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Report Highlights:

Japan's 2003 fluid milk production is expected to decline to a slight drop in cows in milk. Production in Hokkaido is expected to increase modestly. The ongoing NFDM surplus will likely continue into 2004 due to weak ingredient demand. Japan's butter supply situation is expected to remain tight in 2003, and imports under the current access are anticipated. Cheese consumption is expected to slow in 2003 due to soft demand and high import prices.

Includes PSD Changes: Yes
Includes Trade Matrix: No
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Fluid Milk Section

2003 Fluid Milk Production Expected to Decline

Japan's annual 2003 milk output is projected slightly lower at 8.36 million MT due to a small decline in cows in milk (964,200 head as of February 2003). Sluggish cow replacements are slowing down the rate of decline in the number of cows in milk (See the table concerning Japanese dairy cow inventory). Increased government subsidies for manufacturing milk (JFY 2002) and higher raw milk prices for drinking milk (JFY 2002) are also leading dairy farmers to retain productive cows.

Output in Hokkaido, where more than 40% of Japan's fluid milk is produced, is forecast to increase modestly in 2003. However, the increase will be offset by anticipated declines in production in other regions of Japan. Market sources predict that raw milk supplies in regions affected by adverse weather may not be sufficient to meet strong demand for drinking milk during this year (2003). Fluid milk from Hokkaido is expected to be diverted to fill these gaps, which could trim the supplies intended for manufacturing use in 2003.

Solid demand for fluid milk (for drinking) is expected to continue this year and be sustained into 2004, at about 5 million MT annually. Consumption of drink milk products made of 100% raw milk or of higher raw milk content, are expected to remain relatively firm in 2003, dampening demand for NFDM used to manufacture reconstituted drink milk products. Raw milk utilized for manufacturing uses in 2003 and 2004 are projected to ease to 3.27 million MT and 3.26 million MT respectively.

Despite the continued downward trend in the number of Japanese dairy farms (down 4% to 29,000 farms), many Hokkaido dairy farms are expanding in size. *Hokuren*, a regional farm cooperative in Hokkaido, reported that about 5% of the regions 8,000 dairy farms are capable of shipping more than 1,000 MT of raw milk annually. The average dairy farm size in Hokkaido is about 100 head per farm, which is roughly two times the national average.

NFDM and Butter Section

NFDM Surplus and Butter Deficit Expected to Continue through 2003 and in 2004

During 2003, Japan will continue to experience a NFDM surplus on the one hand, and a butter shortage on the other hand. Growing stocks of NFDM made from subsidized fluid milk, owing to weak ingredient demand, is particularly troublesome for Japan's agriculture ministry (MAFF). Stocks of domestically produced NFDM are estimated at about 80,000 MT as of March 2003.

A smaller manufacturing fluid milk quota (down to 2.1 million MT) and subsidy payment (down to 10.7 yen per kilo), will likely help to trim NFDM output in 2003, which is projected down by 3% to 170,000 MT. However, weak ingredient demand for NFDM will continue to weigh on the market, leading to large year-end stocks again in 2003.

Due to the projected drop in NFDM production in 2003, Japan's butter production is also forecast to drop modestly, projected down by 7% to 77,000 MT, short of Japan's annual butter demand of about 88,000 MT. Like last year, Japan will probably have to fill the entire JFY 2003 current access quota with imported butter (Butter equivalent of about 9,000 – 10,000 MT) to make up the shortfall. Japan's total butter imports for 2003 could reach 16,000 MT (9,000 MT this year plus 5,820 MT of butter imported before March, which is part of the JFY 2002 current access).

Most of the 5,820 MT of butter purchased under the JFY 2002 current access was supplied by EU countries. The ability to supply white colored butter (which is preferred in Japan) coupled with surplus supplies, allowed the EU to make advances in the Japanese market. Major EU suppliers included the Netherlands, Belgium, and Germany. Average bid prices were about 303 yen per kilo, up 12% from the last tender held in October 2002.

Despite the strong Euro, EU will likely continue to fill a substantial portion of the current access in 2003. Oceania suppliers appear to be at disadvantage due to their strong currencies against Japanese yen, limited supplies due to drought, and lack of products with preferred quality attributes specified by Japanese end users. Japan is expected to continue using the current access to import butter to balance demand and the supply in 2004.

Cheese Section

Japan's Cheese Consumption Expected to Slow down in 2003 due to Soft Demand and High Import Prices

Japan's cheese imports are forecast to fall by 4% to 196,000 MT in 2003, due primarily to weaker demand. Also impacting import numbers this year is an expected sharp drop in imports of high fat cream cheese from Australia. EU suppliers will likely be hindered by the strong Euro, impacting exports of natural cheese to Japan. Higher overall cheese prices are reportedly limiting sales volumes at the retail and the food service sectors.

Despite these factors, trade sources predict that established brand products are expected to do relatively well in 2003. Despite a favorable exchange rate, imports of U.S. cheese are expected to be limited by lesser brand recognition, a slow down in pizza sales, and the overall slow down in food service sales in 2003. The U.S. Dairy Export Council (USDEC) is making efforts to introduce a new type cup cream cheese, into the market.

Post projects Japanese cheese imports to rebound in 2004 to about 200,000 MT, assuming favorable currency exchange rates and an improved domestic economic situation. Japan's imports of U.S. cheese are forecast below the 4,000 MT level (3,700 – 3,900 MT) in both 2003 and 2004.

Fluid Milk PS&D Table

Country Commodity	Japan				(1000 HEAD)(10 00 MT)	
	2002 USDA Official [Old]	Revised Post Estimate [New] 01/2002	2003 USDA Official [Old]	Estimate Post Estimate [New] 01/2003	2004 USDA Official [Old]	Forecast Post Estimate [New] 01/2004
Market Year Begin						
Cows In Milk	966	966	965	964	0	962
Cows Milk Production	8350	8385	8350	8360	0	8350
Other Milk Production	0	0	0	0	0	0
TOTAL Production	8350	8385	8350	8360	0	8350
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	8350	8385	8350	8360	0	8350
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Fluid Use Dom. Consum.	4900	5002	4930	5000	0	5000
Factory Use Consum.	3360	3293	3330	3270	0	3260
Feed Use Dom. Consum.	90	90	90	90	0	90
TOTAL Dom. Consumption	8350	8385	8350	8360	0	8350
TOTAL DISTRIBUTION	8350	8385	8350	8360	0	8350
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Non Fat Dry Milk PS&D Table

PSD Table

Country Commodity	Japan Dairy, Milk, Nonfat Dry (1000 MT)					
	2002 USDA Official [Old]	Revised Post Estimate [New] 01/2002	2003 USDA Official [Old]	Estimate Post Estimate [New] 01/2003	2004 USDA Official [Old]	Forecast Post Estimate [New] 01/2004
Market Year Begin						
Beginning Stocks	66	66	76	70	76	65
Production	180	183	172	170	0	165
Intra EC Imports	0	0	0	0	0	0
Other Imports	30	44	29	40	0	40
TOTAL Imports	30	44	29	40	0	40
TOTAL SUPPLY	276	293	277	280	76	270
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Dom. Consumption	173	186	175	180	0	175
Other Use, Losses	27	37	26	35	0	35
Total Dom. Consumption	200	223	201	215	0	210
TOTAL Use	200	223	201	215	0	210
Ending Stocks	76	70	76	65	0	60
TOTAL DISTRIBUTION	276	293	277	280	0	270
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Butter PS&D Table

PSD Table

Country Commodity	Japan Dairy, Butter					
	(1000 MT)					
Market Year Begin	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official [Old]	Post Estimate [New] 01/2002	USDA Official [Old]	Post Estimate [New] 01/2003	USDA Official [Old]	Post Estimate [New] 01/2004
Beginning Stocks	21	21	24	20	24	25
Production	88	83	83	77	0	75
Intra EC Imports	0	0	0	0	0	0
Other Imports	4	4	6	16	0	10
TOTAL Imports	4	4	6	16	0	10
TOTAL SUPPLY	113	108	113	113	24	110
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Domestic Consumption	89	88	89	88	0	88
TOTAL Use	89	88	89	88	0	88
Ending Stocks	24	20	24	25	0	22
TOTAL DISTRIBUTION	113	108	113	113	0	110
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Cheese PS&D Table

PSD Table

Country Commodity	Japan Dairy, Cheese (1000 MT)					
	2002 USDA Official [Old]	Revised Post Estimate [New] 01/2002	2003 USDA Official [Old]	Estimate Post Estimate [New] 01/2003	2004 USDA Official [Old]	Forecast Post Estimate [New] 01/2004
Market Year Begin						
Beginning Stocks	15	15	15	15	15	15
Production	34	36	34	35	0	35
Intra EC Imports	0	0	0	0	0	0
Other Imports	212	204	216	196	0	200
TOTAL Imports	212	204	216	196	0	200
TOTAL SUPPLY	261	255	265	246	15	250
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Dom. Consumption	246	240	250	231	0	235
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	246	240	250	231	0	235
TOTAL Use	246	240	250	231	0	235
Ending Stocks	15	15	15	15	0	15
TOTAL DISTRIBUTION	261	255	265	246	0	250
Calendar Yr. Imp. from U.S.	4	4	4	4	0	4
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Japanese Dairy Cow Inventory**Japanese Dairy Herd Inventory**

	2,000		2,001		2,002		2,003	
	February	February	% Chg.	February	% Chg.	February	February	
Inventory As of:								
Total Dairy Cow	1,764	1,725	-2%	1,726	0%	1,716	1,716	
Milking	992	971	-2%	966	-1%	966	966	
Dry	158	153	-3%	160	5%	150	150	
Heifer	615	601	-2%	599	-0%	590	590	
Total Dairy Farm	33,600	32,200	-4%	31,000	-4%	29,500	29,500	
Cow Raised per Farm (head)	53	54		56		56	56	

	2,000		2,001		2,002		2,003	
	August	August	% Chg.	August	% Chg.	August	August	
Inventory As of:								
Total Dairy Cow	1,753	1,719	-2%	1,733	1%	#N/A	#N/A	
Milking	977	955	-2%	964	1%	#N/A	#N/A	
Dry	171	167	-2%	165	-1%	#N/A	#N/A	
Heifer	605	598	-1%	604	1%	#N/A	#N/A	

Source: Ministry of Agriculture,
Forestry and Fisheries

Number of Dairy Calves Born

	2000		2001		2002		Share	
	Feb. - Jul.	Feb. - Jul.	2001/2000	Feb. - Jul.	2002/2000	2002/2000	Share	
			Aug. - Jan.		Aug. - Jan.			
Dairy Cow	142	146	156	149	161	33%	33%	
Dairy Steer	160	164	177	166	182	37%	37%	
F1 Cross (Wagyu and Holstein)	170	145	160	145	149	30%	30%	
Total Calves Born	472	455	493	460	492	100%	100%	

Note: Dairy Steers and F1 Cross
(Steer and Cow) are raised as beef
cattle.

Source: MAFF, Livestock Inventory Statistics