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Retail Food Sector

Japanese Retail Food Sector Report

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Report Highlights: With the exception of an uptick in 2003, total retail food sales have been falling over the past five years. The supermarket and convenience store segments have enjoyed continuous growth over the period, but the overall market has been driven down by falling sales at department stores and smaller operations such as mom-and-pop stores. Thus, two parallel trend lines have been emerging: food and beverage consumer purchases are migrating toward larger supermarkets featuring a wider assortment of merchandise at lower prices, and also toward convenience store locations, with their easy – if somewhat more expensive – round-the-clock product availability.

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Note: Prices presented in U.S. dollars in this report are based on the TTS rate prevailing on October 24, 2006. The dollar-yen conversion rate in all cases is \$1 = ¥120.

I. MARKET SUMMARY

(1) Trends in the Japan Retail Food and Beverage Sector

Unit: US\$ Billion

Year	Total Retail Sales in Japan	Total Sales in the Retail Food and Beverage Sector	Food and Beverage Sales as a Percentage of Total Retail Sales
2001	1,140.1	345.3	30.3%
2002	1,095.1	339.7	31.0%
2003	1,073.9	340.1	31.7%
2004	1,067.4	336.2	31.5%
2005	1,079.4	333.5	30.9%

Source: Yearbook of the Current Survey of Commerce (2003, 2004, 2005) compiled by METI

Total retail sales in Japan (including dry goods, apparel and appliances) amounted to ¥129.5 trillion (\$1,079.3 billion) in 2005, with total food and beverage retail sales accounting for 30.9% (\$333.5 billion) of that figure. Although Japan's overall retail trade grew by \$12 billion in 2005 – the first year-on-year gain in nine years – the retail food and beverage sector declined by \$2.7 billion during the period. This is attributable to factors including poor weather, such as unseasonably cool temperatures from April through June that negatively impacted beverage sales, and declining prices for rice, perishable foods and produce from the second half of 2005.

(2) Sales Trends in the Retail Food Sector's Component Businesses (2001-2005)

Unit: US\$ Billion

Year	Total Sales		Department Store		Supermarket		Convenience Store		Others	
	Sales	Yr/Yr(%)	Sales	Yr/Yr(%)	Sales	Yr/Yr(%)	Sales	Yr/Yr(%)	Sales	Yr/Yr(%)
2001	345.3	-0.9	19.8	-2.3	55.7	3.5	39.9	2.1	230.0	5.1
2002	339.7	-1.6	19.4	-1.9	57.9	3.9	40.5	1.5	221.9	-3.5
2003	340.1	0.1	19.1	-1.6	59.9	3.4	41.0	1.1	220.1	-0.7
2004	336.2	-1.2	18.8	-1.4	61.9	3.3	42.0	2.6	213.4	-3.0
2005	333.5	-0.8	18.4	-2.2	61.9	0.1	42.1	0.2	211.0	-1.1

Source: Yearbook of the Current Survey of Commerce (2003, 2004, 2005) compiled by METI

With the exception of an uptick in 2003, total retail food sales have been falling over the past five years. The supermarket and convenience store (CVS) segments have enjoyed continuous growth over the period, but the overall market has been driven down by falling sales at department stores and smaller operations such as mom-and-pop stores. Thus, two parallel trend lines have been emerging: food and beverage consumer purchases are migrating toward larger supermarkets featuring a wider assortment of merchandise at lower prices, and also toward convenience store locations, with their easy – if somewhat more expensive – round-the-clock product availability.

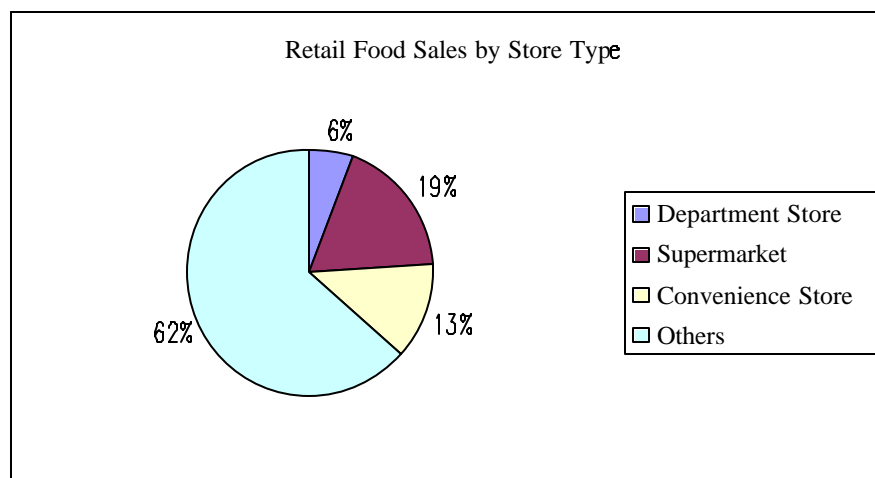
In 2005, department store food and beverage sales fell 2.2% from the previous year, to \$18.4 billion. Sales floor renovations and in-store events had a positive impact on sales, and department stores enjoyed an increase in sales of gift products during the mid-year gift-giving season (chugen). However, these developments were not enough to offset negative factors including sluggish corporate chugen gift demand and slumping sales of perishable foods.

Total supermarket food sales were virtually flat at \$61.9 billion in 2005. Sales of perishable food fell, pressured by declining market prices for vegetables and other agricultural produce. On the

other hand, meat sales firmed after BSE and bird flu scares ran their course, while increased volume from new stores and robust sales of beer in the spring and early summer positively impacted overall sales in the segment.

At convenience stores, total food and beverage sales edged 0.2% higher in 2005, to \$42.1 billion. In the daily-delivered foods segment, sales were brisk for seasonal products including oden (Japanese-style stew), chuka manju (filled steamed buns) and hiyashi chuka (chilled ramen), as well as mainstay cooked rice products such as onigiri. However, this did not translate to strong gains in dollar terms, as the unit price of all these items has been trending downward. Meanwhile, processed food product sales fell, as demand for soft drinks returned to normal levels after the previous year’s unusually warm winter and extremely hot summer.

In terms of the 2005 retail sales profile by store type, the supermarket, CVS and department store segments combined only comprise a minority of total sales. Supermarkets, with \$61.9 billion, account for 19% of the total. Convenience stores represent 15% of the market, with \$50.5 billion in sales, while department stores, at \$18.4 billion, do 6% of Japan’s total food and beverage retail business. More than half of all food and beverage retail sales are still generated by smaller food markets with fewer than 50 employees. However, it should be noted that these small businesses are losing more sales and market share every year to supermarkets and other large-scale retailers.



Total Sales	Department Store	Supermarket	Convenience Store	Others
333.5	18.4	61.9	42.1	211.0

Ministry of Economy, Trade and Industry definitions of industries within the retail food sector:

Department store: A retail business classified as a department store under the Standard Industrial Classification for Japan, with 50 or more employees, and sales space of at least 1,500 square meters (or 3,000 square meters, depending on its geographic location).

Supermarket: A retail business with 50 or more employees which adopts self-service for at least 50% of its sales space. In addition, the establishment has at least 1,500 square meters of sales space.

Convenience store: For METI statistical purposes, the definition of a convenience store is limited to the headquarters branch of a convenience store chain with at least 500 franchises in its store network.

(3) Number of Establishments in Each Retail Business

Number of Establishments by Type

Classification	Number of Establishments				
	2002	2006	Component Ratio (%)		Compared with the previous survey year (2004/2002)
			2002	2006	
1.Department stores	362	308	0.0	0.0	-14.9
(1)Large-scale department stores	323	267	0.0	0.0	-14.6
(2)Other department stores	39	32	0.0	0.0	-17.9
2.Supermarket stores	1,668	1,675	0.1	0.1	0.4
(1)Large-scale general super market	1,499	1,496	0.1	0.1	-0.2
(2)Medium-scale general supermarket	169	179	0.0	0.0	5.9
3.Speciality supermarket stores	37,035	36,220	2.8	2.9	-2.2
(1)Apparel	6,324	5,991	0.5	0.5	-5.3
(2)Food	17,691	18,485	1.4	1.5	4.5
(3)Housing	13,020	11,744	1	0.9	-9.8
4.Convenience stores	41,770	42,738	3.2	3.5	2.3
5.Drug stores	14,664	13,095	1.1	1.1	-10.7
6.Other supermarkets	65,011	56,211	5.0	4.5	-13.5
7.+8. Speciality and semi speciality store	1,137,317	1,085,122	87.5	87.6	-4.6
(1)Apparel	171,713	165,736	13.2	13.4	-3.5
(2)Food	344,343	323,087	26.5	26.1	-6.2
(3)Housing	621,261	596,299	47.8	48.2	-4.0
7.Speciality store	775,847	726,825	59.7	58.7	-
(1)Apparel	196,134	95,497	8.2	7.7	-
(2)Food	204,171	190,788	15.7	15.4	-
(3)Housing	465,542	440,540	35.8	35.6	-
8.Semi-speciality stores	361,470	358,297	27.8	28.9	-
(1)Apparel	65,579	70,239	5.0	5.7	-
(2)Food	140,172	132,299	10.8	10.7	-
(3)Housing	155,719	155,759	12.0	12.6	-
Other retail stores	2,230	2,680	0.2	0.2	20.2
Total number of retail outlets	1,300,057	1,238,049	100	100	-4.8

Source:Census of Commerce 2004 compiled by METI (Date of Publication:March 2006)

According to the METI Survey of Commerce, there are 1,238,049 establishments doing business in the retail trade in Japan, a decrease of 4.8% from the figure for 2002. Two trends stand out in the retail food and beverage sector: the number of specialty and semi-specialty food stores, mainly medium and small businesses characterized by face-to-face counter sales fell by 6.2%, while there was a 13.5% drop in “other” supermarkets – stores smaller than a medium-scale general supermarket. Statistically, there was a still greater decline in the number of department stores

(14.9%), although this is attributable to large-scale restructuring at the lowest-performing outlets in the department store chains. The number of outlets in the remaining sub-sectors grew over the period: convenience store locations increased by 2.3%, general supermarkets by 0.4%, and food specialty supermarkets by 4.5 percent.

(4) Prospects for the Retail Food and Beverage Sector

Increased tax and social security obligations, rising interest rates and intensifying competition once again threaten the food retailing business environment. In addition, department store sales, which had enjoyed an upturn from the fall of 2005, were hit by unseasonably cold weather in the early spring among other factors, to again fall below the level of the previous year. Urban department stores, benefiting from strong sales of luxury items, are embarking on major remodeling projects and establishing new locations, but observers and analysts are concerned that increased costs and heightened competition may worsen the department store profit picture moving forward.

In the supermarket sub-sector, monthly growth rates for same-store sales turned negative again in January 2006. Performance has remained lower than the previous year in every month since, with no turnaround in sight. Meanwhile, new revisions to three laws governing urban development (adopted in May 2006) will regulate the opening of “big box” store branches in suburban locations, making it difficult to establish large-scale venues outside major metropolitan areas. With leeway to expand into the suburbs greatly decreased by the legislation, competition is expected to heat up between retail food operations in the central business districts of Japan’s cities.

Convenience stores, too, are experiencing a continued decline in same-store sales. Approaches that major CVS players and medium-sized enterprises are considering to return to growth include developing new locations and formats, such “fresh convenience stores” (featuring a wide variety of produce and other fresh foods), and combined or co-located stores.

(5) New Distribution Channels in the Retail Food Sector

Explosive growth of TV and online shopping

Television, online, and mobile shopping (with wireless devices) are all growing at an extremely rapid pace. Increasingly health-conscious consumers with a variety of purchasing channels available are driving up sales of health foods, as well as organic food delivered direct from the farm. Total food sales through direct marketing channels reached \$1,579 million (¥189.544 billion) last year.

Steady growth seen in the take-out market

Although there are still no precise sales statistics for the take-out market, there is a reliable estimate based on a study by the Japan Meal Replacement Association (JMRA), the source closest to Japan’s market for pre-prepared and ready-to-eat foods. According to the 2003 JMRA survey, combined sales for prepared dishes at delicatessen specialty shops, department stores, general supermarkets, food supermarkets and convenience stores totaled \$58 billion (¥6.97 trillion).

As the number of working wives and senior households increases, the take-out market seems poised for continued robust sales moving forward.

Proliferation of fresh food convenience stores

The newest and hottest segment of the CVS industry is the so-called fresh convenience store. A series of chains have followed pioneer Shop 99 into the “one-price fresh foods” field in 2005 alone, including Lawson Store 100, AM/PM Food Style 98 and Three F Company’s Qs Mart. By carrying fresh food along with their other food products and everyday necessities and selling most or all items for 100 yen or less, the fresh convenience store combines the best features of the traditional CVS, supermarket and 100-yen shop. Consumers are attracted by the 24/7 access that characterizes convenience stores, but also benefit from a supermarket-like product lineup featuring fresh food products.

Foreign Retailers in Japan

Since 1999, a huge amount of circulating capital has been invested by a series of the world’s biggest retailers moving into the Japanese market. By 2006, Wal-Mart (USA), Costco (USA), Carrefour (France), Metro (Germany), and Tesco (UK) were all doing business in Japan. However, they have not found the going easy in a market of the world’s most value-conscious, quality-obsessed consumers. Indeed, some overseas enterprises, most notably Carrefour, have run into financial difficulties. Carrefour sold all eight of the stores it owned to Japan’s largest supermarket chain – Aeon – in March 2005 and withdrew from the market altogether.

Wal-Mart gained its foothold in Japan by acquiring a 6.1% share of Seiyu, another of the nation’s major supermarket chain operators, in 2002. The giant U.S. retailer increased its ownership in 2005, taking a controlling share and making Seiyu a Wal-Mart subsidiary. Wal-Mart then moved aggressively to restructure the seriously underperforming supermarket, by, among other things, promoting one of its own executives to the Seiyu CEO post. Nevertheless, Seiyu has continued running in the red every year from 2003 through 2005, and it now seems that success for Wal-Mart in Japan will take quite some time.

(6) Japan’s Food Self-Sufficiency

Japan has steadily grown less self-reliant for its food supply. On a calorie basis, the nation’s rate of self-sufficiency has plummeted, from 73% in 1965 to 43% in 1995, and remains on a downward trajectory: in the five years from 2000 to 2004, the rate fell to 40 percent. Grains are likewise mostly imported today, with the rate of self-sufficiency falling from 73% forty years ago to 28 percent. Self-sufficiency has even slipped significantly for Japan’s staple, rice, down from 80% to 60% over the same period. From an international perspective, the nation’s food self-sufficiency is also very low compared to other industrialized nations. Japan’s 40% rate compares unfavorably to Australia (230%), France (130%), the United States (119%), and England (74%). Barring special government measures to markedly increase self-sufficiency, it seems reasonable to believe that Japan will continue to depend on foreign sources for about 60% of its food.

Rate of food self-sufficiency

Unit:%

Main Agricultural Products	1965	1975	1985	1995	2000	2001	2002	2003	2004
Rice	95	110	107	104	95	95	96	95	95
Wheat	28	4	14	7	11	11	13	14	14
Beans	25	9	8	5	7	7	7	6	6
Vegetables	100	99	95	85	82	82	83	82	80
Fruits	90	84	77	49	44	45	44	44	39
Meat	90	77	81	57	52	53	53	54	55
Chicken eggs	100	97	98	96	95	96	96	96	95
Milk and dairy products	86	81	85	72	68	68	69	69	67
Fish and seafood	100	99	93	57	53	48	47	50	49
Fat and oil	31	23	32	15	14	13	13	13	13
Grain self-supporting ratio for human and animal feed	62	40	31	30	28	28	28	27	28
Grain self-supporting ratio for human	80	69	69	65	60	60	61	60	60
Total food self-sufficiency ratio (calorie supply basis)	73	54	53	43	40	40	40	40	40
Total food self-sufficiency ratio (production basis)	86	83	82	74	71	70	69	70	70

Source:Census of Food, Agriculture and Farming Community 2006 (Agriculture, Forestry and Fisheries Ministry)

(7) Advantages and Challenges

This section of the report distills the major trends in the Japanese market into five key phrases: food safety, health consciousness, stable supply, price and quality, and cultural influences. It examines the advantages – the strengths and market opportunities – and the challenges – weak points and threats – that each of these topics presents to food imports from the United States.

Advantages VS. Challenges Facing American Agriculture in Japan**Advantages VS Challenges Facing American Agriculture in Japan**

Key Words	Advantages	Challenges
Food Safety	The United States boasts the world's most advanced traceability technology. American agriculture can successfully differentiate itself from Japan and third countries on the food safety issue by increasing disclosure concerning its livestock rearing practices and agricultural production methods.	The ban on imports of U.S. beef in response to the BSE cases demonstrates that food safety management still faces challenges.
Health Consciousness	The increasing popularity of organic food works to the advantage of enterprises from the United States, an advanced nation in terms of natural foods. The health and organic foods segment in Japan shows the greatest market growth potential. Companies such as Whole Foods with know-how in this area are likely to see their methods for success catch on in Japan.	While some American food companies, such as Kellogg, are competitive in the area of FOSHU foods (Foods for Specified Health Use), inroads in this sub-segment will require stronger alliances between the U.S. firms and their Japanese trading house or food company partners. American snack foods correlate to obesity in the mind of the Japanese consumer. Overcoming this image means pushing snacks that offer added health value, such as reduced calories.

Key Words	Advantages	Challenges
Stable Supply	The United States has always been Japan’s most stable source of food, and no other country can challenge America’s position as Japan’s biggest import partner for key food products including grains and meats.	Although there are no problems with America’s supply capability per se, the United States should focus on achieving a supply that is both steady and consistently safe.
Price and Quality	Scientifically managed, large-scale American-style agriculture can produce food of dependable quality in volume. The economy of scale enables the U.S. to deliver at lower cost than Japanese or third country producers, while still maintaining a high level of quality. Japan’s farms provide high quality food, but their products are generally expensive.	Product groups where Japanese and other Asian producers have the advantage of proximity to the consumer – such as fresh fish, produce and daily-delivered foods (natto, milk, etc.) – account for a substantial portion of total sales in Japan. America competes at a disadvantage with Japan and the nations of Asia for products with a very short shelf-life, such as fresh vegetables.
Cultural Influences	Advantages: Consumers in Japan are strongly influenced by American food culture via the Japanese media. American food like hamburgers, pizza, potato chips and other snacks are well-liked by a cross-section of the population from children to senior citizens, and especially among young people in their teens and twenties.	While America is strong in inexpensive snack foods and fast food fare, it is at a competitive disadvantage against the strongest brands in respect to more expensive gourmet offerings, including cheese and chocolate.

Foods for Specified Health Use: Functional foods, approved by the Ministry of Health, Labor and Welfare, considered to have benefits in maintaining or improving health, by, for example, reducing cholesterol. In an aging society of strongly health-conscious consumers, these FOSHU foods have become very popular.

II. ROAD MAP FOR MARKET ENTRY

A. Cross Section Entry Strategy

Over the past three years, food products from the United States have accounted for 25% of the total food import market in Japan on a value basis, making the U.S. Japan's largest food import partner. In the wake of the BSE issue, the U.S. share dipped to 22.6% for a time in 2005, but U.S. imports stand to recover from the damage over time. However, other challenges may be more daunting. Absent a radical change in Japanese food preferences, it seems unlikely that the kind of groceries that routinely find their way to Western tables – frozen and processed foods – will penetrate the market in Japan significantly further than they already have. Moreover, Japan's declining birthrate and graying society are already having profound demographic effects: from 2005, the population in Japan has started contracting. Exporting nations can no longer count on automatic growth in Japanese food imports.

What can the U.S. food industry do to increase its exports to Japan in this environment? Finding the answer means focusing on two major currents in the Japanese market – changes in the distribution structure, and the rapid growth of the Home Meal Replacement (HMR) pre-prepared food segment.

Food from overseas traditionally enters Japan through trading conglomerates and other importers, then passes to food processors and wholesalers before reaching major retail chains – mostly supermarkets and convenience stores – and the final consumer. However, the trading companies are currently engineering a tectonic shift in this distribution paradigm.

The distribution channel shakeout reflects an evolution in Japanese eating habits. Retail food sales have been languishing across the board – at supermarkets, convenience stores, department stores and other venues – with the exception of a single market sector which is expanding at a brisk rate: the business for HMR products. As the term “home meal replacement” implies, these are ready-to-eat items targeting the rapidly growing number of singles households, working women and others in Japan's changing social structure who have fewer opportunities to cook and eat at home, and seek to substitute prepared dishes or obento-style boxed meals available at their nearby supermarket or convenience store for a home-prepared meal.

(1) Strengthen Partnerships with the Trading Companies

Japan's five biggest trading companies are aggressively investing in capital alliances with the wholesale and retail industries to build an integrated distribution system linking upstream (import), mid-stream (wholesale) and downstream (retail) operations. Historically, the trading companies have primarily been involved in the import and sale of basic food such as wheat, but they are now working to extend their influence to wholesalers in the middle of the supply chain and the closest link to the consumer, retail businesses such as convenience stores and supermarkets. The move is driven by the trading companies' realization that there is no more growth to be squeezed out of what has been their bread and butter, the raw material import segment of the distribution chain, without linking to the other segments.

The general trading companies are accelerating the formation of a keiretsu-style vertically integrated structure in the wholesale industry. In 2004 Mitsubishi Corporation brought the wholesale operations of Meidi-ya Co. and leading confectionery and snack wholesaler San-Esu

Inc. under its corporate umbrella, while Itochu Corp. increased its stake in another key food wholesaler, Nippon Access. Not to be left behind, Mitsui & Co. quickly formed a series of capital tie-ups with regional wholesalers. After all this consolidation, of the top 10 food wholesale operations, Ryoshoku and Meidi-ya are now tied in with Mitsubishi Corp.; Nippon Access, Itochu-Shokuhin and Nishino Co. are all in the Itochu Group, while Mitsui Foods is part of the Mitsui & Co. keiretsu. Only a few major independent wholesalers remain: Kokubu, Nihon Shurui Hanbai and Asahi Shokuhin. The industry has essentially split into a bipolar structure – Mitsubishi Corp. vs. Itochu Corp. – with Mitsui & Co. and its growing collection of regional players gunning for the leaders from behind.

Likewise, the trading conglomerates are vying for control in the retail food sector, through a series of aggressive investments. Without any major wholesale operations in its portfolio, Marubeni in particular positioned food retail distribution as a priority investment field, acquiring a 10.8% stake in Daiei, a 36% interest in Daiei-affiliated supermarket chain Maruetsu, and 12.5% of the shares of Tobu Store. In addition, Marubeni has a 20% interest in Metro Cash & Carry, the Japan subsidiary of German wholesale giant Metro Group. Meanwhile, Sumitomo Corp. owns 100% of the Tokyo area Summit food supermarket chain, and played an intermediary role in the deal that made Seiyu a Wal-Mart subsidiary. Mitsubishi Corp. acquired a 20% interest in Lawson in March 2003. In September 2005, the company also increased its investment to 20% in Life Corporation, a major supermarket chain based in Osaka. Early on, in 1998, Itochu Corp. acquired Family Mart from Seiyu. Mitsui & Co. formed an alliance with Ito-Yokado in 2001, and has since bolstered the relationship with Ito-Yokado holding company Seven & I Holdings.

All of this suggests that Japan's general company firms are intent on controlling the entire imported food distribution process, from the docks to the dinner table. Clearly, the key to increasing American food imports lies in finding ways to strengthen strategic partnerships with these powerhouses.

TOP 10 Food Wholesalers (2005)

Company Name	Total Sales (\$ Million)	Relation between trading company and food wholesaler
Kokubu	10,574	Mitsubishi Corp.(cooperative relationship)
Nippon Access	6,597	ITOCHU Corp. (affiliated company)
Ryoshoku	6,180	Mitsubishi Corp.(affiliated company)
Mitsui Foods	4,519	Mitsui & Co., Ltd. (affiliated company)
ITOCHU-SHOKUHIN	4,515	ITOCHU Corp.(affiliated company)
Kato Sangyo	3,947	Mitsubishi Corp. (capital alliance)
		Sumitomo Corp.(capital alliance)
		Mitsui & Co., Ltd. (capital alliance)
Meidi-ya	3,176	Mitsubishi Corp.(affiliated company)
Nishino	2,746	ITOCHU Corp.(affiliated company)
		Nisshino will be merged with Nippon Access on April 2007.
RY Foods Service	2,489	RY Foods Services was merged by Ryoshoku on Oct 2006.
Yamae Hisano	1,831	Independent wholesaler

Source: Teikoku Data Bank Industry Trend 2007-I

(2) Providing Meal Solutions to Take On the Take-Out Market

METI statistics indicate that the overall retail food market has been shrinking on a dollar basis, from \$345.3 billion in 2001 to \$333.5 billion in 2005, a 3.4% decrease in five years. Yet the pre-

prepared foods segment has grown at a robust 4.9% rate in the last three years, to a total value of \$59.9 billion.

As large-scale general supermarkets evolve into still larger footprints, they seek to differentiate themselves by concentrating on ready-to-eat prepared food. Dishes with regional flair and flavor and food courts with an upscale feel are some of the hypermarkets' more popular offerings. However, most of today's general supermarket food sales space is nondescript. While the venues are invariably spacious, their grocery lineups mostly consist of the same national brand products, making it seem that except for low price, the chains are not particularly interested in competing with one another on a product basis. It is against this background that the stores have begun emphasizing take-out items as the ticket to separate themselves from the competition. Conditions are similar at food supermarkets, where national brands tend to dominate the stores' lineup of dry grocery products – canned goods, packaged foods and other long shelf-life items. For these retailers, fresh food and prepared food items can have an important role in the differentiation strategy. The same is true of convenience stores. As the chart below indicates, CVS annual take-out sales of \$16,230 billion ranks ahead of both general supermarkets and food markets, placing convenience stores at the center of the HMR segment.

What practical steps can be taken to sell imported American food into this key market? First, find out who is actually developing the meal replacement products and menus the stores use – a number of food manufacturers, prepared dish providers and food wholesalers are deeply involved in these operations. For all of them, take-out recipe research and development is a path to the market. They offer meal solutions to supermarkets and convenience stores, each company emphasizing its own products as the key ingredients for attractive, great-tasting side dishes.

Food wholesalers would like to develop these menus because they know that if they can get the retail stores to use them, they can sell all the menu ingredients together. By the same token, it is also a convenient arrangement for the supermarket or food manufacturer who adopts the recipes, since these firms can then leave all the ingredient procurement to the wholesaler who created the menu. Thus, from the standpoint of expanding U.S. food sales, it behooves American companies to form alliances with the major wholesalers and manufacturers involved in developing the recipes. They can begin creating recipes together – using American ingredients, seasonings and so on – and sell everything in the menu to food retailers.

Home Meal Replacement Market

Unit: U\$ Million

Business Category	1997	1999	2003	2004	Yr/Yr	Number of Stores	Store Sales
Speciality Store and Others	22,417	22,386	22,964	23,193	100.99		
Department Store	146	141	119	107	90.57	308	
Supermarket	2,598	2,982	7,036	7,368	104.72	11,195	41.84
Food Supermarket	11,143	12,004	12,316	13,016	105.69	17,526	78.98
Convenience Store	12,884	13,762	15,635	16,230	103.8	42,738	89.12
Total	52,929	54,801	58,070	59,914	103.18		

Source: Japan Meal Replacement Association

B. Supermarkets and Department Stores

Entry Strategy

(1) Supermarkets

Since retail food sales comprise more than 50% of total sales at Aeon, Ito-Yokado and Japan's other key general supermarket chains, the Foods Division is positioned as a crucial profit center for all these enterprises. In particular, the big players are working to strengthen their prepared meals operations, a segment enjoying robust growth. There are many examples of aggressive investment in this area, one being the move by Aeon Co. – the largest of Japan's general supermarket chains – to acquire Origin, itself Japan's dominant chain in the (bento) boxed-meal market. This, in turn, was part of Aeon's larger effort to assemble a full lineup of prepared meal category killers under its corporate umbrella.

Meanwhile, food supermarkets are under increasingly intense price pressure from the so-called fresh convenience stores that handle a competitive array of fresh food products. At the same time, they are being squeezed by the growth of the HMR segment, because this is pushing traditional food and ingredient sales down. In response to these market trends, Daimaru Peacock opened a natural market inside a high-rise complex, offering a full line of healthy take-away foods, including macrobiotics, targeting working women, middle-aged and older health-oriented consumers. Another food supermarket, Red Cabbage KK, is enjoying strong performance at its upscale Yamaguchi venue with a line of delicacies such as shark fin and caviar.

As the discussion to this point suggests, analysis of the Japanese supermarket sector shows that the two keys to expanding sales are health-conscious ingredients and ready-to-eat meal solutions. It follows that bolstering U.S. imports will entail providing these meal replacement solutions – with American ingredients – to Japan's supermarkets. This, in turn, means strengthening partnerships with the trading companies and wholesalers who hold sway over the supermarkets' product selections. By being proactive in developing menus, recipes and healthy diet propositions for these supermarkets, American companies stand to get more of their food product consumed in the Japanese market.

(2) Department Stores

Normal food sales and food gift sales are the crucial components of any plan to enhance total sales to department stores. The strategy for regular food sales involves strengthening partnerships with the All-Nippon Department Stores Development Organization (OAD), a joint purchasing alliance for the nation's department stores (25% of which are members), and using OAD as a springboard to push the merits of U.S. food products. In addition, since department store take-away meal purveyors are tenant operations, it will be helpful to provide these enterprises with HMR menus developed jointly with their wholesale suppliers, featuring the U.S. food products.

Department stores are critical venues for food gift sales. Some 38.4% of department stores' total food sales are gift products, compared with just 6.3% at supermarkets and 1.2% at department stores. The department store food gift market was worth \$7,250 million in 2004. Although this segment has shrunk by 20% in the last 10 years due to reduced corporate demand in the wake of Japan's prolonged economic downturn and the decline of traditional formalized gift-giving by individuals, it remains an important sales channel for upscale and gourmet American foods. Best-selling gifts include ham and sausage, fruits and vegetables, fish, cheese, butter and alcoholic

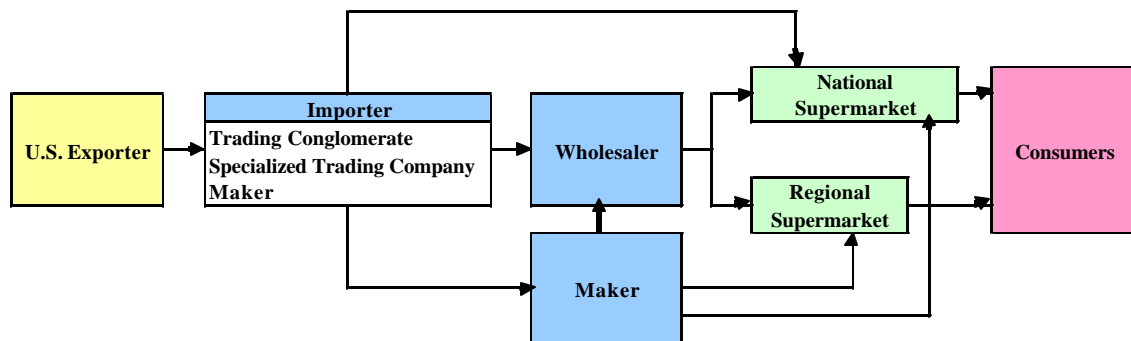
beverages. To sell imported American items in this mix, suppliers need to provide unique products that would normally be difficult to obtain in Japan, and that offer a degree of connoisseur/snob appeal.

Market Structure

(1) Supermarket

Supermarkets purchase foreign food products from importers – including Japan’s major trading groups, specialized food trading companies, and manufacturers – either directly or through wholesalers. Typically, supermarkets deal with conglomerates such as Marubeni and Mitsui & Co., food traders like Toyo Suisan and Tosoku Ltd., and food manufacturing firms such as Ajinomoto and Kirin Beer.

Giant nationwide supermarket chains including Aeon and Ito-Yokado purchase their food through three channels: (1) direct from the importers; (2) direct from the manufacturers and processors; and (3) from these foodmakers via wholesale distributors. Regional food supermarkets employ similar distribution channels, although they mainly purchase from wholesalers, whereas the major national chains rely more on direct routes.

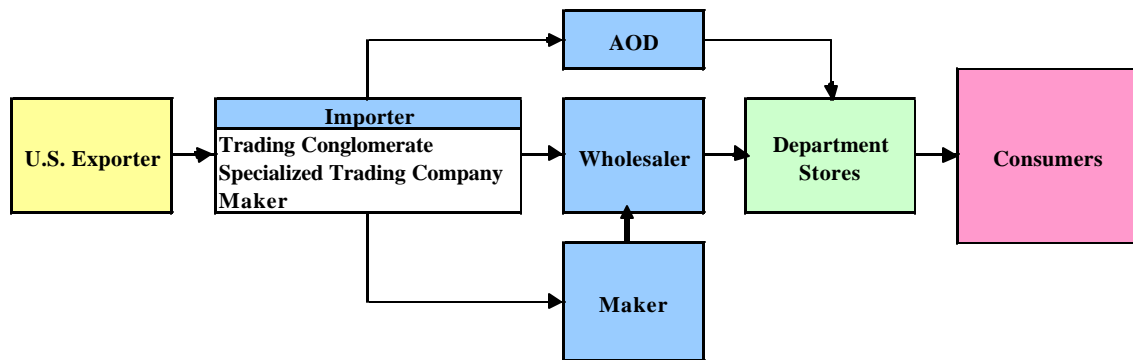


Source: Food Distribution Statistical Year Book (Distribution Systems Research Center)

(2)Department Store

Department store food floors display numerous fresh and processed items, side dishes, beer, wine and a wide array of other food and related products. Although the vast majority is purchased from wholesalers, 25% of the members in the Japan Department Stores Association also belong to the industry’s development organization, the AOD, which is focused on joint purchasing. The AOD is comprised of 32 leading department stores, including Isetan, Matsuya and Tobu Department Store Co., and a total network of 67 stores, and functions as a purchasing cooperative for both domestic and imported products. Import purchases center on high-end European food and beverages such as offerings from the Hediard gourmet shop in Paris, and French wine from Lucien Lurton & Fils, one of the region’s most prestigious wine merchants.

In addition to the expansive floor displays, department store food floors generally host tenants including delis, bakeries and pastry shops, all of whom purchase their ingredients from a variety of wholesale channels.



Source:Food Distribution Statistical Year Book (Distribution Systems Research Center)

Company Profile

Top 10 Supermarkets (2005)

Company Name	Sales (U\$ Million)	Food Sales (U\$ Million)	Number of Outlets	Location	Type of Purchasing Agent
Aeon (ex-Jusco)	15,774	7,973	387	Nationwide	Wholesalers, Manufacturers, Direct Import, Trading House
Ito-Yokado	12,447	5,578	180	Nationwide	Wholesalers, Manufacturers, Direct Import, Trading House
Seiyu	6,046	4,926	211	Nationwide	Wholesalers, Manufacturers, Direct Import, Trading House, Wall Mart
Daiei	9,796	4,351	208	Nationwide	Wholesalers, Manufacturers, Direct Import, Trading House
Uny	5,996	3,291	156	Kanto, Tokai, Hokuriku, Kinki	Wholesalers, Manufacturers
Life	3,223	2,526	188	Kanto, Kinki	Wholesalers, Manufacturers
Yoku Benimaru	2,412	1,681	113	Tohoku, Kanto	Wholesalers, Manufacturers, Direct Import, Trading House
Maretsu	2,564	1,503	204	Kanto	Wholesalers, Manufacturers, Direct Import, Trading House
Heiwado	2,864	1,478	93	Kansai, Hokuriku	Wholesalers, Manufacturers
Izumiya	2,752	1,467	87	Kinki	Wholesalers, Manufacturers

Source: Teikoku Data Bank Industry Trend 2007-I, GMS/Food Supermarkets (Jitsumukyoiku-Shuppan),
The Japan Food Journal (July 28, 2006)

Top Supermarkets by Prefecture (2005)

Source: Food Supermarket (Ryutsu Kikaku)

Hokkaido & Tohoku

Unit: U\$ Million

Area Prefecture	Rank 1		
	Name	Food Sales	No. of Stores
Hokkaido	Co-op Sapporo	1,071	71
Tohoku			
Aomri	Universe	426	23
Iwate	Joice	313	35
Miyagi	York Benimar	596	33
Akita	Maxvalu Tohoku	309	42
Yamagata	Yamazawa	386	39
Fukushima	York Benimar	835	51

Kanto

Unit:US\$ Million

Area Prefecture	Rank 1		
	Name	Food Sales	No. of Stores
Ibaraki	Kasumi	865	76
Tochigi	Torisen	273	22
Gunma	Beisia	529	29
Saitama	Yaoko	819	55
Chiba	Ito-Yokado	670	21
Tokyo	Seiyu	1,106	77
Kanagawa	Co-op Kanagawa	960	127

Chubu

Unit:US\$ Million

Area Prefecture	Rank 1		
	Name	Food Sales	No. of Stores
Koshinestu			
Yamanashi	Ogino	379	33
Nagano	Seiyu S.S.V	497	59
Niigata	Harashin	520	38
Hokuriku			
Toyama	Oosakaya	196	14
Ishikawa	Maruei	172	20
Fukui	Youth	213	28
Tokai			
Gifu	Valor	566	47
Shizuoka	Maxvalu Tokai	444	35
Aichi	Uny	1,309	54
Mie	Maxvalu Chubu	477	55

Kinki

Unit:US\$ Million

Area Prefecture	Rank 1		
	Name	Food Sales	No. of Stores
Shiga	Heiwado	795	64
Kyoto	Kyoto-Coop	434	23
Osaka	Mandai	1,112	105
Hyogo	Co-operative Kobe	1,649	153
Nara	Okuwa	278	30
Wakayama	Okuwa	543	50

Chugoku

Unit:US\$ Million

Area Prefecture	Rank 1		
	Name	Food Sales	No. of Stores
Tottori	Marugo	181	26
Simane	JA Izumo	82	9
Okayama	Sanyo-Marunaka	479	49
Hiroshima	Izumi	357	27
Yamaguchi	Marukyu	339	47

Shikoku

Unit: US\$ Million

Area Prefecture	Rank 1		
	Name	Food Sales	No. of Stores
Tokushima	Marunaka	224	24
Kagawa	Marunaka	649	62
Ehime	Fuji	432	44
Kochi	Sunny Mart	275	20

Kyushu & Okinawa

Unit: US\$ Million

Area Prefecture	Rank 1		
	Name	Food Sales	No. of Stores
Kyushu			
Fukuoka	Sun Live	547	44
Saga	Maxvalu Kyushu	93	14
Nagasaki	Nakamura Store	242	26
Kumamoto	Sun Live Marusyoku	141	17
Oita	Sun Live Marusyoku	331	55
Miyazaki	A Coop-Miyazaki	180	44
Kagoshima	Taiyo	666	71
Okinawa	San-A	509	52

Top 10 Department Stores (2005)

Company Name	Total Sales (\$ Million)	Food Sales (\$ Million)	Number of Outlets	Location	Type of Purchasing Agent
Takashimaya	7,036	1,657	20	Nationwide	Wholesalers
Mitsukoshi	6,565	1,620	17	Nationwide	Wholesalers
Seibu	4,024	938	16	Nationwide	Wholesalers
Sogo	3,956	922	12	Nationwide	Wholesalers
Daimaru	3,926	865	10	Nationwide	Wholesalers
Kintetsu	2,506	719	10	Kinki	Wholesalers
Isetan	3,702	683	7	Kanto	Wholesalers
Hankyu	2,522	643	11	Kanto, Kinki	Wholesalers
Matsuzakaya	2,501	534	9	Nationwide	Wholesalers
Marui	4,141	436	27	Kanto, Kinki	Wholesalers

Source: Teikoku Data Bank Industry Trend 2007-I, The Japan Food Journal (July 28, 2006), Financial Statements

C. CONVENIENCE STORES**Entry Strategy**

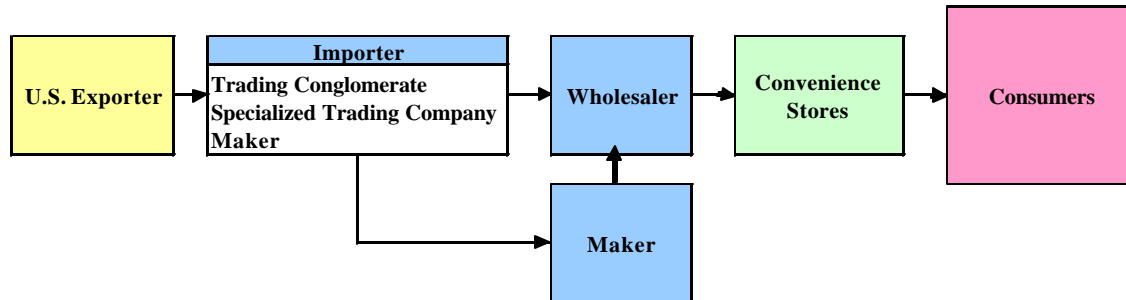
With an annual product turnover near 70%, convenience stores are the market's laboratory for new products and new ideas. Japan's various CVS chains are focused on developing original products for their mainstay fast food business. Seven-Eleven is typical: the chain works together with manufacturers of everything from bento box lunches, side dishes and tsukemono (pickled vegetables) to bread and noodles in order to create signature take-away offerings. Seven-Eleven is also establishing a process center system for storing and processing its bulk purchases of meat, vegetables, seasonings and the other ingredients incorporated in its original fast food items.

In a key recent development, the chains are establishing a new generation of convenience stores that provide a wide-ranging lineup of organic-ingredient health foods, prepared in kitchens on site. For example, Lawson Inc. bakes and sells its own breads on site at its Natural Lawson outlets, while at Three F Co.'s "Gooz" stores, all the store-branded bento boxes and take-away dishes are prepared on the premises. This specialized CVS format registered 0.2% year-on-year growth, a first step in testing the proposition that with innovative responses to a changing demand environment, convenience chains can continue to squeeze profit out of a saturated market.

Whether or not U.S. producers and foodmakers can leverage these trends to increase American exports depends on how successful they are in forming stronger alliances with their Japanese wholesale and manufacturing partners so they can get the convenience store chains to use American ingredients in their store-prepared take-away meal solutions.

Market Structure

Food wholesale distributors and manufacturing firms are the main supply sources for convenience stores. The venues are designed to handle nearly 3,000 products, including a variety of sundries, from newspapers and magazines to cosmetics in addition to food – all in a tiny 100 square meter footprint. Mainstay products are fast food items, such as bento boxes and sandwiches; temperature-controlled, daily delivered food, including juice in aseptic ("Tetra-Pak") cartons, milk and dairy products; and seasonings, canned goods, and processed food in retort pouches. Together, they account for 70% of all convenience store products.



Source: Food Distribution Statistical Year Book (Distribution Systems Research Center)

Special note: Because Japan's train station kiosks have been evolving away from their traditional newsstand look, developing into a convenience store format, these venues are included in the statistics for convenience stores. In Japan "Gas Marts" (gasoline station convenience stores) do not comprise a large enough market to track statistically. It does merit mention that the combined gas station and convenience store is emerging as a distinct new format: Seven-Eleven has teamed with Exxon Mobil, while Mini Stop has formed an alliance with Cosmo Oil to develop these outlets. However, only 12 new gas marts opened in Japan last year.

Company Profile

Top 10 Convenience Stores (2005)

Company Name	Parent/Affiliate Company Names	Sales (U\$ Million)	Number of Outlets	Location	Type of Purchasing Agent
Seven-Eleven	Seven-Eleven Japan (Seven & i Holdings.)	20,823	11,454	Nationwide	Wholesalers, Trading House
Lawson	Lawson (Mitsubishi Corp.)	11,337	8,366	Nationwide	Wholesalers, Trading House Daiji, Marubeni
Family Mart	Family Mart (Itochu Group)	8,598	6,839	Nationwide	Wholesalers, Trading House Itochu Group
Circle-K	Circle-K Japan (Uny)	7,490	6,300	Nationwide	Wholesalers, Trading House
Mini Stop	Mini Stop (Aeon)	2,168	1,641	Nationwide	Wholesalers, Trading House Aeon Group
Daily Yamazaki	Daily Yamazaki (Yamazaki Baking)	1,997	1,854	Nationwide	Wholesalers, Trading House
AM/PM	AM PM Japan (Rex Holdings)	1,577	1,364	Nationwide	Wholesalers, Trading House
Seiko Mart	Seicomart Company (Independent)	1,240	1,012	Hokkaido, Kanto	Wholesalers, Trading House
Poplar	Poplar (Independent)	983	818	Kanto, Kinki, Hokuriku, Chugoku, Sikoku, Kyushu	Wholesalers, Trading House
Three F	Three F (Independent)	904	649	Kanto	Wholesalers, Trading House

Source: Teikoku Data Bank Industry Trend 2007-I, Convenience Industry Trend Guide Book (Shuwa System), Financial Statements

D. Traditional and Specialty Markets

Entry Strategy

Growth is sluggish at specialty food stores and more traditional small retail outlets, which have suffered a relative decline in competitiveness at the hands of beefed up food divisions at supermarkets, convenience stores and department stores. According to the METI Index of Sales Statistics, this market category has been losing value every year in the new century, dipping from \$230 billion in 2001 to \$211 billion in 2005.

The best hope for increasing American imports into this sub-sector is to narrow the focus to specialty food stores, with their large base of customers who would be happy to purchase imported products. Indeed, they are already doing so, as strong sales of imported natural cheese and organic foods to these sophisticated consumers suggests. The natural cheese example is a good one. Now that shoppers, especially women, have become more knowledgeable about cheese, they are not only purchasing the mild, mellow varieties, but also the more robust blue mold types with stronger odor and flavor. American companies should strengthen their relationship with their Japanese import partners and bolster their sales promotion efforts to establish a larger presence in these specialty food stores.

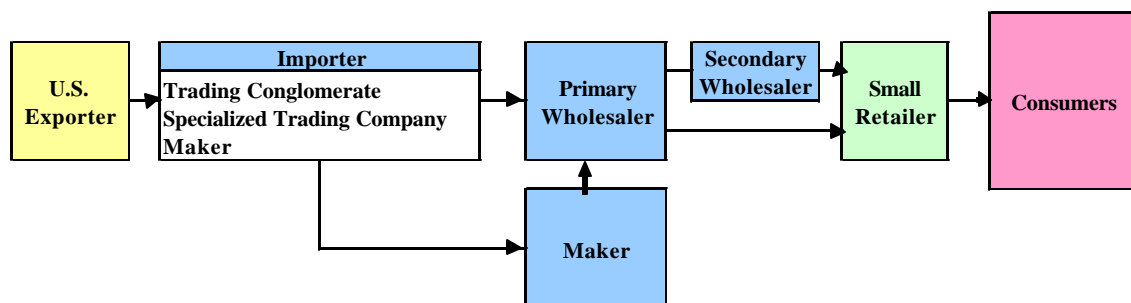
Market Structure

There are two distribution channels in this market:

- (1) Manufacturer → wholesaler → retailer
- (2) Manufacturer → primary wholesaler → secondary wholesaler → retailer

However, the smaller retail outlets and specialty stores have been moving aggressively toward dealing directly with primary wholesale distributors in recent years, in an attempt to mirror

supermarket purchasing as closely as possible and lower acquisition costs. For their part, the primary wholesalers are also trending toward contracting directly with the small and specialty food retailers, as second-layer wholesalers have been running into financial trouble in the rapidly changing distribution environment, resulting in a series of bankruptcies.



III. COMPETITION

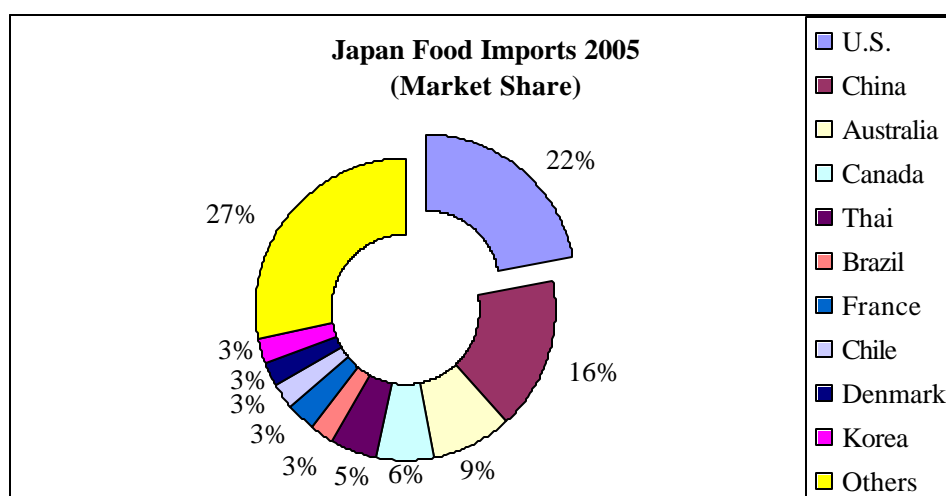
Japan Food Imports

Japan Food Imports (Top 10 countries)

Unit:US\$Million

Rank			Country	2003		2004		2005	
2003	2004	2005		Amount	%	Amount	%	Amount	%
1	1	1	U.S.	11,592	26.3%	11,308	22.8%	11,121	22.1%
2	2	2	China	6,251	14.2%	7,635	15.4%	8,148	16.2%
3	3	3	Australia	2,999	6.8%	4,344	8.8%	4,329	8.6%
4	4	4	Canada	2,615	5.9%	3,074	6.2%	3,073	6.1%
5	5	5	Thai	2,450	5.6%	2,362	4.8%	2,521	5.0%
13	9	6	Brazil	859	1.9%	1,299	2.6%	1,495	3.0%
8	7	7	France	1,299	2.9%	1,493	3.0%	1,466	2.9%
12	10	8	Chile	939	2.1%	1,238	2.5%	1,384	2.7%
7	6	9	Denmark	1,308	3.0%	1,653	3.3%	1,366	2.7%
6	8	10	Korea	1,312	3.0%	1,453	2.9%	1,351	2.7%
Subtotal				31,624	71.7%	35,859	72.2%	36,254	71.9%
Others				12,462	28.3%	13,778	27.8%	14,145	28.1%
Total				44,086	100.0%	49,637	100.0%	50,399	100.0%

Source: MOF Foreign Trade Statistics (Ministry of Finance)



The United States is Japan’s largest food import partner. That said, its market dominance has diminished somewhat. While the positions of the top five food export nations is unchanged over

the last three years, the United States has lost 4.2% of its former market share, due primarily to the effect of Japan's ban on U.S. meat imports, while China has gained 2% and Australia 1.8% in that time. Of the nations rounding out the top 10, Brazil and Chile have moved up in the rankings on market share increases of 1.1% and 0.6%, respectively.

In the wake of the BSE outbreak in North America and the ban on U.S. beef imports imposed December 24, 2003, meat from Australia filled the void, eventually accounting for 90% of all beef imports in Japan on a volume basis at 411,359 tons, a 4.4% year-on-year increase. New Zealand provided another 8% of the total – 37,953 tons – up 13.1% from the figure for the year before. The two nations of Oceania now represent America's top export competitors for beef and dairy products in Japan. Denmark and Canada share that distinction for pork.

American products that have enjoyed an increase in Japanese import on a value basis in recent years include cranberries, raspberries, almonds, potatoes, pork, mineral water and seafood products.

Summary of Competitive Situation (2005)

Product Category	Net Imports		Major Supply Source	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
	Unit	Unit			
	USMil	Ton			
Pet Foods	715	443,678	Thailand is the import volume share leader for pet food in airtight containers (24%). The United States has the top share for all other pet foods (59%).	Thai pet food is inexpensive. America is a pet-loving nation that produces a rich variety of pet products.	Japanese pet food offers high quality, and controls 73% of the domestic marketing share.
Extratropical Fruit	376	127,988	The United States is Japan's top import partner for five of the 10 main varieties of fruit in this market.	Product quality and stable volume supply.	Domestic production costs are high, making imports strongly competitive. However, domestic suppliers are themselves competitive with peaches, melons and other upscale fruit with a high sugar content.
Edible Nuts	402	73,148	Almonds and chestnuts comprise 60% of total import volume in this market. The U.S. share for almonds is 96%, while China has a 56% share for chestnuts.	American almonds are nutrient-dense.	Japan only produces two varieties of nuts: chestnuts and walnuts. Nevertheless, Japanese nut products for raw consumption are competitive.
Fresh Vegetables	970	1,125,187	The two top supply sources, China (220,000 tons) and the United States (82,000 tons) together account for 84.5% of total import volume.	Physical proximity and the ability to provide the exports quickly	Imports have increased as freshness preservation technology has improved.
Frozen Vegetables	973	783,613	America is the top exporter of potatoes and sweet corn to Japan, while China is the leader in mixed vegetables.	Price competitiveness	Local suppliers face severe price competition with exports.

Source: Agrotrade Handbook 2006 (JETRO)

Note: Categories on which this statistical analysis are based are narrow and specific. For example, fruits and vegetables are divided into extra tropical fruit, fresh vegetables, frozen vegetables and so on. The same is true of beverages, seafood and the other food categories. Therefore, the discussion for this analysis considers the overall features of the item groups considered, and focuses on items for which the imported volume is high for U.S. products. Note

that the rankings of leading suppliers reflect market share on an import value basis, unless import volume is specified.

Product Category	Net Imports		Major Supply Source	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
	Unit	Unit			
	USMil	Ton			
Beef (not including scrap meat)	2,022	459,919	Australia (90%) New Zealand (7%) Mexico (2%)	The current leading exporters are trusted for product safety as there have been no BSE outbreaks in these nations.	The quality cuts of Japanese beef that local suppliers provide for restaurant use are in high demand.
Swine Meat	4,451	884,711	U.S. (33%) Denmark (26%) Canada (23%)	In 2005, low domestic wholesale prices for American pork combined with the weak dollar to significantly enhance price competitiveness.	Pork is raised and produced on small farms for high cost.
Chicken Meat	850	419,122	Brazil (91%) U.S. (5%) Chile (2%)	Falling domestic feed prices enable Brazil to produce chicken at low cost.	Japanese consumers tend to prefer domestic chicken on both taste and safety (from avian influenza) grounds.
Cheese	738	211,692	Australia (37%) New Zealand (22%) France (7%)	For natural cheese, foreign producers leverage superior flavor and brand strength to control 90% of the market.	The tariff structure benefits Japanese producers: imported natural cheese is taxed at a 29.8% rate, while the customs duty on processed cheese is 40 percent.
Ice Cream	57	20,085	Australia (43%) New Zealand (25%) France (16%)	Ice cream from the nations of Oceania is a high quality product available at low price. Australia and New Zealand have increased their share in the supermarket private brand segment.	Japanese producers can't compete on price with New Zealand and Australia.

Source:Agrotrade Handbook 2006 (JETRO)

Product Category	Net Imports		Major Supply Source	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
	Unit	Unit			
	USMil	Ton			
Liquid and Dried Egg	140	43,288	China is the leading supplier of liquid whole egg, with a 49% share (\$6 million). The United States is the top dried egg exporter, controlling 58% of the market (\$4.9 million).	The U.S. holds cost advantages for dried egg used as an ingredient in cakes and ice cream, including fuel costs.	Japanese raw liquid egg offers higher quality than its imported competition, at a minimal price differential between domestic and imported products.
Confectionery	512	131,034	China (20%) U.S. (13%) Belgium (8%)	China is the market share leader for both senbei rice crackers and sweet confections. Belgium has a brand advantage in chocolates, while the United States is strongest in biscuits and bakery goods.	Japan's confectionery manufacturers are leaders in developing health-conscious snacks, such as chocolate with antioxidant cocoa polyphenol.
Mineral Water and Soft Drink (unit - kilolitre)	418	548,084	France is the top exporter of mineral water to Japan (\$179 million), accounting for 75% of Japan's total import volume. In the soft drink market, the United States is the top supply source (\$120 million), amounting to 67% of total import volume.	French water is rich in minerals, and the nation boasts powerful brands including Perrier and Vittel. U.S. soft drinks, particularly cola brands like Pepsi, benefit from strengths in advertising, marketing and sales.	Japan's soft water is mellow and goes down easy, but contains relatively little calcium or other minerals.
Fish and Seafood	15,203	3,343,000	China (21%) U.S. (9%) Russia (7%)	China mainly provides eel, octopus and asari clams. America's main exports to Japan are herring and cod, while Russia principally exports crab, flatfish, and turbot.	Catches continue falling in Japan's coastal waters, essentially meaning the nation must import everything it cannot cultivate in its aquafarming facilities.

Source: Agrottrade Handbook 2006 (JETRO)

IV. BEST PRODUCT PROSPECTS

Category A: Products present in the market that have good sales potential

Present Category	2005 Market Size (Tons)	2005 Imports (US\$ Mil)	5 Yr. Avg. Annual Import Growth	Import Tariff Rate	Key Constraints Over Market Development	Market Attractiveness for USA
Almond	25,268	178	32.7%	2.4% (Preferential Tariff: Custom Free)	In order to increase the demand in Japan, producers will need to offer new products and recipes incorporating the almonds.	The United States supplies 97% of Japan's almond import volume, and this volume has increased quite significantly in the last three years. Because the almond is high in nutritional value, further growth in demand is expected as an ingredient in health foods including spreads, furikake dried seasonings and juices.
Beef	808,619	2,414	1.1%	38.5%	Japan banned U.S. beef for two years in December 2003. Shortly after imports resumed in December 2005, Japan detected banned spinal material in a U.S. beef shipment, and again suspended trade until July 2006. Recent history leaves American meat with a bad image in respect to BSE.	America was the leading beef export nation until 2002. When major restaurant chains again start using U.S. beef in their dishes, much of the import volume lost to BSE can be recovered.
Mineral Water (Unit:kilolitre)	1,427,100	240	23.8%	3% (Preferential Tariff: Custom Free)	France, with 75% of the import market on a value basis, is America's strongest rival. Brand-building is the key to competing in the mineral water market.	Household demand in Japan has been rocketing up on increased consumer concern with safety and growing health consciousness. America is Japan's largest import partner in this segment. Shipments from the U.S. totaled \$313 million in 2005, up 128% over the previous year.

Source: Agrotrade Handbook 2006 (JETRO), Food Trend 2006-2007 (Nippon Shokuryo Shinbun)

Category B: Products not present in significant quantities but that have good sales potential

Present Category	2005 Market Size(t)	2005 Imports (US\$ Mil)	5 Yr. Avg. Annual Import Growth	Import Tariff Rate	Key Constraints Over Market Development	Market Attractiveness for USA
Cheese	261,822	738	8.1%	Natural Cheese (29.8%), Process Cheese (40%)	About 75% of total import volume comes from three countries: Australia, New Zealand and Germany. Various other nations in Europe are putting their efforts into cheese exports, heating up the market competition.	Per capita cheese consumption in Japan averages about 2kg, just 10% of the nearly 20kg average for consumers in Europe and the United States. This market has substantial upside potential if new ways to consume cheese penetrate the Japanese consumer consciousness.
Ice Cream	779,780	57	0%	21%	As recently as 2001 a third of all ice cream imports to Japan on a volume basis were from the United States, but that share has fallen to just one-ninth of the market today, at 925,000 tons. Australia and New Zealand are formidable price competitors, while France competes on the strength of its brands.	Consumption in any given year is strongly influenced by weather conditions, but overall demand is stable. American presence in the market can be expanded with the introduction of new health-oriented products such as low-calorie ice cream.
Chocolate	238,120	156	6.7%	10%	On an import volume basis, the United States tops the market with 19,877 tons, although the U.S. only ranks third in import value. Chief rivals are European nations including Belgium, France and Switzerland, and Australia. Domestic chocolate manufacturers Meiji Seika and Morinaga & Co. are key competitors for gourmet bitter chocolate.	Chocolate confectionary imports remain solid. Moving forward, sales of chocolate products with health-promoting ingredients (such as polyphenols) and upscale premium chocolate made with only a few ingredients – all of them choice – will likely grow.

Source:Agrotrade Handbook 2006 (JETRO), Food Trend 2006-2007 (Nippon Shokuryo Shinbun)

Category C: Not present because they face significant barriers

Present Category	2005 Market Size(t)	2005 Imports (US\$ Mil)	5 Yr. Avg. Annual Import Growth	Import Tariff Rate	Key Constraints Over Market Development	Market Attractiveness for USA
Miso	497,000	NA	NA	14%	Miso is both a basic flavoring and a tradition in Japanese cuisine, so in addition to major brands such as Marukome and Shinshuichi, any number of Japanese firms are capable of developing highly competitive miso products.	The soy from which miso is made is a major U.S. export, and American soy quality is high. As the Japanese diet becomes more diverse, domestic miso consumption is trending downward, but high value-added miso products (such as sodium-reduced versions for high blood pressure and cancer prevention) made from organic soy have market growth potential.
Soy Source	939,000	NA	NA	9.6%	Soy sauce is Japan's traditional all-purpose seasoning, with no shortage of manufacturers: Kikkoman, Yamasa and some 1,500 other firms throughout the nation.	Japanese soy sauce is made from soy and wheat, two key high-quality American exports. Although consumption is of soy sauce itself is slipping slightly, consumption of soy sauce-derived products such as tsuyu (base seasoning) and dashi-shoyu (soup stock) remains solid.

Source:Agrotrade Handbook 2006 (JETRO), Food Trend 2006-2007 (Nippon Shokuryo Shinbun)

IV. POST CONTACT AND FURTHER INFORMATION

If you have any questions or comments regarding this reports or need assistance exporting to Japan, please contact the U.S. Agricultural Trade Offices in Tokyo or Osaka at the following addresses:

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