

4. Government measures

■ Subsidy and production cost

In Japan, under the "Temporary Act for Compensation Price for Producers of Milk for Manufacturing Use" (deficiency payment), for the purpose of securing reproduction of raw milk in the "raw milk for processing use region" where more than half of milk produced are used for processing, such farmers producing milk for processing use are subsidised. "Raw milk for processing use region" refers to the area where more than half of milk produced is traded with processing plants (currently only Hokkaido). "Raw milk for processing use" refers to milk used to produce 1 butter, 2 skimmed milk powder, 3 sweetened condensed whole milk, 4 sweetened condensed skimmed milk, 5 whole milk powder, 6 sweetened milk powder, 7 unsweetened condensed whole milk and 8 skimmed milk powder for animal feed.

1966-2000

From 1966, when Deficiency Payment Act was implemented, till 2000, producers were subsidised by the government for the difference between the estimated production cost per 1kg of raw milk in the raw milk for processing use region and actual market price of raw milk for processing use set by the government (standard market price).

Producers were ensured by the government total of standard market price and subsidy (=guaranteed value) as milk price receivable.

From 2000 to the present

In May 2000, Deficiency Payment Act was reviewed and re-enforced in 2001, guaranteed value set by the government and standard market price were removed, therefore subsidy as a deficiency payment was abolished.

New formula for subsidy calculation is to take average production cost and production yield for the last three years, work out the rate of variability and multiply this rate to the subsidy unit price from the previous year.

Standard market price was abolished, so the raw milk price for processing use is determined by the negotiations between designated milk producer groups and dairy processors. The unit price for subsidy in 2011 was 11.95 yen/kg, and in 2012 - 12.20 yen / kg.

Maximum amount claimable of raw milk for processing use, which was regulated at the time of subsidy was introduced, has not been changed before and after the review.

Under the new act, there is a possibility that raw milk price for processing use, which is decided in free trade between designated milk producers groups and dairy processors, could face a big decline due to the unexpected change in supply and demand balance. In order to take measures to mitigate such drastic situation, the new fund was established with its financial resources from producers' own contribution (0.40 yen per 1kg of raw milk for processing use) and support from the government (0.20 yen per 1kg of raw milk for processing use), and in the case of the raw milk price for processing use (exclusive of the government subsidy) falls lower than the standard price for compensation (=average of the last three years' average market prices), 80% of the difference is to be supplemented by the fund. For the reference, the standard price for compensation in 2011 was 69.12/kg **table 8 Fig2, 3, 4**

Table 8: Regards to Compensation Price for Producers of Milk for Manufacturing Use

Classifications	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008		2009	2010	2011	2012	
	JPY	JPY	JPY	JPY	JPY	JPY	JPY	JPY	JPY	JPY	JPY	JPY	JPY	April-June JPY	July (afterwards) JPY	JPY	JPY	JPY	JPY	
Guaranteed Value	75.75	75.75	74.27	73.86	73.36	72.13														
Standard Market Price	64.26	64.26	63.40	63.02	62.56	61.83														
Tax excluded		62.39	60.38	60.02	59.58	58.89														
standard price for compensation※1							61.83	61.83	61.83	61.88	61.37	60.54	59.51		59.35	61.95	65.94	69.12		
Average Market Price※2							61.83	61.83	61.99	60.31	59.33	58.91	59.82		67.12	70.88	69.37			
S t a b l e I n d e x	a. Butter as ingredients	993	993	965	955	931	910													
	Tax excluded (JPY)		964	919	910	887	867													
	b. SMP	12,841	12,841	13,090	13,090	13,090	13,090													
	Tax excluded (JPY)		12,467	12,467	12,467	12,467	12,467													
	c. sweetened condensed whole milk	8,065	8,065	8,211	8,211	8,211	8,211													
	Tax excluded (JPY)		7,820	7,820	7,820	7,820	7,820													
	d. sweetened condensed skimmed milk	7,193	7,193	7,333	7,333	7,333	7,333													
	Tax excluded (JPY)		6,983	6,983	6,983	6,983	6,983													
	e. (Whole Milk Powder)	(18,112)	(18,112)	(18,464)	(18,464)	(18,464)	(18,464)													
	Tax excluded (JPY)																			
	f. (Butter for home use)	(1,081)	(1,081)	(1,051)	(1,040)															
	Tax excluded (JPY)																			
	production limit (1,000 tonnes)	2,300	2,300	2,400	2,400	2,400	2,400	227	220	210	210	205	203	198		195	195	185	185	183
	Subsidy unit price (JPY)	11.49	11.49	10.87	10.84	10.80	10.30	10.30	11.00	10.74	10.52	104.00	10.40	10.56	11.55	11.85	11.85	11.85	11.95	12.20
Subsidy Total (Actual)	264.27	264.27	260.88	260.16	259.20	247.20	233.81	242.00	225.54	220.92	213.20	211.12	208.89	59.48	170.05	231.08	219.23	221.08	223.26	
Unit price for Compensation										1.26	1.63	1.30								

Note: () = unit

From 2001, with new system introduced, Guaranteed Value, Standard Market Price and Stable Index Prices were abolished.

Note: ※1 and ※2 are average market price and Unit Price for Compensation relevant to Measures for stable management of producers of milk for processing use.

Fig 2: Summary of the "Compensation Price for Producers of Milk for Manufacturing Use" System

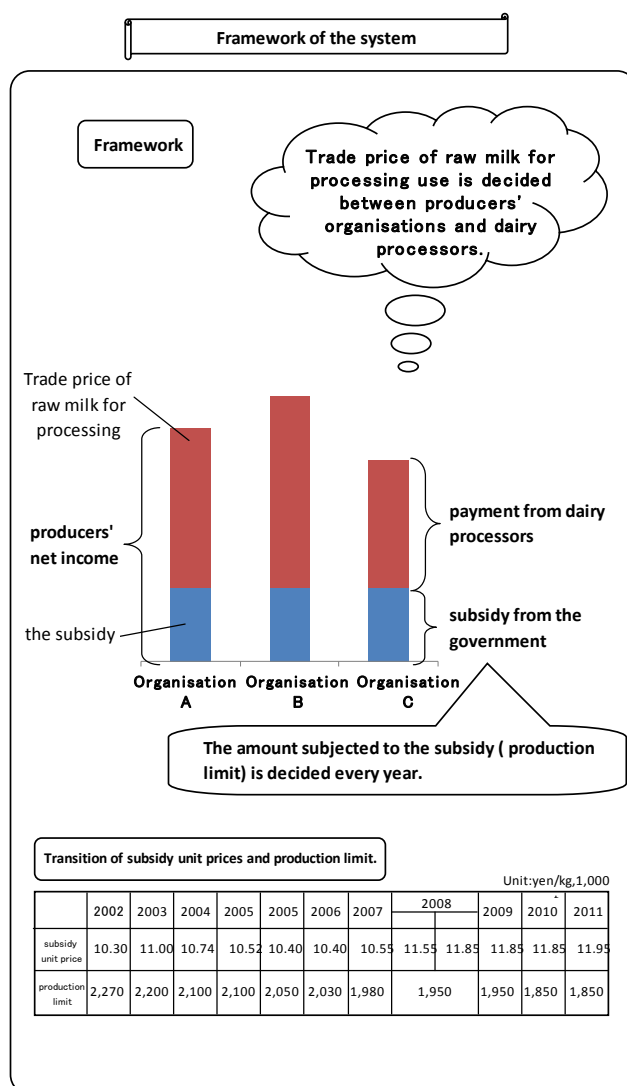
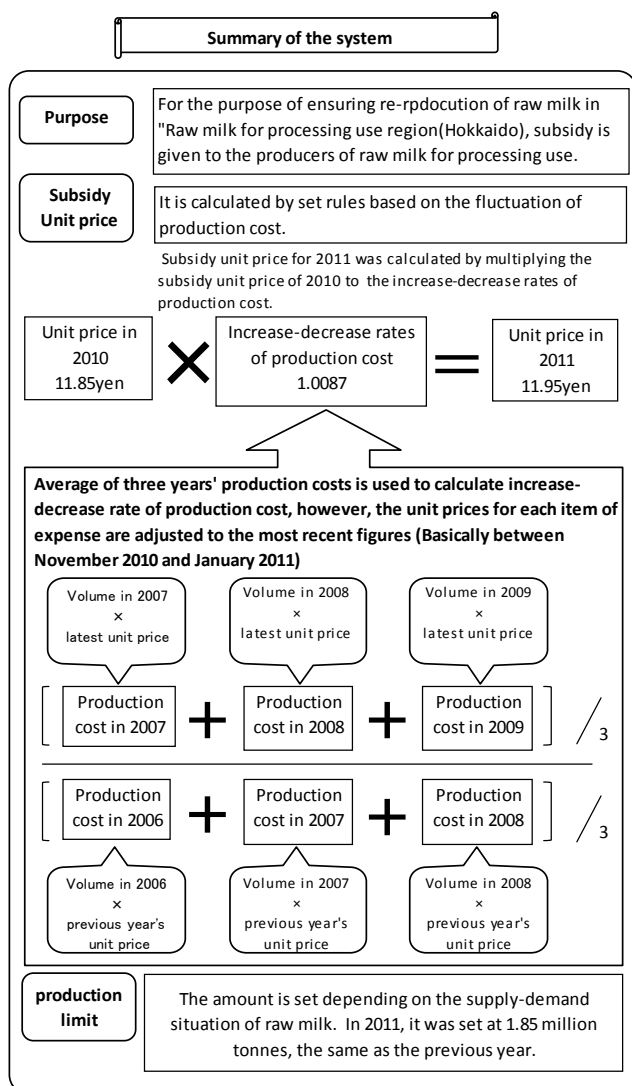


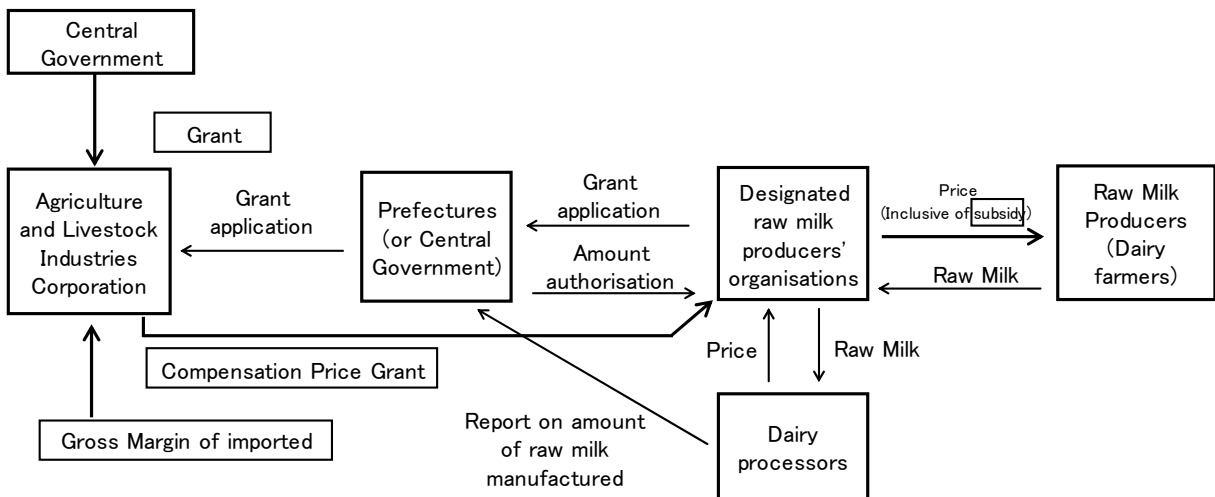
Fig 3: Summary of "Temporary Act for Compensation Price for Producers of Milk for Manufacturing Use"

(1) Producer Subsidy for Compensation price on raw milk for manufacturing use

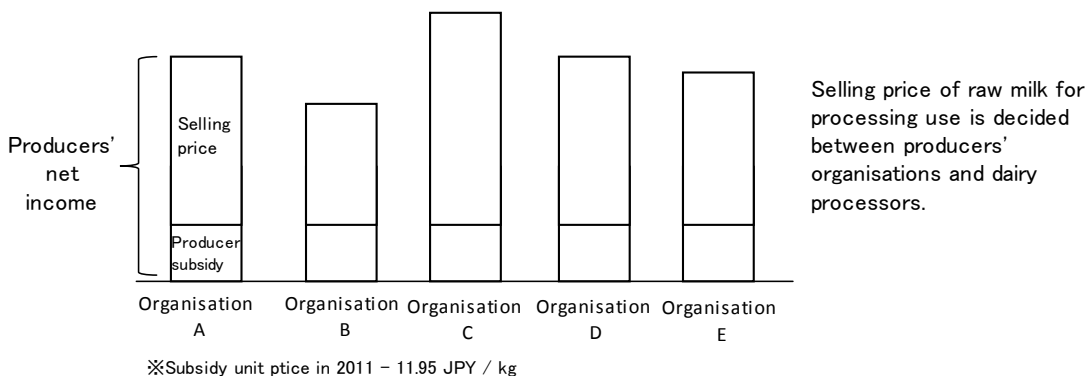
• Corporation gives Compensation Price Grant to designated producers' organisations in order to cover the subsidy payment they give to producers.
 Subsidy unit price is decided every year by the Minister of Agriculture, Forestry and Fisheries, considering the economic situation such as raw milk production costs and for the purpose of ensuring reproduction of milk.

(Mechanism of Compensation Price for Producers of Milk for Manufacturing Use System)

• Compensation Price Grant = Subsidy Unit Price x authorised amount Maximum limit is set by the Minister of Agriculture, Forestry and Fisheries



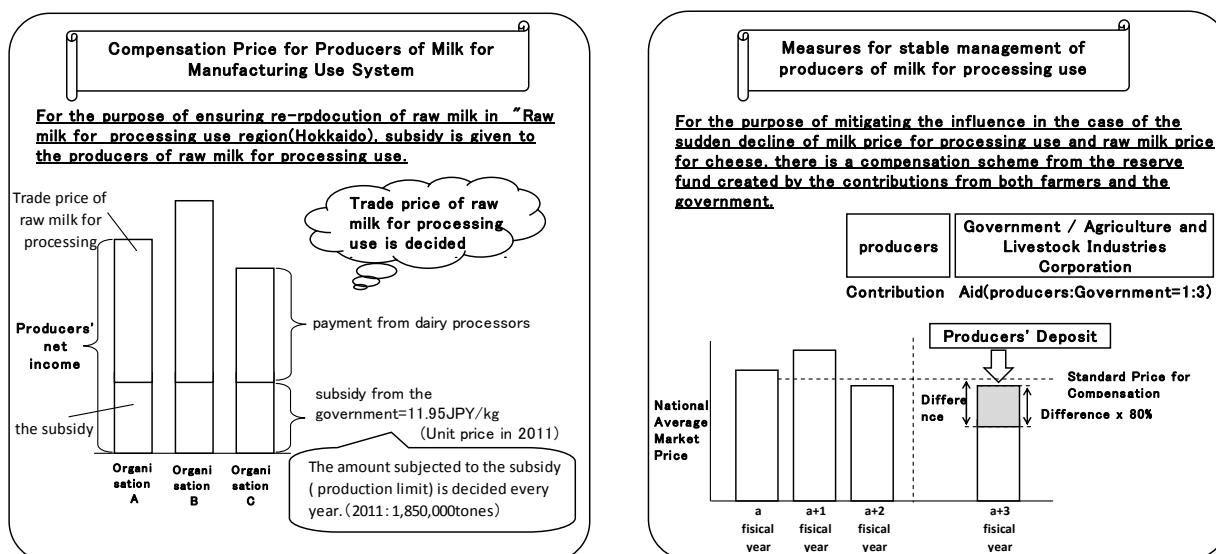
(Method of producer subsidy)



(2) The import of designated dairy products

1. Corporation imports and sells designated dairy products (butter, Skimmed Milk Powder, etc.), which amount is set and notified by the Minister of Agriculture, Forestry and Fisheries according to the international agreement.
2. Corporation executes imports and sales of designated dairy products of various countries in case that prices of such products rise or are possible to rise.
3. Under the Customs Law, it is regulated that the importers of designated dairy products must sell the relevant designated dairy products to the Corporation, and Corporation must sell back such products to the importers.

Fig. 4 : Measures to stabilise management of dairy farming and the relative industries (2012)



■ Planned production of raw milk

Following the establishment of the Deficiency Payment Act in 1966 which was set to ensure the supply of raw milk, the government has also decided to lay down the maximum amount for the raw milk production in order to prevent the unstable market price caused by the surplus production.

With these acts and regulations, institutional measures have been taken to ensure the consistent supply. In 1979, producers themselves also have started voluntary planned production based on the market demands in order to protect their business from the supply - demand imbalance and depreciation. This arrangement is not legally binding, and some producers, who are called outsiders, prefer not to abide by. (The producers who abide by this agreement are called insiders). However, such outsiders are only 3% of total producer numbers, and for such voluntary measures the level of participation is extremely high.

Every year, Japan Dairy Council sets out the annual target figure of possible production and dispatch in the country by examining estimated demands for the year. This target quota is divided using approved formula, and JDC passes allocation to the designated groups in 9 regions. Each group then gives their allocated quota to individual organisations such as unions within their region, and finally each organisation passes quota to individual farmers. [table 9](#)

Table 9: Amount of milk sold on consignment and stock

Unit : 1,000t

	Amount of milk sold on consignment	Stock amount	
		Butter	SMP
1988	7,207	16.0	18.0
1989	7,615	17.0	33.0
1990	7,691	11.9	19.8
1991	7,844	21.0	33.0
1992	8,111	37.0	54.0
1993	8,053	53.0	60.0
1994	7,846	38.5	34.2
1995	7,938	29.7	38.0
1996	8,134	27.4	45.3
1997	8,107	26.0	51.7
1998	8,049	32.0	47.0
1999	8,016	38.2	44.1
2000	7,940	35.1	53.4
2001	7,890	27.5	75.0
2002	7,990	23.7	80.8
2003	8,042	26.8	93.2
2004	7,931	25.8	88.0
2005	7,946	31.0	75.3
2006	7,747	23.2	68.3
2007	7,694	19.4	42.8
2008	7,626	28.1	43.1
2009	7,586	32.6	69.7
2010	7,334	20.6	58.7
2011	7,249	19.1	47.6

Resources: Sales performance by usage