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Market Brief
Japan : Food Processing Sector - Dairy Products

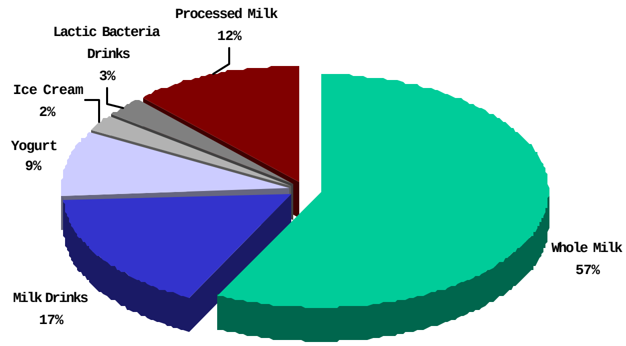
Tokyo[JA1], JA

DAIRY PRODUCTS

OVERALL TRENDS

Japanese consumption of Dairy Products lags far behind that of industrialized Western countries. Japanese consumers per capita drink less than half as much milk as Americans, use only a third as much butter and only one-ninth the amount of cheese. Dairy products compete with many other products in Japan as a source of dietary calcium, such as fish (*kozakana*) and calcium supplements. Further, compared with western countries, dairy products are not used widely in cooking. Consumption of dairy products has been declining in recent years and is expected to continue to decline due to the decreasing number of children in Japan (the number of children under age 14 has dropped 5 percent from the 1986 level). Children and infants make up the largest consumers of dairy products such as milk, which is served in school lunch programs, ice cream and infant formula. Dairy Products that can be expected to increase sales in coming years are trendy items like cheese and products that appeal to health consciousness, such as yogurt.

Chart 1. Production of Liquid Dairy Products in Japan (1997)



The dairy sector is divided into "liquid dairy products" and "other dairy products". Liquid dairy products include milk, ice cream, yogurt and lactic bacteria drinks. Other dairy products include butter, cheese, infant formula, powdered milk and condensed milk. The Japanese dairy sector is set to be deregulated by the year 2001 in accordance with the Uruguay Round of agricultural negotiations. In 1996 the Japanese government announced a restructuring plan to prepare for the coming deregulation. This plan aims to improve efficiency by closing some dairies and consolidating others. The Agriculture Ministry of Japan expects to reduce the number of dairies by 50-60 percent by the year 2005. In accordance with this plan, large manufacturers began rationalizing production in 1997.

Five Major Dairy Companies in Japan:
1. SNOW BRAND MILK CO.
2. MEIJI MILK CO., Ltd
3. MORINAGA MILK INDUSTRIES
4. YAKULT HONSHA CO., Ltd.
5. YOTSUBU NYUGYO

MILK AND MILK DRINKS

Production and sales of drinking milk has remained generally stable over the last five years, averaging about 5,000 kiloliters per year; 1997 production was 4,940 kiloliters. Drinking milk consumption has been shifting from whole milk to processed milk products such as low-fat milk and fortified milk with added vitamins or calcium. While market share for whole milk remains much larger than for processed milk (4.1 million kiloliters vs. 834,753 kiloliters, respectively), production of processed milk has risen by 11 percent over the last five years while whole milk production has remained stable. Processed milk products are especially popular among young women. Processed milk is defined as milk with at least 70 whole milk containing other dairy products such as powdered or condensed milk. Non-fat milk has not gained widespread popularity in Japan. Snow Brand, Meiji Milk Co. and Morinaga Milk Industries are the largest producers of drinking milk in Japan.

The market for milk drinks in Japan has been expanding in recent years, with production growing by 37 percent in the last five years to 1.17 million kiloliters in 1997. Milk drinks include milk flavored with coffee, chocolate or other added ingredients. Popular brands include "Bikkle" by Suntory, which contains added yogurt and calcium, and Pik-Nik by Morinaga in both chocolate and strawberry flavors.

ICE CREAM

The market for ice cream in Japan has been generally static in the 1990's. While the ice cream market hit a sales peak of 429 billion yen in 1994 due to the hot summer weather, for most of the 1990's sales have remained stable at about 380 billion yen. Ice cream sales have declined each year since 1994. In 1997 ice cream production declined by over 3 percent due to poor weather and the food poisoning outbreaks caused by the e-Coli (O-157) bacillus. Long-term reasons for the overall decline of ice cream consumption include the poor economy, fewer children in the population and growing health consciousness. More than 90 percent of ice cream sales are for household use while only about 8-9 percent is sold in the commercial sector by restaurants and hotels.

Competition in the ice cream market is very fierce, and no single company can claim a dominant share of sales. Leading producers include Meiji Milk Products, Morinaga Milk Products, Ezaki Glico, Snow Brand Milk Products, Lotte and Haagen Dazs. Popular flavors include vanilla, cookies and cream, strawberry, melon, chocolate, coffee, chocolate chip and various types which include almonds, hazel nuts or macadamia nuts. Flavors unique to Japan include powdered green tea (*matcha*), sweet red bean (*azuki*) and darjeeling.

The market for ice cream in Japan is split between premium brand ice creams, which have a high fat content and full-bodied cream taste, and low priced ice creams which are low-calorie and have a lighter taste. Haagen Dazs dominates the market for premium ice cream in Japan. Haagen Dazs has customized its products for Japan by introducing flavors such as powdered green tea (*matcha*) and royal milk tea. Meiji, Snow Brand and Lotte are each strong in the low priced market. Many of the low priced ice cream products in Japan are in the ice milk, lactic ice and water ice category. Lactic ice products are mainly reasonably priced products (around 100 yen) sold in supermarkets and convenience stores. Glico's "Essel" has been one of the best selling products in the lactic ice market. Lactic ice products make up 27 percent of ice cream sales, ice milk occupies 14 percent of sales and water ice products make up 25 percent of sales.

Recent trends in the ice cream market include:
1) rising prices - fewer ice cream products under 100 yen are now available;
2) less variety - producers are reducing their product lines to cut marketing and distribution costs; 3) change in distribution whereby large chain retailers, especially convenience stores, have gained a dominant share of ice cream distribution (over 60 percent), while small

retailers' share of the ice cream market is decreasing (vending machines are expected to be an increasing distribution channel for ice cream); and 4) rising imports, particularly of premium ice cream, after the market was liberalized in April of 1990.

The United States is the largest exporter of ice cream to Japan with Australia and New Zealand ranking second and third, respectively. Besides Haagen Dazs, other U.S. brands in Japan include Dreyer's and Ben and Jerry's.

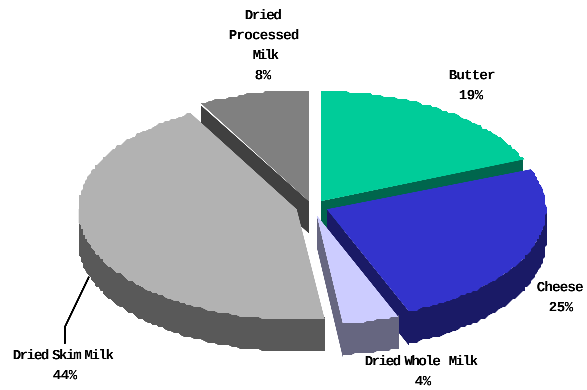
<u>Ice Cream Standards in Japan</u> Ice Cream: 15% milk solids, 8% milk fat. Ice Milk: 10% milk solids, 3% milk fat Lactic Ice: 3% milk solids Water Ice: Need not contain milk solids

LACTIC BACTERIA DRINKS

Lactic bacteria drinks are lightly carbonated milky soft drinks. Using *lactobacilli*, these drinks are marketed as a way to improve digestion. Calpis Food Industry dominates this market with its products, "Calpis Soda" and "Calpis Water". Yakult and Coca Cola are the second and third largest producers of this product. Overall sales of lactic bacteria drinks have been falling in recent years due to competition from other products that improve digestion (e.g. yogurt and milk drinks). Lactic bacteria drink sales increased in 1994 due to hot weather and had another temporary increase in 1996 due to reports that lactic bacteria provided effective protection from the e-Coli (O-157) bacillus.

YOGURT

Chart 2. Production of gOtherh Dairy Products in Japan (1997)



Yogurt consumption has grown rapidly in the 1990's due to the health consciousness trend in Japan. Yogurt production grew more than 50 percent between 1993 and 1997, from 393,294 kiloliters to 604,575 kiloliters. In 1996 yogurt was certified as a "functional food" by the Ministry of Health and Welfare. This certification along with an active marketing campaign touting the health benefits of yogurt supported the strong growth of yogurt sales in 1996 and 1997. Plain yogurt, with added sugar, has become established as a breakfast food in Japan. Sales of plain yogurt are expected to grow steadily in the coming years. Since plain yogurt is difficult to differentiate based on taste, producers and retailers are relying on price competition to win market share. In the flavored yogurt market Morinaga's "Aloe Yoghurt" is the most popular brand with almost 50 percent of sales. Other popular yogurt flavors include strawberry, blueberry, peach and green grape. Of yogurt drinks Meiji's "Bulgaria NOMU Yoghurt 3P" and Snow Brand's "Mainichi Honebuto" are the most popular.

CHEESE

The market for cheese has been growing

Table 1. Production of Dairy Products

Liquid Dairy Products	1993	1994	1995	1996	1997
Whole Milk	4,174,961	4,335,243	4,249,653	4,222,023	4,105,464
Processed Milk	739,960	806,875	789,667	826,717	834,753
Milk Drinks	853,262	928,932	920,872	1,027,759	1,174,160
Yogurt	393,294	464,761	487,482	534,931	604,575
Ice Cream	140,000	153,100	151,000	152,900	117,655
Lactic Bacteria Drink	183,381	237,907	207,798	207,582	183,979
Other Dairy Products	**1993**	**1994**	**1995**	**1996**	**1997**
Butter	107,991	79,683	80,334	86,325	87,191
Cheese	100,438	101,819	105,383	108,947	114,041
Powdered Whole Milk	30,365	29,037	30,561	23,656	18,889
Powdered Skim Milk	222,439	183,993	190,404	200,335	199,853
Powdered Processed Milk	60,458	51,041	41,241	37,688	37,634
Liquid Dairy production in kiloliters, Other Dairy Production in metric tons					

Source: Ministry of Agriculture Forestry and Fisheries

steadily since 1992, as consumers find new uses for this product. Consumption of cheese, both natural and processed, has increased from 173,831 metric tons in 1992 to 216,416 metric tons in 1996. The use of cheese in cooking has increased as gratin, pizza and other Italian foods have grown popular. These products are consumed both in restaurants and as frozen foods at home. Cheese consumption has also been bolstered by the recent “wine boom” in Japan. Cheese spreads have become popular as a quick breakfast or snack item. Further, companies such as Snow Brand have introduced cheese divided into bite-sized pieces, “Snow Brand 6P”, which has sold well.

Supermarkets have expanded their cheese sections and carry many more varieties of cheese today than ever before. Japan imports most natural cheese, while most processed cheese is produced domestically. In 1996 Japan imported 53 billion yen worth of natural cheese and only 2 billion yen in processed cheese. Major foreign sources of natural cheese include Australia, New Zealand, Denmark, the Netherlands and France. The most popular cheeses for direct consumption are Camembert, Gouda and cheddar. Natural cheese used to make processed cheese can be imported tariff free. Some of the major producers of processed cheese in Japan include Snow Brand, Meiji Milk Products, Morinaga Milk Industries and Rokko Butter.

BUTTER

Production of butter in Japan totaled 87,191 metric tons in 1997 down from 107,991 metric tons in 1993 but up from 80,334 metric tons in 1995. Per capita, Japanese people eat only 0.7 kilograms of butter a year. Production of butter is traditionally a way to deal with surplus raw milk production in Japan. In the early 1990's surpluses of butter were so large that it was feared butter would need to be dumped. The government avoided dumping by paying producers to store surplus butter. In 1994 hot weather caused a decrease in raw milk production resulting in a decrease of butter production. As a result butter surpluses disappeared and butter had to be imported to maintain adequate supplies.

To stabilize the price of dairy products the Agriculture and Livestock Industry Corporation has been granted exclusive rights to import butter, which it then sells at auction to selected domestic confectioners and dairy product processors. Imported butter is generally used in processed foods, ice cream and bread, rather than consumed directly.

Snow Brand is the largest producer of butter in Japan with approximately 35 percent of sales. Other large producers include Yotsuba Nyugyo, Meiji Milk Co. and Morinaga Milk Industries.

"Tube de Butter 1/3" by Meiji Milk has been one of the biggest selling new butter products in recent years. This product is sold in tubes and is popular because it is easy to spread and has only one-third of the calories of other brands.

POWDERED MILK

There are three types of powdered milk in Japan, dried whole milk, dried skim milk and dried processed milk. Dried milk is primarily used by the commercial sector, such as bread makers and drink makers. "Creap" by Morinaga, a powdered coffee creamer, is a unique example of a product that uses dried milk for home use. Dried whole milk and skim milk are protected by high tariff rates of up to 30 percent.

INFANT FORMULA

With the decreasing birth rates in Japan since Japan's second baby boom in the early 1970's (down 11 percent from 1987 to 1997), the market for infant formula has been shrinking. An increase in breast-fed babies has also led to a decline in infant formula sales. As baby boomers begin to have children, the decline in baby formula sales may begin to level off. Japan does not produce lactose used in infant formula and relies completely on imports. The United States is the largest supplier of lactose to Japan.

IMPORT POTENTIAL

Major import opportunities in the liquid dairy products sector include ice cream and ingredients for ice cream and yogurt. The United States is the largest overseas source of ice cream for Japan, with almost 40 percent of total imports in 1996. Ingredients for ice cream and yogurt include aloe (the most popular yogurt flavor), fresh and frozen fruits, dried fruits and nuts, natural flavoring and functional ingredients (see "List of Ingredients).

Natural cheese from the United States has not gained significant market share in Japan. The price of U.S. cheese remains uncompetitive when compared with Australian, New Zealand and European products. The United States does, however, have the largest share of both processed and natural powdered cheese exports to Japan, such as Kraft Parmesan cheese. The United States also sells some sliced processed cheese to Japan, which is mainly used by the hamburger chain "Wendy's".

The United States remains a large supplier of lactose and whey to Japan.

List of Ingredients:
FRUIT *In fresh, frozen or pureed form*:
aloe, strawberries, kiwis, blueberries, raspberries, peaches, apricots, apples, etc.
FLAVORINGS AND EXTRACTS:
Natural and artificial flavorings.
NUTS:
almonds, pecans, peanuts, hazelnuts, macadamia nuts.
DRIED FRUIT:
raisins, apricots, peaches, etc.
OTHERS:
calcium additives, vitamins, emulsifiers, stabilizers etc.

Table 2:Imports of Dairy Products

	Volume (Metric Tons)				Value (million yen)				Tariff (%)
	1994	1995	1996	1997	1994	1995	1996	1997	
Natural Cheese	140,330	153,155	159,513	165,398	37,920	41,271	53,634	58,868	Free-32.4%
Processed Cheese	2,745	3,986	4,648	4,481	1,344	1,877	2,550	2,542	30.7-40
Grated Cheese	1,075	2,252	2,493	2,634	991	1,578	2,166	2,553	30.7-40
Ice Cream	26,756	28,094	26,527	27,953	7,487	8,021	8,984	10,533	23.2-32.4
Powdered Milk	85,995	103,307	74,595	75,211	13,634	19,569	17,391	17,209	Free-30%

Source: Ministry of Finance Trade Statistics

Table 3: Imports of Ingredients

	Volume (Metric Tons)				Value (million yen)				Tariff (%)
	1994	1995	1996	1997	1994	1995	1996	1997	
Berries	4,259	5,134	4,491	4,849	3,111	3,553	3,662	4,420	8
Raisins	28,473	29,243	30,819	27,971	4,491	4,256	5,327	5,581	1.6
Almonds (shelled)	18,555	22,523	17,913	18,445	10,174	9,812	13,129	12,238	3.2
Walnuts (shelled)	6,881	8,515	9,109	8,504	3,420	3,425	5,305	5,684	10
Hazel Nuts	452	486	483	465	209	175	181	267	Free-8%
Macadamia Nuts	1,006	1,315	1,299	1,529	876	1,116	1,421	18,721	5
Pecans	176	250	252	266	99	176	159	162	5

Source: Ministry of Finance Trade Statistics

This report is in the series as follows:
JA9044 Food Processing Sector - Overview
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JA9052 Food Processing Sector - Western Confectionery Products