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## Japan

**Post:** Tokyo

### **Competitive Changes Expected in Japanese Rice Market**

**Report Categories:**

Agricultural Situation

Grain and Feed

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**Report Highlights:**

Japan's conclusion of a free trade agreement with the European Union (EU) and efforts to conclude the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) are expected to increase market competition for U.S. rice exports to Japan. The two agreements are expected to contain tariff concessions for a range of rice products. The Japan-EU agreement could enter into force as early as 2019, while CPTPP Member States are currently undertaking domestic procedures to ratify the agreement. In 2017, Japan imported roughly \$552 million in rice and rice products, of which 45.4 percent (approximately \$251 million) was from the United States.

## **General Information:**

While Japanese per-capita rice consumption continues to decline, rice remains a staple food for the Japanese diet and the only grain where domestic production levels are sufficient to meet Japanese consumption needs. As a result, rice production in Japan is considered essential to support Japanese food security and Japan has established a tariff rate quota (TRQ) and places quantitative restrictions on imports of rice and rice products. Until the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP)<sup>1</sup> and Japan's bilateral Economic Partnership Agreement (EPA) with the European Union (EU), Japan had never provided preferential access to its rice market in a free trade agreement.

On December 9, 2017, Japan and the EU announced the finalization of negotiations on a Japan-EU EPA. In this agreement, Japan agreed to eliminate or reduce duties for 16 tariff lines covering rice-containing products of which Japan imports negligible volumes or for which duties were already low.

On March 8, 2018, Japan and 10 other countries signed the CPTPP. In this agreement, Japan established an import quota for Australian rice and rice products. Japan also reduced duties for 13 tariff lines covering rice flour preparations, rice cake and rice crackers (Japan's leading imported rice products). Furthermore, Japan agreed to eliminate or reduce duties for products containing rice, similar to the Japan-EU EPA.

In 2017, Japan imported US\$358.3 million of rice from the world. The United States and Thailand are Japan's two major foreign rice suppliers, accounting for 58 percent and 39 percent, respectively, followed by Australia at 1.9 percent. For the United States, Japan was the third largest export market for U.S. rice in 2017.

Other than rice, Japan's major imports of rice products are rice flour preparations, rice crackers and biefun (rice noodles) which are predominantly supplied by Thailand, China, the United States and Vietnam.

### **I. State Traded Products**

Japan has established a 767,000 MT (brown rice basis)<sup>2</sup> minimum access World Trade Organization (WTO) tariff rate quota (TRQ), commonly referred to as Minimum Access (MA) rice, which covers 17 rice products (see Table 1). Japan's Ministry of Agriculture, Forestry and Fisheries (MAFF) administers the TRQ for imports, and collects a markup on imports which is capped at 292 yen/kg or 321 yen/kg. Within the TRQ, in addition to the markup, ad valorem

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<sup>1</sup> The CPTPP countries are Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam.

<sup>2</sup> The WTO TRQ had increased each year from 426,000 MT in JFY 1995 to 767,000 MT on a brown rice basis in Japanese Fiscal Year (JFY, April - March) 2000. However, because a TRQ was maintained during the WTO Doha Round negotiations, it has remained at 767,000 MT since JFY 2000.

duties of 25 percent or 19.2 percent are levied on rice products, but the duty for rice itself is zero (see Table 1). Because of this, rice accounts for the majority of the TRQ utilization and imports of rice products are limited. Of the 679,662 MT of TRQ imports in 2017, rice accounted for 99.9 percent (679,108 MT, actual tonnage) of the volume. The remainder being 10 MT of rice flour and 544 MT of pre-cooked or prepared rice from Thailand. These products were imported subject to a 25 percent duty, but exempted from the markup as they were imported for certified, specific purposes (rice flour for manufacturing a starch for dyeing textile products and pre-cooked or prepared rice for manufacturing breakfast cereals)<sup>3</sup>

When importing these 17 state traded products outside of the TRQ, high duties of 341 yen/kg or 375 yen/kg are applied (see Table 2 -- which can equal almost 800 percent when converted to an ad valorem duty based on the import price and the international price between 1999 and 2001). Despite high duties, 628 MT of rice and rice products were imported in 2017, of which milled rice accounted for the majority.

**Table 1: State Traded Rice Products covered by Japan's WTO TRQ**

Product	HS	In WTO TRQ duty	CPTPP	
Rough rice	1006.10.101	Zero (+ markup)	Country Specific Quota for Australia  Year 1: 6,000 MT 2: 6,000 MT 3: 6,000 MT 4: 6,240 MT 5: 6,480 MT 6: 6,720 MT 7: 6,960 MT 8: 7,200 MT 9: 7,440 MT 10: 7,680 MT 11: 7,920 MT 12: 8,160 MT 13: 8,400 MT	
Brown rice	1006.20.010	Zero (+ markup)		
Milled rice	1006.30.010	Zero (+ markup)		
Broken rice	1006.40.010	Zero (+ markup)		
Rice flour	1102.90.310	25% (+ markup)		
Rice groats and meal	1103.19.510	25% (+ markup)		
Rice pellets	1103.20.350	25% (+ markup)		
Rolled or flaked rice	1104.19.250	25% (+ markup)		
Other worked rice	1104.29.250	25% (+ markup)		
Rice mixes and doughs for bakery products	1901.20.122	25% (+ markup)		
Rice doughs for rice crackers	1901.20.162	25% (+		
				The quota volume for Year 14 and onwards remain at 8,400 MT.

<sup>3</sup> Japan does not apply a markup for state traded products when Japan's Agricultural Minister certifies that these products are used as a raw material: 1) for manufacturing a starch for dyeing textile products, 2) for manufacturing specific breakfast cereals, and 3) for manufacturing products for export. Imports of rice flour and pre-cooked or prepared rice were exempt from the markup because they were certified to be used for category 1 and category 2, respectively. In addition, some milled rice (HS100630010) was exempt from the markup as it was certified to be used for category 3. NOTE: Imports of category 1 and category 2 under this system are included in the WTO TRQ utilization, but imports under category 3 are not.

		markup)	In quota duties are abolished immediately while the markup is maintained.
Rice preparations containing 85% or more of grains by weight, of which rice the heaviest	1901.90.142	25% (+ markup)	
Mochi (rice cake), dango and other similar products containing more than 30% by weight of rice	1901.90.587	25% (+ markup)	
Food preparations containing 50% or more by weight of swelling and roasting rice	1904.10.211	19.2% (+ markup)	
Food preparations containing 50% or more by weight of unroasted swelling rice	1904.20.211	19.2% (+ markup)	
Cooked rice (rice-dumpling, pilaf, cooked rice with azuki beans, etc) containing more than 30% by weight of rice in grain form	1904.90.120	25% (+ markup)	
Food preparations containing more than 30% by weight of rice	2106.90.517	25% (+ markup)	

Source: MAFF, Japan Customs

**Table 2: Rice and Rice Products Imported Outside WTO TRQ**

Product	HS	WTO MFN duty
Rough rice	1006.10.090	341 yen/kg
Brown rice	1006.20.090	341 yen/kg
Milled rice	1006.30.090	341 yen/kg
Broken rice	1006.40.090	341 yen/kg
Rice flour	1102.90.390	375 yen/kg
Rice groats and meal	1103.19.590	375 yen/kg
Rice pellets	1103.20.390	375 yen/kg
Rolled or flaked rice	1104.19.290	341 yen/kg
Other worked rice	1104.29.290	341 yen/kg
Rice mixes and doughs for bakery products	1901.20.128	375 yen/kg
Rice doughs for rice crackers	1901.20.168	375 yen/kg
Rice preparations containing 85% or more of grains by weight, of which rice the heaviest	1901.90.148	375 yen/kg
Mochi (rice cake), dango and other similar products containing more than 30% by weight of rice	1901.90.588	375 yen/kg
Food preparations containing 50% or more by weight of swelling and roasting rice	1904.10.212	341 yen/kg
Food preparations containing 50% or more by weight of unroasted swelling rice	1904.20.212	341 yen/kg
Cooked rice (rice-dumpling, pilaf, cooked rice with azuki beans, etc) containing more than 30% by weight of rice	1904.90.130	341 yen/kg
Food preparations containing more than 30% by weight of rice	2106.90.518	341 yen/kg

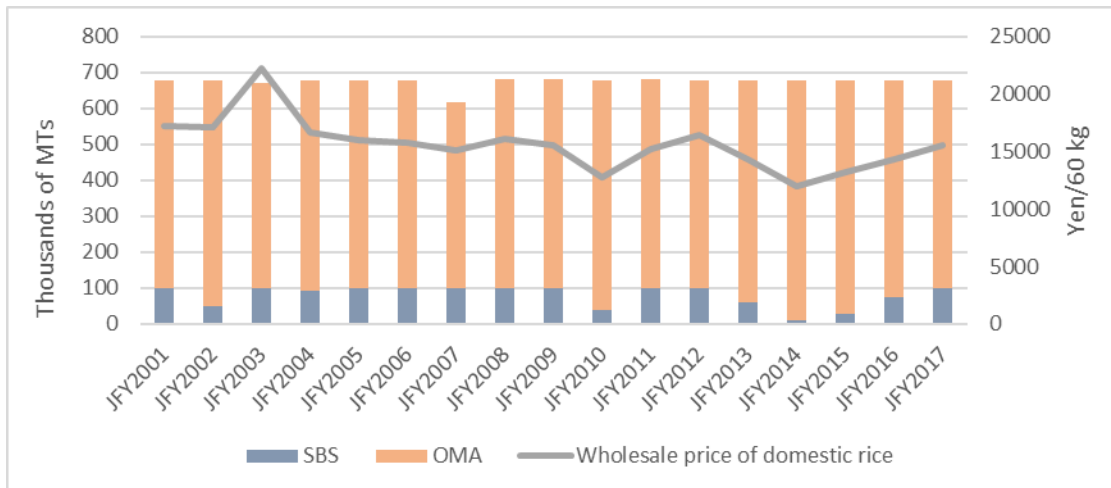
Source: MAFF, Japan Customs

## Rice

As mentioned earlier, Japan imports rice to meet its WTO TRQ obligations and MAFF operates Simultaneous Buy and Sell (SBS) tenders and Ordinary Market Access (OMA) tenders to import rice within the TRQ. MAFF sets a maximum volume of 100,000 MT (actual tonnage) for imported rice intended to be sold as table rice in Japan via SBS tenders. Importers and buyers (wholesalers) jointly bid for SBS tenders by offering: 1) a sales price to MAFF and 2) a purchase price from MAFF of the origin and type of rice of their choice. MAFF then awards imports to those with the largest markup (i.e., the difference between the two prices) until the tender volume is filled. The remaining quota volumes (767,000 MT (brown rice) minus the SBS tendered volume) are traded under Ordinary Market Access (OMA) tenders where importers bid to import the volume, type, and origin of rice MAFF puts on tender. MAFF awards the importer who offers the lowest price among qualified bidders. MAFF purchases imported rice from the importer, and eventually sells the imported rice to domestic users who use it for processing rice products or feed, but not for table rice.

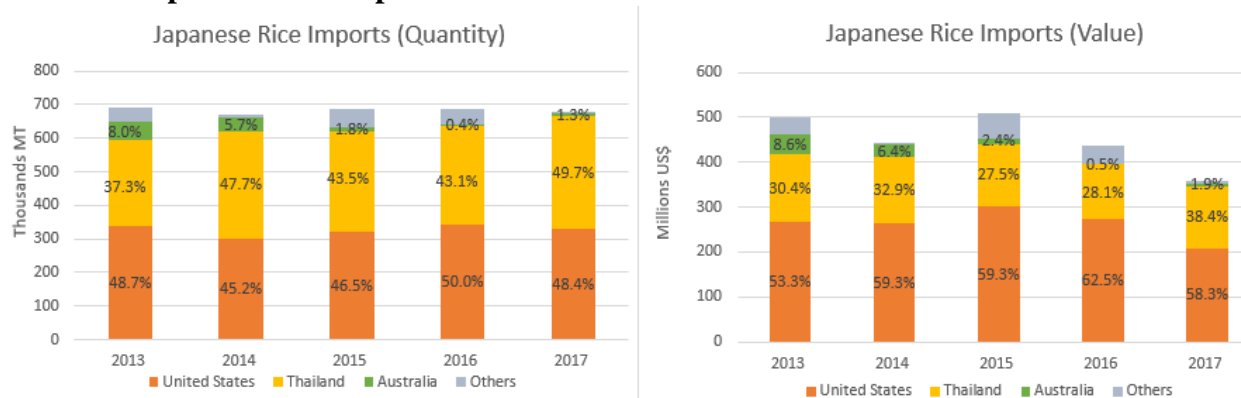
The SBS quota of 100,000 MT has not always been fully utilized. When the price of rice in Japan is low, the successful bid amount under the SBS tenders may not reach 100,000 MT (see Chart 1). When this happens, any remaining amount is diverted to OMA tenders to ensure Japan meets its WTO TRQ obligations. The United States and Thailand have been the leading suppliers of Japan rice imports and accounted, over the last five years, for 48 percent and 44 percent, respectively, of the volume, and 58.6 percent and 31.5 percent, respectively, of the value of Japanese rice imports (see Chart 2).

### **Chart 1. Japanese Rice Tender Results and Domestic Wholesale Rice Prices**



Source: MAFF

## Chart 2. Japanese Rice Imports



Source: Global Trade Atlas

## CPTPP

Under the CPTPP, Japan established a country specific quota (CSQ) for the 17 state traded rice and rice products from Australia (see Table 1). The CSQ for Australia starts at 6,000 MT and remains at that level for the first three years, gradually increasing to 8,400 MT by Year 13. The quota volume then remains at that level henceforth. Duties are abolished immediately within the CSQ while the markup is maintained, and MAFF will administer SBS tenders to import the CSQ volume.

Australia was the third largest supplier of rice to Japan (8,584 MT, US\$69 million), following the United States and Thailand in 2017. Australian rice accounted for 1.3 percent by volume and 1.9 percent by value of Japan's rice imports during that period as the CIF unit price of Australian rice was roughly 26 percent higher than for U.S. rice (see Table 3). Japan's imports

of Australian rice, however, are expected to increase in 2018 as 66,702 MT (30,702 MT of SBS rice and 36,000 MT of OMA rice) of Australian rice was successfully bid under the JFY2017 MA rice tenders. As the Australian CSQ potentially increases table rice supplies to the Japanese market, the GOJ intends to purchase an equivalent amount of domestically produced table rice for its contingency reserves.<sup>4</sup>

With the effectuation of CPTPP, 60,000 MT of rice currently imported under the WTO OMA tenders will be diverted to the SBS tender system, but will be limited to medium grain rice used for processing (ensuring Japanese rice processors have access to a minimum of 60,000 MT of imported rice each year)<sup>5</sup>. Despite this new allocation, Japan’s total MA rice import quantity is expected to remain unchanged. MAFF has noted that it believes moving this volume from the OMA to the SBS system will facilitate direct trading between importers and users to better reflect demand in Japan.

**Table 3. Japan’s Rice Imports in 2017**

	Value	Share	Volume (MT)	CIF Average Unit Price
United States	\$209,022,097	58.3%	328,614	\$636.07
Thailand	\$137,664,879	38.4%	337,443	\$407.96
Australia	\$6,910,208	1.9%	8,584	\$805.01
Other	\$4,679,471	1.4%	4,467	-
Total	\$358,276,655	100%	679,108	\$527.57

Source: Global Trade Atlas

## II. Rice Flour Preparations and Rice Crackers

Under the CPTPP, Japan will reduce duties for 13 rice flour preparations, rice cake and rice crackers (see Table 4).<sup>6</sup> In 2017, Japan imported nearly 70,000 MT of these products, of which rice flour preparations accounted for 86 percent (approximately 60,000 MT). Under the CPTPP, the tariff on rice flour preparations containing added sugar (HS190190251) is gradually reduced from the current 23.8 percent to 17.8 percent in Year 6 (i.e. by 25 percent). The tariff on rice flour preparations not containing added sugar (HS190190266) is gradually reduced from the current 16 percent to 13.6 percent in Year 4 (i.e., by 15 percent). Duties are immediately reduced by five percent for the remaining 11 products.

Japan imported 43,373 MT of rice flour preparations not containing added sugar in 2017, of which Thailand accounted for 62.5 percent, followed by China with 27.5 percent, and the United States with 10

<sup>4</sup> The GOJ holds 910,000 MT of domestically produced rice as a contingency reserve. The GOJ purchases 200,000 MT of rice each year and sells five-year old rice for feed and other purposes.

<sup>5</sup> This 60,000 MT is not limited to the CPTPP countries but open to all WTO member countries.

<sup>6</sup> No duty concessions were made for these 13 products under the Japan-EU EPA.

percent. Imports of rice flour preparations containing added sugar totaled 16,247 MT in 2017, of which the United States accounted for 66 percent, followed by Thailand with 33 percent.

Rice flour preparations are used to produce rice crackers, rice cakes, breakfast cereals, *mirin* (sweet sake seasoning) and other products. Imports of rice flour preparations are affected not only by their price, but also by the availability of domestic undersized rice grains, domestic production of rice for processing, and OMA rice as a raw material for rice products. Imports of these rice flour preparations decreased over 30 percent in the last five years despite a decline in prices (see Chart 3). As shown in Chart 4, domestic production of rice for processing, particularly glutinous rice, increased in the same period which is believed to have led to the decrease in rice flour preparation imports. Moreover, MA rice continues to be an essential material for Japanese production of rice products as demonstrated by the establishment of the 60,000 MT quota for MA rice for processing under the CPTPP.

Japan imported 7,669 MT of rice crackers in 2017, of which China accounted for 71 percent, followed by Thailand with 22 percent, and Taiwan with 6.8 percent. Imports of rice crackers have been decreasing since 2013 predominantly because of a gradual increase in import prices (see Chart 5). As Japan's predominant foreign suppliers of rice flour preparations, rice cake and rice crackers are not CPTPP Member States, tariff concessions under the CPTPP are not expected to significantly increase Japanese imports of these goods.

**Table 4. Rice Flour Preparations and Rice Products**

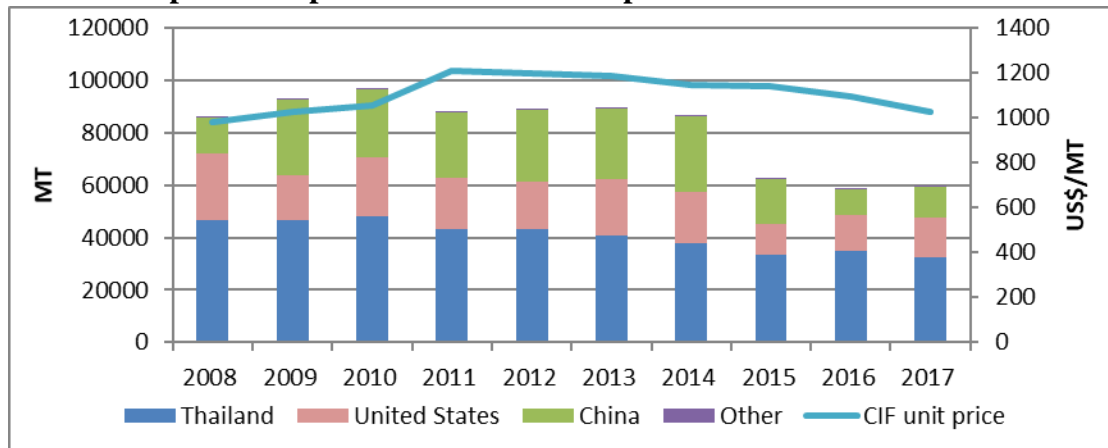
Product	HS Code	WTO MFN duty	CPTPP
<b>Rice Flour Preparations</b>			
Mixes and doughs containing not more than 85% by weight of rice flour and not more than 15 % by weight of sucrose	1901.20.231	24%	Immediate duty reduction to 22.8%
Mixes and doughs containing not more than 85% of rice flour by weight and more than 15 % by weight of sucrose	1901.20.234	23.8%	Immediate duty reduction to 22.6%
Rice flour preparations in a retail container (500 gram or smaller of the total weight ) containing not more than 85% of rice flour by weight and not containing sugar	1901.20.242	16%	Immediate duty reduction to 15.2%
Rice flour preparations containing not more than 85% of rice flour by weight and not more than 15 % by weight of sucrose	1901.90.241	24%	Immediate duty reduction to 22.8%
Rice flour preparations containing not more than 85% of rice flour by weight and more than 15 % by weight of sucrose (sugar the heaviest)	1901.90.246	28%	Immediate duty reduction to 26.6%
Rice flour preparations containing not more than 85% by weight of rice flour and containing more than 15% by weight of sucrose	1901.90.251	23.8%	Year 1 ↓ gradual duty reduction Year 6: 17.8%
Rice flour preparations containing not more than 85% by weight of rice flour and not containing added sugar	1901.90.266	16%	Year 1 ↓ gradual duty



			reduction Year 4: 13.6%
<b>Rice Cake</b>			
Mochi (rice cake), dango and other similar products containing 30% or less by weight of rice, and 15% or less by weight of sucrose	1901.90.583	24%	Immediate duty reduction to 22.8%
Mochi (rice cake), dango and other similar products containing 30% or less by weight of rice, and more than 15% by weight of sucrose	1901.90.585	25%	Immediate duty reduction to 23.7%
Mochi (rice cake), dango and other similar products containing 30% or less by weight of rice, and not containing sugar	1901.90.586	16%	Immediate duty reduction to 15.2%
<b>Cooked or Prepared Rice</b>			
Cooked grain rice (retort-pouch rice, cooked rice with azuki beans, etc) containing 30% or less by weight of rice	1904.90.110	25%	Immediate duty reduction to 23.7%
<b>Rice Crackers</b>			
Arare, senbei (rice crackers) containing added sugar	1905.90.311	34%	Immediate duty reduction to 32.3%
Arare, senbei (rice crackers) not containing added sugar	1905.90.321	29.8%	Immediate duty reduction to 28.3%

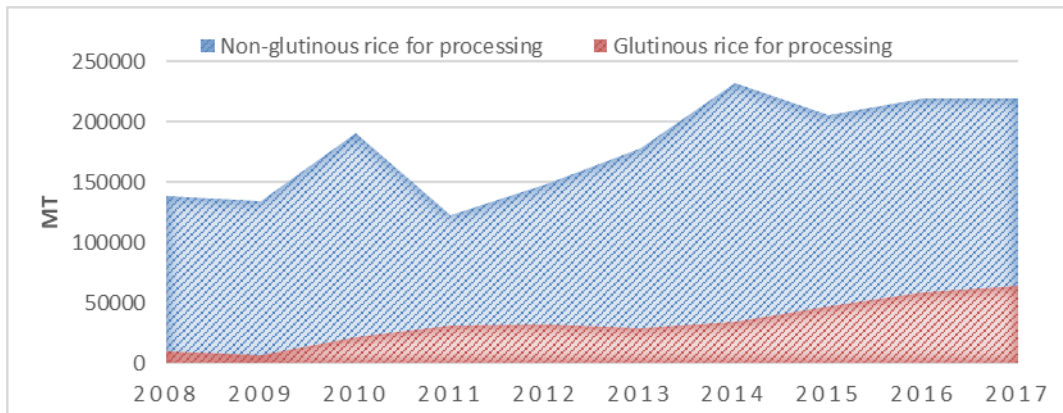
Source: MAFF, Japan Customs

**Chart 3. Japanese Imports of Rice Flour Preparations**



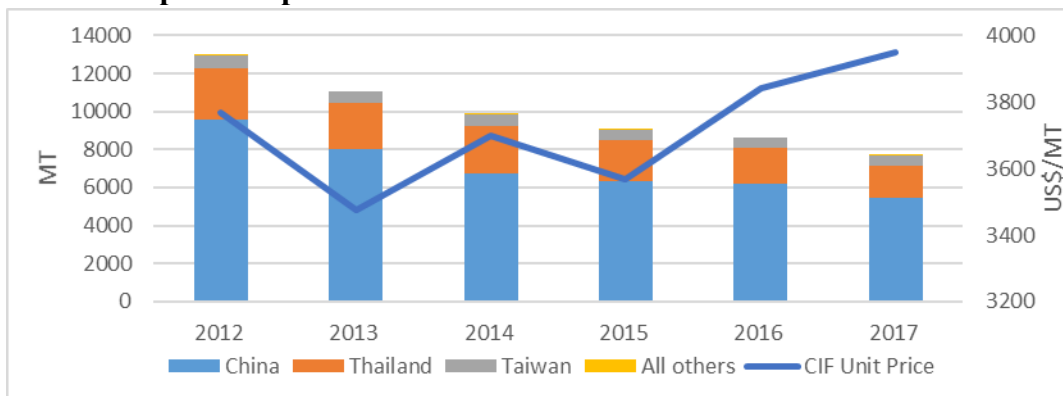
Source: Global Trade Atlas

**Chart 4. Japanese Production of Rice for Processing**



Source: MAFF

**Chart 5. Japan’s Imports of Rice Crackers**



Source: Global Trade Atlas

### III. Food Preparations Containing Rice and Feed Containing Rice

Under the CPTPP and Japan-EU EPA, Japan eliminates or reduces duties for 16 products containing (or which may contain) rice which Japan imports in small volumes or for which duties were already low (see Tables 5 and 6). In 2017, Japanese imports of these products totaled 34,465 MT, of which feed preparations accounted for 12,373 MT, and biefun (rice noodles) accounted for 7,671 MT. Imports of biefun have gradually increased since 2014 due to the increasing popularity of regional (e.g., Thai and Vietnamese) foods in Japan (see Chart 6). Thailand and Vietnam dominate the Japanese import market for biefun, accounting for 70 percent and 25 percent, respectively. Due to its price competitiveness, Vietnam, a CPTPP member, has gradually increased its exports to Japan, and will benefit from the tariff concession under the CPTPP (the tariff will be phased out in Year 11). Imports of feed preparations increased 27 percent in quantity and six percent in value in the five most recent years leading to 2017 – the United States accounted for 63.4 percent (by volume) and 48 percent (by value) of Japan’s import share, followed by France with 13 percent (by volume) and 14.5 percent (by value) in 2017 (see Chart 7). Tariffs on feed preparations containing rice will be eliminated under the Japan-EU EPA and the CPTPP, which are expected to benefit France.

Japan imported 8,337 MT of breakfast cereals (HS190410010) in 2017 (some of which may contain rice), for which Belgium accounted for 65 percent, followed by Australia with 12 percent. The tariff on this product will be phased out to zero in Year 8 under both the Japan-EU EPA and the CPTPP.

**Table 5. Food Preparations Containing (or may contain) Rice**

Product	HS	WTO MFN duty	Japan-EU EPA	CPTPP
Germ of cereals, whole, rolled, flaked or ground	1104.30.000	17 %	Year 1: ↓ gradual  reduction Year 11: 8.5%	Year 1: ↓ gradual  reduction Year 6: 0%
Food preparations suitable for infants or young children, put up for retail sale containing added sugar	1901.10.221	24%	Year 1: ↓ gradual  reduction Year 11: 12%	Year 1: ↓ gradual  reduction Year 11: 0%
Food preparations suitable for infants or young children, put up for retail sale not containing added sugar	1901.10.229	13.6%	Year 1: ↓ gradual  reduction Year 11: 6.8%	
Food preparations for bakery products put up for retail sale not containing added sugar	1901.20.241	13.6%	Year 1: ↓ gradual	
Food preparations for bakery products other than for retail sale not containing added sugar	1901.20.249	16%	reduction Year 11: 0%	
Food preparations in retail sale containers, not more than 500g each including container, not containing added sugar	1901.90.261	13.6%		
Food preparations other than 500g or smaller in retail container, not containing added sugar	1901.90.269	16%		
Biefun (rice noodle)	1902.19.010	27.20 yen/kg	Year 1: ↓ gradual  reduction Year 11:	Year 1: ↓ gradual  reduction Year 11: 0

			13.60 yen/kg	yen/kg
Breakfast cereals other than obtained by merely swelling or roasting of rice, wheat, triticale or barley	1904.10.010	11.5%	Year 1: ↓ gradual reduction Year 8: 0%	
Prepared foods containing less than 50% by weight of those obtained by merely swelling of cereals	1904.10.300	16.3%	Year 1: ↓ gradual reduction Year 11: 0%	
Breakfast cereals obtained from unroasted cereal flakes or from mixtures of unroasted cereal flakes and roasted cereal flakes or swelled cereals	1904.20.100	11.5%	Year 1: ↓ gradual reduction Year 8: 0%	
Prepared foods containing less than 50% by weight of those obtained by merely swelling of rice, wheat, triticale or barley	1904.20.300	16.3%	Year 1: ↓ gradual reduction Year 11: 0%	
Cooked cereals in grain form	1904.90.400	21.3%	N/A	Year 1: ↓ gradual reduction Year 6: 5.3%
Communion wafers, empty cachets of a kind suitable for pharmaceutical use, sealing wafers, rice paper and similar products	1905.90.200	6%	Year 1: ↓ gradual reduction Year 11: 0%	

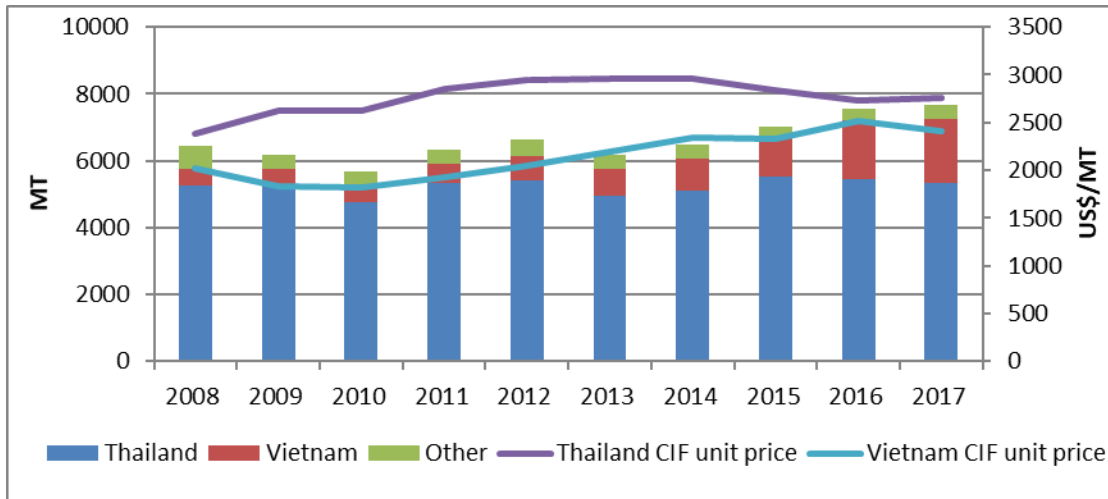
Source: MAFF, Japan Customs

**Table 6. Feed Preparations Containing Rice**

Product	HS	WTO MFN duty	Japan-EU EPA	CPTPP
Bovine feed containing less than separable 10% or more by weight of broken rice and flour or meal of rice	2309.90.298	12.8%	Year 1: ↓ gradual reduction Year 6: 0%	
Feed preparations	2309.90.299	36 yen/kg	Immediate reduction to 0 yen/kg	

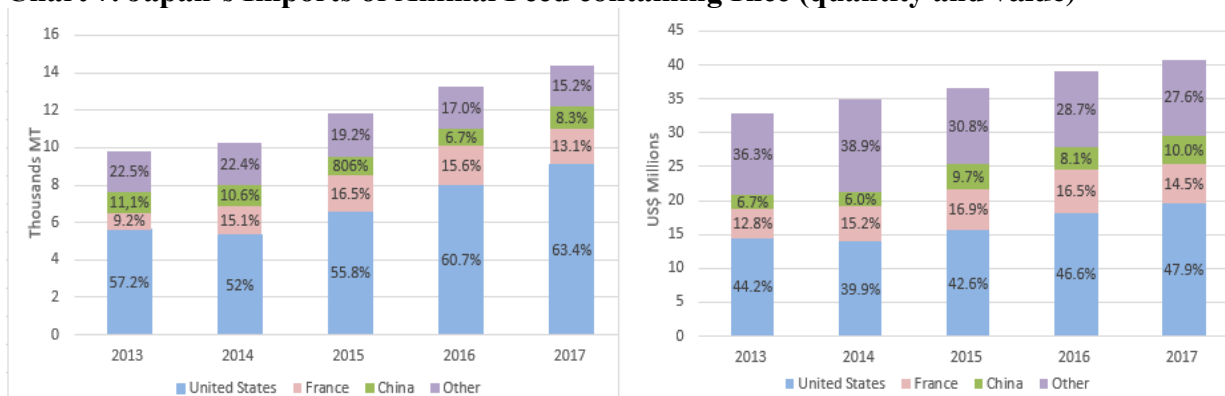
Source: MAFF, Japan Customs

**Chart 6. Japan's Imports of Biefun (Rice Noodles)**



Source: Global Trade Atlas

**Chart 7. Japan's Imports of Animal Feed containing Rice (quantity and value)**



Source: Global Trade Atlas

#### IV. Japanese Rice Market (on a brown rice basis)

In recent years Japanese table rice consumption has been declining 80,000 MT annually due to both a declining population and competition with other food. While the GOJ has incentivized a production shift from table rice to rice for other uses than table rice (see, e.g., Policy Section in [JA8018](#)), for feed, flour and exports, total Japanese rice production continues to decline (Chart 8).

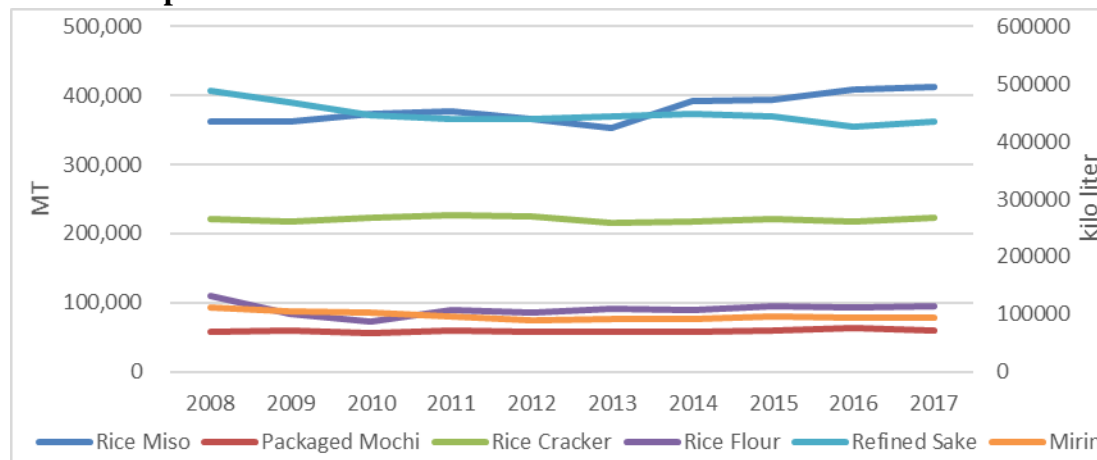
While table rice consumption has been decreasing, production of processed rice products has remained relatively flat (see Chart 9). Japan’s exports of rice and rice processed products have increased in recent years (Chart 10). According to MAFF, approximately 960,000 MT of rice and rice flour preparations are used for producing rice products, of which MA rice and imported rice flour preparations account for roughly 20 percent. Additionally, rice for feed has increased in recent years, and MA rice accounts for more than half the rice used in compound feed production in Japan. As such, MA rice and imported rice flour preparations are indispensable raw materials for Japanese production of rice processed products and compound feed.

**Chart 8. Japanese Total Rice Production and Table Rice Consumption**



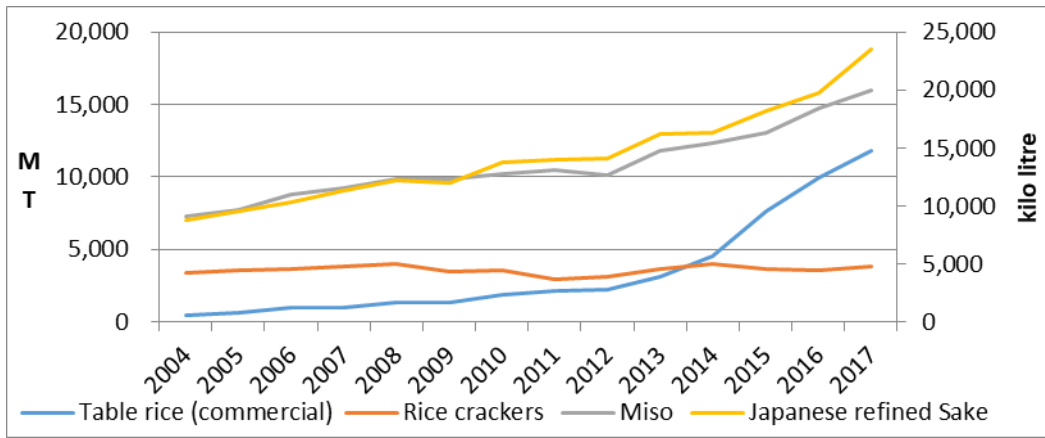
Source: MAFF

**Chart 9. Japanese Production of Rice Products**



Source: MAFF

**Chart 10. Japanese Exports of Rice Processed Products**



Source: MAFF