

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Voluntary - Public

Date: 7/27/2018

GAIN Report Number: JA8042

Japan

Post: Tokyo

New FTA Concessions Reduce U.S. Barley Opportunities

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. barley exports to Japan. The two agreements contain tariff concessions for a range of barley 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 \$545.8 million in barley and malt, of which 3.1 percent (approximately \$16.9 million) was from the United States.

General Information:

On July 17, 2018, Japan and the European Union (EU) signed the Japan-EU Economic Partnership Agreement (EPA). Earlier in 2017, Japan's Ministry of Agriculture, Forestry, and Fisheries (MAFF) published on its [website](#) a summary of the tariff reductions for several EU agricultural products which largely resemble the concessions that Japan made in the Trans-Pacific Partnership (TPP) agreement negotiation. Meanwhile, in late June 2018, Japan completed domestic procedures for ratifying the Comprehensive and Progressive Trans-Pacific Partnership (herein referred to as CPTPP¹) that would allow it to enter into effect without the United States.

Japan previously set a World Trade Organization (WTO) tariff rate quota (TRQ) for 1.369 million metric ton (MMT) to import barley and barley products, a state traded commodity. The Ministry of Agriculture, Forestry and Fisheries (MAFF) administers a Simultaneous Buy and Sell (SBS) tendering system to import the barley. (For more on this tendering system, see [Wheat and Barley Policies in Japan](#)). In addition to the 1.369 MMT quota, an EU-specific quota and a CPTPP-specific quota were established under their respective agreements. Within these quotas, the level of Japanese government markups are reduced. Also under the Japan-EU EPA and the CPTPP, feed barley imports will be transferred from the current state trading system to the private sector, similar to what was done for Australian feed barley under the Japan-Australia Economic Partnership Agreement (EPA).

I. Food Barley

Under the state trading system, barley for food and feed is imported tariff free within the 1.369 MMT WTO TRQ,² but MAFF collects a markup which is capped at 28.6 yen/kg. Almost all food barley is imported within this TRQ, and typically no more than 500 MT of food barley is imported outside of the TRQ, on which a specific duty of 39 yen/kg is applied.

In addition to the WTO TRQ, a separate quota was established for food barley under the TPP agreement (which later became known as the CPTPP), which can be utilized by the participating countries and will increase annually from 25,000MT in Year 1 to 65,000MT in Year 9. Within the CPTPP quota, the Japanese government markup will decrease annually, from 6.6 yen/kg in Year 1 to 4.4 yen/kg in Year 9 (a total reduction of 45 percent). Similarly, the markup within the WTO TRQ for imports from CPTPP Member States will also decrease annually to reach 55 percent of current levels in Year 9 under the CPTPP agreement (a total reduction of 45 percent).

Under the Japan-EU EPA, a limited EU-specific quota was established of 30 MT in Year 1 and each year thereafter. Similar to the CPTPP, the markup will decrease annually to reach 55 percent of current levels in Year 9 (a total reduction of 45 percent). The EU-specific quota and the CPTPP quota volumes will be imported under the state-run SBS system.

Japan imported 245,353 MT of food barley valued at US\$77.4 million in 2017. Australia and Canada have been the dominant suppliers of food barley to Japan. Imports from Australia accounted for 63.6 percent (by volume) and 57.3 percent (by value), followed by Canada with 24 percent (by volume) and

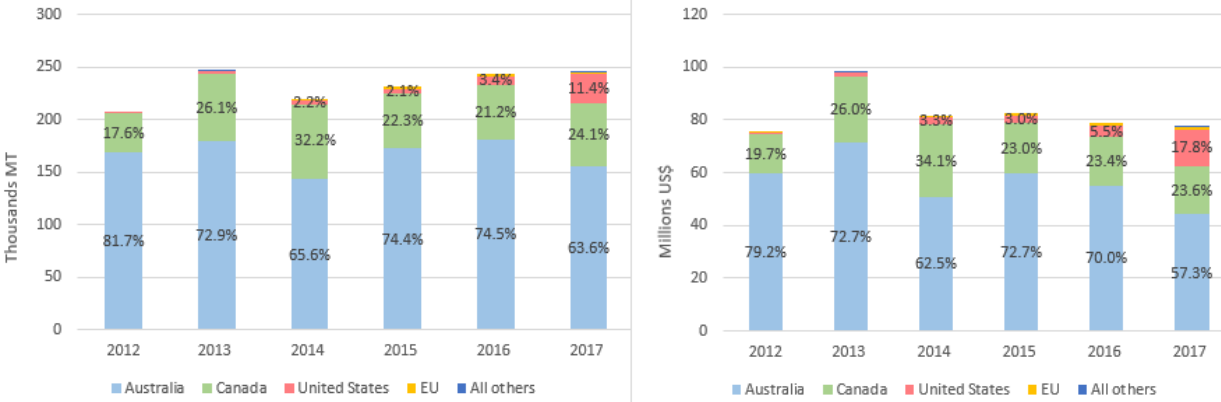
¹ The CPTPP countries are: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam.

² Japan's WTO TRQ and country-specific quotas established in its trade agreements are based on a Japanese fiscal year (April thru March).

23.6 percent (by value). The United States supplied 11.4 percent (by volume) and 17.8 percent (by value) (see Chart 1).³

When considering the 25,000 MT CPTPP quota in Year 1 (which will increase to 65,000 MT in Year 9), it is worth noting that 215,292 MT of food barley was imported into Japan from CPTPP countries in 2017. Likewise, when reviewing the 30 MT EU-specific quota, it is notable that 2,027 MT of food barley was imported from EU Member States in 2017. Accordingly, the markup reduction under these free trade agreements is expected to more heavily benefit Australia and Canada.

Chart 1. Japanese Food Barley Imports (Volume and Value)



Source: Global Trade Atlas

³ Japan was the third largest export market for U.S. barley and barley products in 2017, after Mexico (\$211.5 million) and Canada (\$59 million).

Table 1. Barley

HS	Product	WTO		Japan-EU EPA	CPTPP
		In quota tariff	MFN duty		
100310010, 100390019	Barley other than feed	Free (+ markup)		EU quota: 30 MT Markup within the quota is gradually reduced to reach 55% of current levels in Year 9	TPP quota (MT) Year 1: 25,000 Year 2: 30,000 Year 3: 35,000 Year 4: 40,000 Year 5: 45,000 Year 6: 50,000 Year 7: 55,000 Year 8: 60,000 Year 9: 65,000 Markup within the quota are gradually reduced from 6.6 yen/kg in Year 1 to 4.4 yen/kg in Year 9 (55% of current levels)
100310090, 100390099			39 yen/kg	No Change	
100390011	Barley for feed	Free (+ markup)		State trading system ↓ Imports by the private sector (no markup) The tariff will be eliminated immediately.	
100390091			39 yen/kg (Free for Australia)		

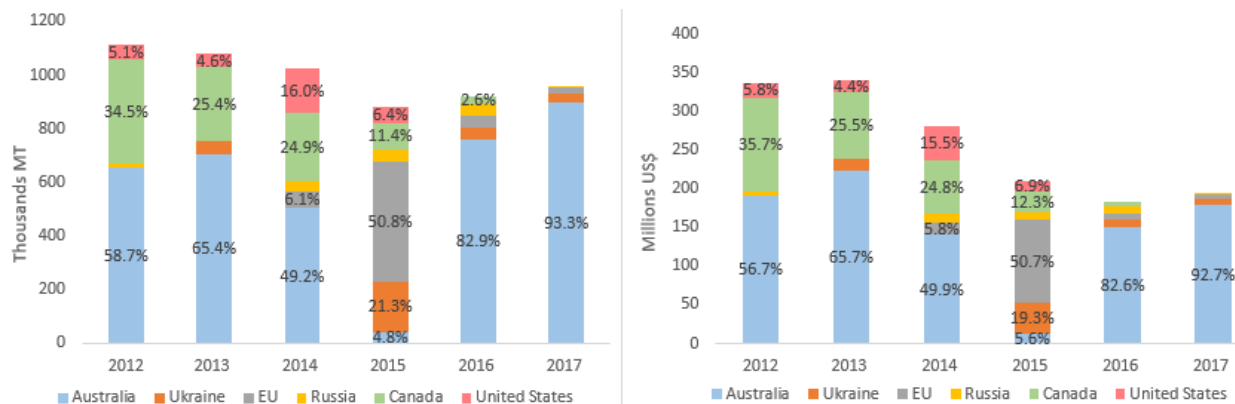
Source: MAFF

II. Feed Barley

Feed barley within the WTO TRQ is also subject to the state trading system and imported under the SBS system. Under this system, feed barley is imported duty-free on the condition that MAFF-designated feed mills perform deformation processing on imported feed barley to prevent this barley from being diverted to food use. As a result of the Japan-Australia EPA, which was effectuated on January 15, 2015, Australian feed barley is no longer subject to the state trading system, and private companies can import feed barley directly from Australia duty-free. Competent authorities supervising the feed mills using Australian feed barley were moved from MAFF to Japan Customs, and strict measures to prevent imported duty-free feed ingredients from being diverted to food use and greater penalties for non-compliance have been applied to feed mills (for additional information, see [JA7021](#)).

Under the Japan-EU EPA and the CPTPP agreement, feed barley from EU and CPTPP countries will be treated similarly to Australian feed barley. Feed barley imports are shifted from the state trading system to the private sector, for which a markup will not be collected, and the tariff is immediately eliminated. Japan imported 960,000 MT of feed barley valued at US\$193 million in 2017. Australia was the dominant supplier, accounting for 93 percent of both volume and value. Imports from Ukraine and EU Member States accounted for the remainder (see Chart 2).

Chart 2. Japanese Feed Barley Imports (Volume and Value)



Source: Global Trade Atlas

III. Barley Flour, Groats and Pellets

The WTO TRQ also includes barley products, such as barley flour, groats, meal and pellets. In-quota tariffs of 19.2 percent, 20 percent or 25 percent are applied in addition to the markups⁴ for these barley products (see Table 2). Because of high tariffs and a government-imposed markup, Japanese imports of these barley products have been negligible. For imports of these products outside of the TRQ, tariffs of 83 yen/kg, 111 yen/kg or 64 yen/kg are applied.

In addition to the WTO's TRQs, a CPTPP quota is established for these barley products under the CPTPP agreement. The quota will increase annually from 300 MT in Year 1 to 500 MT in Year 6. Under the Japan-EU EPA, an EU-specific quota is established, and set at 100 MT in Year 1, which will increase annually to 200 MT in Year 6. Within the CPTPP and EU quotas, tariffs are abolished immediately while the markup is maintained.

⁴ Markups for barley products are maintained under the EU EPA and CPTPP.

Table 2. Barley Flour Groats and Pellets

HS	Product	WTO		Japan-EU EPA	CPTPP
		In quota tariff	MFN duty		
110290110	Barley flour	25% (+ markup)		EU quota (MT) Year 1: 100 ↓ increase annually Year 6: 200 In quota tariff is abolished immediately while the mark-up is maintained.	TPP quota (MT) Year 1: 300 Year 2: 340 Year 3: 380 Year 4: 420 Year 5: 460 Year 6: 500 Tariffs within the quota are abolished immediately while the mark-up is maintained.
110319110	Barley groats and meal	20% (+ markup)			
110320410	Barley pellets	20% (+ markup)			
110419410	Rolled or flaked barley	20% (+ markup)			
110429410	Worked barley	20% (+ markup)			
190410231	Prepared foods containing no less than 50% by weight of swollen or roasted barley	19.2% (+ markup)			
110290190	Barley flour		83 yen/kg	No Change	No Change
110319190	Barley groats and meal		83 yen/kg		
110320490	Barley pellets		83 yen/kg		
110419490	Rolled or flaked barley		83 yen/kg		
110429490	Worked barley		111 yen/kg		
190410239	Prepared foods containing no less than 50% by weight of swollen or roasted barley		64 yen/kg		

Source: MAFF

IV. Food Preparations of Barley

The WTO TRQ also includes food preparations of barley, to which in-quota tariffs of 19.2 percent or 25 percent are applied in addition to a government markup (see Table 3). Because of high tariffs and a government-imposed markup, Japanese imports of these barley products have also been negligible. For imports of these products outside the TRQ, tariffs of 83 yen/kg and 64 yen/kg are applied.

In addition to the WTO's TRQs, a CPTPP quota is established for these barley preparations under the CPTPP agreement, and will increase annually from 100 MT in Year 1 to 115 MT in Year 6. Under the Japan-EU EPA, an EU-specific quota is established, and set at 100 MT in Year 1, which will increase annually to 200 MT in Year 6. Within the CPTPP and EU quotas, tariffs are abolished immediately while the markup is maintained.

Table 3. Food Preparations of Barley

HS	Product	WTO		Japan-EU EPA	CPTPP
		In quota tariff	MFN duty		
190120141	Mixes and doughs mostly containing barley preparation	25% (+ markup)		EU quota (MT) Year 1: 100 ↓ increase annually Year 6: 200 Tariffs within the quota are abolished immediately while the mark-up is maintained.	TPP quota (MT) Year 1: 100 Year 2: 103 Year 3: 106 Year 4: 109 Year 5: 112 Year 6: 115 Tariffs within the quota are abolished immediately while the mark-up is maintained.
190190161	Food preparations mostly containing barley preparation	25% (+ markup)			
190420231	Prepared foods containing no less than 50% by weight of swollen barley	19.2% (+ markup)			
190490310	Prepared foods of barley	25% (+ markup)			
210690216	Food preparations containing more than 30% by weight of barley	25% (+ markup)			
190120149	Mixes and doughs mostly containing barley preparation		83 yen/kg	No Change	No Change
190190169	Food preparations mostly containing barley preparation		83 yen/kg		
190420239	Prepared foods containing no less than 50% by weight of swollen barley		64 yen/kg		
190490390	Prepared foods of barley		64 yen/kg		
210690219	Food preparations containing more than 30% by weight of barley		64 yen/kg		

Source: MAFF

V. Malt

Japan sets a WTO TRQ for malt covering both roasted and unroasted malt. The quota volume is set semi-annually for the period April – September and then for October – March, in accordance with demand. The tariff is zero for in-quota imports, but 21.3 yen/kg is applied for out-of-quota imports (see Table 4). In Japanese fiscal year 2017 (i.e., April 2016-March 2017), 491,600 MT of malt was imported under the WTO TRQ of 521,700 MT.

Under the Japan-Australia EPA, a TRQ was set for Australian unroasted malt (HS110710029 – a product which falls outside of the WTO TRQ). The TRQ for Australia was set at 16,340 MT for JFY2015, and increases annually by 7,740 MT to 86,000 MT in JFY2024, and will remain at 86,000 MT thereafter. In JFY2017, 19,483 MT of Australian malt was imported under the Australian TRQ of 31,820 MT. Imports of malt outside the WTO TRQ and the Australian TRQ are negligible.

Under the CPTPP, Country Specific Quotas (CSQs) are established for Australia and Canada for malt for manufacturing beer (HS110710029, unroasted malt, and HS110720020, roasted malt – products which fall outside of the WTO TRQ) (see Table 4).

Table 4. Malt

HS	Product	WTO		Japan-EU EPA	CPTPP
		In quota tariff	MNF duty		
110710011	Malt, not roasted Fumigated with peat	Free			
110710021	Malt, not roasted	Free			
100710019	Malt, not roasted Fumigated with peat		21.3 yen/kg	No Change	Year 1 ↓ gradually reduced Year 11: 0 yen/kg
110710029	Malt, not roasted		21.3 yen/kg (free for Australia TRQ)	EU quota (MT) Year 1: 185,000 Tariffs within the quota are abolished immediately.	CSQs (MT) Australia Year 1: 72,000 Canada Year 1: 89,000 Tariffs within the quota are abolished immediately.
110720020	Malt, roasted		21.3 yen/kg		CSQs (MT) Australia Year 1: 3,000 Canada Year 1: 4,000 Tariffs within the quota are abolished immediately.
110720010		Free			

Source: Global Trade Atlas

The CSQs for Australia and Canada are set at 72,000 MT and 89,000 MT, respectively, in Year 1 and will remain at these levels thereafter. Whichever quota is greater will be implemented because Australia established its own TRQ under the Australia-Japan EPA (see Table 5). This means that until JFY2022, the CPTPP CSQ is expected to be applied, but after JFY2022, the Australian EPA TRQ will be applied.

Table 5. Australia's TRQ for Unroasted Malt under Japan-Australia EPA (MT)

JFY	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 ~
HS1107100 29	16,34 0	24,08 0	31,82 0	39,56 0	47,30 0	55,04 0	62,78 0	70,52 0	78,26 0	86,00 0

Source: Japan Customs

For roasted malt, the CSQs for Australia and Canada are set at 3,000 MT and 4,000 MT respectively in Year 1, and will remain at these levels thereafter. The tariff within the CSQs is eliminated immediately.

Under the Japan-EU EPA, an EU-specific quota of 185,000 MT, covering roasted malt and unroasted malt, is established at in Year 1, and will remain at this level thereafter. The tariff within the EU quota is eliminated immediately.

Also under the CPTPP and the Japan-EU EPA, the 21.3 yen/kg tariff on unroasted malt fumigated with peat (HS110710019, for manufacturing Scotch whisky) will be phased out (to zero) in Year 11. Japan imported 20 MT of this malt in 2017 from the United Kingdom.

Japan imported 513,229 MT of malt, valued at US\$275 million in 2017, of which the EU accounted for 52.5 percent (by volume) and 48 percent (by value), followed by Canada at 29.6 percent (by volume) and 34.7 percent (by value), and Australia at 17 percent (by volume) and 16 percent (by value). The United Kingdom accounted for approximately 30 percent of imports in both volume and value of Japan's malt imports from the EU, and nearly 15 percent in volume and value of total Japanese malt imports.

Table 6. Japanese Imports of Malt in Calendar Year 2017

	Value	Share	Volume (MT)	CIF Average Unit Price
Canada	\$95,373,830	34.7%	151,828	\$628.2
Australia	\$44,101,293	16.0%	86,975	\$507.1
United States	\$3,092,980	1.1%	3,939	\$785.2
EU	\$132,029,760	48.0%	269,251	-
United Kingdom	\$39,658,191	14.4%		\$521.5
Total	\$277,271,123	100%	513,754	

Source: Global Trade Atlas

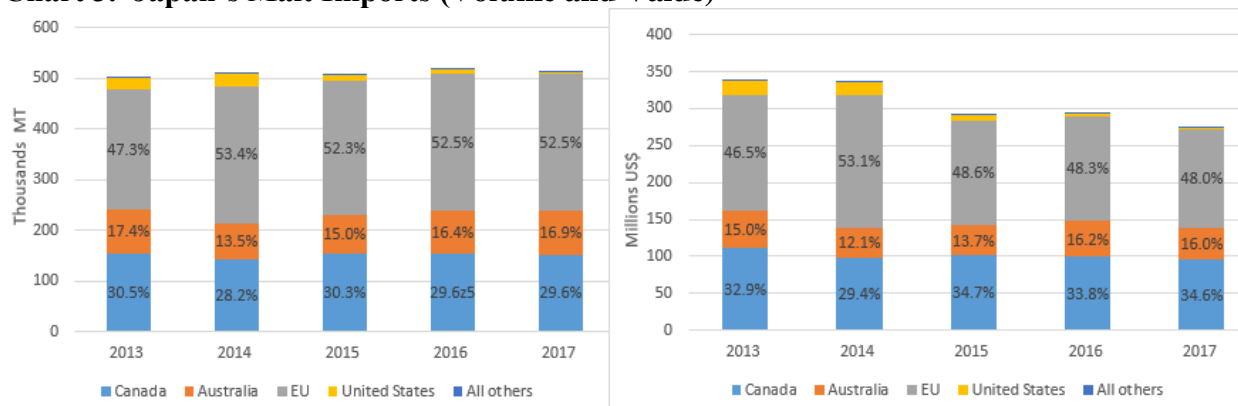
Japan semi-annually sets the WTO TRQ volume for malt imports to meet demand because Japanese malt production is limited. As a result, almost all malt has been imported duty free within the WTO TRQ and Australian TRQ. As was the case for Australian malt, whose imports were shifted from the WTO TRQ to Australia TRQ, utilization of the EU-specific quota and CPTPP CSQs are expected to be prioritized over the WTO TRQ. However, as the total volume of newly created CPTPP CSQs and the EU-specific quota (353,000 MT in Year 1) is smaller than the total volume of Japanese malt imports from these countries in JFY2017, as shown in Table 7, the WTO TRQ is expected to continue to be utilized to allow tariff free imports to satisfy additional import demand.

Table 7. Japanese Malt Imports in JFY2017

	Value	Share	Volume (MT)	CIF Average Unit Price	WTO TRQ	Australia TRQ	CPTPP CSQ, EU quota
Canada	\$91,394,649	33.0%	146,730	\$622.9			93,000
Australia	\$45,146,419	16.3%	90,040	\$501.4		31,820	75,000
United States	\$2,945,196	1.1%	3,933	\$748.8			
EU	\$137,224,965	49.5%	272,021	-			185,000
United Kingdom	\$42,514,870	15%	78,736	\$540.0			
Total	\$277,271,123	100%	513,754		521,700	31,820	353,000

Source: Global Trade Atlas, MAFF

Chart 3. Japan's Malt Imports (Volume and Value)

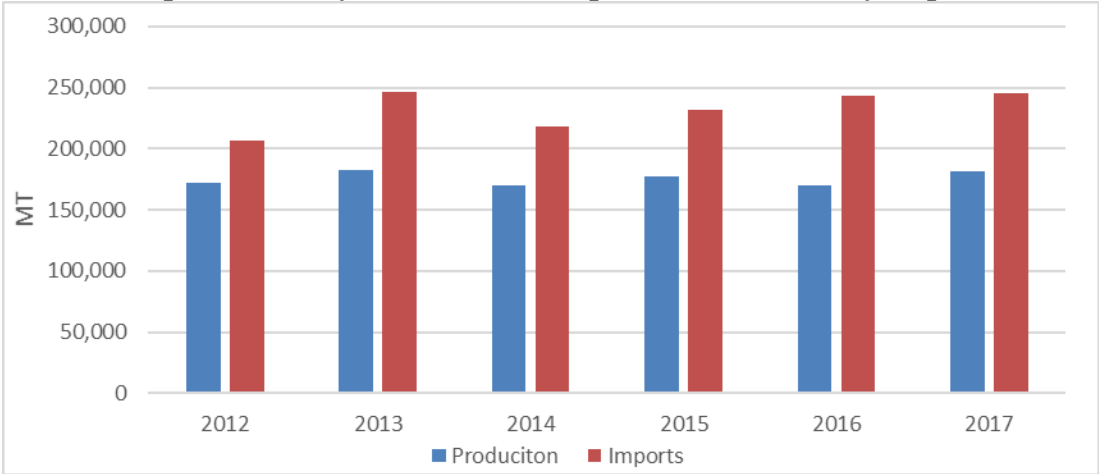


Source: Global Trade Atlas

VI. Market Situation

Barley is produced as a second crop after rice or as a conversion crop from rice in Japan, and Japanese production has been stable at roughly 175,000 MT per year. Barley has been used to produce rolled barley (for rice extender), barley tea, *miso* (bean paste), *shochu* (Japanese distilled spirits) and malt in Japan. To produce products dependent on barley, approximately 230,000 MT of barley is imported to supplement domestic production. In 2017, food barley imports increased to 245,000 MT due to strong demand for beta glucan rich glutinous barley for its health benefit (see Chart 3). As the United States supplies beta glucan rich barley, food barley imports from the United State increased 1,561 percent from US\$830,903 in 2012 to US\$13.8 million in 2017.

Chart 4. Japanese Barley Production Compared to Food Barley Imports



Source: MAFF, Global Trade Atlas