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The Japanese Processed Fruit Market-Opportunities and Challenges

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Report Highlights:

Although fresh fruit consumption overall has been declining in Japan, there are areas of growth in the processed fruit sector that present opportunities for U.S. fruit exporters.

General Information:

Table of Contents

I. INTRODUCTIONPage 2

II. MARKET OVERVIEW.....Page 2

1. Japanese Processed Fruit MarketPage 2

2. Growing Importance of Processed FruitsPage 3

3. Overall Import Trends and U.S. Position.....Page 5

4. Import Trends by Category and U.S. Position.....Page 10

III. IMPLICATIONS FOR U.S. SUPPLIERS.....Page 19

Challenges.....Page 19

Opportunities.....Page 22

V. POTENTIAL FRUIT PRODUCTS BY TARGET SECTORPage 26

VI. HOW TO ENTER THE MARKET.....Page 31

VII. USDA CONTACTS.....Page 32

APPENDIX

I. INTRODUCTION

The market for fruit in Japan is changing. Demand for easy-to-eat foods is growing, driven by factors such as the continued diversification of the diet, especially among younger generations, and the growth in the number of single- and two-person households. Meanwhile, consumers of all generations are becoming increasingly health-conscious, which is creating new demand for certain products associated with health, longevity, and beauty. Japan’s entire food industry, including the retail, restaurant and food processing sectors, has adjusted to respond to these evolving consumer demands.

One of the products that has benefitted from this trend is processed fruit. Demand for convenient foods that are also healthy is expected to grow further and so is the role of processed fruit as part of the Japanese diet. Because the United States is one of the world’s largest suppliers of processed fruit, the latest developments in the Japanese market offer potential opportunities to U.S. suppliers.

The United States has long been Japan’s second largest supplier of processed fruit. However, the import

market has become increasingly competitive with more foreign suppliers trying to enter or expand into this attractive market. In addition, the competitive picture has become more complex as new forms of processed fruit (e.g. easier to use) have been developed to better meet specific Japanese demand, resulting in a competitive picture that is no longer straight forward.

In the following sections, we will examine the latest trends in Japan's processed fruit import market, and analyze the competitive picture and implications for U.S. exporters. At the end, we will list key U.S. products that have potential to take advantage of new demand in the retail, food service, and food manufacturing sectors that has been created by these trends.

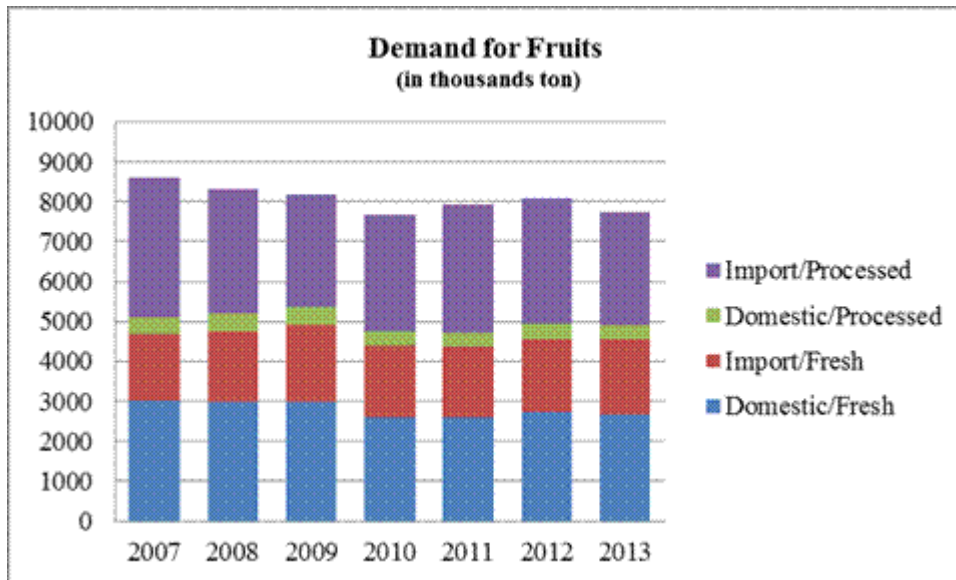
II. MARKET OVERVIEW

1. The Japanese Processed Fruit Market

Japan's fruit market has traditionally focused on production and consumption of fresh fruits. Until recently, very little fresh fruit has been produced specifically for processing purposes, except for juice. This is largely because fresh fruit tends to be treated as a premium product, attracting relatively high prices, so there has been little incentive for farmers to focus on producing lower-grade cheaper fruit just for processing purposes.

That being the case, only limited data is available as to the overall size of Japan's processed fruit market. One of the few comprehensive datasets available has been prepared by the Japan's Ministry of Agriculture, Forestry, and Fishery (MAFF). According to MAFF's analysis, Japanese production of processed fruit (including juice) was estimated to be the equivalent of 360,000 MT of fresh fruit in 2013, the most recent data available. This volume accounts for about 12% of total fresh fruit output, based on the government's conversion rate. (Figure 1)

Figure 1: Japanese Fruit Demand by Source/Category



Source: Ministry of Agriculture, Fishery and Forestry (MAFF), 2016, 2015, 2014, 2013

Note: Processed fruit data is converted to the equivalent value of fresh fruit based on the Japanese government's formula, which includes juice.

As for Japan's total demand for fresh and processed fruits, the volume has fallen slightly over the past decade with occasional rebounds. Based on the government's estimate and conversion rates of processed fruits into fresh fruits, Japan's total fruit demand is estimated to be at 7,746,000 MT as of 2013. The demand peaked in 2005.

Of the total demand, nearly 59% is for fresh fruit while the rest is for processed fruit. By source, locally-grown produce supplies about 39% of the country's overall demand for fruits fresh and processed combined), while the remaining 61% is covered by imported fruit, including juice.

However most of Japan's processed fruits are sourced from overseas. Japan relies on imports for nearly 90% of its demand for processed fruit. That compares to just 41.2% for fresh fruit. (Figure 1) [1] .

2. Growing Importance of Processed Fruits

Japan's consumption of fresh fruit has been on the steady decline since it peaked in the mid-1970s. Despite the downward trend for fresh fruit, Japan's demand for processed fruits has been strong overall.

The recent increase in Japan's import of various forms of processed fruit reflects an ongoing change in the way Japanese people consume fruits. Growing health-consciousness and is boosting potential demand for good-for-you foods including fruits. Changing lifestyles and demographics, such as the growing number of women in the workforce and single or elderly households, have led to growing demand for fruit that is easy to eat and easy to consume such as bananas, kiwis, easy-to-peel citrus and fresh-cut fruits. And yet, there are also signs that some consumers today are seeking even more

convenient forms of fruits: those that are not perishable.

Recent surveys show that even easy-to-eat fruits are often not sufficient to motivate many young consumers to eat fresh fruits. According to a 2014 survey conducted by a government-related fruit association [2], more than 45% of those in their 20s said they would eat “processed” fruit as often, or more often, than they eat fresh fruit. (Nearly 45% of them said they would eat fresh fruit in the main). The figure was lower for older generations. Still, even among those in their 30s or 40s, the ratio was over 30%. The result suggests “convenience” means not just easy-to-eat but often “not perishable” for younger generations. The top reason cited for not eating fresh fruits every day was that “fresh fruit is perishable” (42.2%), followed by “pricey”, “not easy to eat” and “having other options to eat”, the same survey said.

Similarly, institutional food users are also using more processed fruits that they can stock for much longer periods than fresh fruit, to save costs. The improving quality of processed fruits is also supporting the increased usage.

This, combined with the growing awareness of the connection between food and health, helps to explain the rise of “Wellness” Food [3] including snacks and desserts that feature healthy ingredients. According to market research conducted by Fuji Keizai Co., Ltd, Japan’s overall Wellness Food market grew 3.9% in 2015 to 2,354,580 million yen from a year earlier, and is projected to grow 2.7% in 2016. That growth compares to 0.9% growth of the total food market, worth 13,315,240 million yen. One of the key drivers in this market segment has been (wellness) cereals, which contain a variety of healthy ingredients including, dried fruits.

In the same vein, food and beverages that contain “real fruit” and promote fruit textures or pulps, have been expanding their sales lately. They have gained more shelf space in popular outlets, especially in the nation’s ubiquitous convenience stores. For example, premade smoothies cups that come in a dozen different flavors that were developed by the convenience chain LAWSON reportedly sold as many as 29 million units within a year after their launch in 2015, and has sold over 87 million as of February.

Meanwhile, the Superfood and Superfruit boom that hit Japan around 2013 has also boosted demand for processed fruits, led by acai, in recent years. The double digit growth in this segment seems to have slowed somewhat over the past year.

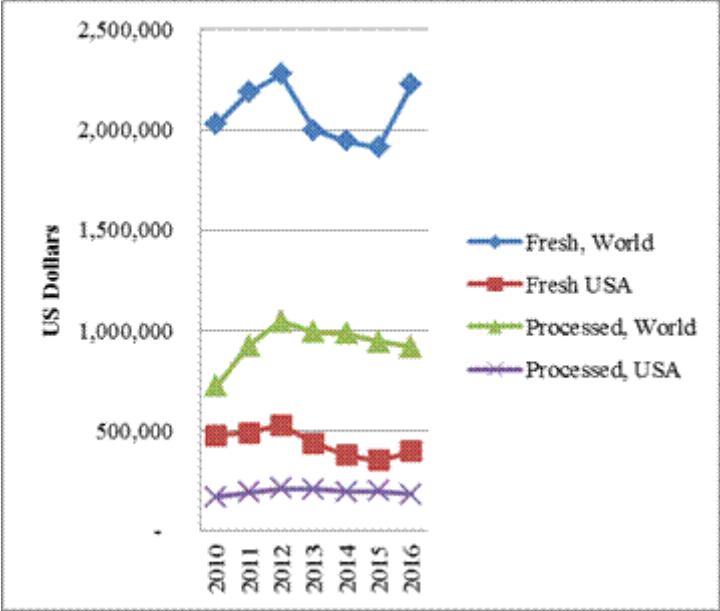
3. Overall Import Trends and U.S. Position

From 2006 to 2016, Japan’s total imports of processed fruits (frozen, dried, canned) [4] grew 23.2% by value to USD 917.9 million, led by frozen and canned [5] fruit. However, the import value fell 2.7% in 2016 from the previous year led by declines in the frozen sector, and the level is down 9.7% from its most recent peak in 2012. (Figure 2, Figure 4)

The biggest component of this sector by value has been canned fruit, which accounts for 59.6%. That is followed by frozen and dried fruits with a market share 21.8% and 18.6% in 2016 respectively. (Figure 3)

The canned fruit segment grew 0.6% to USD546.9 million in 2016 while the frozen and dried segment fell 11.1% to USD200.4 million and 2.0% to USD 170.6 million respectively.

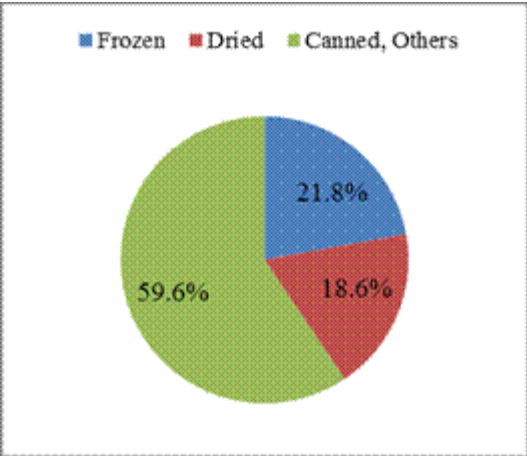
Figure 2: Imports of Fresh and Processed Fruit (by value, USD)



Source: Global Trade Atlas, ATO Osaka

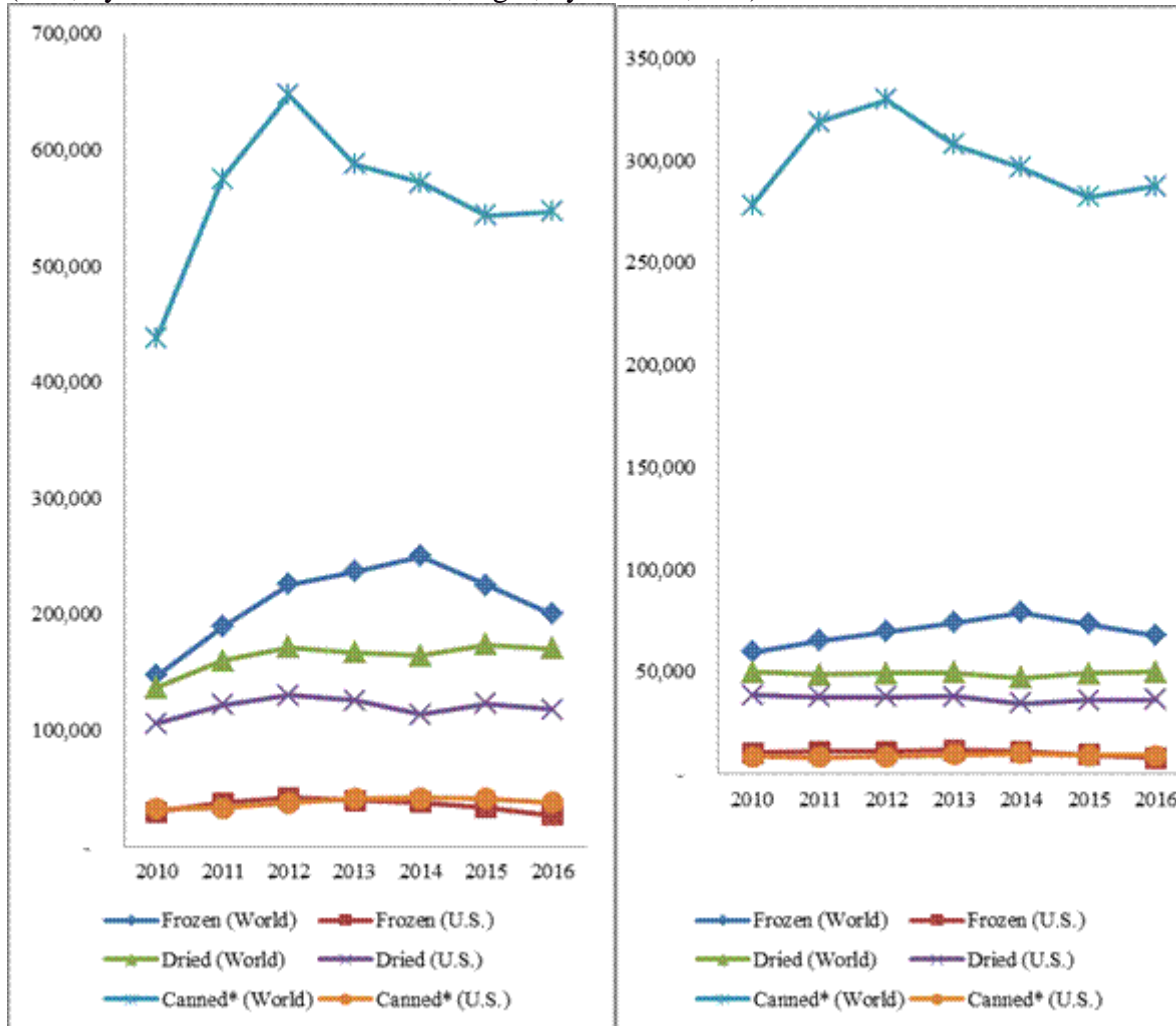
It is important to note, however, that the import trend of individual items does not necessarily reflect that of the entire sector, and the “Processed Fruit” category includes hundreds of different items, and new forms of products are added to the list all the time.

Figure 3: Japan’s Processed Fruit Imports by Category (2016 USD 918,192,072)



Source: Global Trade Atlas, ATO Osaka

Figure 4: Import Trend by Category
 (Left, by value in 1000 US dollars; Right, by volume, MT)



Source: Global Trade Atlas

*For the purpose of this report, “canned fruit” includes canned and other forms of fruit, i.e. fruit that fall under the following HS codes: 081210, 081220, 081290, 081400, 200820, 200830, 200840, 200850, 200860, 200870, 200880, 200893, 200897, 200897, 200899, using the same classification as the Global Trade Atlas

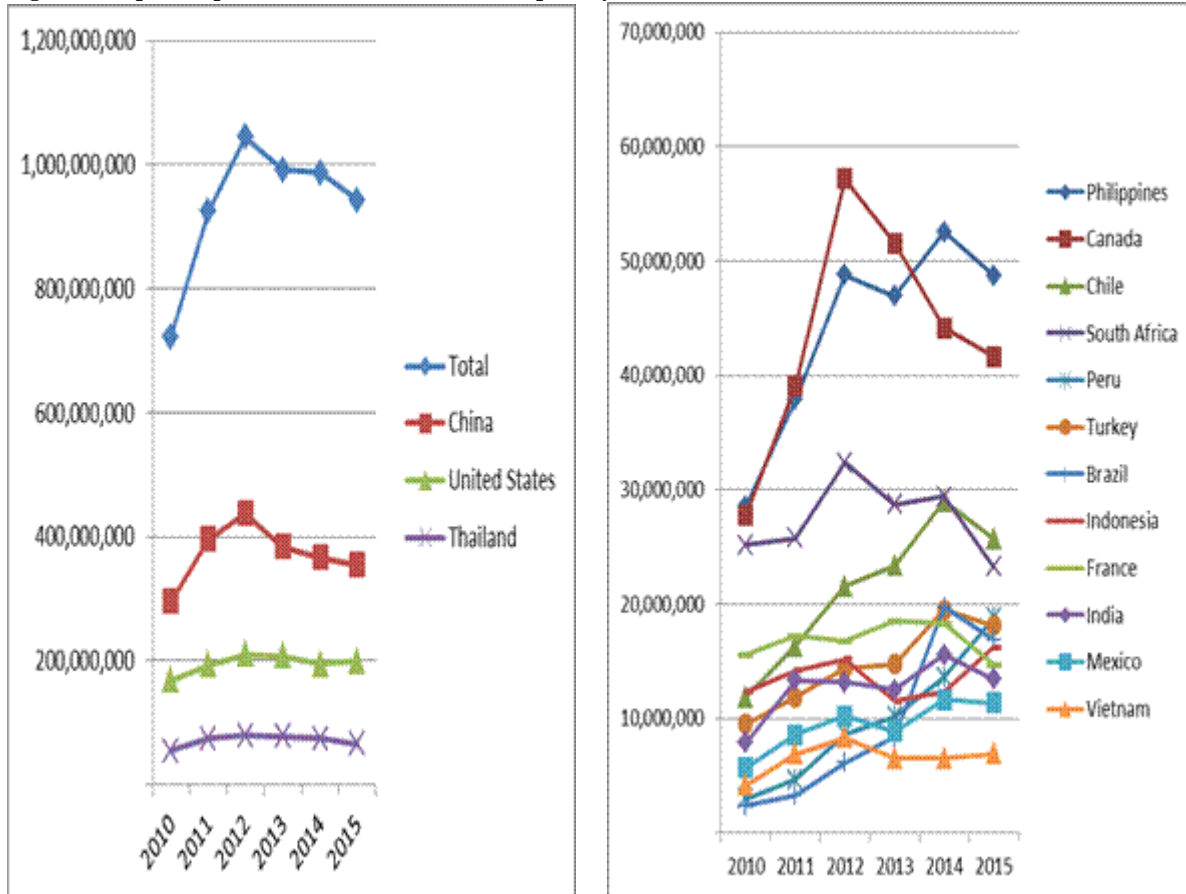
U.S. Position

The United States has been the second largest exporter of processed fruit to Japan after China by both volume and value. The two countries combined provide nearly 60% of the market share by value, with the U.S. share at around 20-21% over the past five years. U.S. exports of processed fruit fell 7.43% to USD 183.9 million in 2016 after growing 2.3% in the previous year. The decline is in line with Japan’s overall import trend. The U.S. share was 22-25% during the early 2000s, with its latest peak in 2010 at 23.3%.

A slight decline in the U.S. market share over the past decade reflects intensifying competition among

exporting countries. While the list of Japan’s top trade partners has barely changed in recent years, many smaller countries have been steadily increasing their market share, particularly at the expense of China and the United States. (Figure 5) The emerging countries include Philippines, Chile, Mexico, Turkey, Brazil and New Zealand [6] .

Figure 5: Top 15 Exporters of Processed Fruit to Japan (by value)



Source: Global Trade Atlas

The main product exported by the United States is dried fruit. Raisins and prunes alone account for 62.4% of total U.S. processed fruits exports, and the combined share has been on the rise. Other main items include various products that fall under HS-200899, and frozen berries including blueberries and strawberries. The list of top 10 exported items from the U.S. barely changed over the past decade, except for preserved cranberries, which have grown more recently [7] . (See Figure 7, Appendix)

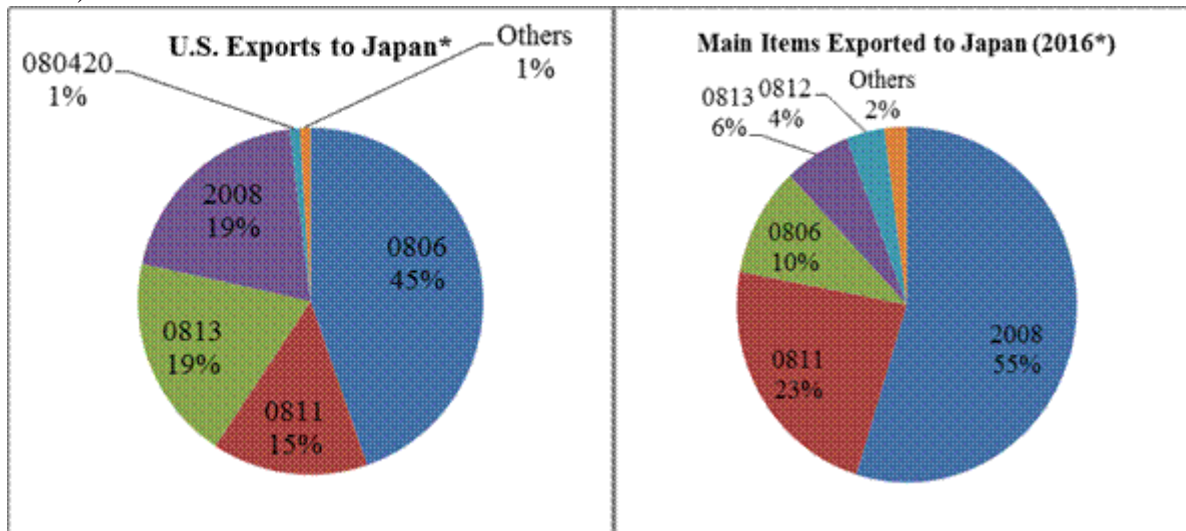
Figure 6: Japan's Top 15 Import Processed Fruits (by value, 2016)

| | Total Import Value USD917,949,222 | % |
|--------|---|-------|
| 200899 | Fruit & Edible Plant Parts, Prep Etc. Nesoi* | 26.31 |
| 081190 | Fruit & Nuts, Sweetened Etc. Or Not, Frozen Nesoi (incl. mangos, blueberries) | 14.39 |
| 080620 | Grapes, Dried (Including Raisins) | 9.81 |
| 200830 | Citrus Fruit (Including Mixtures), Prep Etc. Nesoi | 8.09 |
| 200870 | Peaches, Prepared Or Preserved, Nesoi | 7.06 |
| 081110 | Strawberries, Uncooked/Cooked By Water, Frozen | 6.05 |
| 200820 | Pineapples, Prepared Or Preserved Nesoi | 4.72 |
| 081320 | Prunes, Dried | 3.80 |
| 081290 | Fruit & Nuts Provisionally Preserved Inedible Nesoi | 3.77 |
| 200897 | Mix Of Fruit/Nut/Plant Parts, Prep/Preserved Nesoi | 3.14 |
| 200880 | Strawberries, Prepared Or Preserved Nesoi | 2.68 |
| 081340 | Fruit, Dried, Nesoi, Ex That Of Heading 0801-0806 | 1.97 |
| 081120 | Raspberries/Blackberries/Etc. Uncooked/Cooked Water Frozen | 1.39 |
| 080420 | Figs, Fresh Or Dried | 1.04 |
| 200840 | Pears, Prepared Or Preserved, Nesoi | 1.02 |

Source: Global Trade Atlas

Nesoi=Not Elsewhere Specified Or Included

Figure 7: Process Fruit Exports to Japan, by HS code (Left from the U.S., Right from the World, by value)



Source: Global Trade Atlas, ATO Osaka

*Data as of 10/2016

4. Import Trends by Category and U.S. Position

Dried Fruit

Market Trends

Japan's overall imports of dried fruit grew 1.0 % to 49,715 MT by volume in 2016 but fell 2.0 % by value. Over the last five years, Japan's total import volume has been steady at about 50,000MT, while the value grew 7.6% to USD 170.6 million. Traditionally, the bakery sector has been the main user. The growing awareness in recent years of the benefits of dried fruit and the impact of foreign food culture, have generated new demand. Some of the biggest users include manufacturers of fruity granola cereal, energy bars, and healthy snacks including trail mix.

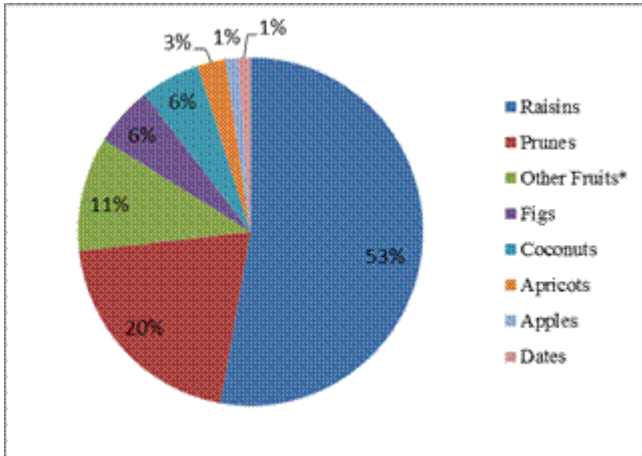
The market for fruity granola, for example, which usually contains a variety of dried fruits including raisins, dried apples and pineapples, grew more than nine times in just six years to 45.3 billion yen in 2016, according to Japan Snack Cereal Foods association. Until recently, granola was not a significant part of the Japanese diet, but it has rapidly become a popular breakfast and snack item. The demand for dried cranberry has also been on the rise. The strong demand for dried-fruit rich granola comes at the expense of other food that Japanese consumers have traditionally had for breakfast, including rice and bread. The brisk new product development carried out by top food manufacturers has been creating demand for an increasing variety of dried fruits, such as mangos and persimmons. As a result, Japan is expanding the variety of dried fruit it imports as reflected in growth in the "others" category. The segment grew 27.9% in 2016 to USD 18.1 million.



Example of “Fruits Granola”: Cranberries are shown ranked as the key ingredient, followed by strawberries, raisins, apples and bananas, according to the labeling of one of the popular fruit granola products. It also promotes its balanced nutritional benefits on the package.

The strong growth in health food sales appears to be offset by the slowing demand from other areas, including the bakery sector, resulting in only modest overall increases in imports of dried fruit.

Figure 8: Japan's Top Imported Dried Fruit by Value (2016, USD170,592,979)



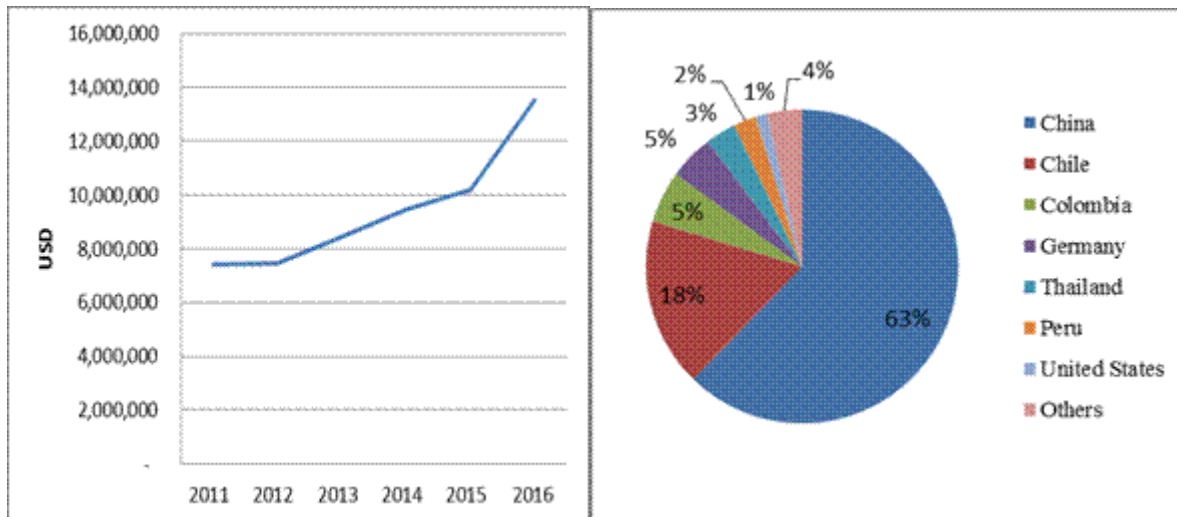
Source: Global Trade Atlas, Dried Fruit

*Other Fruits (HS-081340): Fruit, Dried, Nesoi, Ex That of Heading 0801-0806, including persimmons, berries.

Main Import Items

Japan's imports of dried fruit are concentrated in just a few areas. By value, raisins and prunes account for 73% of total dried fruit imports to Japan, although imports of other fruits have been steadily growing. Demand for figs, dried coconuts, dried apples, cranberries, blueberries, persimmons have grown (i.e. items included in Figure 9) while demand for dried apricots has not.

Figure 9: Other Dried Fruits (by value, 2016)



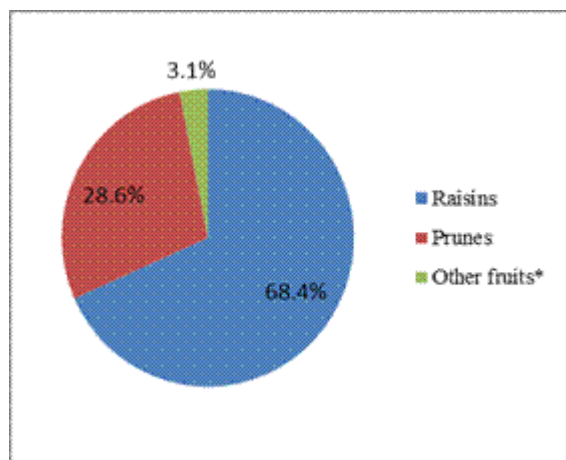
Source: Global Trade Atlas, HS-081340029

U.S. Position

The United States has been the dominant supplier of dried fruit to Japan since it started to export California raisins six decades ago. The U.S. has a market share of over 70% by both volume and value. Other top exporters include Turkey, China and Philippines with 5 to 8% market shares. There are some signs of change, however, as the U.S. market share declined 6.9% in the past five years to 69.4% in 2016, as China and smaller countries steadily expanded their presence.

The U.S. has long been the dominant supplier of raisins and prunes. (Figure 10) Japanese importers have diversified their sourcing for these two items has, however, with a growing presence of varieties from Turkey and Australia.

Figure 10: U.S. Exports of Dried Fruit to Japan by Value (2016, USD118, 397, 802)



Source: Global Trade Atlas

*Figs (1.3%), Apricots (1.2%), Dates (0.4%), Apples (0.2%)

Frozen Fruits

Market Trend

Of all the tree categories of processed fruits, frozen fruit saw the biggest gains over the past decade, with a growth of 5-10% annually. Its versatility and convenience has been behind the growing demand. The improved quality of frozen fruit thanks to innovative technology is also supporting the trend. As a result, more frozen fruit products have been offered at the retail level as an alternative to fresh fruits, including blueberries and mangos.

However, imports hit a peak in 2014 with a volume of 79,095 MT and the value of USD250.3 million. Japan's imports declined 7.9% to 67,646MT and 11.1% to USD 200.4 million in 2016 from the previous year, largely due to declining imports of frozen strawberries.

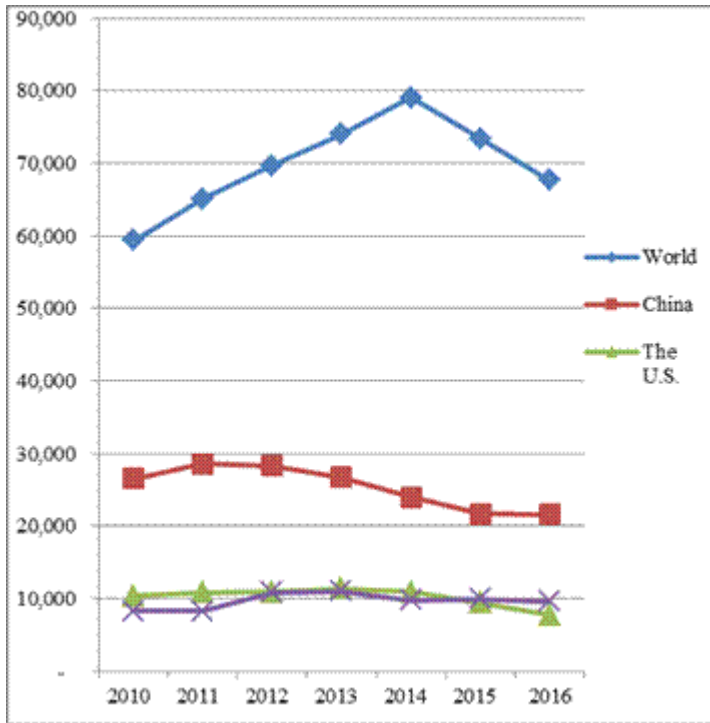
U.S. Position

The U.S. has been among the top three frozen fruit exporters to Japan, following China and vying for the second place with Canada. U.S. exports were fairly steady in recent years, but plunged in 2016 by 19.8% to USD 27.1 million by value and by 18.3% to 7,757 MT, a much larger decline compared with the overall import trend. (Figure 11)

During the same period, Chile, Peru, Egypt and Brazil have made strong gains, led by demand for new items such as mangos and acai berries. Serbia, Morocco and Vietnam have also expanded their presence. Their growth reflects Japanese buyers' active diversification of sourcing for items such as frozen strawberries and blueberries. As a result, the U.S. market share fell from 16.6% to 11.5% by

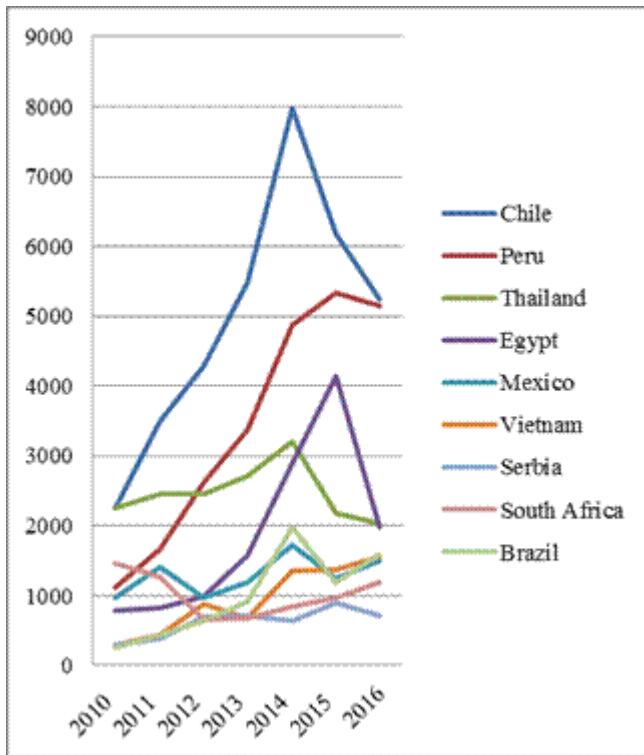
volume and from 20.0% to 13.5% by value over the last five years to 2016. (Figure 12)

Figure 11: Top 3 Frozen Fruit Exporters (by volume, MT)



Source: Global Trade Atlas (Frozen Fruits, MT)

Figure 12: Top 14 Exporters of Frozen Fruits (by volume MT)

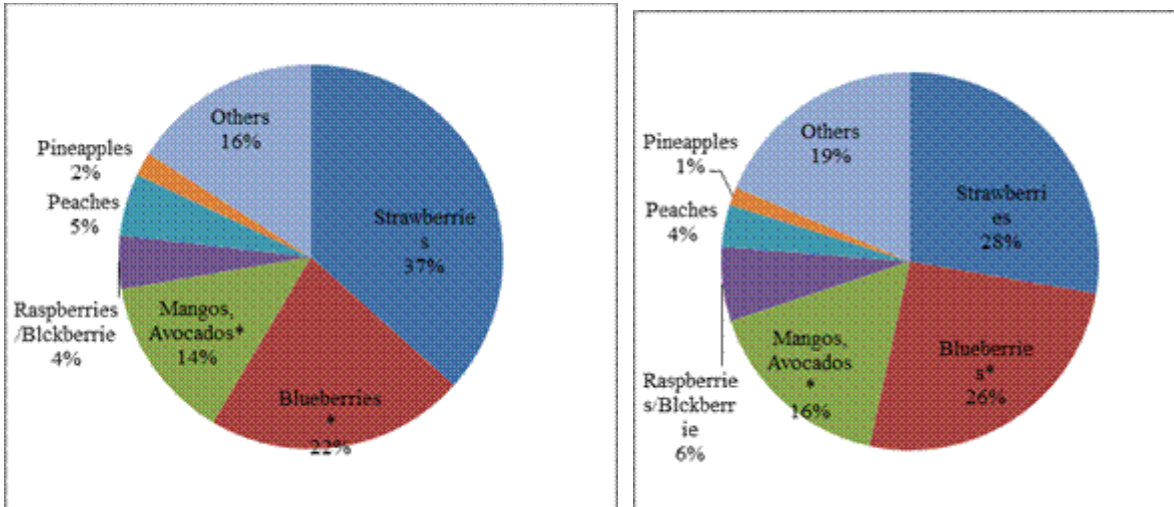


Source: Global Trade Atlas (Frozen Fruits, MT)

Main Import Items

Japan's main frozen imported fruits are strawberries and blueberries. Demand for these berries steadily grew until 2014, when the overall demand began to stagnate. (Figure 11) The competition among berries, which account for over 60% of total frozen fruit imports, has been intensifying. The U.S. market share has been hit especially in berries like blueberries and cranberries. (Figure 16) As for raspberries and blackberries, demand grew nearly 50% to a 3,000 MT level over the past decade. The gain has benefitted mostly emerging exporters such as Serbia and Chile. The U. S. used to be the top exporter of frozen raspberries and blackberries, but was replaced by Chile in 2005 and Serbia in 2015. Meanwhile, another trend has been more diversification of the kinds of frozen fruit items offered, as shown in the growth of the "others" category in the figures below (Figure 14, 081190).

Figure 13: Japan's Main Frozen Fruit Import Items (2016)

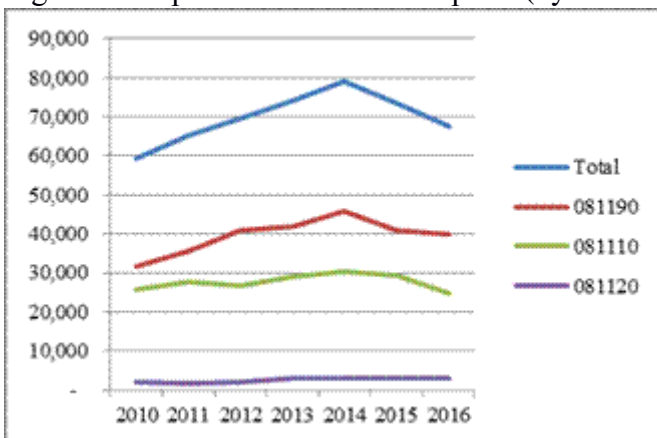


Source: Global Trade Atlas, ATO Osaka

Left) by volume 67,646 MT, Right) by value, USD 200,408,566

*“Blueberries” reflect the sum of HS-081190230 and HS-081190130 and includes frozen cranberries. “Mangos and Avocados” reflect the sum of HS-081190220 and HS-081190120

Figure 14: Japan’s Frozen Fruit Imports (by volume, MT)



Source: Global Trade Atlas, Frozen Fruit, Processed Fruit

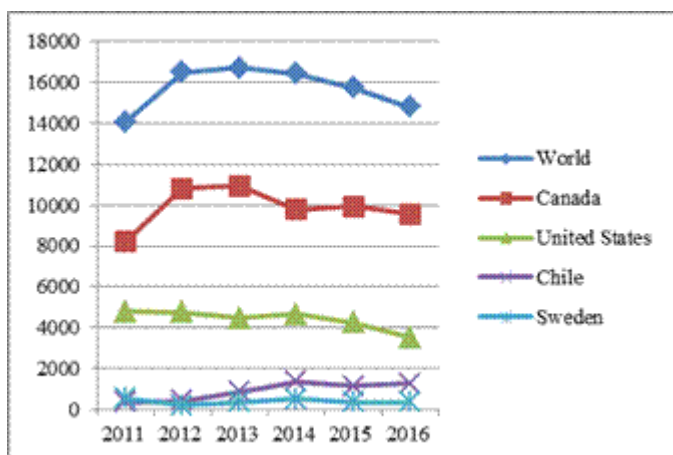
081190: Fruit Nesoi & Nuts, Sweetened Etc. Or Not, Frozen, incl. berries (incl. blueberries,

and excl. berries in HS-081110 & HS-081120, papayas, mangos and avocados

081110 :Strawberries, Uncooked/Cooked By Water, Frozen

081120 :Raspberries/Blackberries/Etc. Uncooked/Cooked Water Frozen

Figure 15: Japan’s Imports of “Berries” incl. Blueberries and Cranberries (HS-081190230, by volume, MT)



Source: Global Trade Atlas, Frozen Fruit, Processed Fruit

Figure 16: Comparison of Blueberry/Cranberry (HS-081190230) Exporters' Market Shares

| | 2011 (%) | 2016 (%) |
|--------|----------|----------|
| Canada | 58.6 | 64.6 |
| U.S. | 34.0 | 23.9 |
| Chile | 2.5 | 8.5 |
| Sweden | 3.9 | 2.5 |

Source: Global Trade Atlas, by volume

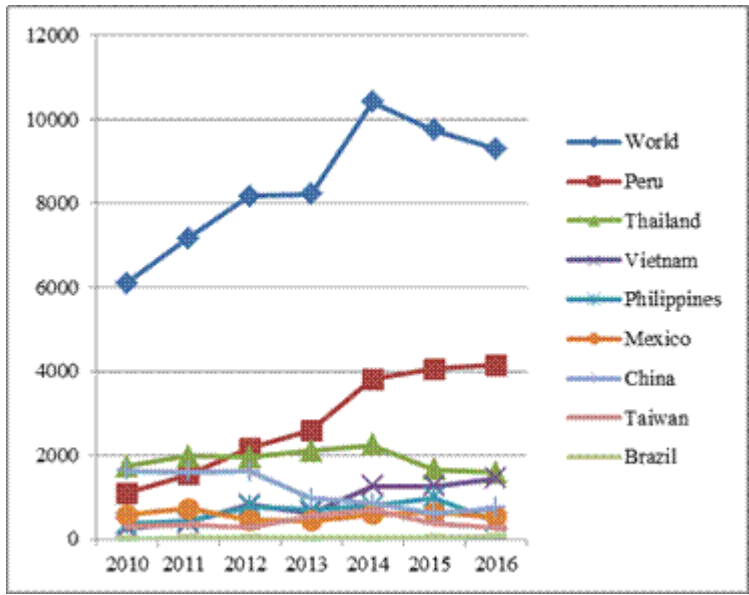
Figure 17: Comparison of Raspberry/Blackberry(HS-081120) Exporters' Market shares

| | 2011 (%) | 2016 (%) |
|-------------|----------|----------|
| Chile | 26.5 | 35.4 |
| Serbia | 16.1 | 20.0 |
| U.S. | 23.1 | 13.4 |
| New Zealand | 10.9 | 16.0 |
| France | 10.6 | 4.2 |
| Denmark | 0.5 | 4.9 |

Source: Global Trade Atlas, by volume

One of the most notable changes seen over the last several years in the frozen fruit sector is the growing import of frozen mangos and avocados. Imports of HS-081190220, which includes these two fruits, grew 52.8 % to 9,310 MT between 2010 and 2016. (Figure 18) Much of that growth was from Peru, which saw exports grow from virtually zero to over 4,000MT in just ten years. Vietnam has also emerged as a significant frozen mango exporter. Apparently, this growth in frozen mango imports comes partly at the expense of Japan's overall fresh mango imports. Over the past five years, Japan's fresh mango import volume fell as much as 43.8%. The contrast between demand for fresh and frozen mangos underscores the current consumer preference for affordable, ready-to-eat and not perishable fruits.

Figure 18: Growth in Imports of Frozen Mangos, Avocados, etc. (HS-081190220)

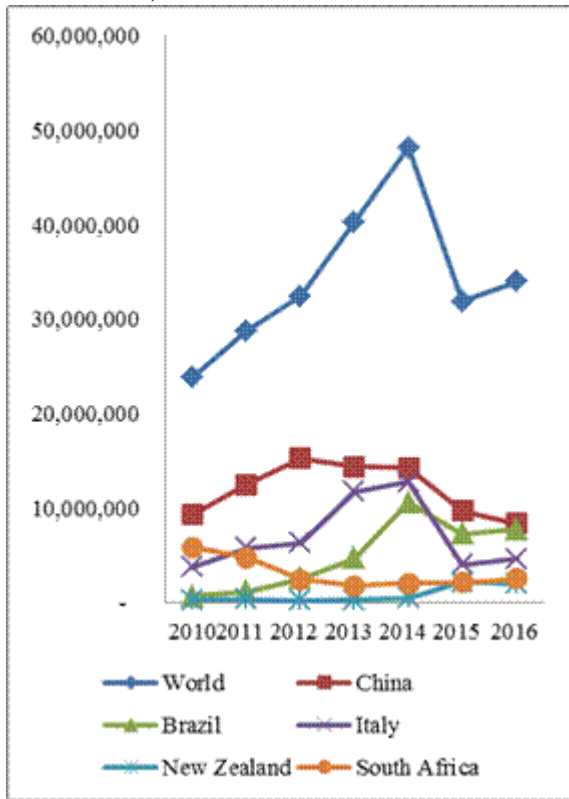


Source: Global Trade Atlas

Similarly, other relatively new kinds of fruits have also expanded their presence in Japan's frozen fruit market. Imports of fruits under HS 081190290 grew much faster than the overall imports of frozen fruit. Based on the data, it appears that frozen acai berries and table grapes drove this demand, replacing other products from countries as China, Italy and South Africa.

Figure 19: Growth in Japanese Imports of Other Frozen Fruit incl. acai and table grapes (HS-

081190290)



Source: Global Trade Atlas

Canned and Other Processed Fruit

Market Trend

Of the three types of imported processed fruits, canned fruit as a group accounts for the biggest share at 59.7% by value in 2016. Japan's overall imports of canned fruit expanded through 2012, when it peaked at USD643.7 million. It has since fell 15.5% to USD546.9 million as of 2016. In terms of volume, the imports are 12.8% below the 2012 peak. Still, the declining trend reversed last year and imports grew 1.9% to 287,600 MT. Because the sector includes a variety of different items in different forms, however, the overall trend alone is not a good measure of the latest import trends of individual items in this category. Some fruits under HS-200899 detailed below, for example, have shown strong growth over the past decade.

U.S. Position

China remains by far the biggest exporter of canned fruit to Japan, with a market share of nearly 55% by value in 2016, and is followed by Thailand (11.8%) and the United States (7.0%). The list of top 10 countries barely changed over the last five years. But during this period, Chinese exports declined the most, with its value down 7.0% to USD299.6 million in 2016.

Despite the decline of overall canned fruit imports in the last five years, smaller export countries including the United States, Mexico, and Brazil have increased their exports.

The U.S. has been the third biggest exporter by value after China and Thailand. Over the past five years, its export grew 15.0% by value to USD38.4 million and 11.7% by volume to 9,026MT despite the overall downward trend. The U.S. market share has stayed within a 7.0 to 7.5% range.

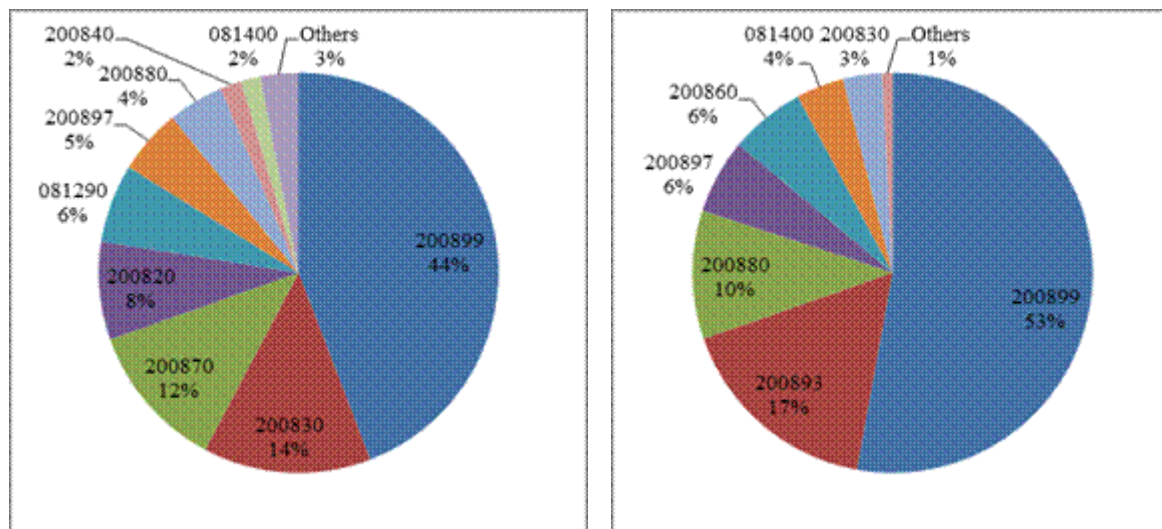
Main Imported Items

While it is difficult to summarize the general trend due to the large number of items in various categories, a few observations can be made: Over the last five years, Japan has seen a steady decline in demand for traditional types of products such as canned mandarins, citrus fruit, peaches and pineapples. These conventional products have been replaced by demand for new items, typically classified under HS-200899. (Figure 20) The group includes canned mangos (from India and Ecuador), processed acai (from Brazil), berries and (processed, packaged) prunes from the U.S. [8]

Some other items have seen growing demand in recent years. One is strawberries (prepared or preserved, HS-200880) and the other is prepared citrus (HS-200830). (See APPENDIX) Meanwhile, the types of citrus from Mexico nearly tripled to USD7.8 million while U.S. exports of canned citrus fell nearly 60% to USD1.2 million over the last five years (please refer to Innovative Products in Chapter V.)

A key factor supporting the growth in this sector is the “Superfood” or “Superfruit” boom, which caught on in the Japanese food industry starting around 2013. Just as in the U.S., superfruits such as acai fruit from South America have become one of the most popular ingredients in the food service and food manufacturing sector. Thanks to their versatility, various forms of acai (frozen, juice, purees and powder) have been imported from Brazil to be used as ingredient in numerous products. Similar growth has been seen in the import of dried coconut, another superfruit. While the boom has slowed somewhat lately, the market is projected to grow 4.8% to 29.2 billion yen in 2016, following a growth of 16.9% in the previous year, according to Fuji Keizai Co., Ltd.

Figure 20: Japan’s Imports of “Canned” fruit from the world (left) and the U.S. (right) by value, 2016



Source: Global Trade Atlas

| | Canned Fruit |
|--------|--|
| 200899 | Fruit & Edible Plant Parts Nesoi, Prep Etc. Nesoi |
| 200830 | Citrus Fruit (Including Mixtures), Prep Etc Nesoi |
| 200870 | Peaches, Prepared Or Preserved, Nesoi |
| 200820 | Pineapples, Prepared Or Preserved Nesoi |
| 081290 | Fruit & Nuts Provisionally Preserved Inedible Neso |
| 200897 | Mix Of Fruit/Nut/Plant Parts, Prep/Preserved Nesoi |
| 200880 | Strawberries, Prepared Or Preserved Nesoi |
| 200840 | Pears, Prepared Or Preserved, Nesoi |
| 081400 | Peel, Citrus Or Melon, Frsh/Frzn/Dried/Provsl Pres |
| 200893 | Cranberries, Prepared Or Preserved, Nesoi |
| 200860 | Cherries, Prepared Or Preserved, Nesoi |
| 081400 | Peel, Citrus Or Melon, Frsh/Frzn/Dried/Provsl Pres |

The competitive picture for U.S. suppliers varies widely from one item to another. For the U.S., the main export items by value include berries and prune products 200899 (53%), followed by cranberries (17%), strawberries (10%), mixed fruit (6%) cherries (6%), citrus peel (4%), and citrus fruit (3%).

Some of the notable changes, though relatively small in size by comparison, include a growth in export of canned cranberries by 28.3% since the HS code was allocated to the category in 2012, to USD6.4 million. Additionally, U.S. exports of citrus peel have been on the rise, in part reflecting the current popularity of lemon flavored items, although other lower-cost countries appear to have benefited more.

IV. Implications for U.S. Suppliers

The latest developments described in this report represent a renewed opportunity for U.S. exporters of processed fruits. Because these trends mirror those in the United States, U.S. suppliers already have a wide range of products to offer. In addition, the growing influence and popularity of the U.S. food culture, resulting from an uptick in the number of successful U.S. restaurants and cafes entering Japan in recent years, is creating an environment increasingly favorable for U.S. suppliers to expand. Moreover, many of Japan's leading food companies look to America for the latest healthy eating trends, and try to develop new products or recipes in line with those that are successful in the United States first. The slight decline in the U.S. market share of the processed fruit sector by value (from over 23.0% to below 20.0% in the past six years) however, suggests U.S. companies are facing growing challenges in the Japanese market.

Challenges

Price

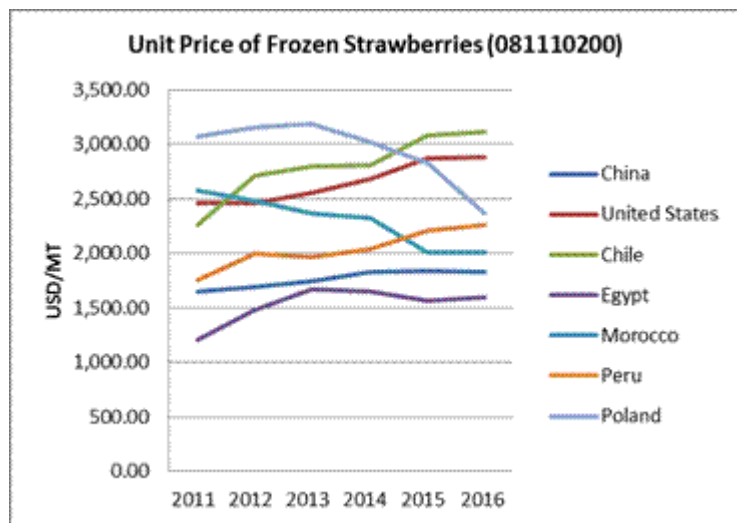
One of the main difficulties for all suppliers to Japan is meeting the need of Japanese buyers for high quality products at competitive prices. The prolonged slow-growth and lack of inflation in Japan has made it extremely difficult for food companies to raise retail prices, regardless of higher input costs. That has driven Japanese buyers to try to diversify their supply sources in pursuit of cheaper and yet still high-quality products. As a result, third party competition for the U.S. has become more severe, and has been seen in areas that the U.S. has long dominated.

The segment where such a competitive picture has been most evident is in frozen fruit. Responding to the shifting demand patterns as described in Chapter II, the market has shown robust growth. Imports grew 23.7% by volume and 52.8% by value over the last five years to 2016. And yet, the beneficiaries are largely emerging countries such as Egypt and Morocco. As Figure 21 shows, the gap in frozen

strawberry prices between the U.S. and its competitors is evident. Similar gaps in prices are seen in frozen raspberries. (Figure 23) U.S. prices for “other berries” (HS-081190230) including blueberries and cranberries, however, seem to still be competitive in terms of price. (Figure 22)

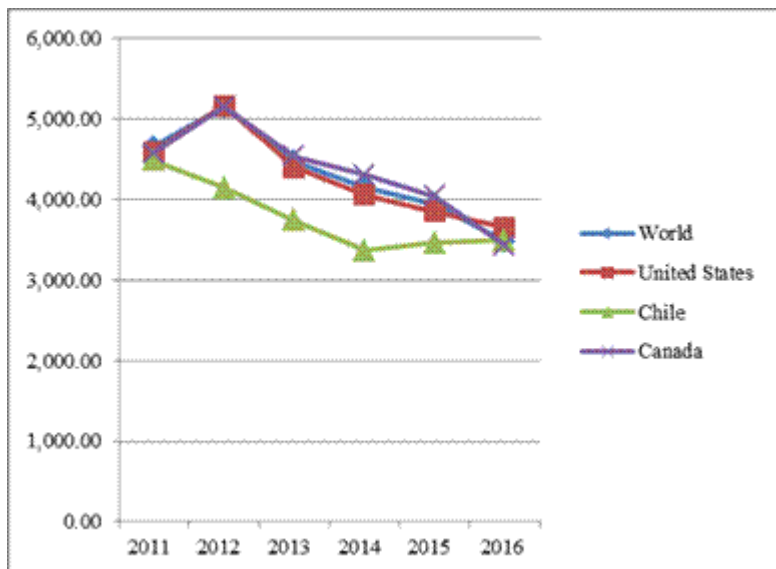
Additionally, the Economic Partnership Agreements (EPA) Japan has bilaterally formed over the past two decades with at least 15 countries and one association (ASEAN) add to the U.S. disadvantage regarding prices. These EPAs offer partner countries preferential tariff rates on their exports, which are lower than those WTO member countries are subject to. Many of Japan’s EPA partners including Mexico, Thailand Chile, Peru and Australia, are exporters of fruits and processed fruits, and can benefit from the preferential treatment. While the U.S. does not necessarily compete with those countries in the Southern Hemisphere in the case of fresh fruits, it does in the case of non-perishable processed and frozen fruit.

Figure 21: Comparison of Unit Price From Top Exporters (Strawberries, HS-081110200)



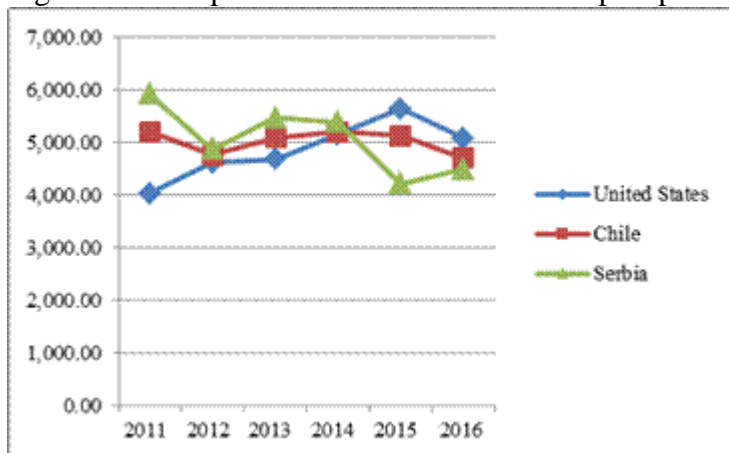
Source: Global Trade Atlas

Figure 22: Comparison of Unit Price From Top Exporters (“Berries” HS-081190230)



Source: Global Trade Atlas

Figure 23: Comparison of Unit Price From Top Exporters (Raspberries, Blackberries HS-081120)



Source: Global Trade Atlas

Flexibility

In addition to the cost of the fruit, other issues can also be crucial in helping exporters get a contract. The ability to meet the specifications required by Japanese buyers is one of these issues. For example, a Japanese importer was recently looking for dried cranberries on behalf of a confectionary maker and contacted two potential suppliers, from the U.S. and Canada. In the end, the buyer opted for a Canadian supplier, whose cranberries could be sliced closer to the customers’ specification. The U.S. company did not offer the type of cut needed by the buyer. The importer said that the U.S. company’s sample was as good or even better in terms of the product’s color and taste, but that processing was the deciding factor.

Similarly, rigorous specifications that Japanese buyers are known for can also get in the way of some sales. Japanese companies often require strict consistency in terms of product size, and how a low tolerance for inclusion of any foreign material such as tiny pieces of stems or pits. The willingness of some U.S. competitors to use manual labor to make sure their products are free of any foreign objects is often difficult to match for U.S. suppliers. These requests are often too costly to meet, especially in light of the size of each order.

These issues are especially important to customers of various frozen berries. It is often the emerging countries who can more readily cater to demanding Japanese requirements. A U.S. supplier of frozen strawberries recently lost an export opportunity to an Egyptian company for that very reason, according to an importer. The anecdote illustrates the changing competitive picture in Japan's import market and what determines who gets a contract. Because end users in Japan such as retailers and food service buyers remain highly strict in their demands for product quality and standards, Japanese buyers are unlikely to reduce their level of scrutiny in the foreseeable future.

The zero tolerance for foreign matter can also pose as a barrier for growth for key U.S. export items, such as dried, frozen and canned cherries. Importers have pointed out that many end users will remain hesitant to use more of these types of items in their products in general, due to fear about potential public safety scandals or complaints that could result from any accidental inclusion of foreign matter.

Consumer Preference

Consumers' preference for sweeter fruits in Japan has only gotten more prevalent, and this can also be a disadvantage for U.S. products, depending on the end use. Japanese buyers point out that many of the fruits which the U.S. produces are not as sweet as other fruits. This is especially evident in the case of frozen mangos, which are naturally very sweet compared even to sweet fruits such as blueberries and raspberries. It is worth noting that the comments section of a popular online frozen fruit shop reveals that shoppers are enjoying "very sweet" frozen mangos they had just purchased online. Conversely, these shoppers can be very brutal in their comments when the fruit they purchased is not as sweet as they had expected.)

Opportunities

Despite these challenges, the latest developments in Japan's processed fruit market still offers opportunities for U.S. suppliers. Based on extensive interviews with importers, the following issues emerged as some the most critical factors for U.S. suppliers to consider.

Differentiation

For U.S. suppliers, many of which have already been in Japan for years, one key issue that needs to be tackled for further expansion is differentiation. While eager to seek low-cost ingredients, Japanese buyers are also just as eager to find something unique that would help differentiate their products from their competitors'. Determining how to differentiate their products and what specific values to promote will be critical for U.S. suppliers.

Buyers are looking for indications that a product is so distinct that their customers are willing to pay more for it. Therefore, additional product information tends to boost the perceived product quality. The kinds of information that can help included geographic (regional) identification or branding, naming the specific variety (the less common sounding, the better), and offering an outstanding texture.

These kinds of details matter and could help refresh the image of U.S. fruits products, as Japanese buyers tend to think “everything the U.S. has to offer already exists (have been imported) in Japan” for years. They tend to get tempted by products that are new to Japan or existing products with new characteristics.

Furthermore, providing these valuable details or features about otherwise generic products could help motivate Japanese buyers and manufacturers to consider developing a new product to differentiate something from a similar though non-descript products. For example, a recent surge in imports of frozen mangos from Peru, promoted as “Apple Mango” to differentiate it from other varieties, underscores that focusing on differentiation is a key to success in the Japanese market.

Food service operators also covet such unique products or brands to use as ingredients to gain attention or renewed interest from customers and the media. This tendency is especially evident in the Japanese online market, which has become increasingly bi-polarized between bulk (generic) items and premium or niche items. Some of the most popular dried fruits sold on leading online stores, for example, are typically found only on certain online shops and their affiliated physical shops. Reflecting the prevailing consumer trend toward things “natural”, popular products tend to be region or grower-specific, organic, free of added cooking oil or salt, etc.).

Differentiation can also be about the taste and the technology used. One of the most successful examples is innovative fruit cups produced in Mexico, containing peeled cut grapefruit in light syrup, introduced to Japan in 2015. The innovative technology allowed the fruit to be processed and packaged without heat, enabling its taste to remain as good as fresh product. The product instantly caught the attention of some foodies, and won a new product award during the 2015 FOODEX trade show. Innovative processing technology can also be about improving convenience. For example, a Spanish frozen fruit exporter recently made inroads into Japan by introducing innovative non-drip frozen fruits including strawberries. They advertise that the product can be used for baked goods without worry.

Traceability

Traceability is another issue that has become increasingly critical for Japanese buyers, especially when considering which foreign suppliers to work with. Japanese distributors typically ask for “traceability” in an effort to take extra precautions against risks related to food safety issues. At a time when social media can spread bad news, such as product recalls, in an instant, buyers have become even more cautious.

U.S. exporters in general are thought by Japanese traders to be less willing to disclose additional traceability information compared with their peers from other countries. “We are not asking (our exporters) for every kind of information” about their growers, says a processed fruit importer. Sharing with the importer even partial information, such as a list of which farms a company’s products might come from, or something that would indicate that an exporter has a system of tracking shipped products

in place, will help the prospect tremendously, he says. Accordingly, the inability to meet this type of buyers' request for traceability will likely place U.S. suppliers at a disadvantage over their competitors. There has been a noticeable trend toward adding the phrase "sourced from our contract farms" on retail packages to promote the idea of traceability to consumers.

Alternatively, those suppliers who can identify their growers would be in better position to gain a contract, even with some of Japan's most rigid buyers. For example, Japanese Consumers' Co-operative Union (JCCU), one of Japan's biggest retailer/private brand manufacturers known for its focus on produced-in-Japan products, buys frozen blueberries from a farm in Washington State and repacks them under their CO-OP brand. On their website, the U.S. product is introduced as a popular product, with a note "[the product] comes from our designated farm in Washington State," identifying even the name of the grower while explaining how the fruit gets immediately frozen (IQF) at the facility located within the farm. Japanese consumers really value this kind of information and like to know where their food comes from.

Lack of awareness

The rapid growth in the use of acai and other "superfruits" and "superfoods" from South America as ingredients underscores that there is great potential for U.S. processed fruits that are associated with health and beauty benefits to grow in Japan. The long running "nuts boom", which has boosted demand for U.S. export of tree nuts drastically and steadily in recent years, suggests the extent of potential demand in Japan for those foods that are associated with health and beauty.

And yet, U.S. exports to Japan of processed fruits that are well-known in the U.S. to be associated with health and beauty, such as dried fruit, do not seem to be benefitting as much from the latest boom. Rather, the Japanese food industry has almost exclusively focused on acai fruit and golden or maqui berries to develop new products. Although Japanese consumers and the food industry are famously known for their fondness for rare items, the U.S. food industry has long characterized blueberries, cranberries, pomegranates and a variety of dried fruits as "superfruits", and U.S. consumers are looking to them not just for their nutritious benefit but also for their association of beauty, backed by ample scientific research.

There appears to be room for growth by addressing the lack of awareness of the benefits of these products in Japan. Multiple interviews with Japanese food makers and food service operators as well as importers indicate that they are not fully aware of the latest health and functional benefits reported in the U.S. of U.S.-grown fruits. The interviews also point to limited awareness of their versatile applications as ingredients. In other words, despite the widespread information about U.S. fruits available in the United States, the image of U.S. fruits in Japan, including blueberries and raspberries, tends to be "dated" or "not exotic enough" to get Japanese consumers excited. U.S. processed fruits can be highly convenient and trendy ingredients for various types of industrial uses, but U.S. associations need to find a way to get users excited about them again, perhaps through campaigns to reacquaint the market with their health and beauty benefits such as high polyphenol levels, dietary fibers, etc., which are all currently coveted in Japan.

Visits to several major trade shows in Tokyo in 2017 suggest there are plenty of potential opportunities for U.S. suppliers of processed fruits with those benefits. Signs are that the market will

continue to focus on foods that are health and beauty-oriented. Moreover, the market focus seems to be moving beyond “superfoods” and “acai” to include more diverse fruit ingredients, such as products focusing on “red and purple” fruits. At Foodex 2017, for example, some of the high-profile “Beauty Food Awards” were given to a vinegar drink featuring pomegranate, and a liquid yogurt containing four varieties of red and purple berries. A pomegranate-flavored fruit vinegar sold as a healthy tonic won the top award.

Value-Added Ingredients

Lastly, the latest growth in popularity of functional snacks and confectionary offers a great potential to U.S. suppliers of processed fruit. Until now, U.S. dried fruits have mostly been recognized and offered to end users in Japan as they are. However finally in Japan, these new lines of snack foods are creating a potential for processed fruit to be marketed as value-added functional ingredients.

As the data below shows (Figure 24), the “wellness” food market has been a bright spot in the otherwise stagnant food manufacturing industry in Japan. Wellness foods include products that contain dietary fiber, minerals, vitamins, etc., as well as products that are high in polyphenols and contain no additives. These are the benefits that many of the U.S. processed fruits, especially dried fruits, can offer.

The growth in the wellness segment has been so strong that some of the leading snack and confectionary manufacturers including Calbee, Morinaga, and Glico have reported record profits resulting from a series of successful launches of snacks and chocolates featuring health benefits and specific functions, such as those (companies claim) helping suppress the absorption of ingested sugars and fat.

In addition, the Japanese market has seen a surge in products that contain “less carbohydrate” and “less sugar” lately. These are the features that can be achieved by using (processed) dried fruits as substitutes. This category, which was started with alcohol and soft drinks, has now been rapidly expanding to include a whole variety of other types of foods.

However, the higher cost of dried fruits as alternative ingredients relative to those currently used in Japan would be a crucial constraint that needs to be overcome. Higher tariffs, typically applied to more processed fruits, can be prohibitive. Still, the “wellness” market where suppliers compete not just on prices, but also on value, offers an emerging opportunity for U.S. suppliers to promote value-added processed fruit products.

Figure 24: The “Wellness” Market Value and Growth by the Functional Ingredient

| Ingredients | 2015 (Yen Millions) | 2015 Growth | 2016 (Yen Millions) | Growth (Est.) | Examples |
|------------------------|---------------------|-------------|---------------------|---------------|------------------------------------|
| Dietary Fiber | 90,080 | 106.3% | 102,170 | 113.4% | cereals, cookies |
| Mineral | 175,060 | 114.7% | 192,790 | 110.1% | cereals |
| Vitamin | 268,740 | 101.9% | 289,230 | 107.6% | cereals, juice |
| No Additives | 98,120 | 105.8% | 98,290 | 100.2% | Japanese wines, and other beverage |
| Polyphenol | 9,550* | 83.5%* | 9,530 | 99.8% | high-cacao chocolates |
| "Wellness" Foods Total | 2,354,580 | 103.9% | 2,417,310 | 102.7% | |

Source: Fuji Keizai Co., Ltd. , Future Perspective of Health & Wellness Food Market 2016

*The market grew from 4,540 million yen in 2012.

V. POTENTIAL FRUIT PRODUCTS BY TARGET SECTOR

Retail Sector

| Item | Market Trend | Potential products |
|------------------------------------|--|---|
| Frozen fruit for the retail market | <p>The retail frozen fruit market, including store-branded products, presents opportunities for U.S. suppliers of processed fruits that can offer affordable and unique features. This type of retail products has been around, but the market has been reinvigorated as consumers rediscover their convenience, high-quality and advantage of “no added sugar” as an alternative to desserts. The current yogurt and smoothie boom are also supporting this trend.</p> <p>While the market growth in this area seems to have peaked in 2014, retailers, especially convenience stores, continue to tap into the potential demand. Package design renewals/updates have also been seen. Standard products include a 100-130g bag (offered at around \$2) of frozen blueberries, strawberries, and (apple) mangos, and berry mix.</p> | <p>The kinds of frozen fruit that is not already available (including different varieties or region-specific products) would have potential. The recent addition of frozen (IQF) table grapes (from Chile) to the regular 7-Eleven convenience store brand suggests there is room for new items or a new mix or region-specific product, if it has a unique appeal. Product developers look for characteristics they can highlight on the retail package as in “blueberries grown in the foot of Andes.” (See "Differentiation" in Chapter III.)</p> <p>Constraint: A main constraint will be the stringent requirements the convenience store operators tend to require, in addition to the cost.</p> |
| Dried fruit for e-commerce | <p>E-Commerce has been the fastest growth segment in the retail sector in Japan. The market grew 7.6% in 2015 compared with the previous year. Though still accounting for just 4.75% of all the sales, the sector is projected to grow at a similarly fast pace in the coming year. Of all categories, the food section has shown some of the most growth. According to Rakuten, one of the leading online marketplace operators, food sales grew as much as 10.1% in 2015.</p> | <p>The sector presents great potential for U.S. suppliers who can offer processed fruits with unique features or niche products that are difficult to find in mainstream stores. While online shops are fiercely competing on prices, they are also seeking to offer an extensive selection of products that are not so readily available at physical stores, with their limited shelf space. Dried fruit of all kinds are thriving in this sector. Information such as why the product is rare, why it is a premium product, or a story behind where the quality comes from is often used to promote these products online, and can help to motivate shoppers to click on the purchase button. Lists of the most popular dried fruits offered on popular marketplaces are dominated by dried fruits with unique varieties or region-specified (e.g. Mohave raisins, premium apricots from Hollister, California) and features like “no additives”, “no added cooking oil”. (See “Differentiation” in Chapter III.) Organic dried fruits are often found on top of the list of best-selling products.</p> <p>Constraints: Potential constraints include the need to be flexible enough to deal with relatively small orders.</p> |
| Innovative fruit cups | <p>While demand for ready-to-eat fruit, such as fresh-cut fruit, has been strong, packaged fruit with a</p> | <p>U.S. suppliers who can offer similar quality delicious processed individually packaged</p> |

| | | |
|--|--|--|
| | <p>longer shelf-life has also been gaining popularity.</p> <p>Sales of fruit cups of all varieties grew rapidly in recent years thanks to their convenience and affordability. Yet, growth has been stalled due partly to the higher sugar content and heat treatment, which affected the quality. A fruit cup product which addressed these setbacks and improved the taste of the processed fruit became a hit product.</p> <p>Similarly, a shelf-stable fruit pack containing cut fruit in fruit juice instead of syrup, and offered at reasonable prices, is also gaining attention.</p> | <p>products, which are additive-free, sugar-free or less-sugar, non-perishable and reasonably-priced, will have opportunity.</p> |
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Food Service Sector

| Item | Market Trend | Potential products |
|--|---|---|
| Processed fruit suitable for seasonal promotions | The food service sector, including restaurant chains and hotels, periodically conduct promotional “fairs” featuring a variety of desserts using fruits in season to attract new customers, e.g. “Strawberry Fair” and “Mango Fair”. Region-branded strawberries have been the most popular fruit used. Locally-grown fresh fruits are always seen as ideal, but they are not available year-round nor are they cost-competitive. Thus, potential demand for imported and/processed fruit exists, especially when local seasonal fruits are in short supply. | Versatile fruit and fruit ingredients, especially those tailored for making desserts and currently popular in the U.S., would have potential. Constraint: Key to growth is to introduce ready-to-use fruit applications that have a record of success in the U.S. |
| Desserts associated with health and beauty | The sustained success of acai fruit as well as “superfoods” in penetrating the Japanese food service market indicates continued potential demand for ingredients associated with health and beauty. | Fresh and processed fruits that are high in polyphenols and vitamins, such as blueberries, blackberries, cranberries, and pomegranates have potential. Constraint: Lack of awareness of berries as a functional "superfruit" that is high in polyphenols. Key to growth is to introduce applications that have records of success in the U.S. along with information that supports their status as a superfood. |
| "Real" fruit in beverages | Consumers’ growing interest in convenient fruits has boosted the popularity of dessert drinks offered at various café chains. A series of Frappuccino drinks featuring "real fruits", for example, has become a hit at Starbucks. Other coffee chains have also offered various fruit-themed drinks. Fruits used so far include cantaloupe, nectarines, citrus fruit, strawberries, bananas and cherries. Generally the cafes alternate the fruits they use every few months. | Fruit and fruit ingredients that are affordable and easy to use, with good texture and unique characteristics would have potential. Constraint: Suppliers from low-cost emerging countries have made inroads in this market in recent years. U.S. suppliers need to compete either on basis of a unique quality or by offering products that are not readily available from competitors to avoid competing on price alone. |
| Ingredients from American | One of the distinct trends in Japan is the growing influence of American-style holidays, including Christmas, Halloween and Easter, on the | Ingredients used for holiday-themed dishes have potential. Growing U.S. exports of canned cranberries, for example, may be a sign of such |

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| holidays | Japanese food sector broadly. Restaurants and cafes, among others, increasingly offer holiday menus popular in the U.S. Turkey consumption, for example, has been on the rise after years of slow demand. | potential. Other ingredients such as pie fillings associated with American holidays also have potential. |
|----------|---|--|

Food Manufacturing

| Item | Market Trend | Potential products |
|-------------------------------|---|---|
| “Fruit” granola | This segment has grown more than four times over the past decade, and in the process boosted demand for various kinds of dried fruits, especially raisins. Scores of innovative products have been developed by leading Japanese food manufacturers, such as those that feature “more” and “chunky” fruits, which has helped sustain the popularity and expand the market. Low-carbohydrate options have also been introduced, thus creating new demand. The trend is expected to continue. | <p>Fruit granola makers regularly renew their products by modifying ingredients. The trend is toward emphasizing unique functional benefits of each ingredient e.g. minerals, dietary fiber and calcium.</p> <p>While the standard items such as raisins, dried apples, strawberries and pineapples seem to be here to stay, manufacturers are adding additional unique ingredients and those with functional benefits.</p> <p>U.S. suppliers who can offer affordable dried fruits (glycerin-coated) with distinct health benefits or an association with beauty, such as blueberries and cranberries, have opportunities to be used more. Constraint: Given the intense competition for market share among the top manufacturers, cost will continue to be a main factor in companies deciding which new ingredients to use.</p> |
| Smoothies & premium juice | While demand for single-fruit juice has declined in recent years, demand for premium vegetable juice mixes and smoothies have been rising. Leading beverage makers have been introducing a variety of new and innovative products in rapid succession, and the variety of products available continues to expand. Lawson-branded green smoothies, which include some fruits, have sold over 87 million units as of February this year. Until recently, acai mixes led as the top ingredient in these new kinds of juices, but the market has since diversified to include other berries and pomegranates. The continued popularity of some of these products suggests consumers are willing to pay more for premium juice mixes if they are convinced of the health benefits. | While Japanese beverage makers try to source ingredients from Japan, the supply is not sufficient. The growth in this segment and demand for new varieties of ingredients offers opportunities for U.S. suppliers of juice ingredients. Potential demand exists for various forms of fruit ingredients suitable for vegetable-fruit mix juices and smoothies. Potential ingredients include those that are high in polyphenols, dietary fiber, and calcium. High quality texture (of the pulp) and functional benefits are essential factors for potential new ingredients. Demand in this segment for kale and beetroots as an ingredient is also on the rise. Constraint: For premium beverages, Japanese companies prefer domestic supply when available. |
| Healthy snacks and chocolates | Healthy snacks have been one of the few bright spots in the Japanese food manufacturing industry. Led by the industry giants including Ezaki Glico, Calbee, Meiji and Morinaga, | Despite having a multitude of functional benefits including vitamins, minerals, and dietary fiber, the use of dried fruits as a source for functional ingredients has been limited. With increased |

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|---------------------|---|--|
| | <p>Japanese companies have been extremely innovative in their product development activities. Healthy snacks sales have grown 29.1% over the last four years, while the overall snack market remains flat. This trend is projected to continue. Among the most popular healthy snacks, growth for products containing chocolate is estimated at 21.4% in 2016, according to Fuji Keizai Co. Products combining cacao with functional ingredients have been gaining popularity recently, especially among adults, who are attracted to the anti-aging benefits of the ingredients. Some popular products are chocolates containing lactic acid bacteria and fiber. Other health-oriented characteristics, seen in popular snacks include claims of “low-carbohydrate” and “less-sugar”. They often use nuts and bran as ingredients in place of wheat. There has also been an increase in the use of dextrin as dietary fiber in snacks, even in ice cream and beverages (See Image below)</p> | <p>awareness of their benefits and applications, dried fruits could take advantage of this trend. In the same vein, despite a growing demand for “free of additive” products and “natural” ingredients, there has been limited use of dried fruits as a substitute for sugar and artificial coloring. Constraint: Dried fruits are more costly than some existing alternative ingredients.</p> |
| Convenience dessert | <p>The convenient fresh dessert market, developed and offered by convenience store chains such as 7-Eleven and LAWSON, has been a growth area in the dessert market. The market grew 3.8% in 2014 to 479 billion yen, while the overall dessert market remained flat. Convenience stores have come to account for 22.4% of the total dessert market by sales value. Up to now, the use of fruit in this category has been limited, and the few that do use fruit tend to use locally-grown fruit, including fresh strawberries.</p> | <p>Convenient dessert makers are always looking for new ideas to differentiate themselves from their competitors. U.S. suppliers of fruit ingredients will have opportunities if they can offer unique applications and dessert recommendations that can appeal to Japanese consumers, as part of their ingredient marketing strategies.</p> |
| High-end dessert | <p>Japan’s high-end fresh dessert market (worth \$1 billion) has been occupied mainly by independent confectionary shops located across Japan. It is these outlets who use premium (mostly locally-grown) fresh fruit, and increasingly organic ingredients including imported frozen and dried fruit.</p> | <p>Given the slow but steadily emerging interest among Japanese consumers in organic foods, U.S. suppliers of organic and other value-added fruit ingredients will have opportunities.</p> |
| Citrus products | <p>Japan’s “Lemon boom”, which started with a hand-made seasoning made of locally-grown fresh lemons, continues to stimulate the food manufacturing industry. Thanks to its vitamin C content and association with beauty, the lemon has increasingly been used as a key ingredient of various products, including beverages. A variety of alcohol drinks containing “real” citrus have also been introduced in recent years, promoting the use of citrus pulp and peel as ingredients. While the boom has been boosted by products that use locally-grown lemons, demand for citrus ingredients including juice, pulp, and peel have also been on the rise.</p> | <p>The Japanese food industry is continuing to develop new products using various forms of citrus ingredients including the juice, pulp and peel, in dried, frozen, and fresh forms. U.S. suppliers of processed citrus that are versatile or suitable for beverages and lemon-featured snacks have good potential, as a complement to local suppliers. Constraint: The cost remains a key factor.</p> |

| | |
|--|--|
| Japan's imports of citrus or melon peel grew 20.7% over the last five years. | |
|--|--|



“Berry mix” or “Triple berries” is one of the themes increasingly seen in snacks and beverages that have recently been introduced to the market, including chocolates, ice cream, smoothies and light alcohol drinks, pictured above.

VI. HOW TO ENTER THE MARKET

The Japanese distribution system is complex. Strategies for entering the Japanese market will vary depending on product characteristics, degree of competition, and the market environment. Typically, end users including retailers, food service operators, food processors and manufacturers buy ingredients from wholesalers, who procure them from importers. As an exporter, your point of contact is most likely to be Japanese importers.

However, as we have described above, the Japanese food market structure has been changing. Therefore, we also recommend trying to develop relationships with retailers, distributors, food processors and manufacturers including their product developers and nutritionists, who are having an increasing say in determining what ingredients to use. We also recommend bringing resources to educate these contacts about the unique features of your products and their various applications. If your goal is to promote your products as an ingredient, it is essential to provide details about the benefits of using your product compared to alternative ingredients. These benefits could relate to factors such as cost savings, enhanced product attributes, or some unique characteristic to create incentives for companies to consider your product.

The best way to find buyers and other contacts in Japan is to attend trade shows such as FOODEX, Supermarket Trade Show, and/or the Food and Beverage Expo (FABEX). This is also a good way to meet people in the food industry and learn about the latest trends in Japan. Sending e-mails or trying to “cold call” buyers using buyer’s lists is often not effective, due to the high level of competition in Japan and the preference for face-to-face contact.

IV: USDA CONTACTS

If you have any questions or comments regarding this report, please contact the U.S. Agricultural Trade Offices in Tokyo or Osaka at the following addresses:

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APPENDIX:

All data below is sourced from the Global Trade Atlas

Processed Fruit Imports to Japan from the World and the United States, by item (Source: Global Trade Atlas)

| Category | HS-Codes |
|-----------------|---|
| Canned & Others | 081210, 081220, 081290, 081400, 200820, 200830, 200840, 200850, 200860, 200870, 200880, 200893, 200897, 200897, 200899, |
| Frozen | 081110, 081120, 081190 |
| Dried | 080110, 080111, 081112, 081119, 080410, 080420, 080620, |

| Japan Import Statistics From World Commodity: _Processed Fruit Total 2012, Year To Date: January – December | | | | | | | | |
|---|---|-----------------------|---------------|-------------|-------------|-------------|-------------|-----------------------|
| Commodity | Description | United States Dollars | | | | | | % Change 2016/2015 |
| | | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | |
| | Total | 924,273,092 | 1,044,615,605 | 991,870,961 | 986,568,232 | 943,186,499 | 918,192,072 | -2.68 |
| 200899 | Fruit & Edible Plant Parts Nesoi, Prep Etc. Nesoi | 266,637,201 | 284,158,221 | 270,472,072 | 272,975,012 | 259,206,076 | 241,552,012 | -6.81 |
| 081190 | Fruit Nesoi & Nuts, Sweetened Etc Or Not, Frozen | 127,137,018 | 160,377,866 | 160,524,204 | 168,334,849 | 146,505,709 | 132,127,283 | -9.81 |
| 080620 | Grapes, Dried (Including Raisins) | 90,293,034 | 94,217,619 | 95,798,920 | 87,853,587 | 93,452,622 | 90,066,133 | -3.62 |
| 200830 | Citrus Fruit (Including Mixtures), Prep Etc Nesoi | 89,357,014 | 99,080,956 | 78,786,519 | 67,046,820 | 66,661,147 | 74,255,479 | 11.39 |

| | | | | | | | | |
|--------|--|----------------|------------|----------------|----------------|----------------|----------------|--------|
| 200870 | Peaches, Prepared Or Preserved, Nesoi | 82,445,13 2 | 89,428,612 | 75,073,36 2 | 71,862,79 8 | 67,353,00 5 | 64,831,36 2 | -3.74 |
| 081110 | Strawberries, Uncooked/Cooked By Water, Frozen | 53,476,44 6 | 55,251,370 | 62,297,04 3 | 67,786,49 9 | 64,676,69 1 | 55,794,67 3 | -14.09 |
| 200820 | Pineapples, Prepared Or Preserved Nesoi | 52,341,25 7 | 47,695,165 | 39,870,91 5 | 39,867,33 9 | 39,632,76 0 | 43,371,08 2 | 9.43 |
| 081320 | Prunes, Dried | 36,384,49 8 | 41,192,051 | 36,496,97 8 | 34,044,86 4 | 35,410,41 7 | 34,847,81 7 | -1.59 |
| 081290 | Fruit & Nuts Provisionally Preserved Inedible Nesoi | 44,395,02 7 | 38,999,484 | 36,880,23 6 | 31,896,26 1 | 27,131,34 2 | 34,615,26 3 | 27.58 |
| 200897 | Mix Of Fruit/Nut/Plant Parts, Prep/Preserved Nesoi | - | 32,747,888 | 33,242,83 5 | 32,374,97 6 | 26,959,00 2 | 28,824,35 5 | 6.89 |
| 200880 | Strawberries, Prepared Or Preserved Nesoi | 11,429,35 9 | 14,973,837 | 16,932,07 3 | 19,657,11 0 | 21,631,28 7 | 24,600,12 7 | 13.72 |
| 081340 | Fruit, Dried, Nesoi, Ex That Of Heading 0801-0806 | 12,571,99 7 | 15,279,107 | 13,391,84 2 | 13,901,75 7 | 14,164,17 9 | 18,116,30 6 | 27.9 |
| 081120 | Raspberries/Blackberries/ Etc Uncooked/Cookd Water Fz | 8,857,421 | 10,036,677 | 14,180,24 5 | 14,157,62 5 | 14,164,88 4 | 12,721,46 3 | -10.19 |
| 080420 | Figs, Fresh Or Dried | 8,134,852 | 9,316,705 | 9,313,076 | 11,225,15 4 | 12,698,72 7 | 9,584,064 | -24.53 |
| 200840 | Pears, Prepared Or Preserved, Nesoi | 9,663,842 | 11,696,479 | 11,028,81 6 | 9,611,843 | 9,539,091 | 9,399,508 | -1.46 |
| 080111 | Coconuts, Desiccated | 5,003,336 | 3,698,498 | 3,927,956 | 8,552,049 | 10,152,22 8 | 9,070,840 | -10.65 |
| 081400 | Peel, Citrus Or Melon, Fresh/Frozen/Dried/Provs I Pres | 6,056,295 | 7,203,467 | 7,190,909 | 6,242,851 | 7,033,059 | 8,672,535 | 23.31 |
| 200860 | Cherries, Prepared Or Preserved, Nesoi | 9,925,244 | 12,358,470 | 9,114,092 | 10,878,63 9 | 9,517,107 | 7,151,231 | -24.86 |
| 200893 | Cranberries, Prepared Or Preserved, Nesoi | - | 5,674,624 | 5,689,843 | 6,333,840 | 6,839,755 | 6,892,713 | 0.77 |
| 081310 | Apricots, Dried | 4,927,273 | 5,601,277 | 5,059,567 | 5,476,534 | 3,509,692 | 4,446,437 | 26.69 |
| 200850 | Apricots, Prepared Or Preserved, Nesoi | 2,519,400 | 3,103,045 | 3,097,748 | 2,754,986 | 2,113,773 | 2,665,093 | 26.08 |
| 081330 | Apples, Dried | 198,643 | 329,192 | 1,074,034 | 1,392,833 | 1,791,687 | 2,104,893 | 17.48 |
| 080410 | Dates, Fresh Or Dried | 2,185,437 | 1,743,468 | 2,114,512 | 2,063,447 | 2,486,842 | 1,908,711 | -23.25 |
| 080112 | Coconuts, In The Inner Shell, Fresh Or Dried | - | 42,652 | 48,375 | 14,237 | 243,518 | 380,993 | 56.45 |
| 081210 | Cherries, Provisionally Preserved, Inedible | 181,838 | 190,002 | 200,779 | 205,939 | 128,965 | 124,913 | -3.14 |
| 080119 | Coconuts, Other Than Desiccated | 151,529 | 218,874 | 64,009 | 56,380 | 182,932 | 66,785 | -63.49 |

Japan Import Statistics From World
Commodity: _Processed Fruit Total 2012,

Annual Series: 2011 - 2016

| Commodity | Unit | Description | Quantity |
|-----------|------|-------------|----------|
|-----------|------|-------------|----------|

| | | | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|--------|---|--|---------|---------|---------|---------|---------|---------|
| | T | Total | 432,791 | 448,601 | 431,680 | 422,662 | 404,974 | 404,961 |
| 200899 | T | Fruit & Edible Plant Parts Nesoi, Prep Etc. Nesoi | 107,781 | 107,805 | 103,939 | 105,236 | 99,224 | 94,673 |
| 200830 | T | Citrus Fruit (Including Mixtures), Prep Etc Nesoi | 67,893 | 66,838 | 63,805 | 57,035 | 57,334 | 62,467 |
| 200870 | T | Peaches, Prepared Or Preserved, Nesoi | 58,228 | 56,646 | 49,622 | 47,146 | 45,533 | 44,318 |
| 081190 | T | Fruit Nesoi & Nuts, Sweetened Etc Or Not, Frozen | 35,699 | 40,781 | 42,000 | 45,928 | 40,858 | 39,834 |
| 080620 | T | Grapes, Dried (Including Raisins) | 29,591 | 28,692 | 30,373 | 29,594 | 31,938 | 32,077 |
| 200820 | T | Pineapples, Prepared Or Preserved Nesoi | 43,589 | 39,699 | 35,284 | 34,365 | 32,078 | 32,074 |
| 081110 | T | Strawberries, Uncooked/Cooked By Water, Frozen | 27,564 | 26,746 | 29,052 | 30,247 | 29,465 | 24,772 |
| 081290 | T | Fruit & Nuts Provisionally Preserved Inedible Neso | 25,552 | 20,958 | 19,374 | 17,863 | 16,353 | 19,887 |
| 200897 | T | Mix Of Fruit/Nut/Plant Parts, Prep/Preserved Nesoi | - | 18,436 | 17,967 | 16,912 | 14,245 | 15,550 |
| 081320 | T | Prunes, Dried | 10,371 | 11,476 | 10,439 | 8,136 | 7,446 | 7,452 |
| 200840 | T | Pears, Prepared Or Preserved, Nesoi | 5,991 | 6,566 | 6,396 | 5,644 | 5,606 | 5,913 |
| 200880 | T | Strawberries, Prepared Or Preserved Nesoi | 2,941 | 3,447 | 3,472 | 3,664 | 3,656 | 4,343 |
| 080111 | T | Coconuts, Dessicated | 1,730 | 1,773 | 2,289 | 3,033 | 3,872 | 3,979 |
| 081120 | T | Raspberries/Bckberries/Etc Uncookd/Cookd Water Fz | 1,850 | 2,137 | 3,019 | 2,919 | 3,119 | 3,040 |
| 081400 | T | Peel, Citrus Or Melon, Frsh/Frzn/Dried/Provsl Pres | 2,498 | 2,764 | 2,629 | 2,360 | 2,560 | 3,016 |
| 081340 | T | Fruit, Dried, Nesoi, Ex That Of Heading 0801-0806 | 2,961 | 3,228 | 2,596 | 2,328 | 2,089 | 2,502 |
| 200860 | T | Cherries, Prepared Or Preserved, Nesoi | 3,239 | 3,949 | 2,785 | 3,212 | 2,824 | 2,279 |
| 200893 | T | Cranberries, Prepared Or Preserved, Nesoi | - | 1,123 | 1,295 | 1,658 | 1,769 | 1,879 |
| 080420 | T | Figs, Fresh Or Dried | 1,365 | 1,603 | 1,670 | 1,939 | 1,761 | 1,461 |
| 200850 | T | Apricots, Prepared Or Preserved, Nesoi | 1,237 | 1,468 | 1,423 | 1,301 | 1,071 | 1,134 |
| 080410 | T | Dates, Fresh Or Dried | 1,736 | 1,239 | 1,107 | 1,019 | 1,325 | 1,110 |
| 081310 | T | Apricots, Dried | 738 | 893 | 884 | 853 | 402 | 650 |
| 080112 | T | Coconuts, In The Inner Shell, Fresh Or Dried | - | 36 | 51 | 9 | 169 | 282 |
| 081330 | T | Apples, Dried | 18 | 31 | 79 | 117 | 158 | 181 |
| 081210 | T | Cherries, Provisionally Preserved, Inedible | 80 | 93 | 89 | 100 | 74 | 67 |
| 080119 | T | Coconuts, Other Than Desiccated | 142 | 172 | 40 | 43 | 43 | 22 |

Japan Import Statistics From United States

Commodity: _Processed Fruit Total 2012,

| Annual Series: 2011 - 2016 | | | | | | | |
|----------------------------|--|-----------------------|-------------|-------------|-------------|-------------|-------------|
| Commodity | Description | United States Dollars | | | | | |
| | | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| | Total | 193,143,858 | 209,924,477 | 207,096,849 | 194,239,105 | 198,622,820 | 183,872,016 |
| 080620 | Grapes, Dried (Including Raisins) | 81,120,100 | 83,851,438 | 85,299,728 | 75,442,419 | 83,550,896 | 80,919,642 |
| 081320 | Prunes, Dried | 35,574,693 | 40,707,902 | 36,022,503 | 33,489,744 | 34,801,120 | 33,826,308 |
| 200899 | Fruit & Edible Plant Parts Nesoi, Prep Etc. Nesoi | 24,106,564 | 21,090,285 | 24,283,366 | 25,078,032 | 23,794,769 | 20,275,038 |
| 081190 | Fruit Nesoi & Nuts, Sweetened Etc Or Not, Frozen | 22,861,665 | 25,844,294 | 21,195,595 | 20,549,361 | 18,189,668 | 14,628,153 |
| 081110 | Strawberries, Uncooked/ Cooked By Water, Frozen | 13,222,161 | 13,779,705 | 15,309,762 | 14,718,192 | 12,966,928 | 10,412,342 |
| 200893 | Cranberries, Prepared Or Preserved, Nesoi | - | 5,019,474 | 4,940,931 | 5,741,640 | 6,420,090 | 6,437,687 |
| 200880 | Strawberries, Prepared Or Preserved Nesoi | 2,704,995 | 3,397,935 | 3,310,517 | 2,709,738 | 2,940,862 | 3,989,408 |
| 200860 | Cherries, Prepared Or Preserved, Nesoi | 2,154,831 | 3,053,680 | 2,478,914 | 2,731,665 | 3,045,497 | 2,324,591 |
| 200897 | Mix Of Fruit/Nut/Plant Parts, Prep/Preserved Nesoi | - | 1,564,589 | 3,018,814 | 2,457,506 | 1,874,807 | 2,317,590 |
| 081120 | Raspberries/Blackberries/ Etc Uncooked/Cooked Water Fz | 1,726,031 | 2,471,281 | 3,235,629 | 2,980,530 | 2,630,177 | 2,073,130 |
| 080420 | Figs, Fresh Or Dried | 2,522,732 | 2,538,765 | 2,129,884 | 1,862,054 | 1,913,489 | 1,504,217 |
| 081400 | Peel, Citrus Or Melon, Frsh/Frzn/Dried/Provs/ Pres | 797,026 | 1,205,181 | 1,339,918 | 1,140,545 | 1,691,726 | 1,487,184 |
| 081310 | Apricots, Dried | 2,144,637 | 2,454,279 | 1,990,568 | 1,868,165 | 1,864,599 | 1,381,919 |
| 200830 | Citrus Fruit (Including Mixtures), Prep Etc Nesoi | 3,005,510 | 1,842,003 | 1,307,217 | 2,100,991 | 1,417,866 | 1,207,219 |
| 080410 | Dates, Fresh Or Dried | 282,555 | 393,344 | 390,563 | 716,630 | 657,841 | 490,238 |
| 081340 | Fruit, Dried, Nesoi, Ex That Of Heading 0801-0806 | 327,062 | 274,597 | 286,169 | 275,393 | 438,791 | 252,522 |
| 200820 | Pineapples, Prepared Or Preserved Nesoi | 122,704 | 67,785 | 70,349 | 57,733 | 59,313 | 165,641 |
| 200870 | Peaches, Prepared Or Preserved, Nesoi | 352,265 | 291,920 | 289,017 | 221,098 | 182,814 | 156,231 |
| 081330 | Apples, Dried | 6,240 | 21,788 | 28,215 | 45,892 | 164,763 | 22,955 |
| 081210 | Cherries, Provisionally Preserved, Inedible | - | - | 15,002 | - | - | - |
| 200840 | Pears, Prepared Or Preserved, Nesoi | 99,733 | 41,129 | 127,414 | 51,776 | - | - |
| 200850 | Apricots, Prepared Or Preserved, Nesoi | 12,356 | 13,102 | 26,775 | - | 16,803 | - |

| Japan Import Statistics From United States | | | | | | | | |
|--|------|--|----------|--------|--------|--------|--------|--------|
| Commodity: _Processed Fruit Total 2012, | | | | | | | | |
| Annual Series: 2011 - 2016 | | | | | | | | |
| HS-Code | Unit | Description | Quantity | | | | | |
| | | | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| | T | Total | 56,366 | 56,808 | 58,616 | 55,432 | 54,719 | 53,233 |
| 080620 | T | Grapes, Dried (Including Raisins) | 26,573 | 25,366 | 26,919 | 25,836 | 28,288 | 28,791 |
| 081320 | T | Prunes, Dried | 10,162 | 11,339 | 10,317 | 8,032 | 7,327 | 7,264 |
| 081190 | T | Fruit Nesoi & Nuts, Sweetened Etc Or Not, Frozen | 5,156 | 5,181 | 4,988 | 5,219 | 4,722 | 3,957 |
| 081110 | T | Strawberries, Uncooked/Cooked By Water, Frozen | 5,241 | 5,227 | 5,731 | 5,182 | 4,307 | 3,393 |
| 200899 | T | Fruit & Edible Plant Parts Nesoi, Prep Etc. Nesoi | 3,632 | 2,766 | 3,836 | 3,854 | 3,336 | 3,134 |
| 200893 | T | Cranberries, Prepared Or Preserved, Nesoi | - | 1,017 | 1,153 | 1,539 | 1,686 | 1,785 |
| 200880 | T | Strawberries, Prepared Or Preserved Nesoi | 1,075 | 1,302 | 1,202 | 1,056 | 1,071 | 1,500 |
| 200830 | T | Citrus Fruit (Including Mixtures), Prep Etc Nesoi | 2,269 | 1,463 | 1,088 | 1,647 | 1,123 | 990 |
| 200860 | T | Cherries, Prepared Or Preserved, Nesoi | 590 | 824 | 689 | 722 | 837 | 630 |
| 200897 | T | Mix Of Fruit/Nut/Plant Parts, Prep/Preserved Nesoi | - | 467 | 741 | 701 | 445 | 477 |
| 081400 | T | Peel, Citrus Or Melon, Frsh/Frzn/Dried/Provsl Pres | 285 | 427 | 436 | 371 | 503 | 437 |
| 081120 | T | Raspberries/Blckberries/Etc Uncookd/Cookd Water Fz | 427 | 535 | 691 | 577 | 466 | 408 |
| 080420 | T | Figs, Fresh Or Dried | 493 | 461 | 374 | 314 | 291 | 223 |
| 081310 | T | Apricots, Dried | 169 | 206 | 163 | 134 | 124 | 80 |
| 080410 | T | Dates, Fresh Or Dried | 39 | 61 | 60 | 99 | 96 | 75 |
| 200870 | T | Peaches, Prepared Or Preserved, Nesoi | 161 | 110 | 103 | 81 | 49 | 41 |
| 200820 | T | Pineapples, Prepared Or Preserved Nesoi | 30 | 16 | 13 | 15 | 12 | 32 |
| 081340 | T | Fruit, Dried, Nesoi, Ex That Of Heading 0801-0806 | 23 | 13 | 18 | 17 | 20 | 15 |
| 081330 | T | Apples, Dried | 1 | 2 | 2 | 3 | 10 | 2 |
| 081210 | T | Cherries, Provisionally Preserved, Inedible | - | - | 1 | - | - | - |
| 200840 | T | Pears, Prepared Or Preserved, Nesoi | 35 | 20 | 83 | 37 | - | - |
| 200850 | T | Apricots, Prepared Or Preserved, Nesoi | 4 | 4 | 9 | - | 5 | - |

[1] A couple of factors are behind the gap. First, Japanese farmers have traditionally focused on producing fresh fruits that are of premium quality. Producing generally lower-grade fruits for processing purposes would earn far less than those that are sold as fresh. As a result, growing fruits for processing purposes has been regarded as not economically attractive, especially since the size of Japanese farms tends

to be fairly small. Secondly, the limited production volume combined with a year-round stable supply typically required in the processing sector has made it difficult for potential users in the processing or manufacturing sector to count on them as their main source of supply. Additionally, locally-grown products are generally more expensive..

^[2] Koeki Zaidan Hojin Chuo Kajitu Kyokai

^[3] Wellness foods as defined by Fuji Keizai Co., are those whose ingredients are associated with health, but excludes those foods with health claims. The attributes include vitamins, minerals, calcium, dietary fiber, lactic acid bacteria, zero-purine, decaffeinated, less-carbohydrates, less-sugar, low- or zero-calories, low- or non-fat, no additives, energy drinks, etc.

^[4]

For the purpose of this report, “processed fruit” includes only the following HS code unless otherwise noted: 080110, 080111, 080112, 080119, 080410, 080420, 080620, 081110, 081120, 081190, 081210, 081220, 081290, 081310, 081320, 081330, 081340, 081400, 200820, 200830, 200840, 200850, 200860, 200870, 200880, 200893, 200897, 200897, 200899, using the same classification as the Global Trade Atlas. . “Processed Fruits” in these charts include the following HS codes” and does not include fruit juice and jams HS-2007 HS 2009.

^[5] For the purpose of this report, “canned fruit” includes canned and other forms of fruits, i.e. fruits that fall under the following HS codes: 081210, 081220, 081290, 081400, 200820, 200830, 200840, 200850, 200860, 200870, 200880, 200893, 200897, 200897, 200899, using the same classification as the Global Trade Atlas.

^[6] It must be noted, however, that part of that growth is understood to include U.S. suppliers shifting operations to South American affiliates, such as Chile, and not necessarily the result of competition between the U.S. and third country companies. The rise of bilateral free trade agreements with Japan has also been a factor.

^[7] The new HS code (HS-200893) was established for cranberries in 2012.

^[8] Prunes packed in the U.S. can be categorized under HS-200899223. Over 1,000 MT of prunes have been imported annually in this classification since 2013.