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Japan

Market Development Reports Chinese Food Shock 2008: A Spring Update

2008

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Report Highlights:

An update on imports of Chinese food products into Japan in the wake of the January 2008 *gyoza* (fried dumpling) poisoning incident.

Includes PSD Changes: No
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Trade Report
Osaka ATO [JA3]
[JA]

Summary: Japanese imports of food from China tumbled 28% from a year earlier to 55.3 billion yen (approximately \$553 million) in February, according to preliminary data released by the Ministry of Finance. Grain imports from China, a category that includes dumplings, plummeted by 39.4%, while those of seafood, meat, vegetables, and fruit were down by more than 20%. These figures result from tougher Chinese government inspections of exports in response to the recent poisoning of Japanese consumers by pesticide-tainted dumplings made in China. Investigations into the poisonings have continued, but Japanese and Chinese authorities are at odds over the tainted-dumpling probe. In addition to compiling press reports, ATO Osaka spoke with the Osaka Food Service Association, a major local supermarket chain, a purchasing company for leading regional supermarket chains in Osaka, a local subsidiary of a Chinese food manufacturer, and a Japanese importer of Chinese food about the current situation.

Recent Developments

Chinese authorities previously tested for pesticides and additives in food products using a random selection method. But since the January incident they have begun blanket inspections of all food products bound for Japan. As a result, the typical waiting period for export clearance has lengthened from around one week to at least several weeks, the practical result of which is that exports to the Japanese market of Chinese-made food products have come to a halt.

The following is a description of the situation in China in the middle of March according to Chinese companies, a Japanese importer of Chinese products, and press reports:

- Gaining export clearance from the port of Dalian, in the north, has become nearly impossible.
- Several hundreds containers of overseas-bound food products are being held up at the port of Qingdao.
- Zhejiang Province is going to require that exports be tested for more than 300 pesticides, which will take an extremely long time to accomplish.
- Fujian Province and Guangdong Province are also severely restricting the issuance of export certificates.
- In all provinces, joint venture firms with Japanese partners cannot obtain any export certificates. Consequently, they cannot export their products to Japan.

According to a Kyodo News survey conducted nationwide on February 9 and 10, 2008, a notably high 75.9 percent of respondents said that they "will not consume Chinese food from now on" due to the recent incidents. By contrast, only 21.6 percent said they "have been using them and will continue using them". These results illustrate the seriousness of the impact of these developments on Chinese product exporters, given that 57.9 percent answered "have been and will continue using" prior to January.

Consumers' attitudes toward Chinese food products turned fairly negative after mid 2007 when poisoned pet food, tainted toys, and other anomalies were discovered in the United States and elsewhere. Already from that period most supermarkets began limiting or avoiding altogether purchases of Chinese food products. In the weeks following January sales of all frozen foods, irrespective of the country of origin, dropped by 30-50%, reflecting a serious decline in consumer confidence.

Japanese importers of Chinese food products are confronting a serious supply problem and are experiencing difficulties fulfilling their customers' orders. In addition to strict inspections, Chinese authorities have encouraged growers and manufacturers to shift to the domestic

market, which is experiencing serious shortages of vegetables due to the severe winter weather in February.

Japanese Imports of Chinese Vegetables February 3-23, 2008

| Products | Quantities (metric tons) | % Change over '07 |
|-------------------------------|-----------------------------|----------------------|
| Onions | 8,237 | - 30 |
| Ginger | 2,418 | - 15 |
| Green Leeks | 2,221 | - 34 |
| Gobo burdock root | 1,933 | - 39 |
| Carrots | 1,128 | - 33 |
| Garlic | 1,095 | - 22 |
| Satoimo (a type of root crop) | 754 | - 66 |
| String beans | 684 | - 32 |
| Cabbage | 232 | - 67 |

Source: MAFF & Nihon Keizai Shimbun

Japanese Food Service and Supermarket Operator Coping Strategies

While country of origin labeling on fresh foods (fruits, vegetables, fish, red meat, poultry and 24 processed foods) in Japanese retailers has long been mandated, the food service industry (restaurants, fast food, institutional cafeterias, etc) have been exempt from the law. This is because food service firms

- 1) handle many kinds of food products;
- 2) change production or catching areas in accordance with the climate, etc; and
- 3) use food products produced in many different regions.

Customers therefore have no way of knowing the country of origin of the food that they eat at restaurants and elsewhere outside the home. Many food service operators have come to rely heavily on Chinese food products in recent years, largely because of price. However since January, due to shortages of supplies and consumers' negative attitudes, most are feeling heavy pressure to begin acquiring their ingredients from countries other than China. It is expected that they will do so to a large degree during April and May 2008 when they revamp their menus.

Kansai's leading supermarket operators have not suffered serious difficulties as a result of the January incidents. There was some loss due to the drop in sales of frozen foods, but in other areas they have switched to domestic products and products of other countries. Much processing of food products such as herring roe used to take place in China, but firms have been switching to processing facilities in Japan and elsewhere in Asia. Due to this ongoing food safety situation, the triangular axis of trade in the region has begun to shift away from China and to other countries including back to Japan.