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Japan

POTATO PRODUCTS ANNUAL

New uses for Frozen Potato Dough boost U.S. sales to Japan

Approved By:

Jeffrey Nawn

Prepared By:

Kenzo Ito, Jennifer Clever

Report Highlights:

In marketing year (MY) 2008/09, Japan produced 2.74 million metric tons of potatoes from a total crop area of 84,930 hectares. Although Japan lifted its import ban on U.S. fresh potatoes in February 2006, access to the Japanese market remains limited. While Japanese imports of U.S. fresh potatoes were lower in MY 2008/09 due to shipping cancellations, imports of U.S. frozen potato products increased by 6 percent. Increased use of frozen potato products by processing facilities and fast food restaurant chains contributed to the rise in U.S. sales.

Commodities:

Potato Products, Fresh and frozen

Fresh Potatoes

PS&D: Production, Supply & Demand

POTATO DATA				
Fresh Potatoes		Market Year	Market Year	Market Year
		Begin:	Begin:	Begin:
		July 2007	July 2008	July 2009
		MY2007/08	MY2008/09	MY2009/10
Area Planted	Total Area	87,380	84,930	84,280
(HR)	For Fresh Market	28,400	27,600	27,400
	For Processing	58,980	57,330	56,880
Area Harvested	Total Area	87,380	84,930	84,280
(HR)	For Fresh Market	28,400	27,600	27,400
	For Processing	58,980	57,330	56,880
Production	Total Production	2,872,500	2,740,800	2,722,800
(MT)	For Fresh Market	933,500	890,800	884,900
	For Processing	1,939,000	1,850,000	1,837,900
Consumption	Total Consumption	2,365,000	2,248,800	2,229,300
(MT)	For Fresh Market	768,600	731,000	724,500
	For Processing	1,596,400	1,517,800	1,504,800
Source: MAFF				
MY2009/10 data: Post estimates				
Breakdown for fresh market and for processing is estimated by Post				

Production

Approximately 80 percent of the nation's potatoes are produced in the Hokkaido region, the northernmost island in Japan. Around 20 percent of potatoes are produced in Honshu, the main island of Japan, and Kyushu, the third-largest island of Japan and most southwesterly of its four main islands. Yields in Hokkaido are greater than in the rest of the country.

The majority of Japan's potato seedlings is planted in the spring and is harvested in summer and fall. Hokkaido potatoes are planted in the spring, with the peak harvesting in September and October.

According to the Ministry of Agriculture, Forestry and Fisheries (MAFF), in MY 2008/09 Japan produced approximately 2.740 million metric tons of fresh potatoes from the total crop area of approximately 84,930 hectares. The average yield was around 32.26 metric tons per hectare. Relative to MY 2007/08, reduction in the planting area

and lack of rainfall in the months of August and September 2008 contributed to the lower yield in MY2008/09. It is important to note that the previous marketing year (MY2007/08) had shown an unusual expansion in the crop area, mostly driven by a more stabilized domestic price and an increased demand for local processing. However, the MY2008/09 crop area is more consistent with a multi-year trend in reduced area planted. In addition to land been diverted to the cultivation of other crops, there is also the larger issue of an aging farming population, which is affecting all of Japanese agriculture.

Consumption

According to the Ministry of Internal Affairs and Communications (MIC), the average consumption of fresh potatoes by Japanese households is approximately 11.8 kilograms per year, with an average expenditure of approximately \$27.69* (2,500 yen) per year.

According to the Ministry of Agriculture, Forestry and Fisheries (MAFF), approximately 33 percent of potatoes harvested in Japan are destined for the fresh market, and the rest are for processing use. Among the potatoes destined for the food processing sector, a large volume goes to starch makers (approximately 42 percent of the nation's production) and approximately 19 percent goes to food manufacturers such as potato chip manufacturers and frozen potato food processors. The rest (approximately 6 percent) is used as seed.

Relatively large volume of Hokkaido production goes to starch makers and food processors (approximately 55 percent and 22 percent, respectively), and approximately 16 percent of Hokkaido production goes to the fresh market. Approximately 310,000 – 340,000 metric tons of domestic potatoes go to potato chip manufacturers annually.

* The 90.27 yen per dollar exchange rate is based on a Nikkei News quote from September 30, 2009.

Trade – Imports:

Japanese imports of fresh potatoes (HS code: 0701.90) have increased since February 2006 when the Japanese government allowed limited imports of U.S. fresh potatoes from the United States for chip manufacturing. However, in MY2008/09, Japan imported 328 metric tons of U.S. fresh potatoes, a significant drop from 960 metric tons imported during the previous marketing year. Despite a lower domestic production and a steady consumption, the decrease in imports is mainly attributed to the cancellation of

scheduled shipments by the sole importing facility (see marketing section). Prior to February 2006, Japanese imports of fresh potatoes were non-existent.

Trade – Exports:

Japanese exports of fresh potatoes are usually extremely small, as domestic production is only large enough to satisfy local demand. With a stable demand and lower yields during MY2008/09, Japan reported no exports of fresh potatoes (HS code: 0701.90.)

Policy:

On February 1, 2006 Japanese MAFF and USDA reached an agreement to allow limited imports of fresh potatoes from the United States, strictly for chip manufacturing. Prior to that date, the government of Japan had banned all imports of fresh potatoes from the United States due to phytosanitary concerns. Under this agreement, 14 U.S. states were allowed limited access to the Japanese market. The States of Idaho, Arizona, Wisconsin, Oregon, California, Colorado, Texas, New Mexico, North Dakota, Florida, Michigan, Minnesota, Maine, and Washington. However, in April 2006, after the state of Idaho announced a potato cyst nematode finding, Japan banned imports of all U.S. fresh potatoes. In 2007, the U.S. regained access for all previously approved States with the exception of Idaho. Presently, only 13 U.S. states are allowed to ship fresh potatoes for chipping to Japan. Access is allowed from the beginning of February to the end of June and can only be done through port area potato chip processing facilities.

Japanese chip manufacturers rely heavily on Hokkaido potatoes (approximately 90 percent of potatoes used to manufacture chips are produced in Hokkaido.) Since Hokkaido potatoes are harvested in the fall, Japanese chip makers are forced to use warehouse stored potatoes until domestic summer potatoes become available the following year. However, the quality of the stored potatoes significantly deteriorates over time. Thus, the Japanese chippers are desperate to use freshly harvested potatoes during Japan's off-season period (imports) in order to keep the quality of their product.

Currently, only one port-area facility in Hiroshima is allowed to process U.S. fresh potatoes into chips under MAFF's strict surveillance. Import protocol procedures range from ensuring that containers are sealed during transport from the port to the chipping facility, to incinerating all potato waste. Since MY 2005/06, this facility has processed several hundred tons of U.S. potatoes into chips each year. Negotiations between the two countries continue to reinstate Idaho as an eligible shipper, and secure access to additional facilities.

Marketing

Currently, fresh potatoes from the United States are only allowed to be used for chips manufactured at a MAFF-designated facility in Hiroshima. According to industry sources, this facility scheduled to import approximately 500 metric tons of fresh potatoes from their contracted farms in the United States in MY 2008/09. However, facility buyers found the taste of the shipped potato variety; a new variety called “Marcy,” to be too bitter and consequently canceled some of the scheduled shipments. This facility processed 328 metric tons of U.S. fresh potatoes into chips in MY 2008/09.

Tariff Table

The applicable import duty for fresh potato is as follows:

TARIFF CODE (HS)	DESCRIPTION	DUTY RATE
0701.90	Fresh Potatoes	4.3%

The duty is charged on a CIF basis.

Trade Matrices

Import Trade Matrix (Quantity)					
Country	Japan				
Commodity	Potatoes, Fresh				
Time Period:	July - June				
Units:	Metric Tons				
Import for:	MY2006/07	Import for:	MY2007/08	Import for:	MY2008/09
U.S.	929	U.S.	960	U.S.	328
Others		Others		Others	
China	6	China	2	China	0
Total for Others	6	Total for Others	2	Total for Others	0
Others not Listed	0	Others not Listed	0	Others not Listed	0
Grand Total	935	Grand Total	962	Grand Total	328
Source: World Trade Atlas					

Import Trade Matrix (Value)					
Country	Japan				
Commodity	Potatoes, Fresh				
Time Period:	July - June				
Units:	Millions of US Dollars				
Import for:	MY2006/07	Import for:	MY2007/08	Import for:	MY2008/09
U.S.	0.499	U.S.	0.511	U.S.	0.176
Others		Others		Others	
China	0.006	China	0.002	China	0.000
Total for Others	0.006	Total for Others	0.002	Total for Others	0.000
Others not Listed	0.000	Others not Listed	0.000	Others not Listed	0.000
Grand Total	0.505	Grand Total	0.513	Grand Total	0.176
Source: World Trade Atlas					

Export Trade Matrix (Quantity)					
Country	Japan				
Commodity	Potatoes, Fresh				
Time Period:	July - June				
Units:	Metric Tons				
Export for:	MY2006/07	Export for:	MY2007/08	Export for:	MY2008/09
U.S.	0	U.S.	0	U.S.	0
Others		Others		Others	
Taiwan	54	Singapore	54		
Singapore	3	Hong Kong	2		
Total for Others	57	Total for Others	56	Total for Others	0
Others not Listed	0	Others not Listed	0	Others not Listed	0
Grand Total	57	Grand Total	56	Grand Total	0
Source: World Trade Atlas					

Export Trade Matrix (Value)					
Country	Japan				
Commodity	Potatoes, Fresh				
Time Period:	July - June				
Units:	Millions of US Dollars				
Export for:	MY2006/07	Export for:	MY2007/08	Export for:	MY2008/09
U.S.	0.000	U.S.	0.000	U.S.	0.000
Others		Others		Others	
Taiwan	0.149	Singapore	0.020		
Singapore	0.007	Hong Kong	0.005		
Total for Others	0.156	Total for Others	0.025	Total for Others	0.000
Others not Listed	0.000	Others not Listed	0.000	Others not Listed	0.000
Grand Total	0.156	Grand Total	0.025	Grand Total	0.000
Source: World Trade Atlas					

Wholesale Price Table			
Country	Japan		
Commodity	Potatoes, Fresh		
Prices in:	Japanese Yen		
Per :	KG		
Year:	2008	2009	% Change
Jan	85	98	15%
Feb	94	101	7%
Mar	101	121	20%
Apr	131	144	10%
May	121	140	16%
Jun	136	150	10%
Jul	119		
Aug	98		
Sep	97		
Oct	85		
Nov	85		
Dec	89		
Exchange Rate:	92.62	(Local Currency/US \$)	
Date of Quote:	9/4/2009	(MM/DD/YYYY)	
Source: MAFF			

Processed Potatoes Products

PS&D: Production, Supply and Demand

FROZEN POTATO PRODUCTS DATA			
Frozen Potato	Market Year	Market Year	Market Year
Products	Begin:	Begin:	Begin:
	July 2007	July 2008	July 2009
(MT, Net Weight)	MY2007/08	MY2008/09	MY2009/10
Beginning Stocks	0	0	0
Production	28,932	32,569	33,000
Imports	312,778	323,966	340,000
Total Supply	341,710	356,535	373,000
Exports	254	306	300
Domestic Consumption	341,456	356,229	373,000
Ending Stocks	0	0	0
Total Distribution	341,710	356,535	373,300
Source: Japan Customs, Japanese Potato Industry			
Imports/Exports stats is based on HS 0710.10 and HS 2004.10			
MY2009/10 data: Post estimates			

Production

The Japanese production of frozen potato products was 32,569 metric tons in MY 2008/09, up approximately 13 percent from the previous year. Domestic production has been increasing since the Chinese food poisoning scandals in January 2008. These scandals significantly diminished demand for Chinese frozen food products in Japan. Post estimates domestic production to be approximately 33,000 metric tons in MY 2009/10 as strong demand for domestic products continues. However, Japanese production is significantly constrained by higher production costs.

According to Japanese industry, in MY 2008/09, the manufacturing selling value of the total domestic frozen potato products was \$70.4 million* (6.357 billion yen). The production of French fries accounts for approximately 23 percent of total frozen potato products, or 7,611 metric tons, valued at \$17.3 million (1.56 billion yen).

* The 90.27 yen per dollar exchange rate is based on a Nikkei News quote from September 30, 2009.

Consumption

The frozen potato market is closely tied to the performance of fast food restaurants in Japan. The majority of frozen potato products are French fries consumed at hamburger shops and fried chicken stores. Family restaurants and “izakaya”, Japanese style pubs, are also major consumption hubs for frozen potato products.

Convenience store chains have increasingly used imported frozen potatoes. Convenience stores set full size fryers to fry the potatoes in the store and sell freshly fried products to store clients. There are over 36,000 convenience stores nationwide. As a result, this convenience store trend continues to increase the use of imported frozen potato products in Japan.

Over 90 percent of the Japanese consumption of frozen potatoes is satisfied by imports, mainly through French fries. Domestic frozen potato products are consumed through retail sector sales which are driven by consumer cooperatives societies (co-ops), and manufactures of frozen foods.

Trade - Imports

Imports of U.S. frozen potato products (HS 0710.10 & 2004.10) were 259,873 metric tons in MY 2008/09, an increase of approximately 6 percent from the previous season. In addition to regular sales of frozen French fries, a jump in imports of frozen potato dough, started in MY 2007/08, also contributed to this increase. The total value of imports of U.S. frozen potato products for MY 2008/09 was approximately \$315 million (CIF). Japan imports frozen potato products all year round with a slight increase in early spring through summer, reflecting Japan’s higher seasonal demand.

The 2008/09 import price of U.S. frozen potato products was significantly higher than the previous season due largely to higher market prices in the United States. The average import price of the 2008/09 crop was \$1.27 per kilogram (CIF), while the price was \$1.01 per kilogram (CIF) the previous season. According to USDA/NASS, the domestic price of U.S. fresh potatoes was approximately 26 percent higher in MY 2008/09 over the previous season, mainly due to a reduction in harvested acres in the United States (approximately a 13 percent decrease).

Over 80 percent of imported frozen potato products are supplied by the United States, followed by Canada and Belgium. Canada supplies a little over 10 percent of imports and Belgium supplies approximately 4 percent of Japan’s total imports.

Imports of Belgium frozen potato products doubled in the last two years to 10,886 metric tons in MY 2008/09, valued at \$13 million (CIF). The price competitiveness of Belgium fried potato products accounted for very successful sales at Japan's major convenience store chain.

Imports of Chinese frozen fried potatoes (HS 2004.10) declined significantly to 2,191 metric tons in MY 2008/09, valued at \$5.5 million (CIF). The Chinese food poisoning scandals of 2008 continue to lessen Japanese demand for Chinese food products.

Post estimates the total imports of frozen potato products to be approximately 340,000 metric tons in MY 2009/10, an increase of approximately 5 percent from the previous year. Japan's major fast food restaurant chains are expected to have good sales under Japan's slow economy. The exchange rate is also expected to be favorable to U.S. exporters.

Trade – Exports

Japan's exports of frozen potato products are very small. Japan exports around 300 metric tons to Taiwan, Singapore and Hong Kong, through local Japanese grocery stores.

Marketing

Under the current economic recession, Japanese consumers have become more price-sensitive. Lately, fast food restaurants have been performing well compared to restaurants that serve higher priced menus. Japanese hamburger chains use a great deal of imported frozen French fries. The McDonald chain alone uses approximately 46 percent of Japan's imported French fries or approximately 110,000 metric tons annually. Similarly, Kentucky Fried Chicken outlets use approximately 10,000 metric tons of frozen potato products a year.

Sales of fried potato products have been growing at convenience stores nationwide. Fried potatoes are increasingly popular among teenagers looking for a convenient and affordable after-school snack. Additionally, starting in 2007, a Japanese processing plant began importing frozen potato dough for snack manufacturing. This venture has raised imports of frozen potato products (not fried) by over 10 times compared to previous years. Newly found uses for other frozen potato products, like frozen potato dough, are expected to continue adding to U.S. sales.

The Japanese food industry believes that Japan's frozen potato market has potential to grow and the United States is in the best position to fulfill the market demand given its high quality standards. Nevertheless, many other third-country competitors and some Japanese domestic producers are seeking every opportunity to increase their market share.

Policy

Japan made technical changes to its biotechnology labeling rules that allow U.S. potato suppliers to be exempt from longstanding identity preservation (IP) handling requirements. For more information, please see pages 39-40 of the Sixth Report to the Leaders on the U.S.-Japan Regulator Reform and Competition Policy Initiative June 6, 2007 at:

<http://www.mofa.go.jp/region/n-america/us/report0706.pdf>

In May 2006, Japan implemented maximum residue level (MRL) guidance on all food products, including imported frozen potato products. As of this report, there have been no reports of trade-related disruptions, but U.S. exporters shipping frozen potato products to Japan should pay careful attention to these requirements. For information on MRLs, which may affect frozen potato products, please see GAIN reports JA6004, JA6011, JA6025, JA6030, JA8050, JA8051, JA8033, JA8032 and the following website:

<http://www.mhlw.go.jp/english/topics/foodsafety/positivelist060228/introduction.html>

On January 8, 2009 Japan decided to terminate the enhanced monitoring inspections of potato products from the United States in regards to metam, dazomet and methyl-isothiocyanate residue. The enhanced monitoring inspection had been in place since April 4, 2008.

Tariff Tables

The applicable import duty for frozen potato products are as follows:

HS Code		Description	Rate of Duty
0710.10	0710.10-000	Frozen Potatoes: uncooked or cooked by steaming or boiling in water	8.5 %
2004.10	2004.10-100	Frozen Potatoes: Cooked, not otherwise prepared (fried potatoes)	8.5 %
	2004.10-210	Frozen Potatoes: Mashed potatoes	13.6 %
	2004.10-220	Frozen Potatoes: Other	9.0 %

The duty is charged on a CIF basis.

Trade Matrices

Import Trade Matrix (Quantity)					
Country	Japan				
Commodity	0710.10 - Frozen Potato Products, not Fried				
Time Period:	July - June				
Units:	Metric Tons				
Import for:	MY2006/07	Import for:	MY2007/08	Import for:	MY2008/09
U.S.	257	U.S.	4,004	U.S.	6,391
Others		Others		Others	
China	5,278	China	6,060	China	8,409
Colombia	334	Colombia	220	Vietnam	294
Vietnam	210	Vietnam	148	Colombia	233
Canada	65	Egypt	110	Egypt	114
Egypt	54	Canada	40	Canada	29
Total for Others	5,941	Total for Others	6,578	Total for Others	9,079
Others not Listed	0	Others not Listed	21	Others not Listed	0
Grand Total	6,198	Grand Total	10,603	Grand Total	15,470
Source: World Trade Atlas					

Import Trade Matrix (Quantity)					
Country	Japan				
Commodity	2004.10 - Frozen Potato Products				
Time Period:	July - June				
Units:	Metric Tons				
Import for:	MY2006/07	Import for:	MY2007/08	Import for:	MY2008/09
U.S.	234,803	U.S.	241,711	U.S.	253,482
Others		Others		Others	
Canada	39,421	Canada	39,074	Canada	34,023
China	7,125	Belgium	6,607	Belgium	10,886
New Zealand	4,515	China	5,972	New Zealand	3,506
Belgium	4,493	New Zealand	3,658	Germany	2,425
Germany	2,294	Germany	2,155	China	2,191
Netherlands	604	Egypt	1,905	Egypt	1,401
Egypt	385	Netherlands	541	Netherlands	353
Italy	310	Italy	400	Italy	92
Total for Others	59,147	Total for Others	60,312	Total for Others	54,877
Others not Listed	122	Others not Listed	152	Others not Listed	137
Grand Total	294,072	Grand Total	302,175	Grand Total	308,496
Source: World Trade Atlas					

Import Trade Matrix (Value)					
Country	Japan				
Commodity	0710.10 - Frozen Potato Products, not Fried				
Time Period:	July - June				
Units:	Millions of US Dollars				
Import for:	MY2006/07	Import for:	MY2007/08	Import for:	MY2008/09
U.S.	0.298	U.S.	5.487	U.S.	9.654
Others		Others		Others	
China	4.280	China	5.470	China	8.144
Colombia	0.741	Colombia	0.545	Vietnam	0.343
Vietnam	0.211	Vietnam	0.162	Colombia	0.601
Canada	0.078	Egypt	0.123	Egypt	0.106
Egypt	0.055	Canada	0.054	Canada	0.036
Total for Others	5.365	Total for Others	6.354	Total for Others	9.230
Others not Listed	0.000	Others not Listed	0.055	Others not Listed	0.004
Grand Total	5.663	Grand Total	11.896	Grand Total	18.888
Source: World Trade Atlas					

Import Trade Matrix (Value)					
Country	Japan				
Commodity	2004.10 - Frozen Potato Products				
Time Period:	July - June				
Units:	Millions of US Dollars				
Import for:	MY2006/07	Import for:	MY2007/08	Import for:	MY2008/09
U.S.	227.9	U.S.	253.4	U.S.	306.0
Others		Others		Others	
Canada	37.7	Canada	40.6	Canada	38.4
China	8.0	Belgium	7.4	Belgium	13.0
New Zealand	4.2	China	7.7	New Zealand	4.3
Belgium	4.6	New Zealand	3.7	Germany	3.2
Germany	2.9	Germany	3.0	China	5.5
Netherlands	0.9	Egypt	1.5	Egypt	1.1
Egypt	0.3	Netherlands	1.0	Netherlands	0.6
Italy	0.7	Italy	1.0	Italy	0.2
Total for Others	59.3	Total for Others	65.9	Total for Others	66.3
Others not Listed	0.4	Others not Listed	0.4	Others not Listed	0.7
Grand Total	287.6	Grand Total	319.7	Grand Total	373.0
Source: World Trade Atlas					

Potato Flakes (Non-Frozen)

Japan has a modest production of potato flakes (dehydrated potato products.) Japanese confectionary companies and Hokkaido-based food manufacturers annually produce several hundred tons of dried potato flakes (mainly potato powder.). Primary users tend to be snack manufacturers.

While the Chinese food scandals casted a shadow on their exports during the previous marketing year, it appears that sales returned to normal levels in MY2008/09. Nevertheless, U.S. exports of potato flakes continue to hold over 80 percent of the Japanese market. The variety of textures in U.S. dehydrated potatoes (flakes, granules) is favorably regarded by high-end restaurants that see potato flakes as having more cooking versatility, and more evenly-distributed quality when compared to fresh potatoes.

Import Trade Matrix (Quantity)					
Country	Japan				
Commodity	1105.20 - Flakes of Potatoes				
Time Period:	July - June				
Units:	Metric Tons				
Import for:	MY2006/07	Import for:	MY2007/08	Import for:	MY2008/09
U.S.	17,782	U.S.	17,165	U.S.	15,719
Others		Others		Others	
Germany	1,970	Germany	1,788	Germany	2,356
China	365	China	136	China	352
Canada	296	Canada	17	Netherlands	70
Netherlands	84	Netherlands	10		
Total for Others	2,715	Total for Others	1,951	Total for Others	2,778
Others not Listed	27	Others not Listed	1	Others not Listed	3
Grand Total	20,524	Grand Total	19,117	Grand Total	18,500
Source: World Trade Atlas					

Import Trade Matrix (Value)					
Country	Japan				
Commodity	1105.20 - Flakes of Potatoes				
Time Period:	July - June				
Units:	Millions of US Dollars				
Import for:	MY2006/07	Import for:	MY2007/08	Import for:	MY2008/09
U.S.	22.801	U.S.	23.572	U.S.	24.643
Others		Others		Others	
Germany	2.403	Germany	2.596	Germany	3.320
China	0.467	China	0.187	China	0.573
Canada	0.390	Canada	0.028	Netherlands	0.092
Netherlands	0.115	Netherlands	0.016		
Total for Others	3.375	Total for Others	2.827	Total for Others	3.985
Others not Listed	0.067	Others not Listed	0.008	Others not Listed	0.011
Grand Total	26.243	Grand Total	26.407	Grand Total	28.639
Source: World Trade Atlas					