

WORLD TRADE ORGANIZATION

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International Dairy Agreement

INTERNATIONAL DAIRY COUNCIL

Reply to Questionnaire 5 Regarding Information on Domestic Policies and Trade Measures

JAPAN

A. Production

1. Support and/or stabilization measures

(a) Inventory of the instruments of support and/or stabilization

(1) Milk for drinking

No measures are taken by the Government of Japan (GOJ) to support the price of milk for drinking. The price is set through the market mechanism among the transacting parties concerned.

(2) Milk for processing

(i) Deficiency payment system

Under the "Manufacturing Milk Producer Compensation Temporary law" the GOJ makes so-called deficiency payments to producers of milk for production of butter, skimmed milk powder and other major dairy products. The deficiency payment covers the difference between the guaranteed price (support price for producers) and the standard transaction price (manufacturer's purchase price of milk for processing).

The price of milk for cheese is set through the market mechanism among the transacting parties concerned since FY1987.

(ii) Price stabilization system of designated dairy products

In order to stabilize the prices of the designated dairy products at the level of the stabilization indicative price, the Livestock Industry Promotion Corporation (hereinafter referred to as the "LIPC") may purchase a designated dairy product where the price of the product falls or its likely to fall below the stabilization indicative price. Designated dairy producers under this system are butter, skimmed milk powder, sweetened condensed whole milk and sweetened condensed skimmed milk. The LIPC sells the product in its possession when the price has risen or is likely to rise above the stabilization indicative price. The LIPC will import these products from overseas and introduce them into the domestic market when there is no stock possessed by the LIPC.

(iii) Import system

The GOJ tariffed all dairy products on 1 April 1995 which had been subject to quantitative import restrictions.

(b) Levels of support prices

The GOJ sets the administered prices of raw milk for processing and designated dairy products prior to the beginning of each fiscal year (April-March). The administered prices were the same as those of the previous year.

(1) Guaranteed price and standard transaction price of milk for processing

Guaranteed price is the support price for producers of milk for processing. The price is set at the level necessary to ensure the continuing production of milk in areas where a substantial proportion of the milk produced is for processing. The supply and demand for milk and other economic conditions are also considered in setting the guaranteed price.

Standard transaction price is the manufacturer's purchase price of milk for processing. The price is based on the manufacturer's sales prices of the designated dairy products in the previous year.

Fiscal year	Guaranteed price	Standard transaction price	Deficiency payment	Ceiling quantity for deficiency payment
	(A) [¥/kg.]	(B) [¥/kg.]	(A-B) [¥/kg.]	[1,000 tons]
1990	77.75	65.98	11.77	2,350
1991	76.75	65.40	11.35	2,400
1992	76.75	65.40	11.35	2,400
1993	76.75	65.26	11.49	2,350
1994	75.75	64.26	11.49	2,300
1995	75.75	64.26	11.49	2,300

(2) Stabilization indicative prices of the designated dairy products

To achieve stable consumption of dairy products, stabilization indicative prices are set by taking account of the market prices of the previous year.

Fiscal year	Butter [¥/kg.]	Skimmed milk powder [¥/25 kg.]	Sweetened condensed whole milk [¥/24.5 kg.]	Sweetened condensed skimmed milk [¥/25.5 kg.]
1990	1,065	12,833	8,178	7,305
1991	1,051	12,663	8,055	7,193
1992	1,051	12,663	8,055	7,193
1993	1,032	12,841	8,055	7,193
1994	993	12,841	8,055	7,193
1995	993	12,841	8,055	7,193

(c) Amount of producer subsidies

Total subsidies for milk for processing through the deficiency payment.

Fiscal year	Subsidies [¥ million]
1990	26,646
1991	26,801
1992	27,240
1993	27,002
1994	26,427

(d) Average returns to producers including methods of determining those returns and constituent elements thereof

As explained in A.1(a) above, prices of milk for drinking and for cheese are left to the market mechanism among the transacting parties concerned while the price level of milk for processing is set by the GOJ.

Returns to producers are determined by the milk prices and marketed quantity for drinking, cheese and processing including the deficiency payment, as well as by the cost of delivery and other expenses.

Fiscal year	Price [¥/kg.]
1990	88.4
1991	88.8
1992	89.0
1993	87.9

Note: Consumption tax (3 per cent) has been added since FY1989.

2. Policies and measures of the GOJ or other bodies likely to influence production, other than those listed under 1.

(a) Supply control measures

Since raw milk production in Japan has been on a potential trend of over-supply the two supply control systems have restricted the production level not to exceed the demand for milk.

- (i) Supply control of milk for processing by setting the ceiling quantity for the deficiency payment

The GOJ sets a ceiling quantity of milk for processing eligible for the deficiency payment. The deficiency payment is not paid for the milk which exceeds this ceiling quantity. The quantity is annually set considering the latest situation of supply and demand of dairy products.

- (ii) Supply control of milk by the producers' association

In order to reinforce the above supply control system, the nationwide milk producers' association (the Japan Dairy Council) has been administering the supply control of milk at farmyard since FY1979 on the advice and guidance of the GOJ. The Japan Dairy Council sets the total amount of planned output of raw milk and allocates it to the prefectural producers' associations. If a regional association produces more milk than planned, the Japan Dairy Council imposes a penalty and decreases the ceiling quantity of the association for the next fiscal year.

The GOJ supports this supply control system through allocating the ceiling quantity of processing milk for prefecture.

B. Internal prices and consumption1. Representative retail and wholesale prices on major domestic markets

(1) Retail prices of drinking milk and dairy products

Calendar year	Drinking milk (Tokyo) [¥/1]	Butter (Tokyo) [¥/225 gr.]	Cheese (Tokyo) [¥/225 gr.]	Infant formula (Tokyo) [¥/980 gr.]
1990	202	375	345	2,186
1991	205	375	357	2,269
1992	208	375	358	2,260
1993	211	374	374	2,446
1994	209	373	358	2,442

(2) Wholesale prices of dairy products (selling prices for large-scale users)

Calendar year	Sweetened condensed whole milk [¥/24.5 kg. big can]	Sweetened condensed skimmed milk [¥/25.5 kg. big can]	Whole milk powder [¥/25 kg. sack]	Skimmed milk powder [¥/25 kg. sack]	Butter (unsalted) [¥/kg.]
1990	8,511	7,725	19,581	13,601	1,137
1991	8,952	8,137	19,963	13,699	1,176
1992	8,905	8,095	19,872	13,687	1,153
1993	8,455	7,633	19,257	13,290	1,050
1994	8,320	7,542	19,128	13,277	962

2. Factors which influence the level of internal consumption

It is expected that the trend of slow increase in the overall demand for milk and dairy products will continue.

The following factors generally determine the future growth of demand for milk and dairy products:

(1) Health consciousness

Milk fat used to have a higher value than non-fat solids. However, this is likely to change because of consumers' health concerns. Consumers prefer to have more low-fat milk products and decrease the intake of fatty products. The increase of cheese and yogurt consumption is considered to be another sign of consumers' health concerns.

(2) Quality concerns

There is a growing demand for high quality and safe products. The growth rate of natural cheese consumption has been higher than that of processed cheeses, which used to be consumed dominantly in Japan.

Many consumer organizations have concluded special contracts with dairy products manufacturers in order to purchase safe products and pay premium.

(3) Convenience

Margarine consumers say that "easy to spread" is an important factor in their choice of margarine in addition to health consciousness. The growing popularity of individually packaged products may also reveal consumers' preference for convenience.

(4) Price

Price is still considered to be the biggest factor in some consumers' preference of margarine over butter. This became apparent when the sales of butter increased with the price drop caused by the recent over-supply of butter.

(5) Income

The increase of income leads to an increase in the consumption of milk and dairy products.

(6) Weather conditions particularly in summer

In summer, the temperature has a big influence on the demand for drinking milk and soft drinks containing skimmed milk powder. Actually, the cool summer in 1993 resulted in a drop in sales of drinking milk from the previous summer. On the other hand, the hot summer in 1994 resulted in large increase of demand for drinking milk and skimmed milk powder compared to the previous cool summer.

3. Policies and measures and comments on their effects on consumption

Since stable expansion of demand is essential in ensuring sound policies and measures have been taken by the GOJ.

(1) Measures for stabilizing the supply of raw milk and for stabilizing the price and supply of major dairy products. (For details refer to A.1(a), A.2 and B.1).

(2) Measures to expand and stabilize the demand for drinking milk

(i) Subsidy to milk for school lunch

In Japan, milk is used for school lunch in elementary and junior high schools. The GOJ extends subsidies through the LIPC for the milk used for that purpose. (The fiscal 1994 budget provided for the subsidy of ¥ 5,453 million for a total quantity of 475,000 kl.)

- (ii) Subsidy to milk consumed at day-care centres, kindergarten, elderly homes, etc.

Supply of milk for kindergarten children and the elderly people is also subsidized by the GOJ.
- (iii) Subsidy to study the trend of consumption
- (iv) Subsidy to disseminate knowledge about nutrition of dairy products

C. Measures at the frontier

1. and 2. Customs tariff and import measures at tariff line level, such as duties, variable levies, other special charges, quantitative restrictions, minimum prices, State trading, etc.

Specific milk products such as butter, skimmed milk powder etc. used to be subject to quantitative import restrictions.

The GOJ introduced the following measures in accordance with WTO Agreement from 1 April 1995.

- (1) Quantitative import restrictions were converted to tariff equivalents shall be reduced by at least 15 per cent in six years from FY1995 to FY2000.
- (2) The current access opportunities of milk products shall be maintained for the implementation period.
- (3) LIPC imports annually milk products at 137,202 tons whole milk equivalents during the implementation period as a part of current access opportunities.

3. Export measures at the tariff line level

None.

4. Description of internal regulations and of agreements governing inclusion of products in tariff headings or sub-headings (details omitted)

- (1) Tariff classification rules and tariff quota allocation : Customs Tariff Law
Temporary Tariff Measures Law
- (2) Specific sanitary regulations : Food Sanitation Law
Domestic Animal Infectious Disease Control Law
- (3) State-trading by LIPC : Manufacturing Milk Producer
Compensation Temporary Law

D. Text or description of bilateral, plurilateral and multilateral agreements

Country Schedule XXXVII - Japan.