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Dairy and Products

Semiannual Report

2004

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Report Highlights:
Japan's fluid milk production is forecast to stay the same as the previous year in 2004. Production in Hokkaido will continue to outpace production in other regions. Fluid milk diverted for processing utilization is forecast at the same level as last year. While NFDM surplus situation continues to prevail in 2004, demand for NFDM is expected to increase, up 9% due mainly owing to voluntary private efforts to cut back NFDM stocks. Japan's continued purchase of imported butter under the current access is expected to help balance the demand and supply. Japan's cheese imports are projected to rise by 7% in 2004 mainly due to improved economic situation in Japan, favorable exchange rates, and anticipated recovery of Australian cheese production.

Includes PSD Changes: Yes
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Fluid Milk Section

2004 Updates and Revised Outlook Summary

Japan's Fluid Milk Production in 2004 Projected the Same as Last Year

Japan's milk production is projected at the same level as the previous year in 2004 at 8.4 million MT. It is anticipated that production in Hokkaido continues to outpace production in other regions in 2004. For Jan. – Mar. in 2004, output in Hokkaido was up 2% while output in other regions was down 1% compared to the same period last year, leaving national output at the same level as the last year. Above trend will likely hold though this year.

Government's dairy subsidy for manufacturing milk for Japanese fiscal year 2004 (JFY 2004 begins April 04 and ends March 05) announced late this March was pretty much held at the same level as the previous fiscal year, in which the direct subsidy payment level was marginally lowered at 10.52 yen pen per kilo, down 0.22 yen per kilo, but maintaining the same level eligible quota at 2.1 million MT. This is a factor to help sustainable output growth in Hokkaido in 2004, a major subsidy recipient. More Product Variations Keep Solid Consumer Demand for Raw Milk Products

Overall consumer demand for milk products made with raw milk is expected stay firm throughout 2004 with more product variations and selections. Utilization of fluid milk for drinking in 2004 is projected at 5.0 million MT, unchanged from the previous year while dairy industry is reportedly making efforts to market new products with varied degree of raw milk contents beyond 100% raw milk. Jan. – Mar. utilization of fluid milk showed moderate increases in processed milk, milk beverages and fermented milk outputs (See Table 1).

Fluid milk utilization for processing in 2004 is also projected unchanged from the previous year at 3.3 million MT. Jan. – Mar. utilization was up 4% leading to increased production of some dairy products such as butter, cream, and NFDM (See Table 3 in NFDM and Butter Section).

Table 1. Japanese Utilization of Fluid Milk for Drinking Use Category

Period: January – March, 2002 – 2004					
Quantity: 1,000 Kilo Liter					
	2002	2003	% Chg.	2004	% Chg.
Regular Milk	896	958	7%	931	-3%
Processed Milk	122	96	-21%	98	2%
Milk Beverages	269	259	-4%	273	5%
Fermented Milk	175	186	6%	190	2%

Note: Processed Milk: low fat, high fat, vitamin and mineral fortified, calcium enriched

Milk Beverages: flavored milk (coffee and fruits flavored)

Fermented Milk: Yogurt etc.

Source: Agriculture & Livestock Industry Corporation (ALIC)

2003 Situation Summary

Japan's Fluid Milk Output Rose Slightly in 2003

Japan's 2003 fluid milk production rose slightly from the previous year to 8.4 million MT, largely owing to increased output in Hokkaido, which represented 46% of Japan's total output. Production in Hokkaido rose by 2% in 2003, offsetting a 1% drop in other regions.

Annual utilization of fluid milk for drinking was almost unchanged from the previous year at 5.0 million MT. [Note: In Fluid Milk Section in JA 3075 Dairy Annual 2003 misquoted the figure for projected utilization for drinking in 2004, which said 5.5 million MT. The correct figure is 5.0 million MT as per Fluid Milk PS&D table inserted in the doc.] Solid demand in the first half of 2003 was offset by soft demand prevailed during the second half. Consumer preference for milk (100% fluid, not reconstituted) stayed firm throughout, which made a stark contrast with lethargic consumption of processed drinking milk (See Table 2). Slow down of fluid milk utilization in drinking in the second half resulted a 0.5 % increase of fluid milk diverted for manufacturing use at 3.3 million MT in 2003, which helped to increase productions of cream and cheese. NFDM output, which has been surplus supplied, remained the same level as the previous year while butter output dropped modestly (See Table 4 in NFDM and Butter Section).

Table 2. Japanese Utilization of Fluid Milk for Drinking Use Category

Period: January – December, 2001 – 2003					
					Quantity: 1,000 Kilo Liter
	2001	2002	% Chg.	2003	% Chg.
Regular Milk	3,875	3,920	1%	3,967	1%
Processed Milk	576	479	-17%	414	-14%
Milk Beverages	1,232	1,187	-4%	1,169	-2%
Fermented Milk	682	786	15%	789	0%
Note: Processed Milk: low fat, high fat, vitamin and mineral fortified, calcium enriched					
Milk Beverages: flavored milk (coffee and fruits flavored)					
Fermented Milk: Yogurt etc.					
Source: ALIC					

NFDM and Butter Section

2004 Updates and Revised Outlook Summary

Voluntary Private Efforts May Spur Ingredient Demand for NFDM in 2004, but Surplus Expected to Remain

So far through March, Japan's NFDM surplus condition has gotten worse than ever. January – March production was already up 3% compared to the same period last year causing March ending stock soared to a record high at 93,200 MT, up 15% from the same time last year (See Table 3).

While government's remain unable to take effective measures to reduce surplus NFDM, Hokkaido's largest dairy cooperative and major dairy products manufacturers jointly agreed to cut back domestically produced NFDM in stock by 21,000 MT during JFY 2004 to cope with the situation. According to an industry paper, the plan may alter some ingredient demands for imported prepared powdered products in 2004, which are currently used for various dairy based drinking and processed products.

Assuming successful implementation of the plan, Japan's demand for NFDM is projected to increase by 9% in 2004 to 190,000 MT. When combined with a slight increase projected for

domestic NFDM production in 2004, up by 1% to 185,000 MT, NFDM stock is still estimated to remain sizable at around 90,000 MT by the end of the year.

The situation will continue to limit Japanese government's option to utilize JFY 2004 current access for general use (NFDM and butter), to which GOJ is expected to fully commit to procure imported butter this fiscal year for two years in a row. This would leave Japan's NFDM imports in 2004 only school lunch and livestock feed, projected at 45,000 MT. Imports under the current access will be nil.

Further downside to the above projection is lethargic demand for NFDM based drinking products and beverages in the market. Industry sources indicated that alternative ingredient demand to NFDM has shifted to liquid skimmed milk concentrate in recent years.

Subsequently, some of old NFDM (one year or older) in storages may have to be dumped for feed use at a loss in 2004 in the end. In such an event, US exports of feed grade NFDM to Japan may likely be affected. [Note: Import demand for feed grade NFDM is reflected in "Other Use, Losses" in PS&D Distribution Column, projected 35,000 MT in 2004.]

Japan's Butter Supply and Demand Expected to Balance in 2004

Japan's butter production is projected to increase slightly by 2% to 82,000 MT in 2004. Market demand for butter (including ingredient utilization) is projected the same level as last year at 89,000 MT. In 2004, Japan's butter imports for Jan. – Dec. are projected to reach 10,000 MT with mostly under the current access (including estimated 4,000 MT carryover from JFY 2003), with major suppliers being EU countries. This would leave sufficient butter stock in December, estimated at 27,000 MT.

Table 3. Japanese Production of Processed Milk Products

Period: January – March, 2002 – 2004					
				Quantity:	Metric Ton
	2002	2003	% Chg.	2004	% Chg.
Butter	24,496	21,350	-13%	22,779	7%
Cream	20,659	21,341	3%	22,129	4%
Whole Milk Powder	5,291	5,732	8%	4,616	-19%
Prepared Milk Powder	9,297	8,855	-5%	8,324	-6%
Skim Milk Powder (NFDM)	51,785	48,437	-6%	49,927	3%
Ice Cream (Unit: kilo liter)	18,645	20,644	11%	21,798	6%
Natural Cheeses	3,342	3,104	-7%	4,220	36%

Note: Natural Cheeses: Domestically produced natural Cheeses for direct consumption. This excludes domestic natural cheeses for manufacturing processed cheeses blended with imports.

Source: ALIC

2003 Situation Summary

Japan's Surplus NFDM Persisted in 2003

As explained in Fluid Milk Section, utilization of fluid milk for drinking had slowed in the second half of 2003 leading to a 0.5 % increase of fluid milk diverted for manufacturing use. This was reflected in increased outputs of cream and cheese for direct consumption. Production of NFDM was 182,600 MT, unchanged from the previous year, while butter

dropped 4% to 80,000 MT (See Table 4). Given surplus NFDM problem, Japan committed the current access for dairy products to procure 13,000 MT of butter in 2003, mostly for industrial ingredient use.

Table 4. Japanese Production of Processed Milk Products

Period: January – December, 2001 - 2003					
				Quantity:	Metric Ton
	2001	2002	% Chg.	2003	% Chg.
Butter*	79,573	82,744	4%	80,079	-3%
Cream*	79,684	84,485	6%	89,244	6%
Whole Milk Powder	17,803	16,580	-7%	16,137	-3%
Prepared Milk Powder	33,464	37,318	12%	36,958	-1%
Skim Milk Powder (NFDM)	175,071	182,516	4%	182,618	0%
Ice Cream (Unit: kilo liter)	108,710	99,765	-8%	102,884	3%
Natural Cheese*	14,384	13,691	-5%	15,603	14%

*Note: In limited scale, government also provides dairy farmers with fluid milk production incentive subsidies to be utilized for manufacturing cheese, and cream. Also note that data for natural cheeses are for direct consumption, which exclude domestic natural cheeses to be blended with imports for manufacturing processed cheeses.

Source: ALIC

Table 5. Japanese Imports of Non Fat Dry Milk

Period: January – December, 2001 - 2003					
				Quantity:	Metric Ton
	2001	2002	% Chg.	2003	% Chg.
For School Lunch Program	3,346	2,739	-18%	2,989	9%
For Feeds	33,380	37,463	12%	35,816	-4%
For Other Use (Current Access, etc.)	16,028	4,192	-74%	3,654	-13%
Total NFDM Imports	52,754	44,394	-16%	42,459	-4%

Source: ALIC

Cheese Section

2004 Updates and Revised Outlook Summary

Japan's Cheese Consumption Expected to Rebound in 2004

Some positive signs for economic recovery is expected to improve Japan's cheese consumption outlook in 2004, projected up by 7% to 245,000 MT. Imports are projected to increase by 8% to 209,000 MT while competitions among suppliers in EU and Oceania are expected to intensify. Japanese distributors are reportedly focusing on cost and safety aspects to provide best selections for end user clients. For example, a major Japanese cheese importer and distributor announced the plan to cut operational costs with reduced product selections and strengthened voluntary testing of microbial accounts for food poisoning since this April. Other companies are expected to follow suit.

Jan. – Mar. total imports showed a strong rebound, up 22% compared to the same period last year mainly due to yen's temporally surge against other major currencies and active stock replenishments by distributors (See Table 6). According to an industry source, Australian milk output, which has hampered by severe droughts for last couple of years, is anticipated to recover through this year helping to boost cheese production and exports with the major market being Japan, if provided with favorable climate. Meanwhile, reported EU's export subsidy cut backs (already twice this year), coupled with solid demand within European continent and from Russia, likely place EU at a price disadvantage over Oceania. Euro's position against Japanese yen has strengthened in recent months, which is a wary factor for cheese importers.

American Cup Cream Cheese Products Appear in TVCM

Yen's relative strength against U.S. dollar has so far greatly improved prospect for U.S. cheeses for this year, which showed more than 40% increase for Jan. – Mar. over the same period last year. However, reported high U.S. cheese prices, if continues, could slow the import recovery later in the year. Japan's imports of American cheeses in 2004 are projected to exceed 4,000 MT. Growth in demand from the food service sector is a key to put U.S. cheeses on a recovering track in Japanese market. USDEC plans to launch TVCM for American cup cream cheese products targeting for regional market starting June in Fukuoka prefecture, southern region of Japan, to capture the momentum.

Table 6. Japanese Cheese Imports by Product Category

Period: January – March, 2002 – 2004

Quantity: Metric Ton

					% Change
HS	**Description**	**2002**	**2003**	**2004**	**04/03**
	--World--				
	0406 CHEESE AND CURD	54,697	47,457	57,867	22%
040610	FRESH CHEESE	20,995	13,563	18,272	35%
040620	CHEESE,GRATE/POWDER	902	991	1,136	15%
040630	CHEESE,	1,111	1,157	1,453	26%
040640	CHEESE, BLUE, OTHER	133	160	186	16%
040690	OTHER CHEESE	31,555	31,586	36,819	17%

Source of Data: Japan Customs, World Trade Atlas (WTA)

Table 7. Japanese Cheese Imports

Period: January – March, 2002 – 2004					
				Quantity: Metric Ton	
					% Change
Rank	Country	2002	2003	2004	04/03
0	**--World--**	**54,697**	**47,457**	**57,867**	**22%**
1	Australia	27,865	21,177	24,890	18%
2	New Zealand	11,186	10,927	14,786	35%
3	Germany	3,132	3,582	3,611	1%
4	Denmark	3,059	3,285	2,766	-16%
5	Netherlands	2,346	2,549	2,595	2%
6	Norway	1,517	1,289	1,759	36%
7	France	1,325	1,441	1,759	22%
8	Italy	935	973	1,327	36%
9	United States	1,352	885	1,316	49%
10	Belgium	60	622	897	44%
11	Others	1,918	727	2,160	197%

Source of Data: Japan Customs, WTA

2003 Situation Summary

Cheese Consumption and Imports Stayed Weak in 2003

Total consumption of cheese fell 4% to 230,000 MT, while imports dropped 5% to 193,630 MT in 2003. Tight consumer spending on both at home and eating out is generally accountable for overall consumption slow down. Due partly to improved foreign currency situation during the second half, however, imports recovered somewhat in the second half, which rose 6%, but it was not enough to offset a 16% drop in the first half. Japanese Yen temporarily strengthened against U.S. dollar, Euro and Australian dollar in the second half of 2003.

A 10% decline of Australian cheeses in 2003 is primarily due to suspended imports of high fat cream cheese (HFC) under "fresh" category (HS 0406.10), which had been used as fat substitute. Also, reduced milk output in Australia due to severe draughts and strong Aussie dollar are factors attributable for the drop. Because of HS Committee ruling, HFC has been classified differently since last year and subjected to a high tariff. Japan's imports of U.S. cheeses fell 11% to 3,845 MT hindered by high U.S. prices and slow food service demand. Despite Euro's relative strengths against Japanese yen in 2003, results of imports from major EU suppliers were mixed affected by local production and price situations in each country.

Table 8. Japanese Cheese Imports

Period: January – December, 2001 – 2003

Quantity: Metric Ton

Rank	Country	2001	2002	2003	% Change 03/02
0	**--World--**	**202,076**	**203,547**	**193,630**	**-5%**
1	Australia	80,028	93,058	83,343	-10%
2	New Zealand	53,413	45,131	45,326	0%
3	Denmark	14,156	12,924	13,165	2%
4	Germany	12,298	12,176	13,008	7%
5	Netherlands	10,239	11,344	10,015	-12%
6	France	6,208	6,691	7,262	9%
7	Norway	5,931	5,392	5,113	-5%
8	Italy	4,096	4,472	4,919	10%
9	United States	4,472	4,314	3,845	-11%
10	Belgium	327	1,477	2,105	43%
11	Others	10,907	6,567	5,530	-16%

Source: Source of Data: Japan Customs, WTA

Table 9. Average C&F Price of Imported Cheese

Period: January – December, 2001 – 2003

Currency: JP 1,000 Yen

Rank	Country	-/KG- 2001	-/KG- 2002	-/KG- 2003	% Change 03/02
0	--World--	0.33	0.35	0.34	-3%
1	Australia	0.27	0.29	0.27	-7%
2	New Zealand	0.29	0.3	0.25	-17%
3	Denmark	0.39	0.45	0.47	4%
4	Germany	0.3	0.33	0.31	-6%
5	Netherlands	0.33	0.36	0.36	0%
6	France	0.81	0.85	0.86	1%
7	Norway	0.26	0.3	0.28	-7%
8	Italy	0.92	0.98	1.02	4%
9	United States	0.77	0.84	0.79	-6%
10	Belgium	0.29	0.29	0.26	-10%

Source of Data: Japan Customs, WTA

Fluid Milk PS&D Table

Japan Milk, Fluid							
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2002		01/2003		01/2004	MM/YYYY
Cows In Milk	966	966	964	964	962	960	(1000 HA)
Cows Milk Production	8385	8385	8360	8403	8350	8400	(1000 MT)
Other Milk Production	0	0	0	0	0	0	(1000 MT)
TOTAL Production	8385	8385	8360	8403	8350	8400	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Total Imports	0	0	0	0	0	0	(1000 MT)
TOTAL Imports	0	0	0	0	0	0	(1000 MT)
TOTAL SUPPLY	8385	8385	8360	8403	8350	8400	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Total Exports	0	0	0	0	0	0	(1000 MT)
TOTAL Exports	0	0	0	0	0	0	(1000 MT)
Fluid Use Dom. Consum.	5002	5002	5000	5006	5000	5005	(1000 MT)
Factory Use Consum.	3293	3293	3270	3311	3260	3310	(1000 MT)
Feed Use Dom. Consum.	90	90	90	86	90	85	(1000 MT)
TOTAL Dom. Consumption	8385	8385	8360	8403	8350	8400	(1000 MT)
TOTAL DISTRIBUTION	8385	8385	8360	8403	8350	8400	(1000 MT)

Non Fat Dry Milk PS&D table

Japan Milk, Nonfat Dry							
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2002		01/2003		01/2004	MM/YYYY
Beginning Stocks	66	66	70	70	65	85	(1000 MT)
Production	183	183	170	183	165	185	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Total Imports	44	44	40	43	40	45	(1000 MT)
TOTAL Imports	44	44	40	43	40	45	(1000 MT)
TOTAL SUPPLY	293	293	280	296	270	315	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Total Exports	0	0	0	0	0	0	(1000 MT)
TOTAL Exports	0	0	0	0	0	0	(1000 MT)
Human Dom. Consumption	186	186	180	175	175	190	(1000 MT)
Other Use, Losses	37	37	35	36	35	35	(1000 MT)
Total Dom. Consumption	223	223	215	211	210	225	(1000 MT)
TOTAL Use	223	223	215	211	210	225	(1000 MT)
Ending Stocks	70	70	65	85	60	90	(1000 MT)
TOTAL DISTRIBUTION	293	293	280	296	270	315	(1000 MT)

Butter PS&D Table

Japan Butter							
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2002		01/2003		01/2004	MM/YYYY
Beginning Stocks	21	21	20	20	25	24	(1000 MT)
Production	83	83	77	80	75	82	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Total Imports	4	4	16	13	10	10	(1000 MT)
TOTAL Imports	4	4	16	13	10	10	(1000 MT)
TOTAL SUPPLY	108	108	113	113	110	116	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Total Exports	0	0	0	0	0	0	(1000 MT)
TOTAL Exports	0	0	0	0	0	0	(1000 MT)
Domestic Consumption	88	88	88	89	88	89	(1000 MT)
TOTAL Use	88	88	88	89	88	89	(1000 MT)
Ending Stocks	20	20	25	24	22	27	(1000 MT)
TOTAL DISTRIBUTION	108	108	113	113	110	116	(1000 MT)

Cheese PS&D Table

Japan Cheese							
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2002		01/2003		01/2004	MM/YYYY
Beginning Stocks	15	15	15	15	15	15	(1000 MT)
Production	36	36	35	36	35	36	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Total Imports	204	204	196	194	200	209	(1000 MT)
TOTAL Imports	204	204	196	194	200	209	(1000 MT)
TOTAL SUPPLY	255	255	246	245	250	260	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Total Exports	0	0	0	0	0	0	(1000 MT)
TOTAL Exports	0	0	0	0	0	0	(1000 MT)
Human Dom. Consumption	240	240	231	230	235	245	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	240	240	231	230	235	245	(1000 MT)
TOTAL Use	240	240	231	230	235	245	(1000 MT)
Ending Stocks	15	15	15	15	15	15	(1000 MT)
TOTAL DISTRIBUTION	255	255	246	245	250	260	(1000 MT)