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# Japan

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# Japan Grants Preferential Dairy Access in New Agreements

**Report Categories:**
Agricultural Situation
Dairy and Products

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**Report Highlights:**
Japan will provide preferential dairy access to the European Union (EU), New Zealand, and Australia through two separate free trade agreements which could enter into force as early as 2019. Dairy products such as cheese, butter, nonfat dry milk, whey, milk albumin, and lactose will be subject to reduced or eliminated tariffs and preferential tariff-rate quotas. The EU, New Zealand, Australia, and the United States are currently the top four dairy suppliers to Japan. In 2017, Japan imported $300 million in dairy products from the United States.

**Keywords:** Japan, dairy, FTA, EPA, CPTPP, tariffs, JA8029

## General Information:

On December 8, 2017, Japan and the European Union (EU) announced the finalization of negotiations on the Japan-EU Economic Partnership Agreement (EPA). Japan agreed to provide tariff preferences to EU dairy products in the form of reduced or eliminated duties and increased quota access. Meanwhile on March 8, 2018, Japan and 10 other countries signed the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP).[1] In this agreement, Japan provided preferential access to Japan's dairy market for Australia and New Zealand. As dairy remains one of Japan's most protected agricultural sectors, the preferential tariffs provided in these trade agreements could alter the market significantly and increase competition among exporters. Both agreements must be ratified before entry into force which could occur as early as 2019.

In addition, Japan's Ministry of Agriculture, Forestry and Fisheries (MAFF) approved 70 EU-proposed geographical indications for agricultural items in December 2017, including various cheese types. The protections will become effective when the Japan-EU EPA enters into force. See JA7151 for additional information.

In 2017, Japan imported $1.9 billion in dairy products from the world.[2] The European Union was the largest dairy supplier to Japan at $640 million, followed by New Zealand at $480 million and Australia at $373 million. The United States ranked fourth, supplying $300 million. Japan's top dairy imports from the United States were cheese, milk albumin, lactose, whey, and nonfat dry milk. For the United States, Japan was the fourth largest export market for U.S. dairy products in 2017.

## Cheese

Under World Trade Organization (WTO) most-favored nation (MFN) treatment, most soft and hard natural cheeses are subject to a 29.8 percent tariff in Japan. Processed cheese (including grated or powdered processed cheese) is subject to a 40 percent tariff while other non-processed grated/powdered cheese is subject to a 26.3 percent tariff. For natural cheese imported exclusively for shredding, there is a tariff-rate quota (TRQ) which allows duty free imports up to a volume equal to 2.5 times the amount of domestic natural cheese used by local processors. Imports outside of this quota pay the normal 29.8 percent tariff.

The Japan-EU EPA provides separate tariff treatments for soft-type cheese and hard-type cheeses. Soft-type cheeses (natural and processed) are subject to a volume-based TRQ. The quota volume starts at 20,000 MT and increases annually to 31,000 MT by Year 16. From Year 17 onwards, the Government of Japan will re-evaluate the TRQ volume according to domestic consumption trends. The within-quota tariff will decrease in equal annual installments from the MFN rate (according to cheese type) to zero by Year 16. Out of quota imports will continue to pay the MFN rate. Hard-type cheeses (natural and processed) are not subject to a quota and will see tariffs reduced in equal annual installments until they

[1] The CPTPP countries are Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam.
[2] Dairy trade is based on the definition described in Appendix A of the ERS Report: Growth of U.S. Dairy Exports, 2016.

are eliminated completely in Year 16. Natural cheese for shredding does not receive any special treatment under the Japan-EU EPA and remains subject to the WTO TRQ.

**Table 1: Japan-EU EPA Tariff Treatment for Cheese Products**

| Type | Product | MFN Rate | Japan-EU EPA Treatment |
|---|---|---|---|
| "Soft" | Cream cheese (45% or more milk fat), Mozzarella, etc. | 29.8 | TRQ starting at 20,000 MT, increasing annually to 31,000 MT by Year 16 with volume re-evaluated by Japan from Year 17. In-quota tariffs phase to zero by Year 16. Out-of-quota tariffs unchanged. |
| | Ripened soft cheese (e.g. camembert) | 29.8 | |
| | Blue-veined cheese | 29.8 | |
| | Processed cheese (not grated or powdered) | 40.0 | |
| | Shredded cheese (processed) | 22.4 | |
| | Grated\powdered processed cheese | 40.0 | |
| "Hard" | Cream cheese (less than 45% milk fat) | 29.8 | Phase to zero by Year 16 |
| | Ripened hard cheese (e.g. cheddar, gouda) | 29.8 | |
| | Grated/powdered natural cheese | 26.3 | |
| No change to natural cheese for shredding quota ratio (imported 2.5 : domestic 1) | | | |

Source: MAFF

For CPTPP countries, Japan will completely eliminate tariffs on "hard" cheeses, shredded cheese (processed) and grated/powdered processed cheese by Year 16. Mozzarella, blue cheese, and ripened soft cheeses receive no tariff benefit under CPTPP. Australia and New Zealand receive country-specific quotas for processed cheese which increase from 100 to 150 MT over 11 years, with in-quota tariffs decreasing from 36.3 percent to zero over the same time period. Additionally, the import-to-domestic utilization ratio required to qualify for duty free imports of natural cheese for shredding increases from the MFN level of 2.5:1 to 3.5:1. Australia already benefits from the 3.5:1 ratio under its existing bilateral free trade agreement with Japan.

**Table 2: CPTPP Tariff Treatment for Cheese Products**

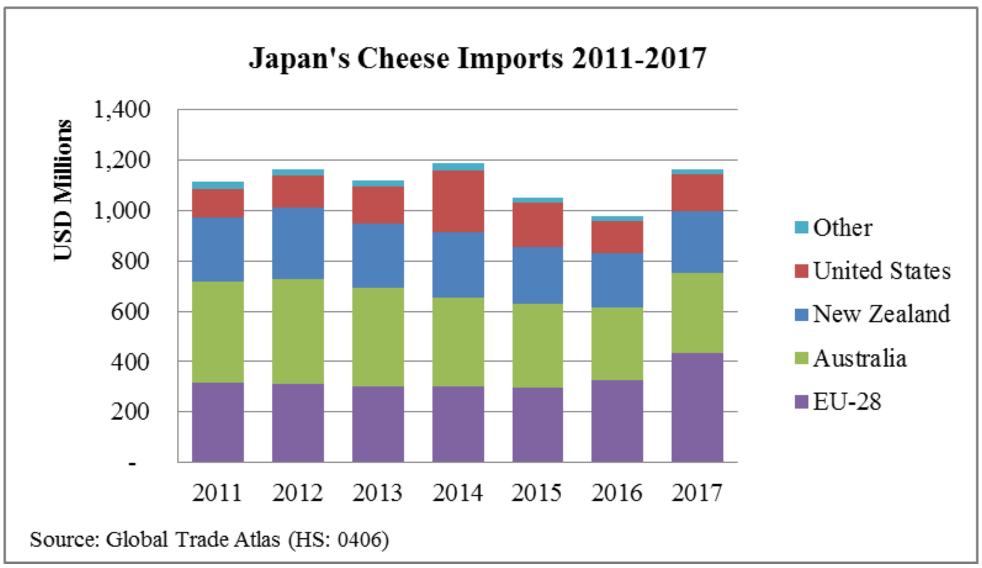
| Type | Product | MFN Rate | Expected CPTPP Treatment |
|---|---|---|---|
| "Soft" | Cream cheese (45% or more milk fat) | 29.8 | 26.8 |
| | Mozzarella, etc. | 29.8 | No change |
| | Ripened soft cheese (e.g. camembert) | 29.8 | No change |
| | Blue-veined cheese | 29.8 | Reduced in equal annual stages to 14.9 percent in Year 11 |

| | | | |
|---|---|---|---|
| | Processed cheese (not grated or powdered) | 40.0 | Country-specific quotas for Australia and New Zealand. |
| | Shredded cheese (processed) | 22.4 | Phase to zero by Year 16 |
| | Grated\powdered processed cheese | 40.0 | |
| "Hard" | Cream cheese (less than 45% milk fat) | 29.8 | |
| | Ripened hard cheese (e.g. cheddar, gouda) | 29.8 | |
| | Grated/powdered natural cheese | 26.3 | |
| Natural cheese for shredding quota ratio increases (imported 3.5 : domestic 1) | | | |

Source: MAFF

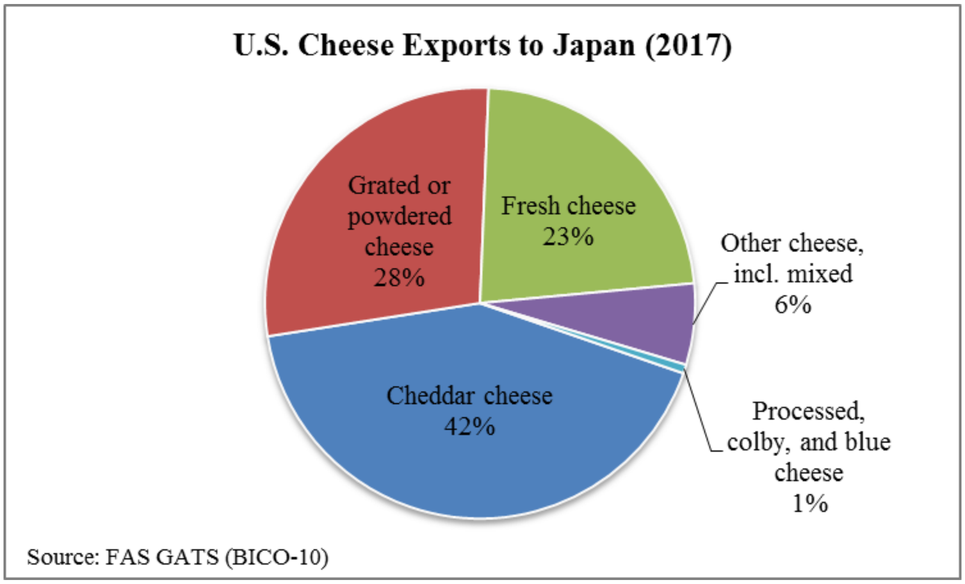
Despite high tariffs, Japan relies heavily on imported cheese which accounts for 82 percent of Japan's total cheese supply, according to FAS/Tokyo estimates. In 2017, Japan imported nearly $1.2 billion of cheese from the world. See Chart 1.

**Chart 1**




The European Union ranked as the largest cheese exporter to Japan in 2017 at $434 million, followed by Australia at $317 million and New Zealand at $245 million. The United States ranked fourth at $145 million.

**Chart 2**




Cheddar cheese is the largest U.S. cheese export to Japan followed by grated/powdered cheese and fresh cheese. A significant volume of cheddar cheese and fresh cheese exported to Japan goes into further processing. The United States is also the leading supplier of grated/powdered cheese to Japan, accounting for 53 percent of the market in 2017.

**Butter and Nonfat Dry Milk (NFDM)**

Japan imports almost all of its butter and nonfat dry milk (NFDM) through the Agriculture and Livestock Industries Corporation (ALIC), a state-trading enterprise, which operates a WTO quota for designated dairy products for general use. Under the quota, Japan is committed to importing 137,202 MT (milk-equivalent basis) of designated dairy products which include skim and whole milk powder, condensed milk, buttermilk powder, butter and butter oil, and whey. The exact combination of products to be imported is based on ALIC's forecast of domestic demand. Butter imports within this quota are subject to a 35 percent tariff plus a markup. NFDM imports within this quota pay a 25 percent tariff (35 percent if containing sugar) plus a markup. ALIC also has the option, which it has exercised in recent years, to import additional quantities of these products above the quota volume. In addition to the general use quota, there are smaller NFDM quotas for school lunches and other purposes (primarily feed use).

The Japan-EU EPA creates a new quota for designated dairy products which, unlike the WTO quota, is market-driven rather than managed by ALIC. The EU quota starts at 12,857 MT (milk-equivalent basis) and grows to 15,000 MT by Year 6. In-quota butter imports pay a 35 percent ad valorem tariff plus a 290 yen/kg specific duty. In-quota NFDM is subject to a 25 percent ad valorem tariff (35 percent if containing sugar) plus a 130 yen/kg specific duty. The specific duties for both products are eliminated by Year 11, but the ad valorem tariffs remain. Out of quota imports remain subject to MFN treatment. In CPTPP, Japan created separate TRQs for butter and NFDM with tariff concessions for each identical to the Japan-EU EPA. See Table 3.

**Table 3: Tariff Treatment for NFDM and Butter under Japan-EU EPA and CPTPP**

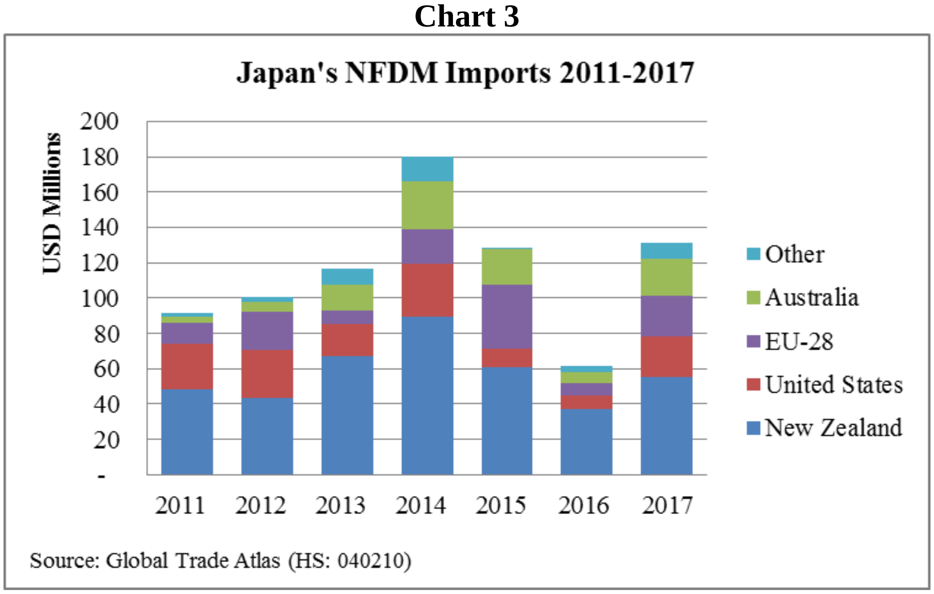
| Treatment | Butter | NFDM |
|---|---|---|

| | | | |
|---|---|---|---|
| MFN (applied) | Quota volume | 137,202 MT | |
| | In-quota tariff | 35% + markup | 25%* + markup |
| Japan-EU EPA | Quota volume | Year 1: 12,857 MT<br>↓<br>Year 6: 15,000 MT | |
| | In-quota tariff | Year 1: 35% + 290 yen/kg<br>↓<br>Year 11: 35% | Year 1: 25%* + 130 yen/kg<br>↓<br>Year 11: 25%* |
| CPTPP | Quota volume | Year 1: 39,341 MT<br>↓<br>Year 6: 45,898 MT | Year 1: 20,659 MT<br>↓<br>Year 6: 24,102 MT |
| | In-quota tariff | Year 1: 35% + 290 yen/kg<br>↓<br>Year 11: 35% | Year 1: 25%* + 130 yen/kg<br>↓<br>Year 11: 25%* |

*35% if containing sugar
Note: All quota volumes are on a milk-equivalent basis.
Source: MAFF

Japan relies on imports for 8-12% of its butter supply and 16-27% of its NFDM supply, according to FAS/Tokyo estimates. In 2017, Japan imported $45 million of butter with the EU and New Zealand together accounting for 98 percent of the market. The United States has not been a significant butter supplier to Japan in recent years, supplying only $161,000 in 2017. The United States has generally been more competitive in Japan's NFDM market (see Chart 3).

**Chart 3**




In 2017, Japan imported $131 million of NFDM with New Zealand accounting for 42 percent of the market. The EU had the second largest share at 18 percent, followed closely by the United States and Australia with 17 and 16 percent, respectively.

**Whey Products**

Whey and modified whey products are generally subject to Japan's WTO TRQ for designated dairy products (described in the previous section) operated by ALIC. In addition, there are separate WTO TRQs for certain whey products including whey for feed use (45,000 MT, zero in-quota tariff), prepared whey for infant formula (25,000 MT, 10 percent in-quota tariff), and mineral concentrated whey (14,000 MT, 25 percent in-quota tariff). Most out of quota whey imports pay a tariff of 29.8 percent plus 99 yen/kg with even higher tariffs applied to products with high fat content and/or containing sugar.

The Japan-EU EPA provides tariff concessions for food-use whey according to milk protein content. Duties on unsweetened food-use whey with less than 45 percent milk protein content are reduced, but not eliminated over 11 years (from 25 percent plus 40 yen/kg to 7.5 percent plus 12 yen/kg). These products are subject to volume-based safeguards which impose higher tariffs when triggered. Tariffs on food-use whey with a protein content of 45 percent or greater and feed-use whey are completely eliminated in Year 6 with no safeguard provision.

**Table 3: Japan-EU EPA Tariff Treatment for Whey Products**

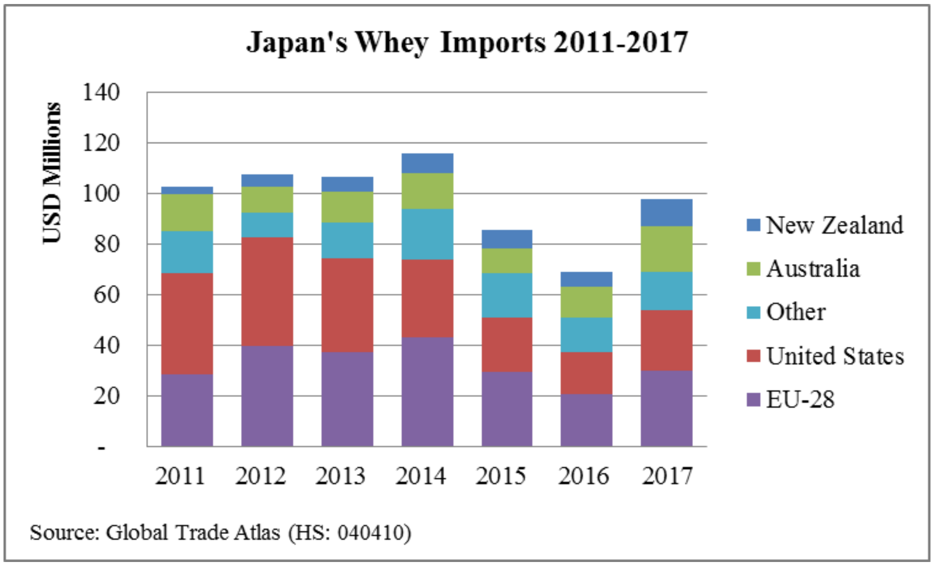
| **Purpose** | **Product** | **MFN rate (applied)** | **Japan-EU EPA Treatment** |
|---|---|---|---|
| Food-use | Whey (protein content less than 25%) | General use quota<br>In-quota: 25%*<br>Over-quota: 29.8% + 99 yen/kg* | Year 1: 25% + 40 yen/kg*<br>↓<br>Year 11: 7.5% + 12 yen/kg* |
| | Whey (protein content 25% or more, but less than 45%) | | |
| | Whey (protein content 45% or more) | | Year 1: 25% + 40 yen/kg*<br>↓<br>Year 6: Duty free |
| Feed-use | Whey | In-quota: 0%<br>Over-quota: 29.8% + 99 yen/kg* | Duty free |

*Higher tariffs apply to products containing sugar and/or with a fat content above 5%.
Source: USDA-ERS, MAFF

CPTPP goes further than the Japan-EU EPA by providing complete elimination for whey products over 21 years. The agreement also provides transitional country-specific quotas for certain whey products. New Zealand receives an all whey quota that grows from 1,300 MT to 1,700 MT over 11 years and Australia receives a quota for mineral concentrated whey that grows from 4,000 MT to 5,000 MT over 11 years. Both quotas start with an in-quota tariff of 22.7 percent (for non-sugar containing products) which is phased out to zero by Year 6.

In 2017, Japan imported $98 million in whey products. The three largest suppliers were the European Union (31 percent), the United States (25 percent), and Australia (15 percent). See Chart 4.

**Chart 4**




Most U.S. whey is currently imported through the WTO quota for feed-use whey (Japan HS: 040410141) which is duty free up to 45,000 MT. A smaller volume is imported as prepared whey for infant formula subject to a 10 percent in-quota duty.

**Milk Albumin and Lactose**

Japan is also a major importer of milk albumin, to which it applies a 2.9 percent ad valorem tariff, and lactose, which is subject to an 8.5 percent ad valorem tariff. Under the Japan-EU EPA and CPTPP, tariffs on both products will be eliminated upon entry into force of the respective agreements.

In 2017, Japan imported $157 million of milk albumin, including $48 million from the United States, its second largest supplier after New Zealand ($60 million). The European Union ranked third ($36 million) followed by Australia ($11 million).

Japan's lactose imports totaled $101 million, with the European Union and the United States supplying the vast majority at $46 million each.

More information on Japan's dairy market may be found in JA7125 and ERS: Dairy Policies in Japan.