

# The Present Situation and Problems of the FCA in Japan

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**Abstract** : In Japan, fisheries cooperative associations have been reorganized by mergers and business integration since the 1990's in order to keep pace with changes of the management caused by declining of fishing industries, long-term deflation and the financial reforms called the "Big Bang".

In this report, I will examine the current state of Japanese fisheries cooperative associations and their problems.

**Key words** : fisheries cooperative association, merger and acquisition, fishing village, non-performing loan

## 1. Introduction

The Fisheries Cooperative Association (FCA) in Japan is an important organization which supports the industrial foundation of fisheries and marine products industries. At the same time, it has functioned as a core organization for residents who live in areas close to the ocean. However, at the present time, its functions have been drastically changing with the changes in society and the economical environment. In this report, an attempt will be made to expose problems that the FCA in Japan is facing today, and problems with mergers of the FCA and reorganization of business as solutions to these problems will be considered.

## 2. Types of FCAs in Japan

In Japan, one has to be a member of an FCA that manages in a water area in order to run a fishery business which shares common resources in the neighboring waters, rivers, and lakes. An FCA that belongs to an area by the ocean is called an *inshore local fishery cooperative association* and the ones around rivers or lakes are called *inland water fishermen's cooperative associations*. The members of these are residents in local villages and the marine products industries, and those two together are generally called *local fishery cooperative associations*. As of

2004, there were 1476 inshore local fishery cooperative associations and 878 inland water fishermen's cooperative associations in existence.

On the other hand, to share mutual benefits, there are also groups of FCAs that can be established among companies which run the same kind of fishery in the marine products industry. Those are called *specific fishery cooperative associations* and, as of 2004, there were 161 in existence. In addition to that, cooperative associations run by marine products processing manufacturers are also prescribed in Fisheries Cooperative Association Law. Those associations are called *fish processors' cooperative associations* and there are 139 in existence.

These cooperative associations that are mentioned above are sometimes ineffective by themselves. Therefore, in many cases, they have some higher-level supporting groups on a prefectural level or in the central government that supply materials, articles, and some financial needs; gather opinions at sites; make political requests; and adjust policies in this industry. These groups are called federations and there are 129 federations of fishery cooperative associations acting as federations of the local fishery. As for federations on a business level, there are 34 credit federations of fishery cooperative associations, 11 federations of fish processor's cooperative associations, and 1 mutual insurance federation of fishery cooperative.

### 3. Historical Background of the Local Fishery Cooperative Associations

After a regulation was set in the Edo period in Japan, it was lawfully permitted for local fishermen to maintain and manage the marine resources in local fishing spots. In 1901, the government implemented the *Meiji* Fisheries Act and gave the *gyogyo-kumiai* (the previous organization of the FCA) the right to use and manage local fishing spots. On the other hand, in 1933, the *gyogyo-kumiai* added the aspect of “cooperative associations” and were permitted to have business aspects such as marketing business, purchasing business, and credit business. In 1943, by the “Fishing Industry Group Law,” the *gyogyo-kumiai* was put under the management of the country during the war. However, after World War II ended, the “Fisheries Cooperative Association Law”, which has become the basic policy of the FCA today, was enacted in 1949. As mentioned above, the present FCA was established through this historic background and it has carried on the characteristics of the public function as “managing organization of fishing rights” and of the private business entity as “cooperative associations in the fishing community.”

However, this caused dependency in management of the FCA. Because the function as an organization under the administrative structure is the first priority in the FCA, many FCAs which are now having a hard time making profits as financial entities were established.

### 4. Management Problems in the FCA

Once the Fisheries Cooperative Association Law was issued, too many local cooperative associations were established in Japanese fishing villages on the wave of the movement of the fishing village democracy of those days. However, the requirements for the establishment of an FCA were loose, so there were many associations that had weak economic foundations. Because of that, as early as 1950, a law called “Agriculture Fishery Rebuilding/Organizing Law”, concerning administrative support for the expansion of economic foundations was established. Even after that, while administration and federations of FCA are giving lectures on good treatments such as

supplying of subsidies, low interest loans, benefits in tax law, the policy seeking improvement in business of small scale fishery associations has been continuing to today. So to speak, the financial dependence of fishery associations is the continuing problem that historically has not been overcome. And, that which was spoken as one of the solutions of that problem is the merging among fishery organizations or the union of economic business.

The amount of mergers of fishery associations hit a peak in 1965, but it declined to around an average of ten per year after that. The number of mergers once again drastically increased after 1993 (Fig 1). The first reason for this was that members were aging and their numbers declining. The total number of members of local fishery cooperative associations in 1990 was 535,113, but was 394,001 in 2005, which represents a 27% decline. In addition to that, during that time, the percentage of fishery workers over sixty continued to rise. They composed 47% of the whole in 2004. As a result, the withdrawal of members due to age and the decline of fishery activities became evident. This has been influencing the earnings of investments and levies in the management of fishery associations and usage of business. Also, requirements for establishing FCAs state that at least twenty members must be maintained, but this has been difficult in some fishery associations, therefore it is necessary for them to expand in the aspect of organizations and business through mergers as soon as possible.

The second reason is the decline in profits from sales in fishery associations. In Japanese fishery associations, sales profits were 40% of business profits in 2004, representing the biggest portion. However, recently the dealing level at landing markets which the FCA opens is largely declining due to the decline in the amount of fishing due to resources running dry, the increase of imported fish and the increase of the means of distribution without going through landing markets by major buyers. Because of that, it is necessary to create a counter plan in the management of FCA.

The third reason is the change in the environment which has surrounded the management of the FCA for the last ten years. Support and subsidies toward the FCA have been reduced because of the tight conditions of

national and local finances. Also, for entities which run financial business, since the so-called Japanese financial big bang, under the guidance of financial government offices, staff system, management system, and financial index became conditions that were sought after to be qualified, just as with other financial businesses in general. It became an urgent task to expand the business level and organization level to be able to adjust to changes in such business environments.

### 5. Details of Merger Progress

From the 1990s to the 2000s, national and local government bodies and federations of FCA put up reorganization policies of FCA organizations in each prefecture and aggressively led them to conduct mergers. So the FCA structures, after the final reorganization, are categorized into the three structures below.

#### 1. "1 Prefecture, 1 FCA" Structure

This is the structure that puts only one business entity as FCA, which also runs credit business in each prefecture. Many of the FCAs which used to be in each

fisherman's village tend to continue as branch offices. Furthermore, there are cases in which some branches pull together and are put in the care of combined offices.

#### 2. "1 Prefecture, 1 Credit Business" Structure

This is the structure that continues operation by satisfying the standards of business structure through combining only credit businesses that need to be dealt with immediately with prefectural-level credit federation of fishery cooperative associations, not combining whole FCA organizations.

#### 3. "Multiple Independent FCAs" Structure

In cases where it is possible for FCAs to manage business independently and the requirements related to credit business continue to be met, there can be multiple FCAs without combining them into one.

The form of structure after the reorganization has been selected based on the actual circumstances of fishery and FCAs in each prefecture, geographical conditions, and historical background. Table 1 shows the form of structure that each of the 37 prefectures established (or was going

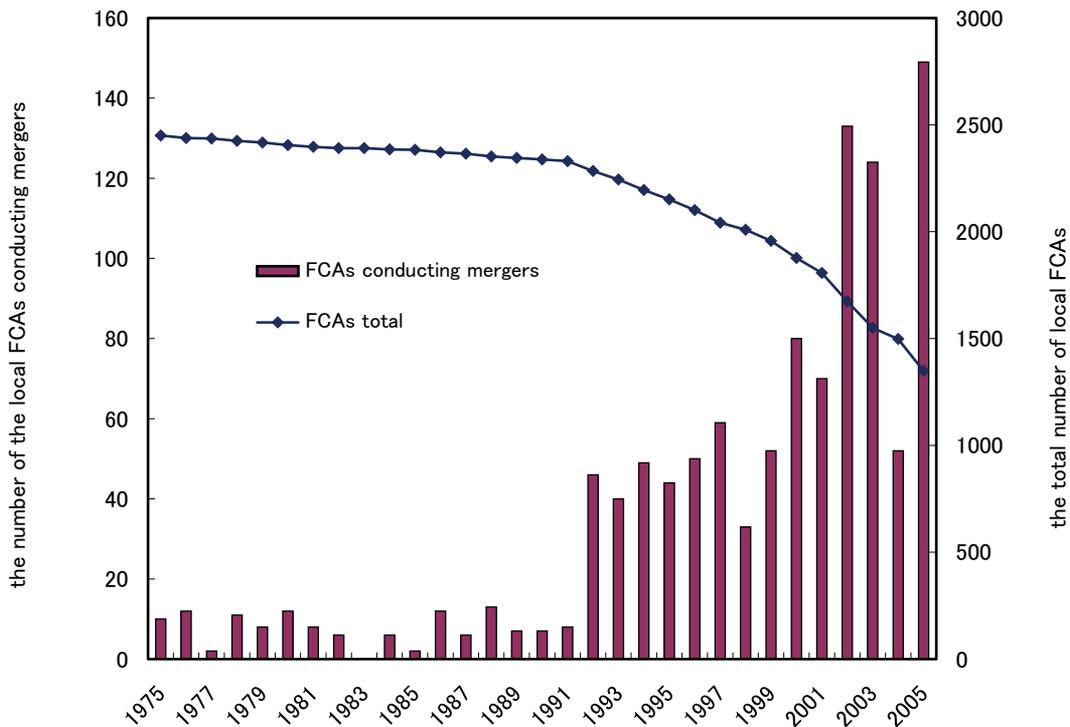


Fig. 1. The Total Number of Local FCAs And Number of FCAs Conducting Mergers  
Source : Data by Fishery Agency

to establish) in 2006. Five prefectures chose the “1 Prefecture, 1 FCA” structure, another five chose the “Multiple Independent FCAs” structure, and the remaining 27 prefectures chose the “Combining with Credit Federation of Fishery Cooperative Associations” structure. Mergers among FCAs are connected to common interests outside of the business aspect, such as conflicts in human relations among different areas, and even in the same area, the types of fishery are different so the results of mergers can be different. Therefore, administration and federations of FCA’s decisions on the organization do not always

become a reality.

Also, concerning credit business, this table shows that creating a structure which adjusts to the changes of the financial environment as mentioned above has been developing faster than FCA mergers.

## 6. Business Contents of the FCA in Recent Years

Table 2 shows the movement in the amounts and component ratios of gross profits of each economic business from 1990 to 2005. The amount of the operating profits had

**Table 1.** Structure Of FCAs In Each Prefecture

(February 2006)

Form of the structure	Total Pref.	Prefectures which have already accomplished restructuring	Prefectures which have not accomplished restructuring yet
“1 Prefecture , 1 FCA” Structure	5	Akita, Yamagata, Kumamoto Oita (4)	Yamaguchi (1)
“1 Prefecture , 1 Credit Business” Structure	27	Iwate, Miyagi, Ibaragi Chiba, Tokyo, Niigata Toyama, Ishikawa, Fukui Kyoto, Hyogo, Tottori Shimane, Hiroshima, Tokushima Kagawa, Kouchi, Fukuoka Saga, Kagoshima, Okinawa (21)	Aomori, Kanagawa Shizuoka, Aichi Mie, Wakayama (6)
“Multiple Independent FCAs” Structure	5	Hokkaido, Fukushima, Ehime Nagasaki, Miyazaki (5)	
Total	37	30	7

Source : Data by Fishery Agency

**Table 2.** Movement in Gross Profit by Major Businesses of the FCA

business	Amount (million yen)				Component Ratio (%)			
	1990	1995	2000	2005	1990	1995	2000	2005
Credit	30,130	17,770	10,486	4,158	20.1	13.3	8.7	4.1
Mutual Insurance	2,544	3,681	4,321	3,857	1.7	2.8	3.6	3.8
Purchasing	19,029	19,413	18,772	15,172	12.7	14.6	15.6	14.9
Marketing	57,503	47,868	48,753	43,643	38.3	36.0	40.6	43.0
Ice Making	9,752	8,548	8,410	7,623	6.5	6.4	7.0	7.5
Fishing	12,150	6,138	6,289	4,506	8.1	4.6	5.2	4.4
Instruction	-	10,690	11,937	12,814	-	8.0	9.9	12.6
Other Business	18,879	29,731	22,960	22,558	12.6	22.3	19.1	22.2
Total Gross Profit	149,987	133,149	119,991	101,517	100.0	100.0	100.0	100.0

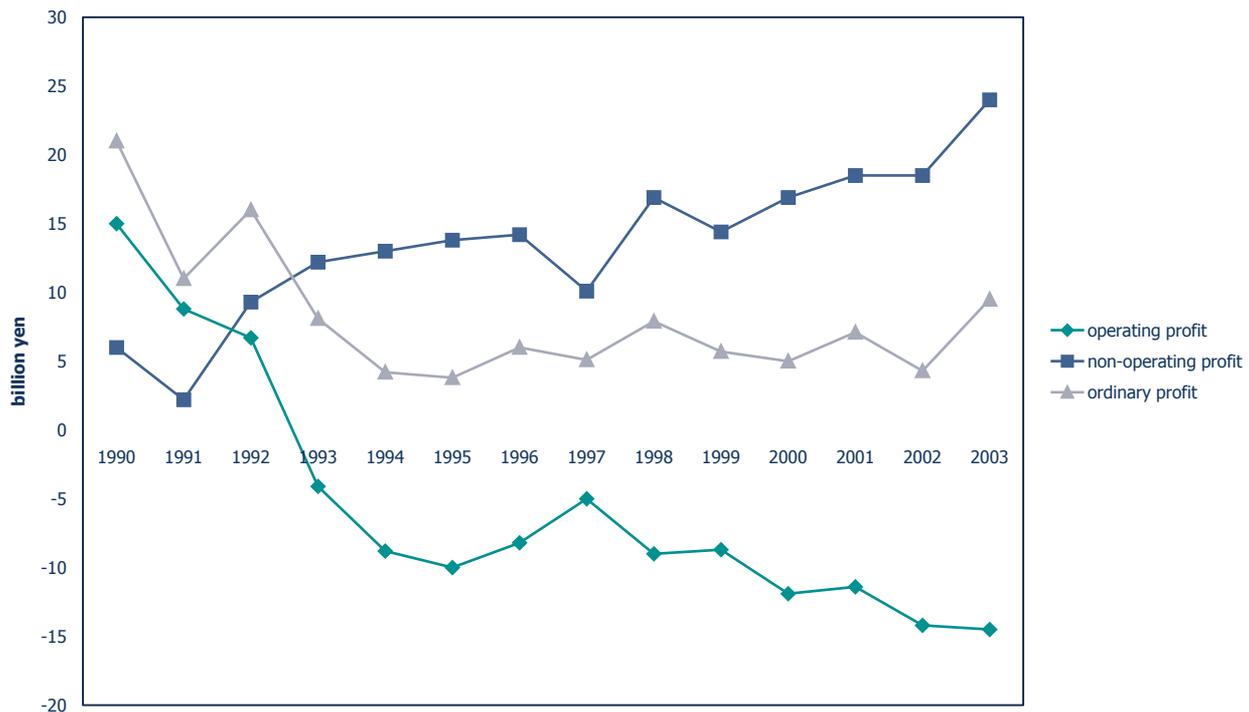
Source : Data by Fishery Agency

declined from 149.9 billion yen in 1990 to 101.5 billion yen in 2005, which represents a decline of 484 billion yen. Looking at each business, instruction business tended to increase over the past 20 years but other than that, most businesses' profits had been declining. In particular, there was a huge decline in profits of the three primary economic businesses: credit, marketing and purchasing. Concerning credit business, there are many FCAs that have done transferring to credit federations of fishery cooperative associations which caused the decline and the component ratio also declined by 16%. Looking at the component ratio, in the process of contractions of the whole business industry, in 2005, marketing gross profits composed 43% ; purchasing business 16% ; and instruction 12%. Other economic businesses composed 22% and relatively, their importance has grown. In any case, gross profits have declined.

On the other hand, Figure 2 shows the movement in the operating, non-operating and ordinary profits of fishery cooperatives. During the period between 1989 and 2003, operating profits radically decreased and fell into the red. Conversely, non-operating profits had been increasing

since 1991. Primarily, the causes of the increase in non-operating profits were the increase of usage fees for fishing places and facilities collected from FCA members; the increase in levies for members; and dividends from credit business profits in FCAs which were combined among credit federations of fishery cooperative associations. Through contributions of non-operating profits like this, ordinary profits had been maintained at the standard of five billion yen since 1994, and they increased to ten billion yen in 2003.

Confirming the number of associations with net incomes in the black and in the red in the entire nation in 2004, the number of associations in the black was 966 which represented 63%. On the other hand, the number of associations in the red was 481, which represented 37%. Among associations in the red, the number of those in the red by more than 100 million yen was 16, and that is only 3% of the total number of associations in the red. However, the total amount they were in the red was 39.2 billion yen which is 87%. Thus, the condition is such that a large amount of debt is concentrated in a few associations that are in the red.



**Fig. 2.** Movement in Operating Profit, Non-operating Profit, Ordinary Profit of the FCA  
 Source : Data by Fishery Agency

## 7. Issues in FCA Mergers

As mentioned above, the purpose of FCA mergers is to keep the economic foundation of the FCA and to structure credit business to make it possible to do business. However, for each FCA, since they had kept operations which stressed human relations as the core organization of its area, they feel uncomfortable about broad mergers that prioritize economic rationalization. Particularly, for FCAs in which management of fishing rights is the primary function and that do not do economic business, or for small-scale FCAs, there is less incentive to conduct mergers. Also, conversely, FCAs that have a large amount of unloading, have excellent economic business, and are economically independent feel the same. On the other hand, FCAs that have a large amount of non-performing loans essentially expect that they can get financial relief through mergers, but other FCAs are afraid of sharing the burden, so in many cases, mergers cannot be conducted.

Also, concerning the FCAs that broadly conducted mergers, organization levels and business levels naturally became big by multiple FCAs conducting mergers. However, when it comes to the rationalization of business management, it is a reality that there are no aggressive strategies except for controlling salary expenses by cutting workers.

Conversely, the problems are as follows. First, with the cutting of workers, member service which was originally the main function of FCAs declined. Second, through mergers, more investments and loans were demanded of members, so the financial burden on members increased. Third, since the system of holding general meetings where opinions of local people could be gathered was changed to the representative system, it became difficult for each member's opinion to be reflected in the management of FCAs. Due to the abovementioned points, the members who have financial burdens and are not satisfied with FCAs that do not receive their opinions withdraw their membership, and some change from regular to partial membership. The examples of these are not few. In such local FCAs, it is considered that their characteristic as a local cooperative body that historically existed has been disappearing.

## 8. Conclusion

As mentioned above, current FCA mergers are strongly demanded because of recent economic circumstances in which the economic foundations of FCAs are being weakened and the financial condition of supporting administrations is also severe. However, pursuing mergers that cause the destruction of the area cooperative body mindset which supported the basis of the establishment of FCAs is contradictory.

Through the progress of combined cities, towns, and villages, the divisions of administrations have become broader. Also, the widening of the economic gap between central and local areas, the decline of the population in fishing villages, and the problem of depopulation are becoming more serious. In those situations, the FCA was originally supposed to be the organization that brought residents' opinions together and to be at the center of various spontaneous activities, but in reality, centripetal force toward the FCA has been declining.

It is believed that this is the time, once again, to verify the meaning of the FCA's existence in areas, and to reconsider how to balance that with financial independence.

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