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Japan

Food Processing Ingredients Sector

Japanese Food Processing Sector

2007

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Report Highlights: The Japanese food processing industry was valued at US$ 203.4 billion in 2005. Key market drivers such as declining home cooking and greater demand for convenience and ready-to-eat foods indicate that demand for processed food products should continue to grow for the foreseeable future. Health and functional foods along with western foods also continue to increase in popularity.

Includes PSD Changes: No
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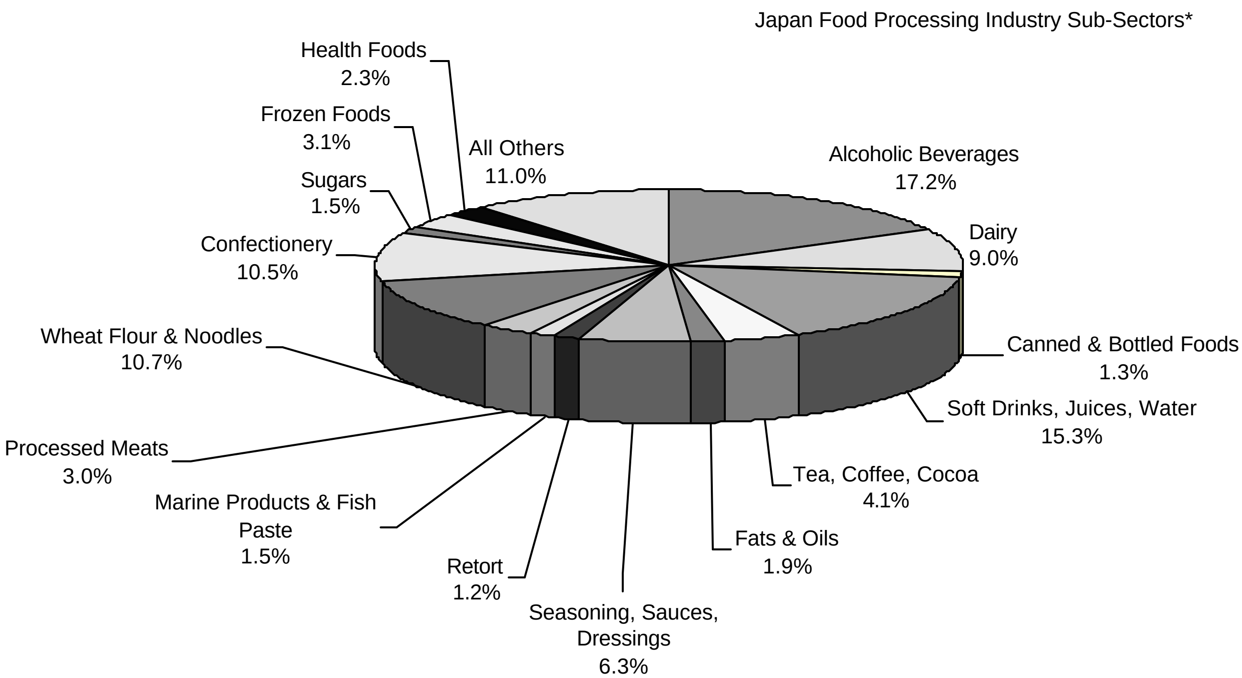
Table of Contents

I. MARKET SUMMARY

The value of the Japanese food processing industry, including beverages, was estimated at US$ 203.4 billion (FOB plant basis) in 2005, which was a slight decline from 2004 (US$ 208.6 billion). Relying on low cost imported food inputs, food processors have developed a multitude of items that are further processed and supplied to retail and the Hotel, Restaurant and Institution (HRI) sectors. It is estimated that there are over 40,000 companies in the food processing industry, which employ over 1 million workers.



Value bases - 2005
Source: Shurui Shokuhin Tokei Geppo, January 2006

Due to a lack of arable farmland and high production costs, Japan has historically been a major importer of agricultural products for use in further processing. It is estimated by the Japanese Ministry of Agriculture, Forestry, and Fisheries that 60% of Japanese food consumption on a calorie basis was supplied by imported food in 2005. The United States is the largest supplier of agricultural products to Japan, with a market share of approximately 27%. Total U.S. agriculture exports to Japan in 2005 were worth approximately $7.8 billion. Competitors of the United States as suppliers to Japan are China (13 %), EU (13%), and Australia (11%).

Key market drivers for the food processing sector include:

* Increasing interest in health and functional foods with an emphasis on the senior age groups.
* Increasing emphasis on convenience and ready-to-eat food.
* Continued popularity of "ethnic foods".
* Heightened consumer and retailer food safety concerns.
* Deflationary economic environment over the past decade, causing processors to seek out lower cost food inputs to remain competitive.

Some key advantages and challenges for U.S. food products include:

Advantages	Challenges
The U.S. has a reputation as a reliable supplier of food inputs in terms of availability and delivery.	Consumers perceive Japanese food production safer than production overseas including the United States.
High Japanese farming costs make imported food products price-attractive.	The perception of U.S. price competitiveness and quality has declined vis-à-vis other exporting nations among Japanese buyers.
U.S. food products have a better image compared to other countries, especially China and S.E. Asia, particularly for safety issues.	Higher costs for U.S. exports due to high labor costs relative to Asian producers are making products less competitive in price.
The expansions of U.S. fast food chains help introduce U.S. food products into the general diet.	Tighter Japanese government regulatory enforcement is increasing the amount of documentation and testing required for imports.

II. ROAD MAP FOR MARKET ENTRY

A. ENTRY STRATEGY

Strategies for entering the Japanese market will vary depending on product characteristics, competition, and the market environment. For U.S. exporters who are new to the Japanese market or who would like to review entry strategies, please study our recommendations:

1. Agricultural Trade Office (ATO) Tokyo has services to assist you with market research, developing marketing strategies, and coordinating contacts with the industry. Contact your regional trade group.
2. Perform some basic market research to determine whether your products can be price competitive or not. It is important to determine whether your products can compete against Japanese competitors.
3. Review Japanese food regulations to determine if your products comply with local laws regarding additives, residues and processing procedures.
4. Determine the comparative advantage of your products. Potential customers need to be convinced of the merit of using your products. Some examples are price savings, higher quality, higher value added, or more convenient packaging.
5. Understand how the Japanese distribution system works. To find trade leads, participate in food shows and contact sources such as freight forwarders.
6. Be willing to make changes to the product, if necessary, to meet market requirements. This includes a willingness to reformulate product to comply with Japanese food regulations, and to tailor packaging to the marketplace.

7. Visit Japan to explore opportunities firsthand.
8. Meet with Japanese importers who distribute the types of agricultural products that you wish to export to learn more about the competitive environment.
9. Visit potential customers to determine if there is interest in your product and to determine how they normally source products.
10. Points to remember when doing business in Japan:
    a. When appointing agents, be sure your partner has a good reputation and track record in the market place.
    b. Be aware that Japan is a very service oriented culture and requires quick response to both product complaints and requests for information.
    c. Doing business for the first time in Japan requires patience. Orders normally start small to determine whether the product will meet market requirements.

B. MARKET STRUCTURE

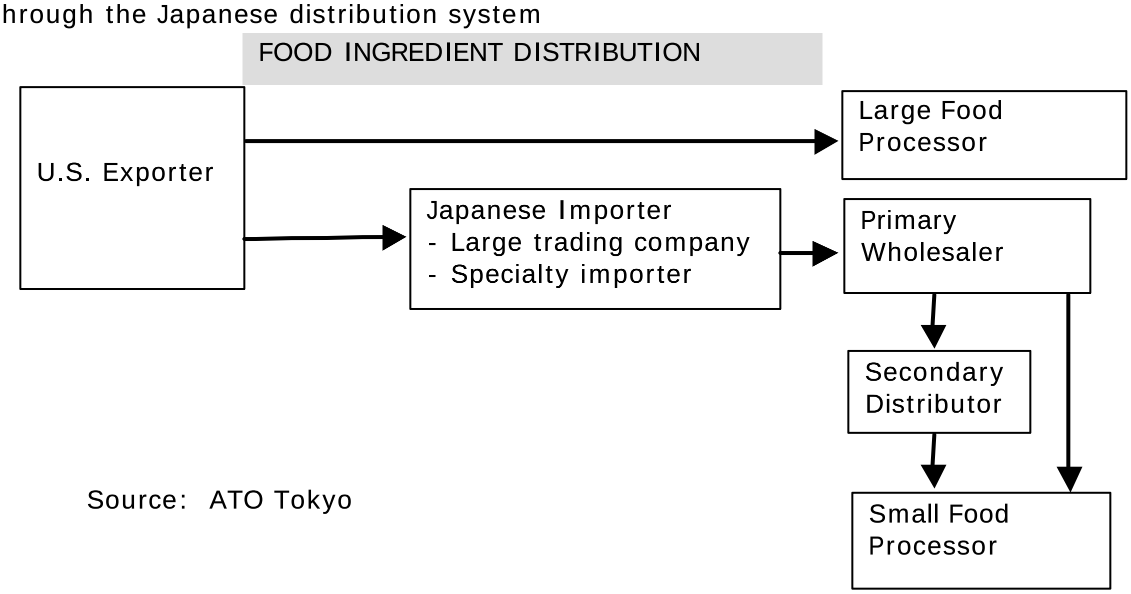
Your product will most likely receive services from:
1. General trading company
2. First-line wholesaler
3. Second-line wholesaler
4. Retailer, HRI or food processor

Trading companies provide the following services:
1. Legal importer
2. Financer
3. Custom clearance
4. Warehousing
5. Order documentation

In the past, trading companies would normally sell to first-line wholesalers that would then sell product to secondary distributors. This pattern has changed in the past decade as companies seek to reduce logistical costs. Large food processors and retailers are purchasing sizeable quantity products directly from trading companies. In some cases, they choose to directly import themselves if the size of the transaction makes it cost effective.

Food processors sell their products to a variety of sectors, including the HRI sector, the retail sector and to other food processors.

The following illustration is a flowchart showing how U.S. products would enter and move through the Japanese distribution system



Source: ATO Tokyo

C. COMPANY PROFILES

Top 50 Japanese food processor profiles have been provided to give you an idea of who are the leaders in the Japanese food industry.

	Company (Main Product Types)	Net Sales ($ bill. at 1$=110.20 yen) (yen=mill.)	End-User Channels	Production Location	Procurement Channels	Address	Phone# Website
1	Asahi Breweries, Ltd. (Beer, Liquors & Wine.)	$10.13 yen 1,116,360 (Dec. 2004)	Retail/HRI	Japan (9) U.S. (1) China (6)	Importers, Direct	1-23-1, Azumabashi, Sumida-ku, Tokyo 130-8602	Tel: 03-5608-5204 www.asahibeer.co.jp
2	Kirin Brewery Co., Ltd. (Beer, Liquors, Wine & Foodstuff.)	$8.68 yen 956,969 (Dec. 2004)	Retail/HRI	Japan (11)	Importers, Direct	2-10-1, Shinkawa, Chuo-ku, Tokyo 104-8288	Tel: 03-5540-3411 www.kirin.co.jp
3	Suntory Ltd. (Liquor, Beer, Soft Drinks & Wine.)	$7.16 yen 788,857 (Dec. 2004)	Retail/HRI	Japan (17) Overseas (10)	Importers, Direct	2-1-40, Dojimahama, Kita-ku, Osaka City 530-8203	Tel: 03-3470-1649 www.suntory.co.jp
4	Maruha Group (Marine Products)	$6.78 yen 747,181 (March 2005)	Retail	Japan (4)	Importers, Direct	1-1-2 Otemachi, Chiyoda-ku, Tokyo 100-0004	Tel:03-3216-0821 Fax:03-3216-0342 www.maruha.co.jp
5	Ajinomoto Co., Inc. (Amino Acids, Instant Bouillon & Sauces.)	$5.95 yen 656,223 (March 2005)	Retail/HRI	Japan (3) Overseas (23 countries)	Importers, Direct	1-15-1, Kyobashi, Chuo-ku, Tokyo 104-0031	Tel: 03-5250-8111 www.ajinomoto.co.jp
6	Nippon Meat Packers. Inc. (Beef, Pork, Chicken, Ham & Sausages, & Deli.)	$5.55 yen 611,912 (March 2005)	Retail/HRI	Japan (8) U.S. (1) Mexico (1) Thailand (1) Australia (1)	Importers, Direct	3-6-14, Minami-hommachi, Chuo-ku, Osaka City 541-0054	Tel: 06-6282-3031 www.nipponham.co.jp
7	Yamazaki Baking Co., Ltd. (Breads, Japanese & Western Confectioneries, Jam, & Spread.)	$5.15 yen 566,980 (Dec. 2004)	Retail/HRI	Japan (26) U.S. (1) China (1) Taiwan (1) Thailand (1)	Importers, Direct	3-10-1, Iwamotocho, Chiyoda-ku, Tokyo 101-8585	Tel: 03-3864-3091 Fax: 03-3864-3150 www.yamazakipan.co.jp
8	Sapporo Holdings (Beer, Liquors, Soft Drinks & Wine)	$4.49 yen 494,929 (Dec. 2004)	Retail/HRI	Japan (10)		4-20-1 Ebisu, Shibuya-ku, Tokyo 150-8522	Tel:03-5423-7209 www.sapporoholdings.jp
9	Meiji Dairies Corporation (Dairy, Beverages, Frozen Foods, Processed Foods, & Baby Foods.)	$4.48 yen 493,868 (March 2005)	Retail/HRI	Japan (23) China (1) Thailand (1) Indonesia (1)	Importers, Direct	1-2-10, Shinsuna, Koto-ku, Tokyo 136-8908	Tel: 03-5653-0346 www.meinyu.co.jp
10	Morinaga Milk Industry Co., Ltd. (Dairy, Baby Foods.)	$3.97 yen 440,187 (March 2005)	Retail/HRI	Japan (9) U.S. (1) U.K. (1) France (1) Germany (2)	Importers, Direct	5-33-1, Shiba, Minato-ku, Tokyo 108-8384	Tel: 03-3798-0220 www.morinagamilk.co.jp

	Company (Main Product Types)	Net Sales ($ bill. at 1$=110.20 yen) (yen=mill.)	End-User Channels	Production Location	Procurement Channels	Address	Phone# Website
11	Itoham Foods Inc.(Beef, Pork Chicken, Ham & Sausages, & Deli.)	$3.59 yen 412,619 (March 2005)	Retail/HRI	Japan (10) U.S. (1)	Importers, Direct	4-27, Takahata-cho, Nishinomiya City, Hyogo 663-8683	Tel: 03-5723-6210 www.itoham.co.jp
12	Nisshin Seifun Group Inc. (Flours, Pastas, Pasta Sauces, Rehydratable Noodles, Frozen Foods, & Beverages.)	$3.94 yen 434,125 (March 2005)	Retail/HRI	Japan (12) U.S. (4) Canada (1) Thailand (4) Singapore (1) Indonesia (1) China (1)	Importers, Direct	1-25, Kanda Nishikicho, Chiyoda-ku, Tokyo 101-8441	Tel: 03-5282-6351 www.nisshin.com
13	Nichirei Corporation (Frozen & Retort Processed Foods, Chicken, Pork, Beef, & Fish.)	$3.39 yen 374,117 (March 2005)	Retail/HRI	Japan Overseas (13)	Importers, Direct	Nichirei Higashi Ginza Bldg., 6-19-20, Tsukiji, Chuo-ku, Tokyo 104-8402	Tel: 03-3248-2101 www.nichirei.co.jp
14	Kirin Beverage Corporation (Coffee, Tea, Fruits Drinks, Vegetable Drinks, Water & Sherbet.)	$2.86 yen 324,941 (Dec. 2004)	Retail/HRI	Japan (2)	Importers	Kanda Izumicho Bldg, 1 Kanda Izumicho, Chiyoda-ku, Tokyo 101-8645	Tel: 03-5821-4025 www.beverage.com
15	Nippon Suisan Kaisha, Ltd. (Frozen & Chilled Seafood, Canned Foods, Retorts, & Frozen Deli.)	$2.92 yen 321,434 (March 2004)	Retail/HRI	Japan (6) U.S. (2) Canada (1) Vietnam (1) N Zealand (1)	Importers, Direct	Nippon Bldg. 10F, 2-6-2, Otemachi, Chiyoda-ku, Tokyo 100-8686	Tel: 03-3244-7000 www.nissui.co.jp
16	Meiji Seika Kaisha, Ltd. (Confectioneries, Retort Soups & Curry, & Functional Foods.)	$2.46 yen 271,546 (March 2005)	Retail/HRI	Japan (6) Overseas (5)	Importers, Direct	4-6-1, Hacchobori, Chuo-ku, Tokyo 104-8002	Tel: 03-3273-6511 www.meiji.co.jp
17	Ito-en Co.,Ltd (Tea, Coffee, Fruit & Vegetable Beverages)	$2.36 yen 260,090 (Apr. 2005)	Retail	Japan (4) U.S. (3) Australia (1) China (1)	Direct	3-47-10 Honcho, Shibuya-ku, Tokyo 151-8550	Tel:03-5371-7111 www.itoen. co.jp
18	Nestle Japan Group (Coffee, Creams, Functional Foods, Chilled Foods, & Frozen Foods.)	$2.29 yen 252,500 (Dec. 2004)	Retail/HRI	Japan (3)	Importers	Nestle House, 7-1-15, Gokodori, Chuo-ku, Kobe 651-0087	Tel: 078-230-7097 www.nestle.co.jp
19	Nissin Food Products Co., Ltd. (Instant/Chilled/Frozen Noodles, Instant Soup, & Functional Foods.)	$2.24 yen 247,107 (Mar. 2005)	Retail/HRI	Japan (4) Overseas (25)	Importers, Direct	4-1-1, Nishinakajima, Yodogawa-ku, Osaka City 532-8524	Tel: 06-6305-7711 www.nissinfoods.co.jp
20	Katokichi Co., Ltd. (Frozen Foods, Frozen Seafood, & Frozen Noodles.)	$2.14 yen 235,582 (Mar. 2005)	Retail/HRI	Japan (8) China (8) Thailand (1) Indonesia (2)	Importers, Direct	5-18-37, Sakamotocho, Kanonji City, Kagawa Pref. 768-8501	Tel: 0875-56-1161 www.katokichi.co.jp

	Company (Main Product Types)	Net Sales ($ bill. at 1$=110.20 yen) (yen=mill.)	End-User Channels	Production Location	Procurement Channels	Address	Phone# Website
21	Q.P. Corporation (Mayonnaise, Dressings, Sauces, Jams, Canned Foods, & Health Foods.)	$2.09 yen 230,110 (Nov. 2004)	Retail/HRI	Japan (9) U.S. (2) China (2) Thailand (1)	Importers, Direct	1-4-13, Shibuya, Shibuya-ku, Tokyo 150-0002	Tel: 03-3486-3357 www.kewpie.co.jp
22	Prima Meat Packers, Ltd. (Beef, Ham & Sausage, Meat Processed Foods, & Health Foods.)	$2.03 yen 223,775 (Mar. 2005)	Retail/HRI	Japan (4)	Importers	3-17-4, Higashi-Oi, Shinagawa-ku, Tokyo 140-8529	Tel: 03-5493-4500 www.primaham.co.jp
23	Nisshin OilliO.Group Ltd (Cooking Oil, Dressings, Functional Foods & Soy Milk)	$2.00 yen 220,204 (Mar. 2005)	Retail/HRI	Japan (2) China(3) Malaysia (1)	Direct	1-23-1 Shinkawa, Chuo-ku, Tokyo 104-8285	Tel:03-3226-5005 www.nissin-oillio.com
24	Starzen Co., Ltd. (Beef, Pork, Chicken, Ham and Sausage, & Meat Processed Foods.)	$1.67 yen 217,658 (Mar. 2005)	Retail/HRI	Japan (7) of a affiliate company	Importers, Direct	2-5-7, Konan, Minato-ku, Tokyo 108-0075	Tel: 03-3471-5526 www.starzen.co.jp
25	Coca-Cola Central Japan Co., Ltd (Beverages, Functional Beverages, & Functional Foods.)	$1.95 yen 214,788 (Dec. 2004)	Retail	Japan (4)	Direct	2-2-1 Minatomirai, Nishi-ku, Yokohama-shi, 220-8141	Tel: 045-222-5850 www.cccj.co.jp
26	Toyo Suisan Kaisha. Ltd. (Instant/Chilled/Frozen Noodles, Seafood, Chilled Foods, Frozen Foods, Ham and Sausage, & Canned Foods.)	$1.94 yen 214,124 (Mar. 2005)	Retail/HRI	Japan (6) U.S. (3) China (2) Taiwan (1)	Importers, Direct	2-13-40, Konan, Minato-ku, Tokyo 108-8501	Tel: 03-3458-5111 www.maruchan.co.jp
27	Asahi Soft Drinks Co., Ltd.(Tea, Functional & Fruit Beverages & Canned Coffee.)	$1.85 yen 204,006 (Dec. 2004)	Retail/HRI	Japan (4)	Importers, Direct	1-23-1, Azumabashi, Sumida-ku, Tokyo 130-8602	Tel: 03-5608-5179 www.asahiinryo.co.jp
28	Takara Holdings Inc. (Sake, wine, shochu, liquor, soft beverages, seasoning)	$1.77 yen 195,359 (Mar. 2005)	Retail/HRI		Importers, Direct	20 Naginatahoko-cho, Shijo-dori Karasuma Higashi-ku, Shimogyo-ku, Kyoto	Tel: 075-241-5130 www.takara.co.jp
29	Coca-Cola West Japan Co., Ltd (Beverages, Functional Beverages, & Functional Foods.)	$1.77 yen 195,066 (Dec. 2004)	Retail	Japan (3)	Direct	7-9-66 Hakozaki, Higashi-ku, Fukuoka-shi 812-8650	Tel: 092-641-8581 www.ccwj.co.jp
30	Otsuka Pharmaceutical Co., Ltd. (Functional Foods, Functional Beverages, Supplements, & Milk Drink.)	$1.76 yen 194,500 (Mar. 2005)	Retail	Japan (5) U.S. (1) China (3) Korea (1) Taiwan (2) Thailand (1) Indonesia (2)	Importers, Direct	2-9, Kanda Tsukasamachi, Chiyoda-ku, Tokyo 101-0048	Tel: 03-3292-0021 www.otsuka.co.jp

	Company (Main Product Types)	Net Sales ($ bill. at 1$=110.20 yen) (yen=mill.)	End-User Channels	Production Location	Procurement Channels	Address	Phone# Website
31	J-Oil Mills, Inc. (Cooking Oil, Fine Chemicals, & Health Foods.)	$1.63 yen 179,262 (Mar. 2005)	Retail/HRI	Japan	Importers, Direct	17F-19F, Seiroka Tower, 8-1, Akashicho, Chuo-ku Tokyo 104-0044	Tel: 03-5148-7100 www.j-oil.com
32	Kinki Coca-Cola Bottling Co., Ltd (Beverages, Functional Beverages, & Functional Foods.)	$1.55 yen 170,932 (Apr. 2004)	Retail	Japan (3)	Direct	3-47-10, Hommachi, Shibuya-ku, Tokyo 151-8550	Tel: 03-5371-7111
33	Nichiro Corporation (Processed Marine Products, Frozen Food, Retort)	$1.53 yen 169,110 (Mar. 2005)	Retail/HRI	Japan (3) U.S. (2) China (2) Thailand (1) Indonesia (1)	Importers, Direct	1-12-1 Yurakucho, Chiyoda-ku, Tokyo 100-0006	Tel: 03-3240-6211 www.nichiro.co.jp
34	Marudai Food Co., Ltd. (Beef, Pork, Chicken, Processed Foods, Chilled Dessert, Pizza, & Snacks.)	$1.53 yen 168,836 (Mar. 2005)	Retail/HRI	Japan (25)	Importers, Direct	21-3, Midoricho, Takatsuki City, Osaka 569-8577	Tel: 072-661-2531 www.marudai.jp
35	Lotte Co., Ltd. (Gum, Chocolate, Cookies, Candy, Beverages, & Ice Creams.)	$1.45 yen 160,000 (Mar. 2005)	Retail/HRI	Japan (6) Overseas (9)	Importers, Direct	3-20-1, Nishishinjuku, Shinjuku-ku, Tokyo 160-0023	Tel: 03-5388-5614 www.lotte.co.jp
36	House Foods Corporation (Curry Roux, Retort Roux, Snacks, & Functional Foods.)	$1.44 yen 158,263 (Mar. 2005)	Retail/HRI	Japan (7) U.S.A. (1) China (2)	Importers, Direct	6-3 Kioi-cho, Chiyoda-ku, Tokyo 102-8560	Tel: 03-3264-1231
37	Nippon Flour Mills Co., Ltd. (Pasta, Pasta Sauces, Flours, Frozen Foods, & Health Foods.)	$1.43 yen 157,791 (Mar. 2005)	Retail/HRI	Japan (8) U.S. (3) China (1) Thailand (3)	Importers, Direct	5-27-5, Sendagaya, Shibuya-ku, Tokyo 151-8537	Tel: 03-3350-2311 www.nippn.co.jp
38	Yakult Honsha Co, Ltd. (Milk Products, & Functional Foods.)	$1.42 yen 156,525 (Mar. 2005)	Retail	Japan (6), Overseas (10)	Importers, Direct	1-1-19, Higashi-Shimbashi, Minato-ku, Tokyo 105-8660	Tel: 03-3574-8960 www.yakult.co.jp
39	Morinaga & Co., Ltd. (Chocolate, Candy, Snacks, Cookies, Ice Creams, & Functional Foods.)	$1.41 yen 155,294 (Mar. 2005)	Retail/HRI	Japan (5) China (1) Taiwan (1)	Importers, Direct	5-33-1, Shiba, Minato-ku, Tokyo 108-8403	Tel: 03-3456-0134 www.morinaga.co.jp
40	Mizkan Group Co., Ltd. (Vinegar, Seasoning Sauces, & Chilled Foods.)	$1.37 yen 150,800 (Feb. 2005)	Retail/HRI	Japan (10) U.S. (1) Thailand (1) U.K. (1)	Importers, Direct	2-6, Nakamuracho, Handa City, Aichi 475-8585	Tel: 0569-24-5101 www.mizkan.co.jp

	Company (Main Product Types)	Net Sales ($ bill. at 1$=110.20 yen) (yen=mill.)	End-User Channels	Production Location	Procurement Channels	Address	Phone# Website
41	Kagome Co., Ltd. (Fruit & Vegetable Beverages, Frozen & Retort Foods, Sauces, Soups.)	$1.33 yen 146,042 (Mar. 2005)	Retail/HRI	Japan (6) U.S. (1) Taiwan (1) China(1)	Importers, Direct	3-14-15, Nishiki, Naka-ku, Nagoya City, Aichi 460-0003	Tel: 052-5951-3571 www.kagome.co.jp
42	Tokyo Coca-Cola Bottling Co., Ltd (Beverages, Functional Foods.)	$1.32 yen 145,088 (Dec. 2004)	Retail/HRI		Direct	7-9-66 Hakozaki, Higashi-ku, Fukuoka-shi 812-8650	Tel: 092-641-8581 www.ccwj.co.jp
43	Shikishima Baking Co., Ltd. (Breads, Japanese & Western Confectioneries.)	$1.32 yen 144,683 (Aug. 2004)	Retail/HRI	Japan (10) U.S. (1) China (1)	Importers, Direct	5-3, Shirakabe, Higashi-ku, Nagoya City 461-8721	Tel: 052-933-2111 www.pasconet.co.jp
44	Dydo Drinco Inc.	$1.29 yen 141,807	Retail/HRI	OEM		2-2-7 Nakanoshima, Kita-ku, Osaka City 530-0005	Tel: 06-6222-2611 www.dydo.co.jp
45	Kyokuyo Co., Ltd. (Processed Seafood, Frozen Foods, & Canned Foods.)	$1.24 yen 137,027 (Mar. 2005)	Retail/HRI	Japan	Direct	Kokusai Sanno Bldg., 3-3-5, Akasaka, Minato-ku, Tokyo 107-0052	Tel: 03-5545-0701 www.kyokuyo.co.jp
46	Snow Brand Milk Products Co., Ltd. (Butter, Cheese, Powder Milk, Dressings, Sauces, & Retort Soups.)	$1.23 yen 135,526 (Mar. 2005)	Retail/HRI	Japan (9) Australia (1) France (1) China (2) Taiwan (1) Thailand (1)	Importers, Direct	13 Honshiocho, Shinjuku-ku, Tokyo 160-8575	Tel: 03-3226-2111 www.snowbrand.co.jp
47	Ezaki Glico Co., Ltd. (Ice Cream, Retort Foods, Cereals, Functional Foods, & Snacks.)	$1.18 yen 129,697 (Mar. 2005)	Retail/HRI	Japan Thailand (1) France (1) China (2)	Importers, Direct	4-6-5, Utajima, Nishiyodogawa-ku, Osaka City 555-8502	Tel: 06-6477-8367 www.glico.co.jp
48	Kikkoman Corporation (Soy Sauces, Seasoning)	$1.15 yen 126,813 (Mar. 2005)	Retail/HRI	Japan (5) Overseas (4)	Importers, Direct	250, Noda, Noda City, Chiba 278-8601	Tel: 04-7123-5111 www.kikkoman.co.jp
49	UCC Ueshima Coffee Co., Ltd. (Coffee, & Coffee Drinks.)	$1.13 yen 124,051 (Mar. 2005)	Retail/HRI	Japan (7) U.S. (1) Taiwan (1)	Importers, Direct	7-7-7, Minatojima-nakamachi, Chuo-ku, Kobe City 650-0046	Tel: 078-304-8887
50	Showa Sangyo Co., Ltd. (Flour, Cooking Oil, Pasta, Pasta Sauces, Frozen Foods, & Frozen Bread Dough.)	$1.12 yen 123,512 (Mar. 2005)	Retail/HRI	Japan (3)	Importers, Direct	Kamakurakashi Bldg. 2-2-1, Uchikanda, Chiyoda-ku, Tokyo 101-8521	Tel: 03-3257-2973 www.showa-sangyo.co.jp

Source: The Beverage & Food Statistics Monthly, Nikkei Keizai Tsushinsha
Food Manufactures Top 50 List for ATO Research
Net sales: unconsolidated

D. SECTOR TRENDS

Recently, in an effort to reduce costs, an increasing number of Japanese food processors have been going off-shore to source processed food items they have traditionally produced domestically. Ajinomoto Frozen Foods, the fourth largest frozen food company, has seven overseas manufacturing plants. Nippon Ham, the largest meat processor in Japan, has joint ventures in Thailand, Australia, Mexico and the United States, which export processed meat and related products to Japan. Many Japanese companies have invested in China to produce frozen vegetables and processed frozen foods specifically for the Japanese market.

Foreign direct investment in the Japanese food processing market is minimal.

Most U.S. brands that are produced in Japan are licensed or co-packed.

At the consumer level, the following trends are driving the way food processors are marketing their products.

1. Health
Functional foods are becoming increasingly popular. The official definition of functional foods and drinks in Japan is "foods which are expected to have a specified effect on health due to the relevant constituents or foods from which allergens have been removed." Functional ingredients such as dietary fiber, oligosaccharides, non-cariogenic sweeteners, calcium, iron, mineral absorption promoters, beta-carotene, PUFA (DHA and EPA), chitosan, specified soy protein, collagen, polyphenols, lactic acid bacteria cultures, soy iso-flavones and germinated brown rice (GABA) have been included in functional foods marketed in Japan. Examples of functional foods include yogurt with lactic bacteria to help digestion and yogurts with collagen to help skin health. Also, breads with added wheat germs are another functional food. The number of soymilk products increased due to perceived health benefits as well. Diet conscious consumers have been switching from sugar, soft drinks, cakes and ice creams to low calorie teas, mineral water, and lower calorie-containing items. Tree nuts, especially almonds and walnuts, are becoming popular.

2. Growth of Convenience Foods
The fast paced Japanese lifestyle has led to the growth of processed foods as a replacement for meals made from scratch at the home. The best example is the rapid expansion of convenience store chains over the past decade, which specializes in a large variety of pre-prepared meals. Examples of pre-prepared meals are traditional bento lunch boxes and onigiri (rice ball), pasta dishes, sandwiches, salads, baked goods, and desserts. There are now over 40,000 convenience stores in Japan. Retail and foodservice chains specializing in ready-to-eat prepared take-out items such as delicatessen, curry, and dim-sum have also expanded. Some of these chain stores offer "create-your-own" bento-lunch box from a buffet style offering.

3. Diversification of the Diet
The trend toward diversification of the Japanese diet continues. Every year new "hit" food items based on foreign products make their mark on the diet in Japan. Examples over the past half-decade include pasta, pizza, olive oil, tiramisu, Nata de Coco, cinnamon buns, Belgian waffles, and scones. More importantly, the trend toward internationalization of the diet is clearly reflected in the growing presence of restaurants in Japan featuring ethnic food. From the United States, names such as McDonald's and KFC have long been prominent. The most recent example of a major success of U.S. food is the coffee shop chains such as Starbucks and Tully's. They have introduced new products such as flavored coffees and wrap sandwiches. The internationalization of the Japanese diet offers U.S. exporters an opportunity to supply ingredients to meet this increasing demand.

4. Value Pricing
The deflationary environment of the past decade has caused consumers to be more cost conscious in their food budget. Companies such as McDonald's have promoted low-priced value sets, which has led to intense competition among foodservice and retail operators. This in turn is causing food suppliers to seek lower cost inputs in order to provide more competitive prices to their customers.

5. Food Safety
Japanese consumers are sensitive to food safety issues because of a series of food and related health scares during the past decade. Issues that stand out the most are deaths related to E.coli O-157/H7; mass sickness from tainted dairy products; BSE found in Japanese cows; mislabeling of meat and marine products; avian influenza; and most recently the use of expired ingredients in processed foods.

Many Japanese food processors demand that suppliers follow strict quality assurance procedures, including HACCP systems and traceability to the point of origin of the ingredients. The importance of food safety procedures will continue to grow.

III. COMPETITION

Product Category	Major Supply Source	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
Fish & Seafood Net Imports: $14 Billion	1. China - 22% 2. U.S. -10% 3. Russia - 8%	1. China is the leading low cost supplier. 2. U.S. is the major supplier of surimi, roe and urchin.	Japanese companies fish worldwide for marine resources.
Red Meat (fresh/ chilled/frozen) Net Imports: $7.0 Billion	1. Australia - 31% 2. U.S.- 21% 3. Denmark -17% 4. Canada - 14%	1. Australia is a cost efficient beef producer. 2. Denmark is a major supplier of quality, low cost pork.	1. High costs of raising cattle/swine makes local production expensive. 2. Local production has the advantage of freshness.
Processed Fruit & Vegetables Net Imports: $2.9 Billion	1. China - 52% 2. U.S. - 17% 3. Thailand - 5%	1. China is the low cost vegetable supplier in Japan. 2. U.S. is a major supplier of frozen potatoes, corn, peas, and mixed vegetables.	High costs make local production less competitive for further processing.
Soybeans Net Imports: $1.4 Billion	1. U.S. – 71% 2. Brazil – 12% 3. Canada – 9% 4. China – 8%	The U.S. is a major supplier of soybeans to be processed for soy sauce, tofu, natto, soymilk, vegetable oil, etc.	GMO issue is a key concern among Japanese food processors.

Product Category	Major Supply Source	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
Fresh Fruit Net Imports: $1.6 Billion	1. Philippines – 37% 2. U.S. – 31%	1. U.S. is leading supplier of quality, price competitive grapefruits and oranges. 2. Philippines is major supplier of bananas, mangos and pineapples.	1. Japanese desire for freshness benefits Japanese producers. 2. Customers rely on imports during off-season periods.
Poultry Net Imports: $0.9 Billion	1. Brazil - 84% 2. U.S. - 5% 3. France - 3%	1. Brazil is the low cost source for raw commodity chicken. 2. Thailand and China both are low cost producers of processed chicken.	1. High costs of local poultry production makes it less attractive to food service operators. 2. Most domestic production goes to the retail market where freshness is valued.
Wine and Beer Net Imports: $1.1 Billion	1. France – 58% 2. Italy 11% 3. U.S. – 6%	France and Italy are the leading exporter of wines.	Wine consumption has been steadily increasing.
Fresh Vegetables Net Imports: $0.9 Billion	1. China – 47% 2 U.S. – 13% 3. N. Zealand – 9% 4. S. Korea – 9%	China is the leading supplier of fresh vegetables to Japan due to both competitive price and proximity.	1. Domestic vegetables are expensive, but consumers perceive them as safe and fresh. 2. Pesticide residue is still a major concern. Japanese Quarantine regulations can be difficult to cope.
Fruit & Vegetable Juice Net Imports: $0.6 Billion	1. U.S. – 18% 2. Brazil – 19% 3. China – 14%	1. U.S. is the leading supplier of price competitive, high quality apple, grapefruit, tomato & orange juice. 2. Brazil is the low cost supplier of orange juice.	Japanese processors import juice concentrates for repackaging.

IV. BEST PRODUCTS PROSPECTIVE

A. PRODUCTS PRESENT IN THE MARKET THAT HAVE GOOD SALES POTENTIAL

1. Red Meats
Pork: Pork demand remains high due to the ongoing problems with U.S. beef. HRI and the retail sector offer dishes like pork bowl and pork barbecue as an alternative to traditional beef menus. Imported frozen pork cuts from Denmark, Canada, United States and the EU are mainly used as raw materials for ham, bacon and sausage products. Many of the processed meats are used in prepared and ready-to-eat foods such as lunch boxes. Danish frozen belly cut is a main stay for bacon. U.S. frozen picnic cut is preferably used to make sausage. While the import demand for frozen pork cuts for ham, bacon and sausage products have remained stable in recent years, the growth prospect for Japan's prepared and ready to eat sector is still good.

Beef: Once Japan's beef market regains momentum, demand for U.S. cuts such as short plate and short rib that are mainly used for beef bowl and barbecue should increase.

2. Surimi, Roe, and Urchin:
Japan is a major market for U.S. surimi, roe and urchin. Other fish that show potential in Japan are salmon roe, cod roe, and herring.

3. Processed Fruits & Vegetables:
The U.S. has competitive advantages in higher value-added products such as fruits & vegetable purees and paste as well as a variety of mixed vegetable assortment. The United States also has competitive advantages in potatoes, corn, peas, carrots, and various berries.

4. Soybean:
The United States is a dominant supplier of soybean to Japan for uses of traditional food items such as soy sauce, Tofu, Miso (soybean paste) and Natto (fermented soybeans). Soymilk products have been expanding at a rapid rate in Japan due to perceived health benefits.

5. Fruit:
The U.S. is a leading supplier of quality and price competitive citrus fruits such as grapefruits and oranges. Strawberries are used in cakes during the off-season in Japan. American cherries are popular for the retail market.

6. Tree Nuts:
The U.S. is a major supplier of almonds and walnuts. The recent focus on health issues in Japan has helped to increase demand and U.S. exports.

7. Health and Functional Foods
Health related functional foods are expected to continue to grow. The Japan Health Food and Nutrition Food Association released figures for sales of FOSHU (Foods For Specified Health Use) items that showed market growth. Total sales of FOSHU items increased to $5.7 billion in 2005 from $1.9 billion in 1999.

Sales of FOSHU Items (2005)

Sales of FOSHU Items (2005)		
Type	Billion Yen	$ Million
Lactic Acid Bacteria	351.7	3,191.47
Dental Caries Related	96.1	872.05
Blood Sugar Related	23.3	211.43
Lipid Metabolism	88.1	799.46
Dietary Fiber	13	117.97
Minerals	14.3	129.76
Blood Pressure Related	14.8	134.30
Oligo Saccharides	5.9	53.54
Cholesterol Related	22.8	206.90
Total:	630	5,716.88

Source: Japan Health Food and Nutritional Food Association

B. PRODUCTS NOT PRESENT IN SIGNIFICANT QUANTITIES BUT WHICH HAVE GOOD SALES POTENTIAL

1. Beverages/Wine
Flavored teas, coffees, juices and related waters are becoming more popular in Japan.

Wine is also expected to continue to grow. California and other West Coast wines can benefit from this growth. However, competition from other producing countries including France, Italy, Australia and Spain are strong.

2. Ethnic Foods
Popularity of ethnic foods is expected to continue to grow. Tex-Mex products such as wrap sandwiches, chile sauces, tortilla shells are more visible in the supermarkets.
Asian cuisines including Vietnamese, Thai and Korean Foods are still popular. Japanese food manufacturers are marketing a variety of special condiments for Asian cuisines for home cooking and food service. Also many Italian food items such as spaghetti sauce, olive oil, and pasta have become regular items even for home cooking. Japanese food manufacturers have developed a variety of ready-to-use spaghetti sauces in recent years.
American pizza chains have been successful in expanding the market for pizza. The United States is a major supplier of meat toppings as well as tomato based pastes and crust.

3. Frozen Dough, Desserts, and Baking Goods
Frozen dough and cookie products have been growing in recent years. Scones have increased in popularity after being introduced by Starbucks and are now on the menu of other fast food chains and convenience stores. More recently, bagels now have a niche market.

4. Other
Other items with potential for increased sales include the following products:

a. Processed meats such as pre-cooked bacon and sausages that are microwaveable have potential for growth with foodservice groups such as hotels.

b. Turkey is a product traditionally unfamiliar in Japan, but it is making its way into the Japanese market through companies such as Subway Japan. Smoked turkey legs are also a very popular item in Tokyo Disneyland and are getting widespread exposure as a result.
c. The expansion of Western style coffee shops (e.g. Starbucks, Seattle's Best, Tully's, etc.) presented opportunities for deli meats, cheese, soup and pastries.

C. PRODUCTS NOT PRESENT BECAUSE THEY FACE SIGNIFICANT BARRIERS

1. Items Containing Prohibited Ingredients or Excess of Allowable Limits
Because of the strict Japanese regulations on food additives, some U.S. food products containing prohibited additives or excess amount of allowable limits cannot enter Japan. It is highly recommended that U.S. exporters check their product compliance as a first step when considering business in Japan.

2. High Tariff Rate Products/Quota Restricted Items
A variety of dairy products such as butter, edible non-fat dry milk and whey products, yogurt and other dairy products are subject to TRQ/high tariffs. Likewise, sugar, and rice face very high tariff rates. It is wise to check the tariff rates as well as quota restrictions for your classification of product. Quotas still exist on some items such as dry beans.

3. Quarantine Restricted Items
Numerous fresh produce products are prevented from entering Japan due to the Japanese plant quarantine regulations. For example, fresh potatoes are prohibited to import. The list for prohibited produce items can be obtained from APHIS, Tokyo as well as through ATO offices in Japan.

V. POST CONTACT AND FURTHER INFORMATION

For those with questions or seeking additional assistance, please contact the U.S. Agricultural Trade office (ATO) in Tokyo or Osaka or the Agricultural Affairs office at the following addresses:

ATO Tokyo
U.S. Embassy
1-10-5, Akasaka, Minato-ku, Tokyo 107-8420
Tel: 81-3-3505-6050 Fax: 81-3-3582-6429
E-mail address: atotokyo@usda.gov

ATO Osaka
American Consulate General
2-11-5, Nishi Tenma, Kita-ku, Osaka City, Osaka 530-8543
Tel: 81-6-6315-5916 Fax: 81-6-6315-5906
E-mail address: atoosaka@usda.gov

FAS offices in Japan also issue periodic reports on the Japanese food industry and specific product categories. Please visit the ATO Japan home page at http://www.usdajapan.org.

Note: It is recommended that U.S. exporters verify relevant import requirements with their foreign customers, who normally have the most updated information on local requirements, prior to exportation. Final import approval of any product is subject to the importing country's rules and regulations as interpreted by border officials at the time of product entry.