

MARKET BRIEF

JAPAN

Global exports to Japan in 2018–2019

- Rank at #6 in the global dairy market (by volume).
- Destination for more than 581 thousand tonnes of dairy products, worth US\$1,881.2 million (July 2018 to June 2019).
- Exports to Japan have increased by 28.3% over five years.
- The biggest volume growth (product categories exceeding US\$20 million) has been in: Butter (118%), Milk Products (82%), SMP (60%), Lactose (51%) and Cheese (27%).
- The biggest volume decline (product categories exceeding US\$20 million) has been in: Ice Cream (-34%), Casein (-4%), Protein (-3%) and Whey Powder (-2%).

Australian market share in 2018–2019

- Rank at #4 in the share of Japanese import volume.
- Destination for more than 97 thousand tonnes of Australian dairy products, worth US\$388.8 million (July 2018 to June 2019).
- Exports to Japan have increased by 10.5% over five years.
- The biggest volume growth (product categories exceeding US\$1 million) has been in: Milk (247%), Butter (58%), SMP (54%) and Cheese (15%).
- The biggest volume decline (product categories exceeding US\$1 million) has been in: Casein (-99%), Whey Powder (-46%) and Condensed Milk (-6%).

Market developments

Japan is a major importer of dairy products and has traditionally been one of Australia's most valuable export markets. Japan's national dairy herd has contracted in recent years, reducing the volume of milk available for domestic consumption. As a result, dairy exports to Japan have increased by more than 28% over the past five years. European exports to Japan have grown significantly following the removal of Europe's milk production quotas, and the European Union (EU) is now the largest exporter of dairy products to this market.

Cheese continues to be the most popular export product to Japan. Australia is the largest exporter of cheese to Japan, with cheese accounting for 87% of Australian exports.

Australian cheese exports are predominately natural-style cheeses which are used by food service customers, such as bakeries and ice-cream manufacturers. Fresh cheese made up 57% of Australian cheese exports and was worth US\$203 million in 2018/19. Other Australian cheese varieties, such as cheddar and semi-hard cheeses are also processed prior to consumption. These are either blended with locally produced cheese according to Agriculture and Livestock Industries Corporation's (ALIC) requirements or shredded and sold as ingredient cheese.

In July 2018, Japan and the European Union (EU) finalised negotiations of a free trade agreement which is set to give the EU favourable tariffs for many major dairy products. In November 2018 the Japanese cabinet approved the legislation and in February 2019 the agreement entered into force. This free trade agreement includes a 'protection' clause for a wide range of Geographical Indicators on different dairy products, such as parmesan. As it has been ratified this means Australian exporters are no longer able to sell dairy products to the Japanese market under these protected names.

The United States (US) has also sought to secure a new trade agreement with Japan in light of the recent US-China trade dispute. In the second half of 2019, the US released details of the interim agreement reached with Japan. This agreement looks set to reduce tariffs on US dairy exports to Japan and eliminate cheese tariffs over 15 years. It will additionally remove any tariff for lactose effective immediately and provide preferential tariff treatment for more than 80% of current US exports to Japan.

As Japan undergoes profound demographic changes, the dairy market is expected to change as well. Low-birth rates have resulted in a decline in demand for infant formula, children's snacks and fresh drinking milk, products which are traditionally consumed by children. Simultaneously, the ageing population in Japan has increased demand for nutritional supplements and meal-replacements fortified with calcium and protein. Other so-called 'functional health' product categories, such as probiotics and specialist yoghurts, have also shown strong growth. These trends are likely to continue to shape the Japanese dairy market.

Tariff environment

Japan's dairy industry is heavily protected with a complex network of laws and quotas controlling production and importation. In January 2015 the Japan-Australia Economic Partnership Agreement (JAPEPA) entered into force which allowed Australia a reduction in tariffs for selected dairy products. This agreement immediately abolished tariffs for natural cheeses for processing and allowed Australia preferential quotas for other dairy products. According to the agreement tariffs will step down each January beginning in 2016, however many dairy products will remain subject to mixed tariffs and rate quotas. A summary of current tariffs for the major dairy categories imported by Japan can be found in Figure 7.

Key international marketing programs and activities

Dairy Australia is involved in a number of marketing programs and promotion activities in Japan. The annual Scholarship program has trained over 300 industry representatives from the Japanese dairy and trading companies since 1998. All delegates to the Scholarship program are now Dairy Australia's alumni and Dairy Australia keep regular communication with the alumni through newsletters, industry visits/meetings and catch up dinner in market. Dairy Australia also visits the market regularly and holds two seminars in Japan every year to keep the Japanese industry updated on the Australian dairy industry.

Figure 1 Dairy imports

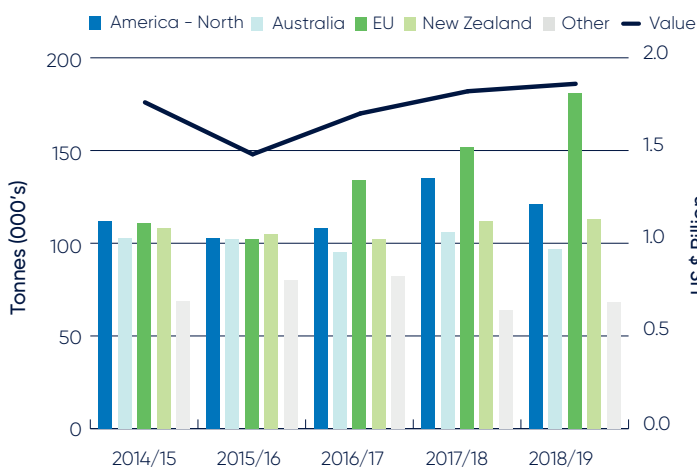


Figure 6 Australian exports

| Product group | Market share (US\$) | | Volume (1000 of tonnes) | | Value (million US\$) | |
|----------------|---------------------|---------|-------------------------|---------|----------------------|---------|
| | 2014-15 | 2018-19 | 2014-15 | 2018-19 | 2014-15 | 2018-19 |
| Butter | 2.6 | 1.6 | 0.4 | 0.4 | 2.0 | 2.0 |
| Cheese | 33.8 | 31.5 | 85.8 | 84.8 | 337.7 | 348.9 |
| Condensed milk | 82.1 | 92.6 | 2.5 | 3.6 | 6.6 | 10.6 |
| SMP | 19.2 | 13.8 | 8.4 | 5.0 | 25.2 | 10.8 |
| Whey powder | 9.2 | 7.0 | 5.1 | 2.9 | 17.9 | 12.1 |
| Total | 21.7 | 20.7 | 103.0 | 97.4 | 396.6 | 388.8 |

Figure 2 Top dairy imports by volume

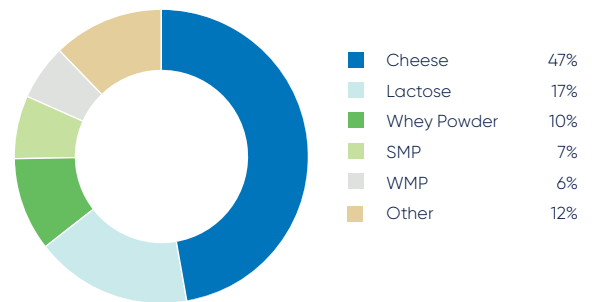


Figure 3 Top dairy imports by USD value

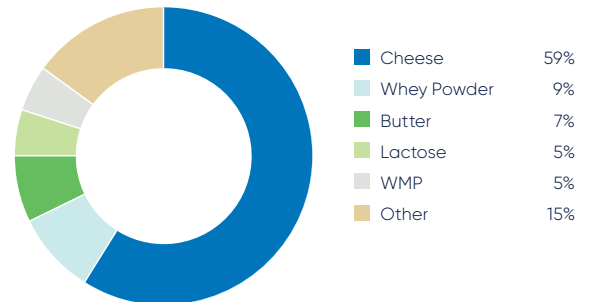


Figure 4 Top Australian dairy exports by volume

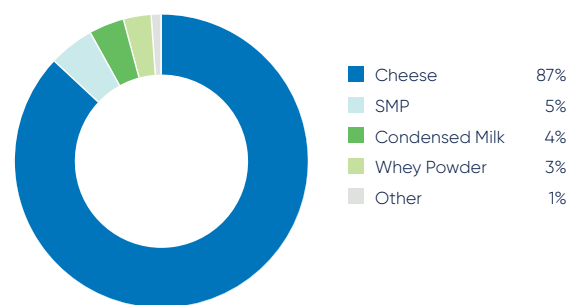


Figure 5 Top Australian dairy exports by USD value

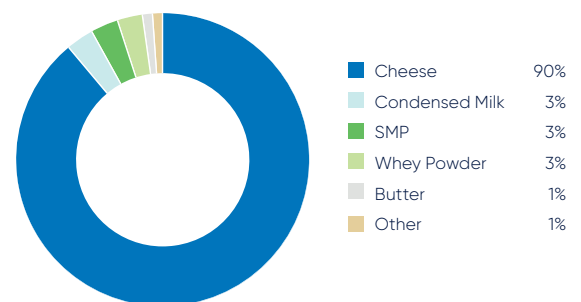


Figure 7 Dairy tariffs

| Tariff category | Product category | Applied tariff % |
|------------------------|--|-------------------------|
| 0406 | Fresh (unripened or uncured) Cheese, including whey cheese, and curd. Free within Country Specific Quota | 29.8 |
| 0406 | Cheese for processing, unspecified (pooled Quota), when blended according | 0.0 |
| 0404 | Milk and cream, concentrated or containing added sugar or other sweetening matter: In powder, granules or other solid forms, of a fat content, by weight, not exceeding 1.5% | 25.0 |
| 3502 | Milk albumin, including concentrates of two or more whey proteins | 0.0 |

FOR FURTHER INFORMATION

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