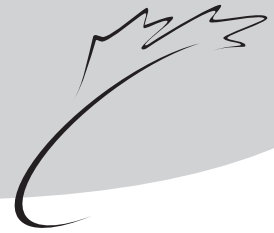




Bi-weekly Bulletin

November 14, 2003 Volume 16 Number 20



JAPAN

Japan, the world's largest net importer of agri-food products, is Canada's second most important agri-food export market. About 50% of Canada's exports to Japan are agri-food products. In 2002, Canada's agri-food exports to Japan totalled \$2.38 billion (G), of which almost 60% was grains and oilseeds and their products and 32% was livestock and its products. Japanese consumers, like their Canadian counterparts, are very quality conscious and are highly concerned about food safety. This issue of the *Bi-weekly Bulletin* examines some of the recent policy and program changes in Japan and Canada to address food safety, as well as the situation and outlook for Canadian agri-food exports.

Japan is an island nation in the Pacific Ocean, off the coast of East Asia. The closest countries are Russia, China and the Republic of Korea. Its land area is 374,744 square kilometres, approximately one-third the size of Ontario. The terrain is mostly mountainous and only 13% of Japan's land is suitable for agriculture.

Despite government policy to increase the country's self-sufficiency for foodstuffs, Japan's self-sufficiency ratio fell from 47% in 1990 to 40% in 2000. As such, Japan is the world's largest net-importer of agri-food products and in 2002, agricultural imports totalled US\$41.5G. Japan is highly dependent on a relatively 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 cereal and prepared cereal products.

Trade with Canada

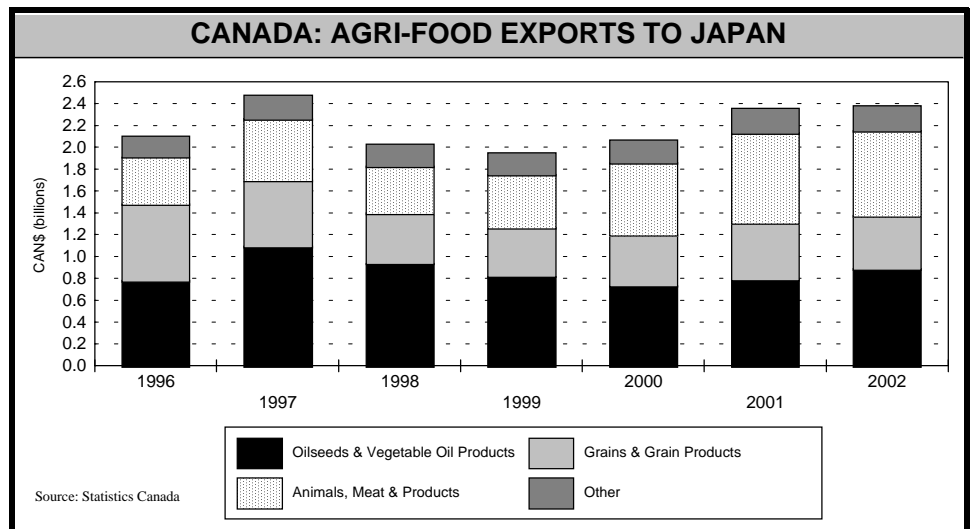
In 2002, Canada's exports to Japan totalled \$4.7G and accounted for 2.1% of Canada's total exports. Japan is a

major export market for Canada, second only to the US. Canada's major exports include wood, grains and oilseeds, meat, fish and seafood, fossil fuels and wood pulp.

Japan's exports to Canada in 2002 totalled \$11.5G and accounted for 1.8% of their exports. Canada is Japan's 14th largest market. Japan's major exports to Canada include vehicles, machinery, electrical machinery, medical instruments and rubber.

Agri-Food Trade with Canada

Canada is the fourth largest supplier of agri-food products to Japan, behind the US, China and Australia. Japan is Canada's second-largest agricultural export market accounting for about 9% of Canada's food exports. In 2002, Japan imported \$2.38G of Canadian agri-food products, a 1% increase over 2001. Imports from Canada accounted for close to 6% of Japan's total agri-food imports. Canada's main food exports to Japan include canola, pork, wheat and malt.



Canada and Japan continue to promote trade development and economic cooperation under the 1976 Framework for Economic Cooperation and the Joint Communiqué announced during the 1999 Team Canada mission.

Agricultural Production

Japan is dominated by small farms, with the average farm size of 1.6 hectares (ha), resulting in a labour-intensive agricultural sector. Japan is situated in a temperate monsoon belt which results in very hot rainy summers and cool winters. Under these climatic conditions, paddy rice production is the major agricultural crop, although it is double cropped with wheat, barley, and soybeans.

Agricultural Policy

Japan's agricultural sector is a highly protected and subsidized industry. Japan has a large and powerful agricultural cooperative system consisting of many small farmers. This sector lobbies successfully for the maintenance of small farms, high support prices and tariffs on imports.

In order to regain consumer confidence following Japan's Bovine Spongiform Encephalopathy (BSE) outbreak in 2001 and numerous subsequent food mislabeling and safety issues, the government introduced the new *Basic Law on Food Safety* in May 2003. The law specifies the responsibilities of central and local government and the business sector for ensuring the safety of food. Its main feature was establishing a Food Safety Commission within the Cabinet Office. The Food Safety Commission's role is to evaluate health risks presented by foods and to advise government ministries on appropriate countermeasures that need to be taken.

Under the previous system of food safety administration, for example, the Ministry of Agriculture, Forestry and Fisheries (MAFF) had both the regulatory authority to ensure the safety of livestock feeds and the responsibility to promote the development of livestock

farming and the livestock feed industry. As a result, there had been a tendency to emphasize the interests of industry over those of the consumer, and for regulation to suffer.

The new legislation will result in a few changes for how imports will be handled. The Law stipulates that there must be assurance of food safety at every stage of the food supply chain for both domestic and foreign markets. While the the Government of Japan (GOJ) cannot require exporting countries to follow identical procedures to those mandated in Japan, this change can be expected to result in increased scrutiny of imported products and importers may begin calling for additional documentation from suppliers. The second change is that the Law provides for the possible use of the "precautionary principle", as opposed to "risk management."

Other changes to the government structure have also taken place, as the government's focus switches from

JAPAN AT THE WTO

In November 2001, at the 4th World Trade Organization (WTO) Ministerial Conference in Doha (Qatar), WTO Members agreed to launch a new broad-based round of multilateral trade negotiations. On agriculture, WTO Members agreed to an ambitious negotiating mandate, committing themselves to "comprehensive negotiations aimed at substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support."

As a country concerned with its food self-sufficiency, Japan has relatively high levels of support and protection for a wide range of primary commodities. Agriculture, and rice production in particular, is considered to be the foundation for the social and economic development of rural communities. Japan supports substantial reductions in trade-distorting domestic support. However, it is seeking greater flexibility to provide support that would be exempt from reduction through the so-called "Green Box". On market access, it proposes a modest approach, calling for average tariff reductions with a minimum cut for each tariff line (the Uruguay Round formula), and for no increase in the size of tariff quotas. Japan has suggested strengthened disciplines for export restrictions and taxes, and supports the Doha Mandate's call for the phasing out of all forms of export subsidies.

At the 5th WTO Ministerial Conference held in September of 2003 in Cancun, Ministers deliberated a draft framework which would have guided the subsequent development of more detailed rules and commitments. However, the Ministerial meeting ended without an agreement, with non-agriculture issues preventing movement towards a consensus. Ministers re-committed themselves to working to implement the mandate agreed to at Doha, and instructed officials to continue work on outstanding issues. While remaining sensitive to agricultural trade liberalization, Japan continues to be committed to the multilateral trading system.

For more information on WTO negotiations, please contact:
Pam Cooper

WTO Agriculture Negotiations Coordinator
Multilateral Trade Policy Division,
Agriculture and Agri-Food Canada

Fax: (613) 759-7503

E-mail: cooperpm@agr.gc.ca

FOOD SAFETY AND QUALITY IN CANADA

Through the Agricultural Policy Framework, the Government of Canada is committed to ensuring that food produced in Canada continues to be among the safest and highest-quality in the world. The Government of Canada is working with farmers and the industry to build on existing food safety measures while undertaking new measures to enable the tracing of food products back to the farm and to improve food quality and the sharing of critical information. These measures will improve the sector's ability to identify and respond to food safety issues and concerns, while improving market access and opportunities for the sector.

Canadian On-Farm Food Safety (COFFS) Program

The COFFS is a producer-led, industry/government partnership that provides an opportunity for national commodity associations to develop the strategies and the necessary tools to educate producers and to initiate implementation of on-farm food safety initiatives consistent with the Hazard Analysis Critical Control Point definitions and principles established by the Codex Alimentarius Commission. A specific example of this program in action is the Canadian Pork Council's Canadian Quality Assurance (CQA) program, which has been officially available since April 1998. The CQA program began the government recognition process, led by the Canadian Food Inspection Agency (CFIA) in August 2003.

Canadian Cattle Identification Program

In January 2001, Canada implemented, in collaboration with the livestock industry, a national identification program for cattle and bison, making it possible to trace individual animals to their herds of origin. The program employs an efficient, cost effective and market neutral approach. The purpose of the national identification program is to assist the CFIA's efforts in the areas of food safety and animal disease control. The Agency is now collaborating with and guiding other sectors such as cervids and sheep in the development of similar programs adapted to the needs of those species. Because of the success of this program, the CFIA was able to conclude the investigation of a single case of BSE in a cow from an Alberta farm quickly and thoroughly. Similarly, within the next two years, the Canadian Pork Council is striving to have a system in place that will allow authorities to track the movement of all hogs produced in Canada.

Canadian Identity Preserved Recognition System (CIPRS)

The CIPRS certifies companies selling products through Identity Preserved (IP) programs that have effective quality management systems for the production, handling, and transportation of specialty grains, oilseeds or pulses. These systems provide full documentation and traceability from seed to export vessel or domestic end-user. Although industry is taking the lead in implementing these systems, the Canadian Grain Commission has developed a new voluntary pilot program to oversee and officially recognize these programs in order to maximise their acceptance in global markets. The Canadian soybean industry, through the Canadian Soybean Export Association, has had an IP Standard in place since 2001. Certification against this commodity specific IP standard will be provided through CIPRS.

market development to consumer food safety. Specifically, within MAFF, the Japan Food Agency (JFA), previously responsible for administering the Staple Food Control System, was abolished, and a new bureau, the Food Safety and Consumer Affairs Bureau, was created on July 1, 2003.

Through the Staple Food Control System, JFA controlled the supply of rice, wheat and barley through a system of administered prices maintained by tariffs and import quotas. Historically, JFA was also responsible for the quality and safety of imported grains, but grain inspection has largely been privatised. Under the bureaucratic reorganization, the supply of rice, wheat and barley will be administered by the Staple Food Department of the General Food Policy Bureau, while consumer's concerns such as labelling and food risk management will be managed by the Food Safety and Consumer Affairs Bureau.

Beef Identification Policy

Japan's parliament passed legislation mandating implementation of a traceability system for domestic beef in June 2003, as part of its ongoing response to the detection of BSE in Japan in 2001. The law establishes a farm-to-table traceability system based on a ten digit cattle identification number assigned to each animal at birth or at importation. Full implementation of the domestic program is expected by December 2004. As well, the GOJ is expected to consider a bill to require traceability for imported beef.

Biotechnology Safety Approval and Labelling Policies

Consumer concerns about Genetically Modified Organisms (GMO) prompted the government to introduce safety approval and labelling policies. As of December 2002, Japan's Ministry of Health, Labour and Welfare, which is responsible for granting food safety approvals for biotech products, had approved 44 biotech varieties for food use. Foods found to contain unapproved biotech varieties must be

re-exported, destroyed or diverted to non-food use.

MAFF is responsible for environmental safety approvals, feed safety approvals and biotech labelling for foods. In April 2001, MAFF established a labelling scheme which requires labelling for biotech food products if the biotech deoxyribonucleic acid (DNA) or protein can be scientifically detected in the finished foods. Labelling is not required for canola oil, soy oil and corn oil since the biotech DNA cannot be detected. Labelling is mandatory if the biotech content exceeds 5%. In order for a product to be labelled "non-GM", certification must be provided to show that the ingredients were handled on an identity preserved (IP) basis at each step of the production and distribution process.

SITUATION AND OUTLOOK

Wheat

Total area planted to wheat in 2003 is estimated to increase marginally to 217,000 ha, reflecting MAFF's continued effort to divert rice production to other agricultural crops such as wheat and soybeans. **Production**, however, is estimated to fall by 7% to 770,000 tonnes (t) due to decreased yields. Despite government efforts to increase wheat production, Japan produces less than 10% of its domestic needs. The quality of Japan's domestic wheat is generally lower than that of imported wheat and it is used in the production of noodles or is blended with imported wheat for bread and Chinese noodles. Any increase in domestic production would mainly impact the demand for Australian Standard White Wheat and would have a limited impact on imports from North America.

Imports will increase to 5.8 million tonnes (Mt). Major sources for imported wheat include the US (about 54% of imports), Canada (25%) and Australia (20%). Japan is normally the world's third largest market for wheat, behind Egypt and Brazil, and accounts for about 6% of world trade. The GOJ

controls both producer and resale prices for wheat. The government pays domestic wheat producers a purchase price which is 3.8 times more than the resale price to the millers, while its resale price of imported wheat

is 1.7 times the average price paid for imported wheat. While the ratio of resale price to world price for imported wheat is improving, the Japan Flour Millers Association has petitioned MAFF to lower its resale price of imported wheat to be 1.2 times the world price, which would likely result in increased imports of foreign wheat and increased domestic production of flour.

Canada's exports of total wheat, including durum, to Japan have averaged 1.4 Mt over the past 10 years. In general, spring wheat exports have stayed steady at about 1.3 Mt, while durum exports have grown from about 100,000 t in 1993-1994 to almost 200,000 t in each of the past five years. Japan is a premium market for Canadian wheat, as most of the spring wheat is high-protein No.1 Canada Western Red Spring, and over half of the durum is No.1 Canadian Western Amber Durum. For 2003-2004, Canada's exports are forecast to increase nearly 30% over 2002-2003 because of a return to normal yields in Canada and a high-quality harvest. Exports of wheat, not including durum, are expected to increase from 965,000 t in 2002-2003 to 1.3 Mt, while exports of durum are expected to stay steady at 200,000 t.

Rice

Japan's **production** of rice in 2003 is estimated to fall by 11% to 7.2 Mt, partly due to poor growing conditions.

Imports are expected to stay steady at

CANADA: FIELD CROP EXPORTS TO JAPAN

<i>August-July crop year</i>	1999 -2000	2000 -2001	2001 -2002	2002 -2003	2003 -2004^f
.....thousand tonnes.....					
Canola	1,814	1,875	1,611	1,562	1,500
Wheat	1,446	1,599	1,370	1,176	1,500
Forages*	398	460	445	312	400
Barley	376	264	55	35	240
Malt*	182	227	227	170	150
Soybeans*	179	168	131	137	150
Flaxseed	63	54	51	21	40

f: forecast, AAFC, October 2003

Source: Canadian Grain Commission, *Statistics Canada, November 2003

0.65 Mt due to restrictive tariffs.

Historically, the Japanese government has controlled rice production and distribution. As such, rice is produced on nearly 40% of Japan's cultivated land area and 54% of commercial farmers produce rice as their main crop. In December 2002, however, the GOJ announced a new framework for Japan's rice policy to make Japanese rice production more market-oriented. It calls for the abolition of government control of rice production by 2008 and an increase in subsidies to large-scale producers. The result will likely be larger scale farming, and increased production of wheat and soybeans.

Barley

For 2003-2004, Japan's **production** of barley is estimated to increase by 15% to 250,000 t. While Japan is less than 15% self sufficient in barley production, barley is the preferred livestock feed and there is limited substitution with other feed grains.

Imports of barley averaged more than 1.5 Mt in the decade prior to the 2001 BSE outbreak in Japan. Since that time, imports have averaged 1.3 Mt. In general, Japan is the world's third largest market for barley, behind Saudi Arabia and Brazil and accounts for about 8% of world trade. For 2003-2004, barley imports are expected to remain stable at 1.3 Mt.

Canada's exports of barley to Japan averaged 650,000 t throughout the 1990s. Since then, however, Canada has more or less withdrawn from the world market for feed barley and exports fell to only 35,000 t in 2002-2003. For 2003-2004, Canada expects to increase exports substantially to 240,000 t, due to a return to normal yields in western Canada.

Other Feedgrains

Japan is a large market for feed grains, due to its large livestock sector, and relatively small production area. Japan does not produce **corn**, but consumes about 16 Mt of corn annually, primarily in compound feed for the poultry market. Japan is the world's largest market for corn and accounts for about 21% of world trade. Nearly all of Japan's corn imports are sourced from the US.

Japan also imports substantial amounts of **sorghum** and **rye** and limited amounts of **oats** for the feed industry. Historically Japan sourced most of its rye from Canada, but currently Japan primarily imports rye from the EU and sorghum from the US and Australia. For oats, Canada is an important source, second to Australia. For 2003-2004 Canada's oat exports will likely increase to about 35,000 t due to abundant supplies in Canada, and rye exports will stay steady due to competition from the EU.

Oilseeds

Japanese **production** of oilseeds totalled 0.27 Mt in 2002, dominated by soybeans, and small amounts of groundnuts. The production of soybeans is on the rise as a result of a policy effort to divert rice production, but Japan is only about 5% self sufficient

in oilseed production. Soybeans and canola are the major oilseeds consumed for food use and livestock use (protein meal).

Japan has a large oilseed crushing industry, mainly for imported soybeans and canola. Japan protects its crushing industry through high tariffs on vegetable oil imports excluding tropical oils such as palm oil. In contrast, there are no tariffs on imports of oilseeds and protein meal.

Soybeans

Japan **imports** about 5 Mt of soybeans annually, which is about 8% of world trade. It is the third largest market for soybeans, behind the EU and China. The US is the largest supplier, followed by Brazil and Canada as a distant third.

Canada's soybean industry is willing and able to meet Japan's expectations for quality, identity-preserved (IP) soybeans and non-GM soybeans. Through the Canadian Soybean Export Association's Approved Identity Preservation Standard and numerous corporate IP systems, Canada is able to provide Japan with premium IP varieties that closely resemble varieties grown in Japan to be used for tofu and natto. Canada's soybean exports to Japan have grown substantially over the past decade, from only 14,000 t in 1993-1994 to a high of 179,000 t in 1999-2000. Since that time, Canada's exports have fallen slightly and totalled 137,000 t in 2002-2003. For 2003-2004, Canada's exports are forecast at 150,000 t, up slightly from last year.

Canola

Japan is the world's largest market for canola, accounting for more than 20% of world trade. Japan produces very little canola and imports are steady at more than 2.0 Mt annually. Major sources for canola include; Canada (approximately 80% of the market) and Australia (20%). Canada's exports of canola have averaged 1.7 Mt over the past 10 years. For 2003-2004, Canada's exports are expected to stay stable at 1.5 Mt as an increase of exportable supplies is offset by increased competition from Australia.

Flaxseed

Japan generally **imports** about 50,000 t of flaxseed a year and Canada is the major supplier. For 2003-2004, Canada's exports are expected to rebound to 40,000 t due to an increase in exportable supplies.

JAPAN: WHEAT SUPPLY AND DISPOSITION					
<i>July-June crop year</i>	1999 -2000	2000 -2001	2001 -2002	2002 -2003	2003 -2004f
Harvested Area (Mha)	0.17	0.18	0.20	0.21	0.22
Yield (t/ha)	3.45	3.76	3.55	4.00	3.55
million tonnes.....				
Carry-in Stocks	1.33	1.33	1.62	1.70	1.61
Production	0.58	0.68	0.70	0.83	0.77
Imports	<u>5.96</u>	<u>5.89</u>	<u>5.84</u>	<u>5.58</u>	<u>5.80</u>
Total Supply	7.87	7.90	8.16	8.11	8.18
Feed Use	0.65	0.58	0.46	0.35	0.35
Food, Seed, and Industrial Use	5.26	5.25	5.53	5.69	5.69
Exports (inc. products)	<u>0.63</u>	<u>0.45</u>	<u>0.47</u>	<u>0.46</u>	<u>0.45</u>
Total Use	6.54	6.28	6.46	6.50	6.49
Carry-out Stocks	1.33	1.62	1.70	1.61	1.69
JAPAN: CANOLA SUPPLY AND DISPOSITION					
<i>October-September crop year</i>	1999 -2000	2000 -2001	2001 -2002	2002 -2003	2003 -2004f
million tonnes.....				
Carry-in Stocks	0.27	0.30	0.30	0.27	0.19
Imports	<u>2.23</u>	<u>2.18</u>	<u>2.09</u>	<u>2.10</u>	<u>2.00</u>
Total Supply	2.50	2.48	2.39	2.37	2.19
Crush	2.19	2.17	2.11	2.18	1.99
Other Use	<u>0.01</u>	<u>0.01</u>	<u>0.01</u>	<u>0.00</u>	<u>0.00</u>
Total Use	2.20	2.18	2.12	2.18	1.99
Carry-out Stocks	0.30	0.30	0.27	0.19	0.20

f: forecast, USDA, November 2003

Source: USDA

Pork

Pork **production** is expected to increase slightly to 1.2 Mt in 2003.

Consumption is expected to decrease by 3%, as beef consumption has recovered. **Imports** are expected to fall by 7% to 1.0 Mt in 2003, because of an increase in domestically produced pork and large stocks of frozen pork for processing. Furthermore, Japan's pork safeguard was triggered in August for the third consecutive year, causing the import tariff to increase from 38.5% to 50% until March 31, 2004.

Japan is the world's largest market for pork, accounting for 32% of world trade. The US is the dominant supplier of fresh pork, while Denmark and Canada are the main sources for frozen pork. In 2002, Canada's pork exports totalled 166,000 t and were valued at \$640M. This total included \$373M of frozen pork, \$212M of fresh pork, \$23M of offals, \$23M of processed meat and \$9M of pig fat. Canada's pork exports for 2003 are expected to increase to 180,000 t, as exports for the period January to September are 20% above last year, but the outlook for the remainder of the year is not as promising.

Beef

Beef **production** is expected to fall slightly to 505,000 t in 2003, down 5% from 2002. **Consumption** is expected to increase by 2%, while **import** demand is projected to increase by 15% to 800,000 t. Australia is the main supplier of fresh or chilled beef, while the US is the main supplier of frozen beef. Imports from Canada are minimal.

Malt

In general, Japan is the world's largest market, although in 2001 Brazil's imports were greater than Japan's. Japan's **imports** average about 15% of world trade, although since 1996 there has been a decline in both the volume and share of world trade. Japan's main sources of malt are Canada, the EU and

Australia. For 2003-2004, Canada expects to export about 150,000 t of malt, or 12% less than in 2002-2003.

Forage

Japan **imported** 2.6 Mt of forage products (including hay, cubes and pellets) in 2000. Major suppliers were the US (71%), Canada (20%) and Australia (7%). Japan is Canada's largest market for forage products, often importing 90% of Canada's exports. In 2002-2003, Canada's exports were greatly reduced by limited exportable supplies and included 108,000 t of alfalfa pellets, 35,000 t of alfalfa in cubes and 77,000 t of timothy hay. For 2003-2004, Canada's exports will rebound from the low levels in 2002-2003 due to increased supplies. In recent years, Japan's demand for alfalfa products such as pellets and cubes has been decreasing, while the demand for long fibre feeds, such as timothy hay, is increasing.

Pulse and Special Crops

Japan **imports** about 90,000 t of **buckwheat** annually. Major sources for buckwheat include China (88%), the US (7%) and Canada (5%). Japan is Canada's largest export market, accounting for at least 50% of buckwheat exports. For pulse crops, Japan imports about 20,000 t of **kidney beans** and 20,000 t of **dry peas** annually, to be used primarily as confection. Canada enjoys success in these markets, supplying Japan with more than 30% of its kidney bean imports and over 60% of its dry pea needs.

Medium-Term Outlook

Recent internal food scares have prompted MAFF to change their focus from market development to consumer safety. Laws and programs have been put in place to ensure food safety at every stage of the food supply chain. There will be increased scrutiny of imported products, and exporters have

to be ready to meet the requirements of this large and important food importing country.

Through Canada's own programs and policies, Canadian exporters are preparing to meet these new challenges. Food safety has always been important to consumers both in Japan and Canada, but recent high-profile events around the world have raised their awareness and expectations. The objective of Canada's Agricultural Policy Framework is for Canada to be the world leader in food safety, innovation and environmentally-responsible production.

For more information, please contact:

Deanna Gower
Market Analyst
Phone: (204) 983-8474
E-mail: gowerd@agr.gc.ca

© Her Majesty the Queen in Right of Canada, 2003

Electronic version available at
www.agr.gc.ca/mad-dam/

ISSN 1207-621X
 AAFC No. 2081/E

Bi-weekly Bulletin is published by the:
Market Analysis Division,
Marketing Policy Directorate,
Strategic Policy Branch,
Agriculture and Agri-Food Canada.
500-303 Main Street
Winnipeg, Manitoba, Canada R3C 3G7
Telephone: (204) 983-8473
Fax: (204) 983-5524

Director: Maggie Liu
 Chief: Fred Oleson

Editor: Gordon MacMichael

To receive a free e-mail subscription to Bi-weekly Bulletin, please send your request to bulletin@agr.gc.ca.

Issued also in French under title:
Le Bulletin bimensuel
 ISSN 1207-6228
 AAFC No. 2081/F

© Printed on recycled paper

While the Market Analysis Division assumes responsibility for all information contained in this bulletin, we wish to gratefully acknowledge input from the following:

Canadian Food Inspection Agency, Canadian Grain Commission, Canadian Wheat Board, Market and Industry Services Branch (AAFC)