

# Market Brief

## Japan

Calendar year 2022

### GLOBAL EXPORTS TO JAPAN

Rank #6 in the global dairy market (by volume)

Destination for over 531,000 tonnes of dairy product, worth US\$2,433 million (in 2022)

Exports to Japan have decreased by 7% over five years (2018 – 2022)

The biggest volume growth (product categories exceeding US\$20 million) has been in:

- Protein 65%
- Ice cream 10%
- Lactose 26%

The biggest volume decline (product categories exceeding US\$20 million) has been in:

- SMP -79%
- WMP -15%
- Butter -38%

### AUSTRALIAN MARKET SHARE

Rank #4 in the share of Japan's import volume

Destination for close to 67,000 tonnes of Australian dairy products, worth almost US\$315 million (in 2022)

Exports to Japan have decreased by 34% over five years (2018 – 2022)

The biggest volume growth (product categories exceeding US\$1 million) has been in:

- WMP 25,746%

The biggest volume decline (product categories exceeding US\$1 million) has been in:

- SMP -89%
- Casein -36%
- Whey powder -45%
- Condensed milk -33%

### Market developments

As one of the world's largest importers, historically, dairy exports to Japan have been steadily increasing over the last decade. However, over the past five years, this trend has started to shift in line with the introduction of COVID-19 restrictions and the exclusion of international travellers over the last two years during the pandemic. Between 2020 and 2022, Japanese Government initiatives encouraging local manufacturers to use domestic stock and disincentivise the use of imports, contributed to total imports to Japan dropping 5 per cent.

While a lot of the demand for dairy in Japan stems from the tourism industry and associated food service, consumption of dairy has remained steady despite a shrinking population. Japanese consumers continue to grow more health conscious and recognise the nutritional benefits that dairy brings to their diets.

Despite this, declining farm numbers and a smaller national herd have led to Japan's milk supply gradually decreasing since 1996. In place of national policies used to incentivise in years past, in 2022, this continued structural decline is being driven by high overhead costs and farm exits. While faltering milk production and rising domestic demand have been a key feature in recent years, since late 2021, local dairy farmers are maintaining year-on-year milk production to keep the local market balanced against flat demand caused by COVID-19 restrictions.

In 2022, Japan imported close to 531,000 tonnes of dairy products, with cheese making up 45 per cent of overall volumes. Australia is the third largest cheese exporter to Japan, accounting for 24 per cent of the total market. Increased demand for dairy has seen cheese consumption surge over the past 10 years, with natural cheese now gaining popularity among consumers. While the COVID-19 pandemic led to a 10 per cent decline in cheese imports over the past two years, the rebound of the tourism industry is expected to drive importing growth into 2023.

The COVID-19 pandemic heightened Japanese consumer focus on health maintenance and immunity improvement. Over recent years, the market for yoghurt and probiotics has evolved significantly, with consumer interest growing for not only nutritious but functional foods. This trend continues to be driven by modish, health-conscious marketing and with yoghurt meeting this criteria, many consumers look to incorporate this product into their diet.

Skim milk powder (SMP) is a key ingredient used in the manufacturing of probiotic dairy products such as yoghurt and lactic acid bacterial drinks, as well as other products such as milk beverages and ice creams. While retail sales of probiotic products have increased, SMP imports to Japan declined by 67 per cent between 2020 and 2022. This can be largely attributed to rising import costs and increased domestic SMP production.

While the pandemic significantly disrupted the hotel, restaurant, and institutional (HRI) sector throughout Japan, decreased demand for dairy led to a shift away from the production of fresh dairy products and a move toward SMP and butter. Butter imports also declined 37 per cent between 2020 and 2022. While this led to increased domestic stocks of both SMP and butter, inflationary pressures and freight costs have continued to hold domestic butter in a more competitive position to imports. With excess milk still being mostly diverted away from fresh products on account of weak demand for drinking milk and cream, this is projected to continue well into 2023.

Following the establishment of several new trade agreements, dairy export competition has intensified in Japan. Over the past five years, Australian dairy exports to Japan have decreased by 34 per cent while imports from the United States (US) and European Union (EU) have increased. In February 2019, the Japan EU Economic Partnership Agreement (Japan EU EPA) came into force and 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. 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.

## 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.

With the scheduled review of JAEPA now overdue, (after an initial deadline of 2021), Dairy Australia is working with industry partners and the Australian Government to ensure the review progresses and aims to provide market access improvements for Australian dairy into Japan. 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 Table 2.

## 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. Outside of COVID-19 travel restrictions, 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

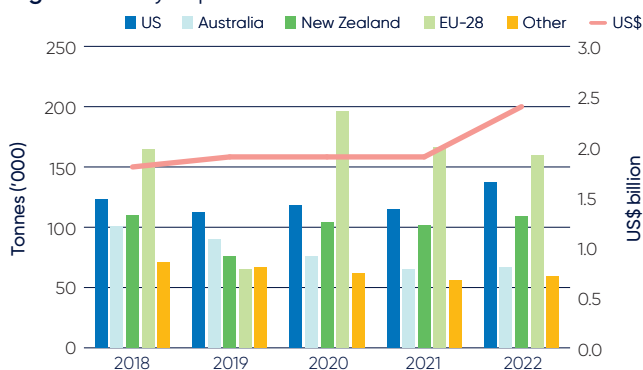


Figure 2 Top dairy exports to Japan by volume

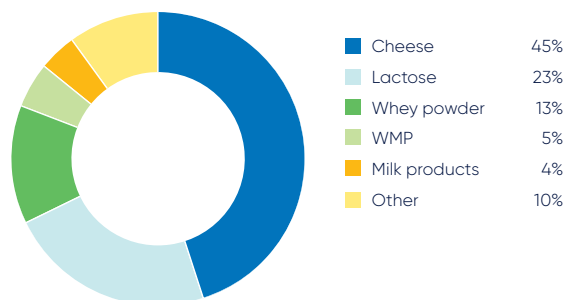
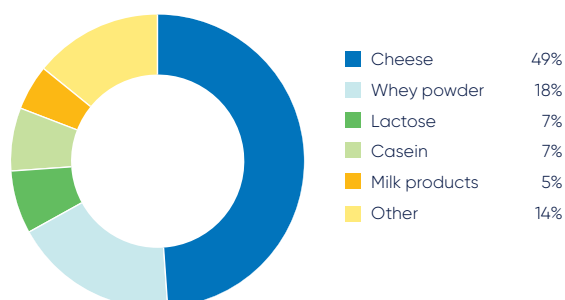
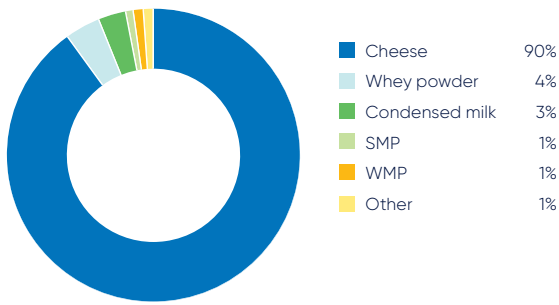


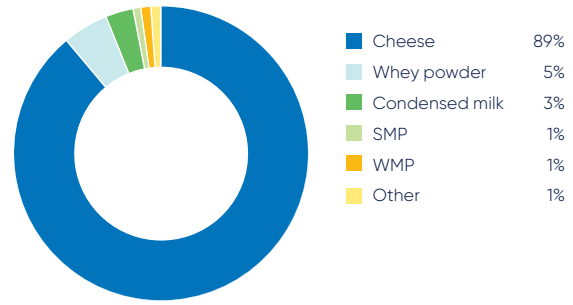
Figure 3 Top dairy exports to Japan by US\$ value



**Figure 4** Top Australian dairy exports by volume



**Figure 5** Top Australian dairy exports by US\$ value



**Table 1** Australia exports

Product group	Market share (US\$ %)		Volume ('000)		Value (million US\$)	
	2018	2022	2018	2022	2018	2022
Cheese	34	24	87.9	60.8	371.3	281.8
Whey Powder	11	4	4.9	2.7	20.4	17.3
Condensed Milk	92	87	3.5	2.4	10.2	10.5
WMP	0	1	0.0013	0.3	0.025	1.2
SMP	11	6	3.9	0.4	8.1	1.6
<b>Total</b>	<b>23</b>	<b>13</b>	<b>101.1</b>	<b>66.9</b>	<b>415.9</b>	<b>315.2</b>

**Table 2** Dairy tariffs

Tariff category	Product category	Applied tariff %
0406	Fresh (unripened or uncured) cheese, including whey cheese, and curd. Free within Country Specific Quota	0.0
0406	Cheese for processing, unspecified (pooled quota), when blended according	0.0
0402	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%	35.0
3502	Milk albumin, including concentrates of two or more whey proteins	0.0

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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