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Fresh and Frozen Potato Products

Annual Commodity Report

2008

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Report Highlights:

In marketing year (MY) 2007/08 (September–August) Japan produced around 2.86 million metric tons of potatoes from a total crop area of 87,180 hectares. On February 1, 2006, Japan lifted the import ban on U.S. fresh potatoes, offering limited access. The importation of U.S. fresh potatoes is allowed into Japan between February 1 and June 30 for port area potato chip processing facilities. Japan imported 616 metric tons in MY 2007/08, valued at \$324,000 on a CIF basis. Japan imports of frozen potato products (HS codes 2004.10 and 0710.10) increased by 6.6 percent in MY 2007/08 to 318,716 metric tons (MT). In spite of food price hikes in Japan, the market has grown substantially and frozen potato product imports rose to a record high in MY 2007/08. In order to compete with fast food chains, convenience stores have been selling French fries produced from frozen potatoes. The numerous Chinese food scandals have also played a role in increased U.S. exports to Japan.

Includes PSD Changes: No
Includes Trade Matrix: Yes
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Fresh Potatoes

PS&D: Production, Supply and Demand

POTATO DATA

		Market Year Begin: September 2006 MY2006/07	Market Year Begin: September 2007 MY2007/08	Market Year Begin: September 2008 MY2008/09
Area Planted (HR)	Total Area	86,230	87,180	87,130
	For Fresh Market	27,590	27,900	27,880
	For Processing	58,640	59,280	59,250
Area Harvested (HR)	Total Area	86,230	87,180	87,130
	For Fresh Market	27,590	27,900	27,880
	For Processing	58,640	59,280	59,250
Production (MT)	Total Production	2,662,700	2,855,000	2,842,500
	For Fresh Market	852,100	913,600	909,600
	For Processing	1,810,600	1,941,400	1,932,900
Consumption (MT)	Total Consumption	2,160,500	2,352,000	2,358,500
	For Fresh Market	691,400	752,600	754,700
	For Processing	1,469,100	1,599,400	1,603,800
HS Code 0710.90				
Source: MAFF				
MY2008/09 data: Post estimates				

Production

Approximately 80 percent of nation's potatoes are produced in Hokkaido, the northernmost island of Japan. Around 20 percent of potatoes are produced in Honshu, the main island of Japan, and Kyushu, the third-largest island of Japan and most southwesterly of its four main islands. Production per hectare in Hokkaido is significantly higher than in the rest of Japan because the scale of farming in Hokkaido is larger than in the rest of the country.

The majorities of Japan's potato seedlings are planted in the spring and are harvested in summer and fall. Hokkaido potatoes are planted in the spring, with peak harvesting in September and October.

According to the Ministry of Agriculture, Forestry and Fisheries (MAFF), in MY 2007/08 Japan produced approximately 2.855 million metric tons of fresh potatoes from the total crop area of approximately 87,180 hectares. The average yield was around 32.7 MT per hectare. Production increased because of favorable weather conditions and the area planted increased due to demand in the food processing sector.

Trends: Fresh Potato Production

Japanese potato varieties are becoming more diversified. Danshaku" and The "May-Queen" are popular potato varieties for table consumption in Japan. These two varieties have a long history as the King and Queen of potatoes in Japan and have reigned over the Japanese market for several decades. In 1980 the two potato varieties comprised approximately 57 % of potato production in Japan. By 2006, however, the varieties dropped to 37.3 % of total production because alternate potato varieties are now being used for processing. Kita-Akari is a potato variety used for chip production because it has a better consistency (higher solid contents). Japanese farmers have increased production of this variety over the last few years.

Foreign potatoes are also becoming popular with Japanese farmers because of their higher yields and improved quality. For example, the French varieties "Cynthia" and "Shelly" and the South American variety "Inca-no-Mezame" are some of new varieties Japanese farmers are planting.



A farmer in Aomori Prefecture shows new varieties of fresh potatoes

In March 2000, Kirin Agri-Bio Company and Koganezaki Farms merged to establish the Japan Potato Company, which sells Cynthia and Shelly potato seed. The Cynthia variety already has a good reputation due to its uniform egg shape and flat surface with fine starch particles that make it easy to peel in the consumer's kitchen. Production of Cynthia increased by 25 % to a total of 3,000 MT in 2008 and production is expected to jump to 4,500 tons in 2009. The President of Japan Potato Company told the Nikkei Newspaper that Cynthia only has a small share of the potato market in Japan but the company is working to expand its share over the next few years.

Consumption

According to the Ministry of Internal Affairs and Communications, the average consumption of fresh potatoes by Japanese households is approximately 11.6 kilograms per year, with an average expenditure of approximately \$24.68 (2,600 yen) per year.

According to MAFF, in MY 2007/08 approximately 32 percent of potatoes harvested in Japan are destined for the fresh market while the rest are used in the food processing sector. Among potatoes destined for the processing sector, a large volume goes to starch makers and to food manufacturers such as potato chip manufactures and frozen potato food processors. The rest (approximately 6 percent) is used as seed.

Trade – Imports

Japanese imports of fresh potatoes (HS code: 0701.90) have increased significantly since March 2006 when the government of Japan allowed importing fresh potatoes from the United States for chip processing. Japan imported 1,273 metric tons of fresh U.S. potatoes in MY2006/07 and 616 metric tons in MY 2007/08. Prior to March 2006, Japanese imports of fresh potatoes were negligible.

Trade – Exports

Japanese exports of fresh potatoes are extremely small with the total volume of 56 metric tons in MY 2008.

Policy

Until February 1, 2006, the Government of Japan banned all imports of fresh potatoes from the United States due to phytosanitary concerns.

Japanese chip manufacturers rely heavily on Hokkaido potatoes (approximately 90 percent of potatoes for chip use are produced in Hokkaido). Since Hokkaido potatoes are harvested in the fall, Japanese chip makers are forced to use warehouse stored potatoes until domestic summer potatoes become available the following year. However, the quality of stored potatoes significantly deteriorates over time. Thus, Japanese chippers are desperate to use freshly harvested potatoes during Japan's off-season period in order to keep the quality of their product stable.

In December 2002, after several years of unfavorable weather conditions and poor domestic potato harvests, Japanese potato chip manufacturers approached the U.S. potato industry to propose importing fresh U.S. potatoes. Through scientific discussions between MAFF and USDA, an agreement was reached with limited access on February 1, 2006. Under this agreement, access was allowed between February 1 and June 30 from 14 U.S. states for port area potato chip processing facilities.

Currently, one port area facility in Hiroshima is allowed to process U.S. fresh potatoes into chips under MAFF's severe surveillance of safeguarding protocol, which includes sealed container transportation from the port to the facility and incinerating all waste of potatoes. This facility has processed 429, 1,273 and 616 metric tons of U.S. potatoes into chips in 2006, 2007 and 2008, respectively.

Marketing

Currently fresh potatoes from the United States are only allowed to be used for making chips at MAFF's designated facility in Hiroshima. According to industry sources, this facility procures potatoes from their contracted farms in the United States. However, USDA and the U.S. potato industry continue talks with the Japanese government for additional facilities to process U.S. fresh potatoes.

Tariff Table

The applicable import duty for fresh potato is as follows:

TARIFF CODE (HS)	DESCRIPTION	DUTY RATE
0710.90	Fresh Potatoes	8.5%

The duty is charged on a CIF basis.

Trade Matrices

Fresh Potatoes Import Trade Matrix (Quantity)

Fresh Potatoes Import Trade Matrix (Quantity)					
Country		Japan			
Commodity		Potatoes, Fresh			
Time Period:		September – August			
Units:		Metric Tons			
Import for: MY2005/06		Import for: MY2006/07		Import for: MY2007/08	
U.S. 429		U.S. 1,273		U.S. 616	
Others		Others		Others	
China 34		China 0		China 2	
Total for		Total for		Total for	
Others 34		Others 0		Others 2	
Others not		Others not		Others not	
Listed 0		Listed 0		Listed 0	
Grand Total 463		Grand Total 1,273		Grand Total 618	
Source: World Trade Atlas					

Fresh Potatoes Import Trade Matrix (Value)

Fresh Potatoes Import Trade Matrix (Value)											
Country		Japan									
Commodity		Potatoes, Fresh									
Time Period:		September - August									
Units:		Millions of US Dollars									
Import for:		MY2005/06		Import for:		MY2006/07		Import for:		MY2007/08	
U.S.		0.231		U.S.		0.685		U.S.		0.324	
Others				Others				Others			
China		0.027		China		0.000		China		0.002	
Total for				Total for				Total for			
Others		0.027		Others		0.000		Others		0.002	
Others not				Others not				Others not			
Listed		0.000		Listed		0.000		Listed		0.000	
Grand Total		0.258		Grand Total		0.685		Grand Total		0.326	
Source: World Trade Atlas											

Fresh Potatoes Export Trade Matrix (Quantity)

Export Trade Matrix (Quantity)					
Country	Japan				
Commodity	Potatoes, Fresh				
Time Period:	September - August				
Units:	Metric Tons				
Export for:	MY2005/06	Export for:	MY2006/07	Export for: MY2007/08	
U.S.	0	U.S.	0	U.S.	0
Others		Others		Others	
Hong Kong	20	Taiwan	54	Singapore	54
North Korea	7	Singapore	3	Hong Kong	2
Total for		Total for		Total for	
Others	27	Others	57	Others	56
Others not		Others not		Others not	
Listed	0	Listed	0	Listed	0
Grand Total	27	Grand Total	57	Grand Total	56
Source: World Trade Atlas					

Fresh Potatoes Export Trade Matrix (Value)

Export Trade Matrix (Value)					
Country	Japan				
Commodity	Potatoes, Fresh				
Time Period:	September - August				
Units:	Millions of US Dollars				
Export for:	MY2005/06	Export for:	MY2006/07	Export for: MY2007/08	
U.S.	0.000	U.S.	0.000	U.S.	0.000
Others		Others		Others	
Hong Kong	0.004	Taiwan	0.149	Singapore	0.020
North Korea	0.006	Singapore	0.007	Hong Kong	0.005
Singapore	0.003				
Total for		Total for		Total for	
Others	0.013	Others	0.156	Others	0.025
Others not		Others not		Others not	
Listed	0.000	Listed	0.000	Listed	0.000
Grand Total	0.013	Grand Total	0.156	Grand Total	0.025
Source: World Trade Atlas					

Fresh Potatoes Wholesale Price Table (For Table Consumption)

Wholesale Price Table				
Country	Japan			
Commodity	Potatoes, Fresh			
Prices in:	Japanese Yen			
Per:	KG			
Year:	2007	2008	% Change	
Jan	107	85	-21%	
Feb	106	94	-11%	
Mar	120	101	-16%	
Apr	126	131	4%	
May	110	121	10%	
Jun	75	136	81%	
Jul	83	119	43%	
Aug	87			
Sep	76			
Oct	74			
Nov	78			
Dec	80			
Exchange Rate:	105.34	(Local Currency/US \$)		
Date of Quote:	9/23/2008	(MM/DD/YYYY)		
Source: MAFF				

Processed Potatoes Products

PS&D: Production, Supply and Demand

PSD Table										
Country	Japan									
Commodity	Potato Products, Frozen						(MT, Net Weight)			
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin	09/2006			09/2007			09/2008			MM/YYYY
Beginning Stocks	0	0	0	0	0	0	0	0	0	(MT, Net Weight)
Production	28,443	28,443	28,443	29,000	29,000	29,000	0	0	30,000	(MT, Net Weight)
Imports	328,457	328,457	298,924	302,000	302,000	318,716	0	0	320,000	(MT, Net Weight)
Total Supply	328,714	328,714	327,367	331,000	331,000	347,716	0	0	350,000	(MT, Net Weight)
Exports	257	257	300	300	300	300	0	0	300	(MT, Net Weight)
Domestic Consumption	328,670	328,670	327,067	330,700	330,700	347,416	0	0	347,700	(MT, Net Weight)
Ending Stocks	0	0	0	0	0	0	0	0	0	(MT, Net Weight)
Total Distribution	328,927	328,927	327,367	331,000	331,000	347,716	0	0	350,000	(MT, Net Weight)

(Total of HS code 0710.10 and HS 2004.10)

Production

Frozen Potato Products

Domestic production is estimated to be around 29,000 MT in MY 2007/08 and increase slightly in MY 2008/09 to 30,000 MT. Production is expected to increase because of the numerous Chinese food scandals in Japan has limited the demand for Chinese frozen potatoes. Nonetheless, domestic production is constrained by competitively priced frozen potato imports from other countries such as the United States.

Most domestic products go to the retail sector, with sales driven by consumer cooperative societies (co-ops), and manufactures of frozen foods. Japanese consumers are more concerned today on food safety. Nonetheless, Japanese manufacturers can accept a shift from domestic products to imports once they are assured of the products' safety.

Potato Flakes (Non-Frozen)

Potato flakes (dehydrated potato products) are produced in Japan to some extent. Japanese confectionary companies and Hokkaido based food manufactures produce several hundreds tons of dried potato flakes per year. Chinese food scandals have cast a shadow over imports

from that country. Thus, the Japanese food service industry is using domestic products more than before the food scandals began.

Consumption

The frozen potato market is closely tied to the performance of fast food restaurants in Japan. Fast food sales helped to increase the demand for frozen potatoes throughout 2007 and 2008. Teenagers and older children are eating more French fries. Consumption is estimated to be around 347,416 MT in MY 2007/08.

Convenience store chains have increasingly used imported frozen potatoes. In 2008, large scale convenience-store chains (CVS) introduced wide-width showcases and full size fryers for fried potato products, similar to those in fast food outlets. This convenience store trend will increase frozen potato imports into Japan next year.

Consumption of frozen potatoes is also impacted by the long vacation season in Japan. Annually, there are three peak periods of demand for frozen fried potatoes: 1) Golden week in late April and early May; 2) summer vacation season in late July and August; and 3) the New Year vacation season in early January.

Trade – Imports

Even though U.S. frozen potato exports increased significantly to a number of countries in MY 2007/08, Japan is still by far the largest market. Around 35 percent of all U.S. exports went to Japan in MY 2007/08. The second largest market for U.S. frozen potato exports is Canada, amounting to only 13 percent of all U.S. frozen potato exports. The United States is also the largest supplier of frozen potatoes to Japan.

Imports of U.S. frozen potatoes (HS code 0710.10 and 2004.10) increased to 251,834 MT in MY 2007/08, an increase of 7.68 percent compared to the previous year. U.S. potato imports showed a substantial increase in quantity and value from the previous year as food processors increase the use of frozen potato dough for snack food production.

The average price of U.S. frozen potatoes has increased by 15% over the last year because of the surge in ocean freight and inland freight prices. If this trend continues, U.S. frozen prices could overtake domestic prices that could have a negative impact on the demand for U.S. products. However, Japanese fast food chain buyers have thus far accepted U.S. price increases because of the high quality of U.S. product.

Nonetheless, these price increases have pushed end users to diversify their sources of frozen potatoes. Two European countries, for example, substantially increased their exports of frozen potato products to Japan in MY 2007/08. Belgium increased frozen potato exports by around 45 % by offering cheaper prices than the United States. In addition, Egypt has offered frozen potatoes 30 % cheaper than the United States and increased exports to Japan over 100% in MY 2007/08. Some family style restaurants and national retailers showed great interest in these imports even though the quality is not as good as U.S. frozen potatoes.

New Zealand sales of frozen potatoes to Japan declined by 25 % in MY 2007/08 as the country shipped more product to Australia. China exports to Japan declined over 8% in MY 2007/08 because of the numerous food scares from that country.

Trade – Exports

Japan's exports of frozen potato products are very small. Japan exports around 300 MT to Taiwan, Singapore and Guam, where Japanese grocery stores are located.

Marketing

Japan has one of the most effective infrastructures in the world for distribution, handling and storage of all frozen products. Japan's infrastructure, which can accommodate the handling of frozen potato products, provides easy access for foreign competitors. In fact, around 30 countries exported frozen potato products to Japan last year.

Based on this infrastructure, population dynamics and increasingly favorable macroeconomic trends in the country, the food industry believes that Japan has a potential market capacity well over 400,000 metric tons for frozen potatoes. The United States is in the best position to fulfill this anticipated market potential, although many other third-country competitors and some domestic Japanese producers are seeking every opportunity to increase their market share.

Policy

No significant change in these tariff code numbers

HS Code		Description	Rate of Duty
0710.10	0710.10-000	Frozen Potatoes: uncooked or cooked by steaming or boiling in water	8.5 %
2004.10	2004.10-100	Frozen Potatoes: Cooked, not otherwise prepared (fried potatoes)	8.5 %
	2004.10-210	Frozen Potatoes: Mashed potatoes	13.6 %
	2004.10-220	Frozen Potatoes: Other	9.0 %

HS Code		Description	Rate of Duty
1105.20	1105.20-000	Flakes, Granules and pellets of potatoes	20.0 %

Japan recently made technical changes to its biotechnology labeling rules that allow U.S. potato suppliers to get out from under longstanding identity preservation (IP) handling requirements. For more information, please see pages 39-40 of the Sixth Report to the Leader on the U.S.-Japan Regulator Reform and Competition Policy Initiative June 6, 2007 at: <http://www.mofa.go.jp/region/n-america/us/report0706.pdf>

In 2006, Japan implemented two regulations related to the importation of frozen potato products. The first regulation is on the maximum residue level (MRL) on all food products, which was implemented on May 29, 2006. For information on MRLs, which may affect frozen potato products, please see GAIN reports JA6004, JA6011, JA6025, JA6030, JA8050, JA8051, JA8033, JA8032 and the following website: <http://www.mhlw.go.jp/english/topics/foodsafety/positivelist060228/introduction.html>

The other regulation involves the importation of rice and rice products. Starting in August, 2006, the Japanese government implemented new biotech testing requirements for rice, which are often used as an ingredient in processed potato products.

Import Trade Matrix**Frozen Potato Products**

Source: World Trade Atlas

Import Trade Matrix - Quantity			
Country:	Japan		
Commodity:	2004.10 - Frozen Potato Products, Potatoes including mashed and other		
Time Period:	September - August		
Units:	Metric Ton		
Imports for:	2005/06	2006/07	2007/08
United States	236,393	233,621	246,829
Others:			
Canada	44,821	38,125	39,134
Belgium	3,003	4,835	7,005
China	4,741	7,202	5,166
New Zealand	3,408	4,636	3,463
Germany	2,552	2,312	2,215
Egypt	1	737	1,833
Netherland	730	597	499
Total for Others	59,256	58,444	59,315
Others Not Listed	121	434	568
Grand Totals	295,770	292,499	306,712

Import Trade Matrix - Value			
Country:	Japan		
Commodity:	2004.10 - Frozen Potato Products, Potatoes including mashed and other		
Time Period:	September - August		
Units:	US\$ Million		
Imports for:	2005/06	2006/07	2007/08
United States	222.342	228.721	263.721
Others:			
Canada	42.094	37.008	41.038
Belgium	3.108	5.013	7.875
China	5.166	8.115	7.402
New Zealand	3.142	4.338	3.736
Germany	2.608	3.044	3.058
Egypt	0.004	0.556	1.471
Netherland	0.973	0.968	0.942
Total for Others	57.095	59.042	65.522
Others Not Listed	0.312	0.986	1.050
Grand Totals	279.749	288.749	330.293

Frozen Potato Products, Not Fried

Import Trade Matrix - Quantity			
Country:	Japan		
Commodity:	0710.10 - Frozen Potato Products, not Fried		
Time Period:	September - August		
Units:	Metric Ton		
Imports for:	2005/06	2006/07	2007/08
United States	1,327	242	5,005
Others:			
China	2,052	5,481	6,472
Columbia	339	309	220
Vietnam	126	210	190
Canada	78	61	51
Egypt	57	119	44
Total for Others	2,652	6,180	6,977
Others Not Listed	3,007	3	20
Grand Totals	6,986	6,425	12,002

Import Trade Matrix - Value			
Country:	Japan		
Commodity:	0710.10 - Frozen Potato Products, not Fried		
Time Period:	September - August		
Units:	US\$ Million		
Imports for:	2005/06	2006/07	2007/08
United States	1.306	0.279	6.943
Others:			
China	3.970	4.464	5.927
Columbia	0.743	0.695	0.540
Vietnam	0.113	0.215	0.209
Canada	0.078	0.073	0.068
Egypt	0.052	0.130	0.048
Total for Others	4.956	5.577	6.792
Others Not Listed	0.005	0.003	0.051
Grand Totals	6.267	5.859	13.786

Flakes of Potatoes

Import Trade Matrix - Quantity			
Country:	Japan		
Commodity:	1105.20 - Flakes of Potatoes		
Time Period:	September - August		
Units:	Metric Ton		
Imports for:	2005/06	2006/07	2007/08
United States	15,356	18,399	16,839
Others:			
Germany	2,443	1,854	1,903
China	829	384	135
Netherland	603	43	25
Canada	191	275	17
Chile	37	0	0
Total for Others	4,103	2,556	2,080
Others Not Listed	0	11	2
Grand Totals	19,459	20,966	18,921

Import Trade Matrix - Value			
Country:	Japan		
Commodity:	1105.20 - Flakes of Potatoes		
Time Period:	September - August		
Units:	US\$ Million		
Imports for:	2005/06	2006/07	2007/08
United States	16.745	24.407	22.905
Others:			
Germany	2.693	2.338	2.836
China	1.007	0.495	0.197
Netherland	0.731	0.067	0.042
Canada	0.233	0.363	0.028
Chile	0.045	0.000	0.000
Total for Others	4.709	3.263	3.103
Others Not Listed	0.000	0.037	0.010
Grand Totals	21.454	27.707	26.018