

# Issues and Policies Surrounding Production of Milk and Dairy Products

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## INTRODUCTION

At the end of 2014 when many people bought and enjoyed sweet cakes made of raw milk for the Christmas, the shortage of dairy products, especially butter, became a hot topic in Japan. Consumers could not find out butter at any supermarkets, and have to wait its arriving for many days. The Ministry of Agriculture, Forestry and Fisheries (MAFF) instructed the Agriculture and Livestock Industries Corporation (ALIC) which is the sub-organ of government for the state trade to import dairy products for emergency. The MAFF explained the reason for this shortage saying that the extremely hot days in 2014's summer caused the frequency of mammitis on cows and that the decrease in the number of dairy farmers resulted in the drop in the amount of raw milk production<sup>1</sup>. On the other hand, some economists criticized the MAFF's production and trade policies as the factor of the unbalance between supply and demand. These opinions led to the discussion in the Council of Regulatory Reform (CRO) which is utilized by Shinzo Abe Cabinet as the vehicle of wider government reform<sup>2</sup>.

In this article, I will summarize and translate the MAFF's brief documents which was published to explain recent state and policies of milk and dairy products in Japan<sup>3</sup>. You can understand the official position of the MAFF towards the problem of milk shortage. You can also understand that it supports the system of the state trade and its function of the adjustment between supply and demand.

This translation is not the official publication by the MAFF. I do not translate parts of tables and figures to avoid duplication.

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<sup>1</sup> The MAFF's website (<http://www.maff.go.jp/j/chikusan/gyunyu/butter.html>).

<sup>2</sup> The CRO's website (<http://www8.cao.go.jp/kisei-kaikaku/kaigi/meeting/meeting.html>).

<sup>3</sup> If you wish to read by original language, refer to the MAFF's website (<http://www.maff.go.jp/j/chikusan/gyunyu/pdf/0304.pdf>).

## TRANSLATION

### State of Production of Milk and Dairy Products

- The amount of raw milk production had been maintained around 8.5million tons until 2002 or 2003 because of the scale expansion (rise in the number of reared cows), although the number of dairy farmers had dropped annually. Since 2003, however, the amount of production has decreased and reached 7.5million tons because of the delay of the scale expansion caused by farmers being overworked and the rise of feed costs.
- Raw milk turns sour easily. It is firstly processed into drinking milk and fresh cream, freshness being strictly required. They are then processed into butter and powdered skim milk which are easy to be preserved. So, when the amount of raw milk production decreases, that of butter decreases more sharply because butter plays a role in regulating valve for supply and demand (Table 1).
- The supply and demand of raw milk have to be managed accurately not to cause wastage because it is produced every day and tends to turn sour immediately. The price of raw milk for drinking (produced mainly in prefectures) which does not compete with imported products exceeds its production cost, while raw milk for dairy products (produced in Hokkaido) which is forced to compete, needs policy support. Recent policy schemes are intended to stabilize managements of dairy farmers, targeting raw milk for dairy products, and introducing payments to compensate between revenue and costs (Table 2).
- The amount of imported butter and powdered skim milk is managed as the state trade because they function as regulating valves for supply and demand. In FY2014, the Japanese government decided to import butter for non-household use by 13,000 tons (about two month's domestic consumption) in February, May and September successively. Recent production continues mainly in Hokkaido, and the amount of production in FY2015 will exceed that of previous year.
- There are three types of import for milk and dairy products. First, the ALIC manages the amount of import as the current access and additional import for emergency, adding tariff and mark-up to import price. The rate of tariff, for example on butter, is 35%, and mark-up is decided by the ALIC. The ALIC can manage the amount of imported products adequately and contributes to the smooth and stable supply and demand. Second, private companies receive tariff quotas, being added tariff below 35%. Third, private companies import dairy products freely if they pay tariff, for example by 29.8% plus 985yen per kg on butter.

Table 1. Trend in the production of milk and dairy products

(million ton)

	FY2012	FY2013	FY2014										
			Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	(Apr-Jan)
Raw Milk	7.61	7.45	0.63	0.65	0.62	0.62	0.60	0.58	0.60	0.58	0.61	0.62	6.12
	1.0%	-2.1%	-3.6%	-3.1%	-3.0%	-2.2%	-1.2%	-1.6%	-1.7%	-0.7%	-0.5%	-0.4%	-2.0%
For Butter and	1.75	1.60	0.15	0.15	0.12	0.12	0.12	0.09	0.10	0.11	0.15	0.16	1.25
Powdered Skim	6.9%	-8.1%	-13.5%	-11.3%	-14.0%	-4.7%	-1.7%	-2.3%	-4.6%	-0.5%	-1.6%	-0.1%	-5.9%

Source: The MAFF. *Statitics of Milk and Dairy Products* ., and the ALIC's documents.

Table 2. Structure of supply and demand of raw milk (FY2013)

(million ton, yen/kg)

	Amount of Production	Producer Price
<b>Total Supply</b>	<b>11.51</b>	
<b>Domestic Production</b>	<b>7.45</b>	
For Drinking	3.96	115
For Fresh Cream	1.30	75
For Cheese	0.48	50
For Butter and Powdered Skim Milk	1.60	70
<b>Import Products</b>	<b>4.06</b>	
Tarif Quotas	0.43	
State Trade	0.11	
Liberalized Products	3.50	

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