



# MARKET BRIEF

## JAPAN

### Global exports to Japan

- Rank #6 in the global dairy market (by volume).
- Destination for more than 559,000 tonnes of dairy products, worth US\$1,911 million (in 2019/20).
- Exports have increased by 14% over five years (2015/16–2019/20).
- The biggest volume growth (product categories exceeding US\$20 million) has been in:
  - lactose (53%)
  - milk products (48%)
  - SMP (25%)
  - protein (22%).
- The biggest volume decline (product categories exceeding US\$20 million) has been in:
  - butter (-5%)
  - whey powder (-5%).

### Australian market share

- Rank #4 in the share of Japanese import volume.
- Destination for more than 84,000 tonnes of Australian dairy products, worth close to US\$335 million (in 2019/20).
- Exports have decreased by 17% over five years (2015/16–2019/20).
- The biggest volume growth (product categories exceeding US\$1 million) has been in:
  - SMP (84%)
- The biggest volume decline (product categories exceeding US\$1 million) has been in:
  - whey powder (-62%)
  - casein (-44%)
  - condensed milk (-33%).

### Market developments

As one of the world's largest dairy importers, global exports to Japan have remained relatively steady, increasing 14% over the past five years. With declining farm numbers and a smaller national herd, Japan's milk supply has been gradually decreasing since 1996. At the same time, demand for dairy has been rising among Japanese consumers, as they become more health conscious and recognise the nutritional benefits of dairy in their diets. Despite faltering milk production and rising domestic demand, the local market balance has been steady due to Japan's shrinking population in recent years.

In 2019/20, Japan imported over 559,000 tonnes of dairy products, with cheese making up 48% of overall volumes. Australia is the largest cheese exporter to Japan, accounting for close to 29% of the total market. Increased demand for dairy has seen cheese consumption surge over the past 10 years, with a growing focus on natural cheeses compared to processed cheese which has traditionally dominated consumption. In Japan, close to three quarters of imported natural cheese is utilised for direct consumption, with a large share destined for the foodservice sector, producing products such as shredded and cream cheese.

A significant portion of skim milk powder (SMP) imported into Japan is used for creating various dairy products, such as milk beverages, ice creams and yoghurt. Demand for SMP has grown in recent years, partially through increased consumption of yoghurt and probiotic products. As a key ingredient for manufacturing these products, exports of Australian SMP to Japan have increased by 84% in the past five years. The market for yoghurt and probiotics has developed significantly, with consumer interest growing for not only nutritious, but functional foods. During the COVID-19 pandemic, enhanced focus on health maintenance and immunity improvement saw dairy product sales increase. This health-conscious trend is anticipated to continue to influence Japanese consumer purchasing behaviours, maintaining strong demand for functional dairy products.

Japan market share dynamics have changed following the establishment of several trade agreements with key dairy suppliers. Over the past five years, Australian dairy exports to Japan decreased by 17% while imports from the US, EU and New Zealand, increased. After years of negotiations, the US signed a trade agreement with Japan in October 2019, improving access into the Japanese dairy market. However, despite this access, US origin dairy is still at a competitive disadvantage to EU, New Zealand and Australia. Entering into force in February 2019, the Japan EU Economic Partnership Agreement (Japan EU EPA) included a 'protection' clause for a range of Geographical Indicators (GI). The ratification of this agreement prevents Australian exporters from selling dairy products into the Japanese market under these protected names.

### Tariff environment

Japan's dairy industry remains heavily protected, with a complex network of laws and quotas controlling domestic production and importation. In January 2015, the Japan-Australia Economic Partnership Agreement (JAEPA) entered into force, allowing Australia a reduction in tariffs and additional country specific quotas for selected dairy products. Japan is also a signatory to the regional Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) free trade agreement between Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, Peru, New Zealand, Singapore and Vietnam. The establishment of bilateral trade agreements between Japan, the EU and US, have improved market access for dairy production into Japan for these major dairy exporters.

The JAEPA is due for a scheduled review in 2021. According to the agreement, tariff step down began in January 2015, 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.

Dairy Australia and the Australian dairy industry are working alongside the Australian government, to seek market access improvement for Australian dairy wherever possible.

### 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 dinners in market. Dairy Australia also visits the market regularly and holds seminars in Japan to keep the Japanese industry updated on the Australian dairy industry.

Figure 1 Dairy imports

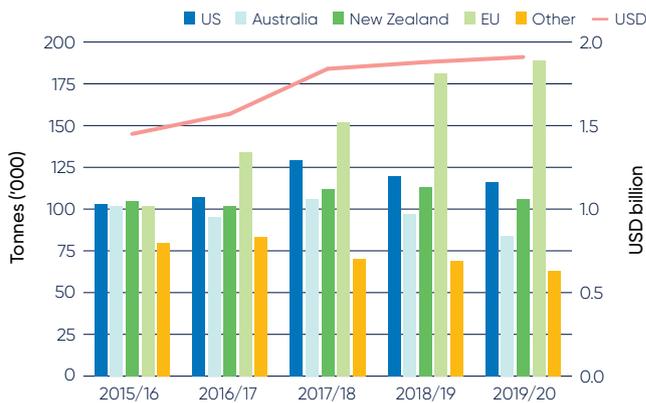


Figure 2 Top dairy exports to Japan by volume

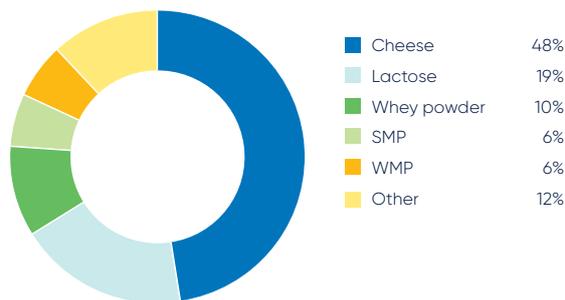


Figure 3 Top dairy exports to Japan by US\$ value

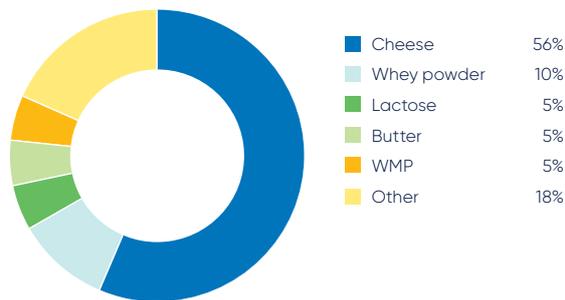


Figure 4 Top Australian dairy exports by volume

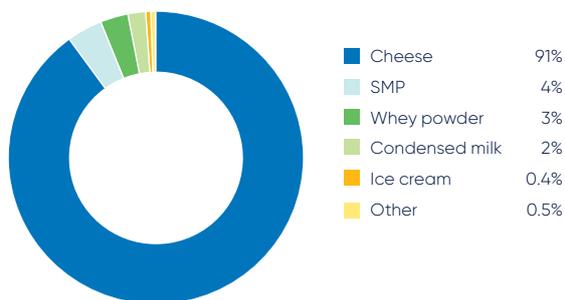
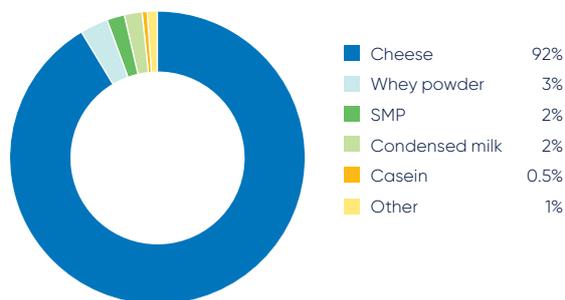


Figure 5 Top Australian dairy exports by US\$ value



**Figure 6** Australian exports

| Product group  | Market share (US\$ %) |             | Volume ('000) |             | Value (million US\$) |              |
|----------------|-----------------------|-------------|---------------|-------------|----------------------|--------------|
|                | 2015/2016             | 2019/2020   | 2015/2016     | 2019/2020   | 2015/2016            | 2019/2020    |
| Cheese         | 35.8                  | 28.7        | 90.6          | 76.6        | 298.1                | 306.7        |
| Whey Powder    | 11.5                  | 5.5         | 6.2           | 2.4         | 19.0                 | 10.9         |
| SMP            | 7.3                   | 10.7        | 1.6           | 3.0         | 3.8                  | 7.9          |
| Condensed Milk | 82.0                  | 78.4        | 2.6           | 1.7         | 6.5                  | 5.5          |
| Casein         | 4.0                   | 1.6         | 0.02          | 0.01        | 3.3                  | 1.5          |
| <b>Total</b>   | <b>23.1</b>           | <b>17.5</b> | <b>102.1</b>  | <b>84.5</b> | <b>334.6</b>         | <b>334.8</b> |

**Figure 7** Dairy tariffs

| Tariff category | Product category   | Applied tariff % |
|-----------------|--|------------------|
| 0406            | Fresh (unripened or uncured) cheese, including whey cheese and curd.<br>Free within Country Specific Quota   | 16.8             |
| 0406            | Cheese for processing, unspecified (pooled quota), when blended according  | 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 5% | 25               |
| 3502            | Milk albumin, including concentrates of two or more whey proteins  | 0                |

Applied tariffs are drawn from Integration Point. Where Australia does not have a specific tariff agreement in place, the Applied Rate for qualifying product is the MFN rate. Where a specific tariff agreement exists, the applied rate for qualifying product is as per that agreement. The countries with specific agreements in place are: China (ChAFTA), Indonesia (AANZFTA), Japan (JAEPA), The Republic of Korea (KAFTA), Malaysia (MAFTA), Philippines (AANZFTA), Singapore (SAFTA), Thailand (TAFTA), and the USA (AUSFTA).

**FURTHER INFORMATION**

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