



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - Public distribution

Date: 3/9/2009

GAIN Report Number: JA9507

Japan

HRI Food Service Sector

JAPAN HRI Food Service Sector Report 2009 2009

Approved by:

Michael Conlon, Director
ATO Japan, U.S. Embassy

Prepared by:

Masayuki (Alex) Otsuka, Specialist
Chika Motomura, Specialist
Sarah Newsome, Intern

Report Highlights:

This is an updated guide to Japan's nearly \$260 billion Hotel Restaurant and Institutional (HRI) Food Service sector. This thriving industry increasingly offers international cuisines throughout the market place. Consequently, competition is intense and the sophisticated Japanese consumer generally demands high quality food products in their meals. U.S. suppliers are well positioned to compete in many product categories provided they are willing to adjust to changing market demands.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Tokyo ATO [JA2]
[JA]

Table of Contents

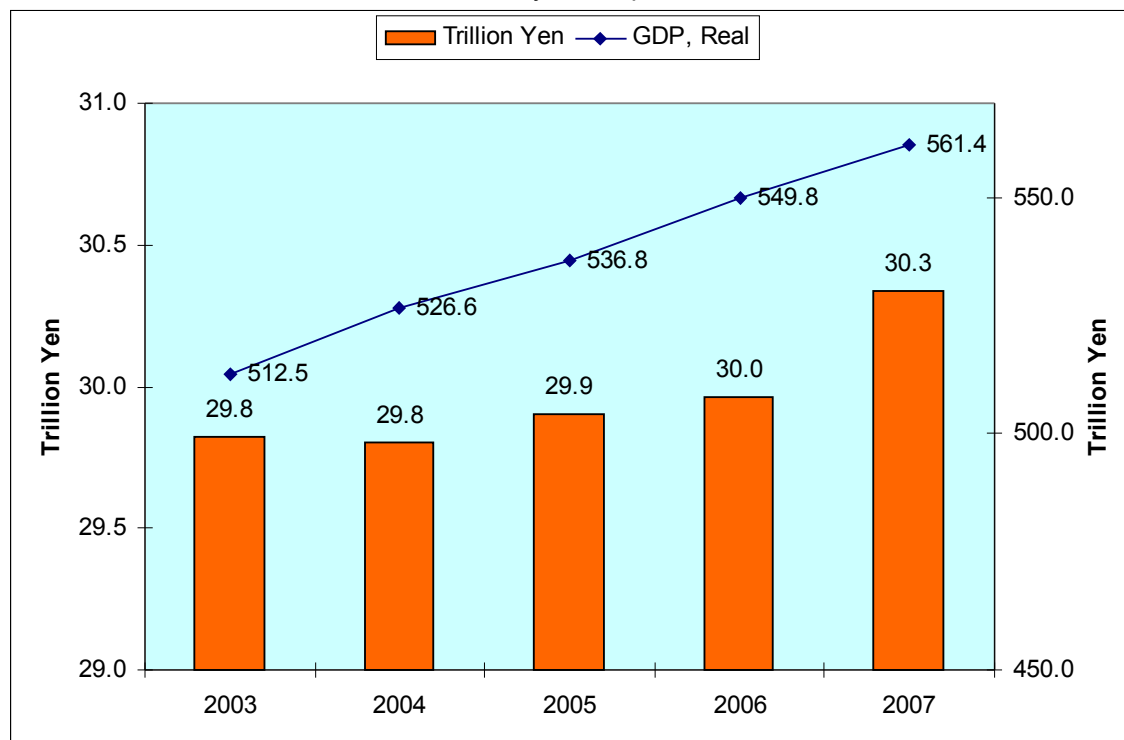
4. Receptivity of the Distribution Trade.....	9
5. Ability or Willingness to Meet Market Requirements.....	10
B. MARKET STRUCTURE.....	10
1. Restaurant Sector.....	14
5. Other Restaurant Types.....	16
III. COMPETITION.....	24
A. Red Meat (Beef and Pork).....	24
B. Fish and Seafood.....	24
C. Produce.....	25
1. Processed/Frozen Fruits & Vegetables.....	25
2. Fresh Fruit.....	25
3. Fruit & Vegetable Juice.....	25
4. Fresh Vegetables	25
D. Wine and Beer.....	25
E. Cheese	26
F. Poultry.....	26
G. Snack Foods (Excluding Nuts).....	26
H. Breakfast Cereals and Pancake Mix.....	27
IV. BEST PRODUCTS PROSPECTS.....	28
A. Products Present in the Market Which Have Good Sales Potential.....	28
B. Products Not Present in Significant Quantities but Which Have Good Sales Potential.....	29

I. MARKET SUMMARY

A. Market Volume and Trend

The HRI sector was valued at ¥30.34 trillion in 2007, up from ¥29.91 trillion in 2006 and ¥29.83 trillion in 2003. Japan's food service industry is closely tied to the health of the Japanese economy. The HRI sector has increased along with the growth in economy, reflected by the increase in GDP (see chart 1 below).

Chart 1: The Value of the Food Service Industry and Japan's GDP



Source: Food Service Industry Research Center (Value)

Note: In sections I and II, statistics used in this report are primarily expressed in yen, since year-to-year fluctuations in the exchange rate distort the reading of trends.

Chart 2 Annual Average Exchange Rates

	2003	2004	2005	2006	2007
JP¥ per US\$	116.41	108.28	109.64	116.25	117.93

Source: Trade Statistic of Japan

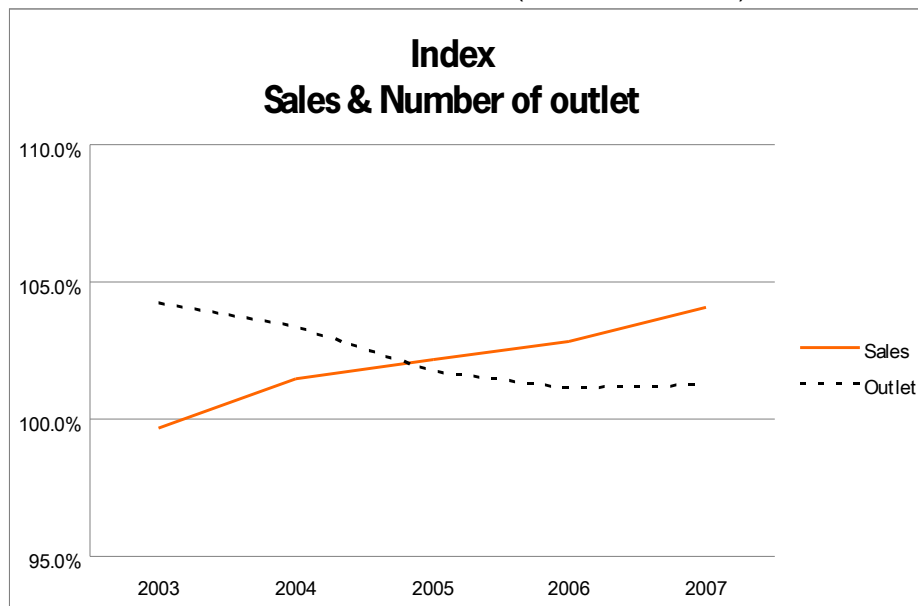
The principal reasons for the increase in the value of the food service sector are attributed to the following:

1. Steady economic growth and the corresponding increase in spending among Japanese consumer.
2. An increase in business investment and capital expenditure has increased discretionary spending on business meals and reception.
3. Ever-changing consumer tastes for new styles of restaurants and menu development. Today, good taste, good service and good atmosphere are a given. Top restaurants seek to find how they can provide high-value for guests.

The food service sector in Japan is larger than the retail and automobile industries. The HRI sector had a total 4.87 million employees in 2006. The sector has been organized more effectively in the last five years. Many traditional mom-and-pop restaurants have gone out of business and have been replaced by new style restaurants. From 2004 to 2006, the total number of outlets decreased from 802,707 to 786,078, down 2.1%, but sales increased from ¥29.81 trillion to ¥29.97 trillion, up 0.54%. This streamlined industry structure

creates an opportunity for imported food. The increase in sales compared to a decline in the number of outlets are shown in Chart 3 below.

Chart 3: Index of Market & Number of Outlet (Chain Restaurants)



Source: Japan Food Service Association

B. Sectors

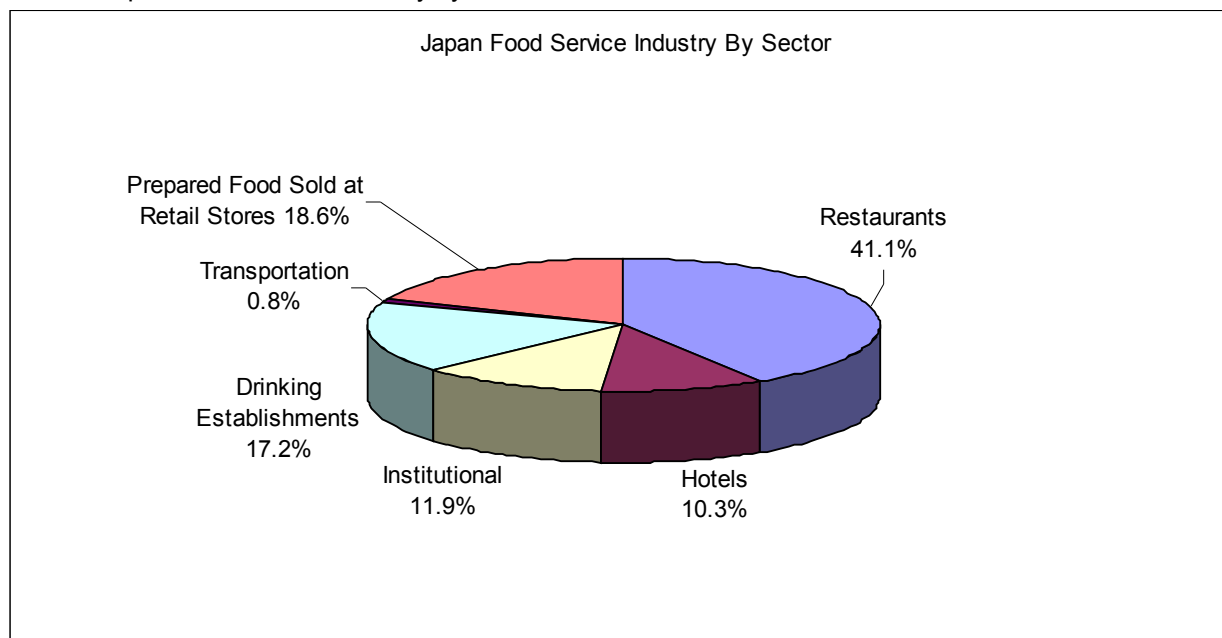
The Japanese food service industry as broadly defined has six major segments. Among the five traditional food service establishments, the largest sector is Restaurants (41.1% of the market and valued at \$105.8 billion), followed by Hotels (10.3% and valued at \$26.5 billion), Institutional Food Service (11.9 % valued at \$30.7 billion), Drinking Establishments (17.2% valued at \$44.3 billion), and Transportation Related (0.8% valued at \$2.1 billion).

A sixth, separate category that has increasingly grown in importance in Japan is “Prepared Meals Sold at Retail Stores” such as convenience stores, supermarkets and department stores. These foods are ready-to eat, Home Meal Replacement (HMR) type products (obento lunch boxes at the office are one example) and are classified by the Japan Food Service Association within the food service sector. The value of the “Prepared Meals sold at Retail Stores”¹ in 2007 was \$47.8 billion, accounting for 18.6 % of the total Japanese food service industry.



¹ For what is normally referred to in most resource publications used for creating this report as “Prepared Meals Sold at Retail Stores,” is locally known as ‘*nakashoku*’. From this point it will also be referred to as Delicatessen Foods and/or Bento (lunch box products).

Chart 4: Japan Food Service Industry by Sector



Source: Food Service Industry Research Center

The value of Restaurants and Prepared Meals Sold at Retail Stores increased during the past five years. However, the value of other traditional food service sectors decreased during the same period.

Chart 5: Japan HRI Market by Sector by Year

Sector	2003	2004	2005	2006	2007		Change '03 to '07
Unit	¥ Tri.	¥ Tri.	¥ Tri.	¥ Tri.	¥ Tri.	\$ Bil.	%
Restaurants	12.1	12.08	12.16	12.34	12.48	105.8	3.14%
Hotels	3.28	3.23	3.12	3.08	3.13	26.5	-4.57%
Institutional	3.7	3.69	3.63	3.59	3.62	30.7	-2.16%
Drinking Establishments	5.25	5.23	5.23	5.11	5.22	44.3	-0.57%
Transportation	0.25	0.25	0.25	0.26	0.25	2.1	0.00%
Prepared Meals Sold at Retail Stores	5.26	5.32	5.52	5.61	5.64	47.8	7.22%
Total	29.84	29.8	29.91	29.99	30.34	257.3	1.68%

Source: Food Service Industry Research Center (Value)

The key factors affecting the food service industry over the past five years can be summarized as follows:

- An economic recovery from 2003 through 2007 that boosted discretionary spending on business meals and receptions.
- Food service industry rationalization done by chain restaurants, hotels and food suppliers. The industry has been experiencing a recent number of mergers that has reduced operating costs in the food service industry.
- Increased openings of new outlets by chain restaurants and up-scale hotels and the creation of an attractive new style food business, high in value and quality.
- Redevelopment projects have been active in large cities throughout Japan. New pub restaurants and sophisticated casual restaurants are being introduced when older buildings are demolish and replaced by newer buildings. These new restaurants are more likely to target women and affluent young people, who are willing and able to pay for higher quality meals.

- The resumption of U.S. beef exports in December, 2005. The Government of Japan still restricts import to cattle aged 20 months old or less, although total imports have steadily increased due to the popularity of U.S. beef.
- Japanese consumers continued to shun made-in-China food due to the detection of pesticide-contaminated dumplings. A number of consumers in Japan became sick because of this incident.
- A trend for identifying popular restaurants. TV programs have introduced tasty and high value restaurants, both five star class restaurants and casual style restaurants, in Tokyo and other regions in Japan. At the same time, TV programs have promoted home-grown agricultural products in Japan.
- A new theme restaurant trend, such as Belgian beer pubs or Irish pubs.

The Japanese food service sector has traditionally been very receptive to the use of imported food products. This is due partly to the fact that:

- Imported food products are often less expensive than their domestic counterparts;
- The food service sector often incorporates new food concepts from abroad, which makes it more receptive to importing items used in menu development.

C. Value of Total Imported Food vs. Domestic Products

According to the statistics of the Japan's Ministry of Agriculture, Fishery and Forest (MAFF), domestically produced food was valued at ¥10.38 trillion (\$88.1 billion) in 2007. This is the equivalent to 40% in calorie terms and 66% in value terms of all food consumed in Japan in 2007. In 2007, Japan imported \$43.6 in food and agricultural imports.

While it is difficult to say exactly what percentage of imported food vs. domestic food is used for the food service sector as a whole, it is estimated that well over half of all food service menu items involve imported food stuffs in one form or another. Imported items such as frozen vegetables, frozen potatoes, beef, shrimp, salmon, pork, wine and the like are heavily used by the food service sector.

Chart 6: Japan Food and Agricultural Import Total by Country

Rank	Country	US\$ Million		% Share		% Change '06 to '07
		2006	2007	2006	2007	
	World	39,385	43,602	100	100	10.7
1	U.S.A.	10,184	12,457	25.86	28.57	22.3
2	China	5,499	5,686	13.96	13.04	3.4
3	Australia	4,130	4,107	10.48	9.42	-0.6
4	Canada	2,398	2,884	6.09	6.61	20.3
5	Thailand	2,711	2,643	6.88	6.06	-2.5
	Other Total	14,465	15,827	36.73	36.3	9.4

Source: Global Trade Atlas

The United States, China, Australia, Canada, and Thailand are major agricultural suppliers of food and agricultural products to Japan. The total value of food and agricultural imports from the United States was almost \$12.5 billion in 2007.

As mentioned in the previous HRI sector report in 2005 (JA5503), the Japanese food service sector returned to growth in 2003 because of the economic recovery in the country and the corresponding increase in disposable consumer income. Within the food service sector, the delicatessen and bento lunch box category, which offers consumer convenience, and the new style restaurants category, which offers unique new tastes and experiences, have seen better sales than others sectors.

Most industry experts predict the Japanese food service sector will see a downward trend due to the latest in a series of negative economic forecasts. However, it is expected that certain segments will continue to do

better than others, in particular, the fast food category, including coffee stands, noodle shops and rice bowl stands, which attract consumer with lower menu prices

D. Advantages and Challenges

Limited U.S. beef imports affected all of the food service industry in Japan due to the import restrictions on U.S. beef imports. The Government of Japan has allowed imports of cattle aged 20 months or less since December 2005. This age restriction is still in place at the time this report was written, and will likely limit the supply of U.S. beef in the food industry as a whole, and particularly in the food service industry.

Nonetheless, U.S. beef imports to Japan increased from 35,000 metric tons (MT) in 2007 to 60,000 MT in 2008, an increase of about 60 % in quantity. However, 60,000 metric tons is still only a quarter of the total imports in 2002 before BSE was detected in the United States. A limited number of major city hotels, family style restaurants and beef bowl chains are currently serving U.S. beef.

A brief summary of the advantages and the challenges for U.S. food exporters targeting the Japanese food service sector appears below:

Chart 7: Advantages and Challenges

Advantages	Challenges
The success of U.S. fast food and restaurants chain concepts helps to introduce American style food inputs into the general diet.	Many consumers view American food culture as less attractive than European or Japanese counterparts.
U.S. food producers have a positive image for safety compared to many Asian competitors, especially among the trade.	Most imported food products are viewed by some consumers as less safe than domestically produced Japanese food products.
The United States has a reputation and history as reliable supplier of food (both availability and delivery) at reasonable prices.	The quality and reliability of Asian exporting countries has been growing as the distribution infrastructure and quality assurance (QA) procedures have improved.
The United States has a wide variety of food products, including fresh & further processed.	Japanese buyers are sourcing from all over the world rather than from only a few countries.
High Japanese farming costs and a weak dollar make imported food products attractive.	The perception of U.S. price competitiveness and quality has declined vis-à-vis other exporting countries.
The United States is a source of advanced food processing and food safety assurance technology including sustainability and organic production.	Japanese government policies relating to food safety pose increasing impediments to trade, such as a strict Maximum Residue Level (Positive List), BSE standards, and stringent labeling requirements.

II. Road Map for Market Entry

A. Entry Strategy

There are no magic formulas for new-to market exporters to enter the Japanese food service market. Strategies will vary depending on the type of food product being introduced and the current competitive environment. However, there are some basic procedures that new-to-market exporters are recommended to follow when considering the Japanese food service market for the first time.

1. Market Access

One of the fundamental first steps is to determine the market access for your products. In particular this means:

- i. Determine if your product category can currently be imported into Japan. Due to food safety concerns the Japanese government has become increasingly strict in allowing food products into Japan. For example, processed beef products have faced import bans due to strict criteria related to BSE issues.
- ii. Determine the import classification and tariff rate for your product. Some product categories such as those containing rice and dairy products are still highly protected by the Japanese government and face either prohibitively high tariff or quota barriers. It is important to know in advance if this is the case to prevent time and energy being dedicated to products that will not ultimately be price competitive. Freight forwarders and traders can be helpful in determining into what category your product falls.
- iii. Determine whether your product meets Japanese regulations for food ingredients. If the product contains prohibited ingredients it will have to be reformulated before it can be imported into Japan. In some cases this may be difficult for U.S. exporters due to volume constraints or because the ingredients is a key element of the formulation. By ascertaining this in advance U.S. exporters can save themselves much frustration later if it is difficult to reformulate.

Sources for this information include:

USDA/FAS GAIN Report, Number JA8052 "Japan Food and Agricultural Import Regulations and Standards (FAIRS Country Report) 2008" (<http://www.fas.usda.gov/gainfiles/200808/146295490.doc>). Freight forwarders can also be helpful in determining ingredient acceptability.

2. Competitive Analysis

Once it is established that the product can be physically exported to Japan it is important to establish whether the product will be accepted from a competitive standpoint. This entails doing at least a preliminary analysis of the market to determine:

- What is the size of the opportunity for this type of product?
- Who are the key target customers of the product?
- What is the current pricing of similar types of products?
- Can the product be cost effectively introduced?
- What are the key points for differentiation of the product compared to others?
- In what form and what kind of packaging is the competitor's product sold? Will customers expect the same?

To do this analysis it is helpful to take some combination of the following steps:

- i. Visit Japan to research in person the customers your type of product is sold to and see how the product is marketed.
- ii. Utilize resources such as U.S. Foreign Agricultural Service and the local U.S. Agricultural Trade Office (ATO)², the Japan External Trade Organization (JETRO), and State Regional Trade Groups (SRTGs), to obtain information about the market relevant to you product.
- iii. Talk with freight forwarders and Japanese importers that handle your category of products.
- iv. If possible, meet with potential customers to determine the kinds of needs they have and their current sources for your products.

3. Comparative Advantage of the products

To succeed in entering the Japanese market, it will be important to define the comparative advantage of your products versus the competition. Potential customers in Japan will have to perceive merit in using your products. The most common merits are:

- i. Offering price savings that will encourage the customer to give your product a trial.
- ii. Offering a product or form of a product that is new to the Japanese market. Every year there are new and unique food items that become popular in Japan. Recent examples include fresh donuts, ice cream with mixed fruits, high cacao chocolate, varietal vinegars, highly matured mango, and chilled-caramel, to name a few.
- iii. Offering a more convenient form of the product that makes it easier for food service operators to use. This may include a new technology for packaging that makes the product easier to prepare or a new form of the product that offers advantages in terms of labor cost, preparation time or efficiency.
- iv. Offering a high quality product. Food service operators are always interested in products that offer better quality in one form or another. For example, it may be that your product has a demonstrably better track record than competitors on safety issues. These points of difference are worth promoting.

4. Receptivity of the Distribution Trade

It is important for new-to-market exporters to understand how the distribution system works and to identify potential partners or distributors. Such partners or distributors can offer invaluable advice on issues related to the product, its positioning, packaging, labeling, and custom clearance procedures. There are numerous ways to identify these partners. Some suggestions include:

- i. Ask the ATO and co-operator groups for a list of importers for your category of products.
- ii. Attend trade shows such as Foodex, the Food Service Industry Show, and the Super Market Trade Show, to meet potential partners and obtain leads.
- iii. If visiting Japan, discuss potential importers and distributors with freight forwarders, and if meeting any customers, inquire as to their preferred distribution channel. Many times customers will have their own preferred channels which they use for imported products.

² See [ATO Japan's web page](http://www.us-ato.jp/english/index.html) or <http://www.us-ato.jp/english/index.html>

It is important to obtain a reliable on-site partner or importer if you expect to do long term business in Japan and you do not plan to have your own in-country office. Some things to look for include:

- i. Does the partner/importer represent other imported products?
- ii. Do they have a favorable reputation and financial background in the marketplace?
- iii. Do they have the capability of communicating daily with you in English?
- iv. Do they have an understanding of import procedures for your type of food product?

5. Ability or Willingness to Meet Market Requirements

To be successful, it is very important for the new-to-market exporter to be willing to make changes to the product if necessary to meet market expectations in terms of service, quality, and price. This process of working with Japanese clients will also polish your product's quality and increase marketing competitiveness. Some basic suggestions include:

- i. Make sure you are willing to re-formulate the product if necessary to meet relevant Japanese Food Sanitation Laws and Regulations.
- ii. Be willing to adjust the product or packaging to meet Japanese taste profiles and market expectations. For example, many Japanese operators prefer smaller package sizes due to lack of space to store items.
- iii. Provide samples on a timely basis, but only upon request of a client/importer.
- iv. Ensure that all documentation necessary to clear customs and quarantine procedures is provided in proper form. Japanese customs always request that you clarify food ingredients and a processing outline to define the import tariff rate.
- v. Reply to requests for information in a timely manner, within 48 hours but preferably less.
- vi. Work closely with your partner or importer to prepare sales materials in Japanese.
- vii. Be patient. Most Japanese food service operators will start with only a small order in order to test the potential supplier. This is especially true for new-to-market suppliers where the risk of something going wrong initially (clearing customs, wrong documentation, wrong labeling, etc.) is the highest.
- viii. Japanese food service operators are looking for suppliers who can provide consistent high quality product without defects or foreign materials, and who are reliable partners in terms of both delivery and safety issues. To help cement relations, it is strongly recommended to have face-to-face meetings at least once per year with your customers.

B. MARKET STRUCTURE

B-a. Distribution

Despite a rapidly consolidating distribution channel, most imported food products still pass through trading companies. The large general trading companies such as Mitsubishi, Itochu and Mitsui have divisions specializing in a wide commodity of imported food products while small importers tend to specialize in a limited line of high value-added items. Trading companies function as legal importers of the products and serve a variety of functions including clearing customs, handling documentation and product testing at point of import, warehousing the product, and financing the inventory. In the past, trading companies would normally sell the product to first line wholesalers who in turn would sell to secondary wholesalers and even to third line distributors before the product finally reached the food service operator.

This pattern has changed significantly in the past decade, particularly for chain food service customers who have substantial buying power. In order to reduce food costs, most large food service operators directly take possession of the product or work through designated distribution centers rather than use wholesalers (some food service operators import product directly but the majority still use trading companies). The deflationary environment of the past several years, which has intensified price competition among food service chains, has accelerated the trend to eliminate the middlemen.

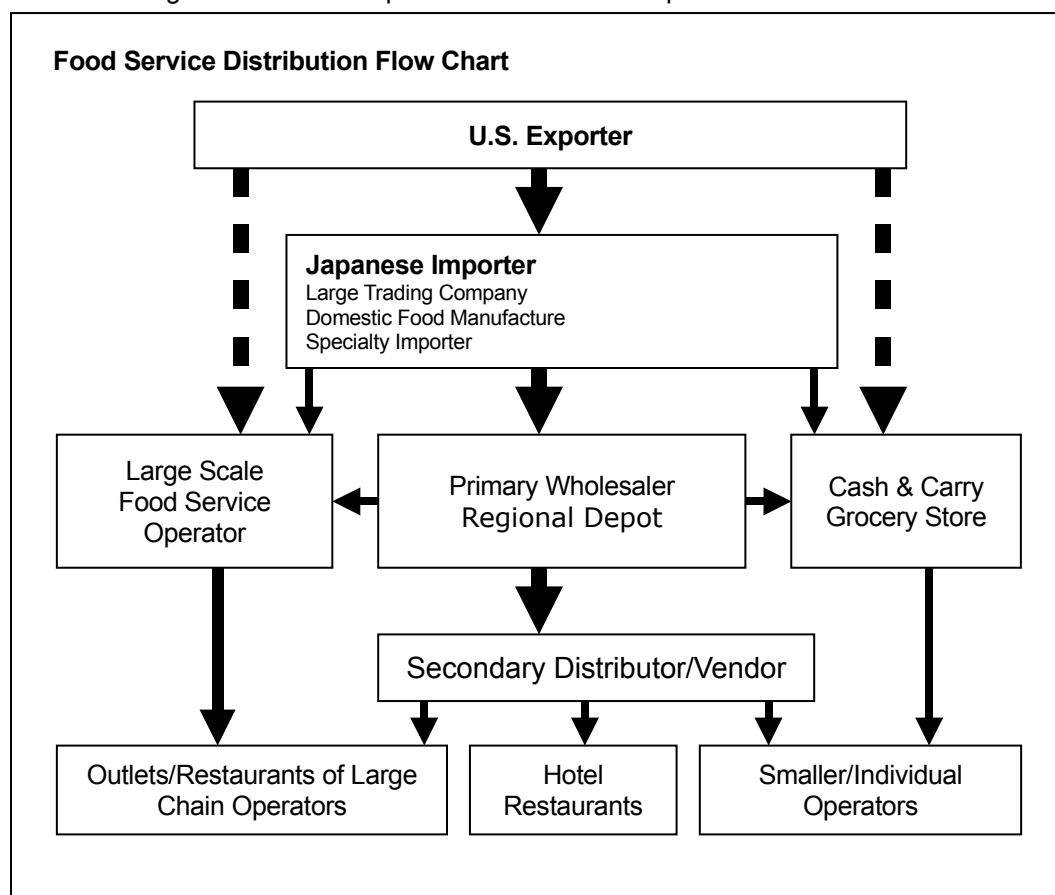
In order to survive in an increasingly competitive marketplace, wholesalers are being forced to consolidate. Smaller wholesalers are either disappearing or being bought by larger ones. In order to add value, most large wholesalers own their own distribution trucks. Wholesalers now focus on carrying broad product lines that can efficiently service small food service operators or small chains with one-stop service. Some wholesalers are now also beginning to import products directly to reduce costs further.

Meanwhile, written food safety assurance has become a necessary service for the food industry in Japan. Food venders, not manufactures, are responsible for food safety even if they just deliver food products. Every food suppliers are required to provide affidavit like assurance to chain restaurants.

Cash & Carry trade, including wholesale clubs such as COSTCO, are becoming popular as a resource of food products among Japan's smaller size food service operators in order to reduce food costs. Bulk packed meat, seafood, fresh produce, coffee, seasonings/condiments, wine, cheese and fresh bakeries are hot selling food products at these outlets.



Chart 8: A diagram of the flow of product from the U.S. exporter follows:



Source: ATO Tokyo

B-b. Segmentations

A discussion of some of the key trends in the HRI industry that U.S. exporters should be aware of:

1. Price Competition

The economy bottomed out in 2003 and improved until 2007. However, consumers tightened their spending between 2003 and 2007. McDonald's Japan, for example, introduced value meal sets and inexpensive premium coffee in order to compete with other coffee shop chains and Japanese style fast food competitors. In order to compete in the market, many other fast food and family restaurants took similar approaches by introducing low cost menus. For example, major soup noodle chains introduced less than \$10 value sets including a glass of beer, dumplings and regular size soup noodle (Ramen) in order to attract pub dining customers.

2. New Tastes from America

The variety of menus available in Japan continues to expand. Partly due to the large number of Japanese traveling abroad every year, foods from countries in Southeast Asia, Europe, Australia and the Americas are becoming increasingly popular. Japanese consumers are interested in trying new tastes from America, among other countries. Examples of this include Krispy Kreme Doughnuts, Cold Stone Creamery, CPK (California Pizza Kitchen) and the New York Oyster Bar and Grill, which have successfully launched new business formats in Japan. The interest in new food ideas opens the door to food exporters to introduce new food concepts into the Japanese market.

3. Healthy Foods:

Japanese consumers are increasingly interested in foods that are perceived as healthy. This trend takes a variety of forms. For example, family restaurant chains are including nutritional information on the menu, such as allergen contents and the number of calories per serving. Fast food restaurants strengthened breakfast menus and are introducing small size vegetable rich items, such as wrap-sandwiches and pork bowls.

Some restaurants are featuring organic products as a point of difference. In addition, the "slow food" movement has gained popularity in Japan. U.S. exporters that have products that fit into the "healthy" category will have more opportunities as this sector grows.

4. Mega and Mini, Volume Conscious Developments

In an effort to add value and reduce costs, many food operators have introduced bigger serving to their menus. In particular, McDonald's Japan introduced the Mega-Mac (double sized Big-Mac) and the Quarter Pounder that are becoming very popular in Japan. A major beef bowl chain will introduce a large beef bowl (Mega-Gudon) soon. This is a relatively new phenomenon in Japan. Meanwhile, mini-size menu options are also popular in Japan. Denny's Japan, for example, introduced additional small size side menus targeting female customers.

5. Theme Park Restaurants:

A recent trend has been the increasing popularity of major theme park restaurants. This is particularly true about restaurants at major amusement parks including Tokyo Disney Land, Disney Sea, and Universal Studio Japan, as well as at a few other locations such as Nanja Town and the recently opened Railway Museum.

These theme restaurants often focus on foods from abroad and offer opportunities for U.S. exporters to test their products. Disney Resorts celebrated its 25 years anniversary in Tokyo in 2008 that marked record high sales. Food buyers there are always looking for original and unique new products associated with the United States (for example, smoked turkey drumsticks and caramel popcorn are two popular items at Disneyland).

6. HMR Prepared Foods:

As previously discussed, the area of sharpest growth in the food industry has been ready-to-eat products that can be purchased at retail shops. For example, many consumers purchase take-out lunches at convenience stores or similar retail shops that can be eaten quickly at the office or elsewhere. Vendors of these foods have steadily increased the freshness, quality, and variety of the foods they offer, providing a more attractive menu selection to consumers. U.S. exporters that provide the kinds of products that would fit lunchbox-type or HMR items should consider approaching the assemblers of these types of foods.

7. Updating of Traditional Japanese Menus:

A series of food safety scandals strengthened Japan's traditional meal formats. Japanese food service operators are striving to introduce new ideas and formats using traditional Japanese foods, flavors or combinations.

7. Further Processed Foods:

Food service operators are increasingly relying on further processed foods rather than raw components. The reasons for this include: 1) helps to ensure consistency of menus throughout the operators' outlets; 2) speeds up the time it takes to prepare and serve the food; 3) increases food safety since less handling and cross contamination opportunities exist; and 4) improves overall costs since less labor is then necessary for food preparation. Since the United States is a leader in the development of further processed foods, the trend toward further processed foods represents a great opportunity for U.S. exporters.



9. Food Safety:

The importance and awareness of food safety has risen continuously in consumers' minds over the past five years due to a series of highly visible food scares and scandals. Repeated Chinese based food problems have hurt the image of China and increased safety concerns about imported food products from all foreign countries. In addition, there have been a number of recent cases where domestic food manufactures violating the laws regarding food safety and as well as their code of conduct.

As a result of these incidents, food service operators have become much more stringent in demanding strict procedures and systems for food safety from their suppliers. This includes detailed documentation from suppliers regarding QA systems and procedures at the production site, documentation relating to all ingredients used by the supplier including country of origin, and certification that the products adhere to Japanese regulatory requirements. Information relating to allergens is also required. Many chain operators will not consider buying from a new supplier until all the documentation is provided and an on-site inspection of the production facilities is conducted to verify the standards of the supplier.

In addition, food service operators have become much more demanding regarding quick and accurate responses to any product quality complaints to ensure steps are taken to prevent re-occurrences.

Suppliers who do not measure up to the expectations of the food service operators for food safety are often replaced. The experience of the FAS Offices in Japan is that having a quick response procedure in place to address food safety or product quality complaints can result in minimized disruption to trade.

10. GMO:

Food service operators in Japan normally require GMO free food products from suppliers. Japanese consumers have not accepted GMO products as a whole although they are legal in Japan. A labeling law governs the identification of GMO ingredients on consumer packaging. See GAIN report JA8047 (or <http://www.fas.usda.gov/gainfiles/200807/146295225.pdf>) and the Japan Ministry of Agriculture's website: http://www.maff.go.jp/soshiki/syokuhin/hinshitu/organic/eng_yuki_gmo.pdf

B-c. Sub Sector Profiles

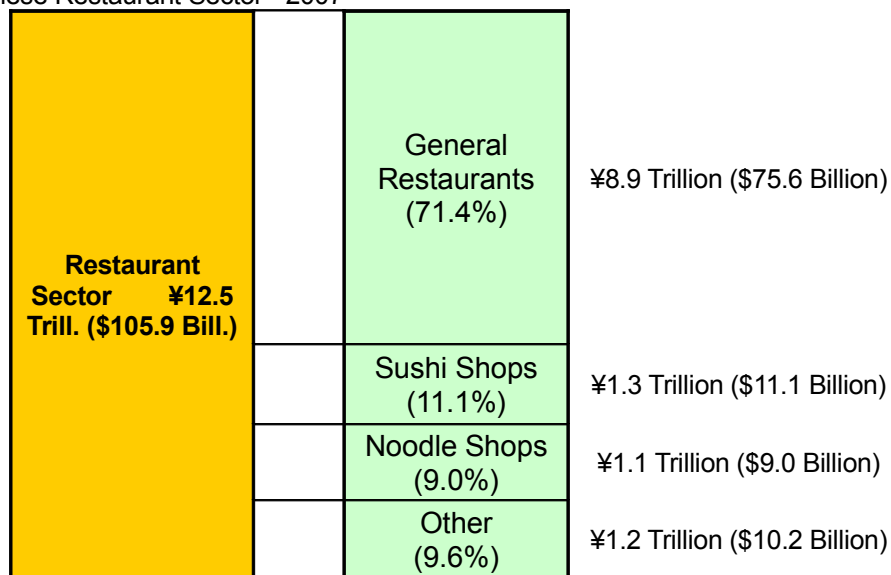
A detailed discussion of the various sub-sectors of the HRI food service industry follows.

1. Restaurant Sector

The restaurant sector is the largest of the HRI food service segments. Restaurant sales in 2007 were ¥12.5 trillion, equivalent to \$105.9 billion. This represents 41.1% of total food service industry sales. The restaurant sector includes a wide variety of operators, ranging from American-style fast food chains to more traditional family owned single outlet restaurants.

The restaurant sector is divided into four major sub-segments. A chart diagramming this follows:

Chart 9: Japanese Restaurant Sector - 2007



Source: Food Service Industry Research Center

2. General Restaurants

General restaurants are categorized by the Ministry of Economy, Trade & Industry into five categories: non-specialized restaurants, Japanese restaurants, Western restaurants, Chinese restaurants, and Meat/Other Asian. The largest numbers of outlets are non-specialized restaurants, followed by Chinese, Japanese, and Western.

Chart 10: Number of Restaurant Outlets by Type of General Restaurant

Type of Restaurants	# of Outlets			
	2001	2004	2006*	Change '04 to '06
Non-Specialized	80,511	73,628	73,298	-0.4%
Chinese	62,990	60,930	59,552	-2.3%
Japanese	42,176	41,963	42,572	1.5%
Western	30,422	28,841	29,221	1.3%
Meat/Other Asian	28,143	28,193	31,173	10.6%
Total	244,242	233,555	235,816	1.0%

Source: Ministry of Economy, Trade & Industry

* The latest year for which census data has been published.

The category with the greatest opportunity for most U.S. food exporters is Western restaurants. Western restaurants are composed of family restaurants that serve many Western dishes as well as restaurants specializing in country-specific cuisine such as French, Italian, and Mexican. As a result the menu relies heavily on imported food products to provide authenticity as well as taste. Large family restaurants chains such as Skylark, Royal Host, Denny's, Coco's, CASA and Sizzler's are major users of imported U.S. foods including items such as frozen potatoes, frozen vegetables and pork.

In recent years, up-scale American-style concepts have opened in Japan, such as Ruth's Chris Steak House, Union Square Cafe, Aquavit, Lawry's and Wolfgang Puck. These companies use imported foods extensively on their menus.

French restaurants have traditionally been popular in Japan and more recently Italian restaurants have also surged in popularity. Mexican restaurants, which are still few in number, are slowly growing in popularity and provide opportunities for U.S. exporters for items such as tortillas, frozen guacamole, and related Tex-Mex foods. Food service chains that come to Japan from the United States are perfect targets for U.S. exporters who also sell those food product concepts in the United States.

3. Sushi Restaurants

Japan is famous for its sushi, which is now increasingly popular around the world. Sushi relies heavily on seafood and rice as the core menu. Japan is the world's largest importer of seafood products and a substantial portion of these fish exports end up as sushi. This includes tuna, scallops, sea urchin, salmon eggs, yellow fin, salmon, crab and shrimp. Most seafood imports pass through wholesale markets such as Tsukiji Fish Market in Tokyo before being delivered to sushi shops and makers throughout Japan. The United States is a major exporter of salmon, salmon eggs, and sea urchin used by sushi operators.

The value of the sushi food service segment was estimated at ¥1.3 trillion in 2006, equal to \$11.1 billion. In 2006, the most recent census year, there were a total of 32,327 sushi restaurants in Japan, a significant decline from the prior census (39,539 sushi restaurants in 2001).

4. Noodle Shops

Noodles, served either hot in fish based soup or cold on a dish, are one of the most popular foods eaten outside of the home in Japan.

In 2006, the value of the soba/udon food service segment was estimated at ¥1.1 trillion or \$9.1 billion. There were an estimated 34,203 soba/udon shops in 2006, many of them used to be single proprietorship shops but chain operators have increased their number of outlets, typically at railway stations that have changed from regional businesses to chain operations.

Noodles consumed outside of the home are frequently ranked as the most popular lunch item by consumers because they are quick both to serve and eat, and are quite inexpensive. A typical soba set will cost only ¥300 - ¥500. It is common for the Japanese businessmen to eat a bowl of noodles within minutes during lunch.



Except the high end soba shops that use domestic buckwheat, noodles in Japan are usually produced using imported wheat flour. Opportunities for U.S. exporters are principally the ingredients used as toppings for noodles. This includes items such as chicken products, seasoned pork slices and sweet corn kernels. Since many noodle shops are individual outlets rather than large chains, U.S. exporters' who plan to sell toppings should rely on the major food service wholesalers who supply the shops.

5. Other Restaurant Types

The Food Service Research Center categorizes a number of special food service concepts into its "All Other" category. These include:

- Hamburger Chains
- Fried Chicken Restaurants
- Pizza Shops
- Donuts and Ice Cream Shops
- Beef bowl
- Curry & Rice
- Okonomiyaki

A brief description of those that are of particular interest to U.S. exporters follows:

i. Hamburger Chains

The number one food service operator in Japan is McDonald Japan, which opened in 1972 and now has 3,751 units nationwide. The hamburger fast food concept has been one of the most visible and successful segments over the past 30 years. A list of the top five hamburger chains includes:

Chart 11: Major Hamburger Chains

	# Units
McDonald's Japan	3,751
Mos Foods	1,425
Lotteria	529
Freshness Burger	184
First Kitchen	159

Source: Japan Food Service Association Directory 2008

By providing reasonably priced, fast, and clean service, the hamburger chain concept has captured a significant share of the youth and family dining budget. Burger King returned to the market two years ago and showed good sales results last year due to the economic recovery.

Because the hamburger chain menu uses concepts originating in the United States, they are ideal targets for U.S. exporters. For example, McDonald's Japan has long imported many of its food items from the United States including frozen potatoes, pork patties, fresh tomato, and cut lettuce. Hamburger chain sales declined in 2003 as a result of BSE concerns in Japan but are steadily returning to pre-BSE levels.

ii. Pizza restaurant/catering

The pizza industry has been a bright spot of growth in Japan over the past decade. Fuelled by the launch of Domino's Pizza in the late 1980's, pizza delivery chains have successfully carved out a niche in the food service market with their promises of rapid delivery. A partial list of some of the top pizza chains includes:

Chart 12: Major Pizza Chain

Brand (Company Name)	# Units
Pizza La (Four Seeds Corp.)	643
Pizza Hut (Kentucky Fried Chicken Japan)	351
Strawberry Cones	162
Domino's (Higa Industry)	181
Pizza California (PCS Inc.)	112
Shakey's (R&K Food Service)	19
Pizza Station (Maruaki Foods)	9

Source: Japan Food Service Association Directory 2008 & ATO research

Pizza restaurants offer a wide variety of choices, many tailored specifically to Japan. In addition to traditional toppings such as pepperoni and sausage, pizza in Japan features toppings such as shrimp, squid, scallops, prosciutto, corn, garlic, potatoes and pineapple. In addition to sourcing toppings from abroad, pizza chains also source tomato sauce either in chunked and/or pasted from abroad.

iii. Fried Chicken Restaurants

KFC Japan dominates the fried chicken restaurant market with over 1,150 units nationwide. Due to KFC Japan's policy of promoting domestic Japanese chicken, the opportunities for U.S. exporters are limited to non-chicken menu items such as fried potatoes and corn kernels for salads. However, KFC has recently researched the possibility of diversifying food products resource to include import goods. This movement may increase opportunities for U.S. exporters.

A list of the top 50 restaurant chains in Japan is attached to the end of this chapter.

6. Drinking Establishments

The drinking establishment sector had sales worth ¥5.22 trillion in 2007, equivalent to \$44.3 billion. This represented 17.2% of the total food service industry sales. The sector is comprised of four segments: pub dining (izakaya)/beer pubs, coffee/tea shops, traditional high-end Japanese style restaurants (Ryotei) and bar/night clubs.

Chart 13: Japan's Drinking Establishments Sector

Sector	2003	2004	2005	2006	2007		Chg. '03 to '07
Unit	¥ bil.	¥ bil.	¥ bil.	¥ bil.	¥ bil.	\$ bil.	%
Total	52,464	52,280	52,239	51,991	52,160	442	-0.58%
Pub Dining	10,899	10,849	10,901	10,970	11,013	93	1.05%
Coffee/Tea Shop	11,305	11,305	11,074	10,566	10,571	90	-6.49%
Ryotei	3,617	3,600	3,617	3,640	3,655	31	1.05%
Night Club	26,643	26,521	26,647	26,815	26,921	228	1.04%

Source: Food Service Industry Research Center

i. Pub Dining

Pub dining restaurants (izakaya) are Japan's unique drinking pubs where a variety of home-cooked meals are served with various kinds of alcohol beverages including beer, sake, Shochu (Japanese white spirits), wine and cocktails. Both chain operation and individual business share the market evenly and both outlets are located throughout Japan. The industry mostly uses regional food vendors/wholesaler to distribute food products.

At pub dining restaurants, consumers order various cooked meals and side dishes together at the same table and share these dishes with colleagues, friends, and family. Chain operations are popular because of their reasonable menu pricing and range in food items. Pub dining chain restaurants usually have central buying systems and are looking for new menu ideas. Pub dining operators also modify overseas recipes for their own style and taste. There are opportunities for U.S. exporters if their products can offer cost efficiency for chain operation. The industry uses fresh oysters, frozen vegetables, canned tomato sauce, canned olive oil, and further processed foods such as frozen soups, frozen seasoned pork and beef that are imported from the United States.

U.S. exporters of wine and craft beer have good potential in this sub-sector. A list of major pub dining chains in Japan appears below:

Chart 14: Major Pub Dining Chains

Rank	Company	Sales (\$ Mil.)	Outlet Name & # of Outlets	Location	Purchasing Agents
1	Monteroza	1,064.9	Sirokiya, Uotami, Wara-wara, 1,373	Nation wide	Wholesalers
2	Daisho	732.2	Shoya, 848	Eastern Japan	Wholesalers
3	Watami Food Service	610.5	Watami, 466	Nation wide	Trade firms, wholesalers
4	Colowaide East Japan	391.3	Amata-ro, Hokkaido, Hiikiya, 317	Eastern Japan	Trade firms, wholesalers
5	Yoro-no-taki	385.8	Yoro-no-taki, 950	Nation wide	Trade firms, wholesalers, Direct import
6	Chimney	380.8	Hananomai/Sakanaya-dojo, Kodawariyama, 413	Eastern Japan	Trade firms, wholesalers
7	Dynac	341.9	Hibiki/Toridori, Sakura, Unoya, 271	Eastern Japan	Trade firms, wholesalers
8	Create Restaurants	328.1	Shimanukaze, Aqua, Uemon, Atolantic, 359	Eastern Japan	Trade firms, wholesalers
9	Tsubo-Hachi	279.8	Tsubo-hachi, 432	Eastern Japan	Trade firms, wholesalers
10	Marche	268.8	Suikoden/Hakkenden, 715	Nation wide	Trade firms, wholesalers

Source: Nikkei MJ, May 14, 2008, Japan Food Service Ranking

ii. Coffee/Tea Shops

The coffee/tea shop sector is very popular throughout Japan. The sector is grouped into two sub-sectors, one is a new style self-service coffee/tea shops and another is conventional style full-service coffee/tea rooms. The statistics of total coffee/tea shop sales have shown a downward trend. However, the category of new style coffee shops had increased in sales and number of outlets from ¥201.5 billion and 2,290 outlets in 2003 to ¥277.2 billion and 3,630 outlets in 2007. Most of these American style self-service coffee shops serve western style side dishes and finger foods, such as wrap sandwich, cookies, muffins and bagels that have been imported from the United States and other foreign countries.

Meanwhile, the traditional coffee/tea shops have decreased in both sales and number of outlets, from ¥1,104 billion and 104,200 outlets in 2003 to ¥1,049.5 and 99,000 outlets in 2007. Most of them do not have a central buying system and buy food products including coffee beans from wholesalers and/or cash & carry stores.

A list of major new style coffee/tea shop chains in Japan appears below:

Chart 15: Major Coffee/Tea Shop Chains

Rank	Company Name	Sales (\$ mil.)	# Units	Location	Purchasing Agents
1	Doutor Coffee Co., Ltd.	830.3	1,479	Nation wide	Trade firms, Wholesalers, Direct Import
2	Starbucks Coffee Japan, Ltd.	778.1	776	Nation wide	Trade firms, Wholesalers, Direct Import
3	West Railway Daily Service Net Company Co., Ltd.	154.2	169	Western Japan	Trade firms, Wholesalers
4	Sazaby League, Ltd.	114.6	92	Eastern Japan	Starbucks, Trade firms
5	Coffee House, Inc.	105.6	356	Eastern Japan	Trade firms, Wholesalers
6	UCC Foodservice Systems Inc.	92.9	204	Western Japan	Trade firms, Direct import
7	Pokka Create co., Ltd.	59.4	147	Eastern Japan	Trade firms, Wholesalers

Source: Nikkei MJ, May 14, 2008, Japan Food Service Ranking

7. Hotel Food Service Sector

The hotel/inn sector had food sales worth ¥3.13 trillion in 2006, equivalent to \$26.96 billion. This represents 10.3% of the total food service industry's sales.

The hotel food business hit bottom in 2006 and recovered somewhat in 2007. New hotel openings by upscale hotel groups have boosted the industry sales since 2007. These openings stimulated sales in banquet and reception businesses.

First class hotels have a large variety of on-site restaurants to choose from including Western, Chinese and Japanese restaurants. Hotels are major users of all kinds of foods, particularly imported products. Because they often have a large professional chef staff, hotels tend to create many dishes from scratch rather than relying on prepared or further processed foods.

Decision making on what kinds of items to put on the menu is usually made by the executive chefs of each hotel. Because they cater to international travelers, many major hotels regularly feature promotions of different country's cuisines. For the same reason, they are historically more receptive to imported food.

Japan also has many small *Ryokan* or traditional Japanese style inns, which primarily serve holiday travelers. The menu tends to be limited and features traditional Japanese dishes. *Ryokan* are a less inviting target for U.S. exporters due to their focus on traditional Japanese foods. A list of the major hotel chains in Japan appears below:

Chart 16: Major Hotel Chains

Company	# Units	Share %
Prince Hotels	60	11.0
Tokyu Group	53	5.6
Hankyu-Hanshin-Daiichi Hotel Group	45	3.9
Royal	10	3.2
Imperial Hotel	6	3.2
Solare Hotels & Resorts (Chisan)	66	n/a

Source: Nikkei Net & ATO Research

8. Institutional Food Service

The institutional food service sector had sales worth ¥3.62 trillion in 2007, equivalent to \$30.7 billion. This represented 11.9% of the total food service industry sales. After peaking in 2003, institutional food sales declined slightly until 2006 and then began to increase in 2007 along with hotel restaurants and drinking establishments.

The institutional food service sector is comprised of four segments: business/office cafeterias, school lunch programs, hospitals, and welfare facilities. This might be one segment to see growth as Japan's aging demographic intensifies. Many food service companies are gearing up to serve what is known as the "silver" market.

Another movement for the institutional food service industry is in anti-metabolic syndrome menu development. The Japanese government is trying to shape up company employees in order to prevent diseases caused by obesity. Low calorie menu developments are primary topics for the industry.

Sales by segment in 2007 were as follows:

Chart 17: Institutional Food Service Sales by Sub-Sectors

	2007 Sales		
	¥ billion	\$ billion	% Share
Business/Office Cafeterias	1,892	16.0	52.3
School Lunch	479	4.1	13.2
Hospitals	982	8.3	27.1
Welfare Facilities	266	2.3	7.4
Total:	3,619	30.7	100.0

Source: Food Service Industry Research Center

Chart 18: Ranking Institutional Food Service Chains

Rank	Company Name	Sales (\$ mil.)	# Units	Location	Principal Purchasing Agents
1	Nissin Healthcare Food Service Co.,	1,331	4,100	Tokyo	Wholesalers
2	AIM Service	750	1,103	Tokyo	Wholesalers
3	Seiyo Food-Compass Group, Inc.	709	800	Tokyo	Wholesalers
4	Uokuni Sohonsa	518	2,470	Osaka	Wholesalers
5	Fuji-Sangyo Co., Ltd.	493	1,710	Tokyo	Wholesalers
6	MEFOSU Inc.	371	2,100	Tokyo	Wholesalers

7	Nikkyo Create, Ltd.	274	714	Tokyo	Wholesalers
8	Nikkoku Trust Ltd.	269	1,024	Tokyo	Wholesalers
9	General Food Co.,	175	439	Aichi	Wholesalers
10	Uokuni Inc.	158	858	Hyogo	Wholesalers

Source: Nikkei MJ, May 14, 2008, Japan Food Service Ranking

Chart 19: Top 50 Restaurant Company Profile

Rank	Company	Sales (\$ Mil.)	Outlet Name, Type, & # of Outlets	Location	Purchasing Agents
1	McDonald's Japan	4,190.2	McDonald's, fast food hamburger, 3,746	Nation wide	Trade firms, wholesalers, Direct import
2	Skylark	2,333.3	Skylark/Gusto/Yumean/Barmiyan, family style rst, 2,573	Nation wide	Trade firms, wholesalers, Direct import
3	Nisshin Health Food Service	1,331.3	Office/hospital meals, Institutional, 4,100	Nation wide	Trade firms, wholesalers
4	Plenus	1,318.4	Hotto Motto, take out meals, 2,381	Western Japan	Trade firms, wholesalers
5	Kentucky Fried Chicken Japan	1,162.1	KFC/Pizza hut, fast food-delivery meals, 1503	Nation wide	Trade firms, wholesalers
6	Monteroza	1,064.9	Sirokiya/Uotami/Wara-wara, pub dinning, 1,373	Nation wide	Wholesalers
7	Duskin	1,062.8	Mr. Donuts, fast food, 1,245	Nation wide	Trade firms, wholesalers
8	Reins International	1,052.6	Gyukaku, casual steak house, 1,329	Nation wide	Trade firms, wholesalers, Direct import
9	Honke Kamadoya	960.6	Kamadoya, take out meals, 2,348	Nation wide	Trade firms, wholesalers
10	Zensho	894.6	Sukiya, Coco's, Fast food-beef bowl & various, 995	Nation wide	Trade firms, wholesalers, Direct import
11	Moss Food Service	843.7	Moss Burger, fast food, 1,414	Nation wide	Trade firms, wholesalers
12	Doutor Coffee	830.3	Doutor, cHoffee shop, 1,479	Nation wide	Trade firms, wholesalers, Direct import
13	Starbucks Coffee Japan	778.1	Starbucks, coffee shop, 776	Nation wide	Trade firms, wholesalers, Direct import
14	AIM Service	750.4	Institutional, 1,103	Eastern Japan	Wholesalers
15	Daisho	732.2	Shoya, pub dinning, 848	Eastern Japan	Wholesalers
16	Seiyo Food Compass	708.6	Han/CASA/Itoguruma, pub dinning/family style/Institutional, 800	Eastern Japan	Trade firms, wholesalers, Direct import

Rank	Company	Sales (\$ Mil.)	Outlet Name, Type, & # of Outlets	Location	Purchasing Agents
17	Saizeriya	691.4	Italian FSR/Saizeriya, 768	Nation wide	Trade firms, wholesalers, Direct import
18	Watami Food Service	610.5	Watami, pub dinning, 466	Nation wide	Trade firms, wholesalers
19	Joyful	569.3	Joyful, family style rst, 707	Western Japan	Wholesalers
20	Ichiban-ya	549.6	Ichiban-ya, fast food-curry shop, 1,122	Nation wide	Trade firms, wholesalers
21	Osho Food Service	545.0	Gyoza no Osho, Ramen shops, 504	Nation wide	Trade firms, wholesalers
22	Uokuni Sohonsa	518.1	Office cafeteria-Institutional, 2,470	Western Japan	Wholesalers
23	Kappa Create	516.0	Kappa Zushi, fast food-Sushi, 296	Eastern Japan	Trade firms, wholesalers
24	Matsuya Foods	508.4	Matsu-ya, fast food-beef bowl, 724	Nation wide	Trade firms, wholesalers, Direct import
25	Akindo Sushiro	501.1	Akindo, Sushi-ro, Fast food-Sushi, 211	Western Japan	Trade firms, wholesalers, Direct import
26	Fujisangyo	492.5	Institutional, 1710	Eastern Japan	Wholesalers
27	Coco's Japan	491.9	Coco;s, family style rst, 529	Eastern Japan	Trade firms, wholesalers
28	Nippon Restaurant Enterprise	491.9	American Diner B&G /Ajisai-tei, multi-FS/ restaurants/bento, 383	Eastern Japan	Trade firms, wholesalers, Direct import
29	Four Seeds	479.5	Pizza La, pizza delivery, 656	Nation wide	Trade firms, wholesalers, Direct import
30	Aleph	470.6	Bikkuri Donkey, family style rst, 305	Eastern Japan	Trade firms, wholesalers
31	Fujio Food Systems	456.3	Maido Okini, Japanese style rst, 768	Western Japan	Wholesalers
32	Jonathan's & Co.,	447.7	Jonathan's, family style rst, 366	Nation wide	Trade firms, wholesalers
33	Origin Toshu	431.0	Origin Bento, take out meals, 595	Eastern Japan	Trade firms, wholesalers
34	Kisoji	422.9	Kisoji, Japanese style restaurants, 187	Nation wide	Trade firms, wholesalers
35	Kura Corporation	411.0	Kura-zushi, fast food, 185	Western Japan	Trade firms, wholesalers
36	Colowaide East Japan	391.3	Amata-ro, WPJ, pub dining, 317	Eastern Japan	Trade firms, wholesalers
37	Yoro-no-taki	385.8	Yoro-no-taki, pub dining, 950	Nation wide	Trade firms, wholesalers, Direct import

Rank	Company	Sales (\$ Mil.)	Outlet Name, Type, & # of Outlets	Location	Purchasing Agents
38	Chimney	380.8	Hananomai/Sakanayadojo, pub dining, 413	Eastern Japan	Trade firms, wholesalers
39	Rock Field	376.8	RF1, take out meals, 311	Central Japan	Trade firms, wholesalers
40	Mefos	371.4	Institutional, 2100	Eastern Japan	Trade firms, wholesalers
41	Kozo-zushi Honbu	344.1	Kozo-zushi, take out/fast food, 855	Eastern Japan	Trade firms, wholesalers
42	Dynac	341.9	Hibiki/Toridori, pub dining/restaurants, 271	Eastern Japan	Trade firms, wholesalers
43	Create Restaurants	328.1	Sam Choy's/Hinazushi, fast food/family style rst/pub dining, 359	Eastern Japan	Trade firms, wholesalers
44	Koraku-en	292.1	Korakuen, noodle shops, 401	Eastern Japan	Trade firms, wholesalers, Direct import
45	Lotteria	290.0	Lotteria, fast food, 530	Eastern Japan	Trade firms, wholesalers
46	Tsubo-Hachi	279.8	Tsubo-hachi, pub dining, 432	Eastern Japan	Trade firms, wholesalers
47	Nikkyo Create	274.4	Institutional, 714	Eastern Japan	Wholesalers
48	Kyotaru	271.2	Kyotaku, take out/family style rst, 399	Eastern Japan	Trade firms, wholesalers, Direct import
49	Gourmet Kineya	269.7	Kineya/Sojibo, noodle, 528	Nation wide	Trade firms, wholesalers
50	Marche	268.8	Suikoden/Hakkenden, pub dining, 715	Nation wide	Trade firms, wholesalers

Source: Nikkei MJ, May 14, 2008, Japan Food Service Ranking

III. COMPETITION

Japan imported \$43.6 billion in food and agricultural products in 2007. When fish & seafood products are included, the amount increases to \$56.4 billion. The United States is the largest supplier of food and agricultural products to Japan. In 2007, Japanese imports from the United States amounted to \$12.5 billion (or \$13.6 billion including fish & seafood products) with a share of 28.6%. Other major suppliers were China with 13.0% of the market, Australia with 9.4%, Canada with 6.6% and Thailand with 6.1%.

The following is a brief description of the major consumer-oriented food products in Japan. (Sources: Japan Customs, Japanese Ministry of Agriculture, Forestry and Fisheries, Japanese Ministry of Finance)

A. Red Meat (Beef and Pork)

Japan imported \$6.0 billion in red meat in 2007. The United States is the second largest exporter to Japan with sales amounting to \$1.5 billion. As of 2007, Australia is the largest red meat exporter to Japan with a 32.4% share, followed by the United States with 25.0%, Canada with 13.3% and Denmark with 12.0%.

While domestic red meat is perceived to be the best quality products among Japanese consumers, its high price makes imported meat more attractive, especially in the food service sector. U.S. meat has established a reputation of high quality and attractive pricing in the market. The food service sector continues to be a major market for U.S. red meat.

1. Beef

Since the outbreak of BSE around the world, the beef market in Japan has shrunk to roughly 800,000 MT from over 1,000,000 MT marked in 2000. Beef import to Japan was 474,470 MT in 2007, while domestic production stood at 352,785 MT.

Australia has become the dominant exporter to Japan since the import of U.S. beef was banned due to the outbreaks of BSE in the United States. During the ban, Australia developed a reputation of high quality grain-fed beef and has become a stable supplier. Imports from Australia in 2007 were 83.1% in quantity, followed by the United States (7.2%) and New Zealand (7.1%).

Although sales of U.S. beef are recovering, it has not yet back to its pre-ban levels. Currently, the only U.S. beef allowed into the Japanese market comes from cows aged twenty-months old or less. This remains a major constraint on the recovery of the U.S. market share.

2. Pork

The pork market has expanded after BSE because meat demand in Japan shifted from beef to pork. Pork imports to Japan were 759,783 MT in 2007, while domestic production was 875,173 MT.

The United States is the leading exporter to Japan with a share of 35.6% in quantity, followed by Canada with 21.8% and Denmark with 21.2%. Although domestic pork is again perceived to be the best quality product, U.S. pork has been developing a reputation of high quality and attractive pricing. U.S. pork has now become competitive in the Japanese market.

B. Fish and Seafood

The downward trend in Japanese fishery consumption continues as shown in the consumption figures for 2007 (9,530,000 MT), which was down 3.8% from the previous year.

Imports to Japan reached 2,890,000 MT or \$12.76 billion in 2007. Major imported fishery products were shrimp, tuna & bonito, salmon & trout, cod & Pollock roes, processed shrimp and eel, which, all combined, accounted for about a half of the total fishery imports. China is the largest supplier with a 21.1% share in value followed by the United States with 9.2% and Russia with 8.0%.

The U.S. export value of fish and seafood to Japan was \$1.17 billion in 2007. The United States is a major exporter of cod & Pollock roe (\$240 million), surimi fish paste (\$256.1 million), salmon & trout (\$94.5 million).

Japan still remains one of the largest fishery product consumers in the world and it is an attractive market for U.S. exporters. The food service market is one of the most important customers for U.S. fish products.

C. Produce

1. Processed/Frozen Fruits & Vegetables

Japan imported \$3.43 billion worth of processed fruits and vegetables in 2007. The United States is the second largest exporter to Japan at \$612 million, with an import market share of 17.9% in value, after China with \$1.88 billion and 54.9% of the import market.

The United States has traditionally been a major supplier of frozen vegetables (potatoes, corn, beans, peas and broccoli) to Japan. The food service sector is a major customer for these products, particularly fast food restaurants and family restaurants, which value their year-round availability, ease of preparation and inexpensive cost of frozen products.

2. Fresh Fruit

Fresh fruits imported to Japan in 2007 amounted to 1,659,000 MT, or \$1.58 billion. Major imported fruits were bananas, followed by grapefruit, pineapples, oranges, lemons and kiwi fruit.

The Philippines is the largest exporter to Japan, with a 40% import market share in Japan. In 2007, the Philippines exported \$625 million worth of fresh fruit to Japan. They are the major supplier of bananas, which accounts for over 80% of their exports to Japan in value. The United States is the second largest exporter with \$415 million and a 26.3 % market share. Its major exports include grapefruits, lemons, cherries, and oranges. New Zealand is the third largest exporter with \$165 million, or a 10.5% market share. They are the dominant supplier of kiwis to the Japanese market.

While the primary market for most U.S. fresh fruits is the retail sector, there is a demand in the food service sector that comes from establishments such as hotels, restaurants, and cake shops, where fresh fruits are served in cut form as dessert or topping for cakes etc.

3. Fruit & Vegetable Juice

In 2007, Japan imported 322,299 kiloliters of fruit & vegetable juice, totaling \$784 million. Major imported juice products were apple juice, orange juice, grape juice, and grapefruit juice.

The leading exporters are Brazil, the United States and China. Brazil is the largest exporter, exporting \$190 million worth of fruit and vegetable juice in 2007, followed by the United States with \$136 million and China with \$116 million. While Brazil is the main supplier of orange juice, China is the dominant supplier of apple juice. The United States is the leading supplier of grapefruit and grape juices.

The food service sector is one of the most important customers for these U.S. products, particularly hotels, family restaurants, and fast food chains.

4. Fresh Vegetables

Japan imported 637,000 MT of fresh vegetables in 2007, worth \$662 million. China is the leading exporter to Japan exporting 397,000 MT worth of vegetables to Japan in 2007, worth \$259 million. Its main exports to Japan are onions, leeks, radishes, carrots and garlic. The United States is the second largest supplier in value terms at \$99 million. Broccoli is the most important fresh vegetable exported from the United States followed by Matsutake mushrooms, tomatoes, and asparagus. New Zealand is the third largest exporter at \$72 million. Its main exports to Japan are pumpkins.

Due to the limited seasonality of fresh vegetables, the food service sector tends to rely more on frozen vegetables than fresh produce.

D. Wine and Beer

Japan imported 208,402 kilolitres of wine and beer in 2007, which amounted to \$1.32 billion in total. France is the largest exporter with 64,856 kilolitres or \$827 million and a 62.8% share in value, followed by Italy with

28,111 kilolitres or \$150 million and a 11.4% share in value and the United States with 21,784 kilolitres or \$76 million and a 5.8% share. Other major exporters are Chile, Spain, and Australia.

1. Wine

France and Italy are viewed as high-end wine producers, while other major exporters, such as the United States, Chile, Spain and Australia, are perceived as low-to-mid price level wine suppliers.

The majority of domestic wine in Japan is commonly produced with imported bulk wine or grape must and targeted mainly at the low-end of the market. Though some manufacturers are making effort to promote premium domestic wines, the image of domestic wine is still lagging far behind that of imported wines.

More than two thirds of the wine consumed in Japan is sold at retail stores. However, there is a strong demand in the food service sector as wine is served at numerous restaurants, bars, nightclubs, and now even at traditional Japanese restaurants.

2. Beer

Japan imported 31,830 kilolitres or \$50 million worth of beer in 2007. Major exporters were Ireland, Mexico, Belgium and Australia. The United States lags behind these countries as the 7th largest supplier with \$1.7 million and a 3.4% share in value.

In contrast to the wine market, the beer market is dominated by several local breweries. Beer is extremely popular in Japan and it is carried at most restaurants, beer halls, pubs, nightclubs and bars. In recent years, pubs specializing in beers are offering a wide range of beers from around the world and opening sales opportunities for imported beer.

E. Cheese

Domestic cheese consumption in Japan has been increasing over the years. It reached 279,000 MT in 2007, which was the record high for the Japanese market.

Imports to Japan amounted to 225,000 MT or \$842 million in 2007. The main suppliers to Japan were Australia with \$301 million (a 35.7% share), followed by New Zealand with \$ 204 million (24.2%), Italy with \$64 million (7.6%), and France with \$58 million (6.9%). France and Italy have established themselves as high-quality table cheese providers, while Australia and New Zealand are the main suppliers of price-competitive bulk cheese to be processed locally.

The United States was the 6th largest exporter with 7,000 MT or \$43 million, with a 5.2% share in value. So far, most of the U.S. cheese is imported in bulk and processed locally for the distribution to the retail sector as well as the HRI sector.

F. Poultry

The poultry supply in Japan amounted to 1,738,000 MT in 2007. Domestic production was 1,371,000 MT, while imports were around 362,000 MT or \$752 million.

Brazil is the leading exporter to Japan with a share of the import market at 84.4% (\$635 million), followed by the United States with 5.3% (\$40 million) and France with 4.7% (\$35 million). China and Thailand used to be the leading suppliers to the Japanese market. However, the outbreak of avian flu in Asia led to bans on poultry import from these countries. As such, Brazil rapidly expanded its market share, taking Thailand and China's market share, largely due to its competitive prices as well as its willingness to accommodate product specification requests made by the Japanese industry.

G. Snack Foods (Excluding Nuts)

Japan imported 155,000 MT or \$519 million of snack foods in 2007. The largest supplier to Japan was Singapore with 61,000 tons or \$120 million, with a 23.1 % share in value, followed by Belgium and France. The United States is the 4th leading supplier, exporting \$41 million in 2007 with a 7.8% share.

Due to ingredient/additive issues, it is often difficult to export many typical U.S. snack foods to Japan without reformulation.

H. Breakfast Cereals and Pancake Mix

The market for breakfast cereals and pancake mix is rather small in Japan. Japan imported 8,000 MT or \$16.3 million in cereals and pancake mix in 2007. China was the largest supplier with 3,000 MT or \$3.2 million, with a 20.1% share in value, followed by Australia with 18.6%. The United States is the third largest exporter to Japan with 1,000 MT or \$2.7 million, with a share of 16.6% in value.

Chart 20: Summary of Competition by a Product Category

Product Category	Major Supply Sources	Strengths of the Major Supplying Countries	Advantages and Disadvantages to Local Suppliers
Red Meat (fresh/chilled/frozen) Total imports: \$6.0 billion	1. Australia - 32 % 2. United States - 25 % 3. Canada - 13 %	Australia is the leading supplier of low-priced beef. The United States is a major supplier of both quality beef and pork. Canada is a major supplier of pork.	High feed cost and limited pastureland in Japan make local meat production less competitive. Domestic products are considered to be high quality. Japanese consumers generally support the stringent production traceability of domestic products.
Fish & Seafood Total imports: \$12.8 billion	1. China - 21 % 2. United States - 9 % 3. Russia - 8 %	China is the leading supplier of low-priced fish & seafood. The United States is a main supplier of sujiko & Ikura (salmon roe), surimi (fish past) and salmon. Russia is a major exporter of crab to Japan.	The fishery product self-sufficiency rate stood at 59% in 2006, which illustrates the relative strength of the local fishery industry. However, high operation costs make local products less competitive. In addition, the local industry is facing serious problems such as a reduction in fishery resources.
Processed/Frozen Fruit & Vegetables Total imports: \$3.4 billion	1. China - 55% 2. United States- 18% 3. Thailand - 5%	China is the leading supplier of many low-priced vegetables. The United States is a major supplier of frozen potatoes, corn, peas, and mixed vegetables.	Local products are more expensive due to high production costs. Local produce are mainly distributed in the fresh fruit & vegetable markets.
Fresh Fruit Total imports: \$1.6 billion	1. Philippines – 40 % 2. United States – 26 % 3. New Zealand - 10%	The Philippines are a major supplier of bananas, pineapples and mangos. The United States is a leading supplier of grapefruits, oranges, lemons and cherries. New Zealand is the dominant supplier of kiwi fruit.	Although locally produced fruits are more expensive in general, they are valued due to their quality, freshness, traceability etc. Japan relies on imported produces for the supply of some varieties, scarcely produced or unavailable locally such as kiwis, grapefruits, oranges etc. Japan also relies on imports during the off-season as well.
Fruit & Vegetable Juice Total imports: \$784 million	1. Brazil – 24 % 2. United States – 17 % 3. China – 15 %	Brazil is a major low-priced orange juice provider. The United States is a leading supplier of high quality grapefruit juice and grape juice. China is a major supplier of low-priced apple juice	Locally produced fruit & vegetable juice products are more expensive than imports.
Fresh Vegetables Total imports: \$662 million	1. China – 40% 2. United States – 15% 3. New Zealand - 11%	China is the leading supplier of fresh vegetables to Japan due mainly to its price competitiveness and proximity to Japan. However, Chinese imports are losing consumer confidence due to recent safety incidents and are facing serious problems in the Japanese market. The United States is the major supplier of broccoli. New Zealand is the major supplier of pumpkins, sweet peppers, etc.	The Japanese consumers tend to perceive local produce as being fresher and safer than imported produce. Though domestic vegetables are expensive, consumers are willing to pay a premium for local produce.

Product Category	Major Supply Sources	Strengths of the Major Supplying Countries	Advantages and Disadvantages to Local Suppliers
Wine and Beer Total imports: \$1.3 billion	1. France – 63% 2. Italy 11% 3. United States – 6%	France is the leading exporter of wine to Japan, followed by Italy. French and Italian wines have a reputation of high quality. The United States and other major exporters such as Chile, Spain and Australia are providers of quality wine at a reasonable price.	Local wine production relies on imported bulk wine and grape must as raw materials. Domestic wine targets the low-end of the market. Still, some manufacturers are making efforts to promote domestic premium wine such as organic wine.
Cheese Total imports: \$842 million	1. Australia – 36% 2. NZ – 24% 3. Italy – 8% 6. United States – 5%	France and Italy have established their position as high-quality table cheese providers. Australia and New Zealand are main suppliers of bulk cheese.	Local production relies heavily on imported bulk cheese as a raw material.
Poultry Total imports: \$ 752 million	1. Brazil – 84 % 2. United States- 5 % 3. France – 5 %	Brazil is the leading exporter with its dominant share. Its success relies on low-priced products as well as its willingness to accommodate to the needs of the Japanese market.	Locally produced poultry is more expensive due to high production costs in Japan. Most domestic production goes to the retail market, where freshness is valued. Expensive local poultry product is less attractive to food service sector.
Snack Foods Total imports: \$519 million	1. Singapore – 23 % 2. Belgium – 12% 3. France – 8 % 4. United States – 8 %	Singapore is the leading supplier of chocolate in blocks, slabs or bars weighing more than 2kg. Belgium and France exports high-end snacks. The U.S. provides a wide variety of Western-style snack foods (chocolate, cookies, candies, pretzels, chips).	Japanese Food Sanitation Law strictly limits the use of additives/ingredients used in food production. Banned additives differ from country to country and the relatively strict Japanese rules are forcing foreign exporters to reformulate their products for the Japanese market.
Breakfast Cereals & Pancake Mix Total imports: \$16 million	1. China – 20 % 2. Australia – 19 % 3. United States – 17 %	The United States used to be the largest exporter to Japan. However, China is rapidly expanding its market share with its low-priced products.	The market for breakfast cereals and pancake mix is relatively small in Japan.

IV. BEST PRODUCTS PROSPECTS

The Japanese food service sector has been recovering over the last five years. The sector is an important market for numerous U.S. food products and will continue to be so in the future.

A. Products Present in the Market Which Have Good Sales Potential

The following table lists products present in the market which are considered to be the best import prospects for the HRI sector. They were selected mainly based on criteria such as volume, growth, U.S. competitiveness, and uniqueness of the product.

Chart 21: Best Import Prospects for Products Present in the Market

Product Category	HS Code	2007 Market Size (1,000 MT)	5-Yr Avg. Annual Import Growth	Import Tariff Rate	Key Constraints to Market Development	Market Attractiveness for U.S.A.
Pork	0203	1627	-3%	JPY361~482 per kg	Currently, market growth of U.S. beef is not expected to effect consumption of pork, but if Japan were to end age restrictions on beef, pork consumption would likely fall.	In 2008, pork increased 25% from 2007. This is mainly due to increased production in the U.S. and high feed costs faced by domestic producers.

Frozen Vegetables	0710 2004	871	11%	6%~23.8%	Recent pesticide contamination in Chinese food products may deter consumers from purchasing frozen food Products.	The market for imported frozen vegetables has quadrupled over the last 20 years. The U.S. is the largest supplier of frozen potato products.
High Quality Natural Fruit Juice	2009	901,673 KL	31%	JPY23~27 per kg or 5.4%~29.8%	Strong competition from China and Brazil.	World imports are on an upward trend in Japan as consumers become more health conscious. Orange and grapefruit juice have the largest share.
Wine	2204	239,796 KL	0.25%	15% or JPY125 per liter, whichever is the less, subject to a minimum customs duty of JPY67 per liter.	The Japanese wine market is very competitive, with France and Italy leading exports respectively, and the U.S. following as the third largest exporter. While the United States has excelled at the lower end of the market, the development of mid-range products will be a challenge for the United States.	Total imports have remained stable, confirming that the Japanese wine market has recovered. The value of U.S. imports has increased due to marketing programs, the strong yen, and increasing sales of more moderately priced New World and California wines.
Salmon	0302.12 0303.11 0303.19 0303.22	387	-17%	3.5%	Farm raised frozen Salmon from Norway and Chile continues to dominate the market along with an increase in fresh salmon exports from Canada. Prices have risen due to the increase in global oil prices.	There is an increase in the demand for U.S. "natural" and "wild" salmon as opposed to farm raised salmon.
Non-alcoholic Beverages	2202.90 2209.00	74,862 KL	107%	9.6%~13.4%	Competition from major Japanese domestic brands and a growing variety of other imported non-alcoholic beverages.	The market is continually growing with a strong demand for health conscious and diet drinks. The higher cost of beer and other alcoholic beverages will result in the continued attraction of these alternative products.

Sources: ATOs; Ministry of Agriculture, Forestry and Fisheries; Ministry of Economy, Trade and Industry; Ministry of Finance; Japan Frozen Food Association; Chocolate and Cocoa Association of Japan; Pet Food Manufacturers Association; Zenkoku Seiryō Inryō Kogyokai; Fuji Keizai; Brewers Association of Japan. Note: The 2007 market size is an estimate made by ATO.

B. Products Not Present in Significant Quantities but Which Have Good Sales Potential

The following table lists products not present in significant quantities in the market yet are still considered to be good import prospects for the HRI sector. They were selected mainly based on criteria such as volume, growth, U.S. competitiveness and uniqueness of the product.

Chart 22: Best Import Prospects for Products NOT Present in Significant Quantities but which have Good Sales Potential

Product Category	HS Code	2007 Market Size (1,000 MT)	5-Yr Avg. Annual Import Growth	Import Tariff Rate	Key Restrictions in Market Development	Market Attractiveness for U.S.A.
Craft Beer	2203	3,491,118 KL	-11%	Free	<p>The Japanese government imposes higher taxes on beer compared with other liquors.</p> <p>Five major domestic brewers control 98.4% of the beer market</p>	<p>Redevelopment projects to create new pubs and restaurants increasing opportunity and marketing places for craft beer.</p> <p>Holidays and special occasions offer good opportunities to market high quality products.</p>
Organics	-	1,343 (2006)	-	-	<p>Amid growing interest and concern over organic products among Japanese consumers, the organic labeling rules of JAS (Japan Agricultural Standard) law went into effect in 2001. This is to establish clear criteria for organic products to be sold in Japan.</p> <p>As the equivalence between JAS law and NOP (USDA National Organic Program) has been confirmed, US organic products can be imported to Japan as "organic". However, there remain some constraints:</p> <ul style="list-style-type: none"> - Use of alkali extracted humic acid is still banned under JAS organic. - Complicated processes such as the requirement for organic certification for Japanese importers. - Zero tolerance on all chemical residues 	<p>Consumer interest in organics has been growing in the Japanese market, while the actual domestic production remains low compared to conventional crops.</p> <p>- A recent lift on the ban of two substances (potassium bicarbonate and lignin sulfonate) out of the three previously prohibited under JAS law.</p>

Sources: ATOs; Ministry of Agriculture, Forestry and Fisheries; Ministry of Economy, Trade and Industry; Ministry of Finance; Japan Frozen Food Association; Chocolate and Cocoa Association of Japan; Pet Food Manufacturers Association; Zenkoku Seiryō Inryō Kogyokai; Fuji Keizai; Brewers Association of Japan. Note: The 2007 market size is an estimate made by ATO.

V. POST CONTACT AND FURTHER INFORMATION

In Japan, the Foreign Agricultural Service has two Agricultural Trade Offices located in Japan.

A. Post Contacts

In Tokyo:

ATO Tokyo
1-10-5 Akasaka
Minato-ku, Tokyo 107-8420
Tel: 81 (3*) 3505-6050
Fax: 81 (3*) 3582-6429

In Osaka-Kobe:

ATO Osaka
American Consulate General
11-5, Nishitenma 2-chome
Kita-ku, Osaka 530-8543
Tel: 81 (6*) 6315-5904
Fax: 81 (6*) 6315-5906

**Please add a zero before this number if dialing from within Japan.*

The following homepages and reports can provide useful information to interested exporters.

B. Agricultural Trade Office's homepages

<http://www.usdajapan.org/> (FAS Japan, English)

<http://www.us-ato.jp/> (ATO Japan, B2B web site, English & Japanese)

<http://www.myfood.jp/> (ATO Tokyo, Japanese & a part English)

C. Exporters Guides

Reports from Japan's ATOs, in addition to those from the Agricultural Affairs Office in Japan, can be found using the links provided or by searching from the FAS Japan Reports website at:

<http://www.fas.usda.gov/scripts/attacherep/default.asp>

*Please visit the Foreign Agricultural Service's website at <http://www.fas.usda.gov/> and then continue on to the above Reports Website for the available updated versions of the following reports:

Japan Exporters Guide

This is comprehensive document from the ATOs in Japan containing information useful to exporters and U.S. suppliers, considering the Japan market for the first time.

GAIN Report JA8712: <http://www.fas.usda.gov/gainfiles/200810/146296112.pdf>

Food Processing Sector Study

A detailed look at Japan's food processing sector by ATO Osaka, identifying key trends and leading Japanese manufacturers.

<http://www.fas.usda.gov/gainfiles/200703/146280587.pdf>

Retail Food Sector Report

This is a comprehensive report by the ATOs in Japan on the Japanese retail food market detailing the structure, size and areas of growth of this sector, its key industry players and prospects for various U.S. products.

<http://www.fas.usda.gov/gainfiles/200811/146306425.pdf>

Japan Wine Market Annual Report from ATO Tokyo

GAIN Report JA8505: <http://www.fas.usda.gov/gainfiles/200803/146293864.pdf>

D. Regulations & Standards

Food and Agricultural Import Regulations and Standards (FAIRS) Report

The FAIRS report is a comprehensive guide produced by the Agricultural Affairs Office (AAO) of the U.S. Embassy on Japan's food and beverage regulations, standards and requirements for importation.

<http://www.fas.usda.gov/gainfiles/200808/146295490.pdf>

Procedures for Importing Foods and Related Products into Japan under the Food Sanitation Law

JETRO report summarizing specific technical import procedures for food products.

Food import Procedure: <http://www.jetro.go.jp/en/reports/regulations/pdf/agri2008-e.pdf>

Food Sanitation Law: <http://www.jetro.go.jp/en/reports/regulations/pdf/food-e.pdf>

Testing: <http://www.jetro.go.jp/en/reports/regulations/pdf/testing-e.pdf>

Food additive: <http://www.jetro.go.jp/en/reports/regulations/pdf/foodadd2007mar-e.pdf>

JAS standards: <http://www.jetro.go.jp/en/reports/regulations/pdf/jas2007mar-e.pdf>

Japan External Trade Organization (JETRO)'s Other Reports

<http://www.jetro.go.jp/en/reports/>

Red Meat Export Requirements for Japan

USDA Food Safety and Inspection Service (FSIS) summary of red meat export requirements for Japan.

http://www.fsis.usda.gov/Regulations_&_Policies/Japan_Requirements/index.asp

The National Organic Program - Export Arrangement with Japan

USDA / Agricultural Marketing Service useful information on National Organic Program and Export arrangement with Japan. Product & Market Briefs

<http://www.ams.usda.gov/nop/NOP/TradeIssues/Japan.html>

E. Market Trends

Market Development Reports from ATO Tokyo

Periodic press articles, Japan Food Trends (JFT), communicate Japanese food and lifestyle trends that may help U.S. exporters to generate product and marketing ideas.

Use key words "Japan Food Trends" on: <http://www.fas.usda.gov/scripts/attacherep/default.asp>