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Report Name: Summary of Japan's Dairy Quota System

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Report Highlights:

Most dairy product imports into Japan are conducted through government tariff-rate quotas (TRQs). This report provides a summary of how these TRQs are operated for a wide range of dairy products included skimmed milk powder, butter, whey, and others. This report features TRQs available to all World Trade Organization trading partners as well as those exclusive to Japan's preferential trade agreements.

Background

As a result of the Uruguay Round negotiations in 1995, Japan eliminated quantitative restrictions on dairy imports in favor of tariff-rate quotas (TRQs) operated by the government (Table 1). These TRQs are available to all World Trade Organization (WTO) member countries. Most TRQ volumes are based on product weight, however the two largest TRQs for “Other dairy products for general use” and “Designated products for general use” are calculated on a whole-milk equivalent basis (Table 2). In addition to these TRQs, there is a domestic tie-in TRQ for natural cheese intended for processed cheese production which allows companies to import up to 2.5 times the volume of domestic cheese used for processed cheese production. Japan’s Ministry of Agriculture, Forestry, and Fisheries (MAFF) sets a maximum limit for this quota every year, currently 57,300 metric tons (MT) for Japan fiscal year (JFY) 2021 (JA2021-0047). All of Japan’s dairy quotas except the “Designated products for general use” quota are operated by MAFF. The “Designated products for general use” quota is operated by the Agriculture and Livestock Industries Corporation (ALIC), a state-trading enterprise.

Table 1: Japan’s WTO Commitment for Dairy Products

Tariff quotas	Initial tariff quota in 1995 (tons)	Final tariff quota in 2000 (tons)	In-quota tariff (%)	Subject to mark-up system
Skimmed milk powder (for school lunch)	7,264	7,264	zero	No
Skimmed milk powder (for other purposes)	85,878	85,878	0 - 35	No
Milk powder	0.3	0.3	30	No
Evaporated milk	1,585	1,585	25 - 30	No
Condensed milk	13	13	30	No
Whey and modified whey (for feeding)	45,000	45,000	zero	No
Prepared whey (for infant formula)	25,000	25,000	10	No
Butter and anhydrous milk fat (AMF)	1,873	1,873	35	No
Mineral concentrated whey	14,000	14,000	25 - 35	No
Other dairy products for general use (in tons of whole milk equivalent), including fresh milk and cream, evaporated milk, unfrozen yogurt, buttermilk, products consisting of natural milk constituents: and prepared dairy products under HS Chapter 19 and 21	124,640	133,940	12 - 35	No
Designated dairy products for general use (in whole milk equivalent), including: skimmed milk powder, milk powder, skimmed milk solids, condensed milk, buttermilk powder, whey and modified whey, butter, butter oil	137,202	137,202	25 - 35	Yes, with phased reduction

Source: Summary of the Results of the Uruguay Round in the Dairy Sector Special annex to the world market for dairy products 1994, *International dairy arrangement Fifteenth annual report*, General Agreement on Tariffs and Trade, November 1994.

Table 2: Milk Equivalent Conversion Coefficient

Butter	12.34
NFDM	6.48
Dairy Spread	12.34
Butter Oil	15.15
Whey powder	6.84

Source: MAFF

Quotas Operated by ALIC

According to the [Act on Stabilization of Livestock Management](#), ALIC is responsible for Japan's Current Access commitment in the Uruguay Round for 137,202 MT (whole milk equivalent) of designated dairy products for general use. This commitment is unique from the other TRQs in Table 1 in that Japan is committed to import this volume every year whereas the other TRQs only must be made available for import. Products identified under the Current Access commitment are butter, non-fat dry milk (NFDM), condensed milk, and other products nominated by Cabinet Order which include whey/prepared whey, dairy spread, and powdered milk. The volumes of each product to be imported are determined by MAFF each year (see Appendix Table 2). The only exceptions are fixed volumes of 4,500 MT of whey and 750 MT of milk powder with protein content of 35 percent or higher. ALIC operates this quota using two different mechanisms: a general import/sales tender and simultaneous buy-sell (SBS).

For the general import tender, ALIC is the importer of record, though occasionally it will contract imports through a third party. ALIC will issue a tender for a specific volume of a particular product and select the lowest-priced bids among qualified suppliers until the volume is filled. To qualify for the general import tender, a supplier must be registered in Japan and have imported 100 MT or more of dairy products covered by the [Ministerial Ordinance on Milk and Milk Products Concerning Compositional Standards](#) within the past 12 months (January to December). ALIC will hold the purchased volumes as stocks and release them into the domestic market via general sales tenders. Participants in the sales tenders must be designated dairy end users such as bakeries, ice cream manufacturers, agricultural cooperators, or other companies approved to conduct business under the [Food Sanitation Act](#). Participants must submit five percent of their bid as a deposit to ALIC. Once a tender is successfully completed, ALIC will collect the difference between the sales and purchase prices as a markup. To evaluate the import and sales bids, ALIC uses "target prices" based on CIF import prices and domestic market prices from the previous two months.

Under the SBS system, ALIC will issue a tender for a specific volume of a particular product for suppliers and users to bid on jointly. The supplier will propose a "sales price" and the user will propose a "purchase price". ALIC will select the bid that has the highest spread between the two and collect the difference as a markup. However, ALIC does not actually take possession of the product in this transaction. To participate in SBS tenders, a supplier must have recorded 1 MT or more of dairy product imports in the past three years. ALIC has flexibility to decide whether to use general or SBS tenders, however recently it has increased the use of SBS tenders to better reflect actual market conditions.

Over the past decade, ALIC has routinely imported designated dairy products well above Japan's committed volume due to domestic demand exceeded domestic supply. Typically, the government will

announce an initial volume at the beginning of the fiscal year, but then add additional quota volumes throughout the year as needed. Domestic butter shortages in 2014-2015 led ALIC to ramp up quota imports over the next several years, peaking at 433,731 MT (whole milk equivalent) in JFY 2017 (Appendix Table 1). However, recovery in domestic supply combined with slow demand in recent years has pushed imports back down to just above the minimum volume. In fact, ballooning domestic stocks of butter and NFDM led ALIC in 2021 to shift the import mix toward butter oil in order to meet the Current Access committed volume (details in [JA2021-0014](#))

Japanese importers are permitted to import these imports outside of the ALIC quotas. In this case, importers pay Japan's applied tariff rate to Japan Customs and a separate mark-up to ALIC. The markup is automatically set as the difference between Japan's applied rate and maximum bound rate for each product (both lists are available in Japanese [here](#)).

Quotas Operated by MAFF

All other quotas listed in Table 1 are operated by MAFF. Unlike the ALIC quota, Japan is not committed to fill these quotas each year, but it must make them available. Within each quota, MAFF has the flexibility to adjust the product mix based on the domestic market situation (Appendix Table 2). The TRQs follow a standard operating mechanism. MAFF announces the volumes at the beginning the Japanese fiscal year on April 1. Applicants must meet certain criteria including import experience. For some products which have specific end uses, such as skimmed milk powder for school lunches, applicants must also demonstrate sufficient production capability. MAFF reviews the [documentation](#) submitted by the applicants and awards import licenses accordingly. If the TRQs are oversubscribed, MAFF will allocate a reduced volume to all applicants. Successful applicants must import the products and clear customs by the end of the fiscal year (March 31). Unused volumes must be returned to MAFF as soon as possible for reallocation.

MAFF also operates the dairy quotas provided in Japan's preferential trade agreements. Appendix Table 3 lists the dairy TRQs contained in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the Japan-European Union Economic Partnership Agreement (EPA), and the U.S-Japan Trade Agreement (USJTA). These TRQs are operated in the similar way as the other TRQs operated by MAFF. However, if the TRQs are oversubscribed, MAFF will award the licenses via lottery, unlike the WTO TRQs.

APPENDIX

Appendix Table 1: Japan's Dairy Current Access Results

Unit: Metric Ton								
	JFY 2011	Milk Equiv.	JFY 2012	Milk Equiv.	JFY 2013	Milk Equiv.	JFY 2014	Milk Equiv.
Butter	7,459	92,044	7,459	92,044	3,500	43,190	3,000	37,020
NFDM	0	0	0	0	8,768	56,817	9,178	59,473
Dairy Spread	800	9,872	800	9,872	225	2,777	500	6,170
Butter Oil	300	4,545	300	4,545	242	3,666	250	3,788
Whey/Prep. Whey	4,500	30,780	4,500	30,780	4,500	30,780	4,500	30,780
<i>Sub. Total</i>	<i>13,059</i>	<i>137,241</i>	<i>13,059</i>	<i>137,241</i>	<i>17,235</i>	<i>137,229</i>	<i>17,428</i>	<i>137,231</i>
<i>Additional Importation</i>								
Butter	2,000	24,680	2,000	24,680	0	0	10,000	123,400
NFDM	0	0	0	0	0	0	10,000	64,800
<i>Sub. Total</i>	<i>2,000</i>	<i>24,680</i>	<i>2,000</i>	<i>24,680</i>	<i>0</i>	<i>0</i>	<i>20,000</i>	<i>188,200</i>
Grand total	15,059	161,921	15,059	161,921	17,235	137,229	37,428	325,431
	JFY 2015	Milk Equiv.	JFY 2016	Milk Equiv.	JFY 2017	Milk Equiv.	JFY 2018	Milk Equiv.
Butter	2,800	34,552	7,000	86,380	13,000	160,420	13,000	160,420
NFDM	10,000	64,800	2,000	12,960	13,000	84,240	27,000	174,960
Dairy Spread	330	4,072	342	4,220	330	4,072	329	4,060
Butter Oil	200	3,030	200	3,030	204	3,091	193	2,919
Whey/Prep. Whey	4,500	30,780	4,500	30,780	6,700	45,828	5,160	35,294
<i>Sub. Total</i>	<i>17,830</i>	<i>137,234</i>	<i>14,042</i>	<i>137,370</i>	<i>33,234</i>	<i>297,651</i>	<i>45,682</i>	<i>377,654</i>
<i>Additional Importation</i>								
Butter	10,000	123,400	9,829	121,290	0	0	0	0
NFDM	5,000	32,400	2,000	12,960	21,000	136,080	0	0
<i>Sub. Total</i>	<i>15,000</i>	<i>155,800</i>	<i>11,829</i>	<i>134,250</i>	<i>21,000</i>	<i>136,080</i>	<i>0</i>	<i>0</i>
Grand total	32,830	293,034	25,871	271,620	54,234	433,731	45,682	377,654
	JFY 2019	Milk Equiv.	JFY 2020*	Milk Equiv.	JFY 2021*	Milk Equiv.		
Butter	20,000	246,800	14,000	172,760	6,400	78,976		
NFDM	1,400	9,072	750	4,860	750	4,860		
Dairy Spread	0	0	0	0		0		
Butter Oil	200	3,030	400	6,060	1,500	22,725		
Whey/Prep. Whey	2,627	17,966	4,500	30,780	4,500	30,780		
<i>Sub. Total</i>	<i>24,227</i>	<i>276,868</i>	<i>19,650</i>	<i>214,460</i>	<i>13,150</i>	<i>137,341</i>		
<i>Additional Importation</i>								
Butter	0	0	0	0	n/a	n/a		
NFDM	0	0	0	0	n/a	n/a		
<i>Sub. Total</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>		
Grand total	24,227	276,868	19,650	214,460	13,150	137,341		

* Volumes in JFY2020 and 2021 include untendered volumes as of February 2, 2021.

Source: MAFF and ALIC

Appendix Table 2: Japan Dairy TRQs for JFY2019 - 2021 Operated by MAFF

Product	TRQ volume (metric tons)			Note
	JFY2019	JFY2020	JFY2021	
Natural cheese for processed cheese production	46,200	48,100	57,300	Pooled quota of natural cheese for processed cheese
Other dairy products	133,940 (whole milk equivalent basis)	133,940 (whole milk equivalent basis)	133,940 (whole milk equivalent basis)	Includes certain products within HS 0401.10 0401.20 0401.40 0401.50 0403.10 0403.90 0404.90 1806.20 1806.90 1901.10 1901.20 1901.90 2101.12 2101.20 2106.10 2106.90
Skimmed milk powder (for school lunch)	7,264	7,264	7,264	
Skimmed milk powder (for other purposes)	74,973	74,973	74,973	
• Assorted feed production	73,822	74,111	73,753	
• Reconstituted milk production for Okinawa	1,022	759	1,130	
• Infant formula production for Okinawa	129	103	90	
Evaporated milk	1,500	1,500	1,500	Pooled quota for certain products within HS 0402.91
Mineral concentrated whey	14,000	14,000	14,000	
Whey and modified whey (for animal feeding purposes)	45,000	45,000	45,000	
Prepared whey (for infant formula)	25,000	25,000	25,000	Pooled quota of whey etc. used for prepared milk powder for babies and infants
Butter and butteroil	581	581	581	
• Reconstituted milk production for Okinawa	315	329	465	
• Powdered infant formula production for Okinawa	11	12	3	
• International flight use	94	119	76	
• International trade fair use	161	121	37	

Source: MAFF

Appendix Table 3: Dairy Quotas in Selected Economic Trade Agreements (metric tons)

Product	HS code	JFY 2021	JFY 2022	JFY 2023	JFY 2024	Final Tariff (Year)
U.S.-Japan Trade Agreement						
Processed cheese	0406.30.000	115	120	125	130	150 (2028)
Whey	0404.10-125/-135/-145/-165/-185, 0404.90-118/-128/-138	6,200	6,600	7,000	7,400	9,000 (2028)
Comprehensive and Progressive Agreement for Trans-Pacific Partnership						
<i>TWQ (for all member countries)</i>						
Fresh cheese for shredding (domestic 1: imported 3.5)	0406.10.090	MAFF announces annually based on domestic demand				
Butter, other dairy oil and dairy spread	0405.10-129/-229, 0405.20-090, 0405.90.190 and 0405.20.229	43,275	44,587	45,898	45,898	45,898 (2023)
NFDM	0402.10 -129/-212/-229/, 0420.21-212/-229/-291	22,725	23,413	24,102	24,102	24,102 (2023)
While milk powder and butter milk powder	0420.21-119/-129, 0402.29-119/-129, 0403.90-113/-123/-133	1,950	2,100	2,250	2,250	2,250 (2023)
Whole milk powder for chocolate production (domestic 1: imported 3)	0402.21-119/-129	32,000	36,000	40,000	44,000	60,000 (2028)
Evaporated milk	0402.91 -129/-290	3,450	4,100	4,750	4,750	4,750 (2023)
Condensed milk	0402.99 -129/-290	750	750	750	750	750 (2019)
<i>CSQ (for designated countries)</i>						
[Australia] Processed cheese excl. shredded/powdered cheese	0406.30.000	115	120	125	130	150 (2028)
[New Zealand] Processed cheese excl. shredded/powdered cheese	0406.30.000	115	120	125	130	150 (2028)
[Australia] Mineral concentrated whey	0404.10 -125/-165	4,300	4,400	4,500	4,600	5,000 (2028)
[New Zealand] Whey (mineral concentrated whey/prepared whey for production of infant formula/whey permeate)	0404.10-125/-135/-145/-165/-185, 0404.90-118/-128/-138)	1,420	1,460	1,500	1,540	1,700 (2028)
Japan-European Union Economic Partnership Agreement						
Evaporated milk	0402.91-129/-290	1,812	2,156	2,500	2,500	2,500 (2023)
Whey	0404.10-125/-135/-145/-165/-185, and 0404.90-118/-128/-138	7,160	7,480	7,800	8,120	9,400 (2028)
Butter, NFDM, Whole milk powder, buttermilk powder and condensed milk	SMP (0402.10-129/--212/--229/, 0420.21-212/-229 and 0402.29.291) Butter (0405.10-129/-229, 0405.20.090,	14,143	14,571	15,000	15,000	15,000 (2023)

	0405.90-190/-229) WMP (0402.21-119/- 129. 0402.29-119/-129) Butter Milk Powder (0403.90-113/-123/-133) Condensed Milk with sugar (0402.99-129/-290)					
Whole milk powder for chocolate production (domestic 1: imported 3)	0402.21-119/-129	8,451	9,521	10,591	11,661	15,940 (2028)
Cheese (shredded cheese, cream cheese excl. 45% of fat or more, powdered processed cheese, blue cheese, soft cheese)	0406.10-020/-090, 0406.20.100, 0406.30.000, 0406.40.090 and 0406.90.090	21,800	22,500	23,200	23,900	31,000 (2033)

Source: MAFF

Attachments:

No Attachments.