Japan Australia Economic Partnership Agreement (JAEPA)

Review on market access for priority agriculture products

COMMERCIAL-IN-CONFIDENCE

September 2020

Introduction

The Australian Dairy Industry Council (ADIC) is the peak national representative body of the Australian dairy industry. We represent the interests of dairy farmers and processors across the entire dairy value chain to create a more prosperous and sustainable future for the local industry and the regional communities that rely on it.

Dairy Australia is the national services body for dairy farmers and the industry. Its role is to help farmers adapt to a changing operating environment, and achieve a profitable, sustainable dairy industry. As the industry's research and development corporation (RDC), it is the 'investment arm' of the industry, investing in projects that cannot be done efficiently by individual farmers or companies.

The ADIC and Dairy Australia welcome the opportunity to provide a submission to the Japan Australia Economic Partnership Agreement – 'Review on market access for priority agriculture products.

Background

The Japan Australia Economic Partnership Agreement (JAEPA) entered into force on 15th January 2015. At the time that negotiations for the agreement were completed the Australia dairy industry expressed its disappointment at the market access outcomes for dairy under JAEPA. JAEPA was the first Trade agreement that Japan had completed with a major dairy supply partner. Subsequently Japan has completed and entered into force the Comprehensive and Progressive Trans Pacific Partnership (CPTPP) agreement - which includes Australia and New Zealand as partners- as well as the EU Japan Economic Partnership Agreement and more recently the USA Japan Trade Agreement.

Over the last 5 years Australia has supplied (on average) over 100,000 tonnes of dairy per year into Japan, of which over 80,000 tonnes are cheese. Japan is Australia's second largest dairy export market and our largest cheese export market in both value and volume terms, ranking behind only China. Australia is a key dairy supplier into the Japanese dairy market along with New Zealand, the European Union and the USA.

From the Japanese market perspective Australia is the largest supplier of cheese (the key dairy import category), with a long history of close relationships and cooperation with Japanese customers including all major dairy and food manufacturers, trading houses and end users. The Japanese import schedule for dairy products remains characterised by complexity, high tariffs and import mark ups on many dairy lines along with quota volume limitations, local content requirements and Special Safeguards restrictions on several products.

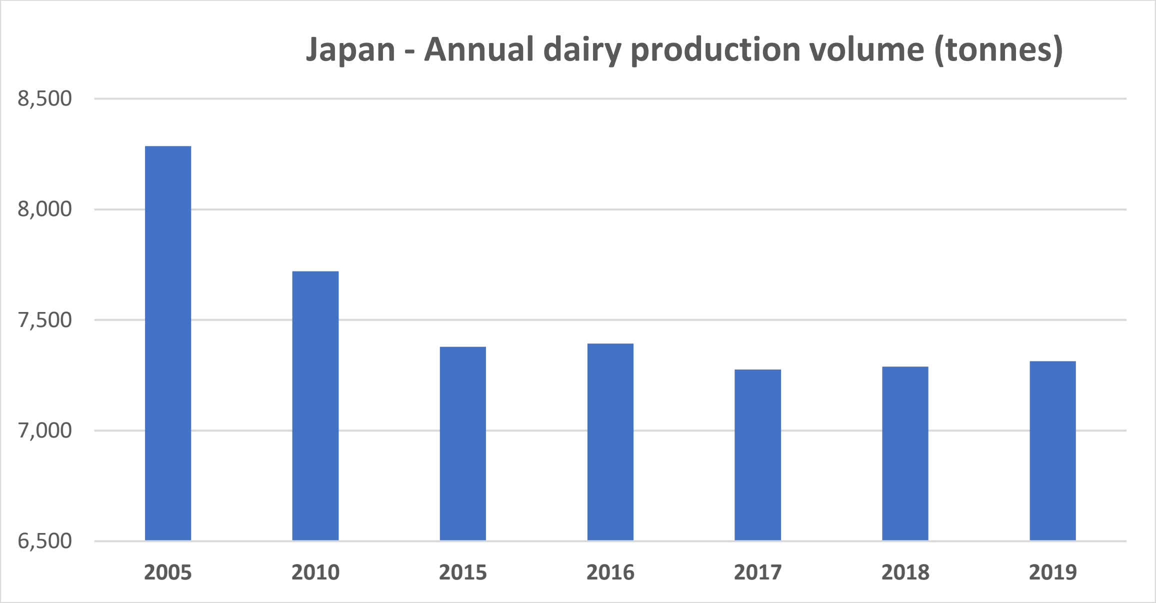
This contrasts with many other regional markets such as China, Hong Kong, Singapore, Indonesia, Thailand, Malaysia, Vietnam and the Philippines. The trade agreements that Australia has negotiated with these markets are characterised by the removal of tariffs on almost all dairy products, and few remaining quota or safeguard restrictions.

This is an important point to note as Japan essentially competes with these alternative regional markets for supply from a finite volume of available Australian dairy exports. As the number of trade deals negotiated by Australia and implemented across the Asian region has increased, and as consumption and demand for dairy products within those markets has grown, so has the relative attractiveness of these markets as alternative export destinations for Australian dairy exports.

Japan Dairy Import Market Share Analysis

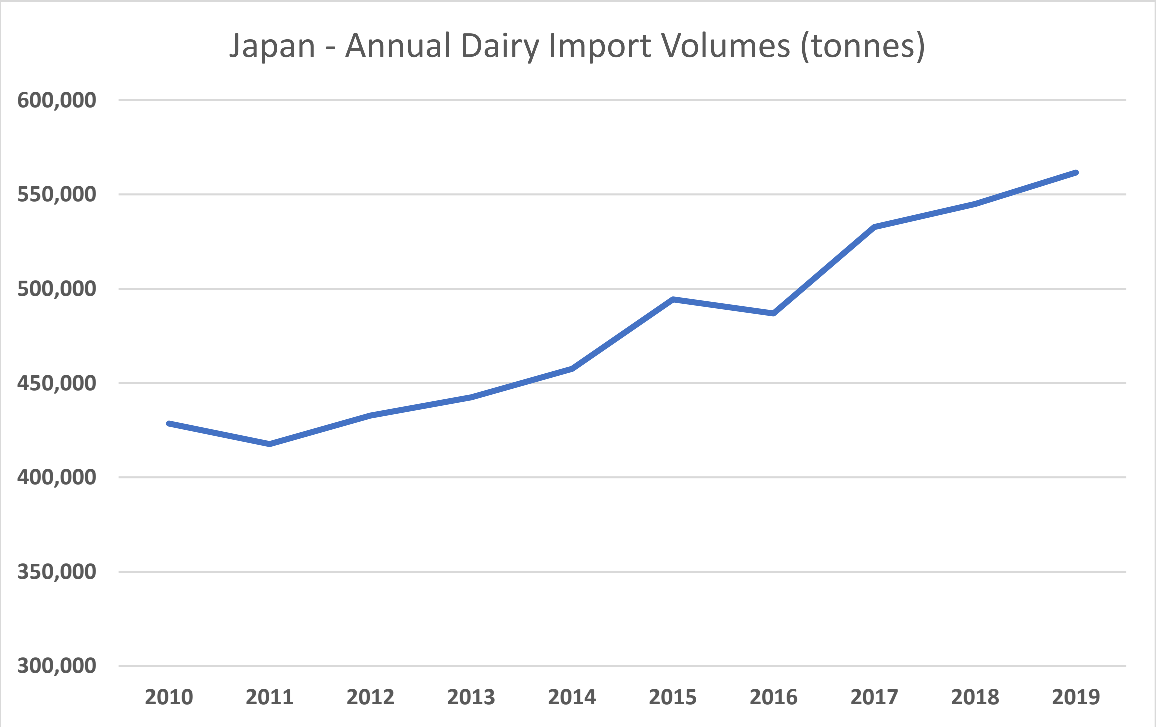
Japan is a significant dairy market. While total market consumption has grown only marginally year on year, the import market volume has increased steadily year on year. This is largely due to a consistent trend downward in domestic milk production over time.

Figure 1: Japanese domestic dairy production has declined



As a result of declining Japan has imported increasing volumes of dairy to make up the deficit between domestic production and demand. Total dairy imports have grown from 428 thousand tonnes in 2010 to 561 thousand tonnes in 2019.

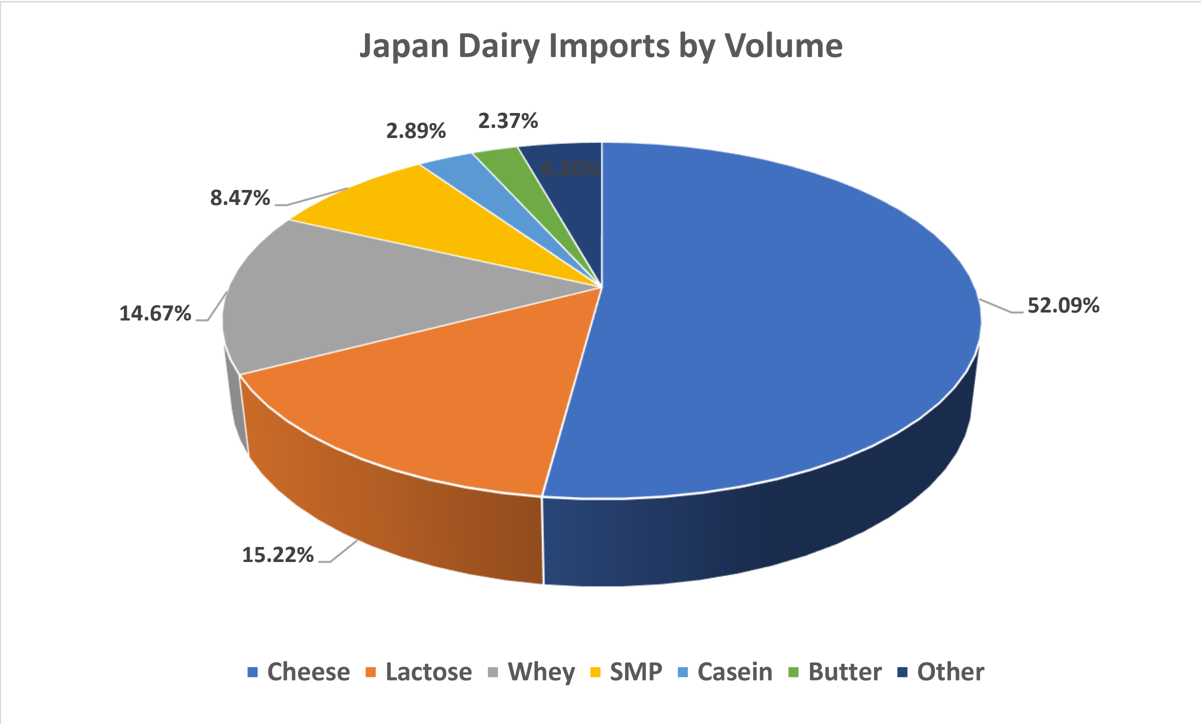
Figure 2: Japan dairy imports have grown



The Japanese market is highly regulated, and imports have been concentrated (due to market access control and restrictions) on the key product categories of cheese, lactose, and whey with smaller volumes imported of Skim Milk Powder, Casein, Butter and other products.

Japan has been a key export market for Australian dairy, for well over 50 years. Australia was the first major dairy producer and exporter to enter and develop the Japanese market and has established a strong market position as a supplier of dairy ingredients over the years. In particular the Japanese market values Australian cheddar and cream cheese varieties for manufacturing into a range of finished products.

Figure 3: Japan dairy Imports – key categories by volume



Cheese is the largest single category of dairy imports into Japan by volume. Over 50% of total volume of dairy imports is cheese and this has been consistent over time on an annual year basis. Cheese is Australia's main dairy export category to Japan, and Australia has been the major cheese supplier into Japan by volume for many years. Besides Australia the major suppliers of cheese into Japan are New Zealand, the USA and the European Union (principally the Netherlands, Germany, Denmark, France, Ireland and Italy).

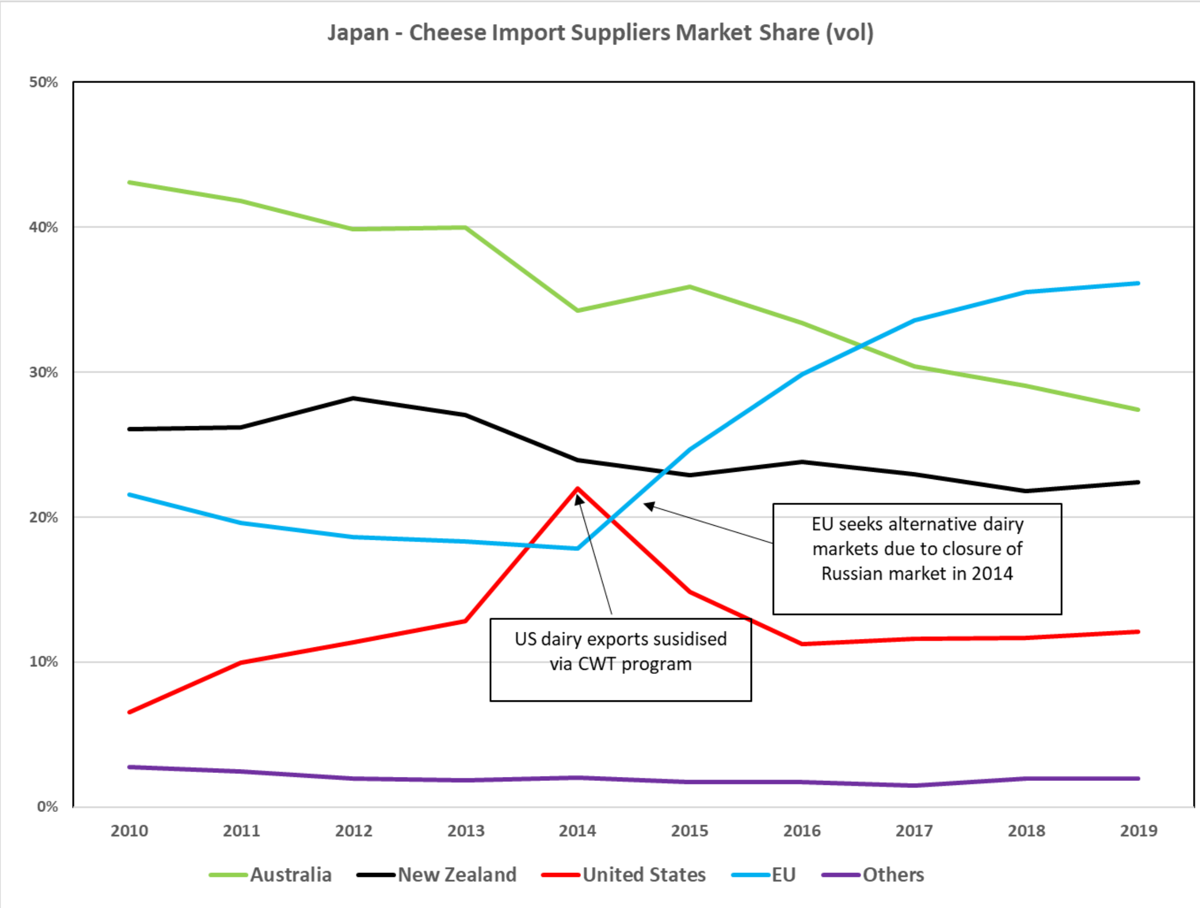
Table 1: Cheese Import volumes into Japan 2010 – 2019 (major suppliers by tonnes)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Australia	92,773	90,062	93,505	94,428	79,444	89,437	86,001	82,953	83,043	82,880
New Zealand	56,066	56,329	66,169	63,881	55,459	57,118	61,295	62,634	62,214	67,846
United States	14,051	21,424	26,656	30,322	51,003	37,043	28,926	31,616	33,256	36,625
European Union	46,442	42,195	43,643	43,245	41,373	61,470	76,916	91,594	101,532	109,368
Others	5,863	5,251	4,642	4,314	4,671	4,216	4,446	3,974	5,655	5,882

2019 Australia remains the largest individual country supplier of cheese into the Japanese market, however since 2017 the combined EU28 countries have surpassed Australia in total volume.

In 2014 Australia volumes were impacted by drought and domestic manufacturer structural issues. This led to a substantial fall in Australian origin volumes entering Japan in 2014, and while volumes have increased since then they have not regained previous levels, or even kept pace with growth in the total import market. Import market share has been lost to all major competitors but in particular to the European Union.

Figure 4: Major suppliers of cheese into Japan



In 2014 the USA significantly increased its supply of cheese to Japan, stimulated by oversupply on its domestic market and via subsidisation of cheese exports under the CWT (Cooperatives Working Together) program. However, the USA has not been able to maintain that increased market share in subsequent years.

The EU has long been a significant cheese supplier into Japan. In 2014 the European Union lost its major cheese export market through the closure of the Russian market under trade embargoes and sanctions. Since that time the EU has sought to develop export market opportunities for cheese into markets including Japan. This is reflected in steadily increasing EU origin volumes entering the Japanese market from 2015 onwards.

Other import categories: The major suppliers of Lactose are the USA, Germany, Holland, New Zealand and Canada. The major suppliers of Whey and Whey Powder are the USA, New Zealand and the Netherlands. The major suppliers of Skim Milk Powder are New Zealand, the USA, Australia and France.

The Australian Dairy Industry Priorities for the JAEPA review

These issues are listed in priority order, with the highest level of priority being:

- Natural Cheese for Processing,
- Cream Cheese with a fat content of 45% or more, and
- Other Fresh Cheese
- Recognition of cheese definitions as specified under Codex Alimentarius

A lower level of priority covers:

- Bulk Parmesan Cheese (for grating)
- Concentrated milk – other
- Food preparations containing cocoa for manufacture of chocolate
- Food Preparations

0406.10.090; 0406.90.090 – Natural Cheese for Processing.

'Natural Cheese for Processing' can enter Japan at 0% tariff under the JAEPA 'Natural Cheese for Processing' quota but must meet a domestic cheese content ratio requirement of 1-part Japanese produced cheese to 3.5 parts imported Australian cheese. This quota currently stands at 8,900 tonnes in 2020 and increases year by year until reaching 20,000 tonnes in 2034.

Alternatively, 'Natural Cheese for Processing' can be entered under the non-country specific 'Pooled Quota' at 0% tariff but at a less favourable domestic cheese content ratio of 1-part Japanese produced cheese to 2 parts imported cheese.

A further alternative is to enter using the CPTPP agreement. The majority of 'Natural Cheese for Processing' enters under tariff code 0406.90.090. The 0406.90.090 import code is subject to a tariff reduction under the CPTPP agreement. As of the 1st of April 2020, the CPTPP tariff has reduced from the original Most Favoured Nation (MFN) rate of 29.8% down to 24.2%. Under CPTPP this tariff will continue to reduce year by year until it finally reaches 0% from the 1st of April 2033.

Customers in Japan have advised that sourcing domestic cheese to meet the ratio requirement is increasingly challenging (and expensive) as domestic cheese production in Japan continues to decline year on year. This is particularly the case for those customers that do not have the capacity to manufacture cheese in Japan and are therefore obliged to try to source domestic cheese from manufacturers who are also their competitors in the Japanese retail market.

Some customers have already indicated a preference to import 'Natural Cheese for Processing' under the CPTPP tariff rather than via the JAEPA quota. Within the next few years as the tariff under CPTPP reduces it is likely that more, or all, customers will move to use the CPTPP tariff.

Dairy requests that the Japanese cheese local content requirement be removed completely for Australian origin cheese within the JAEPA quota with the in-quota tariff kept at 0% in order to maintain this quota as an attractive option for importing customers and to facilitate continued use of the quota through to 2033.

0406.10.090 - Cream Cheese with a fat content of 45% or more

Otherwise known as Middle Fat Cream Cheese – and likely to be highly sensitive because this product is considered by MAFF to have the potential to undermine the butter market.

Australia is currently the dominant supplier to the Japanese market with approximately 35,000 tonnes exported to Japan each year. This is a valuable item of trade for Australia for which access needs to be preserved and enhanced if possible. It is a high value industrial ingredient targeted at the dairy and beverage manufacturing sector and meets very precise specifications according to the specific end use. Australian will encounter increased competition in future because the EU Japan EPA has improved access for EU origin product.

This product was excluded under JAEPA but received a small one-off tariff reduction under CPTPP bringing the tariff down from 29.8% to 26.8% where a separate tariff line was created specific to Cream Cheese with a fat content of 45% or more.

Under the European Union Japan Economic Partnership Agreement (EU Japan EPA) European dairy suppliers were given a basket quota for a range of cheese products, which will allow the EU access for Cream Cheese with a fat content of 45% or more at a reducing tariff within quota. The in-quota tariff rate got EU product is currently at 24.2% and will reduce year by year until reaching 0% from 1st April 2033. That puts Australian origin product at a significant and growing competitive disadvantage.

Dairy requests a further reduction in the tariff on Australia origin Cream Cheese with a fat content of 45% or more with the tariff reducing yearly and eventually being removed by 2033 (in line with the tariff reduction under CPTPP for Cream Cheese with a fat content of less than 45% and also with the tariff reduction specified under the EU Japan Cheese quota).

If that outcome is not possible then a tariff reduction to 14.9% (equivalent to half the MFN tariff) is proposed as a 2nd option.

0406.10.090 – Other fresh cheese

Includes those fresh cheese varieties other than cream cheese and Natural cheese for processing. This covers various fresh table cheeses. This tariff line was excluded under JAEPA and was also excluded under CPTPP. Under the EU Japan EPA European dairy suppliers were given a basket quota for a range of cheese products, which will allow them access for 'Other Fresh Cheese' varieties at a reducing tariff within quota. That in-quota tariff rate is currently at 24.2% and will reduce year by year until reaching 0% on 1st April 2033. That puts Australian origin product at a significant and growing competitive disadvantage.

Dairy requests a reduction in the tariff on Australia 'Other Fresh Cheese' - preferably with the tariff reducing yearly and eventually being removed by 2033 (in line with the tariff reduction specified under the EU Japan Cheese quota). If that is not possible then as an alternative a tariff reduction to 14.9% (equivalent to half the MFN tariff) as 2nd option.

Recognition of cheese definitions as specified under Codex Alimentarius

Australian dairy products have occasionally been subject to Technical barriers to trade on entry into Japan. In the past this has seen attempts made to reclassify Australian cheese products (such as Cream Cheese with a fat content above 45%) into a non-cheese import category, such as a dairy spread' tariff line (with a significantly higher tariff duty). This is despite the product being manufactured using cheese making methods and meeting the international accepted Codex definition of cheese.

Australian dairy requests that Japan agrees to recognise and follow internationally recognised definitions of cheese, as specified under Codex Alimentarius.

0406.90.090 - Bulk Parmesan Cheese (for grating)

Australian dairy companies and Japanese dairy customers have identified an opportunity for bulk (20kg) Parmesan cheese to be imported into Japan. The block cheese would be then grated and packaged for retail and food service customers in Japan. There is no existing trade to date because the tariff of 29.8% makes the concept un-economic. This would be a new cheese export opportunity from Australia to Japan and would allow for value adding by Japanese companies.

Dairy requests access for 2,000 tonnes to be provided under a quota – similar to examples that already exist under JAEPA such as for 'Cheese for Shredding' – with either a 0% tariff within quota or alternatively a reducing tariff within quota which would eventually reach 0%.

0402.21.217 - Concentrated Milk - Other

The MFN rate for this line is 425y per/kg. Under CPTPP Australian origin product receives a tariff reduction over 6 years until reaching a final tariff of 212.5y/kg. However, the EU Japan EPA provides a tariff reduction over 6 years until reaching a final tariff of 21.25y/kg (or just 1/10th of the CPTPP final tariff rate). This provides a significant and growing competitive advantage for EU origin product under this tariff code.

Dairy requests that Australian origin product receive an equivalent tariff reduction schedule under JAEPA over an equivalent time frame to that provided to EU origin product.

1806.20.290 - Food preparations containing cocoa for manufacture of chocolate.

Quotas are provided under both JAEPA and CPTPP, however both quotas have a domestic milk powder requirement as set out below:

'the quota quantity to be allocated for each application made by an importer shall not exceed the limit of three multiplied by the quantity of the milk powder, specified in application, produced from domestic milk and used by the importer for the production of chocolate in Japan'.

Customers in Japan have advised that sourcing milk powder to meet the ratio requirement is increasingly challenging (and expensive) as domestic milk production in Japan continues to decline year on year.

Dairy requests that the local content requirement be removed completely under the JAEPA quota.

1901.90.211 - Food Preparations.

The MFN rate for this tariff line is 28%. This line was not addressed under JAEPA. Under CPTPP a quota (TWQ-JP28) provides a gradual tariff reduction within quota from 28% to 14% by 2029. Under the EU Japan EPA a quota (TRQ-14) provides EU origin product with an immediate 14% tariff from Entry into Force within quota.

Dairy requests that under JAEPA the tariff for Australian origin product under this tariff line is reduced to 14% immediately to provide equivalent access to EU origin product.

ADIC and Dairy Australia would be happy to provide additional background or technical detail on all these requests as may be required.

Yours sincerely,

Terry Richardson
Chair
Australian Dairy Industry Council

Grant Crothers
Deputy Chair
Australian Dairy Industry Council

Contacts:

Craig Hough - Director, Policy and Strategy T: (03) 8621 4206
E: chough@australiandairyfarmers.com.au
Australian Dairy Farmers Limited Level 2 Swann House, 22 William Street Melbourne VIC 3000

Tamara Dawson - Trade Policy Manager, Trade & Industry Strategy T: (03) 9694 3809
E: tamara.dawson@dairyaustralia.com.au
Dairy Australia, Level 3, HWT Tower, 40 City Road, Southbank, Victoria, 3006