

**Voluntary Report** – Voluntary - Public Distribution

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**Report Name:** COVID-19 Impacts on Food Distribution in Japan

**Country:** Japan

**Post:** Tokyo ATO

**Report Category:** Agricultural Situation

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**Report Highlights:**

The COVID-19 pandemic has caused food service sales in Japan at restaurants and hotels to nosedive and retail sales at supermarkets to jump as schools have closed, tourism has come to a halt, and public outings have fallen following official requests that people stay at home. The shift in consumer spending is negatively impacting small-to-medium sized importers, wholesalers, and distributors that supply restaurants, hotels, department stores, schools, and workplace cafeterias. Global delays in shipping, reduced air cargo capacity, and increased cargo prices have had a mild impact on imports; however, the Ministry of Agriculture, Forestry and Fisheries (MAFF) reports that the nation's food supply is secure.

*The following report is the product of ATO Japan interviews with industry contacts and open source news articles. To date, official data on retail and food service sales, or food consumption, for March and April of 2020 are unavailable. While we are confident that the following content is indicative of industry sentiment, we encourage readers to seek confirmation of these trends as data becomes available.*

## 1. Overview of Japan Food Distribution

Japan has one of world's most developed food supply chains. Imported foods and beverages often pass through many hands before reaching consumers. The first tier of the distribution system are importers, including general trading houses and specialty importers. The next tier, wholesalers, includes large wholesalers who import a broad array of product and are often equipped to handle distribution, and smaller wholesalers who depend on the final tier, distributors, to deliver product. Depending on the scale and volume of operations, retailers, food service providers, and food processors may utilize one or all tiers of the distribution system.

Food Service ([Annual GAIN Report](#)): Most large food service operators utilize trading companies or use designated distribution centers rather than wholesalers, though some import product directly. Even then, they often contract supply chain operations to handle import processing, inventory management, and delivery. Smaller-sized food service operators often depend on 'cash and carry' retailers and wholesale clubs. Chain restaurants tend to procure food from food service industry wholesalers who offer combined shipment/delivery of all kinds of food and restaurant business materials. Individual restaurants tend to buy food at nearby fresh food markets, supermarkets, and/or retail stores.

Retail ([Annual GAIN Report](#)): Japanese retailers do not usually import directly, and, in most cases, rely on an importer and wholesaler. Importers often introduce new product to retail buyers, and if interested, they will request their wholesaler/distributor and/or importer to consider purchasing. Japanese retailers usually have large purchasing teams with dedicated buyers for different product lines such as meats, seafood, fresh produce, specialty foods, frozen ingredients, and frozen processed foods.

Food Processing ([Annual GAIN Report](#)): Large food processors purchase sizeable quantities of product directly from U.S. exporters. Smaller processors often use general trading companies or specialty importers who may use wholesalers and secondary distributors.

## 2. Overview of COVID-19 Mitigation Measures Suggested by the Government of Japan (GoJ) and Local Authorities

### a. Impact on Consumption Patterns

Since the Diamond Princess Cruise ship docked in Tokyo Bay in early February, along with the first local transmissions of COVID-19, there have been varying levels of reduced social activity in Japan. Nearly all schools closed in early March, several weeks ahead of scheduled spring breaks. At that time, GoJ requested for people to stay home during nights and weekends. That request led to a limited increase

in teleworking, a decline in eating out, and a halt to corporate spending on entertainment. Due to these mitigation measures, food expenditures have largely shifted from food service to retail. Restaurants and department stores in metropolitan areas have seen dramatic declines in sales; some major restaurant chains have reportedly registered only half of their normal sales in March. Meanwhile, supermarket and home-meal replacement (HMR, or *souzai* in Japanese) sales have surged.

The Ministry of Agriculture, Forestry and Fisheries (MAFF) reports that the nation's food supply is secure, stating Japan has enough rice to meet 6.2 months of domestic demand, and has stockpiled wheat, primarily sourced from the United States, to meet 2.3 months of domestic demand. Some industry buyers reportedly were advised by their suppliers about possible shortage of vegetables and processed chicken products imported from China, yet so far domestic food production has compensated for losses on strong winter harvests, and these shortages have yet to occur.

On April 7, following Prime Minister Abe's state of emergency declaration, Japan's Cabinet approved a \$990 billion economic package to support the economy during the COVID-19 pandemic. MAFF is expected to receive a \$5 billion supplementary budget to support the food and agricultural sector. For more information, please see GAIN [JA2020-0075](#).

i. Decline in tourism

The current prognosis for Japan's travel and tourism sector is bleak. The Japan National Tourism Organizations (JNTO) reported that in February, versus last year, the number of visitors from mainland China fell by 87.9 percent, from South Korea by 79.9 percent, and by 71.9 percent from other countries in the region. Small and medium-sized businesses (SMEs) in tourism-related industries such as bus companies, hotels, and inns have been hard hit. Hotels that cater to tourists often provide a variety of food service, ranging from breakfast offerings to in-house restaurants. The decline in tourism has also reportedly impacted restaurant and department store sales. A slowdown in the global economy accelerated by COVID-19 and the year-long postponement of the Olympics means the situation will get worse before it gets better.

b. Impact on Transportation and Supply

i. Flight Disruptions

Japanese airline industry sources reported to the U.S. Embassy that, as factories in China are once again coming online, limited flights have driven up prices and demand for air cargo. ANA Cargo, the cargo subsidiary of ANA, has added more than 100 cargo flights in March to meet demand. Prices are two to five times above normal, and companies are willing to pay much more to secure cargo space. Japan's air cargo industry was struggling due to a pilot shortage and lower overall volumes attributed to U.S.-China trade tensions. The COVID-19 outbreak has freed up pilots and reduced overall cargo capacity in the market as other providers have cancelled all flights. Although passenger flights are running nearly empty, JAL and ANA managers explained that the aircraft can still be used to transport

cargo in the belly, justifying the continued service. However, as of April 3, only 11 percent of the pre-COVID-19 commercial passenger flight capacity from Japan to the United States remain in operation.



*Photo taken by USDA staff at Tokyo International Airport (Haneda) on April 9, 2020.*

## ii. Other Supply Chain Disruptions

According to Reuters, thousands of refrigerated containers were stuck at Chinese ports in the early part of the year which led to an increase in spot freight rates of approximately 200 percent, which may rise further. Some shipping delays have been reported by contacts within the Japan distribution system, but shipments for the products ordered until the end of April have been already arranged and will be shipped without problems unless there are COVID-19 infections among workers at related facilities. Most shipments from other countries have continued to arrive. Distributors have reported a slight drop in U.S. fishery products and some citrus, though their trading companies have given sufficient heads up to dampen the impact. Importers reportedly anticipate increasing instability in supplies due to the shipping and distribution delays. Many industry stakeholders expressed their concern regarding future fresh product shipments, especially those reliant on air shipments.

## iii. Pre-Clearance Issues

MAFF has postponed all on-site verifications (i.e. inspections, audits) in the United States until May 31, 2020. This timeline is subject to extension based on the status of the COVID-19 pandemic. The



commodities that would normally be subject to MAFF's oversight activities during this time of year include papaya, plum, cherry, and nectarine. MAFF has made assurances that the postponement of these visits will not affect trade of these agricultural commodities. U.S. industries can export their commodities to Japan, provided that substitute measures are implemented. These measures include increased sampling at the Japanese border, and electronic information sharing to verify facilities, treatment results, and phytosanitary certificates, depending on the commodity. MAFF will proceed with on-site verifications of export programs when it is possible to send the appropriate inspectors.

### 3. Impacts on Major Distribution Channels:

#### a. Hotel, Restaurant, and Institutional (HRI) Sector

##### i. Hotels

Hotels in Japan provide a variety of food service, ranging from breakfast offerings to large scale banquets and restaurants. The average sales of major hotels have fallen dramatically since early March and the average hotel occupancy is now less than 20 percent. A large number of hotels have closed, some after staff tested positive for COVID-19, and others due to the lack of business. However, hotels that continue business are not experiencing a shortage in the food supply, rather operators are concerned with the expiration of food stocks. Wholesalers that primarily supply hotels are being greatly affected by the low occupancy rates. In 2018, hotel sector food service sales were \$25.5 billion.

##### ii. Restaurants



*Photo taken by USDA staff at Tokyo International Airport (Haneda) on April 9, 2020.*

In February 2020, average sales of the restaurant industry were up four percent versus last year according to a study by Japan Food Service association. For the fast food segment, including pizza deliveries and take-out sushi shops, there was nearly a ten percent sales increase. However, according to the interviews with major restaurant chains, restaurants reportedly lost half of their March sales, a sharp decline that many expect will continue. There has been a dramatic decrease in the number of foreign tourists to cities, and a virtual halt in local events and banquets, i.e. welcome and

farewell parties. Many restaurants have begun shortening their hours and several have closed. One restaurant operator with nearly 1,000 outlets said they have closed 65 percent of their outlets in metropolitan areas due to facility/shopping mall closures. Other operators report similar losses in

March sales, ranging from 20 to 65 percent, in both the Tokyo and Osaka regions. Suburban restaurants supported by Japanese local customers are not performing as poorly. The restaurant industry is not concerned with food supply, rather their survival capabilities with the sustained drop in business. In 2018, restaurant sector sales were \$129.8 billion.

iii. Institutional food service

1. Schools

GoJ issued an order on March 2 closing nearly all schools from March 6. Japan's school lunch program supports meal service operators, subsidizing a part of their cost for about 200 days annually which has limited the damage on these operators. However, food suppliers for school meals have been hard hit by the closure. For example, school lunches consume around 10 percent (353,000 kiloliters) of total drinking milk production in Japan. GoJ announced increased support for the redistribution of this milk into retail and food processing. For more information read GAIN reports [JA2020-0066](#) and [JA2020-0059](#). In 2018, Japan's school lunch market was \$4.4 billion.

2. Workplaces

According to industry sources, office cafeteria sales decreased by an average of 30 percent in March versus the previous year. Corporate meal service sales for shopping centers, hotels, and tourist facilities took a 70 percent nosedive in the same month. The meal service contractors for the Olympic Games in Tokyo were dealt a blow to sales by the postponement. Total company meal service sales in 2018 were \$15.7 billion.

b. Retail Sector

i. Supermarkets

COVID-19 has pushed up retail sales due to school closures, an increase in teleworking, and GOJ requests for people to stay home during nights and weekends. Supermarket sales have been so strong at some outlets that employees have reportedly had difficulty restocking products due to time constraints or lack of stock. Distributors also have reportedly had difficulty keeping up with the speed of sales. Retailers are not able to give concrete figures, but contacts have revealed that sales may be similar to the year-end holiday season, typically a 20 to 30 percent sales increase versus normal monthly totals. However, cash and carry retailers who typically supply individual restaurants and smaller food service operators have reported a significant sales decline. While supermarket sales have been strong, most buyers are prohibited to do any traveling domestically or internationally and may not attend meetings. Therefore, no new deals or products procurements are being made at this time. In 2018, supermarket food sales were \$336.2 billion.

## ii. Convenience Stores

On March 25, the Japan Franchise Association reported total sales of major convenience stores in February increased 2.6 percent versus the same month last year. The food product sales were up 3.8 percent, which included breads, lunch boxes/sozai/HMR, frozen food, and sweets that exceeded the sales of February last year. Data for March is not yet available but industry resources indicated sales remained up year over year. In 2018, convenience store food sales were \$69.8 billion.

## iii. Department Stores

While sales at supermarkets and convenience stores have surged, department stores have seen serious declines, ranging from 30 to 55 percent, due to decreases in foreign tourists, GOJ requests to stay at home, and temporary closures or reductions in business hours. However, department stores with internet business capabilities are reportedly having an increase in ecommerce sales of food, daily commodities, and cosmetic. Although ecommerce is generally a small percentage of department stores' annual sales, they are planning on expanding their assortment of merchandise to capitalize on increased internet traffic. In 2018, department store retail food sales were \$16.3 billion.

### **Attachments:**

No Attachments.