individual items including vegetables, fruit, stock farm products, fertilizer and agrichemicals.

As commission charges are calculated based on a percentage of a price at which the agricultural cooperative makes a sale or purchase, distribution expenses incurred in the process of marketing or purchase such as expenses for selecting products, freight charges and storage fees are borne by constituent members at actual cost and, then, at the time of the adjustment of selling and buying prices, such amounts are deducted.

Itemization of all prices and costs is provided to constituent members at the adjustment.

iii) Joint sorting products, joint shipment and joint calculation

Japanese farmers are small scale and multiple farming. The harvest season moves up from south to north generally every three months. As a result, when products are harvested by farmers, their volumes and qualities are not uniform and the selling period is short.

On the other hand, agricultural product buyers, which are the food service industry including supermarkets and restaurants, food manufacturing companies, etc., have established a full-year stable purchase system which allows standardized raw materials consistent with their own policies to be bought.

Those companies are making purchases on a global scale based on their huge buying power.

To respond to such buyers, the agricultural cooperatives collect the products produced by their constituent members in the sites for sorting products where the products are sorted out according to uniformed qualities and standards of size and, then, their volumes are also grouped to make the products satisfy the demands of buyers and sell.

Thus, making sales after qualities and standardized products are sorted out according to buyers' business categories allows various kinds of agricultural products produced by individual constituent members to be sold at the best possible prices.

Prices differ according to buyers and times. In addition, prices of vegetables and fruits fluctuate greatly every day. To stabilize the take-home amounts of constituent members, therefore, prices at which products have been sold to each buyer for a given period are pooled according to the buyer to

calculate the average price. With the use of the average price, constituent members' accounts are adjusted.

The scope of and period for prices to be pooled are determined based on discussion between constituent members and the agricultural cooperative.

With regard to the account adjustment for constituent members, product grade and size data are recorded according to each constituent member at the product sorting time and, after the sale is over, the volumes sold are multiplied by the average unit price of each standard to obtain the value of sales.

iv) Pre-order piling up in the purchase business and settlement in cash

Constituent members place a pre-order for the volumes of fertilizers, agrichemicals and other production materials to be used during the year with the agricultural cooperative according to each product.

Each primary-level agricultural cooperative tallies the pre-orders to place orders in advance with the prefectural *Keizairen* (prefectural headquarters of the *Zen-Noh*). The *Keizairen* (prefectural headquarters of the *Zen-Noh*), then, tallies the volumes of the prefecture to place pre-orders with the *Zen-Noh*, which, based on the piled up volumes of pre-orders from across Japan, negotiate in the price with manufacturers.

Manufacturers are able to make an annual production plan by signing up with a *Zen-Noh* and reduce costs greatly through stable operations, which allow them to sell to the *Zen-Noh* at lower prices.

Zen-Nohs buy the ordered products from manufacturers, store them in the warehouses of agricultural cooperatives and deliver them to the constituent members when they use.

The constituent members pay the amount of the buying price by the *Zen-Noh* from the manufacturer plus costs including charges of the agricultural cooperative of each level and freight charges, etc. When a farmer receives the products ordered, payment is made by deducting the amount from the farmer's account of the agricultural cooperative. If there is not enough money in the account, the agricultural cooperative extends a low interest loan to the farmer for settlement.

Zen-Nohs have research laboratories where qualities of production materials are checked to see if the quality is consistent with the purchase conditions.

2.3.3 Mutual insurance business

The mutual insurance business is to stabilize members' farming and safeguard their living by collecting a certain amount of premiums from them against their death or disaster to pay compensation should it happens. It plays the same role as life insurance or damage insurance does.

JA *Kyosairen* is a nickname of the National Mutual Insurance Agricultural Cooperative Federation and protects overall living as an insurance of the agricultural cooperative based on the spirit of helping one another. It provides comprehensive support for the mutual insurance of the agricultural cooperative by implementing various planning, reviews and asset management.

2.3.4 Credit business

The credit business provides financial and securities services including accepting deposits and

fixed-period reserves from members, lending money, currency trading, negotiation of draft and selling government bonds and aims at ensuring improvements in agricultural management and living by providing mutual financing among member farmers at lower rates using the deposits as resources which were offered by member farmers themselves who find it difficult to borrow money at lower rate.

At present, agricultural cooperatives, especially Central Cooperative Banks for Agriculture and Forestry (*Norinchukins*), establishing the “JA Bank System,” are ensuring the enhancement and stability of the credit business.

2.3.5 Welfare business

Farming villages have much less medical care facilities than cities. In addition, there are diseases which are liable to occur from farm work and accidents at work accompanying agricultural mechanization. The welfare business is the services to establish hospitals and clinics and provide medical examination and health guidance. In most cases, not agricultural cooperatives but federations (*kouseirens*) engage in such services.

Some agricultural cooperatives operate welfare projects as an operator of nursing-care insurance by establishing nursery homes, offering day service, dispatching home-care workers, lending care-related supplies, etc.

In order to support the development of “health care” and “welfare projects” for community residents including members, the National Welfare Agricultural Cooperative Federations (*JA Zenkorens*) provide management guidance, information and education and seminars for executives and regular staffers, etc.

The original health care project of the agricultural cooperative was started, in 1919, by farmers themselves in Aohara village, Shimane prefecture, which was a doctor-less area, in order to offer medical treatment to farmers at lower cost, which spread nationwide and has been taken over by the *JA Koseiren*.

The JA Group is actively rolling out health, medical care and elder care projects in rural areas, such as, in addition to medical care, disease prevention and elder care activities and training of nurses. The elder care projects include a wide range of activities, such as home visiting nursing, domiciliary rehabilitation, domiciliary bathing care and medical treatment care at facilities.

Chapter 3 Agricultural Cooperative Association Law of Japan

3.1 Agricultural Cooperative Association Law of Japan

The Agricultural Cooperative Association Law of Japan (or *Nokyo Law*) is a law which governs the organization, business, administration, etc. of agricultural cooperatives, agricultural cooperative federations, agricultural producers’ cooperative corporations, central unions of agricultural cooperation. It was promulgated on November 19, 1947 and implemented on December 15, the same year. The objective of the law is set forth in Article 1 thereof: “by promoting the development of farmers’ cooperative organizations, achieve increased in agricultural productivity and improvements in the economic and social status of farmers, and, thereby, contribute to the development of national

economy.” The Agricultural Cooperative Association Law has undergone several revisions to implement cooperative societies’ activities responsive to changes in politics and economy surrounding agriculture and the agricultural cooperative in each period. Before the Agricultural Cooperative Association Law, there were the Industrial Association Law (1900) and the Agrarian Organization Law (1943) as laws governing the cooperative organization of farmers. Organizations formed under those laws, however, were defective cooperative organizations in terms of the principles of the cooperative union (). Therefore, after World War II, a law was established to form cooperative unions for farmers based on the principles of the cooperative union, which is the Agricultural Cooperative Association Law.

Note: Principles of the cooperative union: The cooperative organization includes, in addition to agricultural cooperatives, fisheries cooperatives, consumers’ cooperatives and cooperative business associations. The principles of the cooperative union are considered the principles common to those cooperative organizations and include aiming at mutual insurance, voluntary foundation, freedom of joining and leaving the organization, equality among the members.

Chapter 4 Conclusion (Direction the Agricultural Cooperative is Taking)

With changes associated with Japan’s food, agriculture and rural areas, the agricultural cooperatives and farmers are requested to keep evolving by pushing forward with reforms appropriately responsive to regional needs.

In particular, to offer safe and secure agricultural and stock farm products which have become consumers’ greatest needs in recent years, thoroughly implementing production management and the posting of production records is a great goal.

In addition, with the environment surrounding communities changing significantly these days, increasing non-farmers’ ratio in the community resident structure and progress of urbanization are accelerating and the cooperativity and autonomy which communities used to have are on the wane. The agricultural cooperatives, which are scaled up through merger, have weaker connections with their communities. They, therefore, are aiming at pushing forward with regional contributions further than ever before newly including food and agriculture education and lifestyle support for elderly people.

In addition, the agricultural cooperatives are requested to actively promote women’s participation in the operations of the agricultural cooperatives towards the realization of a gender-equal society.

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