



JAPAN COUNTRY PROFILE

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Synopsis

Japan is the world's second largest economy after the U.S. and its economy has been strengthening in recent years. Japan is Alberta's second most important agri-food market after the U.S., purchasing over C\$911 million from our province in 2007. Japan is Alberta's single most important export market for pork (C\$157 million in 2007) and canola seed (C\$352 million in 2007)¹ well ahead of the United States and offers significant potential for increased beef exports.² Japan's food self-sufficiency is low at 40% and its 128 million consumers will remain dependent on imports to satisfy a great proportion of their caloric needs.³ These affluent consumers are price sensitive but will pay more for quality products produced within tight specifications. The Japanese market will continue to provide opportunities for Alberta's agri-food industry.

Market Overview

The Japanese economy is the world's second largest after the US and its nominal GDP is US\$4.38 trillion (2007 est.). On a per capita basis the country's GDP is comparable to that of Canada (\$33,500 for Japan vs. \$38,600 for Canada in 2007).⁴

The Japanese economy has recently come out of a prolonged period of stagnation that started back in the early 90s. Recently, the Japanese GDP has been on the rise, posting growth of 1.9% in 2005, 2.2% in 2006 and is forecast to expand 2.6% in 2007.⁵ Exports to the US are strong and Japan has benefited from the rise of China, which has recently overtaken the US to become Japan's number one trading partner. Japanese consumer confidence has finally rebounded and after many years of deflation and consumer spending will slowly increase in 2007. Economic forecasts suggest Japanese inflation could stay fairly negative in 2007 but rise up to 1.5% in 2008.⁶

¹ Alberta Government, *Agri-food trade On-line*.

² United State Department of Agriculture, *FAS*.

³ Japan Information Network, *Web Japan*.

⁴ CIA, *World Factbook*.

⁵ The Economist Newspaper Limited, *Country Profile*, 2007.

⁶ Global Insight Inc., *Japan Country Monitor*.

Many economists expect the yen to strengthen against the US dollar in 2007 and 2008 based on a likely rise in Japanese interest rates coupled with an easing of rates in the US. This should be welcome news to Canadian exporters because - unless neutralized by the similar strengthening of the Canadian dollar - a stronger yen would make Canadian exports more affordable to Japanese consumers.⁷

Japan is generally a politically stable democratic country and, except for a few short intervals, the ruling Liberal Democratic Party has been in power since the 1950s. Mr. Junichiro Koizumi held the position of prime minister from 2001 to 2006, the longest running time since Mr. Eisaku Sato in the mid-1960s.⁸ Since 2006, there have been three additional prime minister with the current person being Mr. Taro Aso (September 2008-present). Koizumi was an assertive reformer who tackled chronic problems such as the bad loans burdening Japanese financial institutions. Koizumi also spearheaded the privatization of the postal service. In terms of economic policy, the new Prime Minister is not expected to break substantially from his predecessor. This new leadership will likely have limited effect on trade patterns between Japan, Canada and Alberta.

Japanese Population: 127,288,416 (July 2008 est.)

0-14 years: 13.7% (male 8,926,439/female 8,460,629)

15-64 years: 64.7% (male 41,513,061/female 40,894,057)

65 years and over: 21.6% (male 11,643,845/female 15,850,388) (2008 est.)

At 82 years, Japan has the highest life expectancy of all the OECD countries. The median age is 43.8 years. Due to low birth rates, the population is aging rapidly and the number of people over 65 is expected to increase from 21% in 2007, to 35% in 2050.⁹ Unless drastic measures are taken, Japan could see a sharp decline of its population in the first half of this century.

Over 86 million residents are estimated to have middle class spending power. Over 66 million residents make up the Japanese labor force. Almost 70% of these workers are in the service sector. Approximately 50% of women are now employed outside the home.¹⁰ Japan's unemployment rate has been decreasing in recent years and now stands at 4.5%. The average Japanese daily calorie intake is around 1,200, significantly lower than in North America, where it is closer to 2,000 per day.¹¹ Over the past few decades, younger people have been adopting a more westernized diet, while older adults, especially in rural areas stick to a more traditional and generally healthier Japanese diet. Obesity is less common than in the West but rates are increasing. Approximately 3% of the population is obese which translates to 4 million people. The adoption of western eating habits is considered the main cause of the rising rate. Increasing rates of diabetes and obesity are supporting the development of the health food industry.¹²

⁷ Global Insight Inc., *Japan Country Monitor*.

⁸ BBC News, *Profile: Shinzo Abe*.

⁹ CIA, *World Factbook*.

¹⁰ Euromonitor International, *Oils and Fats in Japan*, p.4.

¹¹ Agri-Food Trade Service, *Agri-Food Consumer Profile Japan*, June 2006.

¹² HealthFocus International, *Trend Report*, 2004.

Accounting for 23% of household spending, food purchases are the second largest expenditure category in a Japanese household. In 2003, Japanese households spent an annual average of \$8,840 on retail food purchases and \$5,146 on food-service purchases. Disposable income for the majority of men has decreased slightly; however, disposable income for women increased by 22.7% between 1999 and 2003. Teenagers (10-19 years) on the other hand spend a significant portion of their money on social and leisure activities, including dining out. Mean personal income is expected to increase by almost 20% and disposable income by 5% in Japan by 2015.¹³ Although Japanese consumers are generally price sensitive, they are willing to pay for quality, convenience, and brand name products.

Japan and Canada are both members of the WTO and overall access to the Japanese market has been good. Nonetheless, Japan has put in place some protectionist barriers affecting three of Alberta's major agri-food exports.

Canola: While Alberta canola seeds enter Japan tariff free, Japan imposes a 13.2-yen per kilogram tariff on canola oil. The tariff stands at 10.9 yen if the acid value of the oil exceeds 0.6. These tariffs are meant to protect Japan's domestic crushing industry and effectively hinder Alberta's efforts at expanding sales of value-added product.¹⁴

Pork: Japan has imposed a complex "gate price" system for pork. This system effectively becomes a minimum import price system that guards against surges in imports. The system is non-transparent and makes trade with Japan less predictable.¹⁵

Beef: Japan only accepts Canadian beef from cattle slaughtered under 21 months. This goes against the generally accepted international standards set by the OIE which consider beef from animals slaughtered at less than 30 months to be generally safe.¹⁶ This and other Japanese requirements concerning the import of beef have considerably limited Alberta beef's ability to gain market share.

Agriculture and Food Trade Overview

Alberta's agri-food exports to Japan were valued at over \$911 million in 2007 and accounted for over 57% of Canada's total exports to that country. Japan is Alberta's second largest export market for agri-food products after the U.S. In 2007, the province's top agri-food exports to Japan were canola seeds (\$353 million), pork (\$157 million), hay and fodder (\$103.5 million), wheat (\$104 million), malt (\$52.3 million) and processed potatoes (\$34 million).¹⁷

¹³ Agri-Food Trade Service, *Agri-Food Consumer Profile Japan*, June 2006.

¹⁴ Canola Council of Canada, *Canola Facts: An Industry that Depends on Trade*, April 2006.

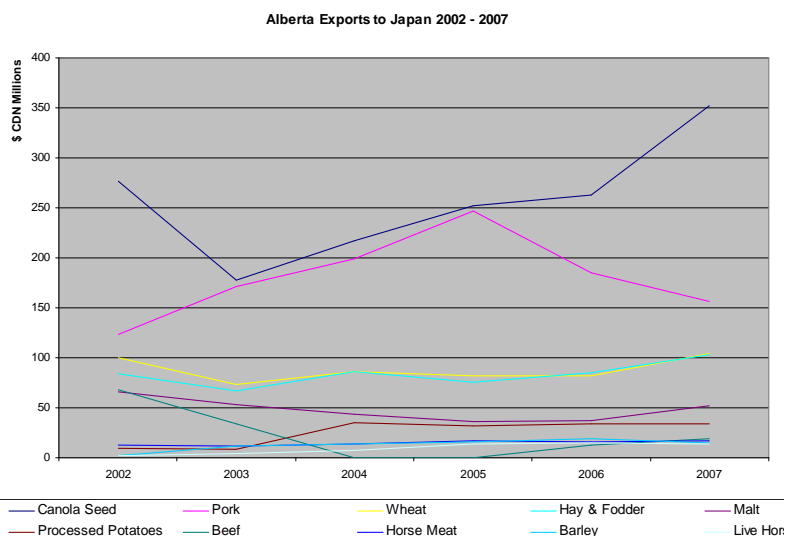
¹⁵ USDA, *Pork policies in Japan*.

¹⁶ Canada Beef, *The Canadian Beef Export Federation Newsletter*, January 2007.

¹⁷ Agri-Food Trade On-line.

Alberta's Top agri-food exports to Japan In 2002 and 2008 in millions of CDN\$

Alberta's Top Exports to Japan in 2007	Value in Millions
1-Canola seed	352.3
2-Pork	156.6
3- Wheat	104
4- Hay and Fodder	103.6
5-Malt	52.3
6-Processed Potatoes	34
7-Beef	19.5
8-Horsemeat	16.8
9-Barley	14.8
10-Live animals (Horses)	13.8



A few changes have taken place over the last five years, the most noteworthy being the phenomenal rise of Alberta's pork exports. Japan is now by far the province's most important export market for pork and at \$157 million in 2007, the value of our pork exports to Japan is one and a half times that destined for the US market.

After being banned in Japan for over two years because of BSE, Alberta beef is trickling back into the market. The strict conditions imposed by Japan and the limited availability of age verified cattle are hindering efforts at reclaiming market share.

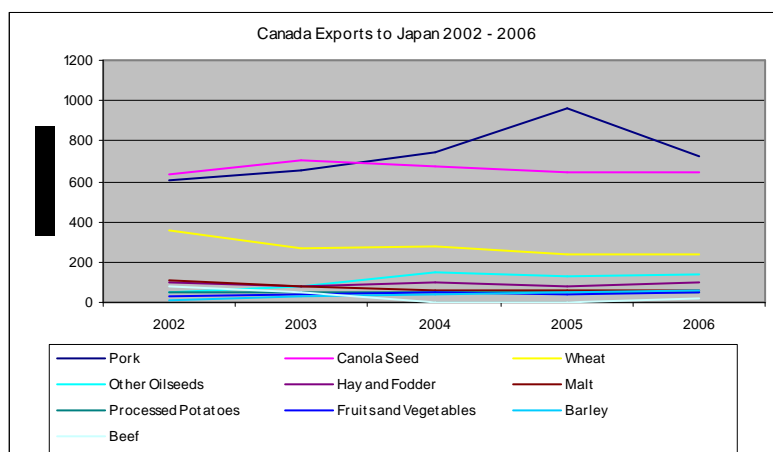
Malt exports have continued to decline over the last five years. One of the factors has been the rise in popularity of malt beverages in Japan as a cheap alternative to beer. Malt beverages require less malt to produce than regular beer.

French fry exports have seen a huge increase over this 5-year period. This is mainly due to the establishment in Coaldale of a McCain plant that services many Japanese fast-food accounts.

Canada's agri-food exports to Japan totaled \$2.7 billion in 2007 making it the country's second largest export market after the U.S. Alberta accounted for almost one third of Canadian agri-food exports to Japan. Canada's exports share some similarities with Alberta's. Pork exports are the country's largest (\$725 million) followed by canola seeds (\$865 million), wheat (\$313 million), other oilseeds, oilnuts/kernels (\$141 million), hay and fodder (\$109 million), barley (\$47.5 million) and malt (\$79 million).

Canada's Top agri-food exports to Japan In 2007 in millions of CDN\$

Canada's Top Exports to Japan in 2007	Value in Millions
1-Pork	725
2-Canola seed	864.5
3-Wheat	313
4-Other oilseeds, oilnuts/kernels	141
5-Hay and Fodder	109
6- Malt	79
7- Barley	47.5
8-Processed Potatoes	42
9-other Oils Fats (non canola)	27
10-Alfalfa meal, pellets	24



As a net importer of agricultural commodities products, Japan relies on imports to ensure its supply of important food crops. Canada's competitors are mainly the United States and Australia.

Competitors gain an advantage through better harvesting weather (which can vary from year to year) freight efficiencies due to location or volume and by the ability to offer products during their competitor's off-season (Australia vs. Canada and the US).¹⁸

In 2007, Japan's top sources for consumer oriented agri-food products included the United States, China, Australia, Denmark, and Canada. Canada and Alberta's competitors often benefit from well-funded marketing funds and MLA (Australian beef) and USMEF (for US pork and beef) have multi-million dollar promotional budgets in Japan.¹⁹

Market Sector Structure and Trends

Consumers often purchase food on a daily basis and many will search more than one outlet for higher quality products. Local, general and specialty stores account for 39% of food sales, while 34% is sold in supermarkets and 13% in convenience stores. General merchandise stores are growing in popularity, providing product selections for one stop shopping. Consumers generally prefer Japanese food products to imports because of high quality standards and food safety concerns. This is especially true for meats in the wake of the BSE outbreaks around the world.

Major retail outlets will handle vast quantities of imported commodities such as meats. However, because of the high expectations vis-à-vis packaging, quality and service, only major foreign manufacturers can expect to make significant inroads in non-commodity

¹⁸ Meat & Livestock Australia.

¹⁹ USMEF.

type retail products. Nonetheless, there are opportunities in niche markets for smaller size manufacturers.²⁰

Japanese production standards are generally very high and Japanese companies try to outdo each other in proposing various new products. The Japanese food-processing sector sources a major portion of its ingredients from foreign suppliers. For example, a large portion of Alberta's frozen pork exports to Japan is earmarked for further processing.

The Japanese vegetable oil processing and flour milling industry are highly dependent on imports. Canada is the largest exporter of canola, flax, mustard seed and malt to Japan and the second largest exporter for wheat, barley and food-grade soybeans. Japan is expected to remain as a major market for Alberta agricultural commodities.

The high cost of manufacturing in Japan has encouraged many Japanese producers to set-up operations in neighbouring countries such as Thailand and China.²¹

After going through phases of rapid growth in the 80s and of slower steady growth in the 90s, the Japanese food service sector can now be described as mature. In 2004, the size of the Japanese restaurant market was valued at over 24 trillion yen (C\$240 billion) and meals eaten in restaurants accounted for over 37% of the total value of all food consumed in Japan.²²

Most of the fresh vegetables used in the food service industry are domestic in origin but an increasing percentage of the frozen product is imported. At present, Japanese restaurant operators are not obliged to identify the country of origin of the products on their menus. There is talk of mandating this in the near future. This could be beneficial to Canada, which has a very positive image in Japan.

Most of the imported product used in the preparation of meals will be imported through a trading house and distributed through a wholesaler, called "tonya" in Japanese.

Exporter Business Tips

Since differences in language, customs and business practices make entering the Japanese market a very difficult task, the preferred route is generally to find a Japanese partner, who knows the market and understands local requirements and expectations. For many small and medium size companies a "trading house" will fill that role. More solid companies may choose to find a Japanese agent to handle their business in Japan. The Agriculture and Food Branch and the Alberta Japan Office can help Alberta companies find suitable partners in Japan.²³

Most imported food will arrive in Japan on container ships in one of Japan's major harbours. The products are then shipped by large truck to local warehousing hubs and then by smaller trucks to end-users.

²⁰ AAFC, *Japanese Retail Food Sector Report*, 2006.

²¹ Japan Foodservice Association, *A study of the Japanese Foodservice Industry*.

²² AAFC, *Agri-Food Sector Profile Family-Style Restaurants – Japan*, 2004.

²³ AAFC, *Agri-Food Sector Profile Agricultural Commodities – Japan*, 2005.

The Japanese food distribution system is characterized by multiple layers of distributors and wholesalers who have developed close relationships with manufacturers, retailers, importers and other wholesalers. Specialized distributors typically handle competing product lines and some or all related promotional activities.

Japanese regulations vary according to the nature of the product imported into the country. There are regulations concerning everything from labelling and ingredients as well as pesticide residue limits. Since some ingredients used in Canada may not be allowed in Japan, Alberta producers are encouraged to work closely with their Japanese partners to make sure that their product conforms to Japanese regulations.

An English summary of the regulations involved in exporting food to Japan can be found on this website.

<http://www.jetro.go.jp/en/market/regulations/>

The CFIA website contains general information on the export of meat products.

<http://www.inspection.gc.ca/english/anima/meavia/mmopmmhv/table11e.shtml>

Here is an outline of the standard import procedures in Japan.

<http://www.mhlw.go.jp/english/topics/importedfoods/1-1.html>

Producers are expected to communicate frequently with their distributor or wholesaler and should plan one or more trips to Japan each year. A lack of correspondence can be interpreted as a lack of commitment to the business relationship and may lead to a loss of interest by the client. Good communication from the supplier is critical in insuring how much effort a distributor or wholesaler puts towards promoting that supplier's products.

Market Opportunities

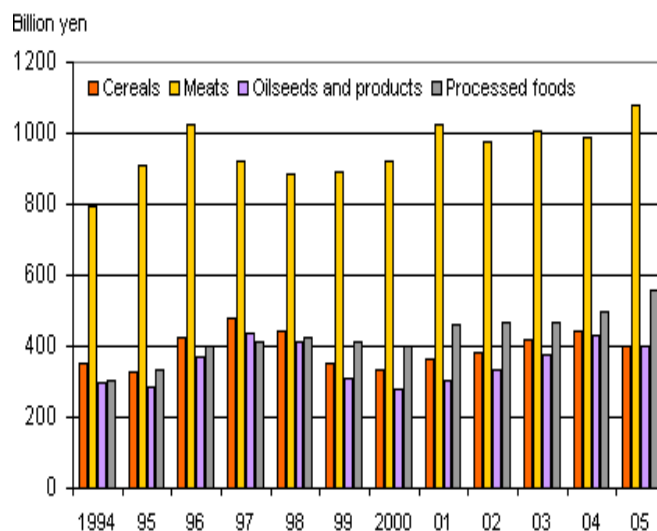
Japan's food self-sufficiency has remained steady at 40% since 1998 and it is doubtful that Japan will be able to increase this number significantly for various reasons, including the high cost of production and the aging of the farm sector, even with the recent push in 2008 by the Japanese agriculture ministry to increase domestic agriculture production. Alberta is well positioned to cover the gap by supplying high quality agri-food products to Japan.

Japan's total meat and meat product imports are valued at \$9.8 billion, cereals at \$6.7 billion, and oilseeds, miscellaneous grains, fruits and seeds at \$530 million.²⁴ There will be continued opportunities for Alberta processors in these sectors.

Meats are the largest component of Japan's agricultural imports-about 25 percent in recent years. Japan imports large quantities of pork, beef, and poultry meat. Based on the value of imports, Japan is the largest meat-importing country in the world.

²⁴ Ministry of Finance, *Trade Statistics of Japan*.

Commodity composition of Japan's imports



Source: ERS calculations based on Japanese trade data from The World Trade Atlas.

Opportunities for pork exports look especially good in the short term but competition from new entries such as Chile and Mexico will grow. There are also opportunities for increased exports of beef but the limited availability in Alberta of age-verified cattle that meet Japanese export standards is hindering our efforts.

Opportunities in the Food Processing Sector

Japanese vegetable oil crushers produced nearly 950 000 MT of canola oil in 2004. Canola oil is the most consumed edible oil in Japan followed by soybean oil.²⁵ As production of canola in Japan is very limited, Japanese demand is dependent entirely on imports.

According to Functional Foods Japan, as of 2005, the Japanese Nutraceutical Market is estimated to be worth \$27.1 Billion.²⁶ Japan is the second largest market in the world for nutraceutical products after the United States. As more research is conducted into the health benefits of various crops and their derivatives, more opportunities should arise for Alberta industry.

Japanese consumers value high-quality products and are generally willing to pay a premium for these products.²⁷ Short and long term prospects are good for Alberta producers that have the capacity to produce niche products within tight specifications.

Alberta Advantages and Challenges

Alberta and Canada have some great advantages in their pursuit of market share in Japan, one of which is Canada's pristine image with both consumers and the Japanese food processing industry. This advantage is not limited to image and Canadian standards for

²⁵ AAFC, *Agri-Food Sector Profile Agricultural Commodities – Japan, 2005*.

²⁶ Japan's Nutraceuticals, *The source of Japan's Nutraceutical Market*.

²⁷ Euromonitor International, *Oils and Fats in Japan*, p.2.

safety and quality are generally perceived as high. Another advantage is Alberta's strategic location in western Canada, which gives it a logistical advantage in servicing the Japanese market.

Canada and Alberta will benefit from being established players in Japan but the Japanese market will become more and more competitive in the future. New entrants such as Chile and Mexico are already making inroads in the pork market and will try to increase their share. Alberta producers will have to offer a better product and better service to continue to distinguish themselves from other suppliers.

Contacts for Albertans

The International Marketing Division of Alberta Agriculture and Rural Development has a trade development officer dedicated to the Japanese market in addition to a commercial officer responsible for the agriculture profile at the Alberta Japan Office in Tokyo.

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Events

FOODEX Japan 2009

March 3-6, 2009
Makuhari Messe, Chiba

Wine & Gourmet Japan 2009

April 22-24, 2009
Tokyo Big Sight, Tokyo

BioFach Japan 2009

October 7-9, 2009
Tokyo West Hall, Tokyo

HI (Health Ingredients) Japan

October 14-16, 2009
Tokyo Big Sight, Tokyo

Natural Products Expo Japan 2009

October 10-12, 2009
Tokyo Big Sight, Tokyo

Canada Food Fair

Embassy of Canada, Tokyo
October 2009 (date TBD)

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- Japan's Nutraceuticals, The source of Japan's Nutraceutical Market - <http://www.functionalfoods-japan.com/>

JETRO

<http://www.jetro.go.jp/en/market/regulations/>

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Summary of Import Procedures in Japan

<http://www.mhlw.go.jp/english/topics/importedfoods/1-1.html>

Japan Food Service Association Presentation

http://www.groupeexport.ca/fr/documents/A_Quebec_Conference_Kato_001.pdf