

23. Butter and Cheese

1. Definition of Category

This section addresses the dairy product categories of butter and cheese. Cheese is broadly classified into natural cheese and processed cheese, but this report also examines other more distinctive forms of cheese, such as those containing spices, meat, vegetables and vitamins.

HS Numbers	Commodity
0405.10	Butter
0406.10-020, 10-090, 20-200	Natural cheese
0406.10-010, 40-010, 90-010, -090	Natural cheese for processing
0406.20-100, 30	Processed cheese

2. Import Trends

(1) Recent Trends in Butter and Cheese Imports

<Butter>

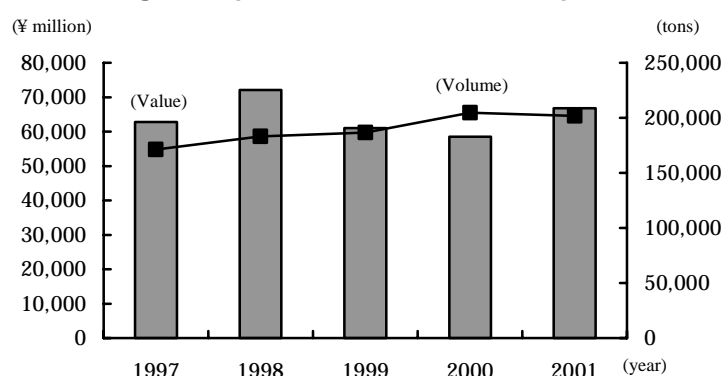
Fresh milk produced in Japan is generally used to make ordinary drinking milk, which enjoys a price advantage over other dairy products. Only a small portion of Japan's milk production goes into making butter. Imports generally compensate for shortages of domestically produced butter relative to demand. In order to stabilize domestic butter prices, all butter imports pass through a single importer channel, namely, the Agriculture and Livestock Industry Corporation. From 1996 onward, butter imports have shrunk to the 300-350 ton range.

<Cheese >

Cheese imports have been steadily rising year by year, breaking through the 200,000 ton barrier for the first time in 2000, to a total of 204,756 tons. Despite a 16% increase in the unit price of imported cheese in 2001, due to higher raw material prices, increased transportation costs and the weakness of the yen, imports fell just 1.0%, to 201,371 tons. On a value basis, total cheese imports reached ¥66.6 billion (up 14% from the year before).

Cheese consumption in Japan is split between natural cheese and processed cheese, but most imported cheese consists of natural cheese. In 2001, natural cheese imports for direct consumption were 62,187 tons, and imports for making process cheese were 131,957 tons.

Fig. 1 Japan's butter and cheese imports



	1997		1998		1999		2000		2001	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Butter	353	105	327	117	324	102	319	89	316	111
Cheese	170,992	62,729	182,686	71,940	186,189	60,922	204,437	58,453	201,371	66,638
Natural cheese	43,587	16,924	49,575	19,744	54,791	18,307	65,673	19,150	62,187	20,517
Natural cheese for processing	122,925	43,264	127,783	49,005	125,457	39,297	132,154	36,007	131,957	42,418
Processed cheese	4,481	2,542	5,327	3,191	5,940	3,319	6,610	3,296	7,227	3,703
TOTAL	342,337	125,563	365,699	143,997	372,702	121,947	409,193	116,995	403,057	133,386

Units: tons, ¥ million

Source: Japan Exports and Imports

The cheese market in Japan has grown for ten straight years, and imports of natural cheese have also been rising. Demand is rising in particular for Parmesan cheese used with Italian food, as well as for *Camembert* and other white mold cheeses. Processed cheese is imported in that form in only small quantities, but those imports are growing as well, increasing from 4,481 tons to 7,227 tons over the past five years.

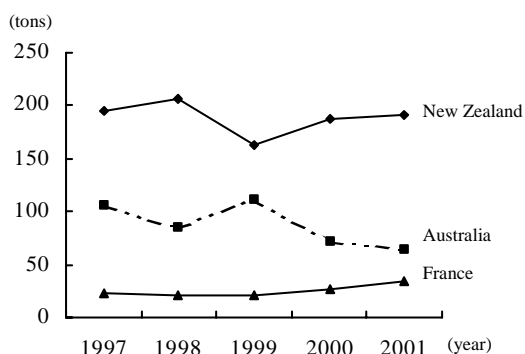
(2) Imports by Place of Origin

<Butter>

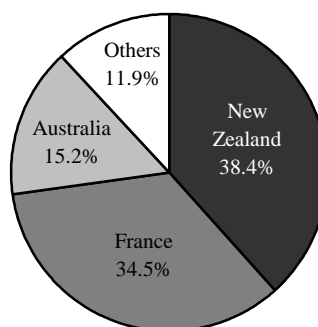
Imports of butter came mainly from New Zealand (60.5%) and Australia (20.7%) in 2001. France and Denmark export only small quantities of butter to Japan, but because of the high unit prices, France ranks ahead of Australia as an exporter of butter to Japan on a value basis.

Fig. 2 Principal exporters of butter to Japan

Trends in import volume by leading exporters



Shares of butter imports in 2001 (value basis)



	1997	1998	1999	2000		2001			
	Volume	Volume	Volume	Volume	Value	Volume	Value	Volume	Value
New Zealand	196	207	164	187	32	191	60.5%	43	38.4%
Australia	106	86	111	72	18	65	20.7%	17	15.2%
France	22	21	21	26	26	34	10.8%	38	34.5%
U.S.A.	18	1	23	11	4	12	3.8%	6	5.7%
Denmark	11	13	5	15	6	8	2.4%	3	2.5%
Others	1	0	0	8	5	6	1.8%	4	3.7%
TOTAL	353	327	324	319	89	316	100.0%	111	100.0%
(E U)	33	34	26	41	32	45	14.2%	44	39.6%

Units: tons, ¥ million

Source: Japan Exports and Imports

<Cheese>

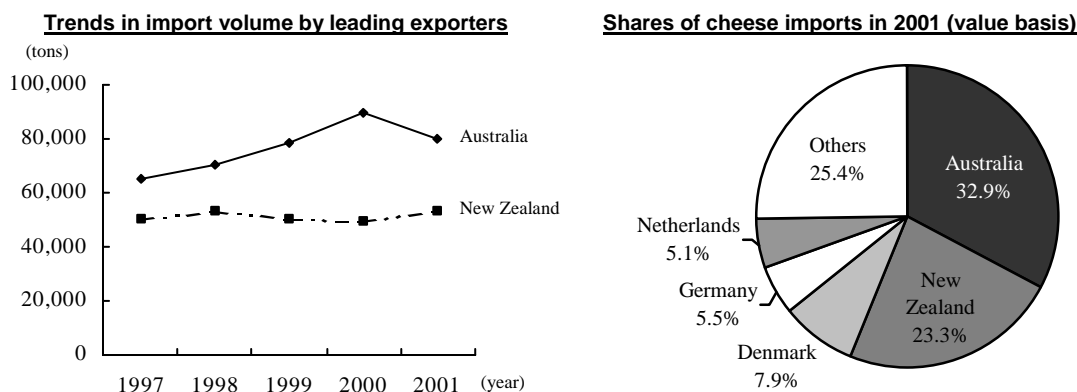
The main exporters of cheese are in Oceania or Western Europe. Australia led with a share of 39.7%, followed by New Zealand (26.5%) and EU member nations (total share of 24.3%) such as Denmark, Germany and the Netherlands. In 2001, Australian imports declined, whereas imports from New Zealand and the EU rose. Import growth from Germany was especially strong.

Australia and New Zealand long held the lead as a supplier of cheese used to make processed cheese. In addition, more recent sales promotion efforts have focused on natural cheese for direct consumption, and in 2001 both countries held a 66.9% import share in this area. In imports of process cheese (finished products), France led with a share of 44.8%, followed by Denmark (18.8%) and Germany (10.6%). (see Fig. 3 & 4)

(3) Imports' Market Share in Japan

<Butter>

Imports' share is around 1% because butter requires freshness.

Fig. 3 Principal exporters of cheese to Japan

	1997	1998	1999	2000		2001			
	Volume	Volume	Volume	Volume	Value	Volume	Share	Value	Share
Australia	64,967	70,655	78,445	89,592	21,819	80,026	39.7%	21,913	32.9%
New Zealand	50,718	53,509	50,652	49,675	12,388	53,412	26.5%	15,512	23.3%
Denmark	12,651	12,827	12,177	12,776	4,507	13,919	6.9%	5,244	7.9%
Germany	7,469	7,092	7,740	10,781	2,542	12,242	6.1%	3,643	5.5%
Netherlands	8,928	7,815	7,586	9,127	2,488	10,238	5.1%	3,403	5.1%
Others	26,259	30,788	29,589	32,487	14,709	31,535	15.7%	16,924	25.4%
TOTAL	170,992	182,686	186,189	204,437	58,453	201,371	100.0%	66,638	100.0%
(E U)	38,148	38,030	37,755	44,243	16,968	48,953	24.3%	21,449	32.2%

Units : tons, ¥ million

Source: Japan Exports and Imports

Fig. 4 Leading exporters of cheese by usage (2001, volume basis)

		Total volume	First	Share	Second	Share	Third	Share
			Natural cheese (for raw material)	(TQ)	45,744	New Zealand	43.9%	Australia
	(Other than TQ)	86,213	Australia	29.7%	New Zealand	27.7%	Germany	11.3%
Natural cheese	(For direct consumption)	62,187	Australia	58.5%	New Zealand	15.0%	U.S.A.	6.1%
Processed cheese	(For direct consumption)	7,227	France	44.8%	Denmark	18.8%	Germany	10.6%

TQ = Tariff Quota (see 3-(1))

Source: Same as above

<Cheese>

Imported natural cheese enjoyed around 86% share in the Japanese market. This large market share results from the high cost of Japanese natural cheese, and from climatic conditions in Japan, which are less suited to cheese making than other countries. A breakdown for cheese consumption (Fig. 6) shows that imported natural cheese for direct consumption accounted for 89.7% of the market, and natural cheese for use in making process cheese accounted for 79.6%. In contrast, most processed cheeses are domestic products made from a blend of imported natural cheese and domestically produced ingredients. Imported process cheese accounted for just 5.9% of the process cheese market.

Fig. 5 Imports' share in the Japanese market

<FY>		1996	1997	1998	1999	2000
Butter	Domestic production	86	88	88	90	80
	Imports	1	1	1	0	0
	Change in stock	0	△1	6	6	△3
	TOTAL	87	90	83	84	83
	Imports' share	1.1%	1.1%	1.2%	0%	0%
Cheese	Domestic production	33	34	35	37	34
	Imports	168	173	183	190	209
	Change in stock	0	0	0	0	0
	TOTAL	201	207	218	227	243
	Imports' share	83.6%	83.6%	83.9%	83.7%	86.0%

Unit: 1,000 tons FY = April to March

Source: Food Supply and Demand

Fig. 6 Trends in Cheese Supply and Demand

		FY 1998	FY 1999	FY 2000
Natural cheese (for direct consumption)	Domestic production	14,827	15,977	14,628
	Imports	104,666	111,881	127,903
	TOTAL	119,493	127,858	142,531
	Imports' share	87.6%	87.5%	89.7%
Natural cheese (used as raw ingredient for process cheese)	Domestic production	20,093	20,534	19,041
	Imports (Tariff Quota)	72,196 (49,681)	72,662 (50,518)	74,394 (48,380)
	TOTAL	92,289	93,199	93,435
	Imports' share	78.2%	78.0%	79.6%
Processed cheese (for direct consumption)	Domestic production	108,902	109,975	110,177
	Imports	5,655	5,884	6,868
	TOTAL	114,557	115,859	117,045
	Imports' share	4.9%	5.1%	5.9%

Unit: tons

Source: Compiled from Supply and Demand of Cheese, Ministry of Agriculture, Forestry and Fisheries

3. Key Considerations related to Importing

(1) Regulations and Procedural Requirements at the Time of Importation

Importation of butter and cheese is subject to provisions of the laws in table below.

Fig. 7 Laws applying to butter and cheese

		Manufacturing Milk Producer Compensation Temporary Law	Customs Tariff Law	Food Sanitation Law
Butter		O	O	O
Cheese	Natural cheese		O	O
	Processed cheese			O

1) Manufacturing Milk Producer Compensation Temporary Law

In order to stabilize the price of dairy products and protect the dairy industry and related industries, Japan has adopted the Manufacturing Milk Producer Compensation Temporary Law. To the extent of the quantity stipulated by the Law, the Agriculture and Livestock Industry Corporation is granted the exclusive right to import and market butter in Japan. However, any one may import - not just parties commissioned by the Corporation.

Under the Law, importers must conclude contracts with the Agriculture and Livestock Industry Corporation for the purchase or sale of designated milk products generally imported. They submit a sale or purchase application to the Corporation and receive a purchase or sale agreement before notification of import.

2) Customs Tariff Law

Butter and natural cheese are subject to Tariff Quota (TQ) system under provisions of the Customs Tariff Law. This, however, applies only to butter used for specific applications (used for international exhibitions, international airlines, making reconstituted milk in Okinawa, and making powdered infant formula in Okinawa). It does not cover butter for general use.

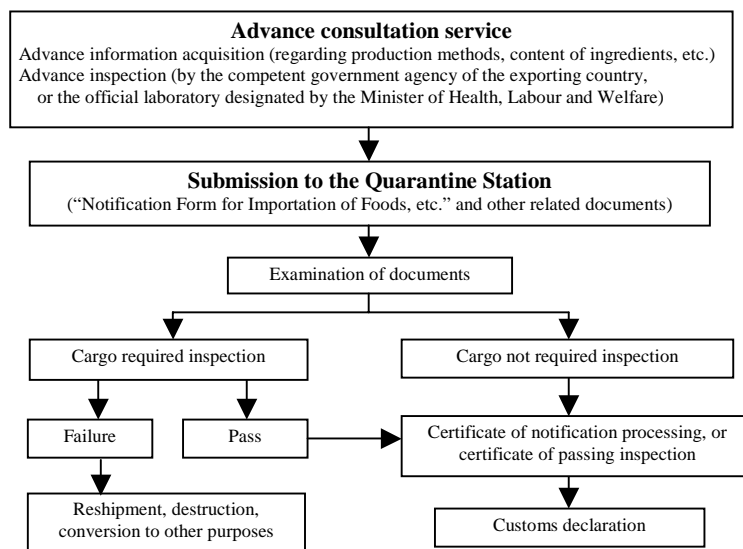
Tariff quotas impose either duty free or a very low tariff (known as the primary tariff) on a certain portion of imports, thereby providing consumers with low-cost imported products, then impose a high tariff (known as the secondary tariff) on imports exceeding a designated level in order to protect domestic producers. Natural cheese imports up to 2.5 times the domestic natural cheese may be imported tariff free, but only for making processed cheese products. Qualified applicants must own or operate processed cheese production facilities and must prove they are also using domestically produced natural cheese to make processed cheese.

3) Food Sanitation Law

In order to assure product safety, both butter and cheese are subject to provisions of the Food Sanitation Law, as well as Ministerial Ordinance Concerning Specifications of Composition of Milk and Milk Products, etc. issued under the Law. These regulations govern standard of the content, production methods and labeling methods for butter and cheese.

Under provisions of the Food Sanitation Law, an import notification is required for butter and cheese being imported for the purpose of sale or for other commercial purposes. Importers are required to submit the completed “Notification Form for Importation of Foods, etc.” to the Quarantine Station at the port of entry. A determination is made based on the document examination whether or not an inspection at the bonded area is required.

Fig. 8 Procedures required under the Food Sanitation Law



Butter and processed cheese are checked for compliance with content standards (milk fat content, milk solid content, E. coli content). Natural cheese is not subject to content requirements, but it is inspected for the presence of some organisms, such as *listeria pirie*. Some countries permit the use of antibiotics in cheeses. But, any foods shall not contain antibiotics in Japan, and may not be imported.

Prior to importing, the importer may take a sample of forthcoming imports to official laboratories designated by the Minister of Health, Labour and Welfare in Japan or in exporting countries. Those test results may be substituted for the corresponding inspection at the port of entry, which expedites the quarantine clearance process.

In addition, importers who wish to submit their notifications by computer may make use of the computerized FAINS (Food Automated Import Inspection and Notification System) for processing import-related documentation. Importers who have the required hardware and software may apply for a security code from the Minister of Health, Labour and Welfare to access the system.

(2) Regulations and Procedural Requirements at the Time of Sale

The sale of butter and cheese is subject to provisions of the Food Sanitation Law, the JAS Law, the Measurement Law, the Nutrition Improvement Law, the Act Against Unjustifiable Premiums and Misleading Representations, the Containers and Packaging Recycling Law, and the Law for Promotion of Effective Utilization of Resources.

1) Food Sanitation Law

The Food Sanitation Law prohibits the sale of foods containing toxic or harmful substances and foods that are unsafe for human health. The Law defines content standards and sets forth manufacturing and preservation standards for butter and cheese under the Ministerial Ordinance Concerning Specifications of Composition of Milk and Milk Products, etc. The sale in Japan of butter and cheese is subject to labeling requirements under provisions of the Food Sanitation Law. In addition, as of April 2001, the Food Sanitation Law mandates or recommends raw material labeling for food products that contain allergens. (see 4. Labeling)

2) JAS Law

(Law Concerning Standardization and Proper Labeling of Agricultural and Forestry Products)

The JAS Law establishes quality labeling standard for all food and beverage products sold to ordinary consumers. (see 4. Labeling)

3) Measurement Law

Butter and cheese sealed in wrapping or containers are required the labeling of the net content to certain accuracy (range of error specified by Cabinet Ordinance).

4) Nutrition Improvement Law

When employing labeling for nutritional ingredients or calories, labeling must be in accordance with the requirements under the Nutrition Improvement Law. (see 4. Labeling)

5) Act Against Unjustifiable Premiums and Misleading Representations

<Fair Competition Code Concerning Representations of Natural Cheese, Process Cheese, and Cheese Foods>

The industry has voluntarily adopted labeling guideline in order to assure consumer product choice availability and preserve fair competition, based on the Act Against Unjustifiable Premiums and Misleading Representations. (see 4. Labeling)

6) Containers and Packaging Recycling Law (Law for Promotion of Sorted Collection and Recycling of Containers and Packaging)

The Containers and Packaging Recycling Law was enacted to promote recycling of container and packaging waste materials. It provides for sorting by consumers, sorted collection by municipalities, and product reuse (recycling) by product makers and distributors for glass bottles, PET bottles, paper and plastic containers and packaging. Consequently, importers of butter and cheese incur the obligation for recycling of containers and packaging (although stipulated small-scale importers are exempt). Please consult the competent government agencies listed below for more information.

7) Law for Promotion of Effective Utilization of Resources

As of April of 2001, new identifier labeling requirements apply to paper (not including beverage containers not containing aluminum) and plastic container materials, in addition to previously existing labeling requirements for steel and aluminum cans. (see 4. Labeling)

8) Local Government Ordinances

Local governments sometimes have additional labeling requirements for butter and cheese sold in their jurisdictions, under their ordinances.

(3) Competent Agencies

• Manufacturing Milk Producer Compensation Temporary Law

Milk and Dairy Products Division, Livestock Industry Department, Agricultural Production Bureau, Ministry of Agriculture, Forestry and Fisheries

TEL:03-3502-8111

<http://www.maff.go.jp>

Daily Products Division, Daily Department, Agriculture & Livestock Industries Corporation

TEL:03-3582-3381

<http://alic.lin.go.jp>

• Customs Tariff Law

International Trade Policy Coordination Division, International Affairs Department, General Food Policy Bureau, Ministry of Agriculture, Forestry and Fisheries

TEL: 03-3502-8111

<http://www.maff.go.jp>

Compensation and Operation Division, Customs and Tariff Bureau, Ministry of Finance

TEL: 03-3581-4111

<http://www.mof.go.jp>

• Food Sanitation Law

Policy Planning Division, Department of Food Sanitation, Pharmaceutical and Medical Safety Bureau, Ministry of Health, Labour and Welfare

TEL: 03-5253-1111

<http://www.mhlw.go.jp>

• JAS Law

Standards and Labeling Division, General Food Policy Bureau, Ministry of Agriculture, Forestry and Fisheries

TEL: 03-3502-8111

<http://www.maff.go.jp>

- **Measurement Law**
Measurement and Intellectual Infrastructure Division, Industrial Science and Technology Policy and Environment Bureau, Ministry of Economy, Trade and Industry
TEL: 03-3501-1511 <http://www.meti.go.jp>
- **Nutrition Improvement Law**
Department of Food Sanitation, Pharmaceutical and Medical Safety Bureau, Ministry of Health, Labour and Welfare
TEL: 03-5253-1111 <http://www.mhlw.go.jp>
- **Act Against Unjustifiable Premiums and Misleading Representations (Fair Competition Code)**
Consumer Related Trade Division, Trade Practices Department, Fair Trade Commission of Japan
TEL: 03-3581-5471 <http://www.jftc.go.jp>
- **Containers and Packaging Recycling Law / Law for Promotion of Effective Utilization of Resources**
Recycling Promotion Division, Industrial Science and Technology Policy and Environment Bureau, Ministry of Economy, Trade and Industry
TEL: 03-3501-1511 <http://www.meti.go.jp>
Recycling Promotion Division, Waste Management and Recycling Department, Ministry of the Environment
TEL: 03-3581-3351 <http://www.env.go.jp>
Food Industry Policy Division, General Food Policy Bureau, Ministry of Agriculture, Forestry and Fisheries
TEL: 03-3502-8111 <http://www.maff.go.jp>

4. Labeling

(1) Legally Required Labeling

When selling butter and cheese sealed in wrapping or containers, following items must be listed all together on the label under provisions of the Food Sanitation Law, the JAS Law (Processed Food Quality Labeling Standards), and the Measurement Law.

<Labeling items to be listed all together>

- 1) Product name (example: butter, natural cheese, or processed cheese)
- 2) List of ingredients
- 3) List of food additives
- 4) Net content
- 5) Date of minimum durability or best-before date
- 6) Preservation method
- 7) Country of origin
- 8) Importer's name and address

The Food Sanitation Law requires the following items be listed on the label, if present:

- Principal ingredient of blended cheese, if present (example: almond)
- Natural cheese animal source if not cattle, if present (example: goat)

<Labeling of Food Products Containing Allergens>

The Food Sanitation Law mandates or recommends raw material labeling for 24 food products that contain allergens. Processed food products containing the foods listed in the following table, and processed foods containing additives derived from these foods are either required or advised to bear labeling to the effect that they contain allergenic foods. This provision was adopted as of April 2001, and from April 1, 2002 onward, it will apply to all manufactured, processed and imported processed food products and food additives.

Labeling mandatory (5 products)	Wheat, buckwheat, eggs, milk, peanuts
Labeling recommended (19 products)	Abalone, squid, salmon roe, shrimp, crabs, salmon, mackerel, oranges, kiwi fruit, peaches, white potatoes, apples, walnuts, soybeans, gelatin, beef, pork, chicken, <i>matsutake</i> mushroom

<Labeling under the Law for Promotion of Effective Utilization of Resources>

When paper or plastic is used as a packaging material for wrapping of individual product items, or for labels, external packaging or elsewhere, a material identifier mark must be displayed with information where the material is used.

< Example >



External packaging



Individual packaging

<Labeling Required by Local Government Ordinances>

Local government authorities sometimes impose additional labeling requirements by their ordinances, besides the items listed above. (Example: Kobe City requires that canned butter labels indicate the usage warnings)

(2) Voluntary Labeling based on Provisions of Law

1) Labeling under the JAS Law (JAS Mark)

Butter is subject to JAS standards. Products that undergo inspection and are certified compliant with JAS standards are allowed to display the JAS mark on the product. However, application for grading is voluntary, and products do not have to display the JAS mark in order to be sold.

JAS Mark



Under the previous JAS Law, manufacturers had to undergo inspection by a registered grading organizations. But under the amended JAS Law, both domestic and overseas manufacturers, production process supervisors (producers and vendors), sorters, and importers in Japan may be authorized to self-qualify with the approval of a registered certification organization.

Contact:

Center for Food Quality, Labeling and Consumer Services Headquarters
Standard and Labeling Department TEL: 048-600-2371 <http://www.cfqlcs.go.jp>

2) Labeling under the Nutrition Improvement Law

When employing labeling for nutritional ingredients or calories in Japanese, either on the packaging or in accompanying documentation, labeling must be in accordance with the requirements under the Nutrition Improvement Law.

<Example> Labeling must contain the quantities of calories, proteins, fats, carbohydrates, sodium, and other nutritional ingredients present, in descending order by content volume.

(3) Voluntary Industry Labeling

The Japan Cheese Fair Trade Council has adopted fair trade guidelines based on the Act Against Unjustifiable Premiums and Misleading Representations. These guidelines define fair labeling practices for product category name, ingredients, best before date (or date of minimum durability), producer (or importer) name and address, and content volume, as well as defining when the product name must be accompanied by the country of origin. These guidelines apply to any product containing 51% or more cheese content, which is classified as a “cheese food.”

Contacts:

• Japan Cheese Fair Trade Council TEL: 03-3264-4133

5. Taxes

(1) Customs Duties

Fig. 9 on the following page presents tariff rates on butter and cheese.

(2) Consumption Tax

(CIF + Customs duty) x 5%

Fig. 9 Customs duties on butter and cheese

HS No.	Description	Rate of Duty (%)			
		General	WTO	Preferential	Temporary
0405.10	Butter				
	1. Of a fat content, by weight, not exceeding 85%	(35%+¥1,159/kg)			
-110	(1) Imported by the Agriculture and Livestock Industries Corporation		(35%)		35%
	(2) Other, not imported by the Agriculture and Livestock Industries Corporation				
-121	a. For "the Pooled Quota" (Note)		(35%)		35%
-129	b. Not for "Pooled Quota"		*(29.8%+¥985/kg)		29.8%+¥179/kg
	2. Except a fat content, by weight, not exceeding 85%	(35%+ ¥1,363/kg)			
-210	(1) Imported by the Agriculture and Livestock Industries Corporation		(35%)		35%
	(2) Other, not imported by the Agriculture and Livestock Industries Corporation				
-221	a. For "the Pooled Quota" (Note)		(35%)		35%
-229	b. Not for "Pooled Quota"		*(29.8%+¥1,159/kg)		29.8%+¥210/kg
0406.10	Fresh cheese and curd	35%			
-020	1. A dry matter content, by weight, not exceeding 48%		22.4%		
	2. A dry matter content, by weight, exceeding more than 48%		29.8%		
-010	(1) Intended for use as materials for processed cheese, for "the Pooled Quota"				#Free
-090	(2) Other processed cheese				
0406.20	Grated pr powdered cheese				
-100	1. Of processed cheese	40%	(40%)		
-200	2. Not of processed cheese	35%	26.3%		
0406.30	Processed cheese, not grated or powdered	40%	(40%)		
0406.40	Blue-veined cheese	35%	29.8%		
-010	1. Intended for use as materials for processed cheese, for "the Pooled Quota"				#Free
-090	2. Other blue-veined cheese				
0406.90	Other cheese	35%	29.8%		
-010	1 Intended for use as materials for processed cheese, for "the Pooled Quota"				#Free
-090	2. Other cheese				

Note1: Concerning butter and other fats and oils delivered from milk in this subheading 1-(2), 2-(2) and subheading No.0405.90-2-(2) for the quantity (quota) stipulated by a Cabinet Order on the basis of 581 ton, in consideration of the quantity of prospective domestic demand in the current fiscal year(April-March), international market situation and other relevant conditions, hereinafter referred to as "the Pooled Quota" in this heading.

Note2: Intended for use as materials for processed cheese (excluding those of subheadings Nos.0406.20 and 0406.30): for the quantity(quota) stipulated by a Cabinet Order, within the limits of the quantity of prospective domestic demand in the coming fiscal year (April-March) with deduction of the quantity of the prospective domestic production, and also in consideration of the quantity of prospective domestic production, international market situation and other relevant conditions (hereinafter in this heading referred to as "the Pooled Quota").

Note3: "#Free" in Temporary applicable only for using for specific purpose.

Note4: Refer to "Customs Tariff Schedules of Japan" (published by Japan Tariff Association) etc. for interpretation of tariff table.

6. Product Characteristics

<Butter>

Imported butter differs considerably in terms of texture and aroma from domestically produced butter. Most imported butter goes to dairy companies for use in processed dairy foods, ice cream, and bread. Very little imported butter is consumed directly by end-users.

<Natural Cheese>

Curdling and fermenting fresh milk with lactobacilli or rennin makes natural cheese. When the fermentation process goes too far, the cheese becomes over-ripe, and is no longer edible.

The optimal storage temperature is 2-9 degrees Celsius. If cheese is stored at temperatures below freezing point the molecular structures break down and degrade product quality. If the humidity is too high bacteria can form and multiply readily, while if it is too low the cheese dries out and loses its flavor.

The International Dairy Federation (IDF) classifies cheese into four categories based on hardness: soft, semi-soft, hard and extra hard. The Oceania region produces mostly hard cheeses, which are often used to make processed cheese products. European cheeses run the gamut from very soft to very hard in texture. Each locale has its own traditional cheese-making techniques that give cheeses their distinctive qualities. The flavor and texture of cheese also varies according to the type of grasses milk-producing animals graze upon. Therefore, the same type of cheese produced in different locations will have different flavors and textures. Compared with Japanese cheese, which is rather bland, imported cheese is noted for its variety and distinctive taste. Product characteristics for each major exporter country are noted below.

1) Australia

Most cheese imported from Australia consists of cheddar and shredded cheese used as raw ingredients for process cheese, and accounts for the largest share in the Japanese market. In the case of raw ingredient cheeses, low prices, flavors, quality consistency, and constant supply capability represent key factors in selection. Australia rated favorably in these respects. Recently, Australia has devoted more resources to natural cheese for direct consumption, and conducted some aggressive promotional activities.

2) New Zealand

Known mainly for New Zealand cheddar. As is the case with Australia, the government takes an active role in managing cheese exports. In recent years, New Zealand has shown a positive attitude toward developing the Japanese direct consumption cheese market.

3) Denmark

A large percentage of total cheese production is exported. Best-known varieties are dambo, havarti and samso.

4) Netherlands

World's leading cheese exporter. Best-known varieties are Gouda and "Red Jewel" Edam cheese.

5) Germany

Quark is well known, but Germany has few other natural cheeses of its own. Germany is also known for its fresh-type cheeses and for its unique varieties of processed cheese.

6) France

France makes a great variety of cheeses. *Camembert* and *Roquefort* cheeses are most common.

<Processed Cheese>

Processed cheese is a 20th Century innovation. Mixing two or more different kinds of powdered natural cheeses, then heating the mixture to produce a substance with a cheesy texture, makes it. The heating kills lactobacillus and mold organisms present in the natural cheese, which means that processed cheese is easier to store and easier to produce in large quantities with consistent quality.

Imported processed cheeses are noted for their greater variety of flavors and styles than Japanese products. Imports include spiced cheese; cheese blended with fish (such as smoked salmon), meat (such as ham), vegetables and even fruit. Imported processed cheeses also include boxed, sliced, diced, candied, and tube container cheese.

7. Domestic Distribution System and Business Practices

(1) Domestic Market Conditions

<Butter>

According to the statistics on milk and milk products of the Ministry of Agriculture, Forestry and Fisheries, demand for butter has moved at the level of 8 to 9 tons in the recent several years. Industry sources report that about one-quarter of the market demand is for household use and about three-quarters for industrial use.

<Cheese>

Processed cheese caught on in Japan much earlier than natural cheese. In FY 1980, 70% of all cheese consumed in Japan was processed cheese. However, direct personal consumption of natural cheese soared after FY 1985, and in FY 2000 the ratio of natural to processed cheese in the Japanese diet became roughly 55-45. Consumption of natural cheese for direct consumption continues growing in recent years. Wider selection of cheeses is now available to Japanese consumers, and more Japanese people have traveled or lived abroad and had a chance to taste cheeses and grow to like the cheeses of other countries. Also, pizza and other foods that use cheese as an ingredient are becoming a more prominent part of the Japanese diet.

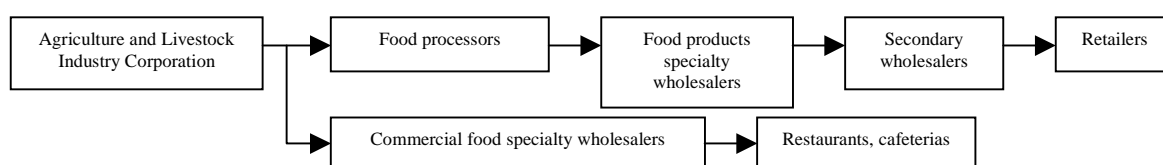
The cheese market had been experiencing steady growth until 2000, when a food poisoning incident at the leading Japanese dairy maker (Snow Brand Dairy Products Co., Ltd.) forced a halt to production and closure of its plants. Ever since then, growth has started to flatten out. Rising raw material prices and growing global demand have led to a tight international cheese market, and further price increases are forecast in 2002 for raw material cheese. But with consumption falling, it will be difficult for importers to translate higher costs from foreign raw materials and the weak yen into higher finished product prices. This will put pressure on the profits of domestic cheese makers.

(2) Distribution Channels

<Butter>

The Agriculture and Livestock Industry Corporation through open competitive bidding sells imported butter to domestic purchasers. Only confectioners and dairy product processors are allowed to submit bids, and the standard lot size is 100 boxes (about 2.5 tons). To maintain product quality butter is generally stored and shipped at low temperatures.

Fig. 10 Distribution channels of imported butter



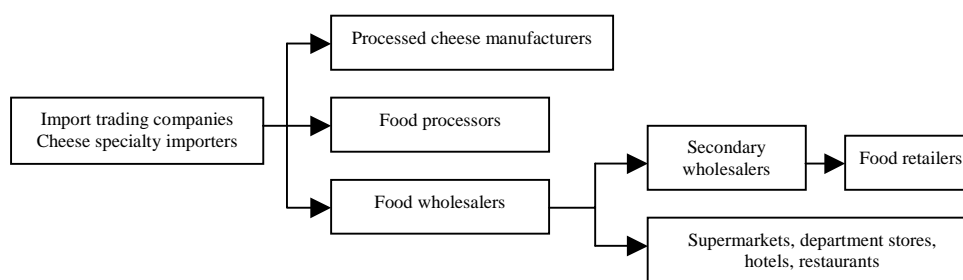
<Cheese>

Because natural cheese contains live organisms and has an ongoing fermentation process, it must be kept at proper storage temperatures throughout the shipping, customs clearance and domestic distribution process. Therefore, cheese is generally shipped in reefer containers. In addition, each variety of cheeses has its own characteristic aging speed and progression. This means that cheese distributors must have considerable knowledge and expertise.

Almost all natural cheese destined for use in processed cheese is imported by trading companies. Natural cheese for direct personal consumption is generally imported by specialty cheese importers. Cheese destined for retail sale is usually distributed through dairy wholesalers, since they have the refrigerated trucks and warehouses needed to keep cheese at the proper temperature.

Most natural cheeses are sold through department stores, large supermarkets, or specialty shops. The reasons for this include the amount of shelf space required to offer a variety of cheese products, the short shelf life of natural cheese compared to processed cheese and the resulting need for quick product turnover, and the need for product knowledge on the part of store sales people. Recent years have seen more and more cheese specialty stores open, and more supermarkets are setting up special cheese sections. It is easier than ever to buy a wide variety of natural cheeses, and cheese imports are expected to grow in the future.

Fig. 11 Distribution channels of imported natural cheese



(3) Key Considerations for entering the Japanese Market

Importers must make sure that people at every stage of the distribution process are thoroughly knowledgeable in storage requirements. Order placement must anticipate both the times required to ship to Japan and the progress of the cheese aging process. Distributors must have access to refrigeration equipment needed to keep cheese at the proper constant temperature and humidity up to the point of sale.

Retailers need to understand that selling a product like cheese containing live organisms involves some business risk. Retail sales people must be prepared to inform consumers about the properties and uses of each variety of cheeses. Cheese makers often find it difficult to export direct to Japan because of the small-lot shipments generally involved. As a result, many exports pass through export wholesalers in the country of origin.

8. After-Sales Service

Normally the retailer is responsible for handling defective merchandise.

9. Related Product Categories

Related products, such as margarine, containing other than 100% vegetable fat is subject to other laws and regulations depending on the content. Consult with customs officials for more information. Those products are regulated under provisions of the Food Sanitation Law, and they are subject to content and quality labeling requirements under the JAS Law.

10. Direct Imports by Individuals

Individuals may import quantities of butter deemed appropriate to personal consumption, as well as gifts of butter worth ¥10,000 or less, without having to meet requirements of the Manufacturing Milk Producer Compensation Temporary Law or the Food Sanitation Law.

Individuals may import quantities of cheese deemed appropriate to personal consumption without having to meet requirements of the Food Sanitation Law. However, individuals attempting to bring cheese into Japan should monitor closely the freshness and ripeness of the cheese (in the case of natural cheese), make sure the cheese stays cool in transit, and remains properly sealed in its packaging.

11. Related Organizations

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|-----------------------------------------------|-------------------|-------------------------------------------------------------|
| • Japan Imported Cheese Promotion Association | TEL: 03-3288-7258 | http://www.jic.gr.jp |
| • Cheese Fair Trade Council | TEL: 03-3264-4133 | |
| • Cheese Promotion Council | TEL: 03-3264-4133 | |
| • Japan Dairy Industry Association | TEL: 03-3261-9161 | http://www.jdia.or.jp/ |