

## **Project Paper**

# **The Japanese Cheese Market-2021**

## **How are the four major international trade agreements affecting the Japanese cheese market?**

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## Introduction

According to the <sup>a</sup>European Commission's Milk Market Observatory, Japan is one of the largest cheese importing countries in the world, second only to the United Kingdom (hereunder abbreviated as 'UK') which just joined the list of importing countries in 2020 after Brexit. Japan had kept the position of No.1 importing country during the previous five years, from 2015 to 2019, when most of the UK's 'imports' were regarded as an EU internal deal and did not appear in the Milk Market Observatory's import statistics. Thanks to the early liberalisation of cheese imports among the major dairy products, cheese consumption in Japan has been growing steadily over the past 30 years. Moreover, this trend is expected to continue and even accelerate in the future, as <sup>b</sup>the four major international trade agreements have taken effect in recent years. This paper examines how each trade agreement contributes to the increasing cheese consumption in Japan, where the cheese manufacturers and suppliers are heavily dependent on imported (raw material) cheeses with a limited supply of domestically manufactured natural cheese. The trade agreements provide much-improved market access for overseas cheese suppliers to Japan and much better conditions for imported cheese users in Japan. This win-win situation leads to increased imports at lower costs for the Japanese cheese manufacturers and subsequently, to the increased cheese consumption in Japan in the medium to long term. In the meantime, the demand for cheese has been expanding in emerging countries. The increase of per capita cheese consumption in China, for example, will make a significant impact on supply-demand in the international cheese market. In such a case, Japanese cheese manufacturers would experience more difficulty in securing enough supply of cheese from overseas suppliers for the local market. Therefore, the Japanese cheese industry must take countermeasures to procure enough cheese from the world market at stable prices based on long-term procurement strategies. This study focuses on the following two important segments in the whole cheese supply chain (see **Table 10.**)

1. Overseas cheese manufacturers and exporters
2. Japanese importers and cheese manufacturers

By examining the expected favourable effects of the Economic Partnership Agreements (EPAs), the author hopes to provide some hints for market entry strategies to overseas cheese manufacturers and exporters and for procurement strategies to the Japanese importers and cheese manufacturers, by way of maximizing the merits of EPAs. Moreover, EPAs will create difficult situations for the Japanese natural cheese manufacturers, especially for bulk type products. These products will face the severest competition against imported cheese after the merits of Tariff Quotas (**T/Qs**) are finished. Therefore, the author intends to give a warning to these natural cheese manufacturers to prepare for and successfully cope with the competition by positively developing new products in the alternative segment in the natural cheese category. Their countermeasures for the competition are proposed to

exploit new businesses to expand the whole Japanese cheese market rather than to cut prices to take shares from imported products in a zero-sum game. The author thinks sharing the merits of the EPAs among all stakeholders in the supply chain, including those in overseas countries is essential to ensure the stable and sustainable long-term growth of the Japanese cheese market.

Notes: <sup>a</sup> The European Commission is the European Union’s executive arm and it publishes Milk Market Observatory, which provides data about the leading importers of cheese (excluding the United Kingdom) during the past five years as shown in **Table 1**:

**Table 1 Top 5 cheese importers in 2020**

	Quantity in tonnes
<b>United Kingdom</b>	405,037
<b>Japan</b>	291,510
<b>Russia</b>	245,088
<b>EU</b>	204,579
<b>United States</b>	165,459

Source: Milk Market Observatory

<sup>b</sup> The four major international trade agreements are as follows:

- **Japan-Australia Economic Partnership Agreement** (hereafter ‘**J-A EPA**’, effective January 15th, 2015)
- **Comprehensive and Progressive Agreement for the Trans-Pacific Partnership** (hereafter ‘**TPP11**’, effective December 30th, 2018)
- **Japan-European Union Economic Partnership Agreement** (hereafter ‘**J-EU EPA**’, effective February 1st, 2019)
- **Japan-US Trade Agreement** (hereafter ‘**J-US TA**’, effective January 1st, 2020)

In this paper, the above four major international trade agreements are sometimes put together and referred to as ‘**EPAs**’ and the countries concerned are referred to as ‘**EPA countries**’ for convenience.

## **Chapter 1 Historical background of cheese in Japan and the current situations of the Japanese cheese industry**

### **1) Historical background of cheese in Japan**

It may be surprising for some people, but Japan has a long history as far as cheese-like products are concerned. According to ‘**History of Cheese**’ by the **Japan Dairy Industry Association (JDIA)**, a naturalised Japanese from the Korean peninsula brought milking technology in around A.D. 560, and the first cheese-like product was named ‘So’, which was manufactured by boiling milk, skimming the surface film and then coagulating it. ‘So’ was presented to the Emperor by his descendant in A.D. 645 and became popular among aristocracies as a ‘perpetual youth and longevity medicine’. Moreover, it appeared in various imperial family ceremonies until around 1240. Then as the power moved from aristocracies to warriors, ‘So’ was on its way out.

**JDIA** also mentioned in the same book that the subsequent cheese-like product was named ‘Haku-gyu-raku’ as ‘nutritious and performance-enhancing food’ in the 18<sup>th</sup> century, when the 8<sup>th</sup> Tokugawa Shogunate Yoshimune promoted dairying and imported three white cows (Haku-gyu) from India, the number of which increased to 70 in 60 years. ‘Haku-gyu-raku’ was manufactured by boiling white cow’s milk, stirring, adding sugar and drying and rounding it like dumplings.

According to ‘**Japanese Cheese History**’ by **MEGMILK SNOW BRAND Co., Ltd.**, the first ‘cheese’ of current definition was manufactured in 1875 on a trial basis in Hokkaido. Meanwhile, the first cheese on a commercial scale was manufactured in 1932 by a dairy cooperative, which is currently **MEGMILK SNOW BRAND Co., Ltd.** The consumption of processed cheese, whose bland flavour, rather than the sharp flavour of natural cheese, suited the Japanese palate, started to increase in the 1960s, especially after the Tokyo Olympics in 1964. From around 1975, natural cheese consumption also started to grow, as pizza and cheesecake became popular; pizza used various Gouda type natural shredded cheeses with good stretchability after melting and natural cream cheese was the raw material for the cheesecake. In 1988, natural cheese consumption quantity exceeded that of processed cheese for the first time in history, according to (\*) **Ministry of Agriculture, Forestry and Fisheries**’ statistics.

Remarks: (\*) Hereafter abbreviated as **MAFF**.

### **2) Current situations of the Japanese cheese industry**

While **MAFF** has been taking measures to promote domestic natural cheese production with subsidies, total production quantity has not increased recently, as presented in **Table 2**.

**Table 2 Domestic natural cheese production**

Unit: Metric ton

<sup>a</sup> Fiscal Year	2016	2017	2018	2019	2020
<b>Total production quantity</b>	47,314	45,412	45,384	44,397	47,564
<b>Of which for processed cheese manufacturing</b>	23,355	21,785	20,851	19,402	21,307
<b>For direct consumption</b>	23,959	23,727	24,533	24,995	26,257

Source: MAFF, Cheese supply-demand table

Note: <sup>a</sup> Fiscal Year refers to the period from April to March of the following year.

Hereunder, Fiscal Year and Calendar Year are abbreviated as **FY** and **CY**, respectively.

**Table 2** shows a downward trend of domestic natural cheese for processed cheese manufacturing and a slightly upward trend of the same for direct consumption until FY 2019. However, in FY 2020, Japanese milk production increased (see below E) f. and g.) and more natural cheese was manufactured compared with the previous year. The author believes that increased production of domestic natural cheese is a temporary phenomenon and the total production of the same will be on a downward trend in the medium/long term because:

- A) The merit of the Tariff Quota (**‘T/Q’**) system (tie-in arrangement of 1 domestic cheese and 2.5 imported duty-free cheese for processed cheese manufacturing, to be discussed in details in **Chapter 3-3 Tariff Quota system**) is almost finished, as the tariff rate for Cheddar and Gouda type cheeses, 22.3% under TPP11 and J-US-TA as of this writing, will be phased out in 2033 under **EPAs**.
- B) **J-A EPA** has 1:3.5 **EPA T/Q** for processed cheese manufacturing, within the **tariff rate quota** quantities (see **Chapter 4-1 A**). This EPA T/Q is still effective but will lose its effectiveness in a few years when the applicable tariff rate comes down further under other EPAs, unless the domestic natural cheese prices come down to meet the competition (see **Chapter 3, 3-C, i**).
- C) The same can be said regarding the 1:3.5 EPA T/Q for shred cheese manufacturing under **J-A EPA** and **TPP11**.
- D) The situations in A), B) and C) mean that less domestic natural cheese will be required for both processed cheese and shred cheese manufacturing in the near future.

The domestic natural cheese production quantities by variety are not available statistically. However, the author conjectures from various data that Gouda, Cheddar, Camembert, Mozzarella and Cream cheeses are the five major varieties, whereas Gouda and Cheddar are the main ingredients for processed cheese and shred cheese manufacturing.

Regionally, Hokkaido, the northern island, is the major dairy area where, volume-wise, most of the

domestic natural cheeses are manufactured.

However, the recent trend is that the number of the so-called ‘Cheese studio’ is increasing in Japan, as various types of natural cheeses become popular, as shown in **Table 3**.

**Table 3** Number of cheese studios in Japan (Excluding big dairy companies)

FY	2015	2016	2017	2018	2019
Total No.	259	284	306	319	323
of which in Hokkaido	128	130	146	151	156

Source: MAFF

Although each studio produces a small quantity of cheese, they use local milk and manufacture high-quality natural cheeses. Moreover, some of them have won awards and prizes in overseas natural cheese contests in recent years. Furthermore, the number of cheese studios in Hokkaido is less than half of the total, which means many cheese studios also exist in other areas in Japan as well.

E) As of this writing, the new COVID-19 pandemic has affected the Japanese cheese market in the following ways in the short term:

- a. The demand for cheese has sharply declined from some institutional channels including restaurants and hotels, as people tend to stay home, rather than eat out in fear of infection.
- b. The demand for home-use cheese sold at supermarkets, etc., has been robust because more people started eating and drinking at home.
- c. The demand for cheese from home-delivery pizza chains and home-use cooked foods manufacturers has been strong.
- d. However, since the volume of cheese for institutional outlets excluding home-delivery pizza, etc. is larger than that for home use outlets (see **Table 8**) and the decline of the institutional outlets is so drastic, the overall cheese consumption is expected to decline temporarily.
- e. COVID-19 pandemic has also affected the following issues:
  - According to industry sources, Australian and New Zealand (hereunder abbreviated as NZ) suppliers/exporters who negotiate with Japanese importers on a 6-month basis finalised the cheese prices for July-December 2020 at several percentages lower than the previous six months due to overstock of cheese.
  - According to the same sources, the Oceanian suppliers/exporters increased their cheese prices for January - June 2021 for Japan due to China’s strong demands for various dairy products. They needed the price increase in order to secure enough cheese for Japan.
  - According to Japan Customs’ import statistics, the total natural cheese quantity imported to

Japan declined by 3.8% in CY 2020 compared with the same period of the previous year for the first time in 7 years.

f. **Food and Agriculture Organization (FAO)** reported regarding Japan's increasing milk production in the June 2020 issue of **Food Outlook** as follows:

'In Japan, milk output is forecast to grow, underpinned by the support measures offered to farmers in an effort to manage excess milk supplies and stabilize prices. This is despite the fall in milk consumption in the first months of the year, following the Government's declaration of a state of emergency and closure of schools amid fears of COVID-19.'

g. As a result of the increased domestic milk production, more milk is directed for the storable natural cheese production (as well as skim milk powder and butter productions), especially in Hokkaido, to avoid the dumping of perishable milk. The excessive stocks of domestic natural cheese must be used in Japan somehow. The author is concerned about the adverse effect this situation will bring to the imported cheese market in short to medium terms, as cheese manufacturers will be forced to use more domestic cheese at the cost of imported products.

h. The above situation also means the prices of block-type domestic Gouda and Cheddar cheeses, which are mainly used as raw materials for processed cheese and shred cheese manufacturing, must be lowered to dispose of excess stock and to compete against imported cheeses.

F) In Japan, the milk prices for natural cheese manufacturing are fixed in the **FY** resulting from the negotiations between dairy farmers' organisations (10 designated regional dairy farmers' organizations) and cheese manufacturers in the same regions. Therefore, milk prices vary from region to region, but Hokuren's milk price for cheese, which is approximately ¥73/kg applicable during FY 2021 in Hokkaido, can be a benchmark price in other regions. Milk prices are set by usage; the highest price is for drinking use, followed by fermented milk (e.g. yoghurt), fresh cream, dairy products other than cheese and then the lowest price is for cheese use. However, even when cheese receives the lowest milk price, it is still very high compared to major dairy countries' milk prices, which explains the high cost of natural cheese manufactured in Japan. **Table 4** shows the international comparison of milk prices of major dairy countries.

**Table 4 Milk prices of major dairy countries**

Country	Milk price in local currency	Source	Ex. rate of 1 July, 2021	Equivalent to US cents per kg
USA	US\$18.40 per 100 pounds	USDA, Agricultural Prices	–	40.6
EU-27 Average	€35.57 per 100 kgs	MMO, European Commission	1.1848	42.1
Australia	A\$6.50 per kg milk solid <sup>a</sup>	Dairy Australia	0.7485	37.4
NZ	NZ\$7.30 per kg milk solid <sup>a</sup>	DairyNZ	0.6984	39.2
Japan	¥73 per kg	Hokuren, Cheese only	¥111.12	65.7

Note: <sup>a</sup> Australia and NZ prices are on a milk solid basis, so the author divided these prices by 13 to obtain ‘per kg of milk prices’ for convenience as the average solid in milk is approximately 13%.

G) The total maximum subsidy for milk of ¥24.85/kg (approximately 23 US cents) is paid to the dairy farmers in FY 2021, who supply milk to cheese manufacturers, under the names of domestic natural cheese production promotional bounty (approximately 13 US cents) and milk producers’ subsidy (approximately 10 US cents) as a part of the MAFF’s dairy support programme. In addition to the above subsidy, maximum ¥20/kg (approximately 18 US cents) of bounty will be granted for additional milk quantity above the previous year’s level.

## Chapter 2 Characteristics and analysis of the Japanese Cheese Market

### 1) Characteristics of the Japanese cheese market

A) One of the unique characteristics of the Japanese cheese market is the existence of a large share of processed cheese, which still represents nearly 40% of total cheese consumption of 360,704 MT in FY 2020 (Source: MAFF’s Cheese supply-demand table). Gouda and Cheddar flavours are popular for processed cheese and the competition for developing higher quality and tastier processed cheese is keen in Japan. Hence, the quality and specifications of raw material natural cheeses are critical. A non-dairy processed cheese manufacturer president once said his company’s vision was to develop processed cheese, which is superior to and tastier than natural cheese.



B) **Table 5** shows breakdown of home-use processed cheese by type in FY 2020.

**Table 5 Home-use processed cheese consumption quantities by type (FY 2020)**

<b>Slice</b>	38,000 MT
<b><sup>a</sup> Baby</b>	20,800 MT
<b><sup>b</sup> Portion</b>	12,600 MT
<b><sup>c</sup> Block</b>	4,150 MT
<b><sup>d</sup> Candy</b>	2,000 MT
<b>Stick</b>	450 MT
<b><sup>e</sup> Others</b>	2,600 MT
<b>Total</b>	80,600 MT

The above quantities were estimated by Teiin-Shokuryo-Shimbun, an industry paper, after surveying with the processed cheese manufacturers.

Notes: <sup>a</sup> This is not a cheese for babies but it is a small piece of cheese (usually 12-15 g) eaten as a snack food.

<sup>b</sup> Mainly 6 pieces in a round carton, named ‘6P cheese’, etc.

<sup>c</sup> A block of processed cheese in a carton, usually 148-400 g per block. Nearly 90% of this is pre-cut product from which small pieces can be easily removed by hand.

<sup>d</sup> Round candy shape wrapped individually.

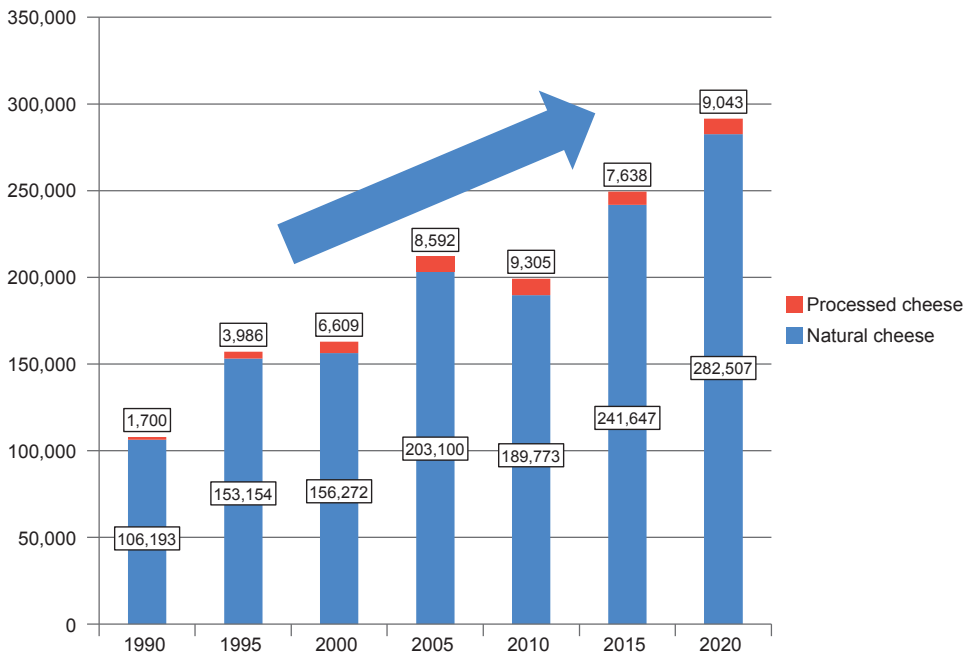
<sup>e</sup> Animal-shaped fancy-type processed cheese for children, etc.

C) Processed cheese for institutional use, which holds about 45% of the total processed cheese consumption (see **Table 8**), is manufactured to end users’ required specifications. For example, some end users in bakery and snack segments, etc., need processed cheese that does not melt in their production flow where certain levels of heat are applied. Some manufacturers have developed the so-called ‘un-melting type’ processed cheese of various shapes and sizes for institutional users. Another example is processed cheese with special functionality developed by a snack manufacturer many years ago to suit their product of ‘cheese sandwiched between fish (cod, etc.) sheets’ that can be distributed at normal temperature without refrigeration.

D) Another characteristic of the Japanese cheese market is that manufacturers are largely dependent on imported natural cheese due to the limited supply and high price of domestic natural cheese, while the total cheese market has been growing steadily. This trend is expected to continue strengthening as more proportion of domestic milk is expected to be directed to the short shelf life products such as fresh drinking milk and fresh cream, which are not so suitable for international

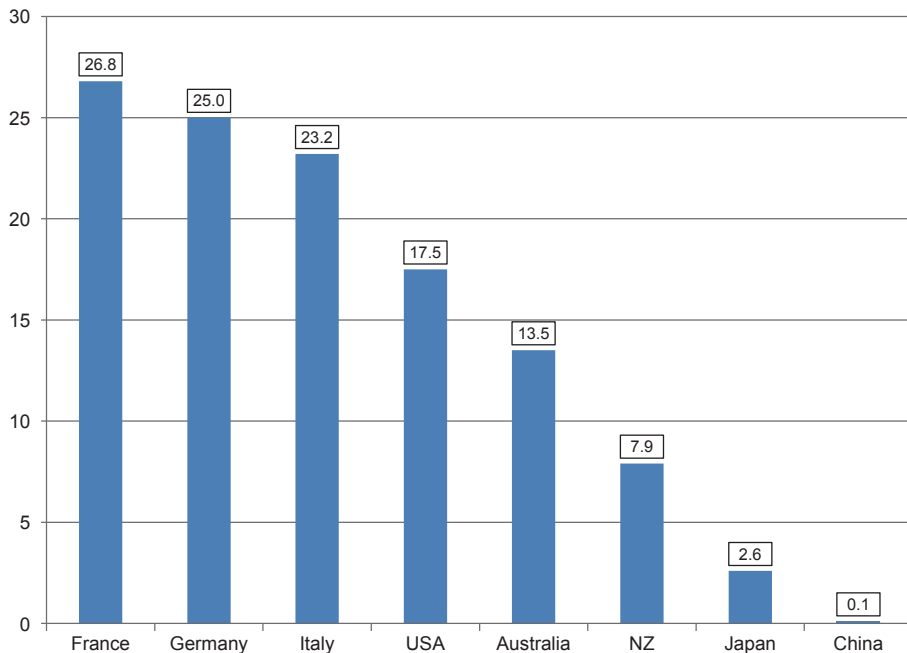
trade (less competition against imported products) than to cheese in the medium to long term. **Figure 1** shows the historical movement of natural cheese and processed cheese quantities imported to Japan. The total cheese imported quantity increased by 2.7 times during the past 30 years. Meanwhile, **Figure 2** shows the international comparison of per capita cheese consumption. Even though Japanese cheese consumption has been growing steadily, the difference in per capita consumption quantities is still huge compared with the major Western countries. The author believes that Japanese per capita cheese consumption still has a lot of room for growth and that the difference will be narrowed to some extent in the future.

**Figure 1** Natural Cheese and Processed Cheese imported quantities (Unit: MT)



Source: Japan Customs, Import Statistics, CY basis

**Figure 2 Per capita annual consumption of Cheese (Unit: Kg)**



Source: International Dairy Federation Bulletin 2020

## 2) Analysis of the Japanese cheese market

**Figure 3** shows the **Japanese cheese consumption movement** during the past 30 years on a FY basis. The upward trend of total Japanese cheese consumption is evident and the natural cheese consumption is growing faster than that of the processed cheese. However, cheese consumption grew only by 0.2% in FY 2020, presumably due to the Covid-19 pandemic.

**Table 6** represents the **Japanese natural cheese imports** during CY 2020. **Australia, New Zealand** and the **USA** are the top three supplying countries, but Australia who has been the largest supplier to Japan for many years, has seen a downward trend recently due to the declining milk production caused by drought and other natural factors. In contrast NZ and the USA are increasing their shares. Since the declining trend of Australia remains unchanged as of this writing in mid-2021, the author thinks that this year Australia could potentially surrender the position of No.1 supplier to NZ for the first time in nearly 30 years.

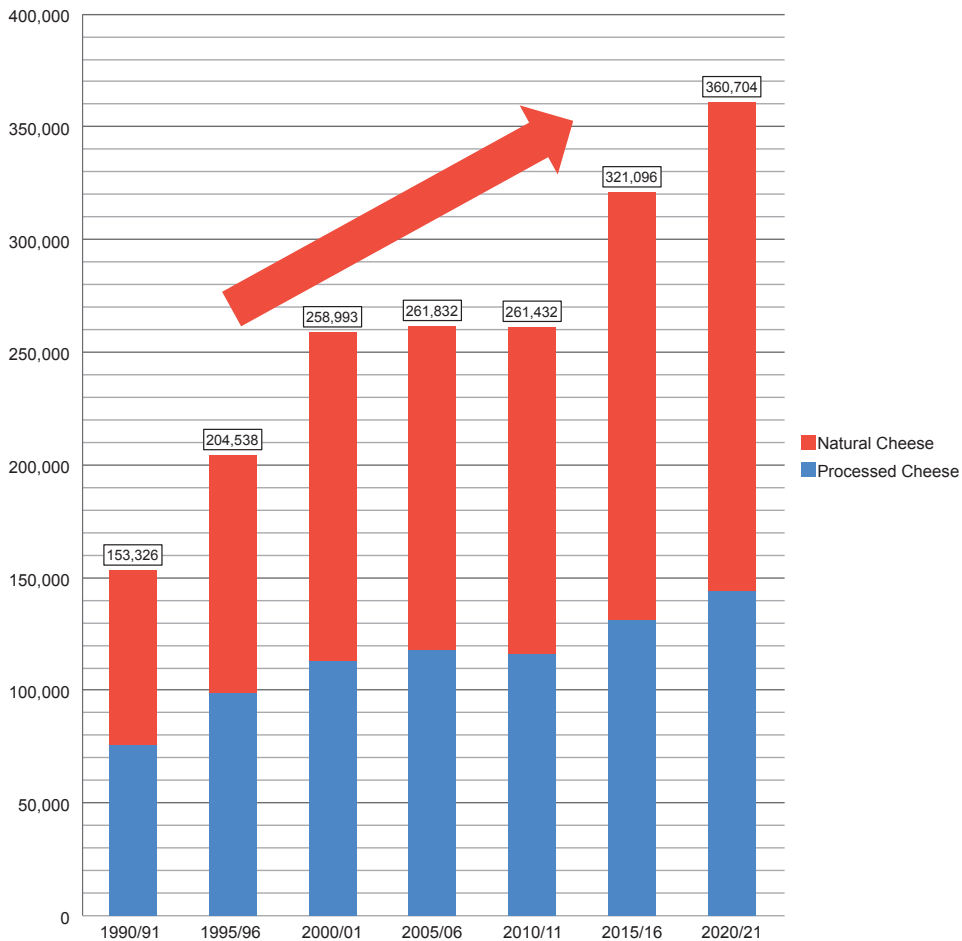
The **'EU-27 Total'** quantity of 110,250 MT shows a 9.6% increase from the previous year, while the total import quantity decreased by 3.8%. It is most likely that the lower tariff rates under J-EU EPA which started in February 2019, contributed to this growth. By country, **Holland** is the largest supplier among the EU countries, followed by **Germany** and **Ireland** who has been steadily increasing the quantities in recent years and became the third-largest EU supplier in 2020, besting Denmark.

UK provided 427 MT, which is a part of ‘Other non EU countries Total 5,116 MT’, continued to have favourable tariff rates under J-EU EPA during the transitional period (i.e. until December 2020). Lastly, **Argentina’s** 3,408 MT, which ranks first in the ‘Other non-EU countries Total 5,116 MT’, has been increasingly disadvantaged as the gap between WTO and EPAs’ tariff rates widens, because there is no EPA between Japan and Argentina at this moment.

**Table 7** represents **Japanese processed cheese imports** during CY 2020.

**Denmark** is the biggest ‘Powdered processed cheese’ supplier. **France** is by far the biggest ‘Other processed cheese’ supplier, with cream cheese in consumer packages and some in institutional cartons being the largest in quantity; these cream cheese products are imported from France to Japan as processed cheese, instead of natural cheese. The total processed cheese import quantity has been stable in recent years, at around 9,000 MT.

**Figure 3 Japanese Cheese Consumption Movement (Unit: MT)**



Source: MAFF Cheese Supply Demand Table on FY basis

**Table 6 Natural Cheese Imports Jan-Dec 2020**

Unit: MT, %, Comparison with Jan-Dec 2019

Country	T/Q (*1)	%	Fresh (*2)	%	Powder	%	Blue-veined	%	Others (*3)	%	Total	%
Australia	6,409	82.5	43,008	84.3	0	0	0	0	22,497	93.5	71,914	86.8
New Zealand	17,704	90.6	12,447	66.7	0	0	0	0	28,874	97.5	59,025	87.0
USA	1,354	76.5	12,905	92.4	2,048	102.5	0	0	19,895	106.6	36,202	99.4
Holland	188	128.8	0	0	26	520.0	0	0	31,843	95.9	32,057	96.1
Germany	1,978	157.5	322	25.3	0	0	51	96.2	23,967	144.7	26,318	137.5
Denmark	37	45.1	3,236	118	742	94.8	237	83.2	10,732	91.5	14,984	95.9
Ireland	4,966	172.9	0	0	0	0	0	0	11,737	137.1	16,703	146.1
Italy	37	194.7	5,891	83.8	681	97.6	561	83.9	2,551	84.8	9,721	85.1
France	158	113.7	1,956	122.3	0	0	154	79.4	2,333	84.8	4,601	98.9
Finland	0	0	9	0	0	0	0	0	2,119	70.7	2,128	71.0
Other EU	0	0	456	89.8	0	0	0	0	3,282	247.9	3,738	191.4
EU-27 total	7,364	159.9	11,870	90.2	1,449	97.5	1,003	81.6	88,564	110.5	110,250	109.6
Other non-EU countries	61	0	3,075	94.7	0	0	22	0	1,958	74.4	5,116	87.0
Total	32,892	97.6	83,305	83.3	3,497	100.3	1,025	81.7	161,788	104.3	282,507	96.2

(\*1) T/Q quantities are ‘Global Tariff Quota’ (1:2.5) only & include 2,368 MT of ‘Fresh’ cheese, while ‘EPA Tariff Quotas’ (1:3.5) are included in the respective categories such as Others, Fresh etc.

(\*2) ‘Fresh’ includes IQF Mozzarella, Mozzarella cheese, Cream cheese etc.

(\*3) ‘Others’ includes cheese for shredding, processed cheese manufacturing, cutting and grating such as Cheddar, Gouda, Parmigiano Reggiano, etc.

**Table 7 Processed Cheese Imports Jan-Dec 2020**

Unit: MT, %: Comparison with Jan-Dec 2019

Country	Powdered Processed Cheese	Other Processed Cheese	Total
Denmark	1,713 (99.7%)		1,713 (99.7%)
USA	172 (86.0%)		172 (86.0%)
Australia	51 (104.1%)		51 (104.1%)
France		6,845 (100.4%)	6,845 (100.4%)
Holland		100 (83.3%)	100 (83.3%)
Poland		131 (165.8%)	131 (165.8%)
Others	6 (150.0%)	25 (58.1%)	31 (66.0%)
<b>Total</b>	1,942 (98.5%)	7,101 (100.6%)	9,043 (100.1%)

Source: Japan Customs, Import statistics

**Table 8** represents the analysis of **Japanese cheese consumption structure** based on the information provided by the Japan Imported Cheese Promotion Association.

The total cheese consumption (imported and domestic cheese) is categorised into ‘Home use’ and ‘Institutional use’ and then ‘natural cheese’ and ‘processed cheese’ before the specific usages. The yield increase ratio applied in the figure is 16%, which is caused by the addition of water, emulsifier, etc., in manufacturing processed cheese from natural cheese.

**Tables 9-1 and 9-2** estimate the **natural cheese consumption quantities** by variety and outlet, excluding natural cheese for processed cheese manufacturing, which is based on (\*) **ALIC**’s comprehensive survey with cheese users. The breakdown by the variety and imported/domestic cheeses estimated quantities are included in the tables.

Remarks: (\*) **ALIC - Agriculture and Livestock Industries Corporation** is an incorporated administrative agency of MAFF.

**Table 10** shows the **typical cheese supply chain** of imported cheeses to Japan, from dairy farmers in overseas countries to consumers in Japan, arranged by the author. As mentioned in the introduction, the author’s main focuses in this paper are cheese manufacturers/exporters in overseas countries and importers and cheese manufacturers in Japan in the whole supply chain.

**Table 8 Japanese cheese consumption structure**

Period: Apr. 2019 – Mar. 2020

Oct-20

Unit: Tonne

(% in brackets are comparison with the previous year)

Source: Japan Imported Cheese Promotion Association  
(Translated and partly revised by the author)

Reference: MAFF Cheese Supply-Demand Table, Tein Industry Newspaper

<b>Home use total</b>		145,900 t (103%)	
<b>Natural cheese consumption</b>		217,718 t (103.5%)	
Imported	192,723 t (103.8%)	Shredded	41,000 t (109.0%)
Domestic	24,995 t (101.9%)	Cream	8,300 t (98.0%)
<b>Processed cheese</b>		77,100 t (101.0%)	
Domestic	72,300 t (101.6%)	Camembert	6,700 t (102.0%)
Imported	4,800 t (99.0%)	String	5,000 t (105.0%)
<b>Total cheese consumption</b>		358,229 t (101.5%)	
[ of which Tariff quota 45,647 t (89.3%) ]		Mozzarella	
Imported material cheese	94,215 t (100.4%)	Powder	2,100 t (104.0%)
Domestic material cheese	19,401 t (93.0%)	Blue mold	1,000 t (100.0%)
↓ 113,616 t		Others	2,100 t (100.0%)
Processed cheese (Yield increase from material by 6%)	131,794 t (99.1%)	Imported	2,100 t (100.0%)
Domestic production	131,794 t (99.1%)	Others	2,100 t (100.0%)
Imported PC	8,717 t (90.4%)	<b>Processed cheese</b>	
<b>Processed cheese consumption</b>	140,511 t (105%)	63,411 t (96.1%)	
* Total cheese consumption – Home use total		↓	
<b>Institutional use total</b>		212,323 t (100.5%)	
↓		Institutional use	
↓		102,990 t (103.0%)	
↓		Shred	
↓		60,152 t (103.4%)	
↓		Block	
↓		32,258 t (102.9%)	
↓		Powder	
↓		6,680 t (111.5%)	
↓		Pack	
↓		3,900 t (98.7%)	
↓		Pizza	
↓		13,630 t (101.6%)	
↓		Home delivery	
↓		8,800 t (103.0%)	
↓		Frozen	
↓		4,830 t (95.7%)	
↓		Confectionery/Baking	
↓		32,040 t (103.7%)	
↓		Block	
↓		29,500 t (104.2%)	
↓		Powder	
↓		2,540 t (95.3%)	
↓		Others	
↓		258 t (99.0%)	
↓		Imported	
↓		3,917 t (93.7%)	
↓		Confectionery/Baking	
↓		3,880 t (92.7%)	
↓		Others	
↓		37 t (-)	
↓		Domestic	
↓		59,494 t (97.0%)	
↓		School lunch	
↓		1,500 t (85.2%)	
↓		Various institutional outlets	
↓		57,994 t (95.2%)	

<b>Natural cheese</b>		68,800 t (105.0%)	
Domestic	24,900 t (96.5%)	Sliced	31,900 t (100.0%)
Imported	43,900 t (109.7%)	Baby	19,800 t (104.0%)
<b>Processed cheese</b>		77,100 t (101.0%)	
Domestic PC	72,300 t (101.6%)	Portion	12,200 t (101.0%)
Imported	4,800 t (99.0%)	Pre-cut	3,850 t (99.0%)
<b>Total cheese</b>		145,900 t (103%)	
Domestic	72,300 t (101.6%)	Candy	2,100 t (98.0%)
Imported	4,800 t (99.0%)	Carton	450 t (90.0%)
<b>Mainly French Cream Cheese</b>		1,800 t (-)	
Snow	74.6 (98.4%)	Stick	400 t (101.0%)
Mornnaga	47.5 (99.5%)	Others	1,800 t (-)
Rokko	51.1 (102.1%)	<b>Sales amount in billion Yen</b>	
Meiji	37.4 (102.4%)	Snow	74.6 (98.4%)
Hoko	20.2 (102.3%)	Mornnaga	47.5 (99.5%)
		Rokko	51.1 (102.1%)
		Meiji	37.4 (102.4%)
		Hoko	20.2 (102.3%)

<b>Major institutional manufacturers' sales in FY 2019</b>		Jan-Dec	
Hoko	18,000 t (106%)	Snow	42,000 t (95.6%)
Mornnaga	14,000 t (110%)	Mornnaga	38,200 t (100.2%)
Snow	10,600 t (98%)	Rokko	35,100 t (101.8%)
Meiji	5,800 t (99%)	Meiji	24,500 t (98.8%)
Rokko	7,400 t (100%)	Hoko	22,000 t (105.0%)
		Murakawa	N.A.
		Marn Food	N.A.

<b>Food processing, Take-aways, QVS, Hotels</b>		Jan-Dec	
Restaurants, Family restaurants, Fast food	60,152 t (103.4%)	Snow	74.6 (98.4%)
Blocks are for big users	32,258 t (102.9%)	Mornnaga	47.5 (99.5%)
Most of the Packs are for Hotels & restaurants	6,680 t (111.5%)	Rokko	51.1 (102.1%)
	3,900 t (98.7%)	Meiji	37.4 (102.4%)
		Hoko	20.2 (102.3%)

**Table 9-1 Natural Cheese Consumption Quantities by item and outlet (Estimate)**

Period: FY 2019

Quantities: Direct consumption only - i.e. excluding raw material natural cheese for processed cheese manufacturing

Source: ALIC

Varieties	User companies	Quantity (MT)	of which/imported	/domestic
<b>Semi-hard Cheeses for shredding</b> <b>112,100 MT</b> <b>(*1)</b>	Dairy manufacturers	19,200	13,800	5,400
	Bakeries	3,400	2,800	600
	Confectionary	5,100	5,000	100
	Cooked foods	14,600	13,500	1,100
	Home-delivery pizza	18,600	18,400	200
	Restaurants/hotels	17,800	17,500	300
	Other institutional	1,200	1,200	0
	Retailers	32,200	29,500	2,700
<b>Subtotal</b>		<b>112,100</b>	<b>101,700</b>	<b>10,400</b>
<b>Other hard/semi-hard Cheeses</b> <b>6,200 MT</b> <b>(*2)</b>	Confectionary	100	0	100
	Cooked foods	300	300	0
	Restaurants/hotels	3,200	3,000	200
	Other institutional	200	0	200
	Retailers	2,400	2,200	200
<b>Subtotal</b>		<b>6,200</b>	<b>5,500</b>	<b>700</b>
<b>Ultra-hard Cheeses</b> <b>8,500 MT</b> <b>(*3)</b>	Dairy manufacturers	1,100	800	300
	Bakeries	400	300	100
	Confectionary	1,700	1,700	0
	Cooked foods	1,300	1,200	100
	Home-delivery pizza	100	100	0
	Restaurants/hotels	2,000	1,900	100
	Other institutional	400	400	0
	Retailers	1,500	1,400	100
<b>Subtotal</b>		<b>8,500</b>	<b>7,800</b>	<b>700</b>
<b>Camembert Cheese</b> <b>5,400 MT</b>	Dairy manufacturers	100	100	0
	Cooked foods	100	100	0
	Home-delivery pizza	100	0	100
	Restaurants/hotels	200	100	100
	Retailers	4,900	700	4,200
<b>Subtotal</b>		<b>5,400</b>	<b>1,000</b>	<b>4,400</b>
<b>Blue Cheese</b> <b>1,000 MT</b>	Dairy manufacturers	100	100	0
	Cooked foods	100	100	0
	Restaurants/hotels	100	100	0
	Other institutional	100	100	0
	Retailers	600	600	0
<b>Subtotal</b>		<b>1,000</b>	<b>1,000</b>	<b>0</b>
<b>Cream Cheese</b> <b>73,300 MT</b>	Dairy manufacturers	21,300	21,000	300
	Bakeries	6,200	5,900	300
	Confectionary	17,600	16,500	1,100
	Cooked foods	13,800	13,200	600
	Home-delivery pizza	900	900	0
	Restaurants/hotels	4,900	4,300	600
	Other institutional	900	800	100
	Retailers	7,700	6,300	1,400
<b>Subtotal</b>		<b>73,300</b>	<b>68,900</b>	<b>4,400</b>



**Table 9-2 Natural Cheese Consumption Quantities by item and outlet (Estimate)**

Varieties	User companies	Quantity (MT)	of which/imported	/domestic
<b>Fresh Mozzarella Cheese 5,000 MT (*4)</b>	Dairy manufacturers	100	0	100
	Bakeries	100	0	100
	Confectionary	700	0	700
	Home-delivery pizza	1,500	300	1200
	Restaurants/hotels	1,700	200	1,500
	Other institutional	200	100	100
	Retailers	700	0	700
<b>Subtotal</b>		<b>5,000</b>	<b>600</b>	<b>4,400</b>
<b>Other Fresh Cheeses 14,600 MT (*5)</b>	Dairy manufacturers	100	0	100
	Bakeries	0	0	0
	Confectionary	1200	700	500
	Cooked foods	600	400	200
	Home-delivery pizza	4,200	4,000	200
	Restaurants/hotels	500	200	300
	Other institutional	100	0	100
Retailers	7,900	700	7,200	
<b>Subtotal</b>		<b>14,600</b>	<b>6,000</b>	<b>8,600</b>
<b>Others (*6) 200 MT</b>	Retailers	<b>200</b>	<b>200</b>	<b>0</b>
<b>Total 226,300MT</b>		<b>226,300</b>	<b>192,700</b>	<b>33,600</b>

Remarks: (\*1) Gouda, Cheddar, Block type Mozzarella etc.

(\*2) Gouda, Cheddar for hors d'oeuvre etc.

(\*3) Parmesan etc.

(\*4) Fresh Mozzarella packed in water

(\*5) Block type Mozzarella, Mascarpone, Cottage, Fromage blanc etc.

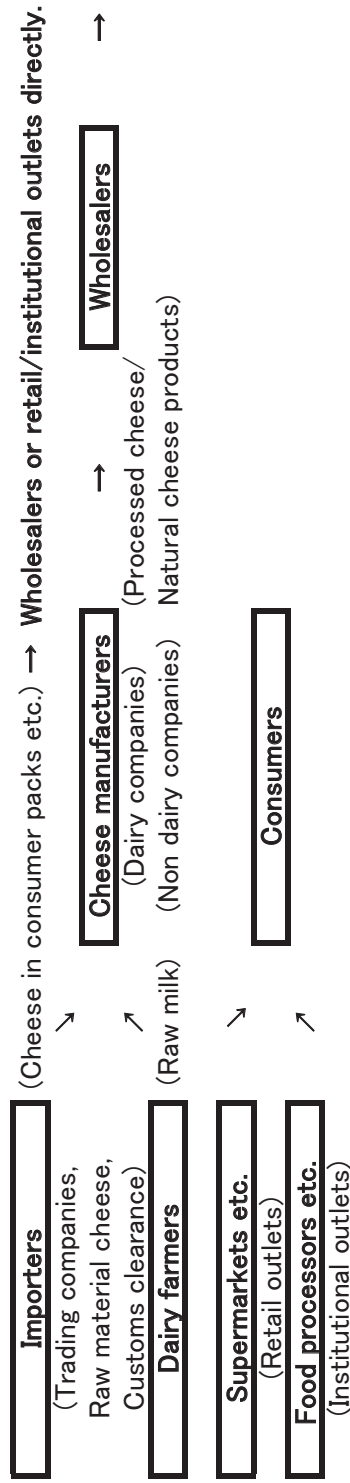
(\*6) Wash type cheeses etc.

**Table 10** Typical Cheese Supply Chain

Overseas countries



Japan



Remarks: 1) Some cheese manufactures in overseas countries do not use exporters and export their cheese directly to the importers in Japan.

- 2) Some cheese manufacturers in Japan negotiate price/quantity/shipment etc. with overseas cheese manufacturers and either import directly from overseas manufacturers bypassing importers or ask importers to work as 'agents' after all the terms of business are finalized.
- 3) Some wholesalers in Japan negotiate price/quantity/shipment etc. of cheese in consumer packs with overseas cheese manufacturers and import directly from overseas manufacturers bypassing importers/cheese manufacturers.
- 4) Some Japanese cheese manufacturers use their institutional products for themselves and sell the remaining products to wholesalers and directly to retail/institutional outlets.

## Chapter 3 Japanese cheese import system

### 1) Tariff rates for cheese

Historically, the Japanese dairy farming and dairy products industries were highly protected and the domestic market was closed against most low-cost dairy products from abroad. However, cheese was an exception and natural cheese import was liberalised as early as in 1951, with a 35% tariff rate and processed cheese import was liberalised in 1989 with a 40% tariff rate as a result of the agreement with the USA. The natural cheese tariff rate was phased down during six years from FY 1995 to FY 2000, under the new WTO system and the current tariff rates are shown in **Table 11**.

**Table 11** Natural cheese tariff rates

HS Code	Description	WTO tariff rate
<b>0406.10</b>	Fresh <sup>a</sup> un-ripened or uncured cheese, including whey cheese & curd	22.4%
	- 020 <sup>b</sup> Individual Quick Frozen Mozzarella cheese	29.8%
	- 090 Mozzarella, Cagliata, Cream cheese etc.	
<b>0406.20</b>	- 200 Grated or powdered cheese (Parmesan etc.)	26.3%
<b>0406.40</b>	- 090 Blue-veined cheese & other cheese containing veins produced by <i>Penicillium roqueforti</i>	29.8%
<b>0406.90</b>	- 090 Other cheese (Cheddar, Gouda, Camembert etc.)	29.8%

Notes: <sup>a</sup> The definition of ‘un-ripened or uncured’ for Fresh cheese also indicates all the ripening type cheeses are in the category of ‘Other cheese’.

<sup>b</sup> The following is the Customs’ definition of IQF Mozzarella cheese:

‘A dry matter content, by weight, not exceeding 48%, chopped not exceeding 4 g per each, frozen, in immediate packings, of a content exceeding 5 kg.’

Of the above items, zero tariff rate can be applied to natural cheese for processed cheese manufacturing under T/Q System (1:2.5) per **Table 12**.

**Table 12** Natural cheese for processed cheese manufacturing under T/Q (1:2.5)

HS Code	Description	Temporary tariff rate
<b>0406.10</b>	- 010 Fresh cheese (Mozzarella, Cream cheese etc.)	Nil
<b>0406.40</b>	- 010 Blue veined cheese	Nil
<b>0406.90</b>	- 010 Other cheese (Cheddar, Gouda etc.)	Nil

The tariff rates applicable to Processed Cheese are presented in **Table 13**:

**Table 13 Processed cheese tariff rates**

HS Code	Description	WTO tariff rate
0406.20	- 100 Powdered processed cheese	40.0%
0406.30	- 000 Other processed cheese	40.0%

Source for above **Tables 11-13**: Japan Customs ‘Japan’s Tariff Schedule as of October 2020’

Note: The lower tariff rates applicable under EPAs, to be discussed in Chapter 4, are separate from above **Tables 11-13**.

## 2) Roles of Japanese ‘agents’ in the cheese business

A) Some Japanese trading companies have Dairy Products ‘Departments’, ‘Sections’ or ‘Teams’ who deal with cheese as one of the major products. They play essential roles as ‘agents’ (and distributors) of cheese, building bridges between overseas suppliers and Japanese users. In most cases of bulk-type cheese imports, when they conclude purchase contracts with overseas suppliers, they have back-to-back contracts with Japanese users. Depending on the circumstances, ‘agents’ can take risks and import some cheese without back-to-back contracts with the users and then gradually sell the cheese to various users from their stocks. They also try to maintain good relations with Japanese user customers and overseas suppliers by providing the following services:

- a. Negotiate and conclude cheese prices with overseas suppliers on a spot or regular basis (say every three to six months) based on the users’ requirements.
- b. Provide information to users regarding overseas suppliers including new products development, milk intake situations, prospects for cheese supply-ability and expected price movements.
- c. Support communication between overseas suppliers and users including interpreting during the suppliers’ visits to the customers.
- d. Arrange and attend to the users’ inspection of the cheese upon arrival and feedback the results to the overseas suppliers for future quality improvement.
- e. Provide financing to the users according to the following example:
  - They purchase cheese from overseas suppliers with 30 days usance from the time of shipment.
  - Following users’ acceptance of the quality of cheese as a result of the inspections on arrival, they start delivering cheese to users 60-120 days (average 90 days) from the time of shipment, and each time they issue an invoice to the user with 60 days’ usance.
  - In other words, they pay the invoice amounts to overseas suppliers at 30 days and they receive

payments from the users at an average of 150 (90 plus 60) days from the time of shipment, providing 120 (150 minus 30) days financing to the users in the above case.

With such a system as above in place, 'agents' usually get their commissions from the users and not from the overseas suppliers. Hence, 'agents' are sometimes regarded as being on the users' side rather than on the suppliers' side, especially during price negotiations.

B) From the overseas suppliers' perspective, the merits of using Japanese trading companies are:

- f. Basically, overseas suppliers do not have to pay any 'agents' commissions.
- g. Selling a large quantity of cheese to the limited numbers of trading companies is more efficient rather than selling to the various users directly.
- h. Most trading companies are financially strong and stable; therefore, credit risks are reduced in selling a large quantity of cheese to the trading companies once.
- i. Communicating with trading companies that are well versed in international trade businesses is easier than communicating with users.
- j. In the case of a quality claim of the commodity items, in which a Japanese user A concluded that the arrived product is unusable for them, as a result of their inspection, it may be possible for Japanese user B to use it with some discount, depending on the degree and contents of quality problems. Trading companies who supply to various users in usual business can facilitate such re-sales, if necessary.

Regarding the technical matters, however, overseas suppliers tend to prefer direct communication between their own and the users' technical staff, rather than through the trading companies.

### 3) T/Q system

#### A) **Global T/Q (1:2.5) and EPA T/Q (1:3.5) for processed cheese manufacturing: tie-in with domestic natural cheese**

To protect and to promote Japanese natural cheese production, T/Q system has been introduced in which a processed cheese manufacturer can get 2.5 duty free T/Q for imported natural cheese against the use of 1 domestic natural cheese for manufacturing processed cheese. This T/Q is now called '**global T/Q**' as against '**EPA T/Q**' that is available only in **J-A EPA**, which has the special ratio of 1 (domestic):3.5 (imported, duty free) for processed cheese manufacturing.

The costs of these T/Qs and non-T/Q (100% imported cheese) cases can be compared as follows: For simplicity, all the additional costs to be incurred in Japan (i.e., landing, delivery, storage and interest costs) are excluded in the calculations below.

**Case A** ('global T/Q' of 1:2.5 is used—no import duty)

**Case B** (J-A 'EPA T/Q' of 1:3.5 is used—no import duty)

**Case C** (100% imported cheese ex EPA countries—22.3% tariff rate)

**Case D** (100% imported cheese ex non-EPA countries–29.8% tariff rate)

The following assumptions are proposed:

- a. Imported cheese invoice price: US\$4,400 per metric ton (PMT) CIF Japan main ports
- b. Exchange rate (TTS): ¥110/US\$
- c. Domestic Cheddar cheese price: ¥900,000 PMT

Note: The calculated cost comparison depends much on the above three variable factors.

The cost comparison on the above assumptions is as follows:

**Case A** (¥900,000 x 1 + US\$4,400 x ¥110 x 2.5)/3.5 = **¥602,857 PMT**

**Case B** (¥900,000 x 1 + US\$4,400 x ¥110x 3.5)/4.5 = **¥576,444 PMT**

**Case C** US\$4,400 x ¥110 x 1.223 (22.3% tariff rate) = **¥591,932 PMT**

**Case D** US\$4,400 x ¥110 x 1.298 (29.8% tariff rate) = **¥628,232 PMT**

- d. The result for processed cheese manufacturing showed that Case B (1:3.5 T/Q) is the most cost-competitive, followed by Case C (EPA countries at 22.3% tariff rate), Case A (1:2.5 T/Q) and then Case D (non-EPA countries at 29.8% tariff rate).

$B < C < A < D$

#### **B) EPA T/Qs (1:3.5) for shred cheese manufacturing: tie-in with domestic natural cheese**

There is no ‘global T/Q (1:2.5)’ for shred cheese manufacturing, so the cost comparison is between ‘EPA T/Qs (1:3.5)’ available under **J-A EPA, TPP11** (below Case E) and non-T/Q cases (below Cases F and G) as follows:

**Case E** ‘EPA T/Q (1:3.5)’ is used - no import duty) under J-A EPA (Other cheese) and TPP11 (Mozzarella)

The cost is the same as above Case B – **¥576,444 PMT**

**Case F** (100% imported cheese ex EPA countries–24.2% tariff rate)

The cost is the same as above Case C – **¥591,932 PMT**

**Case G** (100% imported cheese ex non-EPA countries–29.8% tariff rate)

The cost is the same as above Case D – **¥628,232 PMT**

- e. The result for shred cheese manufacturing showed that Case E (1:3.5 T/Q) is the most cost-competitive followed by Case F and then Case G.

$E < F < G$

#### **C) Inquiries into the cost comparison results**

Upon examination of the above cost comparisons, it can be said that:

- f. The ‘global T/Q’ of 1:2.5 for processed cheese manufacturing (Case A) is competitive against 100% import from non-EPA countries (Case D) but it has lost its competitiveness on above assumptions against 100% import from EPA countries (Case C), as the lower tariff rate of

22.3% under EPAs is applied to Case C.

- g. The ‘EPA T/Q’ of 1:3.5 for process cheese manufacturing (Case B) is the most cost-competitive option among all cases. However, on above assumptions, the advantage of the ‘EPA T/Q’ of 1:3.5 will disappear in FY 2023 when the tariff rates for ‘Other cheese’ (Cheddar, Gouda, etc.) will be reduced to 18.6% under TPP11, J-US TA and J-EU EPA, in accordance with the respective tariff rate reduction schedules. Therefore, Case C will be the most competitive option in the future.
- h. The ‘EPA T/Qs’ of 1:3.5 for shred cheese manufacturing (Case E) are still competitive on the above assumptions against 100% imported cheese ex EPA countries (Case F) and ex non-EPA countries (Case G). However, the scarcity of domestic natural cheese for shred cheese manufacturing makes it difficult for shred cheese manufacturers to use the ‘EPA T/Qs’. Also, on the above assumptions, the advantage of the ‘EPA T/Qs’ of 1:3.5 will disappear in FY 2023 in the same manner as in above ‘g’. for processed cheese manufacturing. Therefore, Case F will be the most competitive option in the future.
- i. To summarize, both in processing and shredding, 100% imported cheese users (Case C and Case F, even though both are second in rankings now) will have advantages over domestic cheese users, even after taking into account the ‘EPA T/Qs (1:3.5)’ and they will be in the most cost-competitive position in the future.

The cost comparisons as of this writing can be summarized as follows:

**Table 14 Cost comparison of natural cheese for processed cheese manufacturing**

	Domestic/Imported Cheese ratio	Relevant EPAs	Example of export country	Tariff rate	Cost comparison (Lowest 1, highest 4)
Case A	1:2.5 (Global T/Q)	<sup>a</sup> NA	Any country	Nil	3
Case B	1:3.5 (EPA T/Q)	J-A EPA	Australia	Nil	1
Case C	100% imported	J-US T/A	USA	22.3%	2
Case D	100% imported	<sup>a</sup> NA	Argentina	29.8%	4

**Table 15 Cost comparison of natural cheese for shred cheese manufacturing**

	Domestic/Imported Cheese ratio	Relevant EPAs	Example of export country	Tariff rate	Cost comparison (Lowest 1, highest 3)
Case E	1:3.5 (EPA T/Q)	TPP 11	New Zealand	Nil	1
Case F	100% imported	J-EU EPA	Holland	22.3%	2
Case G	100% imported	<sup>a</sup> NA	Argentina	29.8%	3

Notes: <sup>a</sup> NA means ‘Not Applicable’.

- The cost comparison of cheese for shredding with IQF Mozzarella can be found in **Chapter 5**.

#### **4) Pre-approval system of Japan Customs**

There are some 'delicate' items in dairy products including cheese regarding the importation to Japan. One example is Middle Fat Cream Cheese, the fat content of which is usually between 53% and 58%. The product is mainly used as a raw material of ice cream, milk-based drinks, soup, compound cream, among others. Most of the importers of this product use the pre-approval system to obtain some assurance from Customs in advance that the product can be classified and cleared as natural cream cheese in the Fresh cheese category. They inquire about the products in writing with the required data/documents and obtain the answers from Customs also in writing, which are effective for three years. The Customs sometimes conduct tests on arrival of the products to Japan to check if the shipped products fall into the category of natural cream cheese.

### **Chapter 4 Contents of the four major international agreements regarding cheese**

#### **1) 'J-A EPA' (Effective date: January 15th, 2015)**

It is J-A EPA's 7<sup>th</sup> year as of this writing(\*). The close personal relationship between Australian Prime Minister Mr Abbott and his Japanese counterpart Mr Abe was said to have contributed to materialising J-A EPA as early as in 2015. J-A EPA also primed the pump for the negotiations of other EPAs such as TPP11, J-EU EPA and J-US TA. The contents of J-A EPA regarding cheese are as follows:

#### **A) (\*\*)**Tariff Rate Quota (TRQ) for raw material natural cheese for processed cheese manufacturing (1:3.5, tie-in with domestic natural cheese, in-quota duty-free)****

As shown in **Table 16**, the **TRQ** quantity increases from the initial year's 4,000 MT to 20,000 MT in 20 years.

Applicable HS code: 0406.10.090, 0406.40.090 and 0406.90.090 (WTO 29.8%)

Remarks: (\*) Since FY starts from April, the first year was only two and a half months until March 31st and second year started from April 1st, 2015.

(\*\*) TRQs allow for one of the preferences mentioned below within limits of an annual import quantity (being the quota level) of the relevant goods.

- Immediate liberalisation
- Duty elimination spread over a period
- Duty reduction spread over a period

(Source: EU-Japan EPA FACT SHEET)



<b>Table 16</b>		<b>Duty-free TRQ quantity</b>
From April 2021	8th year	9,700 MT
From April 2022	9th year	10,500 MT
From April 2023	10th year	11,300 MT
From April 2024	11th year	12,100 MT
From April 2025	12th year	12,900 MT
From April 2026	13th year	13,700 MT
From April 2027	14th year	14,500 MT
From April 2028	15th year	15,300 MT
From April 2029	16th year	16,100 MT
From April 2030	17th year	16,800 MT
From April 2031	18th year	17,600 MT
From April 2032	19th year	18,400 MT
From April 2033	20th year	19,200 MT
From April 2034	21st year	20,000 MT

The duty-free quantity of 20,000 MT will be maintained in 2035 onwards.

**B) TRQ for raw material natural cheese for shred cheese manufacturing (1:3.5)**

As shown in **Table 17**, the TRQ quantity increases from the initial year's 1,000 MT to 5,000 MT in 10 years.

Applicable HS code: 0406.90.090 ('Other cheese', WTO 29.8%)

<b>Table 17</b>		<b>Duty-free TRQ quantity</b>
From April 2021	8th year	3,800 MT
From April 2022	9th year	4,200 MT
From April 2023	10th year	4,600 MT
From April 2024	11th year	5,000 MT

The duty-free quantity of 5,000 MT will be maintained in 2025 onwards.

**C) TRQ for processed cheese, not grated or powdered**

The TRQ quantity increases from the initial year's 50 MT to 100 MT and the tariff rate is halved in 10 years, as shown in **Table 18**.

Applicable HS code: 0406.30.000 (WTO 40.0%)

<b>Table 18</b>		<b>TRQ quantity</b>	<b>In-quota tariff rate</b>
From April 2021	8th year	85 MT	25.5%
From April 2022	9th year	90 MT	23.6%
From April 2023	10th year	95 MT	21.8%
From April 2024	11th year	100 MT	20.0%

The quantity of 100 MT and tariff rate of 20% will be maintained from 2025 onwards.

#### **D) TRQ for grated or powdered cheese**

The TRQ quantity increases from the initial year's 200 MT to 1,000 MT and the tariff rate is halved in the next 10 years, as shown in **Table 19**.

Applicable HS code: 0406.20.100 (processed cheese, WTO 40.0%)

0406.20.200 (natural cheese, WTO 26.3%)

<b>Table 19</b>		<b>TRQ quantity</b>	<b>In-quota tariff rate</b>
From April 2021	8th year	760 MT	16.8%
From April 2022	9th year	840 MT	15.6%
From April 2023	10th year	920 MT	14.4%
From April 2024	11th year	1,000MT	13.2%

The quantity of 1,000 MT and tariff rate of 13.2% will be maintained from 2025 onwards.

#### **E) Reduction of tariff rate for Blue-veined cheese (same as blue cheese)**

The tariff rate is reduced by 20% in the next 10 years, as shown in **Table 20**.

Applicable HS code: 0406.40.090 (WTO 29.8%)

<b>Table 20</b>		<b>Tariff rate</b>
From April 2021	8th year	25.4%
From April 2022	9th year	24.9%
From April 2023	10th year	24.3%
From April 2024	11th year	23.8%

The tariff rate of 23.8% will be maintained in 2025 onwards.

**2) ‘TPP11’ (Effective date: December 30th, 2018)**

The original agreement of the **TPP** was reached by the ‘P4 countries’ –Brunei, Chile, Singapore and New Zealand in 2005 and then other countries including the USA and Japan joined later. The expanded TPP was signed by 12 countries in 2016. However, following the US’s withdrawal from TPP in 2017, Japan took an initiative in the subsequent negotiations among the remaining 11 countries and **TPP11** took effect on December 30th, 2018. The latter part of the history is summarized in the following article:

‘During the Obama administration, which needed Japan’s participation to expand the TPP in the face of China’s growing global and regional economic influence, Japan incorporated the TPP into its growth strategy and committed itself to sustaining US leadership during TPP negotiations by making necessary concessions on both the international and domestic fronts. By contrast, the Trump administration, with its strong propensity for bilateral deals to counter China’s bid for global economic hegemony with the TPP withdrawal urged Japan to change its reactive stance and take a proactive role in TPP11 negotiations.’ **(Terada, 2019)**

The major cheese-exporting countries of TPP11 to Japan are Australia and New Zealand. (see **Table 6**)

The contents of TPP11 regarding cheese are as follows:

**A) Cream Cheese (fat content less than 45%)**

As shown in **Table 21**, the tariff rate will be eliminated in the 16<sup>th</sup> year.

**Table 21** Applicable HS Code: 0406-10-090 (WTO 29.8%)

		<b>Tariff rate</b>
From April 2021	4th year	22.3%
From April 2022	5th year	20.4%
From April 2023	6th year	18.6%
From April 2024	7th year	16.7%
From April 2025	8th year	14.9%
From April 2026	9th year	13.0%
From April 2027	10th year	11.1%
From April 2028	11th year	9.3%
From April 2029	12th year	7.4%
From April 2030	13th year	5.5%
From April 2031	14th year	3.7%
From April 2032	15th year	1.8%
From April 2033	16th year	0.0%

**B) ‘Other cheese’- Cheddar Cheese, Gouda Cheese, etc., excluding Soft cheese (e.g. Camembert, etc.)**

The tariff rate will be eliminated in the 16<sup>th</sup> year according to **Table 22**.

Note: Block type Mozzarella may be included in this HS code instead of the Fresh Cheese under HS code 0406-10-090. (see **Chapter 5**)

**Table 22** Applicable HS Code: 0406-90-090 (WTO 29.8%)

		<b>Tariff rate</b>
From April 2021	4th year	22.3%
From April 2022	5th year	20.4%
From April 2023	6th year	18.6%
From April 2024	7th year	16.7%
From April 2025	8th year	14.9%
From April 2026	9th year	13.0%
From April 2027	10th year	11.1%
From April 2028	11th year	9.3%
From April 2029	12th year	7.4%
From April 2030	13th year	5.5%
From April 2031	14th year	3.7%
From April 2032	15th year	1.8%
From April 2033	16th year	0.0%

**C) Individual Quick Frozen (IQF) Mozzarella Cheese**

The tariff rate will be eliminated in the 16<sup>th</sup> year according to **Table 23**.

**Table 23** Applicable HS Code: 0406-10-020 (WTO 22.4%)

		Tariff rate
From April 2021	4th year	16.8%
From April 2022	5th year	15.4%
From April 2023	6th year	14.0%
From April 2024	7th year	12.6%
From April 2025	8th year	11.2%
From April 2026	9th year	9.8%
From April 2027	10th year	8.4%
From April 2028	11th year	7.0%
From April 2029	12th year	5.6%
From April 2030	13th year	4.2%
From April 2031	14th year	2.8%
From April 2032	15th year	1.4%
From April 2033	16th year	0.0%

#### **D) Grated or Powdered Cheese**

The tariff rate will be eliminated in the 16<sup>th</sup> year according to **Tables 24 and 25**.

**Table 24** Applicable HS Code: 0406-20-100 (Processed cheese, WTO 40.0%)

		Tariff rate
From April 2021	4th year	30.0%
From April 2022	5th year	27.5%
From April 2023	6th year	25.0%
From April 2024	7th year	22.5%
From April 2025	8th year	20.0%
From April 2026	9th year	17.5%
From April 2027	10th year	15.0%
From April 2028	11th year	12.5%
From April 2029	12th year	10.0%
From April 2030	13th year	7.5%
From April 2031	14th year	5.0%
From April 2032	15th year	2.5%
From April 2033	16th year	0.0%

**Table 25** Applicable HS Code: 0406-20-200 (Natural cheese, WTO 26.3%)

		Tariff rate
From April 2021	4th year	19.7%
From April 2022	5th year	18.0%
From April 2023	6th year	16.4%
From April 2024	7th year	14.7%
From April 2025	8th year	13.1%
From April 2026	9th year	11.5%
From April 2027	10th year	9.8%
From April 2028	11th year	8.2%
From April 2029	12th year	6.5%
From April 2030	13th year	4.9%
From April 2031	14th year	3.2%
From April 2032	15th year	1.6%
From April 2033	16th year	0.0%

**E) Cream Cheese (fat content 45% or more)**

The tariff rate is reduced by 10% immediately according to **Table 26** and then maintained.

**Table 26** Applicable HS Code: 0406-10-090 (WTO 29.8%)

	Tariff rate
From December 2018	26.8%

**F) Blue Veined Cheese**

The tariff rate is reduced by 50% over 11 years according to **Table 27**.

**Table 27** Applicable HS Code: 0406-40-090 (WTO 29.8%)

		Tariff rate
From April 2021	4th year	24.3%
From April 2022	5th year	23.0%
From April 2023	6th year	21.6%
From April 2024	7th year	20.3%
From April 2025	8th year	18.9%
From April 2026	9th year	17.5%
From April 2027	10th year	16.2%
From April 2028	11th year	14.9%

The tariff rate of 14.9% will be maintained from 2029 onwards.

**G) Introduction of EPA T/Q (1:3.5) for Natural Cheese for shred cheese manufacturing**

Applicable HS Code: 0406-10-090 (Mozzarella cheese, WTO 29.8%)

A shred cheese manufacturer can get 3.5 duty free T/Q for imported Fresh cheese (Mozzarella) against the use of 1 domestic natural cheese for manufacturing shred cheese.

**H) Introduction of TRQ for Processed Cheese - Country Specific Quota according to Table 28**

Countries: Australia and NZ

**Table 28** Applicable HS Code: 0406-30-000 (WTO 40.0%)

Period	Year	<sup>a</sup> TRQ Quantity	In-quota tariff rate
From April 2021	4th year	115 MT	25.4%
From April 2022	5th year	120 MT	21.8%
From April 2023	6th year	125 MT	18.1%
From April 2024	7th year	130 MT	14.5%
From April 2025	8th year	135 MT	10.9%
From April 2026	9th year	140 MT	7.2%
From April 2027	10th year	145 MT	3.6%
From April 2028	11th year	150 MT	0.0%

Note: <sup>a</sup> Above quantities are for Australia and NZ, respectively. The 11<sup>th</sup> year quantity of 150 MT and in-quota tariff rate of 0.0% will be maintained from 2029 onwards.

**3) ‘J-EU EPA’ (Effective date: February 1st, 2019)**

Economy and Trade (Economy) reported the outline of **J-EU EPA** as follows:

‘The EU-Japan Economic Partnership Agreement (EPA) entered into force on February 1st, 2019. The free trade agreement between the two powerful economic regions, which represent approximately 640 million inhabitants and almost 30% of the global economic output, regulates the exchange of goods, services, investments, and new intellectual property. Both Japan and the EU have a collection of regulations whose harmonisation – additionally to the reduction of tariffs – is meant to facilitate trade.’ (Jonas Rudsinske, 30 March 2019)

The contents of J-EU EPA regarding cheese are as follows:

**A) Introduction of TRQ for the following seven items:**

- Middle fat cream cheese (Cream cheese fat content  $\geq$  45% 0406-10-090)
- <sup>a</sup> Mozzarella cheese (0406-10-090)
- Blue veined cheese (0406-40-090)
- Soft cheese (Camembert, Brie etc. 0406-90-090)

- IQF Mozzarella cheese (0406-10-020)
- Powdered processed cheese (0406-20-100)
- Other processed cheese (0406-30-000)

The TRQ quantity for the above total seven items will be increased from 20,000 MT in the 1<sup>st</sup> year to 31,000 MT in the 16<sup>th</sup> year (from April 2033), whereas the tariff rates within the TRQ quantity will gradually be reduced to zero during the same period.

Note:<sup>a</sup> Block-type Mozzarella may be included in the same category as Cheddar and Gouda, etc. (HS Code 0406-90-090) instead of Fresh cheese under 0406-10-090 (see **Chapter 5**). If all block-type Mozzarella is excluded from the TRQ quantity of up to 31,000 MT, leaving more room for the remaining six items, it will be an advantage for the EU suppliers.

**B) The tariff rates for the following three items will be eliminated in the 16<sup>th</sup> year.**

- a. Cream Cheese (fat content less than 45%)  
Applicable HS Code: 0406-10-090 (WTO 29.8%)
- b. Other Cheese (Cheddar Cheese, Gouda Cheese etc.)  
Applicable HS Code: 0406-90-090 (WTO 29.8%)
- c. Grated or Powdered Cheese (WTO 26.3%)  
Applicable HS Code: 0406-20-200 (Natural cheese)

**Table 29** covers both above A) and B) with the tariff rate reduction schedules until 2033.

Note: There is a difference of 0.1% among the EPAs in some years due to the following arrangements:

- TPP11 and J-US TA - Dropping fractions to one decimal place
- J-EU EPA - Rounding to one decimal place

The above arrangements make J-EU EPA tariff rates either the same or 0.1% higher than those of TPP11 and J-US TA.

**C) Geographical Indication (GI)**

The following 26 EU cheese items are subject to **geographical indication (GI)** protection in the J-EU EPA according to **Table 30**.



**Table 29 J-EU EPA - TRQ quantities and tariff rate reduction schedules**

Item	FY	2021(4th)	2022 (5th)	2023 (6th)	2024 (7th)	2025 (8th)
	TRQ quantity	21,800 MT	22,500 MT	23,200 MT	23,900 MT	24,600 MT
	WTO					
*IQF Mozzarella (0406-10-020)	22.4%	16.8%	15.4%	14.0%	12.6%	11.2%
*Mozzarella, *Cream cheese (fat $\geq$ 45%), (0406-10-090)						
*Soft cheese (Camembert etc.) (0406-90-090)	29.8%	22.4%	20.5%	18.6%	16.8%	14.9%
*Blue-veined cheese (0406-40-090)						
Cream cheese (fat content<45%) (0406-10-090)						
Other cheese (Cheddar, Gouda etc.) (0406-90-090)						
Powdered natural cheese (0406-20-200)	26.3%	19.7%	18.0%	16.4%	14.7%	13.1%
*Powdered processed cheese (0406-20-100)						
*Other processed cheese (0406-30-000)	40.0%	30.0%	27.5%	25.0%	22.5%	20.0%
Item	FY	2026 (9th)	2027 (10th)	2028 (11th)	2029 (12th)	2030 (13th)
TRQ quantity	22.4%	25,300 MT	26,100 MT	26,900 MT	27,700 MT	28,500 MT
		9.8%	8.4%	7.0%	5.6%	4.2%
*IQF Mozzarella (0406-10-020)						
*Mozzarella, *Cream cheese (fat $\geq$ 45%), (0406-10-090)						
*Soft cheese (Camembert etc.) (0406-90-090)	29.8%	13.0%	11.2%	9.3%	7.5%	5.6%
*Blue-veined cheese (0406-40-090)						
Cream cheese (fat<45%) (0406-10-090)						
Other cheese (Cheddar, Gouda etc.) (0406-90-090)						
Powdered natural cheese (0406-20-200)	26.3%	11.5%	9.8%	8.2%	6.5%	4.9%
*Powdered processed cheese (0406-20-100)						
*Other processed cheese (0406-30-000)	40.0%	17.5%	15.0%	12.5%	10.0%	7.5%
Item	FY	2031 (14th)	2032 (15th)	2033 (16th)		
TRQ quantity	22.4%	29,300 MT	30,200 MT	31,000 MT		
		2.8%	1.4%	0%		
*IQF Mozzarella (0406-10-020)						
*Mozzarella, *Cream cheese (fat $\geq$ 45%), (0406-10-090)						
*Soft cheese (Camembert etc.) (0406-90-090)	29.8%	3.7%	1.9%	0%		
*Blue-veined cheese (0406-40-090)						
Cream cheese (fat<45%) (0406-10-090)						
Other cheese (Cheddar, Gouda etc.) (0406-90-090)						
Powdered natural cheese (0406-20-200)	26.3%	3.2%	1.6%	0%		
*Powdered processed cheese (0406-20-100)						
*Other processed cheese (0406-30-000)	40.0%	5.0%	2.5%	0%		

Remarks: The 7 items in bold letters marked \* are subject to TRQ quantities.

Nos. in the brackets in FY lines show the years after the effectuation of the J-EU EPA.

**Table 30** EU Cheese items subject to GI

Country	GI Cheese Item
Denmark (1)	Danablu
France (6)	<i>Brie de Meaux</i> , <i>Camembert de Normandie</i> , <i>Comte</i> , <i>Emmental</i> de Savoie, Reblochon/ Reblochon de Savoie, <i>Roquefort</i>
Greece (1)	Feta
Italy (10)	<i>Asiago</i> , <i>Fontina</i> , Gorgonzola, <i>Grana Padano</i> , <i>Mozzarella di Bufala Campana</i> , <i>Parmigiano Reggiano</i> , <i>Pecorino Romano</i> , <i>Pecorino Toscano</i> , <i>Provolone Valpadana</i> , <i>Taleggio</i>
Holland (2)	<i>Edam Holland</i> , <i>Gouda Holland</i>
Portugal (1)	Queijo S. Jorge
Spain (3)	Idiazabal, Mahon-Menorca, <i>Queso Manchego</i>
United Kingdom (2)	West country Farmhouse <i>Cheddar</i> cheese, <i>White Stilton cheese/Blue Stilton cheese</i>

Remarks: 1. A total of 13 items in italics can be cut and packed under these names for consumption in Japan until January, 2026.

2. Regarding the underlined 11 names and ‘Parmesan’ in relation to ‘Parmigiano Reggiano’, there is no problem in using these total 12 single names in Japan so far as they do not cause misapprehension or mix-up with the authentic products.
3. The UK’s two items will be excluded from the above list on January 1st, 2021 at the time of Brexit. However, the UK is expected to maintain GI for these two items under Japan-UK EPA.

#### 4) ‘J-US TA’ – Effective date: January 1st, 2020

J-US TA was negotiated and agreed in a relatively short period of time based on the contents of old TPP before the US exit. The following article describes the background of this agreement.

‘Over the time that has passed since the United States exited the TPP, the countries remaining in the free trade zone received significant advantages. For example, access to the Japanese market has become much easier for major agricultural exporters such as Australia, Canada and New Zealand. The Economic Partnership Agreement (EPA) between Japan and the EU entered into force in February 2019. This led to the situation when American manufacturers are already at a disadvantage, and it will not be easy for them to withstand the competition for the Japanese market, even if the new trade agreement enters into force in 2020.’ (Chudinova, 2020)

The contents of J-US TA regarding cheese are the same as TPP11 except that there is no EPA T/Q for natural cheese for shred cheese manufacturing (1:3.5) in J-US TA (Chapter 4, 2-G). Even though J-US TA started from January 2020 (compared with TPP11 from December, 2018), it was agreed that the same tariff rate as in TPP11 applies to each item/year under J-US TA, so the tariff rate reduction

schedules of the following items are the same as those of TPP11:

**A) Tariff rates will be eliminated for the following:**

- a. Cream Cheese (fat content less than 45%)  
Applicable HS Code: 0406-10-090 (WTO 29.8%) according to **Table 21**
- b. ‘Other cheese’ - Cheddar Cheese, Gouda Cheese, etc. excluding Soft cheese (Camembert, etc.)  
Applicable HS Code: 0406-90-090 (WTO 29.8%) according to **Table 22**
- c. Individual Quick Frozen (IQF) Mozzarella Cheese  
Applicable HS Code: 0406-10-020 (WTO 22.4%) according to **Table 23**
- d. Grated or Powdered Cheese  
Applicable HS Code: 0406-20-100 (Processed cheese, WTO 40.0%) according to **Table 24**  
Applicable HS Code: 0406-20-200 (Natural cheese, WTO 26.3%) according to **Table 25**

**B) Tariff rates will be reduced for the following:**

- e. Cream Cheese (fat content 45% or more)  
Applicable HS Code: 0406-10-090 (WTO 29.8%) according to **Table 26**  
10% reduction immediately and then maintained.
- f. Blue Veined Cheese  
Applicable HS Code: 0406-40-090 (WTO 29.8%) according to **Table 27**  
50% reduction over 11 years and then this figure is maintained.

**C) The introduction of TRQ for Processed Cheese - Country Specific Quota (CSQ) for the US**

Applicable HS Code: 0406-30-000 (WTO 40.0%) according to **Table 28**

The same CSQ as in TPP11 for Australia and NZ will apply to the US under J-US TA.

## **Chapter 5 Major cheese items under EPAs**

### **1) Mozzarella Cheese**

Traditionally, Mozzarella cheese (block type in cartons and consumer packs in water) had always cleared customs in Japan under the ‘Fresh cheese’ category (see **Table 11**, HS Code: 0406-10-090). Since J-EU EPA covered this category with the tariff rate within the TRQ quantity being gradually reduced to zero in 2033 and other EPAs did not, it was originally assumed that EU countries would gradually increase their share. The assumption was that EU countries would ultimately dominate the Japanese imported Mozzarella cheese market. However, an argument suddenly arose from non-EU countries and their importing agents that their block type Mozzarella of 10 - 20 Kgs per carton with one-year shelf life should be regarded as ‘Other cheese’ (0406-90-090), the same as Cheddar, Gouda, etc., rather than ‘Fresh cheese’ with a short shelf life. The argument, the author heard, also included that in some dairy-advanced countries, block-type Mozzarella is in the same category as Cheddar and

Gouda cheeses in their export statistics. It seems the argument has proved a success and the Japanese importers are now clearing customs of block-type Mozzarella ex ‘EPA countries’ at 24.2% import duty from April 2020 as against WTO rate of 29.8%, after obtaining **pre-approval** (see **Chapter 3**) as ‘Other cheese’ (not ‘Fresh cheese’) from Japan Customs for each supplier’s product. All the ‘EPA countries’ including the EU countries, can now take an advantage of lower tariff rate for block-type Mozzarella under TPP11, J-EU EPA and J-US TA as ‘Other cheese’ (HS Code 0406-90-090), while the advantage for EU countries is that the block type Mozzarella is materially excluded from the TRQ quantity, leaving more room for other items in the TRQ quantity. Japan’s import of Mozzarella ex EPA countries is expected to continue growing strongly, thanks to the above arrangement. However, since Mozzarella as ‘Fresh cheese’ is nominated as the base of EPA T/Q (1:3.5) under TPP11, an import agent who obtained pre-approval of block-type Mozzarella as ‘Other cheese’ is presumably unable to use the same supplier’s block type Mozzarella as ‘Fresh cheese’ to obtain the EPA T/Q for manufacturing shred cheese under TPP11. In the meantime, ‘Fresh Mozzarella packed in water’ with short shelf life remains as ‘Fresh cheese’, which means only EU countries’ suppliers have a merit of tariff rate within TRQ quantities being phased down to zero in 2033.

## **2) Cream cheese fat content less than 45%**

This is the standard cream cheese. The merit of the tariff rate for this item to be reduced to zero under TPP11, J-EU EPA and J-US TA is also significant for Japanese users as cream cheese is popular not only as a raw material for cheesecake but also for bakery, confectionery and other foods manufacturing. The reduced cost on behalf of users will contribute to the future expansion of the market not only through lowering the prices of finished products but also through the increased investments in R&D of the new products. The author wishes to discuss the importance of R&D further in **Chapter 6**.

## **3) Cream cheese fat content 45% or more**

This is the so-called Middle Fat Cream Cheese (**MFCC**). EU countries have an advantage with this item, as the tariff rate under J-EU EPA will gradually reduce to zero within TRQ quantity in April 2033 (see **Table 29**), whereas the tariff rate under TPP11 and J-US TA will stay at 26.8% (see **Table 26**) after the one-off immediate reduction. However, being a higher fat cheese item, MFCC competes against butter, the price of which will also reduce in Japan due to the lowering tariff rate under J-EU EPA and TPP11. Therefore, EU suppliers’ merit for MFCC in terms of prices, will diminish to some extent due to the following situations:

- A) The tariff rate for butter within the TRQ quantity will be reduced from the initial year’s ‘35% plus ¥290 per kg’ to just ‘35%’ in 2028 under both TPP11 and J-EU EPA.
- B) Under TPP11, the TRQ quantity for butter will be increased from the initial year’s 39,341 MT (a 3,188 MT) to 45,898 MT (a 3,719 MT) in 2023 on a milk equivalent basis.

C) Under J-EU EPA, the TRQ quantity for butter etc. (including skimmed milk powder, whole milk powder, buttermilk powder and sugared condensed milk), will be increased from the initial year's 12,857 MT (<sup>a</sup> 1,042 MT) to 15,000 MT (<sup>a</sup> 1,216 MT) in 2023 on a milk equivalent basis.

Note:<sup>a</sup> The quantities in brackets in above B) and C) are calculated on the butter equivalent basis.

The co-efficient for converting from milk to butter is 12.34.

E) As the butter price in Japan decreases, MFCC's price is expected to meet the butter price on a fat equivalent basis. For this reason, the merit of MFCC import to Japan is expected to be smaller than it is now. However, the author believes the fat prices in Japan, even though they will be lowered to some extent, will remain comparatively higher than those of the major dairy countries. Therefore, the advantages of both exporting side (EU countries) and importing side (Japanese users) for 'cream cheese fat content 45% or more' will also remain after 2028.

#### **4) Individual Quick Frozen (IQF) Mozzarella Cheese**

This is a special frozen Mozzarella cheese as the moisture content is minimum 52.0% (as against the standard block type Mozzarella of approximately 44.0%-47.0%) and there are other requirements for the weight of the shredded/diced piece (4 g or less) and packaging (more than 5 kgs) (see **Table 11**). In addition to lowering the tariff rate, 16.8% as of this writing, to be phased down to zero in April 2033, some users like big pizza chain shops, including the home-delivery, can enjoy the merit of purchasing directly from the import agent. This means they bypass the channel of shredders who otherwise add their cost of shredding and margin, thus cutting the intermediary costs in the supply chain. Therefore, the merits for the users are as follows:

- A) The delivered price of IQF Mozzarella to the pizza manufacturers is usually lower than the normal shredded cheese in chilled conditions manufactured from 10-20 Kgs block type cheeses in Japan.
- B) The frozen form is easier for some users to control the quality of the product than the chilled form before and during their production of pizza.

In the meantime, the demerits are:

- C) Due to the high moisture content of 52% or more, the flavour of this product is not strong enough for some users and additional standard shredded cheese or grated Parmesan, etc. is sometimes required for flavouring.
- D) The texture of IQF Mozzarella tends to be 'gummy' relatively quickly as the cheese cools down after melting.
- E) The large package size of 'more than 5 kgs' is not suitable for some small/medium institutional users and for home use.

However, the author understands that large users have know-how in their handling of this product and can manage these issues in their production process.

The following import statistics in **Table 31** clearly show the increasing trend of this product recently, especially after J-US TA started in January 2020, while NZ is reviving in this category under TPP11.

**Table 31 IQF Mozzarella import quantities**

Country/CY	2017	2018	2019	2020
USA	4,305 MT	4,821 MT	5,801 MT	8,571 MT
Italy	45 MT	12 MT	16 MT	8 MT
NZ	Nil	Nil	1 MT	49 MT
<b>Total</b>	4,350 MT (94.5%)	4,833 MT (111.1%)	5,818 MT (120.4%)	8,628 MT (148.3%)

Source: Japan Customs, Import statistics, CY basis

Note: The percentage figures in brackets show the comparison with the same period of previous years.

This category was established as a result of the USA's request who has been dominant in the market as above. It is unknown whether or not any other suppliers than the current ones will launch into this category as the tariff rate will be phased down to zero in 2033 under TPP11, J-EU EPA and J-US TA. However, the author thinks this is a promising item because of the following situations:

- a. In comparison with 'Other cheese', which is the main source of cheese for shredding, the tariff rate advantage for IQF Mozzarella remains until March 2033 under TPP11, J-EU EPA and J-US TA. (see **Table 29** for EU countries and **Tables 22 and 23** for other EPA countries)
- b. In addition to the tariff rate advantages, the net price of IQF Mozzarella before tariff is lower than that of 'Other cheese' to be shredded in Japan as per the following comparison:
  - Average imported price of IQF Mozzarella during the January-December 2020: **¥466.23/kg**
  - Average imported price of 'Other cheese' during the January-December 2020: **¥447.45/kg**
 (Source: Japan Customs, Import statistics)

While the average imported price of IQF Mozzarella is higher than that of 'Other cheese', the former is shredded and the latter is not. Therefore, the author added the cost of shredding and shredders' margins, etc., the total of which adds roughly ¥100/kg to the latter. Hence the final calculated price of 'Other cheese' for comparison is ¥547.45/Kg, which is ¥81.22/kg higher than IQF Mozzarella of ¥466.23/Kg.

- c. From April 2033 onwards, the merit in above 'a'. will disappear as the tariff rate for both items will be nil under TPP11, J-EU EPA and J-US TA but the merit in above 'b'. will remain, not to mention EPA countries advantages over non-EPA countries whose tariff rates remain at 22.4% for IQF Mozzarella and 29.8% for 'Other cheese' (see **Table 11**).

In order to compete against IQF Mozzarella, the Japanese shredders of 'Other cheese' are required to minimise their costs of shredding as much as possible.

### **5) Soft cheese and Fresh table cheese**

Soft cheese includes ripening cheese such as Camembert, Brie, etc., whereas Fresh table cheese includes Cream cheese, Fresh Mozzarella packed in water, Mascarpone, Ricotta, Feta, Cottage, Fromage blanc, etc.

Traditionally, EU countries have been strong in most of these areas and this trend is expected to accelerate in the future. Except for Cream cheese, which is also covered by TPP11 and J-US TA, EU countries will keep advantages over other EPA and non-EPA countries regarding tariff rate of these items which will be gradually reduced to zero in 2033, while there is no such tariff rate reduction timetable and the tariff rate remains at 29.8% in all other EPAs. However, the author believes that the EU suppliers will face competition from the Japanese Soft cheese and Fresh table cheese manufactures. (see **Chapter 6, 2), D) & E)**)

### **6) 'Other cheese' (Cheddar cheese, Gouda cheese, etc. excluding Soft cheese)**

The merit of the tariff rate elimination for the above items ex EPA countries is enormous, especially for the big users-i.e. processed cheese and shred cheese manufacturers. Therefore, the author expects the import quantity of the above items will continue to grow steadily in the future. In the meantime the non-dairy processed cheese and shred cheese manufacturers, who did not have enough access to domestic natural cheese to get the merit of 'Global T/Q (1:2.5)' and 'EPA T/Qs (1:3.5)', will be on an equal footing with the big dairy companies who manufacture domestic natural cheese for their own usage to use the 'Global T/Q' and 'EPA T/Qs'. The reason is that the merits of these T/Qs will disappear as the tariff rate for 'Other cheese' (Cheddar, Gouda, etc. without T/Q, 24.2% as of this writing) will be phased down to zero under TPP11, J-EU EPA and J-US TA in April 2033.

## **Chapter 6 Outlook and Tasks for the future Japanese cheese market**

### **1) Outlook for the imported cheese category**

A) The author thinks suppliers of EPA countries will initially focus more on cheese items with which they have advantages over non-EPA countries' suppliers. Specifically, the suppliers will concentrate their efforts on the items marked '○' and '△' in **Table 32** showing the merits of each EPA by item. The merits here mean advantages for overseas suppliers/exporters in the form of improved access to the Japanese cheese market and for Japanese importers/cheese manufacturers in the form of reduced tariff rates leading to lower costs.

**Table 32** Summary of EPAs' merits by item

	<sup>a</sup> TRQ for processing	<sup>a</sup> EPA T/Q for shredding	Mozzarella
J-A EPA	○	○	×
TPP 11	×	○	<sup>b</sup> △
J-EU EPA	×	×	○
J-US TA	×	×	<sup>b</sup> △

	Cream cheese (fat < 45%)	Cream cheese (fat ≥ 45%)	IQF Mozzarella	Cheddar / Gouda, etc.	Soft cheese
J-A EPA	×	×	×	×	×
TPP 11	○	△	○	○	×
J-EU EPA	○	○	○	○	○
J-US TA	○	△	○	○	×

	Processed cheese	Grated/powdered cheese	Blue veined cheese
J-A EPA	△	△	△
TPP 11	<sup>c</sup> ○	○	△
J-EU EPA	○	○	○
J-US TA	<sup>c</sup> ○	○	△

Notes: ○ Big merit

△ Medium/Small merit

× No merit

<sup>a</sup> EPA T/Qs of 1(domestic):3.5(imported, duty free)

<sup>b</sup> See **Chapter 5**, 1) for 'block-type Mozzarella'. EU countries have advantages over other EPA countries regarding 'Fresh Mozzarella' packed in water.

<sup>c</sup> Country-specific quotas for Australia/New Zealand/USA

B) Another category of the suppliers' focus would be their own advantages among the EPA countries.

For example, J-EU EPA has '○' in the following items in **Table 32**, but other suppliers do not have the same under J-A EPA, TPP11 and J-US TA.

- a. Fresh Mozzarella packed in water
- b. Cream cheese (fat ≥ 45%)
- c. Soft cheese (Camembert, Brie etc.)
- d. Blue veined cheese

The above items are all within the TRQ quantity of J-EU EPA, which will be increased to 31,000 MT in April 2033. Since block-type Mozzarella is excluded from the TRQ quantity, the author



believes that EU suppliers have significant advantages over other suppliers of EPA countries due to the large TRQ quantity left for the above items.

- C) The tariff rate reduction schedules for Cheddar, Gouda and block-type Mozzarella cheese, etc. are almost the same for all suppliers of EPA countries. These items have huge requirements as raw materials for processed cheese manufacturing, shred cheese manufacturing and other purposes. The author believes the requirements for these items will be the main driving force for the steady growth of overall imported cheese in the future.
- D) The situation of IQF Mozzarella was discussed in **Chapter 5-4**). The author expects USA suppliers' dominance will remain unchanged in the future, unless any competitors ex TPP11 and J-EU EPA countries launch in this category.
- E) Australian suppliers, who are members of both J-A EPA and TPP11, will gradually weigh more on the latter, which has more merits than the former. However, J-A EPA will be reviewed soon under the agreement between the two governments, considering the changes that have taken place during the past 5 years. The author wishes to keep paying careful attention as to how the contents of J-A EPA will be reviewed and changed.
- F) From a comprehensive viewpoint, taking into account all the above mentioned points, the author opines that suppliers ex EU countries have the biggest potential to expand their cheese exports to Japan among all the EPA countries. Historically, Australia and NZ have been the major suppliers to Japan, and the US has increased their share recently as a single third-largest supplier. However, total EU countries, which supplied more than 40% of all the natural and processed cheeses in CY 2020 (see **Tables 6 and 7**), are likely to expand their shares further in the future, provided that TRQ quantity of 21,800 MT as of this writing in 2021 (see **Table 29**) is properly allocated to the Japanese users in need. (so far as the author has checked from the import statistics, only about 60% of the TRQ quantity was "filled" in FY 2020.) The author sincerely hopes a win-win situation for both EU suppliers and Japanese manufacturers/consumers can be materialised in due course.
- G) Non-EPA countries (see **Chapter 2-2**) are expected to continue losing their shares in the imported cheese category as the tariff rates for EPA countries will be reduced further. It will be more difficult for Non-EPA countries to compete against the EPA countries in terms of net duty-paid prices in the Japanese market. However, it is still possible for a Japanese cheese manufacturer to use global T/Q (1:25) for customs clearance of natural cheese ex. non-EPA countries (see **Table 14**).
- H) Japan has other EPA than the four major international agreements in which cheese is involved (i.e., with **Switzerland**). Even though the quantity is small in the whole imported cheese category, a few to several hundred tonnes p.a. of Emmental and other Swiss-type cheeses are imported to

Japan under this EPA. The details are as follows:

- a. Official name: **Agreement on Free Trade and Economic Partnership between Japan and Swiss Confederation**
- b. Effective date: September 1st, 2009
- c. TRQ quantity: Increased from initial year's 600 MT to 1,000 MT in the 11<sup>th</sup> year (FY 2019) and then maintained from FY 2020 onwards
- d. Applicable in-quota tariff rate: Phased down to 14.9% in the 6<sup>th</sup> year (FY 2014) and then maintained from FY 2015 onwards
- e. Applicable HS code: 0406.90.090 (WTO 29.8%)

The author expects Switzerland to maintain the current level of their export quantities to Japan under this agreement in the future.

- I) As of this writing, the following movements may affect the imported cheese market in the future:
  - a. According to some newspaper articles, the United States Trade Representative has received a growing pressure from the US Congress for an early 'phase two' agreement with Japan regarding J-US TA. This agreement will ensure that the US suppliers will not be disadvantaged against the EU suppliers in 'dairy products' business in Japan. The author expects that the US will demand to Japan similar conditions for cheese to those in J-EU EPA.
  - b. The **Japan-UK EPA** was signed in October, 2020 for commencement from January 2021 after Brexit. The details of this EPA regarding cheese are as follows:
    - The UK will continue to have the same low tariff rates as EU countries for those items other than the seven items subject to TRQ quantity, which includes cream cheese fat content less than 45%, 'Other cheese' (Cheddar, Gouda, etc.) and Powdered natural cheese.
    - Regarding the seven items that are subject to TRQ quantity, the UK will continue to have the same tariff rates as EU countries, only if EU countries leave any unused TRQ quantity in each FY. The controversial **Stilton cheese** is included in the item of Blue-veined cheese (see **Table 29** for details).
  - c. The UK formally applied to join TPP11 in early 2021. The negotiations and procedures for the UK to join TPP11 are expected to take more time than those for Japan-UK EPA, which were based on the established J-EU EPA.

## 2) Outlook for the future Japanese cheese industry

- A) The Japanese cheese market will continue to grow steadily as retail and institutional cheese prices come down, mainly due to the merits of the EPAs, so far as the Yen's exchange rate and international cheese prices remain at the current levels.
- B) Alternatively, the overall Japanese domestic natural cheese production is not expected to grow in

the future due to the limited raw milk supply for cheese and keener competition with imported cheeses, especially in the category of bulk type cheese for processed cheese and shred cheese manufacturing.

- C) The above situations in A) and B) indicate the demand for imported cheese will be accelerated furthermore in the future.
- D) Among the imported block type cheeses of 10 - 20 Kgs per carton, the author expects there will be some increase in such applications as natural slice and natural cut cheeses. These types of products can be manufactured from the block type cheeses relatively easily and consumers can eat the former with bread and the latter by using toothpicks, etc. after cutting it into small cubes. Even though the current market sizes of these products are still small, the author opines the increasing trend will gain momentum as the Japanese consumers are now more accustomed to the robust flavours of natural cheese.
- E) The author also expects that Japanese natural cheese manufacturers will strategically focus more on higher priced table cheeses including Camembert, Brie, Fresh Mozzarella packed in water. These will be preferred over lower priced bulk type raw material cheeses for processed cheese and shred cheese manufacturing, as the merits of EPA T/Qs (1 domestic: 3.5 imported; see **Chapter 3-2**) will phase out in a few to several years' time.
- F) These value-added table cheeses are expected to compete against the same category cheeses imported mainly from EU countries under the following situations:
- Even though the EU suppliers can enjoy the merits of declining tariff rates to zero in 2033, the Japanese manufacturers are better positioned than EU suppliers in developing new products, which will tickle the Japanese palate in terms of flavour, texture and which will be presented in more suitable packages and serving sizes for Japanese consumers.
  - The Japanese manufacturers can take advantage of shorter delivery time of the relatively short-shelf life products after production than that of the imported cheeses for which sea/air shipments to Japan are required with some additional time and costs.
  - According to a survey conducted by a big E-commerce company, Rakuten, more than 80% of Japanese consumers prefer domestic cheese to imported cheese, as the consumers feel more familiar with the cheese, with the 'place of origin' being physically closer to them. (Source: ALIC's 'Livestock Information', December 2019 Edition)
- G) Having said all the points in the above F), the author believes that Japanese manufacturers of natural cheese of all varieties will surely face the keener competition in prices with the imported cheeses of the same/similar varieties than they do now.
- H) Even if the Japanese table cheese manufacturers are successful in expanding their sales quantities

in above situations in E), the author expects that it will only compensate for the reduced quantity of the bulk type raw material cheeses in above D) at best, which means the total domestic natural cheese production will not grow.

- I) From Japanese manufacturers' marketing strategy viewpoint, hands-on management involving consumers is critical for the value-added table cheese business. In this regard, **Pariy (2019)** discusses the following points in 'Consumer preferences formation in the cheese market under the new business conditions'.

**Quote:**

'In the face of increased competition in the cheese market, domestic production and sales entities are forced to rebuild their activities on the principles of classical marketing, which focuses all activities on the consumers. It is advisable to apply any marketing concept, according to which the purpose of businesses of the cheese market business entities is to determine the needs and demands of consumers to further meet them in more effective ways compared with competitors.'

'Consumer experience in the field of market research is seen as a combination of the physical performance of the company and the emotions that they cause. Changes in these indicators are given in certain accordance and are estimated by consumers intuitively in relation to their expectations of the effectiveness of the company at all "points of contact." The latter can be considered as a "consumer way".'

They represent a series of aggregate events in which consumers interact with marketing organizations of the dairy industry and which, with its expectations, contribute to the motivation of consumers' preferences, encourage consumers to favor and promote the creation of a positive image in the eyes of other consumers.

In today's conditions, the attractiveness of cheese market operators, there are not formed solely through promotional measures. It is created largely in the "points of contact" with consumers. After all, their interaction with the subjects of the market brings some experience, on the basis of which their opinion is shaped by consumers. Thus, experience for consumers of a certain type of cheese and activities related to the forms and methods of selling these products is the primary source of information on both the quality of products and the quality of the operation of market operators in general.

The need for the formation of a stable positive experiment among consumers of cheese market operators is an important factor in the creation of competitive advantages. After all, the negative experience of consumers of cheese products will lead to their switching to the side of the competitor, while the positive experience will stimulate re-purchases and, finally, shape promising consumer preferences.

The opinion of consumers about the cheese market subjects, in which a certain type of cheese was purchased, directly affects their loyalty and promotion of this product and the quality of service in the process of buying and selling. Research by foreign scientists shows that 59% of consumers who interact with the brand on numerous channels cease to have a deal with him after acquiring only one negative experience and only one channel. In this connection, the formation of consumer experience and the management of relations with consumers of different types of cheese is a very important task for business entities in the milk processing and trading sectors.

The formation of positive consumer experience makes it possible to create a solid base of constant buyers of cheese products who are ready to buy more goods of the brand they like, even when its price is higher than that of its competitors and which will recommend this brand to its colleagues and acquaintances and will also help to create “a halo” to a consumer standard in the eyes of the environment. So, in the business entities of the cheese market, there is a need for the maintenance of these consumers.

In order not only to increase but also to maintain in the future consumers of cheese with positive experience, the sales activity of market players of the cheese market should shift the emphasis from product management to management of consumer relationships. At the same time, considerable attention should be paid to individual consumers.’

**Unquote:**

J) From another perspective, the segmentation of the market is an important and useful tool, which **Pariy** described in the same paper as ‘the distribution of consumers into groups (segments), which are characterised by the relative homogeneity of demand, tastes, preferences or reaction to those or other types of marketing activities.’

In addition, **Pariy** discussed further as follows: ‘Segmentation enables the cheese industry to concentrate benefits, provide specialization and concentration and thereby become more protected from competitors. As a result, improvements in financial and economic performance are achieved. After all, the subjects of the market of cheese have an objective basis to focus their activities on a more sophisticated meeting the needs of the selected target segment. Segmentation of the market can be carried out both in the groups of consumers and in other parameters, in particular for the parameters of the product regarding its price and quality.’

K) **MAFF** said in the article ‘**Further Spreading the Appeal of Japanese Food to the World**’ (2016) on the website as follows:

‘MAFF has been making such efforts as promoting sales led by ministers, transmitting information via overseas media, organising Japanese-food related events and improving the export environment in order to convey accurate information to the world about the appeal of Japanese food and food

culture while proactively expanding exports of Japanese food.’

One of the main categories of food for export is dairy products, among which cheese is an essential item. In this regard even though the quantity is still small, the increasing trend of Japanese cheese export to the Asian countries, especially the unique high-quality processed cheese, is a good precursor to MAFF’s strategy.

Following **Table 33** shows Japanese cheese exports during the past 5 years.

**Table 33 Japan’s cheese export during the past 5 years**

Item\CY	2016	2017	2018	2019	2020
<b>Cream cheese (0406.10-000)</b>	50 MT	88 MT	74 MT	58 MT	76 MT
<b>Powdered cheese (0406.20-000)</b>	0	1MT	5 MT	6 MT	14 MT
<b>Processed cheese (0406.30-000)</b>	432 MT	517 MT	586 MT	479 MT	657 MT
<b>Cheddar, Gouda, etc. (0406.90-000)</b>	147 MT	143 MT	170 MT	200 MT	240 MT
<b>Total</b>	629 MT (113.7%)	749 MT (119.1%)	835 MT (111.5%)	743 MT (89.0%)	987 MT (132.8%)

Source: Japan Customs, Import statistics

Remarks: - The nine-digit figures in brackets below the cheese items show the relevant HS Code Nos. for export.

- The percentage figures in brackets show the comparison with the same period of the previous year.

Although the export quantity temporarily dropped in 2019, it started increasing again in 2020 despite the COVID-19 pandemic. The author believes that the increasing trend of Japanese cheese exports will continue in the future and it will not take long before the annual export quantity exceeds 1,000 MT along the lines of MAFF’s support and cheese industry people’s efforts to expand the export. The author also believes the **Regional Comprehensive Economic Partnership (RCEP)**, agreed and signed in November 2020 and expected to be effective by 2022, and also the possible expansion of TPP11, including China, etc., will pave the way for further increased cheese export to Asian countries in the future. The increased cheese export means increased cheese production in Japan, which will lead the way in lowering the cost of production by economies of scale, even in the case that the raw material natural cheese is imported. Thus, increased export will contribute to the strengthening of the Japanese cheese industry.

L) The author also wishes to mention the tailwind factors for future growth of Japanese cheese consumption and production as follows:

- Apart from the westernization of Japanese dietary habits, the cases of the collaboration of cheese with traditional Japanese foods are increasing. An example would be cheese with fish paste (Kamaboko), which when combined, will boost cheese consumption in Japan.
- Japanese consumption of wine has been expanding due to the lowering prices as results of the following **bottled wine** situations, that would lead to increased cheese consumption as hors d'oeuvre and snacks to go with wine.
  - a. The tariff rate was reduced to zero immediately under J-EU EPA in 2019.
  - b. The tariff rate will be phased down to zero in April 2021 under J-A EPA.
  - c. The tariff rate will be phased down to zero in April 2025 under TPP11 and J-US TA.
  - d. The tariff rate of Chile wine was eliminated under the **Japan-Chile EPA**.
- All the above situations indicate an even increased demand for imported/domestic cheeses in the future, boosted up by improved market access through EPAs.

M) Considering all the above factors, following **Table 34** shows the author's best estimate of Japanese cheese market situation in 10 years' time:

**Table 34 Estimated Japanese cheese consumption in 10 years' time**

	<b>FY 2020</b>	<b>FY 2030 (Estimate)</b>
<b>a. Total cheese consumption</b>	360,704 MT	552,534 MT (153.2%)
<b>of which natural cheese</b>	217,179 MT	358,345 MT (165.0%)
<b>processed cheese</b>	143,525 MT	194,189 MT (135.3%)
<b>b. Domestic natural cheese production</b>	47,564 MT	46,898 MT ( 98.6%)
<b>c. Per capita consumption</b>	2.88 kgs	4.64 kgs (161.1%)
<b>d. Self-sufficiency rate on natural cheese basis</b>	14.1%	8.9%

Source: MAFF Cheese supply-demand table

The grounds for the above estimates are as follows:

**a. Total cheese consumption**

- Japanese natural cheese consumption grew by 55.0% during the past decade (source: MAFF Cheese supply-demand table). The author expects this trend of steady growth will continue, while EPAs and other tailwind factors will boost additional growth by 10%, making the total natural cheese growth of 65.0% in 10 years' time.
- Japanese processed cheese consumption grew by 25.3% during the past decade (source: MAFF Cheese supply-demand table). The author expects this trend of steady growth will

continue, while EPAs and other tailwind factors will boost the additional growth by 10%, making the total processed cheese growth of 35.3% in 10 years' time.

- Consequently, natural cheese and processed cheese consumption quantities are expected to be 358,345 MT and 194,189 MT respectively, making the total cheese consumption 552,534 MT in FY 2030. The author expects roughly 480,000 MT of cheese (mostly natural cheese and some processed cheese) will be imported to Japan to meet the requirements in FY 2030, after taking into account of yield increase ratio of 16% for manufacturing processed cheese from natural cheese.

#### **b. Domestic natural cheese production**

Japanese domestic natural cheese production declined by 1.4% during the past decade (source: MAFF Cheese supply-demand table). The author expects this trend of slight decrease will continue, making the total quantity of 46,898 MT (98.6% of 47,564 MT) in FY 2030, as the decrease of bulk type cheese will continue to be slightly more than the increase of table cheese.

#### **c. Per capita consumption**

The author used the following Japanese populations in 'Estimated Future Japanese Population, 2017, Medium birth and death rates' by the National Institute of Population and Social Security Research.

2020 125,325 thousand

2030 119,125 thousand

Consequently, the calculations are:

FY 2020 360,704 MT (see **Table 34** a.)/125,325 thousand = 2.88 Kgs

FY 2030 552,534 MT (see **Table 34** a.)/119,125 thousand = 4.64 Kgs

#### **d. Self-sufficiency rate on natural cheese basis**

FY 2020 14.1% – MAFF Cheese supply-demand table

FY 2030 8.9% – 194,189 MT, processed cheese consumption in FY 2030/1.16

(yield increase for processed cheese) = 167,404 MT (natural cheese basis)

358,345 MT, natural cheese consumption in FY 2030 plus 167,404 MT

(processed cheese consumption quantity on natural cheese basis) = 525,749 MT

46,898 MT (domestic natural cheese production quantity in FY 2030)/525,749 MT

(total cheese consumption in 2030 on natural cheese basis) = 8.9%

### **3) Tasks for future Japanese cheese industry**

- A) Although having more quantities of lower cost imported cheese coming into Japan under EPAs is desirable for the growth of the Japanese cheese market, the other side of the coin is the resulting hardship for Japanese natural cheese manufacturers, especially for bulk-type cheese manufacturers.



To maintain the domestic natural cheese production for processed cheese and shred cheese manufacturing, even at lower levels than before, the prices of these bulk-type cheeses are expected to fall in the face of keen competition against the imported cheeses in this category.

B) The above arrangement will enable processed cheese and shred cheese manufacturers who use domestic natural cheese to compete against 100% imported cheese users by using EPA T/Qs (1:3.5) for some additional time before the declining tariff rate for 'Other cheese' ex EPA countries crosses the equilibrium point (see **Chapter 3, 3-C, i**).

C) Even after the merits of global T/Q and EPA T/Qs disappear theoretically, the author believes they will be able to continue manufacturing the bulk type cheese through the combination of the following strategies:

- Expedite R&D for more cost-effective new bulk type products through closer communication with the users.
- Expand the production and sales of other types of cheeses as much as possible, so that they can lower the average cost of bulk type cheese to the minimum by exerting the 'economies of scale' of the total cheese production.
- Lower the sales prices of bulk type cheese as much as possible to compete against the imported products.
- Since most of the bulk type cheese manufacturers are also the users of their own products, they can work to manage the costs within their budgets to some extent.
- Ask the government for an increased subsidy for sustainability of the bulk type cheese business and for possible change of T/Q ratio (say 1:4.5).

D) Even though the author mentioned there was room for growth of Japanese per capita cheese consumption in Chapter 2, the growth cannot be achieved without the cheese industry people's efforts. Apart from expanding the sales of existing products, continuous investment in R&D for new innovative products is also vital. The author believes that R&D should focus on **healthy nutrition**, a growing trend which appeals to the consumers.

In this regard, **Vlahovic et al. (2014)** discussed the nutritional aspects of cheese as follows:

'Cheese is a quality food product with great nutritional and biological value. Its nutritional value comes from its concentrated form which contains a lot of milk components, mostly proteins, minerals, vitamins and milk fat. Cheese is a product made from coagulation of milk proteins, separation of whey and ripening. It is a highly valued foodstuff of pleasant taste and great nutritional value, containing all the valuable milk components (milk fat, proteins, minerals and fat soluble vitamins). Cheese proteins contain very important and essential amino acids.'

**Vlahovic et al.** also discussed as a conclusion of the paper the importance of investments from the

viewpoint of exporters' marketing activities as follows:

'Based on the realized tendencies, further expansion of international cheese trade can be expected in the following period. It will primarily depend on the consumer purchasing power i.e. on economic factors. Making quality cheese is not enough for facilitating great export. Significant investments in marketing activities are required as well, in order to create a good image of the manufacturer.'

The author wishes to insist that the same applies to Japanese domestic marketing activities for table cheeses, as most foreign brands are imported and distributed by Japanese trading companies, wholesalers and cheese manufacturers who deal in the imported brands as assortments. The Japanese cheese manufacturers, of course, are also required to invest significantly to enhance the images of their own brands and companies. There are a few cases of overseas cheese manufacturers establishing local subsidiary companies in Japan for their own marketing. Whoever the marketers and wherever the country of origin, foreign or Japanese, using 'a good image of the manufacturer' in marketing is essential in the Japanese cheese market.

In the meantime, **Bragin et al. (2019)** discussed the healthy nutritional aspects of food/dairy products/cheese as the social efficiency of trade as follows:

- 'One of the current trends in the development of modern lifestyle is the promotion of healthy nutrition. A huge role in the development of this trend is played by the trade, directly providing services to end users. An important aspect of the development of healthy nutrition as a function of improving the quality of people's life is the assortment policy of trade organizations. **Ivanov (2014)** shows the influence of the quality of the goods sold on improving business reputation, and, consequently, increasing the social efficiency of trade in general. The sale of healthy food products is not limited to the economic benefits of the manufacturer and the seller, but, together, plays an important social role (**Kornilova & Karashchuk, 2017**).'
- 'The period from the mid-20th century to the present is characterized by a strong anthropogenic load on the environment, which has led to a decrease in the level of safety and quality of food products (Eliseeva et al., 2015), and a healthy diet, in the first place, implies safe food products. One of the categories of products that characterize the trend of healthy nutrition is dairy products (**Malaws & McDonald, 2018**).'
- 'One of the dairy products, initially having sufficient shelf life to be sold, is cheeses. **Canfora (2018)** shows the perception of cheese by a number of consumers as an element of healthy nutrition. This category of goods can be sold by commodity producers either through the system of federal and regional distributors or through direct deliveries to the network retail system. Thus, the organization of sales of cheese is an important direction in the functioning of an

effective distribution system in the FMCG market (Aleksina, 2018-19). Filipovic (2019) showed the high role of proper cheese distribution in forming consumer preferences.’

The author agrees with the above paper and believes that cheese as an important source of healthy nutrition appeals to consumers as much as it does for its tastiness.

E) The author also wishes to specify the **price sensitivity** issue as one of the tasks for the Japanese cheese industry according to the following historical case:

- In 2008, cheese prices in the international market jumped up due to supply-demand imbalance. Subsequently, Japanese imported cheese price increased by as much as 36.1% from that of the previous year according to below data. Japanese cheese consumption then dropped sharply by 14.8%, bucking the continuous upward trend until the previous year. The impact of such an increased imported price was so severe that it took more than two years to recover to the previous year’s (2007) level of consumption quantity, despite the drastic and then constant decline of international prices from the following year, according to **Table 35**.

**Table 35 Imported cheese price and total cheese consumption**

CY	<sup>a</sup> Average imported price/MT	<sup>b</sup> Total cheese consumption quantity	<sup>b</sup> Comparison with previous year
2007	¥381,129 (107.9%) ↗	279,193 MT ↗	103.4%
2008	¥518,583 (136.1%) ↑	237,825 MT ↓	85.2%
2009	¥381,138 (73.5%) ↓	252,620 MT ↗	106.2%
2010	¥366,984 (96.3%) ↘	261,432 MT ↗	103.5%
2011	¥360,174 (98.1%) ↘	284,382 MT ↗	108.8%

Sources: <sup>a</sup> Japan Customs, Import statistics

The author took the case of ‘Other cheese’ (0406.90-010) for average imported prices which represents more than half of the imported natural cheese quantity.

The calculation method: ‘The total amount in Yen’ divided by ‘total quantity’ in the import statistics.

The percentage figures in the brackets show the comparison with the previous years.

<sup>b</sup> MAFF, Cheese supply-demand table, FY basis.

- The adverse effect of the drastic price increase appeared in the statistics relatively soon because most cheese importers and manufacturers reduced their purchase quantities when they were offered such high prices. They did so, in anticipation of the reduced demand from consumers and then revised their forward sales plan downward before the increased prices reached consumers and also in view of their limited purchasing budgets which were set a year before.

- The author attributes this high price sensitivity to the current position of cheese in Japanese diet—i.e. cheese has not reached a level of staple and necessary food. In this regard, **Patrick L. Anderson et al.** discussed the price elasticity of demand that applies to the case of cheese in Japan in the following article **Price Elasticity of Demand, (1997)**.

**Quote:**

- ‘The “**law of demand,**” namely that the higher the price of a good, the less consumers will purchase, has been termed the “most famous law in economics, and the one that economists are most sure of.” To predict consumer behavior, economists use well-defined techniques evaluating the sensitivity of consumers to changes in price.’
- ‘A good with a price elasticity stronger than negative one is said to be “elastic”; goods with price elasticities smaller (closer to zero) than negative one are said to be “inelastic.” Goods that are more essential to everyday living, and that have fewer substitutes, typically have lower elasticities; staple foods are a good example. Goods with many substitutes, or that are not essential, have higher elasticities. Goods that are considered luxuries, or whose purchase can be easily postponed, often have elastic demand.’

**Unquote:**

- It can be said that cheese as a luxurious and dispensable food has relatively high sensitivity to price. However, the author believes that with the efforts of the people in the cheese industry to expand the cheese consumption and familiarise the general public with cheese, it would be possible to move the position of cheese closer to necessary staple food in the Japanese diet, so that the sensitivity can be lowered. Even though any price increase is not welcomed by the consumers, the above situation, if achieved, would at least provide some shock-absorbing effect and minimize the risk of negative impact in the case of inevitable drastic price increase of cheese products at a time in the future.
  - The exchange rate between Japanese Yen and foreign currencies (US\$, Euro, etc.) is one factor that affects cheese price in Japan, as in all other imported products. Strong Yen helps offset and absorb the impact of drastic price increase in foreign currencies to some extent. However, if the Yen becomes weaker at the time of drastic price increase of imported cheese, the double whammy effect for expanding the Japanese cheese market would be severe and damaging. In this regard, ‘moving the position of cheese closer to necessary staple food in the Japanese diet’ is all the more critical.
- F) From another perspective, a price increase of cheese products always involves a threat of **cheese analogues** as a replacement of cheese, due to the lower costs of these products. The following article indicates the concerns of cheese analogues for the cheese industry at an early stage.

‘**Cheese analogues** are usually defined as products made by blending individual constituents, including non-dairy fats or proteins, to produce a cheese-like product to meet specific requirements. They are being used increasingly due to their cost-effectiveness, attributable to the simplicity of their manufacture and the replacement of selected milk ingredients by cheaper vegetable products. Sales of cheese analogues are closely linked to developments in the convenience food sector, where they extend the supply and lower the cost. Moreover, there is an ever-increasing interest among consumers in food products which contain less total fat, saturated fat, cholesterol, and calories.

Development of cheese analogues involves the use of fat and/or protein sources other than those native to milk, together with a flavour system simulating as closely as possible that of the natural product. It is also necessary to develop a suitable processing regime capable of combining these elements to provide the required textural and functional properties. Cheese analogues may be regarded as engineered products.

Cheese analogues represent little threat to the continued consumption of natural cheeses: Their major role at present is undoubtedly in the cost-cutting exercises of pizza manufacturers. The dairy industry has to take the view that imitation products are the result of developments in product technology and market demand. Thus, not to get involved would mean curtailment of product innovation and market opportunities’ (**Bachmann 2001**).

Even though cheese analogue is sometimes called imitation cheese, note that further progress in product technology has recently made cheese analogues closer to cheese. In addition, the quantity of cheese for ‘pizza-manufacturing’ referred to in the above article is big in Japan - at least more than 20,000 MT (see **Tables 9-1 and 9-2** in **Chapter 2**). Furthermore, some other applications of cheese analogues such as sliced cheese in hamburgers and sandwiches and cheese sauce are newly introduced in recent years. It will be important for cheese manufacturers to accept these realities and try to find ways to collaborate with cheese analogue manufacturers in the future, including possible joint R&D for innovative new products with domestic and overseas oil and fat companies who are major manufacturers of cheese analogues.

- G) There is another possible risk in cheese procurement - at the time of **food crisis**. This is the case that cheese-exporting countries impose restrictions or even bans on export at the time of shortage of cheese in their own countries due to drought or whatever the reasons, as they must give the first priority to the domestic markets rather than export markets.

The following article examines how food exporting countries responded to food crisis in the past. ‘In response to the dramatic increases in world agricultural commodity prices during the food crisis of 2007-08 many countries pursued trade and domestic policy responses intended to stabilize

domestic markets and protect urban consumers (Abbott 2009). Import tariffs were reduced, strategic grain reserves were released, domestic taxes were cut, and in some cases imports and consumption were subsidized (Demeke, Pangrazio and Maetz 2008).

Exporters, including some of the major suppliers to world markets, restricted exports by imposing taxes, quotas, and even outright bans on exports. Those export restrictions are believed to have contributed significantly to the extent of world price increases (Mitra and Josling 2009). The extraordinary increase in the world rice price, without justification based on supply, use and stocks worldwide, has been attributed mostly to export bans and restrictions by the large traders (Timmer 2008)' (Abbott 2012).

The author believes that Japanese cheese importers and cheese manufacturers must always prepare for such cases of emergency, which will be discussed further in the below parts of this paper.

H) From the Japanese viewpoint, food crisis issue is almost synonymous with a **food security** issue, where an argument for increasing the self-sufficiency rate of the food in question arises. However, as far as natural cheese is concerned, the author does not think it is possible to stop the long-term declining trend of the self-sufficiency rate and change it to an upward trend. **Table 36** shows the movement of Japanese cheese self-sufficiency rate on natural cheese basis during the past decade, indicating the clear declining trend.

**Table 36 Japanese cheese self-sufficiency rate movement**

FY	Domestic natural cheese ratio in total cheese consumption on natural cheese basis
2010	19.0%
2015	15.3%
2020	14.1%

Source: MAFF, Cheese supply-demand table

The author expects the declining trend of cheese self-sufficiency rate will continue in the future due to the following situations:

- The growth of Japanese total cheese consumption is expected to continue into the future.
- Japanese total natural cheese production is not expected to grow.
- Consequently, Japanese total cheese imports will continue to grow and the self-sufficiency rate is expected to decline further.

Overall, the above situations indicate that Japanese cheese manufacturers will be increasingly more dependent on imported natural cheese as a whole. Therefore, Japanese cheese manufacturers must establish firm strategies for procurement to secure a stable supply of cheese at stable prices,

from the international market as much as possible.

- I) Even though the COVID-19 pandemic has affected the world and Japanese cheese markets negatively and there seems to be a worldwide surplus of cheese as of this writing, the author is concerned about the possible keen competition for the procurement of cheese in the international market in the long term due to the following situations:
- a. It has been said that as the standard of living is advanced in a country, the level of consumption of dairy products, including cheese, will also grow in that country. If the cheese consumption of newly emerging countries continues to grow, a shortage of cheese might occur in the international market.
  - b. While China reportedly has a long-term goal of 70% dairy self-sufficiency, Chinese cheese import increased by 70.9% from 75,650 MT in 2015 to 129,300 MT in 2020 and keeps increasing in 2021 as of this writing, despite the COVID-19 pandemic.
  - c. It should also be noted that China's tariff rate for cheese is already nil under NZ-China FTA and will be phased down to zero in 2024 under Australia-China FTA (Source: Dairy Australia). These arrangements are expected to further increase China's cheese imports in the future.
  - d. Even though China's cheese imported quantity was less than half of Japanese one in 2020, its growth rate in recent years far exceeds that of Japan. The author expects the day will come sooner or later when China will be importing more cheese than Japan and become the No. 1 cheese importer in the world.
  - e. If 'per capita consumption' of cheese in China, with eleven times more population than Japan, doubled from 0.1 kg (see **Figure 2**) to 0.2 kg p.a., which is still very low by global standard, it would have a huge impact on the supply-demand in the international market.
  - f. In the future international cheese market, where demand is expected to exceed supply, Japan may not be able to secure enough cheese to meet the growing demand from the domestic market. The author has encountered such situations in the past, where Japanese cheese factories were on the verge of having to stop their operations due to the delayed arrival of raw material cheese. Such exceptional cases in the past may happen more often due to the increased difficulty of procuring cheese for Japan in the future.
- J) To contend with such situations as described above G), H) and I), the author believes that more efforts of the Japanese cheese industry people should be directed to the procurement side. Japanese cheese importers and manufacturers must establish closer relationships with the overseas suppliers through day-to-day communication. Especially, Japanese manufacturers' long-term commitment in the cheese business and an early indication of the forward requirements (say 6-12 months ahead) to overseas cheese manufacturers based on mutual trust, will help establish such

relationships. Such relationships are also critical for overseas manufacturers and exporters who are requested to plan ahead in their forward cheese production and export schedules. Another possible strategy for Japanese cheese companies is to invest in overseas local cheese companies through joint venture companies. Thus, long-term supply from these joint venture companies can be secured and the risks regarding the procurement of cheese can be minimized. It will be increasingly important for the Japanese cheese importers and manufacturers to ensure stable supply of cheese at stable prices, based on long-term procurement strategies with overseas suppliers involved, for future expansion of the Japanese cheese market.

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