



# Bi-weekly Bulletin

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## JAPAN

Japan is the number one importer of food-related products in the world and is Canada's second largest market for agricultural exports, valued at \$2.4 billion for 2006, accounting for about 10% of Canada's total food exports. Japanese consumers, like their Canadian counterparts, are quality and service conscious, and are concerned about food safety. For 2007-2008, Japan is expected to remain one of Canada's top export markets for canola, wheat and barley. This issue of the *Bi-weekly Bulletin* examines the situation and outlook for Japan's agricultural sector and prospects for trade with Canada.

Japan is largely dependent on imports from a few countries for its food purchases. Their leading sources of imports include the United States (US), China, Australia and Canada and their main imports are meat and prepared meat products and cereals and prepared cereal products.

### AGRICULTURAL TRADE POLICY

#### Tariff-Rate Quotas (TRQ)

The main import protection mechanism is a TRQ. A TRQ is a two-level tariff, with limited import volumes permitted at the lower tariff level (in-quota), with all imports exceeding the quota charged at a higher rate. Wheat and barley are the main cereal grains imported through the TRQ system. The government, through state-trading enterprises, decides how much and when to import, and at what price to resell the imports into Japan's market.

#### The Simultaneous Buy-and-Sell (SBS) System

The SBS system was introduced in 1999 for imports of feed wheat and feed barley whereby (a) Japan publicizes the quantity of feed grains required; (b) export prices are specified by firms in exporting countries, while importing firms in Japan simultaneously indicate their proposed selling price; and finally (c) the Food Department of the Ministry of Agriculture, Forestry and Fisheries (MAFF) chooses the pair with the largest spread. This spread becomes the markup and is kept by the Food Department.

The funds obtained from both the TRQ and SBS helps to finance other domestic agricultural programs, such as the Income Stabilization Program; the fund that subsidizes farmers for wheat and barley production.

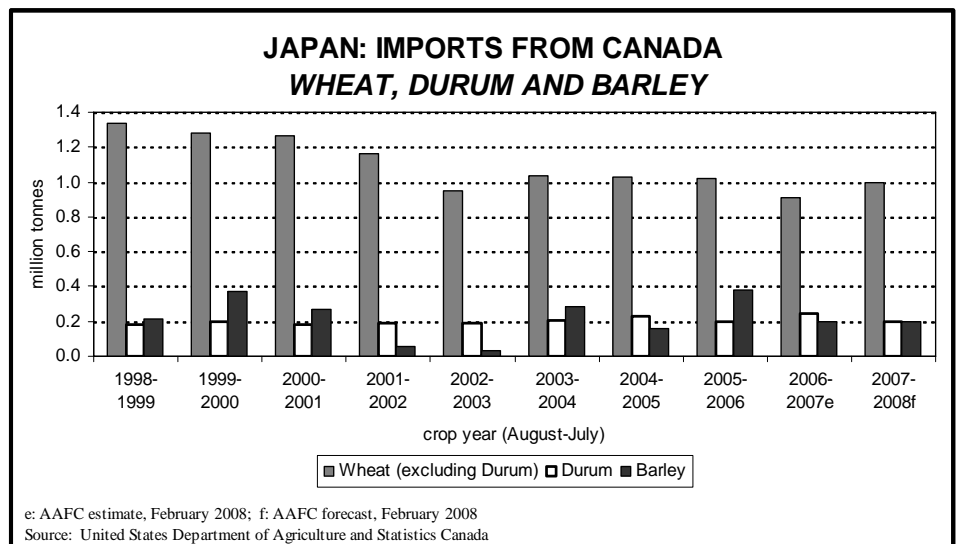
The SBS system was expanded in April 2007 to include food quality wheat and barley. For wheat, MAFF allocated commonly purchased state quantities of 0.24-0.25 million tonnes (Mt) of Australian Prime Hard and roughly 0.24-0.25 Mt of durum to the SBS system (these quantities are tentative). The implication is that Japan currently buys durum only from Canada, but this system theoretically opens imports to United States (US) durum as well (given the selection of bids from exporters). As for Prime Hard, Australia is the only supplier.

For barley, the new plan would allow 0.2 Mt of imports for food use under the SBS system.

### SITUATION AND OUTLOOK

Japanese agricultural production is slowly evolving. This is partly the result of an aging farm population, and a shift of labour into the industrial sector out of primary industries, including agriculture. There are various policies currently in place to increase overall food self-sufficiency for targeted grains – wheat, barley and soybeans – by providing incentives to raise domestic production.

Efforts have been partly successful for wheat and soybeans as area seeded (and production) have been trending upward over the last 10 years. For barley, however, the program has not been as



effective given continued declines in seeded area.

Rising production of wheat and soybeans has not had a negative impact on Canada's exports to Japan as domestically produced wheat is not in competition with Canada's wheat. Domestically produced soybeans – used in food manufacturing – do not displace increasing demand for Canada's IP (Identity Preserved) soybeans. Barley is consumed primarily as feed in the beef industry therefore total import demand for barley is generally stable.

There are, however, a few altering consumption trends in Japan that are expected to result in small-scale, but long-term shifts in demand of bulk commodities.

#### Wheat

Japan is the world's fourth largest market for wheat, behind Egypt, Brazil, and the European Union (EU), accounting for about 5% of world trade.

Since 1997-1998, wheat production has increased by 46%, to 837 thousand tonnes (kt) last year, and is currently forecast by the United States Department of Agriculture (USDA) to increase to 858 kt for 2007-2008. Despite this rise, domestic wheat production represented only 14% of domestic consumption in 2006-2007, having virtually no effect on import demand. Furthermore, the quality of Japan's wheat is generally lower than that of Canada's exports, therefore rising production would mostly impact demand for Australian Standard White.

For 2007-2008, wheat imports are forecast to decline marginally to 5.5 Mt. Major sources of imported wheat include the US (over 50%), Canada (25%), and Australia (20%).

Wheat consumption in Japan has fallen over the last decade, mostly due to a decline in feed use as a

result of a declining livestock population. Food use is also expected to continue to decline due to an aging rural population; who tend to eat more traditional rice-based foods. Rising imports of semi-finished or finished wheat-based products – such as frozen bread and dough – is another factor displacing imports of the raw grain, but this also provides an opportunity for value-added exports.

Canadian wheat exports to Japan are generally stable. Shifts in demand are mostly indicative of supply situations in Canada and other exporting countries and export prices. No.1 Canadian Western Red Spring (CWRS) wheat is highly regarded as a top quality grain with few substitutes, ensuring strong demand.

Canada's durum wheat, No.1 Canadian Western Amber Durum (CWAD), is also preferred by Japan, with total durum imports sourced entirely from Canada. For 2007-2008, spring wheat and durum exports to Japan are forecast by Agriculture and Agri-Food Canada (AAFC) to remain stable at 1.0 and 0.2 Mt, respectively.

#### Barley

About 90% of total barley seeded area is on converted rice paddy land, and is strongly affected by the rice policy and subsequent reforms. Production peaked in 2002-2003, but has steadily fallen since then. For 2007-2008, barley production is forecast at 165 kt, marginally lower than last year.

Barley is consumed as a feed grain in the Japanese livestock industry. Annual domestic use is about 1.6 Mt. Food use in Japan is stable at around 300 kt. With small, and declining domestic barley production levels, Japan relies heavily on imports. Over the last 10 years, imports have averaged about 1.5 Mt. This makes Japan the world's third largest market for barley, following Saudi Arabia and China.

Australia is Japan's primary supplier of barley, with an approximate market share of 60%, mostly due to its relative proximity. This position is further strengthened in the face of rising transportation costs (rail and ocean freight). Drought conditions, however, plagued Australia again this year reducing the size of its exportable supply. Canada is the second largest supplier with exports ranging between 200 and 300 kt, the majority used for feed. The US competes with Canada only in feed barley exports, and is the third largest supplier of feed barley to Japan.

For 2007-2008, the USDA forecasts barley imports to remain similar to last year, at around 1.35 Mt. Of this total, imports from Canada are

JAPAN: WHEAT SUPPLY AND DISPOSITION						
<i>July-June crop year</i>	2003	2004	2005	2006	2007	2008f
	-2004	-2005	-2006	-2007e	-2008f	-2008f
Harvested Area (Mha)	0.21	0.21	0.21	0.22	0.22	0.22
Yield (t/ha)	4.03	4.04	4.09	3.84	3.90	3.90
	.....million tonnes.....					
Carry-in Stocks	0.83	1.02	1.17	1.08	1.24	1.24
Production	0.86	0.86	0.88	0.84	0.86	0.86
Imports	<u>5.75</u>	<u>5.74</u>	<u>5.47</u>	<u>5.75</u>	<u>5.50</u>	<u>5.50</u>
<b>Total Supply</b>	<b>7.44</b>	<b>7.62</b>	<b>7.52</b>	<b>7.67</b>	<b>7.60</b>	<b>7.60</b>
Feed Use	0.30	0.33	0.32	0.30	0.30	0.30
Food, Seed, and Industrial Use	5.66	5.70	5.70	5.71	5.69	5.69
Exports (includes products)	<u>0.46</u>	<u>0.42</u>	<u>0.42</u>	<u>0.42</u>	<u>0.43</u>	<u>0.43</u>
<b>Total Use</b>	<b>6.42</b>	<b>6.45</b>	<b>6.44</b>	<b>6.43</b>	<b>6.42</b>	<b>6.42</b>
Carry-out Stocks	1.02	1.17	1.08	1.24	1.18	1.18
JAPAN: BARLEY SUPPLY AND DISPOSITION						
<i>July-June crop year</i>	2003	2004	2005	2006	2007	2008f
	-2004	-2005	-2006	-2007e	-2008f	-2008f
Harvested Area (Mha)	0.06	0.06	0.06	0.05	0.05	0.05
Yield (t/ha)	3.11	3.27	3.42	3.22	3.30	3.30
	.....million tonnes.....					
Carry-in Stocks	0.65	0.57	0.64	0.60	0.48	0.48
Production	0.20	0.20	0.19	0.17	0.17	0.17
Imports	<u>1.36</u>	<u>1.52</u>	<u>1.42</u>	<u>1.36</u>	<u>1.35</u>	<u>1.35</u>
<b>Total Supply</b>	<b>2.21</b>	<b>2.29</b>	<b>2.25</b>	<b>2.13</b>	<b>2.00</b>	<b>2.00</b>
Feed Use	1.33	1.35	1.35	1.35	1.25	1.25
Food, Seed, and Industrial Use	<u>0.31</u>	<u>0.30</u>	<u>0.30</u>	<u>0.30</u>	<u>0.30</u>	<u>0.30</u>
<b>Total Use</b>	<b>1.64</b>	<b>1.65</b>	<b>1.65</b>	<b>1.65</b>	<b>1.55</b>	<b>1.55</b>
Carry-out Stocks	0.57	0.64	0.60	0.48	0.45	0.45

e: estimate, USDA, February 2008; f: forecast, USDA, February 2008

Source: United States Department of Agriculture

expected to be about 150 kt, well below last year. This is largely due to high Canadian feed barley prices which have reduced Japan's imports of Canadian feed barley.

### Other Feed Grains

**Corn** is the predominant feed grain in Japan, accounting for about 80% of domestic feed grain consumption (including of barley, corn, oats, rye, sorghum and wheat). Japan does not produce corn and is the world largest importer of corn. For 2007-2008, corn imports are forecast at 16.3 Mt, down marginally from last year. The majority of corn is imported from the US (95%), with the remainder supplied by China.

The majority of corn supplies are used for feed, mainly for the poultry industry, with the remainder used by starch manufacturers, and the rest from other food-use sectors. Over the long-term, given a declining livestock population, slow decreases in feed use demand is expected.

However, food use demand will remain strong on support from high beverage demand for corn sweeteners.

Japan also imports small quantities of **rye** and **oats**, for the feed industry. For 2007-2008, rye and oat imports are forecast at 75 kt and 60 kt, respectively.

### Oilseeds

Soybeans and canola are the two major oilseeds imported by Japan, mostly to supply the large oilseed crushing industry. Imports of canola and soybean oil, the two primary edible oils used in the country, are subject to high tariffs which keep imports low. Bulk oilseeds, however, are not subject to the same import barriers as manufactured oils, allowing crushers to import large quantities.

### Soybeans

Soybean production in Japan has increased by 55% since 1997-1998, to 225 kt in 2006-2007, and is forecast by the USDA to remain at this level for 2007-2008. All soybeans

produced are non-GM varieties, thus consumed almost entirely in the food industry. Aside from large import demand from the crushing sector, domestically-produced supplies do not satisfy total domestic demand from the food manufacturing industry; opening up this niche market to Canadian and US exports of non-GM and GM food-certified varieties.

Japan imports 4.0-4.7 Mt of soybeans annually, accounting for about 10% of world trade. This makes it the third largest market for soybeans; behind the EU and China. The US has a 70-80% market share, followed by Brazil (10-15%), and Canada (5-10%).

Nevertheless, Canada is established as a primary high quality supplier to Japan's food manufacturing sector. Demand for Canada's food-certified soybeans has resulted in a niche market for Canadian producers. Exports to Japan have fallen over the last 10 years. However, Canada

receives a premium of around US\$80-90 per tonne above US soybean prices.

For 2006-2007, Canadian soybean exports to Japan remained low, estimated at 18 kt. Exports for 2007-2008 are forecast by AAFC to remain at this level or increase in 2007-2008, supported by rising demand from the food manufacturing sector.

### Canola

Japan is the world's largest market for canola, accounting for 35-40% of world trade. With virtually no domestic production, imports are usually stable at around 2.2 Mt. Almost all canola supplies are crushed into edible oils with the canola meal bi-product used in animal feed and also as a fertilizer for tobacco and citrus crops.

Canola and soybeans are substitutable in the Japanese oil market, mainly as cooking oil. Fluctuations in demand are therefore largely attributed to relative import prices. In general, canola imports have been following an upward trend over the last 20 years, with more recent increases attributed to changes in relative prices – particularly the late 2003 increase in soybean prices. Imports are forecast by the USDA at 2.2 Mt, up marginally from last year.

Canada is the world's largest exporter of canola, and also the dominant supplier to Japan (with a market share of about 80-85%), followed by Australia (15-20%).

For 2006-2007, Canada's canola exports to Japan were 2.0 Mt, compared to the 10-year average of about 1.75 Mt. Exports for 2007-2008 are forecast to remain unchanged at 2.0 Mt, supported by demand due to a smaller-than-expected Australian crop.

### Flaxseed (Linseed)

Flaxseed is not produced in Japan due to its climate. Demand, however, exists for flax oil and meal – products with uses ranging from the production of industrial

<b>JAPAN: SOYBEAN SUPPLY AND DISPOSITION</b>					
<i>October-September crop year</i>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<b>-2004</b>	<b>-2005</b>	<b>-2006</b>	<b>-2007e</b>	<b>-2008f</b>
Harvested Area (Mha)	0.15	0.14	0.13	0.14	0.15
	.....million tonnes.....				
Carry-in Stocks	0.31	0.30	0.26	0.26	0.27
Production	0.23	0.16	0.23	0.23	0.23
Imports	<u>4.69</u>	<u>4.30</u>	<u>3.96</u>	<u>4.10</u>	<u>4.15</u>
<b>Total Supply</b>	<b>5.23</b>	<b>4.76</b>	<b>4.45</b>	<b>4.59</b>	<b>4.65</b>
Crush	3.54	3.15	2.82	2.93	2.93
Food Use	1.04	1.04	1.04	1.05	1.05
Other Use	<u>0.35</u>	<u>0.32</u>	<u>0.34</u>	<u>0.34</u>	<u>0.35</u>
<b>Total Use</b>	<b>4.93</b>	<b>4.51</b>	<b>4.20</b>	<b>4.32</b>	<b>4.33</b>
Carry-out Stocks	0.30	0.26	0.25	0.27	0.32
<b>JAPAN: CANOLA SUPPLY AND DISPOSITION</b>					
<i>July - June crop year</i>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<b>-2004</b>	<b>-2005</b>	<b>-2006</b>	<b>-2007e</b>	<b>-2008f</b>
	.....million tonnes.....				
Carry-in Stocks	0.17	0.18	0.17	0.18	0.13
Imports	<u>2.28</u>	<u>2.23</u>	<u>2.28</u>	<u>2.17</u>	<u>2.20</u>
<b>Total Supply</b>	<b>2.45</b>	<b>2.41</b>	<b>2.45</b>	<b>2.35</b>	<b>2.33</b>
Crush	2.25	2.24	2.26	2.21	2.18
Other Use	<u>0.03</u>	<u>0.01</u>	<u>0.01</u>	<u>0.01</u>	<u>0.01</u>
<b>Total Use</b>	<b>2.28</b>	<b>2.25</b>	<b>2.27</b>	<b>2.22</b>	<b>2.19</b>
Carry-out Stocks	0.18	0.17	0.18	0.13	0.14

e: estimate, USDA, February 2008; f: forecast, USDA, February 2008

Source: United States Department of Agriculture

paints (oil) to poultry feed (meal) – resulting in relatively small levels of import demand from domestic crushers. Canada is the dominant supplier in this market.

Recent restructuring/consolidation of Japan's oilseed crushing industry has resulted in a significant decline in flaxseed import demand. Imports have declined from around 70 kt in the late 1990s to 15 kt in 2006-2007. For 2007-2008, Canada's flaxseed exports to Japan are forecast by AAFC at 15 kt, similar to 2006-2007.

### Malt

Malt is produced from malting barley and used mostly for beer production. Japan is the world's second largest market, behind Brazil, with 10% of world trade. The major suppliers to Japan are Canada (with about 30% market share), the EU and Australia.

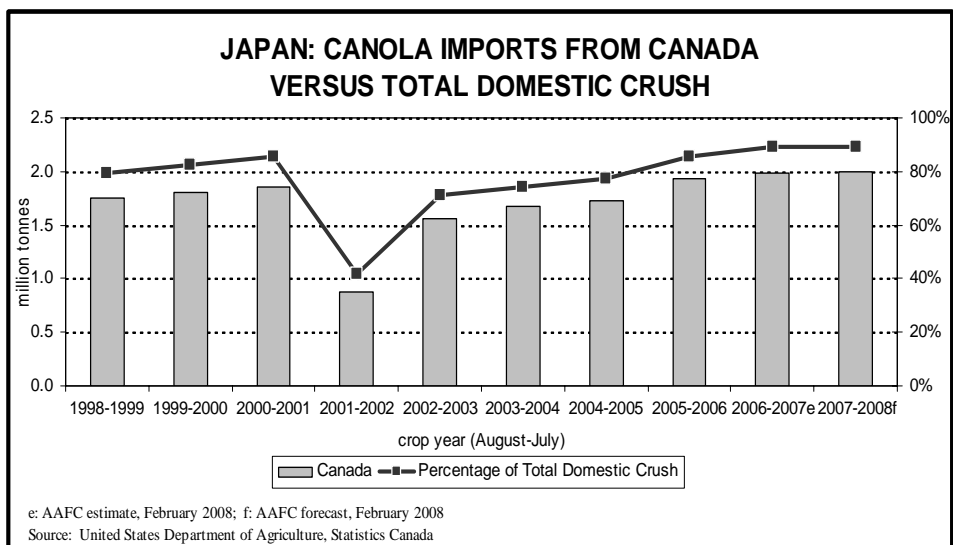
Recently, however, Japan's malt imports have been declining due to lower beer sales. Consequently, import demand for Canadian malt has also been decreasing. This poses some challenges for Canadian maltsters as Japan accounts for a large portion of export malt sales.

Canadian malt exports to Japan have averaged around 160 kt over the last 5 years. For 2007-2008, exports to Japan are forecast at about 150 kt, similar to 2006-2007.

### MEDIUM-TERM OUTLOOK

Japan's goal for increased self-sufficiency will not affect overall import demand given constraints of arable land in the country. Canadian wheat exports are therefore projected to remain strong in the medium-term.

A large portion of Japan's population is entering the old-age bracket, and at this point tend to eat more traditional foods; rice noodles versus bread and pasta. This is expected to marginally affect import demand for raw grains in the medium-term, particularly wheat. Also, owing to fast-paced living, there is much less cooking at home coupled with rising demand for convenience foods. This translates into higher demand for processed products, such as packaged sandwiches, salads, deserts and pasta



dishes, of which Japan imports a large portion from surrounding countries. This could prove to be beneficial for Canada as consumers still demand high quality and safety-approved ingredients to be used in the manufacturing of such value-added goods. Lastly, the trend of diversification of the diet continues in Japan, including higher demand for western-style foods. This provides an opportunity for Canada to supply ingredients to meet this growing demand, although benefits may be largely in the form of lower shipments of raw grains, and higher shipments of value-added products manufactured from high quality grains and oilseeds. Overall, Canada's market share will not be heavily affected by rising production levels and shifting consumption patterns.

With respect to feed grains, livestock populations in Japan are declining, thereby reducing feed demand for both corn and wheat. Further reductions of livestock populations will reduce its imports of feed grains. However, because the consumers prefer barley fed beef to corn fed beef, barley imports are not expected to fall as much as other feed grains.

For oilseeds, demand for Canada's canola is expected to remain strong, and perhaps increase further in the long-term varying with supply situations in Australia.

Given its commitment to food quality and safety Canada's current high profile position as a favourable supplier to

Japan is expected to continue.

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