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JAPAN

Japan, the world's largest net agri-food importer, is Canada's second most important agri-food export market. In 2000, Canada exported $2 billion of agri-food products to Japan, of which 75% were grains, oilseeds, and their products. Canadian agri-food exports to Japan are expected to remain strong and increase over the medium-term. This issue of the *Bi-weekly Bulletin* examines the situation and outlook for Canadian agricultural exports to Japan.

ECONOMY

The Japanese population in 2001 is estimated to be about 127 million. Total land area is just slightly smaller than all of California at 377,801 square kilometres (sq km), with the majority being mountainous and rugged. Arable area comprises only about 15% of the land, with forest and woodland accounting for about 67%. Japan maintains an overall agricultural self-sufficiency rating of about 40% and as a result, relies extensively on imports of foodstuffs. Japan is the world's largest net importer of agricultural products and one of the world's most lucrative export markets.

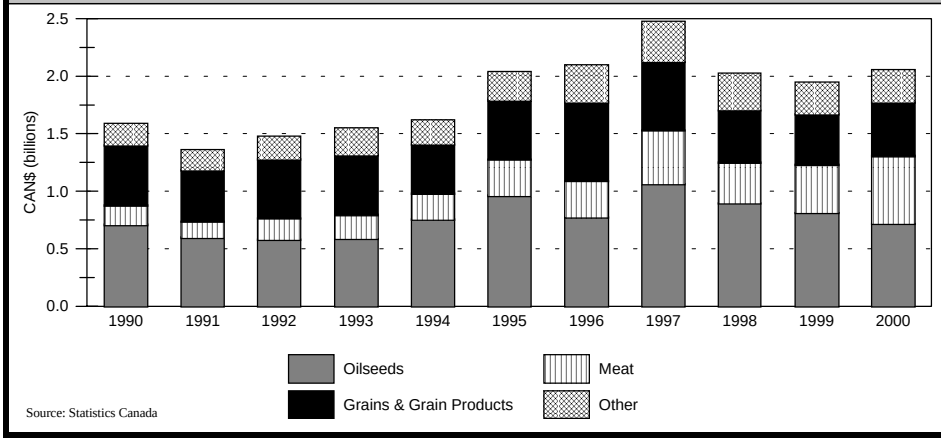
Japan's Gross Domestic Product (GDP) in 1999 was US$3.7 trillion; GDP per capita was US$30,000 and the country has a current public sector debt equal to about 130% of GDP. Manufacturing, the most important sector, accounts for about 42% of GDP, while services and agriculture account for roughly 57% and 2% respectively. Japan's highly industrialized economy is the second largest in the world and the country is the world's third largest trader exporting 12% of global trade. Because it has few natural resources, Japan relies heavily on imports of raw materials, particularly petroleum, iron and aluminum ore to fuel the country's industries.

In the period from the 1960s to the 1980s, Japan achieved one of the highest growth rates in the world. In the early 1990s, Japan's economy slowed dramatically when what was described as their "bubble economy" collapsed. Real GDP in Japan grew at an average rate of roughly 1.25% yearly between 1991-1998, slower than any other major industrial nation. The Japanese economy experienced further setbacks during the recent Asian financial crisis as more than 40% of Japanese exports are bought by Asia. Despite a decade of slow economic growth in Japan, imports have increased dramatically. The Japanese population is amongst the world's highest savers and one of the most affluent consumer markets. Imports, particularly agri-food, are expected to grow.

AGRICULTURE

Only about 15% of Japan's total land area is suitable for cultivation, an area representing only about 11% of Canada's total crop area. Japan is dominated by small farms with 70% of all farms less than 1 hectare, resulting in a labour-intensive

CANADA : AGRI-FOOD EXPORTS TO JAPAN



Source: Statistics Canada

Canada

agricultural sector. About 12% of the population lives on farm households but only about 7% of the population is actually involved in agriculture. While per hectare crop yields are among the highest in the world, labour shortages, urban and industrial encroachment and the diversion of land to forestry have contributed to a lower cultivated area and higher domestic production costs. Cultivated area has fallen from 6.09 million hectares (Mha) in 1961 to about 4.83 Mha in 2000. While the agricultural economy still remains highly subsidized and protected, as part of the General Agreement on Tariffs and Trade (GATT) Uruguay Round, Japan has agreed to some liberalization of its agricultural markets to trade. The liberalizing effects of trade agreements and the higher costs of production have improved market access and made imports increasingly competitive. Japan's overall agricultural self-sufficiency rating has fallen on a caloric basis from about 73% in 1965 to about 41% in 2000.

Paddy rice production is the major agricultural crop, which is usually double cropped with wheat, barley, and soybeans. Rice accounts for roughly one-third of gross agriculture income and is cultivated on about 40% of farmland. Due to the diversification of Japanese eating habits and surplus rice production, area seeded has shifted from rice to fruits, vegetables, and livestock products.

AGRICULTURAL POLICY

Japanese land reform policy introduced after the Second World War, gave tenant farmers ownership over the small plots of land they farmed. The major objectives of policy makers in the 1950s and early-1960s were to raise incomes of farm households so that their living standard would keep pace with those employed in the manufacturing sector, secure adequate food supplies, increase agricultural productivity and stabilize consumer prices. Japan's large and powerful agriculture cooperatives have also been very effective in lobbying successfully for maintenance of small farms, high support prices, and tariffs on imports.

The Basic Law on Food, Agriculture and Rural Areas within the Ministry of Agriculture, Forestry and Fisheries (MAFF) is the foundation of Japan's agriculture policy. The main agriculture objectives are to establish basic policies that secure stable food supplies, promote sustainable agriculture development, and advance the agriculture development of Rural areas.

The Japanese Food Agency (JFA) retains state trading arrangements for products including rice, wheat, barley, industrial alcohol, skim milk powder, and butter. The JFA is responsible for managing domestic supply and demand for rice, wheat and barley. Its function is to control the supply of rice, wheat and barley through a system of administered prices maintained by tariffs and import quotas. Although the bulk of staple grains are sold through agricultural cooperatives to wholesalers, the entire system is controlled by the JFA. A number of Canadian companies have recently achieved licensing rights to supply grains to their own customers.

Because rice historically has been the basis of the Japanese diet and is of religious and symbolic importance to the Japanese people, policy regarding rice is different than for wheat and barley. Direct quantitative control is applied to rice by matching supply with demand through the use of production controls such as crop diversion or area set-aside. The JFA uses two official channels in the rice distribution system. The government's marketed rice program (GMR) is the most widely used method accounting for about 50% of rice distribution. The JFA determines the price at which rice is purchased from producers and sets a price for its sale to wholesalers. The second method of distribution is the voluntary marketed rice system (VMR) introduced in 1969. Producers through their rice cooperatives are free to negotiate the purchase price with wholesalers. Because the price is not fixed, most of the VMR is of higher quality and therefore extracts a premium over the GMR. Additional quantities of rice are also marketed voluntarily via commodity exchanges.

For wheat and barley, producers have the option to sell their product privately however, the JFA purchases virtually all of the wheat and barley produced at a fixed price. The government then sells domestically produced wheat and barley to domestic users at a fixed price, usually below its purchase price. For barley, the JFA may use competitive tenders if the grain is sold for feed.

The purchase and resale of domestically produced rice, wheat and barley at lower prices generates a substantial net deficit to the Japanese government. This is offset by profits when imported grain is sold to end users at higher levels than the purchase price. Net profits in the internal and external accounts will fluctuate according to harvested yields, size of grain imports and exchange rates.

MARKET ACCESS UNDER WORLD TRADE ORGANIZATION (WTO) AGREEMENT

Japan has been implementing the GATT Uruguay Round agreements, such as the removal of import bans and quotas and its replacement with a tariffication system. While the government has bound and reduced tariffs during the 1995-2000 period, many agriculture products still face relatively high import duties. Tariffs are applied on a most favoured nation basis.

Japan is currently preparing for further rounds of WTO negotiations by receiving opinions from agriculture producers, the food industry, consumers and non-governmental agencies. As a result of Japanese society's concerns over food self-sufficiency and food security, it is expected that Japan will resist ideas of further sector specific reductions in tariff levels. In addition, reductions in domestic

support and protection would be considered by Japanese society to be a serious impediment to the country's target self-sufficiency ratio.

On April 1, 1999, the Japanese government implemented a rice tariffication system effective in 2000, to imports outside of the Ordinary Minimum Access (OMA) rice tenders. The specific duty of 341 yen per kilogram (¥/kg) or approximately CAN$4.50/kg, raises the price of imported rice well above domestic prices.

Total pork imports into Japan are limited by GATT rules which allow Japan to apply an automatic snap-back safeguard that increases the gate price when quarterly imports exceed 119% of the average amount imported in the same quarter over the last 3 years. In 2001, an automatic snap-back safeguard was implemented on August 1, 2001 and will be effective until March 31, 2002.

SANITARY, PHYTOSANITARY REGULATIONS, AND GENETICALLY MODIFIED ORGANISMS (GMO) LABELLING

Japan's Food Sanitation Law is undergoing its first overall revision in 23 years. The Ministry of Health, Labor and Welfare is establishing a new residue standard that will be more stringent than any other nation. Japan's phytosanitary regulations have an extremely strict zero-tolerance policy for live insects on imported produce.

Japan has approved 37 GMO commodities for consumption in Japan. Among them are several Canadian crops for export including: canola, corn, and soybeans. On April 1, 2001, the MAFF enacted a law requiring all processed foods containing GMO products to display a label indicating "GMO" ingredients. Further labelling is required for products that contain GMO raw materials. Currently there is a zero-tolerance policy for food or feed that contains any non-authorized GMO product. Recently, the Safety Division of the Agricultural Material Council, which is an advisory board to the MAFF, proposed a tolerance level of up to one percent on non-authorized GMO products in feed. However, this proposal or some similar variation, has yet to be accepted in law.

The Japanese Agricultural Standard mark, open to importers, is a widely used voluntary mark, that informs consumers that the product adheres to government labelling and quality standards. This system serves the purpose of rendering imported products more appealing to consumers.

RICE

Rice is the most important agricultural product grown in Japan. One of the main reasons for the dominance of rice is its suitability and profitability as a crop for many of Japan's part-time, small farms. About 70% of the water used in irrigation comes from rivers and lakes. The Japanese believe that rice paddy fields play such an important part in preventing floods and erosion that this provides some justification for their high domestic support.

Rice accounts for one-third of total gross farm cash receipts and is cultivated on about 37% of total agricultural land. Japan uses land set asides as a measure to prevent accumulation of large surpluses of rice stocks. Despite government efforts to reduce production through the use of increasing set asides, production still increased in 1999 (9.2 million tonnes {Mt}) and 2000 (9.5 Mt) due to improved yields. In 2001, in order to reduce large stocks, the MAFF will expand total set aside to an historic level of 1.01 Mha, representing about 40% of total potential rice paddy production.

Per capita consumption of rice has steadily declined during the last two decades from a high of 90 kg in 1982 to a current level of around 65 kg due to the diversification of eating patterns by Japanese consumers. The continued downward trend of traditional rice consumption is likely to further complicate government efforts to reduce large rice carry-over stocks.

Limited imports are allowed through either the Simultaneous Buy and Sell (SBS) tender or OMA tender systems. Under the GATT Uruguay Round , Japan has committed through the OMA tenders to imports amounting to 7.2% of total domestic rice consumption in fiscal year 2000. For the 2000 crop year (April-March), total Japanese imports were 0.7 Mt, an increase of about 6% over 1999 crop year levels.

JAPAN: WHEAT SUPPLY & DISPOSITION

		1999 -2000		**2000 -2001e**		**2001 -2002f**
			.....thousand tonnes.....			
Carry-in Stocks		1,300		1,100		988
Production		583		688		700
Imports:						
Canada	*1,526*		*1,491*		*1,500*	
United States	*3,102*		*3,000*		*3,000*	
Australia	*1,133*		*1,194*		*1,200*	
Other	*199*		*215*		*100*	
Total Imports		5,960		5,900		5,800
Total Supply		**7,843**		**7,688**		**7,488**
Food		5,209		5,200		5,175
Feed		900		900		850
Exports		634		600		600
Total Use		**6,743**		**6,700**		**6,625**
Carry-out Stocks		**1,100**		**988**		**863**

e: estimate
f: forecast, AAFC, September 2001
Source: USDA

WHEAT

Domestic wheat is produced in upland fields and as a second crop in paddy fields during winter. Domestic wheat is used primarily for making Japanese noodles as it is generally of lower quality than imported varieties. Due to the efforts of the MAFF to divert seeded area from rice to crops such as wheat, area seeded and production of wheat has increased over the past four years. Production in 2000 is estimated to be 0.69 Mt, supplying only about 10% of domestic needs. Annual consumption of wheat has been relatively flat and is forecast to remain stable in coming years.

Total wheat imports for the 2000 crop year dropped 4.9% to 5.7 Mt due to a weaker yen and a stagnant domestic economy. The MAFF expects the downward trend to continue for the next several years, however, Japan will remain one of the world's largest importers of wheat.

Canadian exports of wheat to Japan have varied between 1.2 Mt and 1.4 Mt (August-July) over the last several years. Japan is a premium market for Canadian wheat, as over 90% is high-protein No.1 Canada Western Red Spring (CWRS) and almost all durum is No.2 Canada Western Amber Durum (CWAD). Japan imported almost 0.2 Mt of durum in 1990-2000 and virtually all Japan's durum needs are supplied by Canada. For bread flour and Chinese noodle production, Japan imports Australian Prime Hard and Soft White; United States (U.S.) Hard Red Spring, Winter, and Soft White; and CWRS wheat.

Japan also produces and exports wheat flour. Flour millers are allowed to import wheat outside the JFA as long as they export an equivalent amount of wheat flour. Millers take advantage of this since it gives them an opportunity to import at world prices which are less than half the agency resale prices and provides them with an export market for their lower quality flour. In the 2000 crop year, Japan exported over 0.4 Mt of flour, of which about 74% was destined for Hong Kong.

The JFA controls the purchasing and pricing of both domestic and imported wheats. In May 1998, the JFA announced a new wheat policy to be implemented between crop years 2000 and 2002. Some of the changes include: a shift from the JFA's exclusive purchase of domestic wheat to purchases by the private sector; introduction of a new compensation program for domestic wheat farmers; introduction of the SBS tender system for imported wheat and barley for feed use; and improving the quality of domestic wheat to compete with foreign wheat.

COARSE GRAINS

In 2000, Japan's production of barley was 0.2 Mt, equivalent to about 12% of consumption. Roughly 80-90% of total domestic consumption of barley is used for compound and mixed feed for the beef and dairy sectors. A small proportion of barley is used for malt. Japan is among the top five barley importing nations, with annual crop year imports averaging 1.6 Mt over the last 3 years. Canada, Australia, and the U.S. are historically the three major suppliers of barley to Japan. In the 2000 crop year, Canada supplied Japan with 24% of their import needs.

Under the new enacted SBS tender system introduced for barley, 0.7 Mt of feed barley is expected to be contracted in the 2001 crop year.

Japan has a limited malting industry and thus imports significantly more malt than malting barley. Canada exports about 40% of its barley malt to Japan, its most important export destination. For 1999-2000, Canada exported about 182,000 tonnes (t) of malt (barley equivalent), 40,000 t of malting barley, 22,000 t of rye, and 1,300 tonnes of oats to Japan. Japan is also the world's largest importer of corn, importing about 16.0 Mt per year. U.S. exports dominate this market accounting for 96% of total Japanese import needs.

OILSEEDS AND PRODUCTS

The two primary edible oils in Japan are soyoil and rapeoil, which are mainly consumed as blended oil, while soybeans and peanuts are the two major oilseeds produced in Japan. Soybean production accounts for about 90% of total seeded area. Despite increased production of soybeans as a result of the rice diversion program, Japanese production supplies only about 4% of domestic needs.

The U.S. is the dominant supplier of soybeans to Japan. However as a reaction to mandatory GMO labelling implemented by Japan on April 1, 2001, many food manufactures have shifted some of their imports to non-GMO soybeans supplied from Canada and Brazil. In 1997-1998 (August-July), Canadian exports to Japan were about 54,000 t. By 1999-2000, exports had reached almost 179,000 t.

Oilseeds are Canada's largest agri-food export to Japan. Japan is the major market for Canadian canola. Japan's canola imports have averaged 2.0 Mt between 1993-1994 to 1999-2000. Canada is the dominant supplier of canola to Japan, however in recent years Australia has made some inroads into the Japanese market. In 1999-2000, Canadian exports of canola were 1.8 Mt and represented about 81% of market share versus about 0.4 Mt (18%) supplied by Australia. Canada continues to supply

JAPAN: OILSEED IMPORTS

	1996	1997	1998	1999	2000f
	.....thousand tonnes.....				
Canada	1,715	1,893	1,875	2,026	2,056
United States	3,666	3,905	3,738	3,870	3,928
Brazil	524	559	524	585	533
Other	1,634	1,087	1,330	1,103	1,180
Total	**7,539**	**7,444**	**7,467**	**7,584**	**7,697**

f: forecast, AAFC, August 2001
Source: Oil World Annual 2000

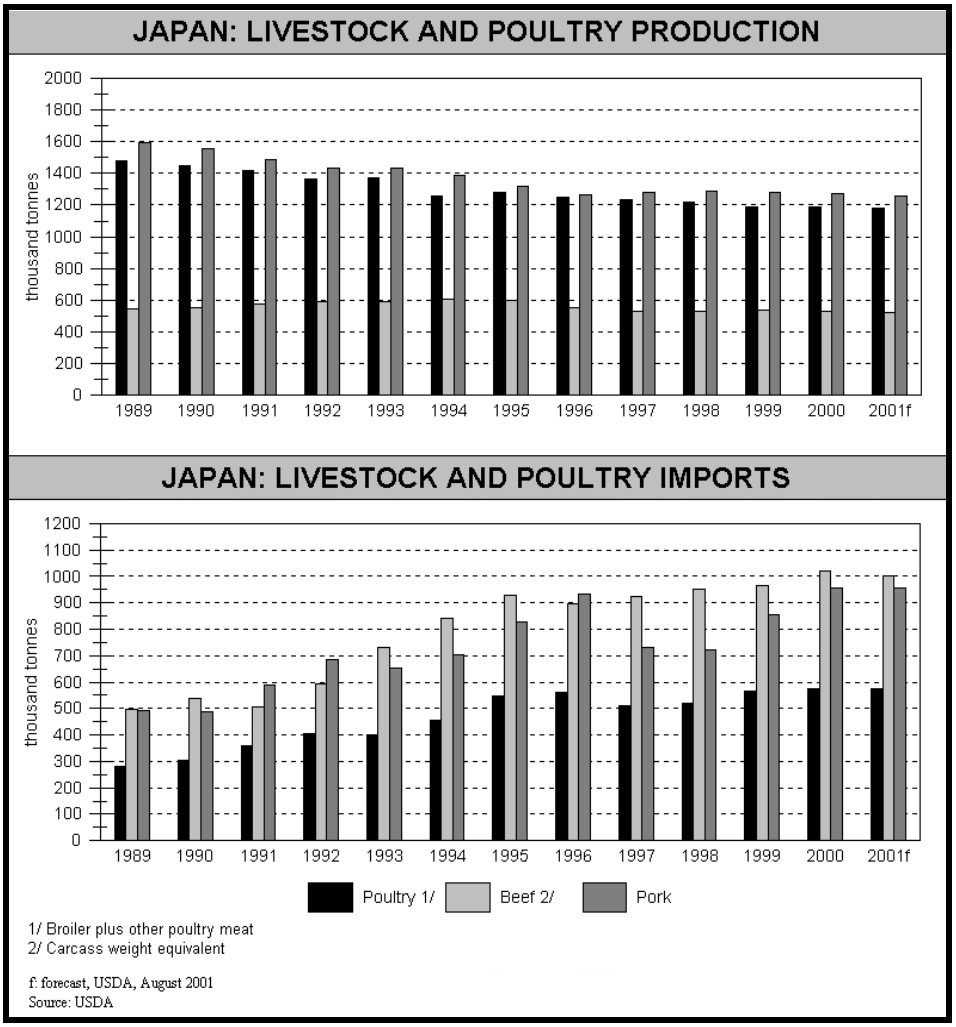
Japan with a high percentage of its linseed (flaxseed) import requirement. In 1999-2000 ,Canada supplied Japan with about 39,000 t of flaxseed.

Japan has a large excess oilseed crush capacity and therefore imports very little soybean and canola oil. The number of crushers in Japan has been declining gradually and as a result over-capacity is also declining. Japan protects its crushing industry through high tariffs on vegoil imports excluding tropical oils such as palmoil. In contrast, there are no tariffs on imports of oilseeds and protein meal. The duty on both soybean and canola oil is currently at 10,900 yen per tonne (¥/t) or about CAN$143/t.

BEEF

The domestic beef market is protected by a Deficiency Payment Scheme for Feeder Cattle and the Prefectural Feeder Calve Producer Fund. Both are designed to provide support to feeder calf producers when quarterly auction prices fall below a minimum floor price set by MAFF. Various livestock farm management support measures that provide low interest debt financing, cost subsidization, and marketing and promotion costs, are also used. Japan is committed to maintaining their agriculture support payments even after the next round of WTO negotiations because it views the programs as necessary to sustain domestic beef supplies.

In 1995, due to subsidization, technical support and import trade barriers, Japan was 72% self-sufficient in beef. By 1999, Japan's self-sufficiency rating had fallen to 36%, with imports accounting for more than 60% of consumption. Japan's rising imports are both the result of rising per capita beef consumption and a gradual decline in domestic production.



Japanese livestock producers, like other farm sectors, face serious aging and successor problems and increasing costs associated with pollution control. Imports to Japan began to rapidly increase after 1991 when the beef quota system was replaced with a tariffication system. Between 1995 and 2000, imports were further aided when the ad-valorem duty on beef was reduced from 50% to 38.5%. In 2000, the U.S. and Australia combined are estimated to account for 94% of all Japanese import requirements. Canadian exports of fresh and frozen beef to Japan in 2000 were 34,000 t.

PORK

Pork production in Japan has decreased from a high of about 1.6 Mt in 1989 to about 1.3 Mt forecast for 2001. Consumption of pork, however, has been increasing, and is expected to reach about 2.2 Mt in 2001 or about 17 kg per capita. Since about 1990 pork imports have comprised a larger percentage of consumption within the Japanese market. In 2000, pork imports are forecast to reach 955,000 t, representing about 43% of total consumption and making Japan the world's largest importer of pork. Major suppliers include Denmark, the U.S., and Canada.

Japan is Canada's second largest export market for frozen pork after the U.S. Exports of pork and products reached about $247 million in 2000.

POULTRY

Japan is about 65% self-sufficient in poultry production. The remaining portion of this market consists of imports from China, Thailand, Brazil, and the U.S. In 2000, total broiler meat imports are estimated at 575,000 t. Consumption of broiler meat in Japan is expected to remain flat, therefore imports are not expected to increase substantially. However imports of prepared chicken products are expected to increase, reflecting strong restaurant and

convenience store demand. China and Thailand are expected to benefit the most from this, as Japan has invested heavily in joint ventures within these two countries. In 2000, Canada exported $13.3 million worth of poultry and poultry products to Japan.

OUTLOOK

Japan is expected to continue to be a strong agri-food market for Canadian exports. In 1999, Canadian agri-food exports were valued at $1.95 billion. Canadian export volumes have shown impressive increases, however due to the magnitude of Japan's import growth, total market share has remained steady at roughly 5.1%. Despite governmental efforts to increase the Japanese self-sufficiency ratio from 41% to 45% by 2010, domestic production is expected to continue to decline due to labour shortages, and increasing costs. The demographic shift from rural to urban areas and the change in dietary eating habits have also contributed to the rapid increase in imports.

Japan's foreign investment in other nations' food industries has resulted in substantial growth in their share during the 1990s. For example, China and Indonesia have doubled their market share of the Japanese market over the past decade, and Taiwan's share has increased from 0.5% to more than 4.5%. As Japan's import requirement continues to grow, Canada with its reputation as a reliable supplier of clean, safe, agri-food products, is well positioned to supply the increasing needs of Japanese consumers. Canadian food companies compete daily with the U.S. and Australia with great success.

Wheat and Barley

Japanese demand for high-quality imported wheat is expected to remain strong. Japanese wheat consumption has gradually increased over the past few years due to a shift from rice to wheat based products. However, due to low consumer confidence in the Japanese economy, consumption of wheat in 2000 is expected to be flat. Canada's excellent quality control should place the country in a strong position to maintain or increase its market share.

Japan and the Canadian Wheat Board (CWB) have annual supply agreements for a designated volume of wheat and barley. For calendar year 2001, the agreement is for a minimum of 1.2 Mt of wheat and a target of 160,000 t of barley.

Japan will continue to be a priority market for Canadian grains. Canadian wheat exports are expected to remain relatively stable at about 1.5 Mt over the medium-term. Canadian exports of barley will be limited by the CWB's ability to secure adequate supplies of feed barley.

Japan is expected to remain the major market for Canadian barley malt and buckwheat.

Oilseeds

Japan is expected to return to its traditional position as Canada's largest export market for canola. However, due to lower stocks forecast in 2001-2002, Canadian exports are expected to decline slightly to 1.8 Mt.

The short-term forecast for protein meal imports is expected to increase due to the government's ban of meat and bone meal. However, over the medium-term, total protein meal imports are forecast to decline due to projected lower livestock numbers.

Livestock

Japanese livestock numbers are expected to decrease over the medium-term due to environmental concerns and competition from cheaper imports. Beef production has been stable over the last five years but is projected to decline slightly over the medium-term. The demand for beef, however, is expected to increase due to income growth and more expensive and diverse dietary habits. As a result, Japanese beef imports are forecast by Agriculture and Agri-Food Canada to increase from about 0.9 Mt in 1996-1997 to about 1.1 Mt over the next five years.

Japanese pork production is expected to decline from about 1.27 Mt in 2000 to about 1.26 Mt in 2001. However, total pork consumption in 2001, is expected to increase slightly to about 2.16 Mt. Short-term imports are expected to decline slightly as government surplus pork supplies are expected to pressure imports. Canadian exports of chilled pork over the next five years are expected to increase due to its price competitiveness over domestic production. Japan's ban of Korean and Taiwanese pork as a result of non-Foot and Mouth Disease free-status is also expected to aid the Japanese preference for Canadian pork.

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