



Agri-Food Past, Present & Future Report

Japan

July 2006



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Japan

Past Present & Future Report June 2006

Overview

Japan is a prosperous and technologically advanced country with the world's second largest economy (based on total GDP values), and a large affluent population of nearly 128 million. Japan is an important trade partner internationally and is the second largest single market for Canadian exporters, after the United States. Japan plays a key role in Asian economies and can provide a gateway to Canadian companies wishing to penetrate emerging markets in Asia.

Japan is active in the international community and is a member of the Group of 8 (G8), the United Nations, the Organization for Economic Co-operation and Development and the Quad (Canada, the European Union, Japan and the United States). Japan is also involved in Pacific Rim initiatives and participates in the Asia-Pacific Economic Cooperation forum (APEC) and the Association of South East Asian Nations Regional Forum (ARF).

Japan's economy is emerging from the recession and deflationary trends that it has faced since the early 1990s. In 2005, Japan saw GDP growth of 2.8% and continued growth rates above 2% are predicted for 2006 and 2007. Strong domestic and regional demand, rising corporate profits and the stabilization of local financial markets have contributed to economic growth. Japan's economic recovery will result in increased opportunities for Canadian exporters and investors.

Canada - Japan Relations

Canada and Japan share longstanding political and economic ties. Canada has had a diplomatic presence in Japan for over 75 years and established its first trade commission in Japan more than 100 years ago. High-level visits between the countries have continued to strengthen the relationship. In 2005, the Canadian Prime Minister visited Japan and launched discussions which led to the development of the Canada-Japan Economic Framework. This framework is aimed at reinforcing economic ties between the countries.

Trade and investment with Japan are very important to Canada's economy. Japan is Canada's second largest export market after the United States and third largest source of imports (after the U.S. and China). In 2005, exports to Japan were the largest in five years, having increased by over 9% since 2001. Canada also imported \$14.8 billion worth of goods from Japan in 2005, an increase from 2004 and also above the five-year average of \$14.4 billion.

In 2005, Canadian direct investment in Japan totaled \$7.4 billion, a decrease from 2004 when investment in Japan reached \$8.5 billion. Nonetheless, Canadian direct investment in Japan has increased more than 175% since 1996. Japanese foreign direct investment in Canada has increased steadily during the last ten years, and was valued at \$10.8 billion in 2005, making Japan the sixth largest foreign direct investor in Canada.

Canada- Japan Bilateral Trade (2005)	
Japan Total Trade	\$1.3 trillion
Exports	\$720.5 billion
Imports	\$624.7 billion
Trade balance	\$95.8 billion
Canada-Japan Trade	\$23.9 billion
Exports	\$9.1 billion
Imports	\$14.8 billion
Trade balance	(\$5.7 billion)
Canada-Japan Ag Trade	\$2.68 billion
Exports	\$2.63 billion
Imports	\$42.7 million
Trade balance	\$2.59 billion

- In 2005, Canada's top exports to Japan included \$1 billion in lumber, \$950 million in pork meat and \$824 million in coal.
- In 2005, Canada's top imports from Japan included \$3.9 billion in motor vehicles, \$1.4 billion in motor vehicle parts and \$522 million in self-propelled bulldozers, scrapers and graders.

Agricultural Trade

Japan has a large food trade deficit and is dependent on food imports to feed its population. In 2005, Japan was the world's third largest agri-food and seafood importer, importing \$52.1 billion in agri-food products and \$17.2 billion in fish and seafood products. The top agri-food and seafood exporters to Japan were the United States (26%), China (15%), Australia (8%), Thailand (6%) and Canada (5%).

Japan also exported \$4 billion in agri-food and seafood products in 2005. United States (18%), Taiwan (17%), Hong Kong (17%), China (12%) and South Korea (11%) were the top markets for Japanese agri-food and seafood products.

- Japan is Canada's second largest agricultural trade partner, accounting for about 10% of Canadian agri-food exports.
- Canada's total agri-food exports to Japan exceeded \$2.63 billion in 2005. These exports included \$1.2 billion or 46% in consumer goods, \$1.1 billion or 42% in bulk goods and \$323 million or 12% in intermediate goods.
- Canadian fish and seafood exports to Japan were valued at \$470 million in 2005. Top Canadian fish and seafood exports included dried, smoked or salted herring roe valued at \$64.6 million, frozen shrimps and prawns valued at \$62.2 million and frozen snow crabs valued at \$52.3 million.
- In 2005, Canada was the largest exporter of flaxseed, canola seed, mustard seed and malt to Japan. Canada was also the second largest exporter of wheat and the third largest exporter of barley and soybeans to Japan. Nearly 100% of Japan's imported durum wheat is from Canada.
- In 2005, Canada's total agri-food imports from Japan were valued at \$42.7 million; these imports included \$4.0 million in mandarins, \$2.7 million in sesame oil and \$2.6 million in sauces and preparations.
- Canada also imported \$17.1 million in fish and seafood from Japan in 2005.

Canada's Top 5 Agricultural Exports

to Japan (2005)	
Pork, frozen	\$648.0 million
Canola seeds	\$632.9 million
Pork, fresh	\$293.2 million
Wheat, non-durum	\$192.5 million
Soybeans	\$129.5 million

Complete Statistical Summary Available:
http://ats.agr.gc.ca/stats/japan_e.pdf

Economy

Japan has the second largest economy in the world after the United States, with a GDP of US\$4.6 trillion in 2005. Manufacturing accounts for over 20% of GDP, with electronics and the car industry dominating this sector. Japan is the world's largest machine tool manufacturer and one of the world's most important iron and steel makers. Although Japan is heavily-dependent on imports for raw materials, fuel and food products, Japan runs a trade surplus.

Japanese firms are key players in the Asian economy and are involved in a number of initiatives to promote greater Asian economic integration. Japan is not a member of any regional trading bloc; however, it has been promoting bilateral free-trade agreements with a number of countries. Japan signed its first Free Trade Agreement (FTA) with Singapore in 2002 and has continued to establish FTAs with Mexico, Malaysia and Thailand. Additional FTAs are being negotiated with a number of other countries.

Although, Japan has suffered from recession and deflationary trends since the early 1990s, its economy appears to be recovering. A number of factors are contributing to Japan's economic renewal; these include global economic recovery, strong regional demand for Japanese products (especially from China), increased private consumption, rising corporate profits and the stabilization of local financial markets. Despite economic recovery, high government debt continues to be a problem, as well as an aging labour force. Japan's population is aging faster than any other country in the world, placing pressure on the economic system.

The Japanese government has launched broad reforms to privatise state enterprises and deregulate much of its financial system. Currently, the most important privatisation target is Japan Post, which will be privatized between 2007 and 2017. Its privatisation will have a large impact on the financial sector because of its enormous life-insurance and postal-savings assets.

Gross Domestic Product (2005)	
GDP	US\$4.6 trillion
GDP growth	(2005) 2.8% (2006e) 2.5%
GDP/ capita	US\$35,787
GDP/ capita (PPP)	US\$30,615

Current

- In 2005, the agricultural sector contributed about 1% of GDP, industry 25% and services 74%.
- Deflation has been a problem in Japan since the 1990s, the inflation rate was -0.3% in 2005.
- Unemployment is quite low at 4.4% in 2005.
- Top industries include manufacturing motor vehicles, electronic equipment, machine tools, steel and nonferrous metals, ships, chemicals, textiles, and processed foods.
- Main imports include petroleum, machinery, food and chemicals.
- Main exports include automobiles, electrical machinery, mechanical machinery and industrial goods.
- Private consumption, imports and exports are increasing moderately.

Forecast

- Deflationary trends in Japan are expected to end in 2006. The inflation rate is forecasted at 0.2% in 2006 and 0.7% in 2007.
- GDP growth rate is forecasted at 2.5% in 2006 and 2.2% in 2007
- The unemployment rate is expected to remain stable at 4.3% in 2006 and 2007.
- The population is expected to drop from nearly 128 million in 2006 to 110 million in 2040.
- The yen is expected to continue strengthening against the US dollar.
- Private consumption is expected to continue increasing, as economic recovery encourages investment and renewed spending.

Consumer Market

General

Japan is a prosperous country with a large consumer base and a high GDP per capita (US\$35,787 in 2005). Japanese consumers have more disposable income than in many other countries and look for diverse and high-quality food products. Quality, and in particular freshness, is of utmost importance to Japanese consumers. Japanese consumers are also concerned about food safety and traceability, and will pay higher prices for food that is guaranteed safe. Japanese produced food and non-genetically modified food is popular, due to its "safe" image.

Japan has 12 urban centres with populations exceeding 1 million. The largest population centres include Tokyo/Yokohama, Osaka and Nagoya. Regional differences in consumer preferences exist; for example, consumers in Tokyo are less conscious about food costs and prefer salty and spicy foods as well as western products. In Osaka, consumers are more price-conscious and prefer less salty and spicy products. Western products are also less popular in Osaka, with consumers favouring more traditional Japanese foods.

Consumption and Patterns

Although Western dietary trends are becoming increasingly influential in Japan, consumers tend to prefer Japanese products. The Japanese diet is relatively high in

fish and seafood, with consumers eating significantly more fish and seafood than meat. Rice is a staple food in Japan; however, other carbohydrates such as starchy roots and in particular potatoes are also an important part of the Japanese diet. Fruit is popular in Japan, but consumption is limited by its high price.

The health-oriented food market is a growing sector in Japan, with an estimated annual value of \$14 billion. Japan's aging population is particularly health conscious and is driving demand for health food products. Consumers are demanding a greater variety of health-foods and functional foods, and niche products that target specific health issues are popular. Increased demand for health-oriented and functional foods, as well as organic foods, is creating new opportunities for Canadian exporters.

Convenience products such as prepared, ready to eat and processed foodstuffs have also been gaining popularity in Japan. Japanese consumers tend to eat take-out meals and pre-cooked meals more frequently than in the past and processed foods are becoming a way of life for many consumers. The market for home meal replacements is growing and could provide opportunities for Canadian food suppliers looking to expand their operations in Japan. The consumption of home meal replacements as well as restaurant meals will likely increase as the number of one-person households grows.

Presentation plays an important role in marketing in Japan; consumers place value on attractive packaging. Japanese consumers support brands associated with freshness and high-quality. Consumers also prefer small packages and serving sizes as they often have minimal storage space and families tend to be small.

Japan has one of the largest markets for ready-to-drink products in the world. Within this market, tea drinks followed by coffee drinks are the most popular. In comparison to the ready-to-drink market in Canada, carbonated beverages have a relatively low market share (16%) in Japan. Bottled water is also a growing sector, as Japanese consumers become increasingly concerned about the quality of tap water.

Although the overall demand for alcoholic beverages is declining, the wine market is growing. Despite the growing popularity of wine, beer remains the most popular alcoholic beverage. Kirin, Asahi and Sapporo are the main brewers. The second most popular alcoholic drink is sake, a traditional fermented rice drink.

Opportunities

There are significant opportunities for Canadian exporters as the Japanese economy recovers and Japanese consumers adopt a more Westernized diet. Best prospects for Canadian agri-food exporters include healthful and ready to eat food products. Furthermore, as the Japanese population ages, consumer products for the elderly have excellent prospects.

Some additional products that may have good growth potential in the Japanese market include:

- Berries, especially blueberries and lesser-known cranberries and saskatoon berries
- Bottled water

- Cereals such as bran grass and millet
- Frozen foods such as frozen fried food, noodles and hamburgers
- Health and functional foods
- Home meal replacements
- Icewine
- Natural cheese
- Organic products
- Pet food
- Pork - Japanese pork consumption and imports have increased due to concerns about Avian Flu and Bovine Spongiform Encephalopathy (BSE).

Competitors

The top agri-food and seafood importers to Japan are the United States, China, Australia and Thailand. These countries supplied more than half of Japanese food imports in 2005. United States was Japan's largest agri-food import source, while China was Japan's largest source of fish and seafood imports. Canadian producers face strong competition with the United States for wheat and soybeans and Australia for canola and wheat. Increasing low-cost competition from China is also a challenge for Canadian exporters.

Japanese companies are investing abroad in order to ensure adequate supplies of food products and to meet specialized demand. Joint ventures and Japanese owned production facilities in nearby Asian countries such as China and Thailand, as well as Australia and the United States, are also key competitors in the Japanese market.

Access Issues

Although Japan provides significant market opportunities, the size and complexity of the market poses some challenges. Commitment, resources and a local presence are key factors in business success in Japan. Challenges include high marketing costs, unfamiliar labeling laws and regulations, as well as a complex distribution system. A Japanese partner can be vital to accessing the Japanese market and ensuring that products meet regulations and standards. Furthermore, a Japanese partner can help Canadian companies maintain their global identity while tailoring products and marketing to the Japanese consumer.

"Invest Japan" offices were established in 2003 to assist foreign companies wishing to invest in Japan. The Japan External Trade Organization (JETRO) also provides trade and investment support and has offices around the world (including two branches in Canada). JETRO's Trade Tie-up Promotion helps foreign companies find Japanese partners from a large database. See JETRO's website at: <http://www3.jetro.go.jp/tppoas/index.html>

The Government of Canada's Trade Commissioner Service also provides investment and trade support to Canadians wishing to invest or trade with Japan. The Canadian government has a strong presence in Japan, which includes the Canadian Embassy in Tokyo, Consulate offices in Fukuoka, Nagoya and Osaka, as well as two Canadian Government Trade offices located in Hiroshima and Sapporo. For more information consult the Trade Commissioner Service website at: <http://www.infoexport.gc.ca/jp/index.htm>

In recent years, a number of foreign-owned subsidiaries have expanded into Japan, encouraged by increasing economic liberalisation and deregulation. Foreign enterprises are subject to registration and other requirements under the Commercial Code and the Commercial Registration Law. A foreign company is prohibited from doing business until it has met all requirements.

Japan has a modern and well developed transportation and communication infrastructure. The domestic transportation system relies heavily on the extensive rail network. Although infrastructure is highly developed, a number of problems hinder the distribution of products. In particular, Japan's roads are often inadequate and overcrowded, air transport within Japan is expensive and port practices are inefficient by global standards. Although Japan is attempting to improve business infrastructure, changes have been slow.

Overview

- Food trade events in Japan can be an important tool for Canadian exporters looking to enter the Japanese market. For a listing of upcoming events consult: http://atn-riae.agr.ca/events/events_asia-e.htm#Japan
- The internet may also be an effective way to access the Japanese market. Internet food sales are growing and are expected to reach \$28.5 million in 2006. This is of particular interest to producers of high-value and specialty goods.
- High tariffs are applied to most imported value-added processed foods as well as dairy products, roots and tubers, products of the milling industry and sugar. The Customs and Tariff Bureau is responsible for administering tariffs.
- Tariff quotas are applied to dairy products, rice, wheat, barley, prepared edible fat and starches.
- Japan has one of the world's least restricted liquor regulation laws; however, excise and sales taxes are high and competition is intense. About 80% of alcoholic beverages consumed are domestic brands.
- Japan has mandatory labeling of foods derived from biotechnology. The Food Sanitation Law and the Genetically Modified Food Labeling Standard Law specify requirements for genetically modified commodities.
- In 2003 Japan closed its borders to Canadian beef after BSE was detected. In 2005, Japan agreed to resume trade in Canadian beef from cattle aged 20 months and younger.
- Effective 2005, Japan implemented a notification policy for the importation of animals. This policy requires that a health certificate be issued by the exporting country certifying that the animals are free from infectious disease.

For more information about Import Standards and Regulations:

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

Business Travel Tips

- Business attire is more formal than in North America. Men generally wear dark blue suits with white dress shirts in a business setting.
- Seating at meetings is normally determined by the status of participants. Guests will be directed to the appropriate seat.
- Business cards play an important role in Japanese business transactions. It is considered polite to give and receive business cards using both hands.

- Entry permits for tourists are issued for a maximum of 90 days. Canadian business travelers may require a business visa, contact the Embassy of Japan or one of the Consulates prior to departure.
- A valid Canadian passport is required for Canadians intending to visit Japan. Foreign visitors are required to carry their passport at all times while in the country.
- Canadian credit cards are widely accepted. ATMs do not normally accept Canadian debit cards. Traveler's cheques can be exchanged at major banks and hotels.
- Full medical coverage is highly recommended as medical services are usually much more expensive than in Canada.

For more detailed travel information consult the Department of Foreign and International Affairs Travel Report for Japan:

<http://www.voyage.gc.ca/dest/report-en.asp?country=140000>

Agriculture Sector & Policies

Japan does not produce sufficient food to meet its needs and imports about 60% of its food requirements. Only a small portion (13%) of Japan's total area is suitable for agricultural and Japanese food production continues to decline. Labor shortages and land-use policies have driven up domestic production costs making imports increasingly competitive.

Japan's agricultural sector accounts for slightly more than 1% of total GDP and engages about 5% of the population. It is highly subsidized and is dominated by small farms. Farms are organized under a large and powerful agricultural cooperative system, which lobbies for high support prices, tariffs on imports and the maintenance of small farms.

Japanese agriculture is centered on the production of rice, livestock, fruits and vegetables. Rice is Japan's most significant agricultural commodity, accounting for about one third of gross agricultural income. Japan has also established offshore production facilities and invested in food processing ventures, particularly in China and Southeast Asia. These facilities produce products specific to the Japanese market.

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