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Japan

Frozen Potato Products

Annual Commodity Report

2007

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Report Highlights:
Japan's imports of frozen potato products slightly increased by 0.3 percent from 299,400 metric tons in 2006 to 300,270 tons in 2007 (Jul. 06 through Jun. 07). The market has soared to over 300,000 tons that had once fallen in 2003 to 255,165 tons and now equals the high reached in 1998 of more than 300,000 tons. The frozen potato market has regained its previous market size even though high world price limits its expansion.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Tokyo ATO [JA2]
[JA]

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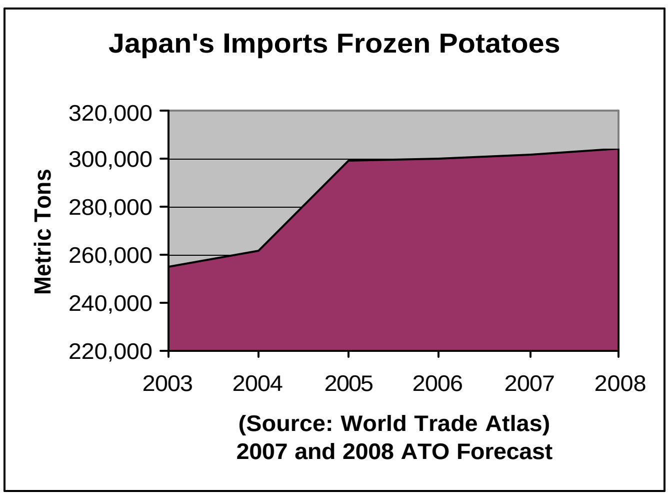
Executive Summary

Chart 1: Japan's Imports Frozen Potatoes



U.S. frozen fried potato exports diversified its market destinations to Russia and many other countries in 2006. However, Japan is by far the largest market for the products (HS code 2004.10). 37.5 percent of all U.S. exports went to Japan in 2006. The second largest market for U.S. frozen potato exports is Mexico, amounting to only 13.5 percent of all U.S. frozen fried exports. The United States is also the largest supplier of frozen fried potatoes to Japan.

The frozen fried potato market is closely tied to the performance of fast food restaurants in Japan. Sales of frozen fried potatoes are also impacted by the long vacation season in Japan. Annually, there are three peak periods of demand for frozen fried potatoes: 1) Golden week in late April and early May: 2) summer vacation season in late July and August: and 3) the New Year vacation season in early January.

Vigorous fast food sales promotions stabilized frozen fried potato sales throughout the year in 2006 and 2007. The market recovered, and the frozen potato products crossed the 300,000 tons mark in 2007 (July 2006 through June 2007).

U.S. exports to Japan of frozen fried potatoes (HS code 0710.10 and 2004.10) showed an increase of 8 percent in quantity to 235,923 tons and an increase of 15.6 percent in value to $228 million (26.2 billion Japanese yen) in 2006 (calendar year) compared to the previous year. The average price of U.S. products increased by 10% though U.S. exports of frozen potatoes increased due to the strong sales by major fast food chains.

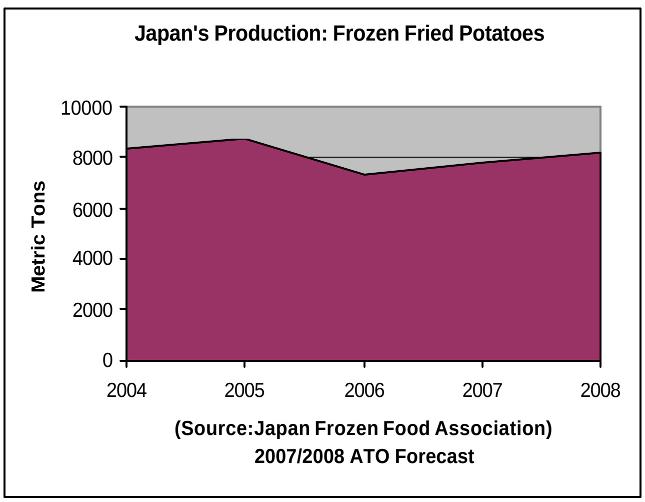
With respect to Japanese consumer preferences a trend of diversified eating habits among teenagers and younger-aged children are stabilizing fried potato consumption. On the other hand, the increasing older population created demand for developing non-fried frozen potato products.

Finally, the higher price of U.S. frozen fried potatoes impacted the market. But the price increase was accepted by Japanese buyers due to a nationwide food price hike trend. The Japanese food market faced higher ingredient costs during 2007. Many domestic food manufactures hiked prices to the retail industry and to the food service industry. The market has been negatively impacted by the raised food product prices.

Production

Japan produced 2.6 million tons of fresh potatoes and delivered 2.1 million tons to the market in 2006, a decrease of 5 percent from the previous year due to drier weather in early August and subsequent elevated temperatures in Hokkaido (the northern most island in Japan). Hokkaido produced 78% of the fresh potatoes in the country amounting to 2.03 million tons. 1.8 million tons were delivered to the market in 2006, a decrease of 6 percent from the previous year. Most domestic frozen potato products come from this region.

Chart 2: Japan's Production: Frozen Fried Potatoes



In 2006, domestic production of frozen fried potatoes totaled 7,354 tons, a drop of 15.3 % from 2005. Conversely, production of non-fried frozen potatoes jumped up by 11.3 % in 2006. Domestic frozen fried potatoes production was held down by decreased domestic fresh potato production and competitively priced frozen fried potato imports.

Most domestic products went to the retail sector, with sales driven by consumer cooperative societies (Co-ops) and major manufactures of frozen foods. Meanwhile there is a trend toward food safety concerns. Japanese manufacturers can accept a shift from domestic products to imports once they are assured of the products' safety.

For example, a large-scale frozen food manufacture shifted the origin of frozen fried potato from domestic products to the imported products from the U.S. despite the higher import prices than last year's domestic product.

Retail packaged products using imported potatoes and domestic potatoes

Ajinomoto's fried potato product: shifted origin from Japan to U.S.	Nichirei's fried potato product: package describes the potato made in Hokkaido
	

Domestic Production & Total Import: Quantity

July through next June: World Trade Atlas

HS Code	0710.10			
Description	Frozen Potato: cooked by steaming or boiling in water			
(Metric Tons)	2004	2005	2006	Change-06/05
Domestic Pro.	19,020	18,945	21,089	11.3 %
Total Import	6,467	7,275	6,198	-14.8 %
Non fry total	25,487	26,220	27,287	4.1 %

HS Code	2004.10			
Description	Frozen Potato: fried potatoes including mash and other			
(Metric Tons)	2004	2005	2006	Change-06/05
Domestic Pro.	8,375	8,687	7,354	-15.3 %
Total Import	261,975	292,052	294,073	0.7 %
Fried total:	270,350	300,739	301,427	0.2 %

Total Frozen Potato Shipments

HS Code	0710.10 + 2004.10			
Description	Frozen Potato: Total Quantity (tons) and Share (%)			
	2004	2005	2006	Change-06/05
Total: tons	295,837	326,959	328,714	0.5 %
Total share: %	100.0 %	100.0 %	100.0 %	-
0710.10 Dome.	6.4 %	5.8 %	6.4 %	+ 0.6 %
0710.10 Import	2.2 %	2.2 %	1.9 %	- 0.3 %
2004.10 Dome.	2.8 %	2.7 %	2.2 %	- 0.5 %
2004.10 Import	88.6 %	89.3 %	89.5 %	+ 0.2 %

Trade

Total Japanese frozen fried potato (HS 2004.10) imports from the United States in 2006/07 increased slightly 0.3 % to 234,803 tons. The increase in U.S. exports to Japan, rose 5.6 % in quantity from the previous year. Meanwhile, the total value of Japanese frozen fried potato imports from the U.S. jumped around 15 % from the previous year, boosted by a weak yen and the nationwide food price-hike pressure from food suppliers due to higher ingredient costs.

Fast food restaurant operators enjoyed record sales and the highest number of customer visits in 2006/2007 benefited from developing limited-time unique menu items and extended business hours. The expanded sales of fast-food chains contributed to the steady import of the products from the United States.

Convenience store chains also have increasingly used imported frozen fried potatoes because of its popularity with younger consumers. One convenience store chain sells a variety of reasonably price fried potato product snacks similar to those in fast food outlets.

Japanese consumers are becoming more concerned with food safety. China's repeated food safety scandals devastated the image of Chinese food products and imports. China increased frozen fried potato exports by 83 percent in 2006. New Zealand exports increased 35 percent and Belgium increased 53 percent from the previous year. Egypt has started to export frozen fried potato products to Japan this year.

Japanese Import of Frozen Potato Products: Quantity (Metric Tons)
July through June: World Trade Atlas

Frozen Potato	Fried, mashed and other (HS 2004.10)				Non-Fried (HS 0710.10)			
Country	2005/6	2006/7	Change 07/06%	Share %	2005/6	2006/7	Change 07/06%	Share %
World Total	292,052	294,072	0.7	100.0	7,275	6,197	- 14.2	100.0
U.S.A.	234,093	234,803	0.3	79.8	1,354	256	- 81.1	4.1
Canada	44,328	39,421	- 11.1	13.4	103	65	36.9	1.1
China	3,899	7,126	82.8	2.4	5,301	5,278	- 0.4	85.2
Belgium	2,938	4,493	52.9	1.5	Colombia	334	8.5	5.4
New Zealand	3,350	4,516	34.8	1.5	Vietnam	210	42.9	3.4
Germany	2,610	2,294	- 12.1	0.8	-	-	-	-
Egypt	2	386	13.6	0.2	Egypt	54	93.3	0.9

Example of non-fry potato products

Chinese made frozen cut potatoes	Chinese made small size potatoes	Chinese made mashed potatoes
		

Policy
No significant change in these tariff code numbers.

HS Code		Description	Rate of Duty
0710.10	0710.10-000	Frozen Potatoes: uncooked or cooked by steaming or boiling in water	8.5 %
2004.10	2004.10-100	Frozen Potatoes: Cooked, not otherwise prepared (fried potatoes)	8.5 %
	2004.10-210	Frozen Potatoes: Mashed potatoes	13.6 %
	2004.10-220	Frozen Potatoes: Other	9 %

IP Handling
Japan recently made technical changes to its biotechnology labeling rules that allow U.S. potato suppliers to get out from under longstanding identity preservation (IP) handling requirements. For more information, please see pages 39-40 of the Sixth Report to the Leader on the U.S.-Japan Regulator Reform and Competition Policy Initiative June 6, 2007 at:
http://www.mofa.go.jp/region/n-america/us/report0706.pdf

Maximum residue Level (MRL)

In 2006, Japan implemented two regulations related to the importation of frozen potato products. The first regulation is on the maximum residue level (MRL) on all food products, which was implemented on May 29, 2006. For information on MRLs., which may affect frozen potato products, please see GAIN reports JA6004, JA6011, JA6025, JA6030the and following website:
http://www.mhlw.go.jp/english/topics/foodsafety/positivelist060228/introduction.html

Other

The other regulation involves the importation of rice and rice products. Starting in August, 2006, the Japanese government implemented new biotech testing requirements for rice, which are often used as an ingredient in processed potato products.

Marketing

Japan has one of the most effective infrastructures in the world for distribution, handling and storage of all frozen products. Japan's infrastructure, which can accommodate the handling of frozen potato products, provides easy access for foreign competitors. In fact, around 20 countries exported frozen potato products to Japan last year.

Based on this infrastructure, population dynamics and increasingly favorable macroeconomic trends in the country, the food industry believes that Japan has a potential market capacity of more than 300,000 metric tons for frozen fried potatoes. The United States is in the best position to fulfill this anticipated market potential, although many other third-country competitors and some domestic Japanese producers are seeking every opportunity to increase their market share.

Last year a family-style restaurant in Kyushu region imported 100 metric tons of frozen potato fries from Egypt in order to overcome rising prices. China increased its frozen fried potato market share to 2.4 percent in 2006 from previous year's 1.3 percent. The total amount exported was low, 1,381 metric tons in 2006, but the potential for growth is very promising. Australia exported zero products last year due to crop failure.

Price

Import prices (CIF base) increased in 2006/2007, up 9 percent (or around 4 cents/pound) from 2005/2006.

Supplier price of U.S. frozen potato in Japan has increased in the past two years. A buyer of a mid-size hamburger chain said, "The American frozen potato fry price increased 25 % in 2006 and 30 % in 2007. We will not be able to buy American potatoes next year if the price substantially increases in 2008." A sales manager of a large scale wholesaler said, "The U.S. price increased very much which required us to hike the wholesale price by 10 %. Our buyers have been reluctant to accept this but finally have accepted the price hike due to Japan's economic circumstances which was hit by the high world price of oil.

These price increases pushed the tendency of the users to diversify resources. One hamburger chain procured Canadian potatoes for this year due to a more competitive price than for U.S. products. Belgian and other European suppliers also offered better prices to Japanese buyers than American suppliers.

Appendix

PS&D: Production, supply and Distribution

PSD Table										
Country	Japan									
Commodity	Potato Products, Frozen						(MT, Net Weight)			
	2005	Revised		2006	Estimate		2007	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		07/2005	07/2005		07/2006	07/2006		07/2007	07/2007	MM/YYYY
Beginning Stocks	0	0	0	0	0	0	0	0	0	(MT, Net Weight)
Production	27,632	27,632	27,632	28,000	28,000	28,443	0	0	29,000	(MT, Net Weight)
Imports	299,327	299,327	299,327	301,000	301,000	300,271	0	0	302,000	(MT, Net Weight)
Total Supply	326,959	326,959	326,959	329,000	329,000	328,714	0	0	331,000	(MT, Net Weight)
Exports	309	309	271	330	330	257	0	0	300	(MT, Net Weight)
Domestic Consumption	326,650	326,650	326,650	328,670	328,670	328,670	0	0	330,700	(MT, Net Weight)
Ending Stocks	0	0	0	0	0	0	0	0	0	(MT, Net Weight)
Total Distribution	326,959	326,959	326,921	329,000	329,000	328,927	0	0	331,000	(MT, Net Weight)

(Total of HS code 0710.10 and HS 2004.10)

Frozen Potato Products Import Trend Matrix

Import Trade Matrix			
Country	Japan		
Commodity	Potato Products, Frozen		
Time Period	Jul-Jun	Units:	Metric ton
Imports for:	2005		**2006**
U.S.	235447	U.S.	235060
Others		Others	
Canada	44431	Canada	39487
China	9200	China	12404
New Zealand	2941	New Zealand	4516
Belgium	3350	Belgium	4493
Egypt	60	Egypt	440
Germany	2610	Germany	2294
Netherland	747	Netherland	605
Total for Others	63339		64239
Others not Listed	541		971
Grand Total	299327		300270