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Market Development Reports

Food Business Line

Periodic Press Translations from ATO Tokyo

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Report Highlights: A summary of current news reports in America's largest food and agricultural export market as translated from Japan's mass media and food press. This issue includes: *Wal-Mart Stores* to send a working team to Tokyo in July to start serious discussions with *Seiyu* and *Sumitomo Corporation* regarding its business cooperation in Japan; *McDonald's Japan* announced that it will cut the price of hamburgers to a record-low 59 yen from August 5 at 3,900 outlets nationwide; MAFF announced that it will enforce a strict inspection for pesticide residue of 600 (300 frozen) imported vegetables that are sold in stores; and MHLW decided to approve about 30 chemicals whose safety was confirmed by the JECFA and which are widely used in the U.S. and European Union.

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Food Business Line

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Retail/Wholesale

- *Wal-Mart Stores* plans to send a permanent working team to Japan in July to set up an office in *Seiyu's* Headquarter in Tokyo to start serious discussions with *Seiyu* and *Sumitomo Corporation* regarding its business cooperation in the Japanese market. (b 7/2)
- *Mitsubishi Corporation* announced on July 2 that it will acquire a 10% interest in *am/pm Japan* convenience store chain from the parent company *Japan Energy* by the end of 2002. *Mitsubishi* hopes to eventually take advantage of the distribution system of *am/pm*, 76% of whose 1,337 outlets are in the Tokyo Metropolitan area, to increase the efficiency of the distribution for its *Lawson* convenience store chain, in which it is the top shareholder. (a 7/3)
- Convenience stores' annual sales on a same store basis have been declining for four consecutive years through 2001, and *Mitsubishi Corporation's* plan to take a stake in *am/pm Japan* shows that the wave of realignment in the convenience store industry that started among smaller operators is reaching mid-sized companies. The trend in which trading companies and convenience store operators tie up will likely to accelerate. (a 7/3)

Food Service

- According to a survey done by the *Nihon Frozen Food Association* of 293 Japanese food service companies, frozen food accounted for as much as 40% of such companies' total procurement cost. And 30% of the companies replied that they are willing to increase the procurement of frozen food in the future. (Nogyo Shimbun 7/3)
- *McDonald's Japan* announced July 9 that it will cut the price of hamburgers to a record-low 59 yen. The company will introduce the new price structure from August 5 at 3,900 outlets nationwide. *McDonald's* began to see lower year-on-year same-store sales from last October due to lower consumer spending and the fear of BSE. *McDonald's* ended its two-year half price sales campaign in February 2002. That, however, led to a further decline in customer traffic and deteriorating sales forcing the company to cut the hamburger price to this new lower level to win back consumers. (a 7/10)

Food Processing/New Products/Market Trends

- Dried prunes are gaining popularity for their effect on keeping processed meat products juicy and tasty when cooked together. Some Japanese frozen food manufacturers recently started using dried prunes in their hamburger and Chinese meat dumpling products. (b 7/2)
- Reflecting the recent detection of excessive agricultural pesticide residue in Chinese frozen spinach, Japan's Agriculture Ministry announced on June 27 that it will enforce a strict inspection for pesticide residue of 600 (300 frozen) imported vegetables that are sold in stores. Among the 19 varieties, 18 are from China, and one is from Taiwan. (f 7/4)
- *Calpis Corporation* expects a 43% increase in its group operating profit for the first half of the fiscal year ended June 2002, compared with the same term of 2001. The strong results are

- mainly due to good sales of a new mineral water beverage during the World Cup soccer matches held in Japan in June. (a 7/5)
- Japan's top wine producer *Suntory* plans to produce "Suntory's Delica" and "Reserve" brand wine products, which account for 40% of *Suntory's* domestic wine sales in cooperation with a French winery *Castell* in Bordeaux. The brands will be offered in Japan from September, and will also be offered in Europe through *Castell's* sales channels, marking the first time for *Suntory* to sell its own wine in the region. Imported wine started booming around 1998 and has been pushing down sales of domestic wine ever since. *Suntory* hopes to improve the image of its wine products by using grapes grown in the best soil and in ideal climates. (a 7/5)
 - On July 1, Japan's Finance Ministry changed the tariff classification definition of natural cheese to match the Codex standard. Natural cheese will be classified under "solidified protein" rather than by the amount of dairy fat. Under the new definition, high fat cream cheese, a known substitute for butter, that was originally imported as natural cheese, will be regarded as butter, and will receive a higher tariff rate. With this change, imports of high fat cream cheese are likely to decline, and the demand for domestic butter may increase in the future. (f 7/8)
 - Shipments of beer and *happoshu* malt liquor in the first half of 2002 declined 4.6% compared to the same term of 2001, falling for the second straight six-month period. Shipments of *happoshu* malt liquor declined for the first time ever in June, declining 0.5% compared to the same month last year. This makes the earnings environment more severe for Japan's major beer companies, many of which competed to reduce prices on *happoshu* malt liquor in June. (a 7/11)
 - Japan's Health, Labor, and Welfare Ministry decided on July 12 to approve about 30 chemicals whose safety was confirmed by the Joint FAO/WHO Expert Committee on Food Additives (JECFA) and which are widely used in the U.S. and European Union. Currently, 828 food additives are allowed in Japan under the Food Sanitation Law. Companies hoping to use unauthorized additives must apply for the Health Minister's approval after testing their safety. If approved, the additives will be added to the Ministry's list, enabling usage by other companies as well. Few food manufacturers apply for approval, however, because safety tests are expensive. Only one or two types of additives are approved in Japan each year, causing many people to question the difference between international practices and domestic standards. The decision reflects the recent detection of various food products containing food additives banned by the Food Sanitation Law, and it marks a reversal from the previous policy of limiting food additive use as much as possible. (a 7/12)

ATO/Cooperator/Competitor Activities/Trade Shows

- *Almond Board of California* held a health forum on June 23 in Tokyo. In the second part of the forum, Ryoko Tamura, a Japanese Judo gold medalist at the Sydney Olympic games, was given an "Almondist Honorary Healthy Award." About 500 consumers attended the forum. (f 7/1)

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Sources

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|----------------------------------|---|
| (a) The Japan Economic Newspaper | (b) The Nikkei Marketing Journal |
| (c) The Japan Food Journal | (d) The Beverage & Food News Commentary |
| (e) The Japan Food News | (f) The Food Industry News |

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