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Japan

Frozen Potato Products

Annual Report

2004

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Report Highlights:
Japan's imports of frozen potato fries fell 14 percent from 220,000 tons in 2002 to 190,000 tons in 2003, due to diversification of side order menus and furious price competition with Japanese style fast food chains. The decline in overall frozen potato imports this year was primarily associated with U.S. trade losses due to the ban on imports of products containing beef tallow. Consequently, third country competitors increased share in the market. This year's frozen potato imports also benefited from favorable weather during the vacation season.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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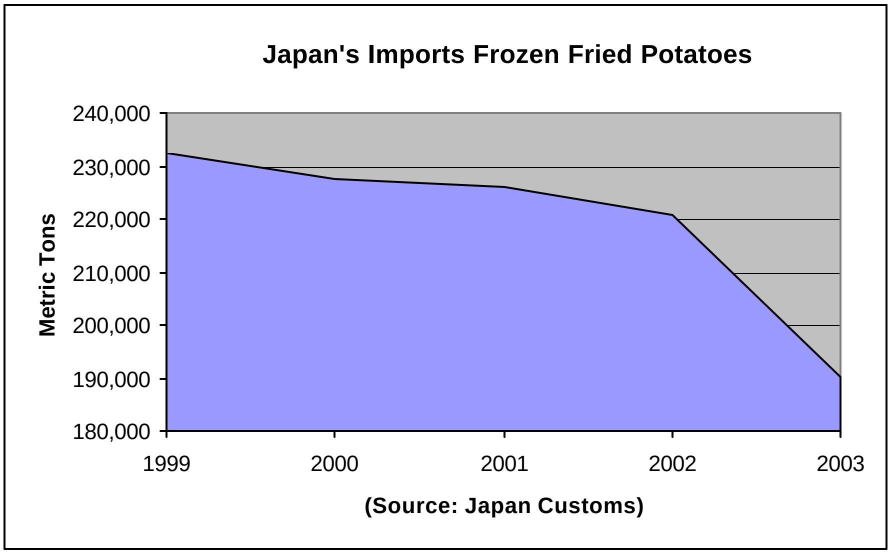
Table of Contents

Executive Summary

It is certainly true that the frozen potato fry market is intimately related to the performance of the fast food industry in Japan. Overall, sales for McDonald's Japan and other western style fast food chains improved. Among these firms, sales growth ranged between 2 to 6% in the first half of 2004. Favorable weather conditions during this year's spring and summer vacation periods did much to influence this sales performance. At the same time though, a trend to consume fried potato among teenagers and younger-aged children is not as strong as it could be since they are diversifying their eating habits. Finally, due to the occurrence of BSE in the United States in December 2003, importers sought other sources for frozen potato fries not pre-cooked with beef tallow. The result is that several other competitor countries are now enjoying some increased market share at the expense of the United States.



Trade

Frozen potato fry imports to Japan slid 14 percent from 220,000 Metric tons (tons) in 2002 to 190,000 tons in 2003 as Japanese style fast food beef bowl chains came out ahead of western style fast food chains in last year's intense price competition. Nevertheless, the U.S. continues to dominate Japan's frozen potato market, with just under 80 percent market share by quantity in 2003.

The most recent statistics for Japan's total frozen potato imports, January through August 2004, seem to show a trend toward recovery with an increase in quantity over the previous year of 16.7 percent to 143,621 tons and, in value an increase of 10.7 percent to $129 million (JPY13.8 billion). However, imports from the U.S. increased only 6 percent from 98,371 tons to 104,138 tons for the same period. These most recent statistics, so far, represent a 7-percent drop in U.S. market share to 73 percent. At the same time from January through August of 2003, Canada's exports now amount to a 21.7 percent market share, up 5.8 percent, New Zealand 1.9 percent market share, up 0.3 percent and, the EU 1.4 percent market share, up 0.7 percent.

The Impact on U.S. Trade

After the detection of BSE in the U.S., the initial problem of tallow being used to pre-cook many frozen fry potato products created unique opportunities for increasing the presence of alternative supplies from competitors including Canada and New Zealand. A good reputation is developing also for E.U. suppliers such as Germany, Italy, Netherlands, Belgium and France.

After Japan's ban on beef imports from the United States, there was also the unexpected ban on products containing beef tallow, which led to disrupted imports of frozen potato fries from the United States. This unexpected occurrence compounded low inventories at the end of 2003 and, consequently the quantity of Japan's imports of frozen potato fries jumped 65% in the month of January, compared to the same month last year. For the U.S. there was only a 24 % increase. Eventually, U.S. shipments began a trend toward recovery by adjusting product specifications to use vegetable oil.

Frozen potato fry products from China are also finding success in Japan due to the ability to offer product with uniform length and shape. This success has spread to Chinese frozen potatoes as ingredients in prepared food.

To summarize all of the reasons for increased presence of frozen potato fry product from competitor countries: 1) Japanese importer's desire for diversified resources triggered by the single BSE case in the U.S. where beef tallow was often used to pre-cook frozen fry products; 2) A deep-rooted objection to U.S. GM potato production; 3) A general preference and ability to pay a premium for organic produce and; 4) Increased EU promotion of new-to-market products, e.g., the E.U.'s annual food showcase is having success in the market.

Trend in the Domestic Market

The food service industry is seeing a trend among teenagers and younger-aged children to diversify their eating habits beyond potato fries. Therefore, among this category of consumer, the trend for consumption of fried potato is leveling off. Japanese children who live in urban areas, however have tended to consume potato fry products more frequently than their parents and grandparents.

In 2003 there was intense competition in the food service segment consisting of western style fast food establishments versus Japanese style beef bowl chain restaurants. A reduction in the consumption of frozen potato fries in 2003 occurred when Japanese beef bowl chains began to gain ground against western style fast food. Now that trend has halted in 2004 due to the prolonged beef import ban. Japanese beef bowl chains were not able to make the quick adjustments for new sources of beef as effectively as western style fast food chains (they quickly secured supplies from Australia). Consequently, consumption of frozen potato fries is benefiting from the recovery of the western style fast food chains against the beef bowl chains.

Future Marketing Opportunities

Japanese buyers show great interest in new products such as specially coated potato product for use in food service industry and high-solid content products for the retail industry. One of Japan's middle-sized convenience store chains recently introduced a cross-cut shaped potato product which is imported from the EU. Efforts to introduce these types of new product developments and providing food safety assurance information as a priority are important elements to maintain market share.

Japanese Domestic Production and Pricing

Japanese production of frozen fried potatoes increased slightly in 2003, in spite of higher production cost, due to increased concerns by consumers for food safety triggered by incidents involving pesticide residues in Chinese frozen vegetables.

In 2003, total production was 6,855 tons, an increase of 5% from the previous year. Domestic frozen potato fries were almost twice as expensive as imports. The average price of domestic product was 187 yen ($1.75) per kilogram (FOB at Japanese manufacture) in 2003, while the average price of imported product was 100 yen ($0.93) per kilogram (CIF). The domestic product market share was approximately 3.6 percent.
(Exchange rate=Yen107/$)