

Agri-Food Supply Chains and Consumers in Japan
An inquiry into the current situation and the opportunities of
five Dutch product groups on the Japanese market

T.H. Jonker

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Agricultural Economics Research Institute (LEI), The Hague

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This report presents the findings of an inquiry into the current situation and the opportunities of five Dutch product groups on the Japanese market. It gives recommendations for Dutch agribusiness and food industry to enhance their success on the Japanese market. Firstly, the significance of Japan to the Dutch agricultural sector is briefly described. Secondly, general characteristics and developments of the Japanese market for agribusiness and food products are provided. Thirdly, the five product groups are discussed in detail. The product groups are chocolate products and sugar confectionery, flatfish (fillet of plaice and dab), propagating material for flowers and plants, paprika, and pork. The report is based on in-depth interviews with experts in Japan, supplemented with written data from different sources.

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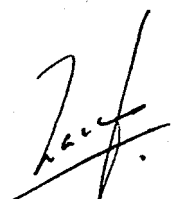
Preface

The Ministry of Agriculture, Nature Management and Fisheries has commissioned the Agricultural Economics Research Institute (LEI) to conduct a research project on 'Agri-Food Supply Chains and Consumers in Japan'. This project aims at further enhancing lasting economic co-operation between the Japanese and Dutch agribusiness and food industry.

In close co-operation with the various Dutch agricultural Product Boards and with other organisations representing producers and traders of agricultural and food products, five product groups were selected. Dutch exporters' most relevant issues concerning these product groups were explored through in-depth interviews with experts in Japan. The interviews formed the basis of this report.

The research was executed by LEI researcher Mr. Theo H. Jonker. During the past year, he talked to many experts who generously shared their professional views. We cannot thank them personally here, since the author has guaranteed them not to mention their names nor organisations. However, please note that their time, support and frankness were indispensable and are greatly appreciated. We owe many thanks to them. We especially would like to extend our gratitude to the Agricultural Counsellor – Mr. H.R. Toxopeus – and his staff – Ms. A.V. Dolgoff, Mrs. N. Sawada and Mr. Y. Akimoto – at the Royal Netherlands Embassy in Tokyo for their co-operation and commitment. The members of the supervisory committee at the Ministry of Agriculture, Nature Management and Fisheries were Mr. J. Nieuwenhuize, Mrs. A. Verbeek-Hartman, Ms. R.D.I. Parzer and Mr. R.P. Lapperre.

The managing director,



Prof. Dr. L.C. Zachariasse

Summary

Introduction about the project

The research project on 'Agri-Food Supply Chains and Consumers in Japan' aims at further enhancing lasting economic co-operation between the Japanese and Dutch agribusiness and food industry. The first objective is to provide recent information on current topics relevant to Dutch manufacturers, exporters and policy makers. The second objective is to give Japanese importers, traders and retailers the opportunity to indicate their opinions and to give their advice in order to further improve business relations between Japan and the Netherlands.

In close co-operation with the various Dutch agricultural Product Boards and with other Dutch organisations representing producers and traders of agricultural and food products, five product groups were selected. During interviews in the Netherlands the most relevant research questions were determined. On the basis of in-depth interviews with experts in Japan, supplemented with written data from different sources, the present situation and the opportunities of these five Dutch product groups on the Japanese market are described in detail. It has not been the intention to write a comprehensive overview of the market situation and all developments for these five product groups. Only the most relevant issues, determined during the interviews in the Netherlands, are touched upon.

The concluding paragraphs of the five chapters on the different product groups are printed below. They present the main conclusions and recommendations relating to the specific product groups.

Conclusions on chocolate products and sugar confectionery

For chocolate products, an important product characteristic determining the consumer's choice is the image, besides price and quality. The brand name constitutes a large part of the image. Since foreign manufacturers communicate the country of origin, consumers attach the name of the country to the product. In the case of chocolate products, Switzerland and Belgium have a strong name. Dutch manufacturers take advantage of the strong Belgian image by mentioning the usage of Belgian ingredients.

Demand for chocolate products drops drastically in summer due to high temperatures and high humidity. The peak of chocolate demand is at St. Valentine's Day (14 February) when, in Japan, only women give presents to men. Although these presents used to be chocolates only, nowadays other products are given as well. So, chocolate sales at St. Valentine's Day are lower than several years before.

Since the image of large Japanese manufacturers is too 'common' for gift products, there are opportunities for smaller and medium-sized companies and foreign brands. Their image is more exclusive. It is essential that the product meets the Japanese consumers'

requirements (price, package and product). It is important to communicate the right product characteristics to consumers, such as health-related issues. A partnership with a Japanese importer or trading company may be beneficial to a Dutch exporter, since a Japanese company could more easily develop the essential marketing and communication strategy. Japanese consumers are particularly sensitive with regard to gift items. Gift items should be within a certain price range and the manner of packing and wrapping is important. One solution is exporting a product in bulk to Japan and leaving packaging and marketing matters to the Japanese partner.

Japanese consumers demand 'something new' often. It means that domestic manufacturers introduce new chocolate products at least once a year (in September) and that the life cycle of domestic products is short.

Unlike chocolate products, sugar confectionery is sold throughout the year. Besides brand image, strong selling points for sugar confectionery are health- or function-related issues. Recent successful introductions of foreign sugar confectionery on the Japanese market are niche products with a strong marketing and communication strategy. The Japanese business partner (manufacturer or trading company) played an important role in developing the strategy for the Japanese market.

Dutch exporting companies are advised to carefully consider which market to aim at. Targeting a mass market (through outlets of major retail chains) may require costly television commercials. Prices of luxury import products may be too high and turnover too low to realise sufficient sales volume for a mass market. Most likely outlets for luxury (gift) products are speciality shops and the most luxurious 'gourmet' supermarkets.

Conclusions on flatfish: fillet of plaice and fillet of dab

Flatfish is considered as a fish species with sales potential. It has a low-fat content and fits in with the health-conscious trend of Japanese consumers. Moreover, white-meat fish is familiar to Japanese consumers.

Statements about the usage of plaice and dab differed, but the opportunities can be summarised as follows. Plaice can be exported fresh, transported by air (if the price is over JPY 2,000), for raw consumption. Or plaice fillet can be exported frozen for catering use (French-style restaurants) and to innovative retail shops and supermarket chains that pay more attention to high quality than to just low price. Dab can only be exported frozen: for catering use and for sales in supermarkets. It depends on the attitude of the individual company whether it prefers dab or plaice. In general, plaice is regarded of higher quality and better meets the consumers' demands. However, since dab costs less, some caterers and retail chains choose dab.

Since home meal replacement is popular among Japanese consumers (and its popularity will increase), fillet and fillet coated with breadcrumbs are considered more suitable than whole fish. Furthermore, the red dots on the skin of plaice are associated with illnesses by Japanese consumers, so that whole plaice cannot be sold. O-bento and home meal replacement are seen as the same or a similar market. However, ingredients are different: ingredients for o-bento tend to be of lower quality than for home meal

replacement products. Although some o-bento manufacturers use ingredients of higher quality, the price of dab (and certainly plaice) may be too high.

Frozen fish meat is offered for raw consumption in supermarkets (by a process of 'natural defrosting'). Further investigation can clarify whether this is an opportunity for (deep)frozen plaice fillet, transported by ship. It should not be communicated to consumers that it has been frozen.

Stability of both supply and price is important for processors and supermarket chains. Supply quantity should be large enough and the margin high enough for a fish species to be attractive to large Japanese importers. So, only a limited number of fish species from north-western Europe are the most likely candidates for export to Japan.

Direct importing and bypassing wholesale markets is a trend that some supermarket chains are following. However, since present sales volumes are not high, the required import quantities (set by the size of containers and by Dutch exporters) may be too large for them.

Smaller Japanese import companies may be interested in trade of small volumes. Determining the exact product to be supplied requires detailed consultation between Dutch exporters and Japanese importers. Potentially successful products are products for a niche market segment. They are probably new products to the Japanese market with a luxurious image, e.g. smoked eel. It generally means that ample marketing costs are required, since communication to Japanese consumers of the product's brand, image or other positive product characteristics is important, especially for luxurious products.

Conclusions on floriculture and arboriculture products: propagating material

Propagating material for plants and flowers is a heterogeneous group. It includes products such as seeds, bulbs, tissue culture, cuttings, seedlings and young plants. Due to the diversity of the products and the differences among them, detailed conclusions applicable to all types of propagating material are hard to draw. Indicating concrete market opportunities for Dutch products requires a narrower focus on a small group of plants or flowers than the focus of this chapter.

After determining the focus on a specific product, the following step in this approach should be specifying the most important (i.e. popular or attractive) items on the basis of consumer demand in Japan or on the basis of present supply in Japan. Then the Japanese cost price of these items should be compared with the Dutch production plus transportation costs. That will lead to a conclusion whether opportunities for Dutch exports exist, since Japan's principal argument for buying foreign products is lower costs (besides, of course, lack of domestic supply). Demand for propagating material (by growers, breeders, importers, home centre chains, and etc.) is derived from the consumers' demand for the end product, viz. flowers and plants. Further detailed investigation into consumer preferences and the present and future trends will result in an indication of possible opportunities for propagating material exports.

In broad terms, it can be concluded that the average Japanese consumer continues buying more flowers, plants and gardening products. Japanese consumer preferences change rapidly and depend on, among other aspects, age group. Although 'standard' items

are still popular and Japanese consumers become increasingly price-conscious, consumers like extraordinary and trendy products. Retailers are continuously looking for new, interesting products. Furthermore, they prefer to choose from a wide assortment. Communication to consumers of product characteristics, handling information and how the product will eventually look is essential.

The traditional distribution route, i.e. sales through flowers and plants shops and garden centres, is still used most frequently. However, recently sales through another distribution route, namely through retail chain companies, is becoming more important. Therefore, it receives relatively much attention in this chapter. Home centre and supermarket chains take advantage of the popularity of flowers, plants and garden products by increasing the share of sales area for these products.

Wholesalers and intermediary companies provide essential services, so that retail companies will continue using them. However, to a greater extent retail companies, and especially chain companies, wish to be involved in determining new products. It is beneficial for Dutch exporters to have direct contact with e.g. home centre chains on this matter. Co-operation with other companies that have access to breeders or (contract) growers – depending on the particular export product – may be required as well. Direct communication to breeders and growers or early involvement of horticultural research stations could lead to sufficient handling and growing knowledge at the companies concerned.

Consumers demand a wide selection. Therefore, purchasing departments within Japanese companies appreciate exporters who offer a package containing many different varieties. From a demand-oriented point of view, it is an argument in favour of co-operation between Dutch exporters in order to meet the clients' requirements. Opportunities for Dutch propagating material on the Japanese market exist, which is already shown by a number of Dutch exporters. Since the Japanese market requires ample attention on marketing aspects, additional promotion and support of e.g. growing techniques could improve long-lasting success.

Conclusions on vegetables: paprika

When paprika was introduced on the Japanese market in 1993 it resembled the bitter Japanese 'piman'. Partly due to a lot of promotion, first restaurants and later the average consumer started buying paprika. It is mainly used for raw consumption in salads.

For several years, the Netherlands was the principal supplier of paprika to Japan. Other countries exported to Japan in the Dutch off-season. Since 1998, South Korea supplies products of good quality at lower prices in the Dutch production season. South Korean market share has increased drastically over a period of just one year and further increase of Korean supply is expected, also in summer, which is the height of the Dutch season. High (expected) profits motivate Korean growers to change their present crops to paprika.

The quality of Dutch paprika is widely acknowledged, but the price is perceived as high. Price fluctuations contributed to the consumers' idea that JPY 198 per piece is

expensive. Retailers aim at a 'reasonable' price, not at the lowest price possible. A stable supply at stable prices is important for all participants in the supply chain.

Presently, South Korean prices better fit the 'reasonable' price level and the business attitude of South Korean exporters is more demand-oriented. The average Japanese consumer has become more price-conscious and he is not aware of quality differences between paprika from different suppliers or countries. Unique – positively valued – characteristics of Dutch paprika, such as e.g. pesticide-free production, may persuade Japanese consumers to pay a premium for Dutch products. Then, Dutch paprika must be clearly distinguishable and additional communication to consumers is required; it means that the establishment of brand equity is required. It should, however, be noted that South Korean paprika is grown using Dutch facilities and know-how. Furthermore, farmers in Japan experiment growing a variety of piman, which is almost indistinguishable from paprika, but costs less.

Japanese companies would appreciate a more demand-orientated business attitude of Dutch exporters. It may further increase their success on the Japanese market.

Although direct imports by retail chains may be a distribution route attractive to exporters, import and trading companies will continue to be an important player in the future as well. The reason is that they still provide added value to retailers for they have distribution facilities. Moreover, retailers reduce their risk when they use trading companies.

Consumers increasingly demand pesticide- and chemical-free vegetables. Growers both in and outside Japan more and more use biological crop protection methods (i.e. natural enemies killing vermin). Consequently, harmless insects may be present on the vegetables at the moment of customs clearance. These vegetables are fumigated, using cyanide- or methylbromide-gas, so that they are not chemical-free anymore when they are sold in the retail shops.

Conclusions on pork

In spite of the economic situation and the opinions of several experts, statistical data show that per capita consumption of both beef and pork has not significantly decreased from 1990 until 1997.

The product category 'pork' refers to three types of products: chilled pork, frozen pork and processed pork products. Japanese consumers prefer fresh meat, so that in principle only (imported) chilled pork qualifies for cut pork products in retail shops. However, defrosted retail cuts are sometimes sold as well. Chilled pork can only be supplied by countries relatively close to Japan, because air transportation often is too costly.

The major supplier of frozen pork is Denmark. Japanese processing companies – they also import – are the principal buyers. Since they dislike being dependent on one company from one country, they are looking for other suppliers. Traditionally, the Japanese processing industry aims at manufacturing low-priced products. Consequently, price is an important criterion for purchasing raw material. The present, complicated import regulations lead to low prices of raw material, which strengthens the processors focus on price. However, meeting the buyers' specifications still remains very important.

Processed pork products, like salami and other snacks, form another market segment. They are luxury, higher added value products. They are distributed through department stores and catering industry rather than through supermarkets. Japanese processing companies realise they need to differentiate their products and also start paying attention to this market segment. It means that they see room for new processed products.

Denmark has a strong image as a pork supplying country. It is a result of the Danish investments in brand equity and promotion, which started already many years ago. The Dutch image is less strong, and the Dutch flag as an indication of a product's origin may lead to confusion.

The largest Japanese meat processors are important players. Since they have an extensive distribution network, they also play a major role in the distribution of fresh meat and not only in the distribution of processed products. Direct imports by retail chains and catering industry occur, but they continue using the services of processors and importers. Partly due to their experience with the complicated import regulations, they can maintain this position.

Preferences for future import regulations after 2001 differ among the various parties concerned. None of them, including the Japanese Ministry of Agriculture, Forestry, and Fisheries (MAFF), has already taken in an official position. Pros and cons exist for both options, viz. continuation of the present minimum import price system or change to a fixed duty system. It remains to be seen which and whose arguments weigh most heavily.

1 Introduction

1.1 Project objective

The Agricultural Economics Research Institute (LEI) carried out the research project on 'Agri-Food Supply Chains and Consumers in Japan' by order of the Ministry of Agriculture, Nature Management and Fisheries. This project aims at further enhancing lasting economic co-operation between the Japanese and Dutch agribusiness and food industry. The first objective is to provide recent information on current topics relevant to Dutch manufacturers, exporters and policy makers. The second objective is to give Japanese importers, traders and retailers the opportunity to indicate their opinions and to give their advice in order to further improve business relations between Japan and the Netherlands.

1.2 Approach

First and foremost, we made a selection of five product groups in close co-operation with the various Dutch agricultural Product Boards and with other Dutch organisations representing producers and traders of agricultural and food products. During interviews in the Netherlands, the most relevant research questions and topics of special interest were determined. Secondly, we consulted experts in Japan and presented them with these questions. In Japan, interviews were held with representatives of different companies – such as specialised import companies, general trading companies, manufacturers, wholesale companies and retail chains – and with specialists at umbrella organisations and research centres. Subsequently, we wrote the draft report and asked several of the Japanese and Dutch interviewees for their comments in order to avoid inaccuracies due to possible misinterpretations during the interviews. Their remarks are incorporated in this version.

In Japan, we held in-depth interviews with representatives of 76 companies, organisations, research institutes and universities. The total number of interviews was significantly higher. We often had consecutive meetings with different expert at the same organisation. It also occurred that we visited the same specialist once again for a further explanation of what he had previously said or for his reaction on another expert's opinion.

1.3 Contents

Chapter 2 will describe the significance of Japan to the Dutch agricultural sector. Chapter 3 will provide insight into several general characteristics and developments of the Japanese market for agribusiness and food products. Then, we will zoom in on different product groups in five successive chapters, namely chapters 4 through 8. The product groups are:

- chocolate products and sugar confectionery;

- flatfish: fillet of plaice and fillet of dab;
- floriculture and arboriculture products: propagating material;
- vegetables: paprika; and
- pork.

It has not been the intention to provide a comprehensive overview of the Japanese market situation and all developments for these five product groups. Certain research questions and topics of special attention, formulated on the basis of initial interviews in the Netherlands, were the starting points. It means that only the most relevant issues concerning those product groups will be touched upon and that a selection is made from all information received. Within the following chapters the issues are divided into three categories, namely:

- consumption and consumer developments;
- production and distribution structure (also referred to as 'agri-food supply chain' or 'food system'); and
- import structure.

2 The significance of Japan to the Dutch agricultural sector

2.1 The agricultural economic relation between Japan and the Netherlands: trade flows

Figure 2.1 shows the developments of total Dutch exports and imports of agricultural products in relation to the exports and imports of agricultural products to and from Japan¹.

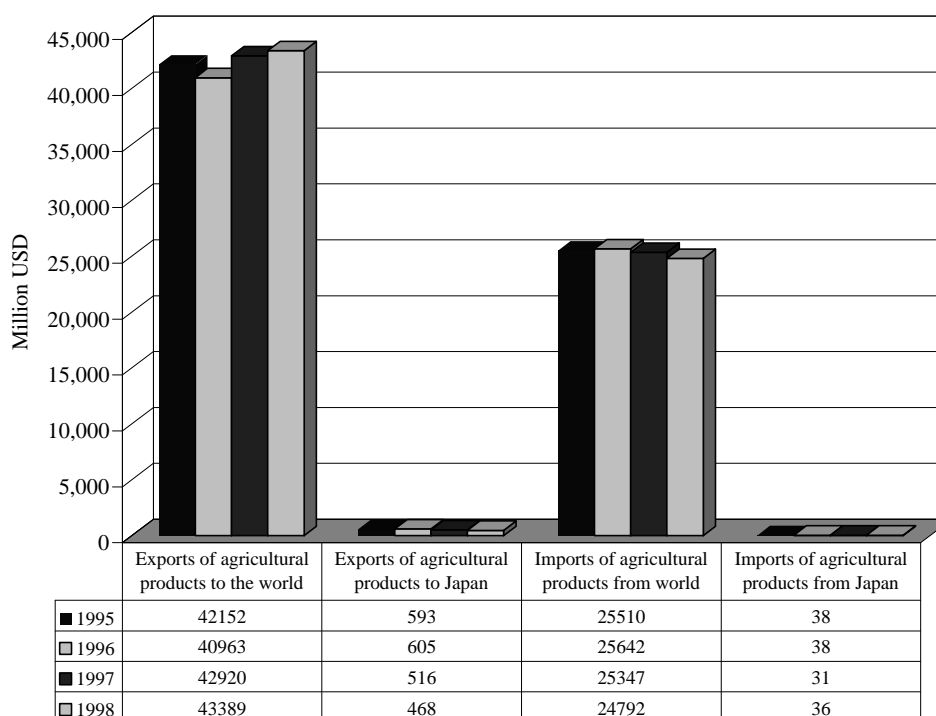


Figure 2.1 Dutch trade in agricultural products and the significance of Japan
Source: EUROSTAT.

¹ Figure 2.9 at the end of this chapter shows the developments of the dollar and yen exchange rates versus the guilder. The following exchange rates are used:

USD 1 = NLG ...

1993	1.8596
1994	1.8184
1995	1.6064
1996	1.6861
1997	1.9532
1998	1.9832

Source: ABN AMRO Business Supporter

2.1.1 Dutch exports: the position of the different agricultural sectors and products

The most important categories of agricultural exports to Japan are shown in Figure 2.2 (data for 1998). Figure 2.3 shows the developments of the last six years.

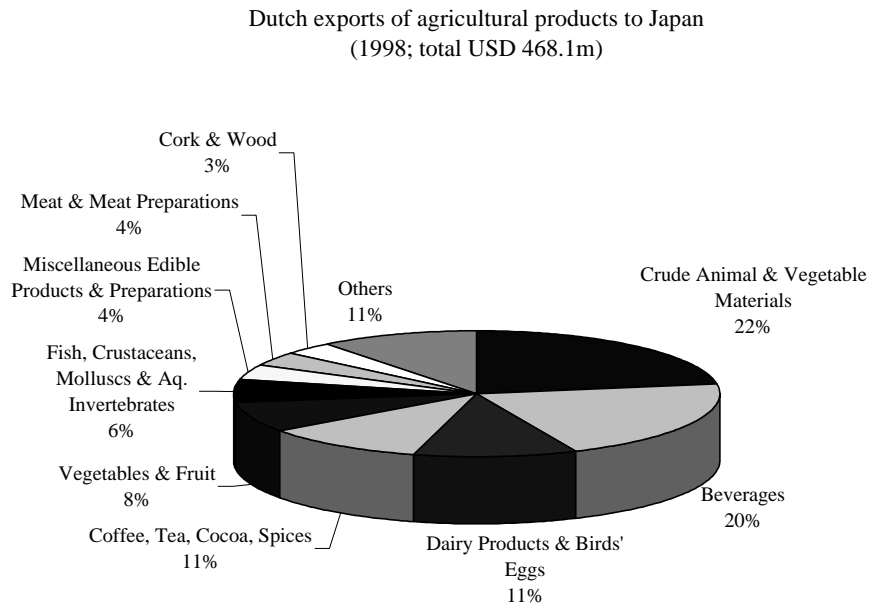


Figure 2.2 Dutch export of agricultural products to Japan
Source: EUROSTAT.

Below, the categories are further itemised. Values refer to 1998, unless mentioned otherwise.

'Crude animal & vegetable material' mainly consists of flower bulbs (USD 81.8m in 1998), live plants (USD 9.7m) and cut flowers (USD 6.0m). 'Beverages' includes 'wine and grape most' (USD 30.4m), beer (USD 6.0m) and 'spirits and liquors' (USD 58.6m). The most important export products within the category 'coffee, tea, cocoa, spices' are 'cocoa powder' (USD 8.2m), 'cocoa butter, fat or oil' (USD 22.9m) and 'chocolate and other food preparations containing cocoa' (USD 16.9m). 'Fish, crustaceans, molluscs and aquatic invertebrates' consists mostly of frozen fish (USD 25.1m); of which the value of exported frozen flat fish amounts to USD 8.7m. The most important export products within the category 'dairy products and birds' eggs' are 'cheese and curd' (USD 25.0m), whey and natural milk constituents (USD 15.7m) and egg albumin (USD 10.6m).

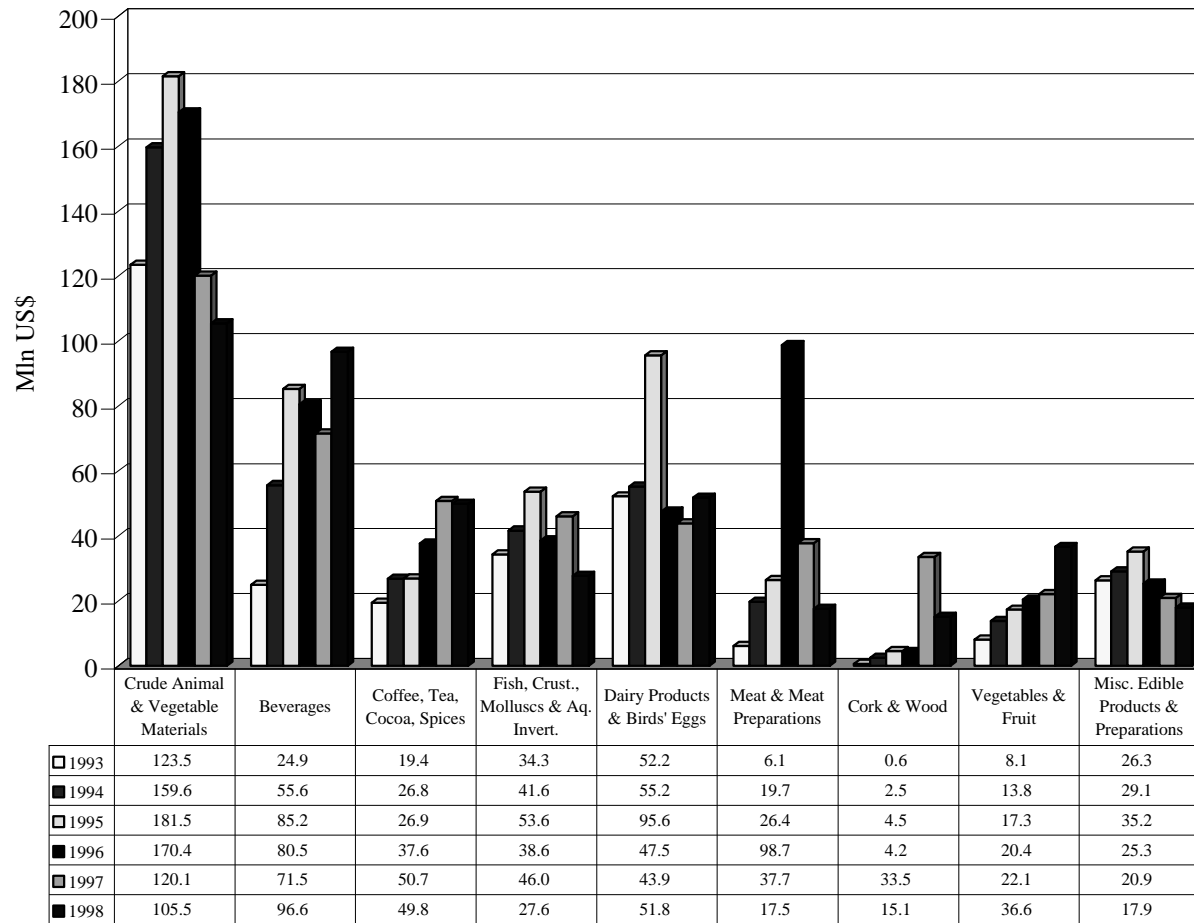


Figure 2.3 Development of Dutch exports of agricultural products to Japan by sector
Source: EUROSTAT.

Exports of *'meat and meat preparations'* rose rapidly from 1992 to 1996. However, these exports showed a sharp decline in 1997 and 1998. 'Meat and meat preparations' consists for more than 95% of frozen meat of swine.

Exports of *'cork and wood'* rose from USD 4.2m in 1996 to USD 15.1m in 1997. It is the category 'wood of coniferous species, sawn or chipped lengthwise, sliced or peeled, whether or not planed, sanded or finger-jointed, over 6 mm thick', of which exports increased to USD 12.6m.

'Miscellaneous edible products and preparations' consists of two large product groups: namely 'malt extract and food preparations of flour, meal, starch' (USD 7.0m) and 'food preparations not elsewhere specified' (USD 9.9m).

Within the statistical data from EUROSTAT, the major part of exports of *'vegetables and fruits'* falls under the category 'other fresh or chilled vegetables' (USD 23.2m). The products in this category are mainly paprika, viz. USD 18.2m.

2.1.2 Dutch imports: the position of the different agricultural sectors and products

The most important categories of agricultural imports from Japan are shown in Figure 2.4 (data for 1998). Figure 2.5 gives the developments of the last six years.

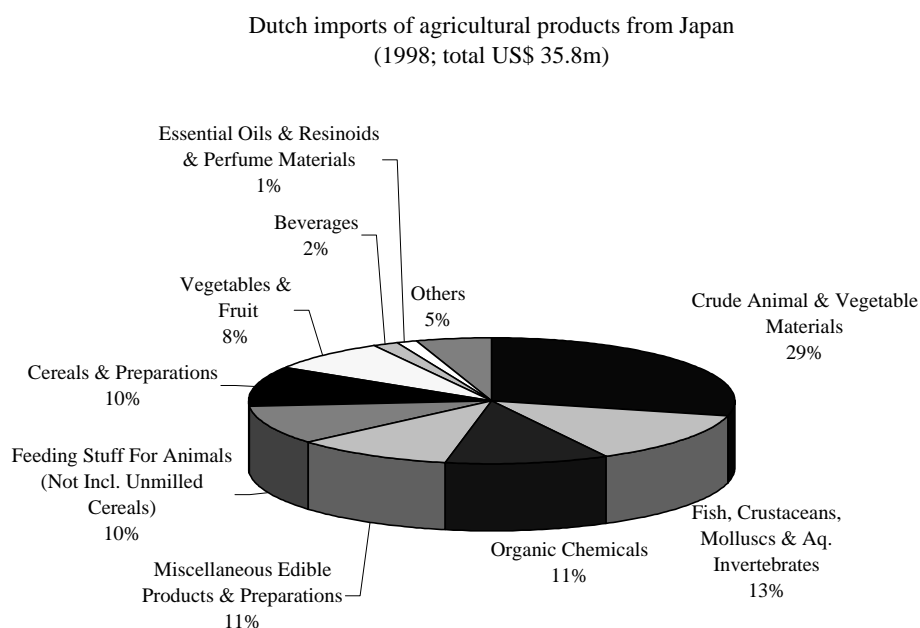


Figure 2.4 Dutch imports of agricultural products from Japan
Source: EUROSTAT.

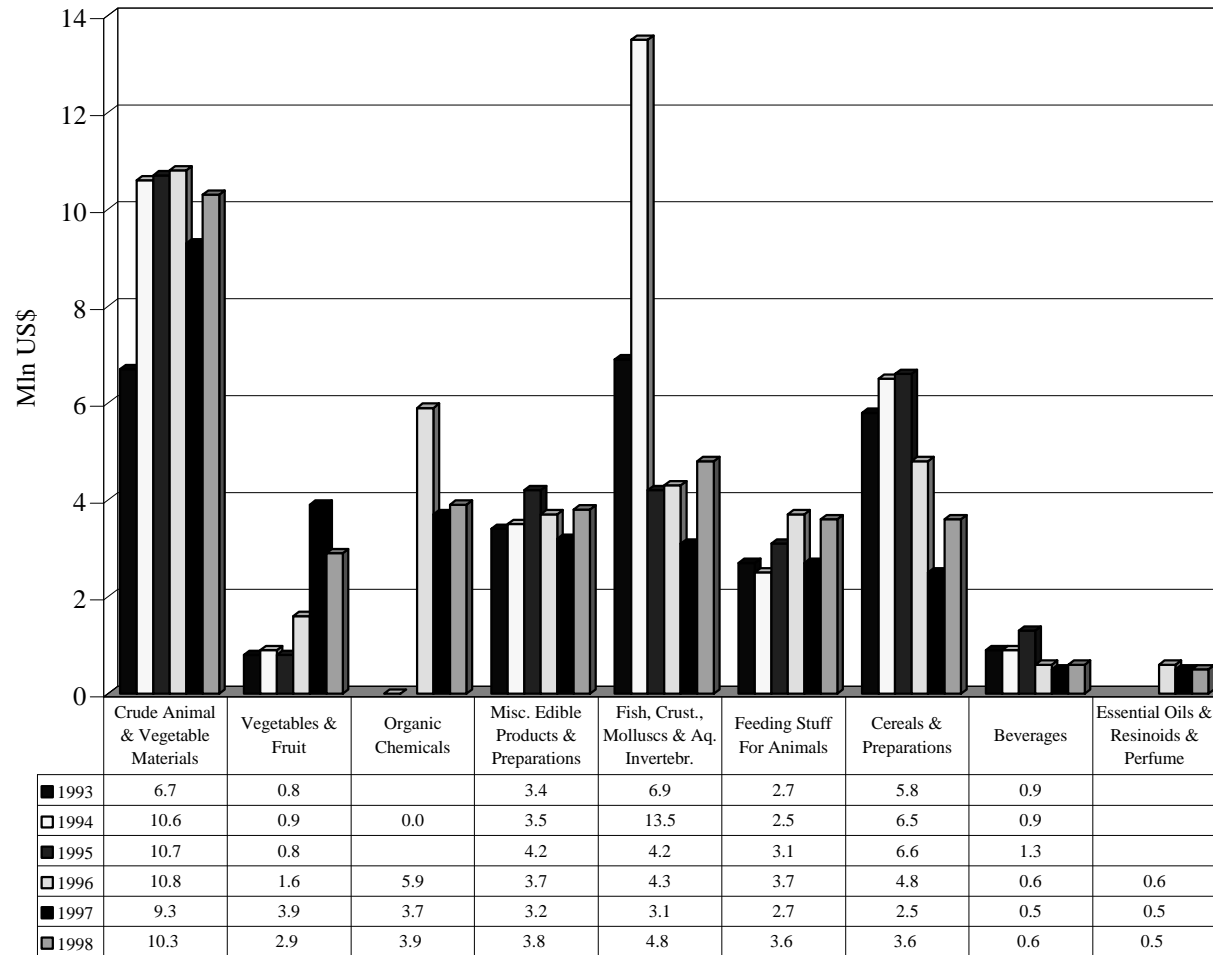


Figure 2.5 Development of Dutch imports of agricultural products from Japan by sector
Source: EUROSTAT

Below, the categories are further itemised. Values refer to 1998, unless mentioned otherwise.

The category '*crude animal and vegetable materials*' includes imports of vegetable seeds (USD 7.1m), 'bulbs, tubers, and rhizomes of flowering or of foliage plants; cuttings, slips, live trees and other plants' (USD 1.0m) and 'live plants, n.e.s. (including their roots), cuttings and slips; mushroom spawn' (USD 0.9m).

Imports of 'nuts, groundnuts and other seeds, prepared or preserved' (USD 2.1m) make up the largest part of '*vegetables and fruits*'. Imports of '*organic chemicals*' mainly consist of 'enzymes' (USD 3.3m).

Sauces, including soy sauce, constitute the largest part of '*miscellaneous edible products and preparations*', namely USD 2.1m. Baker's wares (USD 3.3m) account for almost all '*cereals and preparations*'. '*Beverages*' consists mostly of 'fermented beverages' (USD 0.4m). '*Essential oils, resinoids and perfume materials*' refers entirely to mixtures containing odoriferous substances of a kind used in the food or drink industries.

2.2 The agricultural economic relation between Japan and the Netherlands: foreign direct investments

The status of cumulative foreign direct investments (FDIs) at the end of 1997 is shown in Figure 2.6. Within the total FDIs to and from the Netherlands, the shares of the food industry and Japan are further examined¹. The Dutch FDIs to other EU member states and the FDIs from other EU member states to the Netherlands are left aside in this figure.

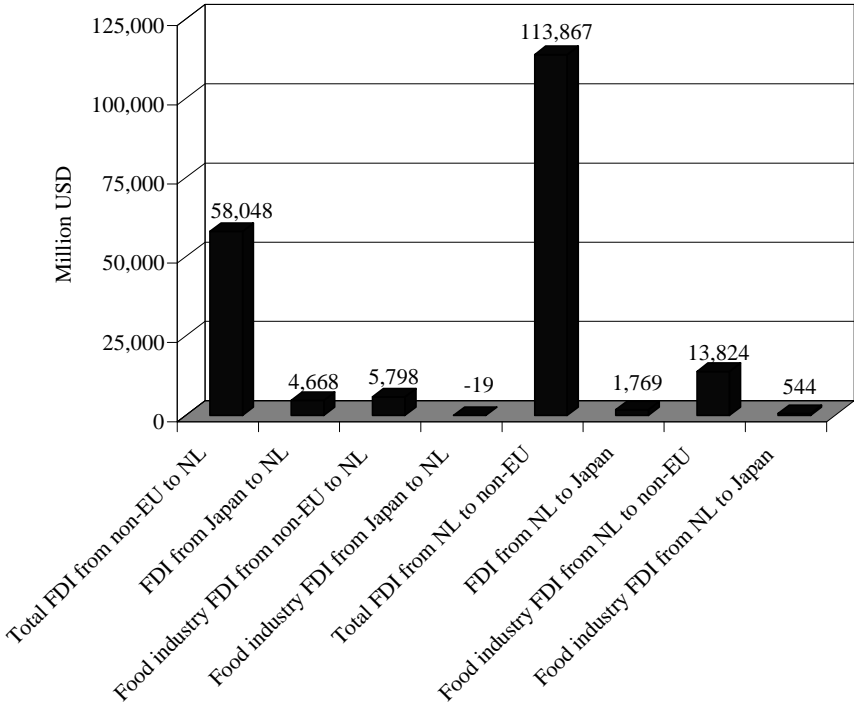


Figure 2.6 FDIs: the Netherlands versus non-EU countries (status at the end of 1997)
Source: De Nederlandsche Bank.

¹ The status of FDIs in one category of this figure is negative. Cumulative losses of the companies concerned – i.e. Japanese participation in companies in the Netherlands – lead to a negative status.

2.3 Japanese imports of agricultural products: opportunities for the Netherlands

Figure 2.7 shows the Japanese imports of agricultural products from all countries in 1997. The most important sectors and their percentage of total imports of agricultural products are indicated. In Figure 2.8 the import values of these sectors are given for the period 1993 to 1997.

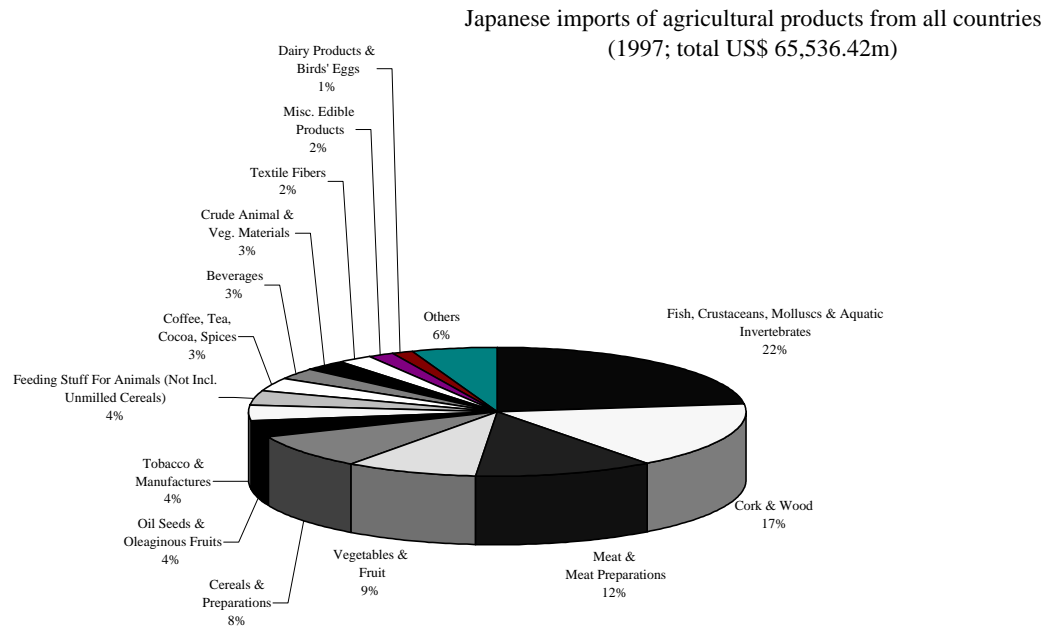


Figure 2.7 Japanese imports of agricultural products from all countries
Source: ITC-UNCTAD/WTO.

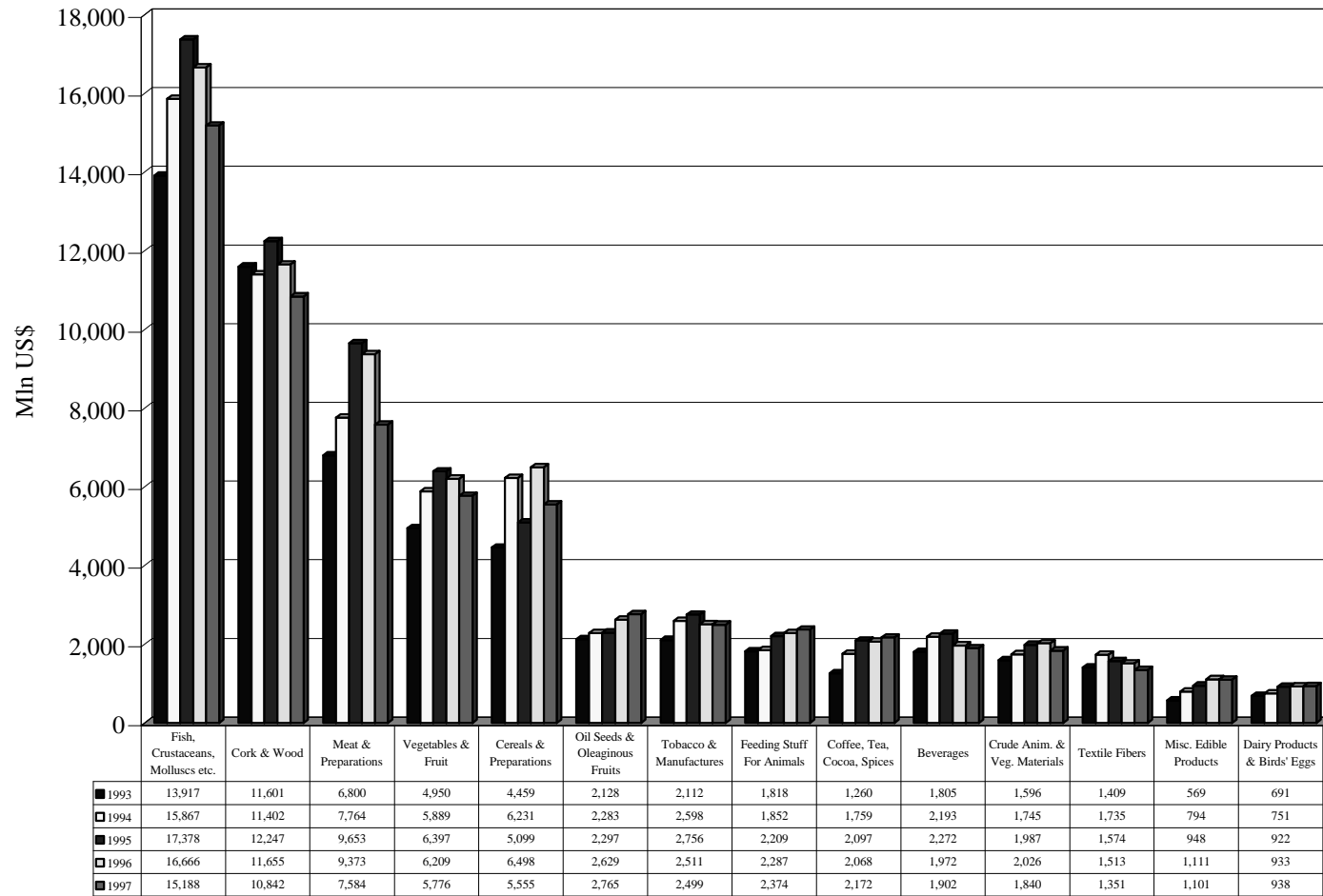


Figure 2.8 Development of Japanese imports of agricultural products from all countries
Source: ITC-UNCTAD/WTO.

Below, in Table 2.1, the categories are further itemised. The most important products within each category are listed.

Table 2.1 Breakdown of Japanese imports of most important agricultural products

Japanese imports of agricultural products (in million USD)	1993	1994	1995	1996	1997
<i>Fish, crustaceans, molluscs and aquatic invertebrates</i>	13,917	15,867	17,378	16,666	15,188
- crustaceans	4,366	5,193	5,730	5,046	4,595
- molluscs and aquatic invertebrates	1,949	2,222	2,436	2,442	2,034
- tuna, fresh, frozen or prepared	1,680	1,789	1,907	1,940	1,667
<i>Cork and wood</i>	11,601	11,402	12,247	11,655	10,842
- wood, conifer, sawn	3,117	3,340	3,703	3,628	3,624
- wood, conifer, rough, untreated	3,217	3,026	3,161	2,963	2,401
<i>Meat and meat preparations</i>	6,800	7,764	9,653	9,373	7,584
- meat of swine	2,643	3,018	3,877	4,069	2,887
- bovine meat	2,544	2,945	3,335	2,783	2,674
- poultry	845	1,138	1,541	1,568	1,318
<i>Vegetables and fruit</i>	4,950	5,889	6,397	6,209	5,776
- grapefruit, fresh, dried	213	268	276	266	257
- potatoes, unpickled, frozen	157	181	212	237	241
<i>Cereals and cereal preparations</i>	4,459	6,231	5,099	6,498	5,555
- maize, other unmilled	2,124	2,251	2,385	3,041	2,440
<i>Oil seeds and oleaginous fruits</i>	2,128	2,283	2,297	2,629	2,765
- soya beans	1,375	1,405	1,372	1,653	1,752
- rape or colza seeds	525	629	631	674	725
<i>Tobacco and tobacco manufactures</i>	2,112	2,598	2,756	2,511	2,499
- cigarettes containing tobacco	1,501	1,906	2,168	2,032	1,940
- tobacco, stemmed, stripped	507	556	496	417	496
<i>Feeding stuff for animals</i>	1,818	1,852	2,209	2,287	2,374
- dog, cat food, retail sale	390	443	571	586	598
- fodder roots, forage, etc.	474	469	526	558	555
<i>Coffee, tea, cocoa, spices</i>	1,260	1,759	2,097	2,068	2,172
- coffee	528	959	1,115	932	1,095
<i>Beverages</i>	1,805	2,193	2,272	1,972	1,902
- wine of fresh grapes and grape most	276	374	484	524	669
<i>Crude animal and vegetable materials</i>	1,596	1,745	1,987	2,026	1,840
- bird skins, feathers, etc.	197	229	263	262	246
- gut, bladders, except fish	200	175	166	186	186
- cut flowers and foliage	174	215	250	208	180
<i>Textile fibers</i>	1,409	1,735	1,574	1,513	1,351
- cotton textile fibers	684	660	731	690	572
<i>Miscellaneous edible products and preparations</i>	569	794	948	1,111	1,101
- other food preparations	254	341	424	508	522
- malt extract	170	262	300	369	341
<i>Dairy products and birds' eggs</i>	691	751	922	933	938
- cheese and curd	357	384	460	515	524

Source: ITC-UNCTAD/WTO.

2.4 First selection of agricultural products to be analysed

On the basis of the data on Dutch exports to Japan and the Japanese imports from all countries in the world (paragraphs 2.1.1 and 2.3), a first selection of products to be analysed can be made.

Criteria for this selection are among other things: already existing high export values; high Japanese import values of which only a low percentage is supplied by the Netherlands; changing attitudes of Japanese consumers; and the added value. Furthermore, Japanese import tariffs of selected products should be average or below average, or at least not extremely high. Thus, Uruguay-round schedules are a criterion as well.

The first round of consultation with the different Product Boards and other organisations representing producers and traders of agricultural products, resulted in the following selection:

1. chocolate products and sugar confectionery;
2. flatfish: filet of plaice and filet of dab;
3. floriculture and arboriculture products: propagating material;
4. vegetables: paprika; and
5. pork.

Although, initially, it was thought that cheese might also be an interesting product to include in this selection, the main producers did not agree, since:

- Japan is not their home market;
- Australia and New Zealand are stronger exporters; and
- Dutch products are being sold through Japanese agents or trading companies that have sufficient information.

The arguments for the choice of the above-mentioned products will be specified in the chapters to follow.

2.5 Exchange rate

The figure below shows the development of the dollar and yen exchange rates versus the guilder. It can be used as a reference when values are mentioned.

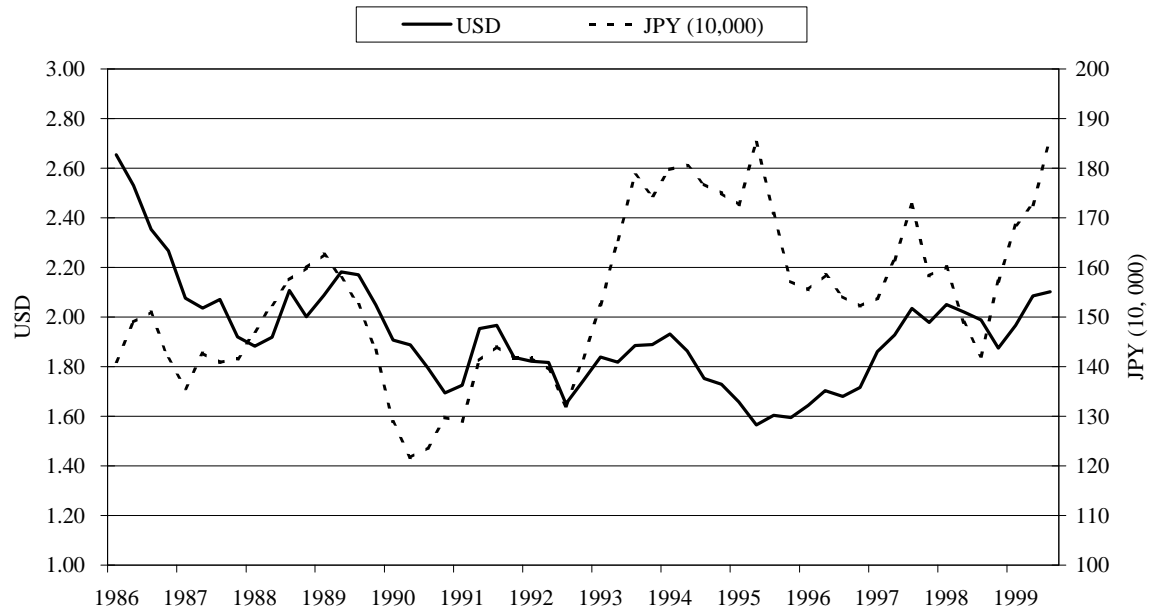


Figure 2.9 Development of USD and JPY exchange rates versus NLG
Source: De Nederlandsche Bank.

3 General characteristics and developments

3.1 Introduction

General characteristics and developments of the Japanese market for agribusiness and food products will be described in this chapter. It is not the intention to provide a comprehensive overview nor is it a summary of all issues from the product-related chapters. Just a limited number of topics will be briefly touched upon. Selection of a particular topic depended on the following arguments:

- whether it is typical for the Japanese market; or
- whether it is a drastic change from the previous situation.

3.2 Consumption and consumer developments

3.2.1 Competitive and saturated market

The Japanese market for many products, including food products, is very competitive and highly saturated. Domestic manufacturers try to cope with it by regularly introducing new products to the market. The product life cycle is often short and products are replaced soon. Japanese manufacturers realise and acknowledge that it increases costs and, consequently, retail prices. However, the Japanese consumers are very demanding and expect new products frequently. Moreover, competition forces domestic manufacturers to often develop and introduce new products.

3.2.2 Communication to consumers

Japanese manufacturers, importers and retailers are continuously looking for end products¹ 'with a story'. A product's success is increased significantly if it has original characteristics indicating its extraordinariness or special function. For example, a Royal Warrant or a medal in a contest expresses the product's (or manufacturer's) exclusivity. It is important to communicate these features to consumers. In addition to these product characteristics, a positive image of the manufacturing country is beneficial.

Furthermore, Japanese consumers need explanations about the usage of a product. They also need information and suggestions on the way products should – or could – be cooked and prepared. In the case of e.g. plants and flowers, they wish to see how it will eventually look.

Establishing strong brand equity is also a common practice by manufacturers. Japanese consumers are loyal to brands. An example is the sales strategy of the French

¹ A distinction should be made between end products and raw material. The issues in this paragraph do not apply to raw material.

fashion houses in Japan. Their objectives include selling low volumes, not selling at discounts and keeping the brand exclusive. As one interviewee mentioned, the consumers' reason for buying is 'vanity'. Japanese consumers are easy consumers when a brand equity has been established. So, it is not advised to aim at large sales amounts, but at a lot of sales promotion.

Some foreign exporters tend to underestimate the significance of communication to Japanese consumers. Japanese consumers are very sensitive to the topics that are being communicated about a product.

3.2.3 Current keywords in marketing of products: freshness, health and safety

In addition to brand and image, freshness and health- and safety-related issues are important for marketing food products in Japan.

Japanese consumers traditionally focus on freshness of food products. The Food and Agriculture Policy Research Centre (1997, p. 8) even calls it an 'obsession with freshness', which indicates the extremeness of this consumer behaviour. For example, a manufacturer of soy sauce must forward its soy sauce (a non-perishable product) within three months after production to its clients, otherwise these retailers do not accept it.

A more recent development is the consumers' increasing concern about the health and safety implications of food consumption. A well-known example is the red wine boom after media coverage on the positive health effects of red wine consumption. Health- and safety-related issues play a more and more important role in consumers' purchasing behaviour. It becomes evident from e.g. the higher demand for pesticide- and chemical-free vegetables. Retailers often indicate the source of origin in detail over the shelves: the farmer's name and location and sometimes his photograph. The word 'healthy' or an allusion to health is regularly used in product promotions and on the packaging of products.

Although the word 'safety' is often used, the average consumer does not have a clear conception about it. When a consumer has confidence in a product, he perceives it as 'safe'. For this matter, the age of a consumer plays a role. Elderly people perceive products made in Japan as safe. For consumers under the age of about 40 years, knowing the name of the manufacturer (domestic or foreign) and knowing how it has been made (according to certain quality standards) affects their perception of a product's safety.

Partly due to Japan's island nature, the mentality of Japanese consumers used to be rather closed towards foreign countries. Traditionally, they have more confidence in Japanese products. For foreign products, mentioning 'something with Japan' e.g. on the packaging is beneficial. An address or phone number in Japan on the packaging is useful, so that consumers can contact the manufacturer or importer about a product's ingredients or complaints. Furthermore, for foreign products, official stamps or seals could stress the trustworthiness, especially when the packaging mentions words like 'healthy', 'natural' or 'organic'.

3.2.4 Popularity of home meal replacement products and 'gaishoku'

The Food and Agriculture Policy Research Centre (1997, pp. 39-51) indicates the following changes in eating styles over the past decades:

- there is a trend of increasing use of processed food when eating at home. The percentage of processed food in the total expenditure on food (excluding eating out) rose from 47.5% in 1965 to 59.2% in 1992. The greatest change can be seen in the percentage of prepared food, which increased from 3.2% to 9.7% during that period; and
- the Japanese eat out more often and use more take-away meals. The share of so-called 'gaishoku'¹ in the daily meals rose from 11.3% in 1965 to 19.3% in 1993 (they are average figures: for men the share is 23.6% and for women 15.8% in 1993).

Even after the decline of economic growth during the recent years, the Japanese continue eating out. According to JETRO (1999), a 'worker's household' spends on average 18% of household food spending on 'dining-out'.

Presently, 'easy to prepare' is another keyword in marketing food products. High quality 'home meal replacement' products are increasingly popular and that trend will continue, partly due to the stronger preference for convenience among consumers. Home meal replacement refers to 'ready-to-eat' and 'ready-to-cook' products. Their portion unit decreases: the minimum-purchasing unit of food is no longer in unit of family (i.e. four portions), but two portions, for a consumer wishes to purchase 'what is needed, when it is needed, only in the portion that is needed'.

3.2.5 Japan is not one market

Japanese food manufacturers do not consider Japan as one market. They indicate that the different regions require specific marketing plans. It depends on the individual companies in how many regions they divide Japan. Factors necessitating the division in different market areas are:

- differences in monthly temperature and climate are significant (and there are four distinct seasons);
- each area has its own traditional diet custom; and
- there are differences in market scale. The Tokyo and Osaka areas are the two major markets.

3.2.6 Demography: ageing society

The Japanese society is ageing. The customer age groups of over 61 years and 40-50 years are increasing. According to a Japanese food manufacturer, they spend a high unit price in purchasing.

¹ Gaishoku: eating in restaurants.

3.2.7 Price consciousness of consumers

The Food and Agriculture Policy Research Centre (1997, p. 56) recognises that a structural and fundamental change of the marketing system nurtured during the fifty post-war years has started to take place in the middle of the 1990s: consumers' behaviour is shifting towards a more price-oriented attitude. Interviewees regularly used the phrasing that consumers look for 'quality products at a reasonable price'.

3.2.8 Image of the Netherlands

Regarding the image of the Netherlands, three issues play a role. Firstly, a positive image of the manufacturing country, in general, is beneficial for the sales success of import products. The Japanese image of the Netherlands is not bad, but it is limited to just a few items. They associate the Netherlands only with items such as flower bulbs and windmills. Interviewees mentioned other matters that are not widely known in Japan, but which could appeal to the average consumer, like 'environment friendliness' and less pollution.

Secondly, Japanese consumers have rather strict ideas about the country of origin of certain products. The following example explains this consumer perception. In the opinion of Japanese consumers Assam tea comes from (and should come from) India. Bangladesh also produces Assam tea, but if Japanese consumers would hear that, it would not motivate them to buy Assam tea. In the case of the Netherlands, Japanese consumers do not know well that the Netherlands has a fisheries industry, which does not motivate them to deliberately buy Dutch marine products.

Thirdly, using the Dutch flag to distinguish Dutch products may lead to confusion. The Dutch flag is easily mistaken for e.g. the Russian flag.

3.3 Production and distribution structure (agri-food supply chains)

3.3.1 Shift from producer-oriented towards retailer-oriented distribution

In Japan, the food supply chain is usually called the 'food system'. It is 'the flow of food from farm and fishery to the consumer's table' (FAPRC, p.1). Until the middle of the 1980s, the food manufacturers largely controlled the food system. Then (large) retail companies started influencing the organisation of the supply chain more and more. This process still continues.

Figure 3.1 provides an overview of the traditional domestic food supply chain. It is a simplified scheme, but it shows some of the characteristics of the traditional food system in Japan. They are further discussed below.

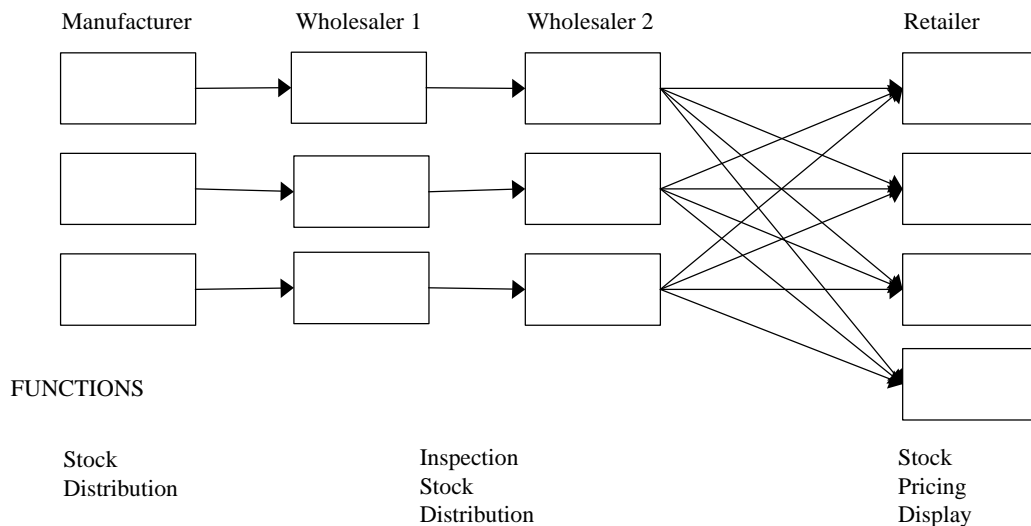


Figure 3.1 Schematic overview traditional domestic food supply chain

The Japanese traditional distribution structure is characterised by more links (or layers) than in other countries¹. It still occurs that a product reaches a retailer via three wholesale companies. Many small-scale distributors existed. The producer-oriented distribution resulted in wholesalers and retailers specialising in a category of food. It is also referred to as a single-merchandising channel. It means that the channel was different from product to product.

The manufacturers had long-term business relations with wholesale companies. The manufacturers had strict contracts and a complex pricing system with all kinds of rebates and warranty funds. Sometimes physical delivery takes place directly from manufacturer to retailer, but administratively (including a margin) the product is sold through a wholesaler.

The strategic focus of large retailers was expansion of outlet numbers. Therefore, they hardly invested in their own distribution function. They used the traditional wholesaler's function and depended on the wholesaler's logistics facilities². The traditional wholesaler could survive, as well as the traditional single-merchandise retailers. Inefficiencies were inherent in this system. With the increase of outlet numbers, operational costs did not diminish. Also physical distribution was uneconomic. Many trucks transported single-merchandise from various wholesalers to one retail outlet.

In the mid-1980s the traditional system started to change. This process still continues. It is often easily said that the distribution route is getting shorter, because a product passes through less links (or layers). However, this development should be viewed in a more subtle and balanced way. It is the added value of the links that retailers and manufacturers assess critically. If the different supply chain participants contribute added value, their existence is justified.

¹ It is demonstrated by the fact that total wholesale sales are 3.2 times higher than total retail sales (Shokuhin Sangyo, 1998). It means that one product is sold by several wholesalers.

² Besides that, retailers depended on sales promotion by manufacturers.

Figure 3.2 schematically shows the differences of the modern domestic food supply chain. Partly due to consumer pressure for lower prices, retailers and manufacturers expect the contribution of more added value by trading companies and wholesalers.

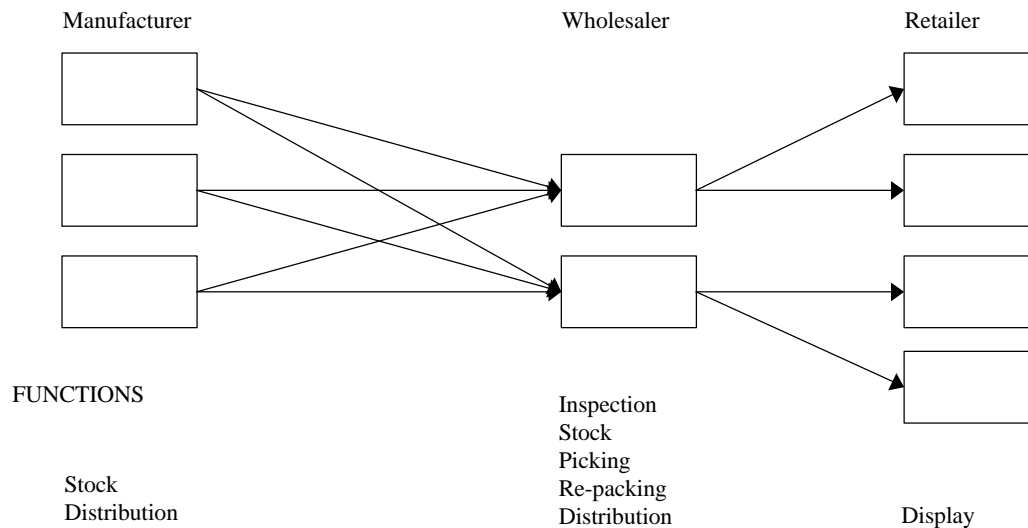


Figure 3.2 Schematic overview modern domestic food supply chain

It leads to a shorter distribution route. Total wholesale turnover and the number of wholesale companies decrease; also concentration of wholesalers takes place. The number of wholesale establishments has showed a 8.8% decrease over the period 1994 to 1997¹. With the growing influence of large retail chains, they try to shift their operational costs to wholesalers and manufacturers. It is noticeable that wholesale companies provide more services and, consequently, contribute more added value to the retail chains. As Figure 3.2 shows, wholesalers execute also picking and re-packing functions, whereas retailers only focus on displaying. Regularly, retailers do not hold inventory at all. Wholesalers also perform that function.

Results of this development are a rapid decrease of traditional single-merchandise retailers and the appearance of multi-merchandising. The distribution route is organised more efficiently. The different companies in the food system do not focus on a single-merchandise anymore, but carry a full line of products corresponding to the particular retail format of their clients.

3.3.2 Retail development: increasing importance of convenience stores

The number of retail establishments has fallen over the last decade (1988-1997: -10%), but the size of individual outlets has increased. The type of retail outlets has changed. The

¹ The data originates from the Census of Commerce 1997 by the Ministry of International Trade and Industry. It is published in Distribution Economics Institute of Japan (1999, p. 11).

number of single-merchandise shops – i.e. retailers selling one product group only – has declined (1991-1997: -17%), but the number of multi-merchandise shops has increased (1991-1997: +61%).

So, there is a general development of a decline of single-merchandise shops and the growth of multi-merchandise shops¹. It is one of the structural changes in the food retail market, which is illustrated in the tables below. Table 3.1 and Table 3.2 show the developments of retail (for different categories) from 1994 to 1997 with regard to number of outlets and annual sales². Appendix 1 clarifies the classification of retail categories.

Table 3.1 Retail trade: development of number of outlets

Retail category	1994		1997		% change 1994 - 1997
	Number	% of total	Number	% of total	
RETAIL TRADE TOTAL	1,499,948	100.00%	1,419,685	100.00%	-5.4%
<i>Department store total</i>	463	0.03%	480	0.03%	3.7%
- large department store	398	0.03%	407	0.03%	2.3%
- conventional department store	65	0.00%	73	0.01%	12.3%
<i>General supermarket</i>	1,804	0.12%	1,886	0.13%	4.5%
- large general supermarket	1,360	0.09%	1,543	0.11%	13.5%
- conventional general supermarket	444	0.03%	343	0.02%	-22.7%
<i>Speciality supermarket total</i>	25,171	1.68%	32,208	2.27%	28.0%
- clothing supermarket	3,111	0.21%	4,550	0.32%	46.3%
- food supermarket	16,096	1.07%	17,626	1.24%	9.5%
- living related supermarket	5,964	0.40%	10,032	0.71%	68.2%
<i>Convenience store</i>	28,595	1.91%	36,586	2.58%	27.9%
- open 24 hours CVS	13,431	0.90%	20,531	1.45%	52.9%
<i>Other supermarket</i>	84,505	5.63%	120,577	8.49%	42.7%
- general store	468	0.03%	625	0.04%	33.5%
<i>Speciality store</i>	930,143	62.01%	839,966	59.17%	-9.7%
- clothing	147,478	9.83%	126,383	8.90%	-14.3%
- food	263,681	17.58%	230,167	16.21%	-12.7%
- living related	518,984	34.60%	483,416	34.05%	-6.9%
<i>Sub-speciality store</i>	427,099	28.47%	385,928	27.18%	-9.6%
- clothing	65,733	4.38%	62,882	4.43%	-4.3%
- food	185,509	12.37%	154,914	10.91%	-16.5%
- living related	175,857	11.72%	168,132	11.84%	-4.4%
<i>Misc. not elsewhere classified</i>	2,168	0.14%	2,054	0.14%	-5.3%
- general store	2,009	0.13%	1,927	0.14%	-4.1%

Source: Census of Commerce 1997.

¹ The data originates from the Census of Commerce 1997 by the Ministry of International Trade and Industry. The division in single-merchandise and multi-merchandise shops was made by a Japanese expert.

² The data originates from the Census of Commerce 1997 by the Ministry of International Trade and Industry. It is published in Distribution Economics Institute of Japan (1999, p. 28).

Table 3.2 Retail trade: development of annual sales

Retail category	1994		1997		% change 1994 - 1997
	(billion JPY)	% of total	(billion JPY)	% of total	
RETAIL TRADE TOTAL	143,325	100.00%	147,754	100.00%	3.1%
<i>Department store total</i>	10,640	7.42%	10,686	7.23%	0.4%
- large department store	10,364	7.23%	10,395	7.04%	0.3%
- conventional department store	276	0.19%	291	0.20%	5.4%
<i>General supermarket</i>	9,336	6.51%	9,947	6.73%	6.5%
- large general supermarket	8,069	5.63%	8,977	6.08%	11.3%
- conventional general supermarket	1,267	0.88%	970	0.66%	-23.4%
<i>Speciality supermarket total</i>	17,135	11.96%	20,440	13.83%	19.3%
- clothing supermarket	891	0.62%	1,154	0.78%	29.5%
- food supermarket	13,198	9.21%	14,770	10.00%	11.9%
- living related supermarket	3,046	2.13%	4,517	3.06%	48.3%
<i>Convenience store</i>	4,017	2.80%	5,220	3.53%	29.9%
- open 24 hours CVS	2,351	1.64%	3,589	2.43%	52.7%
<i>Other supermarket</i>	8,338	5.82%	9,978	6.75%	19.7%
- general store	160	0.11%	145	0.10%	-9.4%
<i>Speciality store</i>	61,018	42.57%	59,689	40.40%	-2.2%
- clothing	7,319	5.11%	6,129	4.15%	-16.3%
- food	10,452	7.29%	8,815	5.97%	-15.7%
- living related	43,248	30.17%	44,745	30.28%	3.5%
<i>Sub-speciality store</i>	32,579	22.73%	31,540	21.35%	-3.2%
- clothing	5,039	3.52%	4,932	3.34%	-2.1%
- food	9,430	6.58%	7,777	5.26%	-17.5%
- living related	18,111	12.64%	18,832	12.75%	4.0%
<i>Misc. not elsewhere classified</i>	262	0.18%	253	0.17%	-3.4%
- general store	245	0.17%	230	0.16%	-6.1%

Source: Census of Commerce 1997.

The most outstanding development is the growing importance of convenience stores. The number of all convenience stores (24-hour shops included) increased by 28% from 1994 to 1997 (the increase of annual sales was 30%). The number of 24-hour convenience store outlets changed by +53% over the same period (annual sales increased by the same percentage). Note that the increase of annual sales is caused by the increasing number of outlets. Sales per outlet did not increase.

Convenience store chains are active all over Japan, also in rural areas. It is not difficult to meet the criterion for establishing outlets in a rural area, namely that there is a distribution centre¹ within a three-hour distance. It should serve at least 30 outlets.

Some experts say convenience stores are becoming the principal food distribution source. Japanese consumers more and more appreciate convenience stores. One expert's

¹ The distribution centres are usually owned by wholesalers and trading companies.

remarks, namely 'a convenience store instead of a refrigerator at home', illustrate the importance of convenience stores.

The consumer's buying behaviour reinforces the establishment of convenience stores. Two trends in Japanese buying behaviour can be distinguished:

- universal trend: increase of 'one-stop shopping'. It means that a consumer prefers to buy all products in one shop. This trend, in principal, leads to a 'low store density': i.e. a small number of large-sized outlets; and
- traditional trend: Japanese consumers hold small inventory at home¹ and frequently visit shops. It leads to a 'high store density': i.e. a large number of small-sized outlets.

A growth in the number of supermarkets corresponds with the trend of one-stop shopping. However, it conflicts with the second trend. Since convenience stores meet both trends, many opportunities are seen.

3.3.3 Fragmentation in retail: few 'mega-markets' and many 'papa-mama shops'

The retail structure in Japan is still highly fragmented. There are few 'mega-markets' and many 'papa-mama shops'. A striking case in point is the fact that half (in 1997) of all retail outlets has one or two employees. However, they generate only 8.5% of total retail turnover and they employ only 15.6% of total retail employees².

3.3.4 High domestic transportation costs

High transportation costs in Japan lead to high distribution costs. Transportation costs, stock costs, picking costs and administrative costs together constitute total distribution costs. According to a study by the Boston Consulting Group³, transportation costs in Japan are about 14% of retail price, so that total distribution costs are about 17-23% of retail price. Manufacturers distribution costs are approximately 8-10% and wholesale distribution costs about 9-13%. Distribution costs in the USA are circa 21% and Italy 16%. In the USA, transportation costs are lower than in Japan, stock costs are higher (due to higher interest rate) and picking costs are lower (due to lower labour costs).

3.3.5 Low inventory levels and small lot distribution

Inventory levels in Japan are low. Retailers often do not have any stock at all. Then the products on the shelves form the only 'stock'. As a consequence, turnover rate is high and distribution of small lots is required. In certain picking and distribution centres, boxes from manufacturers are unpacked and a small number of items is shipped to the retail outlets. It means that these centres function as the storage room for the individual shops.

¹ It is not caused by the small size of Japanese houses, as is often thought, but it is a result of the extreme focus on freshness and the preference for 'luxurious shopping': i.e. buying 'anything, anytime, anywhere'.

² The data originates from the Census of Commerce 1997 by the Ministry of International Trade and Industry. It is published in Distribution Economics Institute of Japan (1999, p. 17).

³ The results of this study were provided by a Japanese food manufacturer.

3.3.6 Relatively small market share by national supermarket chains

The market share of national supermarket chains is relatively limited. Many regional supermarket chains exist. Since consumer preferences differ per region, the competitive edge of local chains is their customer focus. They meet local demand better than the national chains. However, national chains are learning about local tastes and their efficient information technology will enable them to narrow the gap between the large national chains and the local chains.

Regional supermarket chains will meet more competition: on the one hand from national supermarket chains, but on the other hand also from convenience store chains. Although convenience stores do not sell many fresh food products, they sell home meal replacement products and the demand for these products increases.

3.4 Import structure

3.4.1 Import regulations

For detailed and the most recent information on import regulations the reader is referred to the Department of Industry and Trade of the Netherlands Ministry of Agriculture, Nature Management and Fisheries (Mr. J.J.M. Verbeek¹) and to the Office of the Agricultural Counsellor at the Royal Netherlands Embassy in Tokyo².

3.4.2 Direct importing

Dutch exporters expect – and sometimes have high hopes for – more direct importing by Japanese retail chains in the near future. This paragraph will discuss the considerations and arguments leading to Japanese retailers' decisions concerning direct importing.

Strategic objective of the retail chain

There are retail chains that have set a strategic objective of increasing direct imports. It also depends on the company's spirit of enterprise and its innovativeness.

Organisational structure of the retail chain

The organisational structure of the particular retail chain plays a role. The presence of an import division (or company) within the retail chain company (or group) facilitates direct importing. In the case of a voluntary retail chain, member companies often have independent purchasing strategies. The head office cannot force them to import through a central import division. However, the head office of a centrally organised retail chains can.

¹ Telephone: (070) 3784064; fax: (070) 3786123.

² Address details can be found in appendix 2.

Import volume and turnover (rate)

Direct importing only has merits when large quantities are involved. Therefore, a large turnover or a high turnover rate of the particular product is required.

Margin

Direct importing is more attractive when the product's margin is high. In case of an extraordinarily high margin, directly importing even a small volume may be worth consideration.

Market share of Japanese retail chains

The major Japanese retail chains only have a limited market share, so that a retail chain's required supply may not suffice to justify direct importing.

Risk of unsold products

Direct importing increases the retailer's risk of unsold products. It is a typical Japanese phenomenon that the Japanese manufacturers bear the risk of unsold retail products. In case of direct importing the retail chain has to bear the risk.

Cost merits

Direct importing may lead to higher margins for the retailer.

Freshness

Products may be fresher when they are directly bought from the producer.

Difficulty of import regulations and staff requirements

Japanese import regulations of certain products are complicated. Therefore, expert staff is necessary. Retail chains may not have enough manpower or may not see it as their core business to deal with the import procedures, and use experienced trading companies.

Purchasing flexibility

Retail chains may be more flexible to choose different products when they use importers.

Existing contracts

Contracts between domestic companies (manufacturers, agents, wholesalers, and etc.) may exist. The different parties have to continue their business relations.

Facilities: stock, transportation / logistics and handling

Intermediary companies, such as importers, trading companies and wholesalers, provide added value to retail chains. Possible essential services they offer to the retail chain are keeping stock, organising physical distribution and handling.

4 Chocolate products and sugar confectionery

4.1 Arguments for choice of product group

On the basis of interviews with experts and representatives of exporting companies in the Netherlands product groups were chosen. The product group 'chocolate products and sugar confectionery' was chosen as a subject of research due to the following arguments:

- the market in western Europe is becoming saturated;
- in addition to a few large companies, many smaller Dutch manufacturers and export companies are trying to sell their products to Japan as well;
- they are small producers, exporting small quantities and they do not have extensive information about the Japanese market yet;
- sugar confectionery and chocolate products are already being exported to many different countries, so exporters are not easily deterred by long distances or other cultures; and
- recently there has been a collective campaign by the 'International Cocoa Agreement' and many countries, including the Netherlands, agreed to support and stimulate the consumption of cocoa.

'Chocolate products and sugar confectionery' in this research project refers to:

- white and brown chocolate products (end products);
- white and brown chocolate products (semi-finished products);
- sugar confectionery (end products); and
- toppings and decorations made of sugar or chocolate (semi-finished products).

Not included are chewing gum (sugar confectionery) and candy bars (chocolate products).

4.1.1 Research questions and topics of special interest

On the basis of interviews with experts and representatives of exporting companies in the Netherlands certain research questions were defined. The following topics were considered most important:

Consumption and consumer developments

- consumer preferences (in general);
- product characteristics valued by Japanese consumers;
- attitude towards Dutch products and the image of the Netherlands; and
- seasonal and gift items.

Production and distribution structure

- figures on production, imports and sales;
- distribution route (in general); and
- structure of the sector (in general).

Import structure

- import regulations (in general);
- existence of 'packaging agreements'; and
- environmental regulations concerning packaging.

Topics of special interest

- toppings and decorations (made of sugar or chocolate) for pies, cakes and desserts.

4.2 Introduction

4.2.1 Kashi

Confectionery and snacks in Japan are collectively called 'kashi'. Food News (1999) formulates it as follows: 'kashi is a collective Japanese word for sweet and savoury food preparations eaten between the regular meals, including candy, chocolate, chewing gum, cake, baked good, and snack food.'

4.2.2 Kashi in general

Figure 4.1 shows the breakdown of kashi by category (on the basis of retail value) in 1998. Over a period of 10 years, no significant shift between the different categories occurred.

The peak of production in volume of kashi was in 1991 and since then kashi production steadily decreased (The Manufacturing Confectioner, 1998, p. 29). It is attributed to the economic situation. In 1996, total production volume increased by 0.8% and production value by 0.6% compared to 1995. Total production volumes and values in 1997 and 1998 showed a slight decline. The most recent available figures are of 1998. Total production volume of kashi was 2,012,600 tons (a decline of 1.4% compared to 1997) and total production value was JPY 2457b (a decline of 1.5% compared to 1997). Total retail value was JPY 3323.2b (a decline of 1.5%). Sales of Japanese manufacturers decreased and it necessitates saving in costs, e.g. lower cost operations.

Kashi by category in 1998 (retail value: total JPY 3323.2b)

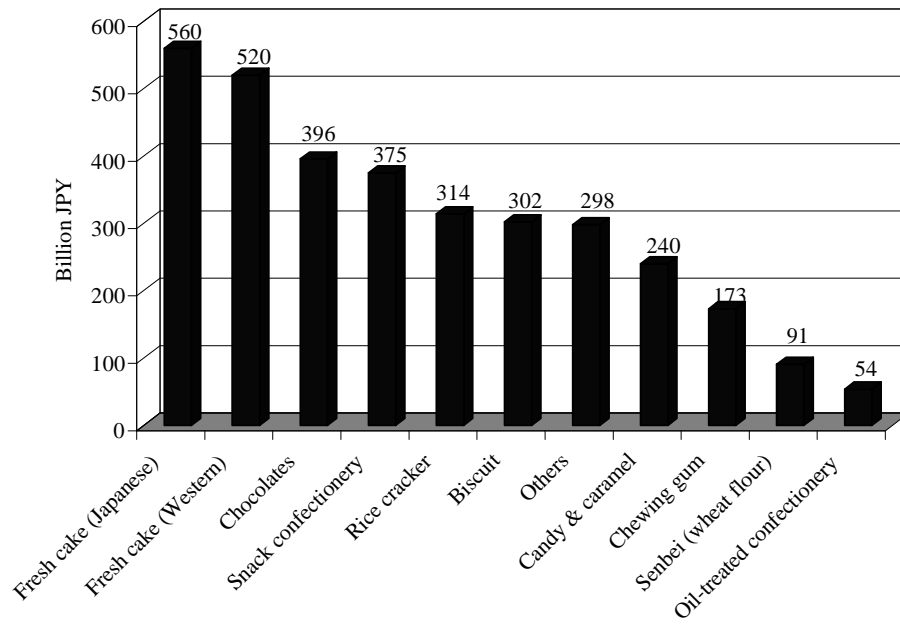


Figure 4.1 Kashi by category
Source: All Japan Kashi Association.

4.3 Consumption and consumer developments

Paragraphs 4.3.1, 4.3.2, 4.3.3, 4.3.4 and 4.3.5 apply to chocolate products. Sugar confectionery is dealt with in paragraphs 4.3.6 and 4.3.7. It is mentioned before the titles of the different paragraphs whether they apply to chocolate products or sugar confectionery.

4.3.1 Chocolate: production and retail value, market size by segment and market shares

The developments of chocolate products are looked at in detail in Figure 4.2. It shows the developments of production and retail values from 1996 to 1998.

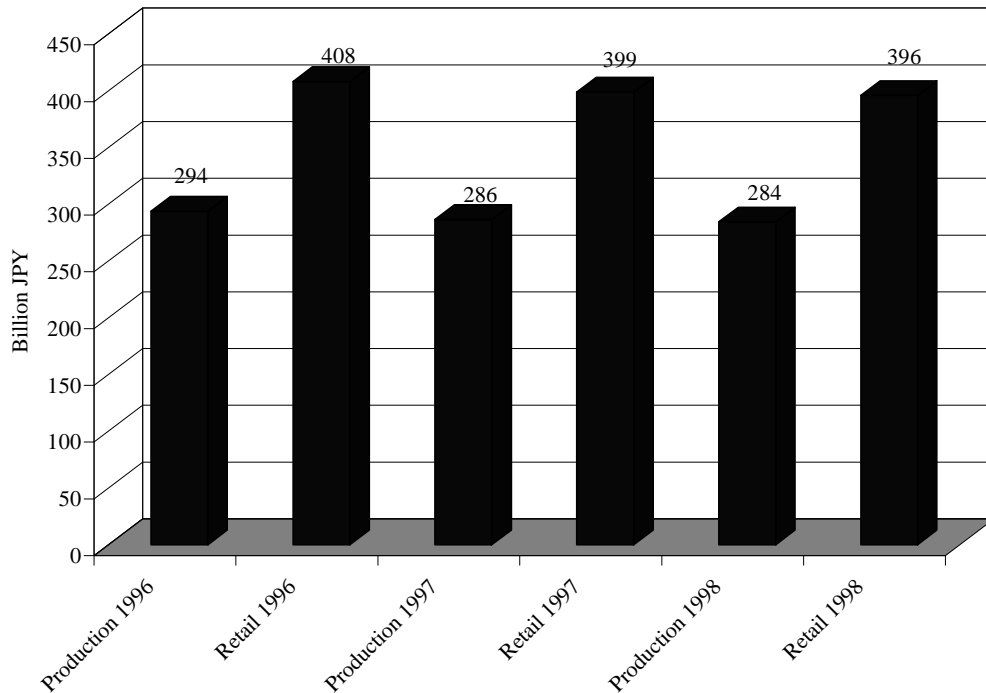


Figure 4.2 Chocolates: development of production and retail values
Source: All Japan Kashi Association.

Chocolate market size by segment

The category 'chocolate' is divided in three segments, namely chocolate (100%), chocolate (more than 60%) and chocolate snacks (20- 60%). This division does not refer to chocolate content, but to whether the product includes other ingredients. For example, chocolate (100%) refers to bars and tables and chocolate snacks (20-60%) refers to candy bars. The market size in 1997 of these different segments is shown in Figure 4.3. This total figure of the chocolate market (JPY 284.0b in 1997) differs slightly from the production statistics of the All Japan Kashi Association (JPY 286.4b).

Figure 4.4 shows the development of production by category of chocolate products. The major manufacturers and distributors are listed in the following tables. Table 4.1 shows the markets shares of the major players in the market for chocolate products. The major brands are listed in Table 4.2.

Chocolate market size by segment in 1997
(production value; total JPY 284.0b)

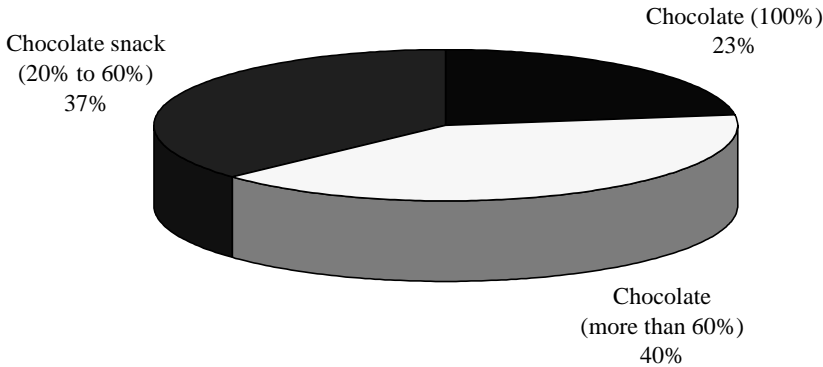


Figure 4.3 Chocolate market size by segment
Source: Japan Chocolate and Cocoa Association¹.

¹ These figures were received from one manufacturer, but the original source is the Japan Chocolate and Cocoa Association.

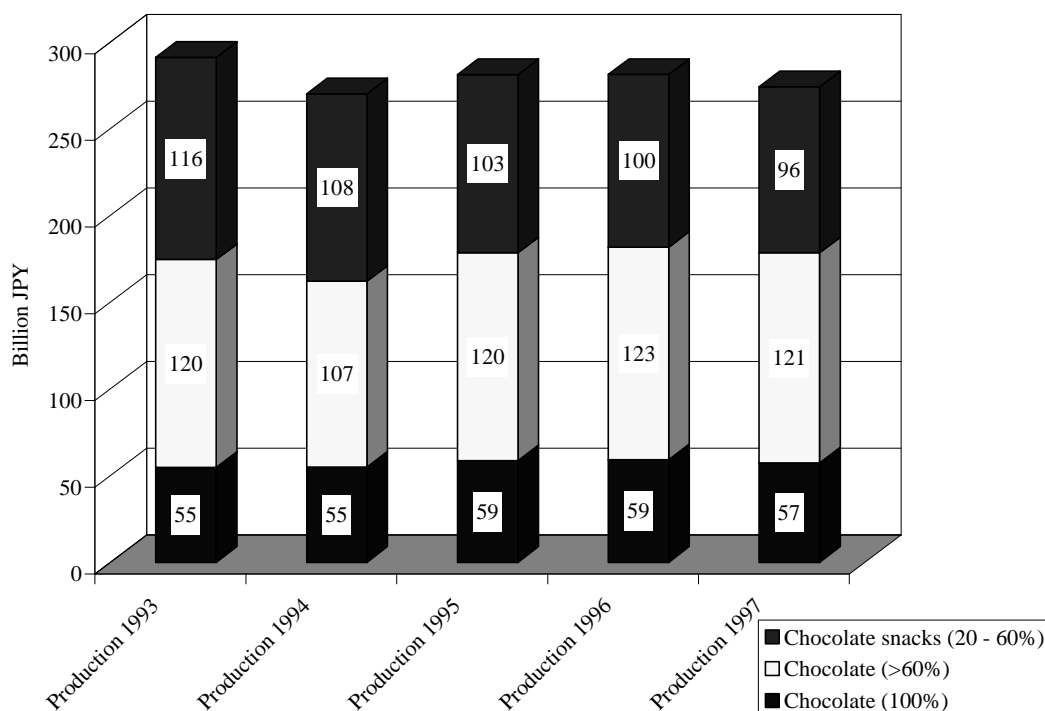


Figure 4.4 Development of production of chocolate products by category
Source: Food News (1999, p. 79).

Table 4.1 Major players in the market for chocolate products (1997)

Manufacturer	Market share
Meiji	25.7%
Lotte	19.9%
Morinaga	15.0%
Glico	13.5%
Fujiya	8.6%
Nestlé	4.6%

Table 4.2 Major brands in the chocolate market, in (decreasing) order of sales value (1998)

Brand	Manufacturer / distributor
Pocky	Glico
Chocoball	Morinaga
Kit Kat	Nestlé Mackintosh
Kinokono Yama / Takenokono Sato	Meiji
Milk Chocolate	Meiji
Almond Chocolate	Meiji
Coala no March	Lotte

4.3.2 Chocolate: attitude towards Dutch products and the image of the Netherlands

Chocolate from western Europe has a good image for consumers. About 20% to 25% of the Japanese consumers think chocolate should be from Switzerland or Belgium, according to one interviewee. Also France was mentioned as a country with a strong image. However, brands are considered of higher importance. Since foreign manufacturers and brands communicate their country of origin, consumers attach the name of a country to a product. Lindt (Switzerland) has become the example of bar-type chocolate and Godiva (Belgium) the example of praline-type chocolates. The Netherlands has a strong image of cocoa powder (Van Houten). Some Dutch exporters use Belgian ingredients, like Callebaut chocolate, and communicate that. They use the strong image of Belgium.

The countries that have the best image as chocolate producers for institutional clients are Switzerland, Belgium and France.

4.3.3 Chocolate: seasonal and gift items

The season for chocolate products runs from September until May. Chocolate products are hardly bought during summer, because of the high temperature and high humidity. Speciality chocolate retail shops, like Godiva, sell cakes, biscuits (cookies) and ice cream in summer. The turnover peak of luxury chocolate products is reached at St. Valentine's Day (14 February). At Christmas and New Year, chocolate sales are also high, but do not reach the peak of St. Valentine's Day.

In the following figure the monthly purchase of chocolate per household is depicted. It shows the high peak at St. Valentine's Day and the lower peak at Christmas and New Year.

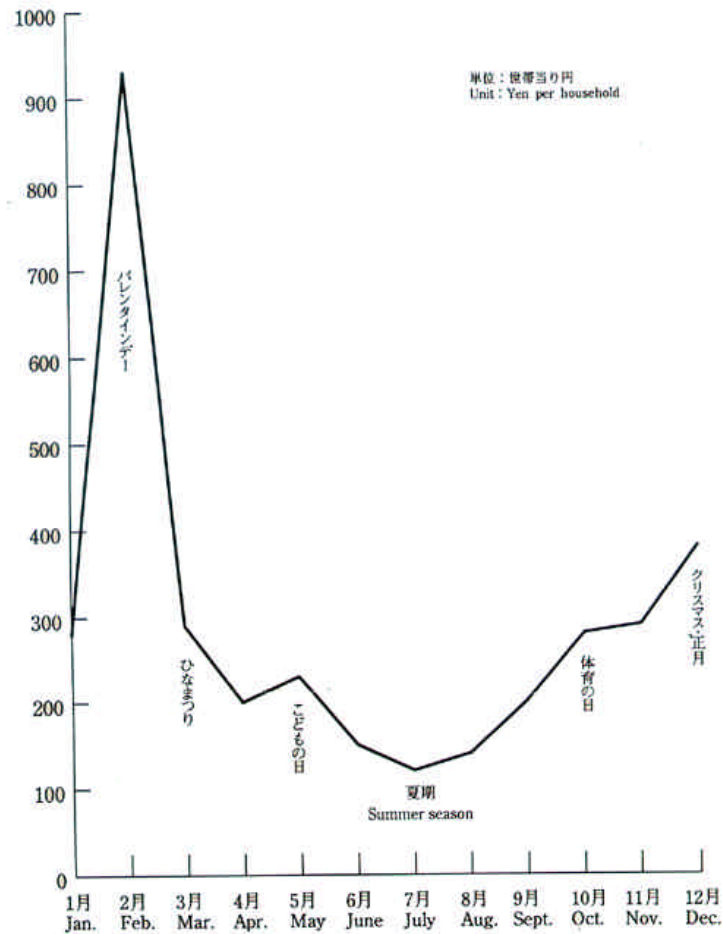


Figure 4.5 Monthly purchase of chocolate per household (1996)

On St. Valentine's Day, Japanese women give presents to Japanese men. These presents used to be chocolate products only. 'White Day' was introduced later and it is celebrated on 14 March. On White Day, men buy presents for their female friends and colleagues. Gifts for White Day can be many different items, for example sugar confectionery: small boxes with candy.

Chocolate used to be the only product that was given on St. Valentine's Day. A recent trend is that other products are given as well, such as neckties, handkerchiefs and flowers; either in combination with chocolates (wrapped as a single gift) or solely. Turnover of chocolate products for St. Valentine's Day has decreased. According to interviewees, in 1999 sales were JPY 30b to JPY 45b instead of JPY 50b to JPY 60b about five to six years ago.

Gift items are luxuriously wrapped with, for example, bows and flowers. Japanese consumers are sensitive to the correct wrapping and packaging, so that exporters are advised to export chocolate products in bulk and leave the wrapping to Japanese importers. Gift items are generally sold in department stores. Gift seasons are not important for the

large domestic manufacturers, since consumers find their gift items too common for these occasions. Smaller and medium-sized companies and foreign brands have a better image for gifts. It was said that one large manufacturer did not succeed in marketing Belgian chocolates for special occasions, since consumers do not associate that company with luxury gift products. Furthermore, it is risky for large manufacturers to produce for certain occasions only.

On St. Valentine's Day and White Day, the Japanese do not only give little presents to their boy- respectively girl-friends (husbands and wives), but to many of their male and female friends, classmates and colleagues. Since one individual person gives many different gifts, the price of a single product should be below JPY 1,000. The best selling gifts are priced at about JPY 300.

4.3.4 Chocolate: consumer preferences

Product characteristics

Important product characteristics determining the consumer's choice are brand or country of origin, packaging, price and quality. Health-related characteristics also play an important role, such as the fact that a product is low-fat, low-calorie, sugarless or chemical-free. Lotte, for example, has introduced the 'Zero' brand: low-fat and low-calorie chocolate.

Milk chocolate is more popular than plain chocolate. According to one interviewee, 65% of chocolate consumption is milk chocolate, 20% is plain. The rest is chocolate with nuts and other ingredients. However, plain chocolate is getting more popular. Consumers prefer less sweet chocolate. Japanese milk chocolate is less sweet than European milk chocolate. White chocolate is not much appreciated, since consumers find it too sweet and do not see it as 'real chocolate' due to its colour.

Interviewees mentioned on the one hand that Japanese (and other Asian) consumers are not traditionally accustomed to eating chocolate. They may consider it as confectionery for children with a high price, a high calorie and cholesterol contents and bad for one's teeth. It was also mentioned, on the other hand, that Japanese consumers are quite familiar with chocolate. Since domestic manufacturers used to add more vegetable oil, the taste is different from Western chocolate. Japanese consumers are learning to appreciate European style chocolate and domestic manufacturers also produce European style chocolate products now. Food News (1999, p. 25) mentions a recent trend for high-quality chocolate and 'not snack chocolate'.

Tradescope indicates a shift of preferences towards lighter-tasting chocolates: lighter sweetness and lighter palatability. Light palatability is realised by mixing in cacao butter or using fresh cream. Furthermore, also health-related issues play a role. For example, presently manufacturers communicate the polyphenol content of chocolate. Plain chocolate can contain more polyphenol than milk chocolate, so that promoting the effect of polyphenol will expand the market of plain chocolate. Since Japanese consumers are relatively easy to influence, manufacturers use television programmes or articles in magazines to stress positive product characteristics.

Variety

The Japanese consumers prefer something new regularly. Therefore, 'combination chocolate products' sell well. They are, for example, chocolate with biscuits, chocolate with filling or chocolate with wafer. Furthermore, consumers demand variety in boxes with chocolates. A box with only one variety, e.g. cherry chocolates, does not sell well. The interviewees were asked whether in particular chocolates with filling, such as strawberry filling, are popular. Those products were not seen as especially well liked. One recent hit product was 'Kindersurprise', introduced by Ferrero in 1998. So-called fresh (in Japanese: 'nama') chocolate is popular in spring and autumn 1999. Among Japanese children, cartoon figures or chocolates with a gift inside are popular.

About 60% to 70% is consumed by females, according to Tradescope. Middle and high school students as well as young women form the biggest consumer groups.

4.3.5 Chocolate: product introductions and product lifecycle

The Japanese market for chocolate products is highly competitive and saturated. Japanese manufacturers invest a lot in (new) product development. For example, one manufacturer invests 1.2% of total sales in R&D. Their research institute employs 120 persons.

New products are being introduced in September every year. About half of these new products are 'completely new ones'. One of the particular characteristics of Japanese consumers is their continuous demand for new products. Domestic manufacturers need to offer new products regularly. Supermarket and convenience store chains request them to launch new products in addition to the standard products. It is expected that the habit of at least one product introduction per year will continue in the future. Since manufacturers find it difficult to fully perceive the consumer preferences, they have to introduce many new products and some will sell better than others. They find out by trial-and-error.

The life cycle of products is short. Interviewees mentioned different lengths, such as six months or one, two or three years. The shortest life cycle is one distribution moment only (for gift and seasonal items). The strategy of Japanese manufacturers is to advertise first and then sell the product for one or two years.

Domestic manufacturers realise that many new product introductions and short life cycles increase costs. Due to the pressure of competitors, domestic manufacturers have to follow this practice. Since sales volumes are high enough (television commercials contribute to that), it is still profitable. An importer of foreign products indicated that these foreign import products are more exclusive products and have longer lifecycles. Foreign manufacturers cannot change their products so frequently. Exclusivity is their products' added value. However, the situation continues to exist that Japanese retailers prefer to have new products regularly. Since it is not economic for foreign manufacturers, Japanese importers need to continuously search for new products. If they want a bigger sales volume, they need to change their products regularly.

4.3.6 Sugar confectionery: product characteristics and popular products

Product characteristics

Important characteristics for sugar confectionery products are taste-, health- or function-related issues and brand marketing. Consumers do not perceive a strong link with a particular country. However, tinned candy is expected to be from the UK. In contrast to chocolate products, sugar confectionery, can be sold throughout the year.

Food News (1999, p. 25) mentions that the recent trend with regard to candy is low-calorie or low-sugar content products, so that especially sour products are becoming important. The increasing use of xylitol for chewing gum endorses this trend.

The market for sugar confectionery is not growing. The fact that the birth rate is decreasing is one reason, as children are an important consumer group.

Popular products

According to one interviewee, the most popular sugar confectionery products are (ranked according to popularity; numbers 1 and 2 are most important):

1. candy (cough drops are most important within this product group);
2. chewing gum: mint and xylitol;
3. lollipop; and
4. soft candy. For example, the soft chewing candy 'Hi-Chew' has been a well-selling product for over 10 years.

Figure 4.7 (paragraph 4.3.7) shows the market size by segment of candy and caramel products.

Frisk, a Belgian product, was mentioned during many interviews as the example of a recent hit product, selling extremely well. When it was introduced about two years ago it was a niche product and a completely new product on the Japanese market. During a relatively short period, it has been able to establish a strong brand image. In commercials it was directly and indirectly communicated that Frisk is a good means against stress. Catch-phrases like 'sharpens you up' and 'fresh up' are used. Frisk's message also appeals to the buyers' lifestyles. Mentioning its function, viz. preventing stress, within the boundaries of Japanese regulation is seen as a strong point. Furthermore, Frisk's agent had a distribution channel.

Rolls and tinned candy have a classic image. Products in a tin are popular gift items.

4.3.7 Sugar confectionery: production and retail value, market size by segment and market shares

The development of sugar confectionery is looked at in more detail in Figure 4.6. It shows the developments of production and retail values from 1996 to 1998.

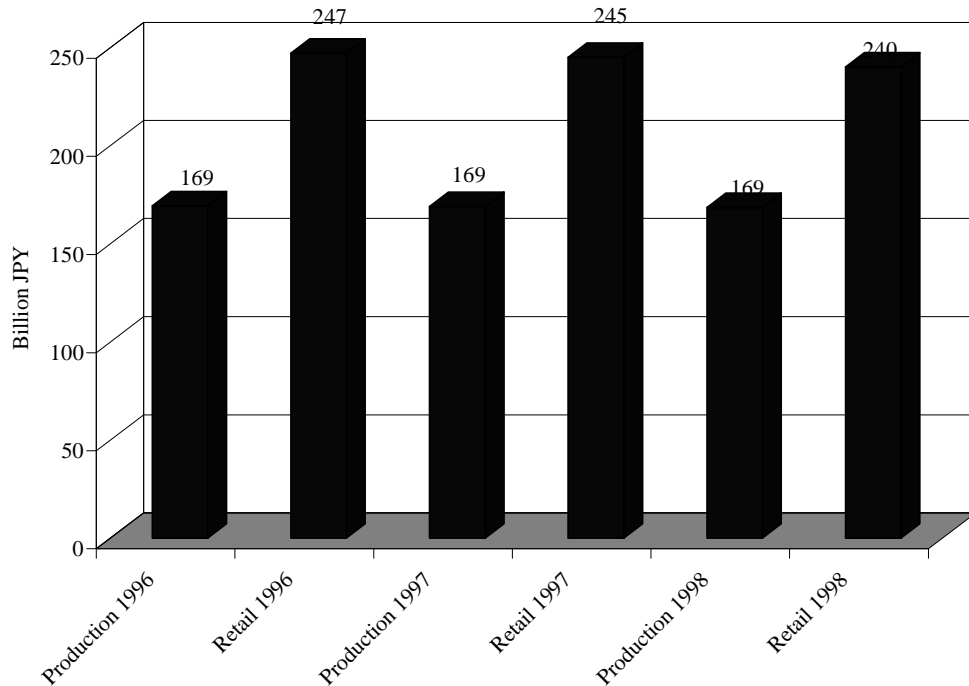


Figure 4.6 Candy and caramel: development of production and retail value
Source: All Japan Kashi Association.

Candy & caramel market size by segment

The category 'candy and caramel' is divided in different segments, viz. hard candy, soft candy, gummi candy, caramel and tablets. The market size in 1997 of these different segments is shown in Figure 4.7 on the basis of information from one manufacturer. This company's total figure of the candy and caramel market (JPY 176.7b in 1997) differs from the production value in the statistics of the All Japan Kashi Association (JPY 169.0b).

Candy & caramel market size by segment in 1997
(production value; total JPY 176.7b)

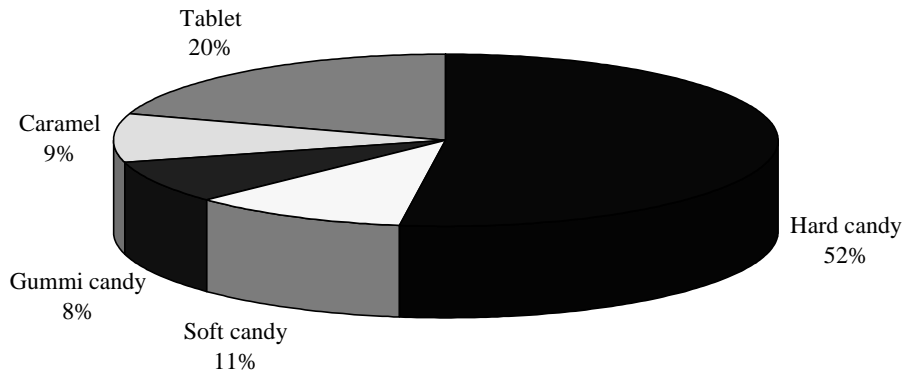


Figure 4.7 Candy and caramel market size by segment

Over the period 1995 to 1997 the market of tablets showed a growth of 63%. The market of gummi caramel stayed constant, and the production value of hard candy, soft candy and caramel decreased with, respectively, 2.5%, 2.6% and 2.4%.

Table 4.3 shows the major players by segment and Table 4.4 shows the major brands in the candy and caramel market.

Table 4.3 Major players in the market for candy and caramel, by segment (market shares in 1997)

Hard and soft candy		Gummi candy		Caramel		Tablet	
Lotte	15.5%	Meiji	64.7%	Morinaga	52.7%	Meiji	26.2%
Kanro	15.3%	Mikakuto	15.8%	Glico	28.6%	Kanebo	25.6%
Mikakuto	9.9%	Kabaya	7.6%	Meiji	10.8%	Kabaya	10.3%
Warner	8.6%	Sugimotoya	2.9%			Morinaga	10.1%
Morinaga	7.8%					Glico	6.0%

Table 4.4 Major brands in the candy and caramel market, in (decreasing) order of sales value (1998)

Brand	Manufacturer / distributor
Nodo Ame (hard candy)	Lotte
Frisk (tablet)	Kanebo Foods
Hi-Chew (soft candy)	Morinaga
Konko Nodo Ame (hard candy)	Kanro
Mentos (soft candy)	Warner Lambert
Glico (caramel)	Ezaki Glico
Hi-Soft (caramel)	Morinaga
Kodomo Gummi (gummi candy)	Meiji
Halls (hard candy)	Warner Lambert
Milk Caramel (caramel)	Morinaga

4.4 Production and distribution structure

4.4.1 Distribution route

One should distinguish between mass produced items and luxury chocolate and confectionery products. According to Tradescope (1996), there is no distinct distribution channel for mass-produced chocolate products. They are sold through the same channel as confectionery. Generally, mass produced confectionery is sold by the manufacturer and supplied through a primary or secondary wholesaler to retail outlets. Normally, small retail outlets are supplied through a second level of wholesalers, but retail outlets in rural areas and small outlets in the large cities are sometimes supplied by even a third level of wholesalers.

For luxury chocolate products there is a difference in retail outlets used. These chocolate products are sold at speciality shops. There are less speciality shops for sugar confectionery.

Links in the distribution route: import products

An example of the different links in the distribution route of chocolate retail products for the mass consumers' market is as follows:

1. Foreign manufacturer
2. Japanese general trading company
3. Different wholesale companies
4. From each wholesale company to one retail chain

An example of the different links in the distribution route of semi-finished chocolate products or ingredients for the industrial market is as follows:

1. Foreign manufacturer
 2. Japanese general trading company
 3. Large Japanese manufacturer
- or
3. Wholesale company
 4. Pastry or bakery shop (i.e. manufacturer)

Luxury chocolate and confectionery products are more often imported by speciality confectionery products trading companies. Both interviewed companies indicated that about 60% of their products are sold through wholesale companies. The other 40% is sold directly to 'gourmet' supermarkets, speciality shops or mail-order companies. Some trading companies use their own trucks for transport.

In general, these Japanese trading companies only deal with foreign manufacturers that have their own export division, and not with foreign trading companies that do not manufacture themselves. Otherwise margins are too high. Furthermore, most manufacturers export themselves and do not use exporting companies.

Links in the distribution route: domestic products

According to one general trading company, 90% of domestic chocolate products follow the following distribution route¹:

1. Manufacturers (Lotte, Meiji, Morinaga, Glico, Fujiya, Bourbon, Nestlé, Furuta, Kabaya, Meito and etc.)
2. Wholesale company
3. Retailer

Figure 4.8 provides a general schematic overview of the different distribution routes of confectionery products.

¹ The other 10% go directly from manufacturer to chocolate shop.

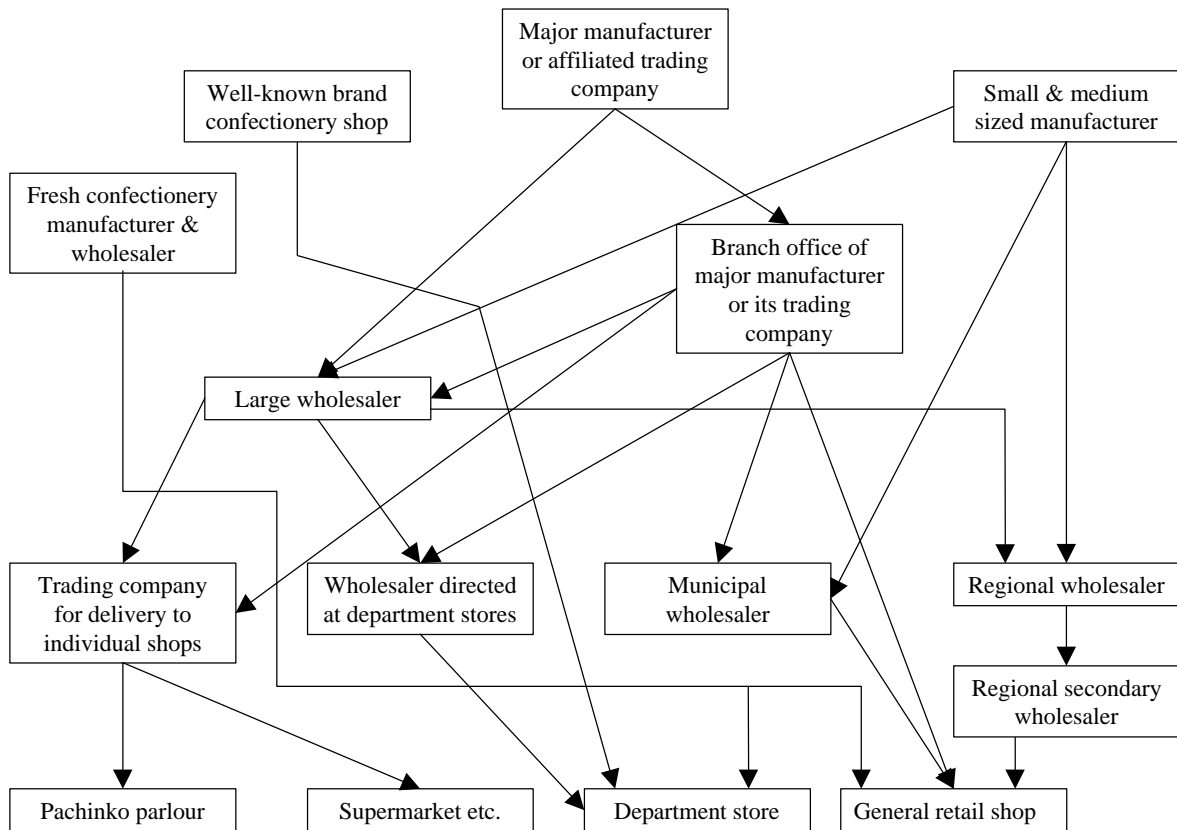


Figure 4.8 Schematic overview of confectionery distribution route

4.4.2 Wholesale companies

The arguments for the Japanese general trading company to use wholesale companies are:

- wholesale companies also provide technical advice to the clients; and
- they provide forwarding facilities.

One speciality trading company mentioned other added values of wholesale companies. They can more easily judge the reliability and creditability of retail companies. Furthermore, when wholesale companies are used, the trading company does not have to deal with all retail companies individually. For small orders (i.e. < JPY 100,000), it is difficult for the trading company to do direct business with a retail company. Whether the trading company should trade directly with retail companies or use wholesale companies is an issue they consider constantly. Sometimes a big retailer has a close relationship with a wholesaler and then all business has to go through that wholesale company. Generally, the gross margin of a wholesale company is 10% to 15%.

Some wholesale companies are reluctant to trade imported products. Wholesale companies find it bothersome to trade imported confectionery products for several reasons:

- the market share of imported confectionery goods is limited;
- imported products are usually traded in small amounts;

- sometimes a wholesale company can only supply a large number of items (e.g. 50), although a small retail shop only wishes to order just 5 items, since that shop has little storage space;
- problems occur concerning the translation of ingredients; and
- import regulations apply.

4.4.3 Choice of outlet type for foreign products

Foreign exporters have to consider an important issue first, namely which market to aim at. When supermarkets and convenience stores are the aim, it means that the exporting company is targeting a mass market. One speciality confectionery products trading company indicated that it is difficult to sell these import products to the major retail chains, since their prices are too high. The most likely outlets are speciality shops in the centre of Tokyo or the most luxurious supermarkets ('gourmet stores'), such as Meiji-Ya and Kinokuniya.

Besides high prices of import products, promotion on television is costly. Television commercials are considered important in Japan, especially for products targeting a mass market through supermarket chains. Even for products like Lindt chocolate, television commercials are not profitable. This trading company mentioned that the future and success of products depend on the manufacturer's willingness to spend money on television commercials first.

When a foreign manufacturer aims at selling to one of the main retail chains, representation by a Japanese manufacturer or a joint venture with a local manufacturer is advantageous. It is the opinion of one speciality confectionery products trading company. The reasons are that the product should be adapted to the Japanese market and that promotion and service are necessary.

4.4.4 Return cargo system

The so-called 'return cargo system' is generally applied in Japan. It means that retailers (both large supermarket chains and small shops) can return unsold products to the manufacturers. This system is hardly applicable to import products, so that small shops are reluctant to sell import products. According to one speciality confectionery products trading company, their customers accept that they do not offer the return cargo system for imported products. However, this import company sometimes – rarely – has to accept returned unsold products.

4.4.5 Sugar confectionery: grey channel

In the Netherlands sugar confectionery is also sold through the 'grey channel', i.e. petrol stations and tobacco shops. In Japan, important sales outlets for sugar confectionery are kiosks (at stations) and convenience stores, both belonging to large retail chains. Since the density of these outlets is high, the grey channel does not play a significant function in Japan.

4.5 Import structure

4.5.1 Import regulations

Below, the different items are listed with their HS code number and preferential customs tariff rate.

Table 4.5 *Tariff rates of chocolate products and sugar confectionery*

HS no.		Name of products	Customs tariff rate
Exports	Imports		
1704.90-100	1704.90-210	Candies	28.3%
	1704.90-220	Caramels	
1704.90-900	1704.90-290	Other sugar confectionery	
1806.31-000	1806.31-000		10%
1806.32-000	1806.32-100	Chocolate confectionery	
1806.90-000	1806.90-100		

Source: Japan External Trade Organisation (1998, p. 169).

White chocolate falls in category 1704, so that the customs tariff rate is 28.3%. It differs from the rate for other chocolate products. White chocolate contains more milk products than other chocolate, since usually more than 30% of milk products, like full cream milk or skimmed milk powder are used in it. Milk products and sugar are charged at a high tariff rate to protect Japanese farmers.

Dutch exporters experience that import regulations are strict and restrictive. There are e.g. requirements on packaging, labelling and residues (sulphite, SO₂). Since Japanese regulations towards additives, among other things colouring agents, are different from the EU, it is difficult for exporters. Furthermore, Japanese clients audit the Dutch production facilities. Matters of importance are e.g. a prevention plan, HACCP logbook and clean working clothes.

For further and the most recent information on import regulations the reader is referred to the Department of Industry and Trade of the Netherlands Ministry of Agriculture, Nature Management and Fisheries (Mr. J.J.M. Verbeek¹) and to the Office of the Agricultural Counsellor at the Royal Netherlands Embassy in Tokyo².

¹ Telephone: (070) 3784064; fax: (070) 3786123.

² Address details can be found in appendix 2.

4.5.2 Sugar confectionery: import statistics

In this paragraph, data on sugar confectionery from the official import statistics of the Japan Tariff Association (1999), which is part of the Ministry of Finance, are given. Three categories relate to sugar confectionery, namely candy, caramel and other sugar confectionery (including white chocolate). Table 4.6 to Table 4.8 show the import data of 1998.

Table 4.6 Japanese imports of candies in 1998 (Top-20) – HSI704.90-210

Country	Quantity (kg)	% of total	Value (JPY 1,000)	% of total	Price (JPY) per kg
Netherlands	2,516,666	40.5%	1,490,824	40.2%	592
Spain	1,158,522	18.6%	750,407	20.2%	648
Austria	244,655	3.9%	311,647	8.4%	1,274
USA	286,694	4.6%	274,127	7.4%	956
Switzerland	202,232	3.3%	160,876	4.3%	796
UK	329,451	5.3%	157,708	4.3%	479
Germany	296,122	4.8%	130,457	3.5%	441
France	255,679	4.1%	96,583	2.6%	378
Taiwan	172,386	2.8%	65,132	1.8%	378
China	132,647	2.1%	64,039	1.7%	483
South Korea	126,935	2.0%	53,897	1.5%	425
Indonesia	206,287	3.3%	38,461	1.0%	186
Canada	40,848	0.7%	23,502	0.6%	575
Italy	40,480	0.7%	19,884	0.5%	491
Brazil	68,438	1.1%	18,544	0.5%	271
Belgium	40,692	0.7%	12,788	0.3%	314
Australia	16,817	0.3%	9,280	0.3%	552
Mexico	22,459	0.4%	9,040	0.2%	403
Malaysia	33,794	0.5%	7,541	0.2%	223
Hong Kong	6,144	0.1%	4,267	0.1%	694
TOTAL	6,218,927	100.0%	3,707,517	100.0%	596

Source: Japan Tariff Association.

Table 4.7 Japanese imports of caramels in 1998 (all countries) – HSI704.90-220

Country	Quantity (kg)	% of total	Value (JPY 1,000)	% of total	Price (JPY) per kg
Taiwan	152,157	76.0%	54,965	69.2%	361
France	15,995	8.0%	10,848	13.7%	678
Brazil	13,201	6.6%	4,373	5.5%	331
USA	7,964	4.0%	4,177	5.3%	524
Germany	4,789	2.4%	2,621	3.3%	547
Argentina	5,097	2.5%	1,659	2.1%	325
UK	1,082	0.5%	780	1.0%	721
TOTAL	200,285	100.0%	79,423	100.0%	397

Source: Japan Tariff Association

Table 4.8 Japanese imports of sugar confectionery (including white chocolate), not containing cocoa, n.e.s. in 1998 (Top-25) – HSI704.90-290

Country	Quantity (kg)	% of total	Value (JPY 1,000)	% of total	Price (JPY) per kg
South Korea	2,300,021	55.6%	204,084	16.0%	89
USA	289,002	7.0%	173,326	13.6%	600
Vietnam	95,481	2.3%	162,838	12.8%	1,705
Belgium	223,391	5.4%	156,386	12.3%	700
Germany	180,567	4.4%	118,265	9.3%	655
France	158,961	3.8%	116,859	9.2%	735
Switzerland	91,967	2.2%	80,911	6.3%	880
China	181,732	4.4%	50,546	4.0%	278
Singapore	126,680	3.1%	37,259	2.9%	294
Malaysia	229,285	5.5%	28,241	2.2%	123
UK	44,683	1.1%	22,773	1.8%	510
Denmark	23,085	0.6%	19,645	1.5%	851
Brazil	24,925	0.6%	16,231	1.3%	651
Spain	32,116	0.8%	15,391	1.2%	479
Australia	5,499	0.1%	13,750	1.1%	2,500
Canada	32,525	0.8%	13,027	1.0%	401
Italy	17,640	0.4%	6,902	0.5%	391
Indonesia	14,194	0.3%	5,941	0.5%	419
Austria	8,025	0.2%	5,141	0.4%	641
Taiwan	14,302	0.3%	5,042	0.4%	353
Turkey	4,204	0.1%	4,430	0.3%	1,054
Netherlands	4,727	0.1%	4,256	0.3%	900
Thailand	15,271	0.4%	3,818	0.3%	250
Sweden	5,358	0.1%	3,484	0.3%	650
Ireland	4,814	0.1%	2,708	0.2%	563
TOTAL	4,134,701	100.0%	1,275,335	100.0%	308

Source: Japan Tariff Association.

4.5.3 Chocolate products: import statistics

In this paragraph, data on chocolate products from the official import statistics of the Japan Tariff Association (1999), which is part of the Ministry of Finance, are given. Many categories relate to cocoa and chocolate products, including raw material. Several of the HS-numbers of the categories relating to end products are already mentioned in paragraph 4.5.1. The Japan External Trade Organisation (1998, p. 169) indicates these categories as chocolate confectionery. However, other categories in the Japanese import statistics also apply to chocolate confectionery. Table 4.9 shows all relevant categories.

Table 4.9 HS-numbers and description

HS-number	Description	Imports from the Netherlands in 1998?
1806.31-000	Chocolate and other food preparations containing cocoa, in blocks, slabs or bars, filled, weighing not more than 2 kg	yes
1806.32-100	Chocolate confectionery, in blocks, slabs or bars, not filled, weighing not more than 2 kg	yes
1806.32-211	Chocolate and other food preparations containing cocoa (chewing gum and other sugar confectionery; foods, the largest single ingredient of which is sugar by weight), in blocks, slabs or bars, not filled, weighing not more than 2 kg	no
1806.32-219	Chocolate and other food preparations containing cocoa, in blocks, slabs or bars, not filled, weighing not more than 2 kg, containing added sugar	no
1806.32-220	Chocolate and other food preparations containing cocoa, in blocks, slabs or bars, not filled, weighing not more than 2 kg, n.e.s.	no
1806.90-100	Chocolate confectionery, other than in blocks, slabs or bars, weighing not more than 2 kg	yes
1806.90-211	Chocolate and other food preparations containing cocoa (chewing gum and other sugar confectionery; foods, the largest single ingredient of which is sugar by weight), other than in blocks, slabs or bars, weighing not more than 2 kg	yes
1806.90-219	Chocolate and other food preparations, containing cocoa, other than in blocks, slabs or bars, weighing not more than 2 kg, added sugar	yes
1806.90-220	Chocolate and other food preparations, containing cocoa, other than in blocks, slabs or bars, weighing not more than 2 kg, n.e.s.	yes

Source: Japan Tariff Association

The tables below only relate to end products, not to raw material and semi-manufactured products. Detailed import quantities and values of 1998 of the different countries are only given for the categories that include imports from the Netherlands. The Japan External Trade Organisation (JETRO) categorises only Table 4.10 to Table 4.12 as chocolate confectionery. Table 4.13 to Table 4.15 refer to the additional categories. Since the average price (JPY) per kilogram varies remarkably between the different categories, the import data are presented in detail and are not added up.

Table 4.10 *Japanese imports of chocolate and other food preparations containing cocoa, Top-15 – HS1806.31-000*

Country	Quantity (kg)	% of total	Value (JPY 1,000)	% of total	Price (JPY) per kg
USA	2,160,183	28.7%	2,493,062	31.7%	1,154
Australia	2,172,314	28.9%	1,491,646	19.0%	687
Belgium	650,584	8.7%	902,555	11.5%	1,387
Italy	536,747	7.1%	553,215	7.0%	1,031
France	202,777	2.7%	432,637	5.5%	2,134
Switzerland	222,455	3.0%	379,267	4.8%	1,705
Hong Kong	78,734	1.0%	215,906	2.7%	2,742
Germany	186,293	2.5%	208,200	2.6%	1,118
Brazil	310,280	4.1%	182,351	2.3%	588
China	241,496	3.2%	180,627	2.3%	748
Canada	79,994	1.1%	137,089	1.7%	1,714
UK	178,160	2.4%	131,328	1.7%	737
Singapore	65,751	0.9%	98,480	1.3%	1,498
Netherlands	107,672	1.4%	72,291	0.9%	671
New Zealand	86,002	1.1%	68,627	0.9%	798
TOTAL	7,518,344	100.0%	7,857,385	100.0%	1,045

Source: Japan Tariff Association.

Table 4.11 *Japanese imports of chocolate confectionery, Top-15 – HS1806.32-100*

Country	Quantity (kg)	% of total	Value (JPY 1,000)	% of total	Price (JPY) per kg
USA	1,676,183	27.0%	1,220,766	21.3%	728
France	975,509	15.7%	995,863	17.4%	1,021
Belgium	756,671	12.2%	825,245	14.4%	1,091
Switzerland	601,798	9.7%	763,243	13.3%	1,268
Germany	786,568	12.7%	564,508	9.8%	718
Australia	326,363	5.2%	229,657	4.0%	704
UK	210,481	3.4%	217,656	3.8%	1,034
Hong Kong	73,451	1.2%	153,210	2.7%	2,086
Canada	84,262	1.4%	129,711	2.3%	1,539
Netherlands	92,406	1.5%	116,626	2.0%	1,262
Spain	125,889	2.0%	100,008	1.7%	794
Italy	60,118	1.0%	96,374	1.7%	1,603
New Zealand	159,298	2.6%	79,162	1.4%	497
Sweden	84,143	1.4%	65,806	1.1%	782
Malaysia	32,561	0.5%	34,214	0.6%	1,051
TOTAL	6,216,444	100.0%	5,737,238	100.0%	923

Source: Japan Tariff Association

Table 4.12 Japanese imports of chocolate confectionery, Top-15 – HS1806.90-100

Country	Quantity (kg)	% of total	Value (JPY 1,000)	% of total	Price (JPY) per kg
Italy	472,479	23.7%	848,331	47.9%	1,795
Singapore	454,273	22.8%	284,249	16.0%	626
Belgium	353,274	17.7%	239,721	13.5%	679
Australia	85,600	4.3%	124,139	7.0%	1,450
China	378,109	19.0%	80,455	4.5%	213
Netherlands	46,186	2.3%	39,419	2.2%	853
South-Korea	53,981	2.7%	38,362	2.2%	711
Germany	65,345	3.3%	34,783	2.0%	532
France	22,821	1.1%	32,264	1.8%	1,414
USA	13,618	0.7%	12,613	0.7%	926
Indonesia	20,760	1.0%	8,039	0.5%	387
Hong Kong	2,721	0.1%	6,760	0.4%	2,484
Canada	1,838	0.1%	5,832	0.3%	3,173
Brazil	7,198	0.4%	5,561	0.3%	773
Switzerland	2,227	0.1%	5,455	0.3%	2,449
TOTAL	1,995,058	100.0%	1,772,886	100.0%	889

Source: Japan Tariff Association.

Table 4.13 Japanese imports of chocolate and other food preparations containing cocoa, all countries – HS1806.90-211

Country	Quantity (kg)	% of total	Value (JPY 1,000)	% of total	Price (JPY) per kg
USA	251,932	25.5%	134,062	33.6%	532
Australia	296,696	30.0%	74,543	18.7%	251
Belgium	141,978	14.3%	50,907	12.8%	359
UK	25,769	2.6%	41,862	10.5%	1,625
Denmark	73,728	7.5%	25,358	6.4%	344
China	73,091	7.4%	17,893	4.5%	245
Brazil	93,856	9.5%	17,651	4.4%	188
Switzerland	7,946	0.8%	15,803	4.0%	1,989
Germany	8,218	0.8%	5,573	1.4%	678
Netherlands	5,545	0.6%	4,893	1.2%	882
France	3,492	0.4%	3,875	1.0%	1,110
Italy	5,306	0.5%	2,903	0.7%	547
Canada	1,180	0.1%	2,857	0.7%	2,421
Mexico	294	0.0%	255	0.1%	867
Chile	600	0.1%	226	0.1%	377
TOTAL	989,631	100.0%	398,661	100.0%	403

Source: Japan Tariff Association.

Table 4.14 *Japanese imports of chocolate and other food preparations containing cocoa, all countries – HS1806.90-219*

Country	Quantity (kg)	% of total	Value (JPY 1,000)	% of total	Price (JPY) per kg
USA	835,000	74.9%	242,518	68.5%	290
France	41,493	3.7%	41,100	11.6%	991
China	171,510	15.4%	33,711	9.5%	197
Australia	27,232	2.4%	7,062	2.0%	259
Italy	5,779	0.5%	6,840	1.9%	1,184
Netherlands	13,716	1.2%	6,530	1.8%	476
Switzerland	2,169	0.2%	4,424	1.3%	2,040
Hong Kong	735	0.1%	4,005	1.1%	5,449
Belgium	10,995	1.0%	3,509	1.0%	319
Germany	3,727	0.3%	1,982	0.6%	532
UK	2,940	0.3%	1,964	0.6%	668
South-Korea	42	0.0%	217	0.1%	5,167
TOTAL	1,115,338	100.0%	353,862	100.0%	317

Source: Japan Tariff Association.

Table 4.15 *Japanese imports of chocolate and other food preparations containing cocoa, Top-5 – HS1806.90-220*

Country	Quantity (kg)	% of total	Value (JPY 1,000)	% of total	Price (JPY) per kg
USA	782,067	98.0%	1,281,257	94.6%	1,638
France	5,760	0.7%	31,142	2.3%	5,407
Switzerland	6,603	0.8%	26,503	2.0%	4,014
Netherlands	983	0.1%	10,539	0.8%	10,721
Taiwan	233	0.0%	1,976	0.1%	8,481
TOTAL	797,785	100.0%	1,353,896	100.0%	1,697

Source: Japan Tariff Association.

4.6 Topics of special interest

4.6.1 Packaging

It is often said that Japanese consumers find packaging more important than quality and price. The different elements of packaging are design, colour and material. All three are important. Generally, a product (biscuit, slice of cake or piece of chocolate) is packed individually. All packed items are packed again together and then put in a carton. Two reasons exist for this individual packing: the humid climate and the custom to pack products per serving. Especially for gift items, wrapping plays a significant role. Cartons or tins are beautifully wrapped again.

Interviewees realise that over-packaging and over-wrapping exists, but they expect it to continue in the future, although after the Kyoto conference on the environment research committees were established. One manufacturer indicated they are trying to simplify packaging material due to cost and environmental reasons. However, packaging is important to catch the eyes of the consumer and it is difficult to be simplified. Governmental regulations concerning the environment are not strict. Manufacturers took the initiative (on the basis of direct and indirect consumers' requests) to end using packaging material containing (poly)chlorine, which produces dioxine.

Packaging of European products is satisfactory, but the size is often a problem. For Japanese consumers there are price limits for certain products:

- the price of small chocolate snacks should be less than JPY 100;
- the price of small gift should be less than JPY 1,000; and
- the price of big gift should be less than JPY 2,000.

Gift chocolates in Japan are usually packages of 200 grams. European packages are about 300 to 400 grams. This package is too big and the price is too high. European manufacturers often find it difficult to adapt their products, so import companies have no choice but to sell what the European manufacturers offer.

Foreign packages usually have a sticker mentioning the ingredients. Japanese law requires that an address and telephone number is written down as well. Japanese consumers also demand a telephone number for inquiries.

4.6.2 Toppings and decorations (made of sugar or chocolate) for pies, cakes and desserts

Most important for toppings and decorations are cakes. According to one interviewee, three Japanese companies, viz. Daito Kako, Nisshin Kako and Fuji Oil, mostly supply toppings.

Market niches may exist. However, there are many different varieties of toppings and decorations, making it difficult to export them to Japan. With regard to the different products: the Japanese are not accustomed to use figurines and chocolate confetti or sprinkles (for desserts). Other products may be too sweet, e.g. chocolate.

In Japanese supermarkets, different varieties of toppings and decorations for home baking use (Western-style cakes and pies) are supplied, such as chocolate sprinkles, fruits

mix, shavings of coconuts or almonds, and sugar confectionery (e.g. little flowers). The colour of sugar confectionery items is often pastel. They are softer colours than in Europe.

Products like frozen cakes and pies in supermarkets were seen by Dutch exporters as another potential market for toppings and decorations. Frozen cakes and pies to defrost at home are not popular since there are many pastry shops selling fresh products. European-style fresh cakes are popular especially among younger people¹.

In this European-style cake industry, a lot of couverture is used. High quality couverture or dip chocolate is imported from Belgium, Switzerland, France and Germany for cakes, pralines, desserts and ice cream for industrial use.

4.7 Conclusions

For chocolate products, an important product characteristic determining the consumer's choice is the image, besides price and quality. The brand name constitutes a large part of the image. Since foreign manufacturers communicate the country of origin, consumers attach the name of the country to the product. In the case of chocolate products, Switzerland and Belgium have a strong name. Dutch manufacturers take advantage of the strong Belgian image by mentioning the usage of Belgian ingredients.

Demand for chocolate products drops drastically in summer due to high temperatures and high humidity. The peak of chocolate demand is at St. Valentine's Day (14 February) when, in Japan, only women give presents to men. Although these presents used to be chocolates only, nowadays other products are given as well. So, chocolate sales at St. Valentine's Day are lower than several years before.

Since the image of large Japanese manufacturers is too 'common' for gift products, there are opportunities for smaller and medium-sized companies and foreign brands. Their image is more exclusive. It is essential that the product meets the Japanese consumers' requirements (price, package and product). It is important to communicate the right product characteristics to consumers, such as health-related issues. A partnership with a Japanese importer or trading company may be beneficial to a Dutch exporter, since a Japanese company could more easily develop the essential marketing and communication strategy. Japanese consumers are particularly sensitive with regard to gift items. Gift items should be within a certain price range and the manner of packing and wrapping is important. One solution is exporting a product in bulk to Japan and leaving packaging and marketing matters to the Japanese partner.

Japanese consumers demand 'something new' often. It means that domestic manufacturers introduce new chocolate products at least once a year (in September) and that the life cycle of domestic products is short.

Unlike chocolate products, sugar confectionery is sold throughout the year. Besides brand image, strong selling points for sugar confectionery are health- or function-related issues. Recent successful introductions of foreign sugar confectionery on the Japanese market are niche products with a strong marketing and communication strategy. The

¹ Additionally, the market for fresh traditional Japanese sweet cakes is large.

Japanese business partner (manufacturer or trading company) played an important role in developing the strategy for the Japanese market.

Dutch exporting companies are advised to carefully consider which market to aim at. Targeting a mass market (through outlets of major retail chains) may require costly television commercials. Prices of luxury import products may be too high and turnover too low to realise sufficient sales volume for a mass market. Most likely outlets for luxury (gift) products are speciality shops and the most luxurious 'gourmet' supermarkets.

4.8 Sources

In Japan, interviews were held with representatives of different companies (specialised import companies, general trading companies, manufacturers, wholesale companies and supermarket chains), umbrella organisations and research centres. The topics of the interviews were the supply chain and consumer developments in general and the different product groups in particular. In addition to interviews on the general topics, in-depth interviews related to chocolate products and sugar confectionery were held with three general trading companies, the publisher of a magazine for the confectionery industry, two speciality confectionery products trading companies, a large chocolate and confectionery products manufacturer and a confectionery manufacturers umbrella organisation.

5 Flatfish: fillet of plaice and fillet of dab

5.1 Arguments for choice of product group

On the basis of interviews with experts and representatives of exporting companies in the Netherlands product groups were chosen. The product group 'fillet of plaice and fillet of dab' was chosen as subject of research due to the following arguments:

- Japanese domestic supply is limited and not sufficient;
- flatfish is familiar to Japanese consumers. Fish with white-coloured meat¹ hardly smells and has a neutral taste. It plays a part in the attractiveness of these fish species for Japanese consumers;
- there is a tendency of more home meal replacement products in Japan. Supplying fillet products takes advantage of this development;
- Dutch quota are more likely to increase than decrease, so that the Netherlands can supply sufficient flatfish, especially plaice;
- for some reason, Dutch exporters face difficulties entering the Japanese market; and
- it was also mentioned to study the opportunities for exporting sole and turbot. There are several arguments for not choosing these products:
 - their market is rather limited. Sole and turbot are mainly eaten in French restaurants and Western hotels.
 - their price is high according to Japanese standards.
 - the Dutch fishing quotas are limited. There is insufficient and unstable supply of sole in the Netherlands for additional exports.

5.1.1 Research questions and topics of special interest

On the basis of interviews with experts and representatives of exporting companies in the Netherlands certain research questions were defined. The following topics were considered most important:

Consumption and consumer developments

- consumer preferences: trend of more processed fish products; and
- filleted items and fillets coated with breadcrumbs.

Production and distribution structure

- distribution route (in general); and
- structure of the sector (in general).

¹ Three types of fish are being distinguished according to the meat colour: fish with white-, red- and blue-coloured meat. Examples are flatfish and salmon (white), tuna (red) and mackerel (blue).

Import structure

- import regulations (in general);
- attitude towards new products: supermarket chains probably would like to try new products, but importers are reluctant to try them; and
- the knowledge of Japanese importing and trading companies about the products they trade: Dutch exporters experience that their products have to meet certain requirements (e.g. freshness). However, Japanese buyers purchase fish that does not meet these criteria from other suppliers.

Topics of special interest

- attitude towards other flatfish from north-western Europe; and
- attitude towards fish products from New Zealand.

5.2 Introduction

5.2.1 Naming of fishes in Japanese

The English names for the Dutch 'schar' and 'schol' fish species are 'dab' and 'plaice' respectively. The Latin names are 'pleuronectes platessa' for plaice and 'limanda limanda' for dab. Translation into Japanese causes more difficulty. Different names are used for the same fish species in different regions of Japan. And sometimes the same name is used for different fish species. The following shows that much ambiguity exists about the correct Japanese names.

Flatfish in general is called '*karei*' or '*hirame*'. The Japan Tariff Association makes the distinction between 'plaice' (Japanised English: 'pureisu', Latin: *pleuronectes platessa*) and other flatfish. The latter is called '*karei*' and '*hirame*'. For sole and halibut also Japanised English is used: namely '*sooru*' and '*haribotto*'.

A few interviewees mentioned a rule of thumb to distinguish *karei* from *hirame*. *Karei* is supposed to have its eyes on the right side of the body and *hirame* on the left side.

One Japanese fish handbook calls plaice (*pleuronectes platessa*) '*tsuno-garei*' and dab (*limanda limanda*) '*mako-garei*'. Another handbook calls both *pleuronectes platessa* and *pleuronectes quadrituberculatus* '*tsuno-garei*'. It uses the name '*mako-garei*' for *limanda yokohamae* (marbled sole). It mentions that other fish species also belong to (the) *mako-garei* (group), viz. *limanda aspera* (yellowfin sole or *kogane-garei*), *limanda ferruginea* (yellowtail flounder), *limanda herzensteini* (brown sole or *ma-garei*), *limanda proboscidea* (longhead dab or *hana-garei*), *limanda punctatissima* (longsnout flounder or *sunaga-garei*) and *limanda schrenki* (cresthead flounder or *kurogashira-garei*). In certain regions of Japan, these fish species are called differently, or other species are called '*mako-garei*'.

The name '*hirame*' is also used in such a confusing manner in these handbooks. Some interviewees use the name '*hirame*' for plaice and '*karei*' for dab. Others say plaice is '*ete-garei*' and dab is '*ai-garei*'. In contacts with foreign countries, Japanese buyers often use the Japanised English name '*pureisu*'. In order to prevent ambiguity during interviews, sometimes pictures of the fish species were shown.

Generally, the Japanese experts discriminated between two fish species during the interviews. The more expensive one of higher quality referred to plaice and the lower-priced one referred to dab.

5.3 Consumption and consumer developments

5.3.1 Consumer preferences¹

About 45% of animal protein intake in the Japanese diet come from fish and shellfish. The consumers' greatest concern is the freshness of fish. They regard fish as healthy food containing many good nutrients. Consumers do not care whether fish is domestically produced or imported. They select fish according to freshness, uniformity in size, appearance, taste and price. According to a study of the Japan Fisheries Association, Japanese housewives in large cities favoured fish over meat for the following four reasons:

- good for one's health;
- rich in nutrients such as DHA and EDA: the Japanese are highly conscious of the fact that seafood products have an abundance of nutrients, including highly unsaturated lipid acids (DHA and EDA), taurine, calcium, and fibre;
- enjoyed in seasonal context; and
- variety in kinds.

Fried fish products coated with breadcrumbs are popular. Fillets are also offered to the consumers, but they are not very familiar with fillet type products and do not know how to prepare them. The most popular way is à la meunière, i.e. coated with flour.

5.3.2 Frozen versus fresh fish

Japan's imports of flatfish are primarily of frozen product, although much of the flatfish imported from China and South Korea is fresh or chilled (JETRO, 1998, p. 217). Flatfish is being frozen, otherwise oversupply might occur in certain periods. Frozen fish is kept in warehouses to control the supply in the retail shops and supermarkets.

The quality of frozen whole fish can be maintained for two years maximally (usually it is kept for about one year). The quality of frozen fillet can be maintained maximally three to six months. Since transportation from the Netherlands by ship takes about one month, fillet has a disadvantage.

Japanese consumers are said to prefer fresh fish. It is said that especially fish meat used for raw consumption (sashimi and sushi) should be fresh. However, a large percentage of fish for sushi or sashimi in supermarkets has been frozen. The fish meat is offered in the supermarkets by a process of 'natural defrosting'. Many consumers may think that the fish

¹ This paragraph is based on information from interviews and on *Japanese Market Report; Regulation and Practices No. 10 (AG-62); Seafood Products* by the Japanese External Trade Organisation.

meat has never been frozen. One importing company mentioned that fish was imported frozen and sold chilled to their clients.

During one interview the distinction was made between freezing at a temperature of -55°C and at a temperature of about -25°C . On certain fishing boats tuna meat is frozen at -55°C directly after catch. Then it can be eaten raw after defrosting in supermarkets.

5.3.3 Plaice versus dab

As mentioned before, although often confusion occurred about the names, the Japanese experts generally discriminated between two fish species. The more expensive one of higher quality referred to plaice and the lower-priced one referred to dab. However, statements about dab and plaice and their usage were inconsistent.

Several interviewees indicated that both dab and plaice (whole fish and fillet) are of high quality and high price. White fish meat is regarded as high quality fish meat with sales potential. Plaice and dab from Europe is seen as an alternative for high quality, but expensive Korean flatfish. It is mostly eaten in restaurants as French-style dishes: sauté and grilled.

Other interviewees indicated a clear distinction between the characteristics and usage of dab and plaice. The remarks were as follows.

Dab and dab fillet

- *Source of origin:* a large part of the dab imports come from Europe. Most of the flatfish imports consist of dab. The total import of dab to Japan is 7,000 to 9,000 tons per year. It is whole gutted frozen fish of small size.
- *Usage:* it is delivered frozen and sold unfrozen at supermarkets: customers think it is fresh. Dab is also used for fish processing (dried). It is not eaten raw. French restaurants use large-size fish. However, large-size dab is popular in Europe, so large-size dab is mostly sold in Europe.
- *Price:* low price. Since many importers look at the price first, they choose dab over plaice or other fish. However, it does not meet the standards of one supermarket chain.
- *Taste:* it is considered not very tasty: it is not fat enough, it is soft and watery. Consumers do not know the taste of dab well, they know the taste of the Hokkaido species.
- *Future:* the demand will increase, since the demand for low fat fish will increase (just like in the USA or the EU) due to health-consciousness of consumers.

Plaice and plaice fillet

- *Source of origin:* China and Korea supply fish that is similar to European plaice.
- *Quality:* plaice (fillet) is considered of higher quality than dab. However, plaice fillet is thin. One supermarket chain buys bigger fish and cuts it in half, so that they can offer two to three pieces of 60-80 grams in a consumer package.

- *Consumer attitude*: in general Japanese consumers prefer to see the skin of the fish. Since plaice has red spots on its skin, it is associated with an illness. Therefore, whole plaice is difficult to sell.
- *Usage*: statements about the usage of plaice were inconsistent. One import company mentioned that plaice is a high quality and costly fish, so that fillet cannot be sold in supermarkets. Then, the only market for frozen fillet is catering: sauté or grilled. However, frozen fillet is offered in supermarkets by a 'natural defrosting' process. One supermarket chain is experimenting with breadcrumbs-coated fillet. Other interviewees indicated that the main usage (about 80%) for plaice (fillet) is sashimi. Fresh plaice is imported (from Australia) by plane for that purpose. The other 20% is consumed in French-style restaurants.

Wholesale price and usage

According to figures of the Osaka wholesale market, the wholesale price for fresh hirame (plaice) was JPY 2,179 per kg in 1997. It was only sold fresh (for raw consumption). The wholesale price of fresh karei (dab) was JPY 1,083 per kg and of frozen karei JPY 525 per kg in 1997. Karei is sold both fresh and frozen. The share of fresh karei increased from 31% in 1993 to 39% in 1997.

Other European flatfish, such as sole and turbot, are only prepared in French restaurants.

5.3.4 Price

In general, price is a more important criterion for supermarket chains to decide on a product than taste. However, one supermarket chain indicated that they are searching for better tasting alternatives for existing products and are willing to try new products. They are, for example, setting up corners with products that go well together with French wine. The strategy of importers and processors usually is looking for the cheapest products and ingredients. One supermarket chain does not agree with this strategy, since consumers prefer alternatives of higher quality.

Different prices were mentioned as reasonable prices for plaice fillet. Prices of JPY 595 to JPY 720 were mentioned as high, but reasonable CIF-prices for plaice fillet directly imported by a supermarket chain. In general, wholesale prices should be less than JPY 1,000 (JPY 800 to JPY 900). A retail price of JPY 2,000 per kilogram is reasonable. Consumer packages are to be sold at prices of JPY 150 per piece.

Japanese consumers prefer fresh fish instead of frozen fish. Although plaice fillet is frozen, it still is considered expensive. A retail price of imported products that is double the price of domestic products is acceptable.

5.3.5 Home meal replacement

Home meal replacement (HMR) is getting more popular. It means that more ready-to-cook or ready-to-eat meals are supplied. Besides these meals the Japanese consumption of 'o-

bento' is also increasing. Traditionally o-bento is a box containing a complete lunch, but o-bento is consumed at other times as well. HMR and o-bento are considered one market: it is a large market for frozen food. Manufacturers and processing companies used to choose the cheapest ingredients. Since consumers prefer higher quality HMR and o-bento products, processing companies shift to ingredients of higher quality and price.

Processing companies and supermarket chains find price stability and stability of supply quantity important. Furthermore, price should be low. Prices of domestic flatfish fluctuate. Only speciality retail shops can accept that, supermarket chains and processing companies find it bothersome.

O-bento

In general, ingredients for o-bento must be relatively cheap. Lunchboxes for schools and hospitals are the bottom market. The following fish species were mentioned when names of ingredients for o-bento were asked:

- buri (yellowtail): in expensive o-bento, although some processing companies find it too costly;
- amadai (kind of bream);
- aji (horse mackerel);
- tara (cod);
- merluza;
- salmon;
- tuna; and
- halibut.

Fried fillet coated with breadcrumbs

Fish in supermarkets is mostly plain fillet and fillet coated with breadcrumbs (fried). HMR is becoming more popular due to its ease of preparation. The share of HMR will increase in the future. Fillet in fried condition is mostly imported. In general, fish caught in Japan is supplied fresh.

The market size of aquatic 'furai' (fried) products was calculated at JPY 74.8b in 1997 (JPY 66.7b in 1993). It means an increase of 12% in four years. The market is divided in different market segments¹: fried shrimp (33.7%), fried white body fish (29.4%), fried oyster (12.8%) and fried cuttlefish (24.1%). Since 1993, the market share of fried white body fish has hardly changed.

Japanese consumers are sensitive to the type of breadcrumbs used. Therefore imported fillet is processed in Japan or under Japanese supervision (e.g. a joint venture company) abroad. It was suggested that – if Dutch processors could not process fillet meeting the Japanese consumers' taste – Dutch fish could be coated in Thailand or China.

After several trials, one supermarket company concluded that plaice fillet coated with breadcrumbs sells better than ordinary fillet.

¹ Figures of 1997.

5.3.6 Brand equity and image of the Netherlands

Brand equity is considered important. Norwegian exporters use the brand name 'Norwegian Salmon'. A brand name enables products to be identified and to be sold at higher prices. At this moment, Japanese importers experience that the Netherlands does not have an image of fish supplying country and that the Dutch exporters do not have a joint approach. They experience that the Dutch exporters compete with each other. The Japanese companies benefit.

5.4 Production and distribution structure

5.4.1 Domestic production

According to figures¹ of the Ministry of Agriculture, Forestry, and Fisheries (MAFF) domestic production in the commercial fishing and fishing cultivation industries of dab ('karei types') was 78,164 ton in 1997 and estimated at 75,000 ton in 1998. Domestic production in the commercial fishing and fishing cultivation industries of plaice ('hirame') was 8,361 ton in 1997 and estimated at 8,000 ton in 1998.

Tsudani (1995, p. 78) indicates that imported frozen karei-type fish is unloaded from the ships, transported in cold-storage containers and stored in cold-storage warehouses. From there it is forwarded further.

5.4.2 Distribution route

Local catch

JETRO (1997) explains that domestic seafood products typically pass through two types of wholesale markets before reaching retailers. The first is located near the docks where various aquatic products are landed. The second is situated in the vicinity of retail outlets. JETRO depicts it as follows.

¹ Published in *Nikkan Suisan Tsushin (Daily Fisheries News)* on 23 April 1999.

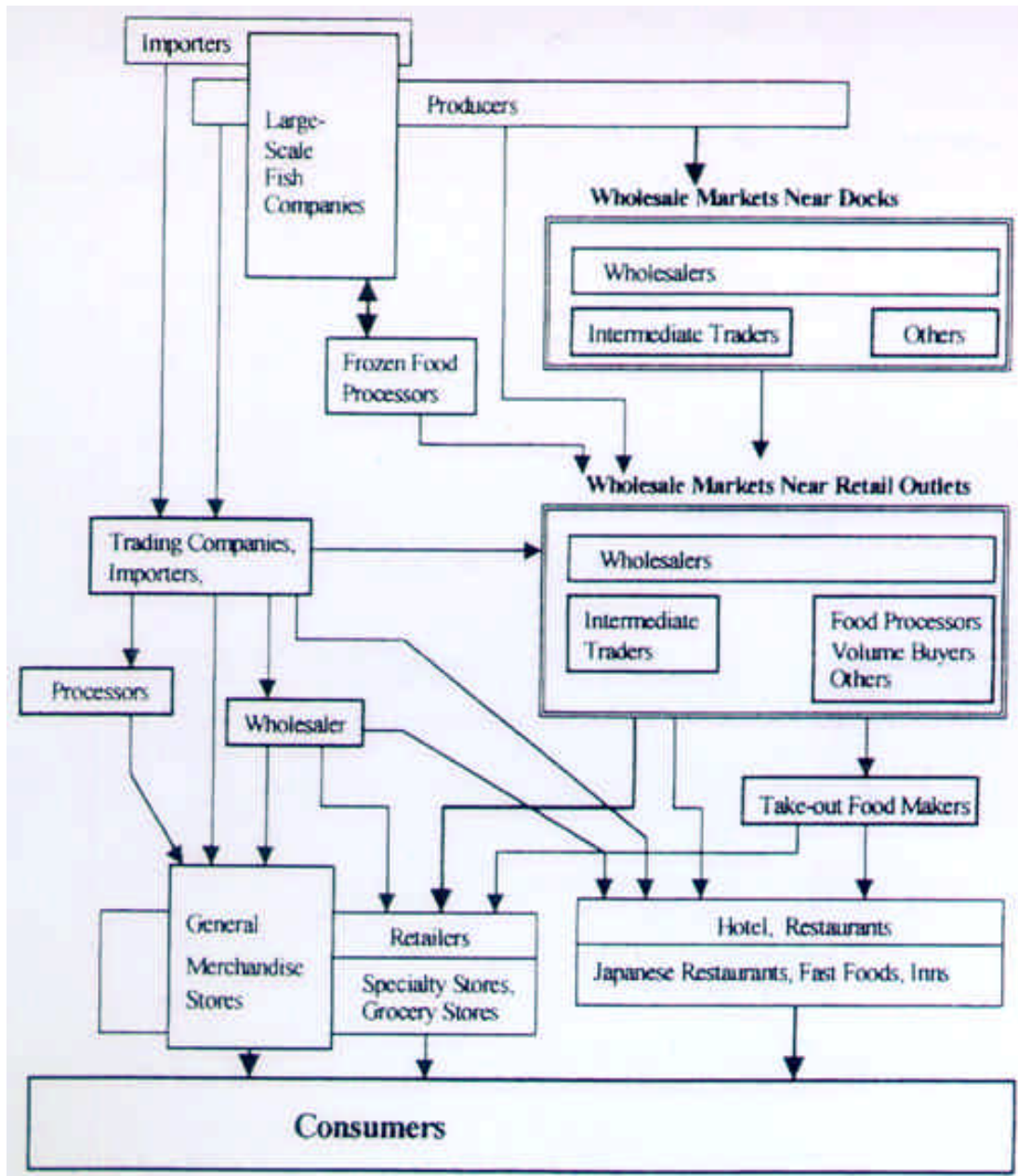


Figure 5.1 Distribution channel for seafood products
 Source: Japan External Trade Organisation (1997).

Fishermen bring their catch to the local market (producers' market). There are about 2,000 local markets where species and sizes are selected. Auctioning and bidding takes place at the local market. Fishermen receive their money in three or four days. Normally, according to an interviewee, the average price ratio is as follows: fisherman's price: consumer's price = 1 : 2.5.

Direct trading

JETRO continues to explain that imports have grown and so has the amount of direct trading. Increasingly, large-scale food processing companies, distributors and restaurant businesses are trading directly with producers of seafood products. In addition, some supermarket chains are now buying directly from foreign producers. Trading in seafood products outside traditional distribution channels is likely to become the standard practice. However, seafood products distributed through traditional wholesale markets have a great advantage due to the swift connection between small-scale producers and the final buyers. Therefore, since freshness is important, wholesale markets will continue playing an important role. Recently, a new trend can be seen which bypasses wholesale markets. Examples are: the increase of tuna boats with advanced freezers, making direct delivery to buyers possible; and large buyers purchase directly from producers or wholesalers under special agreement.

Most imported seafood products bypass wholesale markets. There are an increasing number of cases in which food processors, food wholesalers, food retailers, and restaurant businesses import directly on their own in an effort to shorten the distribution route. Large-scale food processors, supermarket chains, and restaurant businesses have strong demands for buying large quantities of seafood products at prices as low as possible, bypassing the traditional distribution route.

Imported flatfish

According to the interviewees, most flatfish is imported frozen. Fresh flatfish is mostly imported through specialised trading companies for special restaurants. Most imported flatfish is transported by ship. A rule of thumb is used to determine whether it is profitable to import fish by air. Fish costing over JPY 2,000 per kg can be imported by air.

The fact that turnover is small (and containers are big) was regularly mentioned as an obstacle to imports. Containers are considered too big for direct imports by supermarket chains. Also big fish trading companies find that they cannot sell such high volumes. Furthermore, big trading companies expect relatively high margins. If it is not profitable for them to import a certain product, smaller trading companies might be interested. Sometimes fish wholesale companies import aquatic products. Major supermarket chains may try directly importing fish, however, import quantities are considered as an impediment.

Exporters experience that markets in Japan are changing. Large trading companies are traditional and mainly import whole fish. Smaller import companies are more innovative. A factor is the employees' motivation. In a smaller trading company, an individual's performance more directly influences his company's profit.

Links in the distribution route

An example of the different links in the distribution route of fish for the consumers' market is as follows:

1. import company: regional divisions structure (so Dutch fish is purchased by the division for north-western Europe)
2. wholesale company: specialised in varieties of fish
3. secondary wholesale company: further specialisation (sometimes packing)
4. supermarket or retail shop

When sales of seafood products are ranked by retail outlet type, supermarkets rank on top, followed by small specialised fish shops.

An example of the different links in the distribution route of fish for the catering market is as follows:

1. import company (with cold-storage warehouse)
2. wholesale company
3. secondary wholesale company
4. restaurants

5.5 Import structure

5.5.1 Necessity of importing seafood

Japan depends heavily on imports for its seafood. Some of the reasons are (JETRO, 1997):

- domestic production is in decline and can no longer supply domestic demand;
- imported seafood products have advantages over domestic products in that the supply is stable and the quality uniform;
- imported seafood products are less expensive than domestically produced ones;
- major Japanese distributors are importing resources developed abroad; and
- an increasing number of exporting countries are actively promoting their seafood products in Japan.

5.5.2 Import quantities and direct imports

It is the experience that Dutch flatfish is only sold in small quantities. As the validity date of the product comes closer, it will have to be sold at 'knockdown' prices. For a relatively large import and trading company, a product is not commercially attractive if they can earn a 'just reasonable' profit and sell only small volumes of the products. However, if the expected profit is high, the company might try selling the product. Then, even if the quantity is low, the commission may be high enough.

Wholesale companies or small trading companies may be more inclined to trade small quantities. Therefore, their intermediary function is important. Overseas export companies are said to accept big orders only. One supermarket chain decided to use trading

companies instead of importing directly, since the volume of one container is too large. For them, volume is an important criterion for deciding on direct importing.

5.5.3 Seafood products imported from the Netherlands

Interviewees mentioned the following fish products that are being successfully imported from the Netherlands:

- horse mackerel (aji);
- mackerel (saba);
- herring (nishin) for grilling;
- herring roe: it is eaten raw and salted at New Year;
- eel for speciality restaurants; and
- smoked eel: for hotels.

5.5.4 Import statistics

In this paragraph, data on flatfish from the official import statistics of the Japan Tariff Association (1999), which is part of the Ministry of Finance, are given. Plaice is itemised separately in the statistics. The imports of dab, however, are not specified in the statistics.

Halibut¹, fresh or chilled

The total import quantity in 1998 is 75,473 kg, representing a value of JPY 4.8m. It means an average of JPY 64 per kilogram. The suppliers are Russia (58.2%), USA (29.1%), Mexico (12.5%) China (0.17%). The figures between brackets are the countries' shares of total Japanese import quantity.

Plaice², fresh or chilled

The total import quantity in 1998 is 680 kg (value JPY 2.05m). France is the only supplier. The average price is JPY 3,007 per kilogram.

Sole³, fresh or chilled

The total import quantity in 1998 is 3,456 kg (value JPY 2.76m). The suppliers are China (95.7% of total import quantity) and France (4.3%). The shares of total import value are 80.5% (China) and 19.5% (France). The average price of French sole is JPY 3,643 per kg; the average price of Chinese sole is JPY 671 per kg.

Other flat fish⁴, fresh or chilled

The total import quantity in 1998 is 5,779,253 kg (value JPY 2.97b). The average price is JPY 513 per kg. The major suppliers are China, USA, Russia, South Korea and North Korea. Japan also imports from European countries, viz. the Netherlands (0.015% of total

¹ HS-code 0302.21-000: Halibut (excluding fish fillet, other fish meat, livers and roes), fresh or chilled

² HS-code 0302.22-000: Plaice (excluding fish fillet, other fish meat, livers and roes), fresh or chilled

³ HS-code 0302.23-000: Sole (excluding fish fillet, other fish meat, livers and roes), fresh or chilled

⁴ HS-code 0302.29-000: Other flat fish (excluding fish fillet, other fish meat, livers and roes), fresh or chilled

import quantity), Belgium (0.033%), France (0.013%). The shares of total import value are 0.056% (Netherlands), 0.22% (Belgium) and 0.098% (France). The average price per kilogram differs significantly: JPY 1,935 for the Netherlands, JPY 3,353 for Belgium and JPY 3,893 for France.

Halibut¹, frozen

The total import quantity in 1998 is 17,512,017 kg, representing a value of JPY 7,035,861,000. Breakdowns by country of the total import quantity and total import value are shown in the figures below. The average prices per kilogram of the European countries are as follows: Iceland: JPY 479; the Netherlands: JPY 477; Germany: JPY 449; Norway: JPY 432; Greenland: JPY 409; Spain: JPY 406; UK: JPY 382; Denmark: JPY 360 and Portugal: JPY 329.

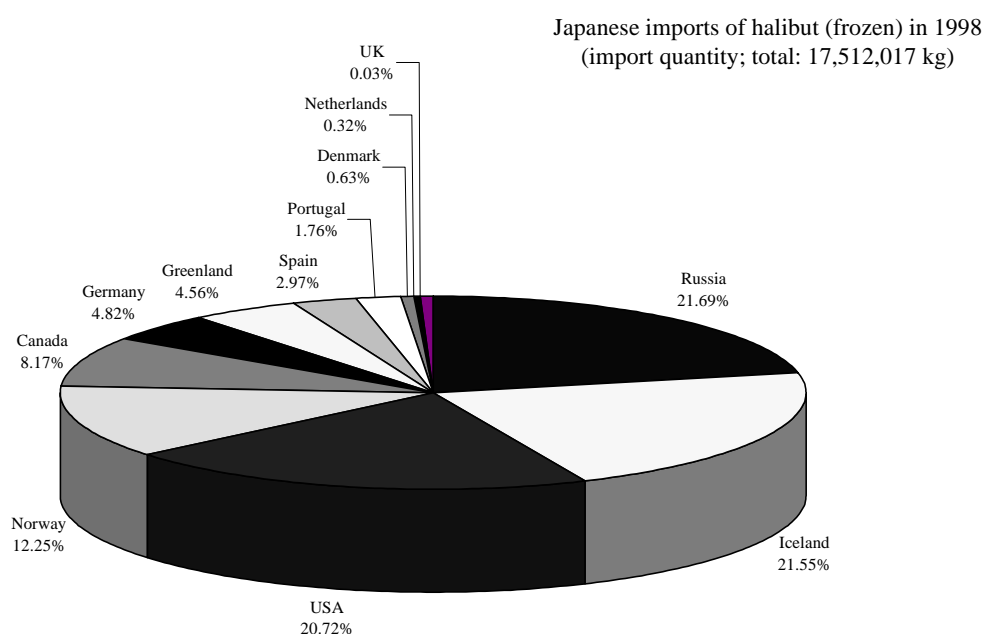


Figure 5.2 Imports of frozen halibut (import quantity) in 1998

Source: Japan Tariff Association.

¹ HS-code 0303.31-000: Halibut (excluding fish fillet, other fish meat, livers and roes), frozen

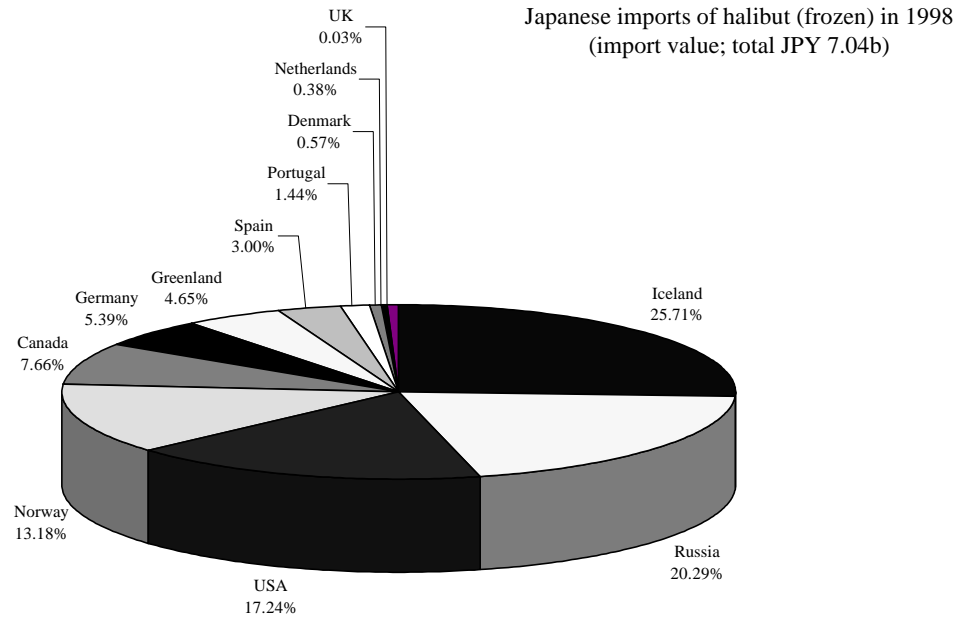


Figure 5.3 Imports of frozen halibut (import value) in 1998
Source: Japan Tariff Association.

Plaice¹, frozen

The total import quantity in 1998 is 21,028 kg (value JPY 5.5m) Russia is the only supplier. The average price of frozen plaice is JPY 260.

Sole², frozen

The total import quantity in 1998 is 246,026 kg. The total value is JPY 103.09m. Breakdowns by country of the total import quantity and total import value are shown in the figures below. The average prices per kilogram of the major suppliers and the European countries are: Belgium: JPY 2,183; Netherlands: JPY 351; Ireland: JPY 347; South Korea: JPY 332; Russia: JPY 159 and Canary Islands: JPY 139.

¹ HS-code 0303.32-000: Plaice (excluding fish fillet, other fish meat, livers and roes), frozen

² HS-code 0303.33-000: Sole (excluding fish fillet, other fish meat, livers and roes), frozen

Japanese imports of sole (frozen) in 1998
(import quantity; total: 246,026 kg)

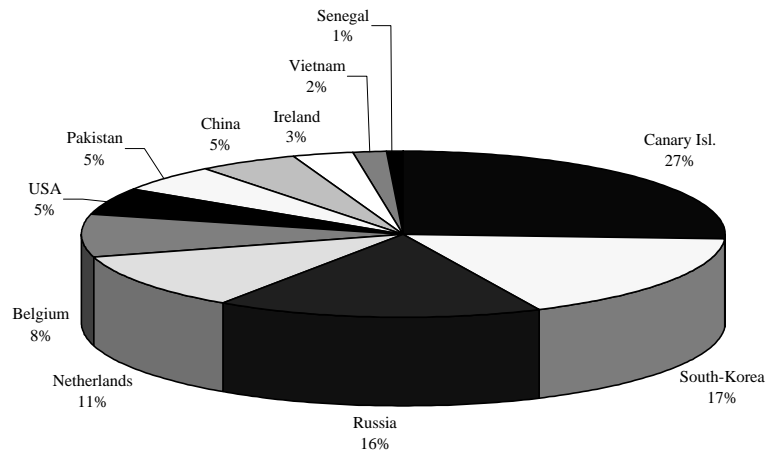


Figure 5.4 Imports of frozen sole (import quantity) in 1998
Source: Japan Tariff Association.

Japanese imports of sole (frozen) in 1998
(import value; total JPY 103.09b)

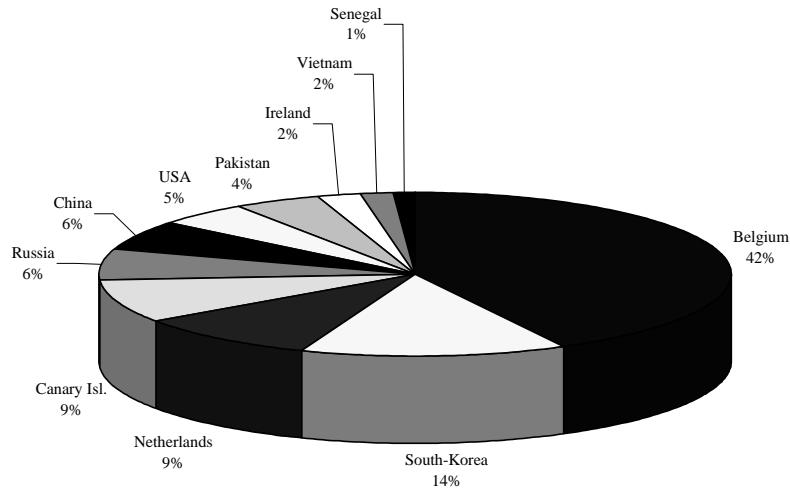


Figure 5.5 Imports of frozen sole (import value) in 1998
Source: Japan Tariff Association.

Other flat fish¹, frozen

The total import quantity in 1998 is 41,811,286 kg, representing a value of JPY 10.75b. Breakdowns by country of the total import quantity and total import value are shown in the figures below. Japanese imports from several other European countries are less than 1% of total import quantity, viz. UK (0.95%), Canary Islands (0.36%), Ireland (0.11%), Germany (0.06%) and Portugal (0.03%). Japan also imports from France and Belgium, but these quantities are less than 0.01%. The shares of total import value from these countries are also small. Imports from UK are 1.21% (of total import value), Canary Islands 0.20%, Ireland 0.13%, Germany 0.09%, Portugal 0.03%, France 0.03% and Belgium 0.02%.

The average prices per kilogram of the major suppliers are: USA JPY 242, the Netherlands JPY 260, China JPY 294, Russia JPY 303, South Korea JPY 494 and Spain JPY 217. The average prices of imports from Belgium and France are JPY 2,709 and JPY 1,504 respectively.

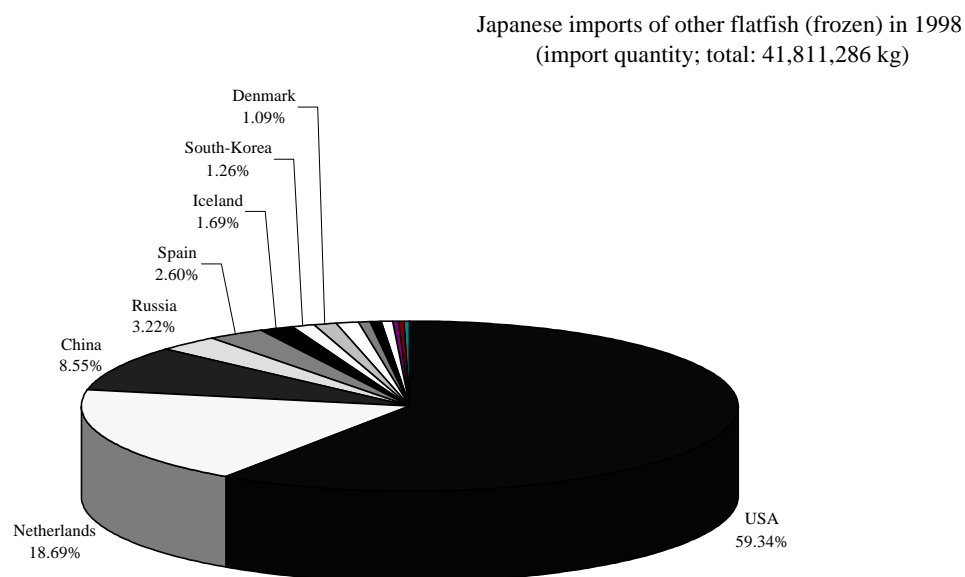


Figure 5.6 Imports of other frozen flatfish (import quantity) in 1998

Source: Japan Tariff Association.

¹ HS-code 0303.39-000: Other flat fish (excluding fish fillet, other fish meat, livers and roes), frozen

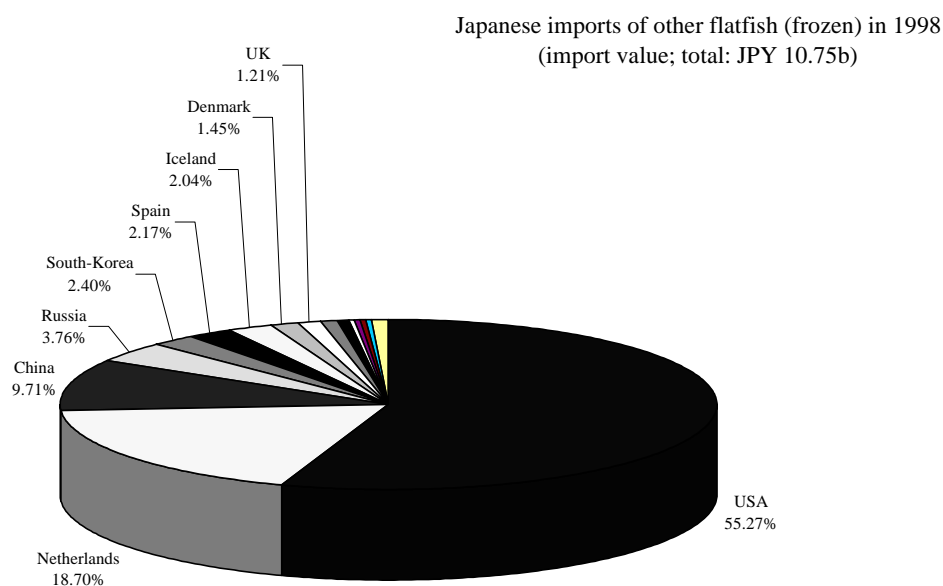


Figure 5.7 Imports of other frozen flatfish (import value) in 1998
Source: Japan Tariff Association.

Fish fillets

Japanese statistics do not explicitly distinguish fillets of flatfish. Japanese imports of fresh or chilled fish fillets¹ (excluding of nishin, tara, buri, saba, iwashi, aji, samma and bluefin tunas) totals 1,112,639 kg in 1998 (value: JPY 1.15b). There are no imports from the Netherlands in this category.

In 1998, Japan imports 61,672,322 kg (value JPY 32.96b) of frozen 'fillets of other fish'². The share of total import quantity from the Netherlands is 0,14% (share of total import value: 0.26%).

5.5.5 Import regulations

Seafood is classified by the Import Trade Control order as (JETRO, 1997):

- products requiring an import quota;
- products requiring confirmation of import; and
- products requiring import approval.

¹ HS-code 0304.10-199: Fish fillets (excluding of nishin, tara, buri, saba, iwashi, aji, samma and bluefin tunas), fresh or chilled

² HS-code 0304.20-199: Fillets of other fish (excluding of nishin, tara, buri, saba, iwashi, aji, samma, tunas, bluefin tunas, marlin, southern bluefin tunas, mero, swordfish), frozen

Japan applies a system of quantitative import restrictions, namely import quotas. The management is complicated and non-transparent. The import quotas refer to approximately 20% of the Japanese imports of fishery products. In July 1997, Japan announced an action programme for the gradual opening of its domestic market. There are quotas set in tonnage, and quotas set in US dollars. The latter are most important. Quotas are all divided in sub-quotas. The breakdown depends on the specific type of products. For most products of interest to the EU, they are quotas for fishermen, users, joint ventures and traders. What is left is a free-for-all remnant¹. There exists an illegal trade in import quotas between these groups.

The Japan External Trade Organisation mentions that there is a trend towards deregulation.

Under the provisions of the Uruguay Round agreement, Japan has been reducing its tariff on flatfish in stages since January 1995. Presently, the customs tariff rate is 3.8%. Below, the different items are listed with their HS code number and preferential customs tariff rate (JETRO, 1997):

- 0302.22-000 Plaice, fresh or chilled: 3.8% tariff rate
- 0302.29-000 Other flatfish: 3.8%
- 0303.32-000 Plaice, frozen: 3.8%
- 0303.39-000 Other flatfish: 3.8%
- 0304.10-199 Fresh and chilled fillet of others: 3.8%
- 0304.10-299 Fresh and chilled fish meat of others: 3.8%
- 0304.20-099 Frozen fillet of others: 3.8%
- 0304.90-099 Other meat of others: 3.8%

For further and the most recent information on import regulations the reader is referred to the Department of Industry and Trade of the Netherlands Ministry of Agriculture, Nature Management and Fisheries (Mr. J.J.M. Verbeek²) and to the Office of the Agricultural Counsellor at the Royal Netherlands Embassy in Tokyo³.

5.6 Topics of special interest

5.6.1 Attitude towards other flatfish products from north-western Europe

The inconsistency in naming of fishes in Japanese causes difficulties in communication on the specific flatfish species. Since species in the waters around Japan differ from the ones in the Atlantic and North Sea, comparison is not easy. Of course, importers are familiar with well-known species, but it may be difficult to communicate on other species.

In general, flatfish is considered attractive. Whether a specific species will sell well in Japan, depends on the specific product characteristics and possible supply quantities.

¹ Situation in 1997, based on a memo XIV/A/4/GES/cd D(97) from the European Commission.

² Telephone: (070) 3784064; fax: (070) 3786123.

³ Address details can be found in appendix 2.

5.6.2 Attitude towards fish products from New Zealand

New Zealand has the image of a fish supplying country. Interviewees mentioned fish species, such as salmon, hoki, merluza, squid and tuna, as import products from New Zealand. Therefore, it is not seen as a big competitor to Dutch flatfish products.

5.7 Conclusions

Flatfish is considered as a fish species with sales potential. It has a low-fat content and fits in with the health-conscious trend of Japanese consumers. Moreover, white-meat fish is familiar to Japanese consumers.

Statements about the usage of plaice and dab differed, but the opportunities can be summarised as follows. Plaice can be exported fresh, transported by air (if the price is over JPY 2,000), for raw consumption. Or plaice fillet can be exported frozen for catering use (French-style restaurants) and to innovative retail shops and supermarket chains that pay more attention to high quality than to just low price. Dab can only be exported frozen: for catering use and for sales in supermarkets. It depends on the attitude of the individual company whether it prefers dab or plaice. In general, plaice is regarded of higher quality and better meets the consumers' demands. However, since dab costs less, some caterers and retail chains choose dab.

Since home meal replacement is popular among Japanese consumers (and its popularity will increase), fillet and fillet coated with breadcrumbs are considered more suitable than whole fish. Furthermore, the red dots on the skin of plaice are associated with illnesses by Japanese consumers, so that whole plaice cannot be sold. O-bento and home meal replacement are seen as the same or a similar market. However, ingredients are different: ingredients for o-bento tend to be of lower quality than for home meal replacement products. Although some o-bento manufacturers use ingredients of higher quality, the price of dab (and certainly plaice) may be too high.

Frozen fish meat is offered for raw consumption in supermarkets (by a process of 'natural defrosting'). Further investigation can clarify whether this is an opportunity for (deep)frozen plaice fillet, transported by ship. It should not be communicated to consumers that it has been frozen.

Stability of both supply and price is important for processors and supermarket chains. Supply quantity should be large enough and the margin high enough for a fish species to be attractive to large Japanese importers. So, only a limited number of fish species from north-western Europe are the most likely candidates for export to Japan.

Direct importing and bypassing wholesale markets is a trend that some supermarket chains are following. However, since present sales volumes are not high, the required import quantities (set by the size of containers and by Dutch exporters) may be too large for them.

Smaller Japanese import companies may be interested in trade of small volumes. Determining the exact product to be supplied requires detailed consultation between Dutch exporters and Japanese importers. Potentially successful products are products for a niche

market segment. They are probably new products to the Japanese market with a luxurious image, e.g. smoked eel. It generally means that ample marketing costs are required, since communication to Japanese consumers of the product's brand, image or other positive product characteristics is important, especially for luxurious products.

5.8 Sources

In Japan, interviews were held with representatives of different companies (specialised import companies, general trading companies, manufacturers, wholesale companies and supermarket chains), umbrella organisations and research centres. The topics of the interviews were the supply chain and consumer developments in general and the different product groups in particular. In addition to interviews on the general topics, in-depth interviews related to flatfish were held with a large fisheries products trading company, a Dutch consultant, a speciality food products trading company, a national supermarket chain, a large local supermarket chain, a processors umbrella organisation and MAFF.

6 Floriculture and arboriculture products: propagating material

6.1 Arguments for choice of product group

On the basis of interviews with experts and representatives of exporting companies in the Netherlands product groups were chosen. The product group 'propagating material for floriculture and arboriculture products' was chosen as subject of research mainly due to the following argument:

- the Netherlands is well-known in Japan as a supplier for flowers and plants and the Netherlands exports these final products. Contrary to flowers and plants, propagating material is not a final product and its added value is high¹. Furthermore, the ratio value to volume is higher than for flowers and plants. That is of advantage in relation to transportation costs.

6.1.1 Research questions and topics of special interest

On the basis of interviews with experts and representatives of exporting companies in the Netherlands certain research questions were defined. The following topics were considered most important:

Consumption and consumer developments

- consumer preferences (in general): present and future developments regarding different plants and flowers and their product characteristics; and
- information about consumer demand: is it well-known among growers?

Production and distribution structure

- distribution route (in general);
- structure of the sector (in general);
- information from research stations: do horticultural research stations provide growers with handling information about domestic and import products?
- price information: where is it available?
- production areas in Japan: where are the major production areas and what developments take place?
- overview home centre and garden centre chains: does an overview exist, how are they organised, and what are the prospects?

¹ Different arguments can be put forward pro and contra export of propagating material instead of export of final products, like flowers. The principal consequence of increasing exports of propagating material is a decrease of final material exports. Since the Japanese market has a certain limited size for flowers and plants, supplying propagating material means that Japanese domestic production of flowers and plants will increase and that demand for imported flowers and plants will decrease.

Import structure

- import regulations (in general).

Topics of special interest

- illegal breeding.

6.2 Introduction

6.2.1 Demarcation

Propagating material for plants and flowers is a heterogeneous group. It includes products such as seeds, bulbs, tissue culture, cuttings, seedlings and young plants. Production and trade of these products is registered by different organisations in the Netherlands. Propagating material can be subdivided into the following categories:

1. arboriculture products: they are trees and shrubs. Also rose cuttings are included in this category. It is registered by the Product Board for Horticulture;
2. floriculture products: it is propagating material for growing cut flowers. Examples of these products are carnation cuttings and gerbera cuttings. Trade is registered by the Dutch Floricultural Wholesale Board¹.
3. material for growing potted plants. It is also registered by the Dutch Floriculture Wholesale Board;
4. seeds; and
5. flower bulbs.

When referring to propagating material during interviews, it was often necessary to ask for further clarification to know what product was meant (e.g. tissue culture, cuttings or young plants). It regularly caused some confusion. Since the price of young plants is higher than the price of cuttings, it may be an argument for Dutch exporters to sell young plants. On the other hand, exporting unrooted cutting may be more profitable, because transporting young plants may be more difficult; they have to be carried upright.

Various studies on the Japanese market opportunities for one or more of the above-mentioned categories exist. The titles mentioned below do not form a comprehensive list:

- Genugten, E.J. v.d., *Landen-informatie Japan*. Bloemenbureau Holland, Leiden, 1998.
- Hoffman, M., *Boomkwekerij Praktijkonderzoek; Inventarisatie sortiment boomkwekerijgewassen voor export naar Japan*. Proefstation voor de Boomkwekerij, Boskoop, 1996. (This research project was commissioned by the Product Board for Horticulture).
- Japan External Trade Organisation, *JETRO Marketing Guidebook for Major Imported Products*. JETRO, Tokyo, 1997. (It covers, among other products, flower bulbs, cut flowers and seeds.)

¹ In Dutch: Bedrijfschap voor de Groothandel in Bloemkwekerijproducten.

- Japan External Trade Organisation, *Market Survey on Cut Flowers Market in Japan*. JETRO, Tokyo, 1998.
- Stroom, R. van der, *Marktverkenning Boomkwekerij Japan*. Product Board for Horticulture, The Hague, 1995, report number PVS 95-22. (Including appendix on assortment.)
- Stroom, R. van der, *Marktverkenning Boomkwekerij Japan Deel II*. Product Board for Horticulture, The Hague, 1996, report number PT 96-29.

This chapter will mainly focus on the first three categories of propagating material, namely arboriculture products, floriculture products and material for growing potted plants. Since the products are quite diverse, attention will be paid primarily to general issues and developments rather than to very detailed information on specific products.

The market for propagating material is usually not considered as a consumer market, but more as a business-to-business market, since predominantly growers are the clients. However, ample attention to consumer developments is important, since demand for propagating material by growers is derived from the consumers' demand for flowers and plants. Furthermore, partly as a result of the gardening boom starting several years ago, the share of sales of flowers, plants and gardening products through home centres chains and supermarkets chains has increased. They treat flowers and plants as any other consumer good. Hence, in this chapter relatively much attention will be paid to retail developments.

6.2.2 Which products are being imported?

In the official import statistics of the Japan Tariff Association (1999), which is part of the Ministry of Finance, many categories relate to propagating material, plants and flowers. Table 6.1 shows these categories.

Table 6.1 HS-numbers and description

HS-number	Description	Imports from the Netherlands in 1998?
0601.10-010	Bulbs, tubers, tuberous, roots, corms, crowns and rhizomes, dormant, lilies spp.	yes
0601.10-020	Bulbs, tubers, tuberous, roots, corms, crowns and rhizomes, dormant, tulips	yes
0601.10-090	Bulbs, tubers, tuberous roots, corms, crowns and rhizomes, dormant, n.e.s.	yes
0601.20-000	Bulbs, tubers, tuberous roots, corms, crowns and rhizomes, in growth or in flower; chicory plants and roots other than roots of heading No. 12.12	yes
0602.10-000	Unrooted cuttings and slips	yes
0602.20-000	Trees, shrubs and bushes, grafted or not of kinds which bear edible fruit or nuts	no
0602.30-000	Rhododendrons and azaleas, grafted or not (including their roots)	yes
0602.40-000	Roses, grafted or not (including their roots)	yes
0602.90-010	Mushroom spawn	yes
0602.90-090	Live plants (including their roots) and rooted cuttings and slips	yes
0603.10-010	Cut flowers and flower buds of a kind suitable for bouquets or for ornamental purposes, orchids, fresh	yes
0603.10-020	Cut flowers and flower buds of a kind suitable for bouquets or for ornamental purposes, chrysanthemums spp. fresh	yes
0603.10-030	Cut flowers and flower buds of a kind suitable for bouquets or for ornamental purposes, lilies spp., fresh	yes
0603.10-090	Cut flowers and flower buds of a kind suitable for bouquets or for ornamental purposes, fresh, n.e.s.	yes
0603.90-000	Cut flowers and flower buds of a kind suitable for bouquets or for ornamental purposes, dried, dyed, bleached, impregnated or otherwise prepared	yes
0604.10-000	Mosses and lichens, fresh, dried, dyed, bleached, impregnated or otherwise prepared	yes
0604.91-000	Foliage, branches and other parts of plants, without flowers or flower buds, and grasses, fresh, being goods of a kind suitable for bouquets or for ornamental purposes	yes
0604.99-000	Foliage, branches and other parts of plants, without flowers or flower buds, and grasses, dried, bleached, impregnated or otherwise prepared	yes

Source: Japan Tariff Association.

The tables below show data of four categories. They are the most relevant categories of the ones mentioned above. Import quantities and values are shown for the individual supplying countries.

Table 6.2 Japanese imports of unrooted cuttings and slips, Top-20 – HS0602.10-000

Country	Quantity (no)	% of total	Value (JPY 1000)	% of total	Price (JPY) per no
Costa Rica	3,879,578	2.8%	217,085	18.1%	56
Honduras	1,239,584	0.9%	159,846	13.3%	129
Brazil	26,416,300	19.2%	121,734	10.1%	5
Taiwan	556,876	0.4%	120,725	10.0%	217
Netherlands	51,436,197	37.5%	92,571	7.7%	2
Denmark	3,954,521	2.9%	89,392	7.4%	23
Sri Lanka	2,440,289	1.8%	74,513	6.2%	31
Guatemala	8,265,365	6.0%	70,254	5.8%	8
Germany	1,901,615	1.4%	54,945	4.6%	29
Israel	2,240,001	1.6%	40,052	3.3%	18
Indonesia	18,055,268	13.1%	35,282	2.9%	2
Spain	2,645,800	1.9%	24,819	2.1%	9
South Africa	9,475,150	6.9%	23,712	2.0%	3
Italy	191,955	0.1%	14,784	1.2%	77
Kenya	1,786,680	1.3%	14,161	1.2%	8
Portugal	317,350	0.2%	10,564	0.9%	33
China	1,360,770	1.0%	6,698	0.6%	5
New Zealand	21,408	0.0%	6,255	0.5%	292
USA	125,481	0.1%	5,170	0.4%	41
Turkey	359,459	0.3%	4,579	0.4%	13
TOTAL	137,329,575	100.0%	1,201,639	100.0%	9

Source: Japan Tariff Association.

Table 6.3 Japanese imports of rhododendrons and azaleas, including their roots – HS0602.30-000

Country	Quantity (no)	% of total	Value (JPY 1000)	% of total	Price (JPY) per no
Belgium	181,220	65.3%	16,705	68.3%	92
Netherlands	95,840	34.5%	7,301	29.9%	76
USA	400	0.1%	437	1.8%	1,093
TOTAL	277,460	100.0%	24,443	100.0%	88

Source: Japan Tariff Association.

Table 6.4 Japanese imports of roses, including their roots – HS0602.40-000

Country	Quantity (no)	% of total	Value (JPY 1000)	% of total	Price (JPY) per no
Netherlands	354,372	56.6%	106,409	40.0%	300
UK	59,718	9.5%	55,594	20.9%	931
USA	73,211	11.7%	40,799	15.3%	557
Ukraine	17,104	2.7%	19,883	7.5%	1,162
Germany	39,096	6.2%	17,359	6.5%	444
Canada	24,754	4.0%	8,446	3.2%	341
France	19,921	3.2%	6,587	2.5%	331
Denmark	13,400	2.1%	5,334	2.0%	398
New Zealand	2,763	0.4%	2,296	0.9%	831
Australia	1,681	0.3%	2,280	0.9%	1,356
India	20,560	3.3%	872	0.3%	42
TOTAL	626,580	100.0%	265,859	100.0%	424

Source: Japan Tariff Association.

Table 6.5 *Japanese imports of live plants (including their roots) and rooted cuttings and slips, Top-30 – HS0602.90-090*

Country	Quantity (kg)	% of total	Value (JPY 1000)	% of total	Price (JPY) per kg
Netherlands	1,018,731	17.2%	2,297,944	35.0%	2,256
Taiwan	2,500,464	42.3%	1,448,323	22.1%	579
Thailand	333,133	5.6%	529,668	8.1%	1,590
China	260,847	4.4%	327,366	5.0%	1,255
Singapore	99,401	1.7%	307,315	4.7%	3,092
Israel	73,075	1.2%	202,339	3.1%	2,769
USA	85,910	1.5%	169,345	2.6%	1,971
Germany	72,651	1.2%	160,289	2.4%	2,206
Turkey	113,981	1.9%	154,189	2.3%	1,353
Denmark	66,308	1.1%	134,827	2.1%	2,033
Sri Lanka	304,889	5.2%	134,775	2.1%	442
Guatemala	450,041	7.6%	119,715	1.8%	266
Costa Rica	203,313	3.4%	108,521	1.7%	534
Australia	26,926	0.5%	94,758	1.4%	3,519
Spain	22,753	0.4%	46,365	0.7%	2,038
Philippines	87,156	1.5%	44,715	0.7%	513
Malaysia	35,882	0.6%	37,470	0.6%	1,044
South Korea	28,579	0.5%	30,454	0.5%	1,066
India	2,336	0.0%	29,633	0.5%	12,685
Indonesia	20,811	0.4%	22,864	0.3%	1,099
Belgium	5,141	0.1%	20,856	0.3%	4,057
Italy	3,702	0.1%	20,606	0.3%	5,566
France	3,917	0.1%	19,801	0.3%	5,055
New Zealand	10,975	0.2%	19,517	0.3%	1,778
North Korea	11,280	0.2%	12,638	0.2%	1,120
UK	857	0.0%	10,409	0.2%	12,146
Colombia	3,896	0.1%	10,371	0.2%	2,662
Brazil	2,081	0.0%	9,681	0.1%	4,652
Honduras	52,326	0.9%	8,109	0.1%	155
Canada	1,153	0.0%	7,085	0.1%	6,145
TOTAL	5,913,541	100.0%	6,568,221	100.0%	1,111

Source: Japan Tariff Association.

Since statistical data do not provide very clear insight in the exact products concerned, one depends on the information from the sector. The interviewees mentioned that the following product types are popular import products:

- flower bulbs; they are the main products being exported from the Netherlands to Japan. Until 1996, the amount increased; now it is stable. Dutch products have an advantage over Japanese products with regard to price and quality. Dutch prices are lower than Japanese prices and the Dutch quality is usually good. Also the size of Dutch flower bulbs is more uniform. Flower bulbs are also imported for sales directly to consumers through e.g. mail-order sales.
- cuttings: carnation, chrysanthemum and rose cuttings. About 5% is used as mother stock, but most of it is sold to commercial growers (95%).

- seeds;
- cut flowers;
- seedlings: they are fragile and difficult to transport. Transportation costs are high and they are sensitive to temperature and light intensity.

Names of other popular imported items are: hibericum, vivanum, begonia, licianthus and alstroemeria (propagated by tissue culture and cuttings; cuttings with and without roots). A popular perennial is hosta. The roots of hosta roots are imported in peat moss.

6.3 Consumption and consumer developments

6.3.1 Consumer preferences

Consumer preferences: in general

The interviewees were asked about the preferences of Japanese consumers in general. One general characteristic of Japanese consumers is also valid for plants and flowers. Trends change fast. Consequently, companies need to offer 'something new' regularly. One Dutch exporter experiences Japanese consumers as front-runners (in the world) with regard to bulbs and cut flowers. The consumer preferences are rather equivocal. On the one hand, Japanese consumers require a wide assortment and expensive and trendy varieties, e.g. these days blue tulip bulbs sell well. On the other hand, price competition is fierce and ordinary tulip bulbs in 'value packs' sell well too.

Trends are also related to the economic situation. It becomes evident by the observation that potted plants are presently more popular than cut flowers, because potted plants last longer. One supermarket retail chain indicated that the demand for cut flowers has remained the same, but that the demand for potted plants has increased. In 1998, this company experienced the highest sales of flowers and plants per person per year, namely JPY 13,000.

The past years have shown an increase of interest in gardening (even in the apartment or on the balcony). It is being referred to as a 'gardening boom' (Tradescopie, 1996, pp. 22-24). Although interviewees mention that presently 'English-style' or 'European-style' gardening is popular, it is a Japanese interpretation of the European way of gardening. 'European-style gardening' in Japan is characterised by products like wired hanging baskets, terracotta pots and wooden racks for climbing plants.

These days, more flowers are being sold for individual usage and less for (corporate) gifts. MAFF intends to stimulate the individual or casual usage of flowers. Until recently, they were more often used for corporate usage (for special business occasions). That has decreased as a result of the economic situation. Large plant breeding companies aim at decreasing the costs, in order to increase the demand of flowers.

Japanese consumers think that the quality of imported cut flowers is lower than domestically produced flowers due to the longer transportation time. Furthermore, Japanese consumers have the idea that the quality of production abroad is lower.

There is a saying in the flower market indicating the Japanese consumers' preferences. It can be translated as follows: light (of weight), thin, light (of colour) and small.

Differences between consumers in cities and local areas

Consumer preferences in the city and in local areas are different. It also relates to the age difference of consumers. Younger people live in the cities and they buy soft coloured or white products. Elderly people more often live in local areas and they like, among other colours, red. City people also buy maturer plants than elderly people in rural areas do. City consumers buy plants that look good at the moment of purchase. People in the countryside want to see the plant grow, so they buy younger plants.

Colour

- The demand for certain colours continuously changes. The most recent catalogues of large seed companies show the current trends for colours (and product types). Traditionally, Japanese consumers like pastel colours and soft colours, such as soft pink, soft yellow, blue and white. However, these days consumers buy bright colours as well.
- Japanese consumers like new products, partly due to its image of exclusivity. It means that new and extraordinary colours gain in popularity. One interviewee mentioned for example darker colours, like copper and bronze.
- The region of Japan (i.e. city versus local area) and the age of the consumers also affect the demand for certain colours.

Consumer preferences: type of product

Three types of flowers are most popular. They are chrysanthemum, rose and carnation (in order of popularity):

- The biggest consumption of chrysanthemum is for funerals, especially white and yellow coloured chrysanthemum. So-called 'one-stem-one-flower' types are used for funerals. Flower companies try to introduce spray-type chrysanthemum (many varieties and colours), but it is difficult, because the Japanese associate chrysanthemum with funerals.
- Roses are well-liked. It was indicated that one is looking for the successor of the well-known red rose.
- About 70% of carnation sales consist of three basic colours: white, red and pink. The other 30% are a range of special colours. Consumers are considered conservative in their choice.

Perennials are not as popular as in Europe or USA. Japanese importers would like to try and introduce new varieties. Suitable products may be e.g. Christmas rose or geranium. It is still an trial phase at the moment.

Several interviewees mentioned that pansy or viola, an annual, is a plant that is highly demanded at the moment.

The change of the demand for flowers and plants is related to the season. A supermarket chain mentioned that they have a sales plan for the year, which can be used for many years. Some years ago, plants were only sold in the period February through June. Now, plants are sold all the year round.

6.3.2 Communication to consumers

Sales promotion is important. In retail shops, consumers need to see how the plant they intend to buy will look. It means that, among other things, labels and pictures are necessary. For potted plants or seedlings it is advantageous when they are maturer, otherwise consumers cannot imagine how these plants will eventually look. For example, when selling flower bulbs, retail shops also display blooming bulbs, or alternatively plastic flowers. For sales through direct-mail – mainly flower bulbs – colourful catalogues are used.

In addition to showing the future shape of the plant or flower, consumers need to be communicated how the plants should be grown (see also paragraph 6.4.7) and what can be done with the specific plants, e.g. that it can be put in a hanging basket. It is experienced that consumers require European-style products, but they do not know how to handle them, so that promotion and communication is important. One of the reasons for this need for comprehensive communication and information is the fact that more young consumers (of the age group of 20-30 years) buy plants and flowers. They just follow the trend, but do not have 'green fingers'. Consequently, they need additional information. Formerly, consumers were elder: age group of 40-50 years.

Japanese retailers realise that the average consumer demands sufficient and satisfactory information. The umbrella organisation of home centres has, for example, published a handbook containing various practical information on flowers, plants and garden material. This handbook is used by sales staff in retail outlets.

6.4 Production and distribution structure

6.4.1 Production in Japan

Different publications indicate in detail production areas, volumes and prices of many types of flowers and plants. The 'Flower Data Book', published by the 'Nihon Hana Fukyu Centre', is one useful source. Questions more specific than the objective of this chapter are required to provide data on production areas in Japan.

The floriculture and arboriculture sector is fragmented. Growers are generally small-scale and trading companies are large. There are many auctions, although pre-selling (at a fixed price) occurs more and more. At regional level the floriculture and arboriculture sector is well organised. Each prefecture has at least one horticultural research station. Furthermore, the extension network and facilities are wide.

Most Japanese growers are members of a 'nokyo' (co-operative) or of a 'keizairen'. A keizairen (also called 'JA') can be found in most cities and it is an umbrella organisation of several nokyo. Over the JA's is the national organisation 'Zenno'. It is difficult to clearly indicate which activities take place at which level. For example, direct importing takes place at different levels. Individual growers (who are members of nokyo) import directly. Also co-operatives (nokyo) import directly, but JA's import directly as well.

6.4.2 Distribution route (in general)

Distribution route: a schematic overview

Figure 6.1 shows a simplified schematic overview of the domestic distribution structure of flowers, plants, trees and bulbs. It was provided by MAFF. Van der Stroom (1995) provides overviews in detail for the different product types.

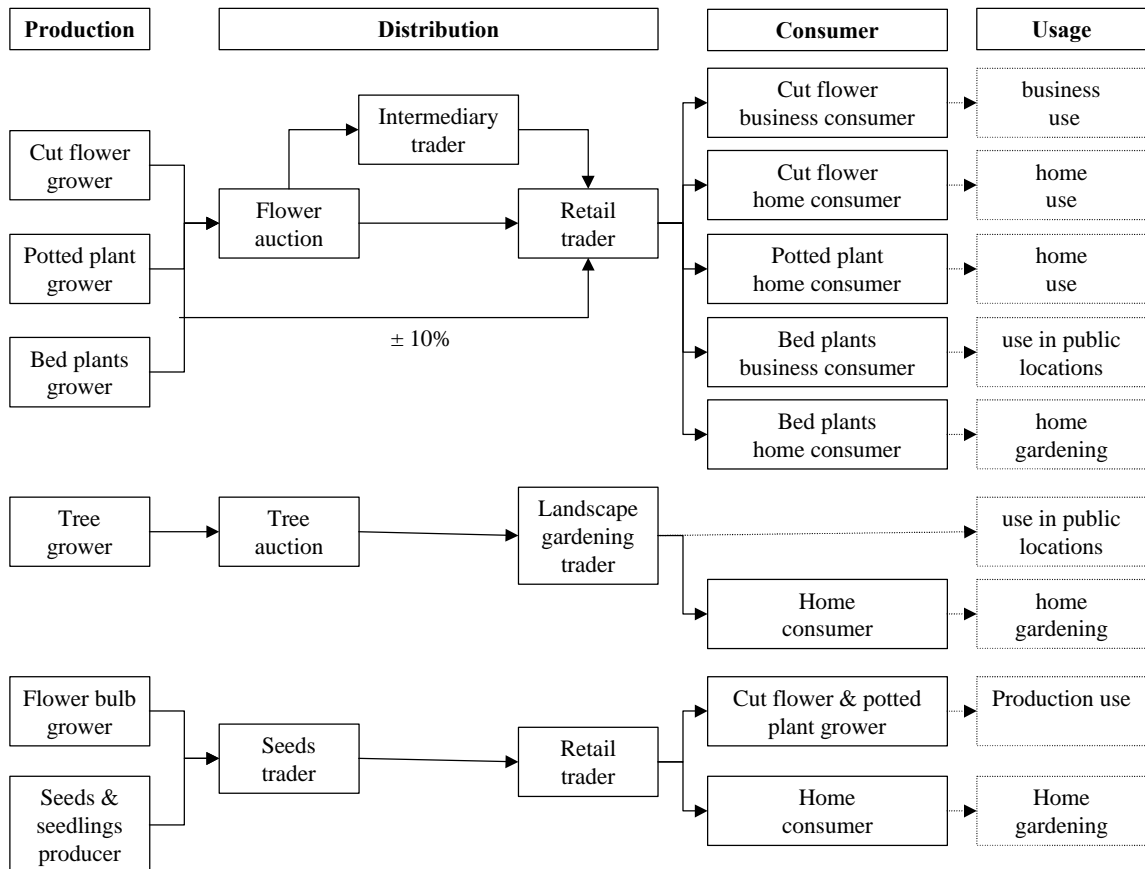


Figure 6.1 Distribution structure of flowers, plants, trees and bulbs

Source: MAFF, Agricultural Production Bureau, Fruit and Flower Division.

Interviewees mentioned various distribution routes, some of which can be found in the scheme above. The product determines the distribution route, so that the overall remarks in this paragraph do not apply to all different products. It can be said in general that the trend is towards a shorter distribution route. It is the aim of home centre chains and supermarket chains in particular. The value that individual supply chain participants, such as trading and wholesale companies, add (i.e. the functions they have) determines whether they are used. It is discussed in more detail hereafter.

Changes in distribution routes differ per product

As mentioned before, the type of product determines which distribution route is passed through. The following example shows differences in distribution route changes for various types of imported products. The mentality of the growers and exporters and the particular product characteristics influence these changes. The trend is a shorter distribution route. In the case of flower bulbs, the traditional route was: exporter, Japanese importer, wholesaler, retailer. Recently, exporters also sell directly to home centre chains and garden centres. A shorter distribution route can be realised more easily for flower bulbs and perennial plants, since these Dutch exporters visit Japan often and contact individual retail chains.

In the case of cuttings (carnations, roses, alstroemeria and chrysanthemum), it is different. The Dutch breeders and exporters often are the same companies. They need services in Japan. Stability and plant breeding rights protection is important. They need good Japanese importers and distributors (mostly traditional companies) and do not sell directly to home centre chains.

Links in the distribution route

An example of the different links in the supply chain of carnation for the consumers' market is as follows. It is an illustration of the most representative route. The companies 1 through 4 are all members of a conglomerate.

1. breeding company
2. propagation company (by tissue culture, 2-3 months)
3. young plants company
4. trading and delivery company
5. garden centres / home centres

The trading and delivery company buys the young plants from the young plants company and sends them to contract growers. The contract growers do not belong to the conglomerate, but they are independent companies. The contract growers then return the plants to the trading and delivery company. In practice it is just an administrative issue, since the trading and delivery company only handles the administrative matters. The actual physical distribution is directly from the contract growers to the garden and home centres.

When this conglomerate does not develop the varieties itself, the seeds that are bought go directly to the young plants company. Since advanced laboratories are used to

obtain propagating material in this case, domestic supply is used. Often production of propagating material is labour-intensive and therefore too costly in Japan.

6.4.3 Distribution route (in more detail)

The distribution route of many types of imported propagating material and plants can be divided in two parts. The first part is from the Dutch exporter to the Japanese grower. The second part relates to the route from Japanese grower to the final consumer.

Dutch exporter to Japanese grower

Propagating material is bought by seed companies, specialised young plants companies and co-operatives (for groups of breeders). Sometimes Dutch exporters use a Japanese agent who has exclusive rights for the Japanese market. The agent co-ordinates plant breeder's rights and is responsible for all sales activities.

Although exporters find a short distribution route more favourable, it is not efficient to sell to growers directly. Since there are many small growers, importers and traders consolidate supply and they are more capable to supply to all these individual growers.

Production under licence also takes place in Japan. The main consideration for importing products is lower production costs outside Japan. High production costs and low productivity in Japan affect domestic production.

Japanese grower to final consumer

There is no general route that applies for all products. Most frequently, farmers supply to an auction where retailers (or traders) buy. Owners of flower and plants shops have to go through a bidding process and they have their own little trucks. On the other hand, larger retailers have contracts and the auctions transport the products to the retail outlets or the retailers' distribution centres.

A supermarket chain indicated that it purchases flowers and plants from different suppliers, namely auctions, growers and import companies and via direct imports. They do not have one general distribution route. In the future, their route will get shorter; they will buy directly from growers.

A large seed company sells directly to commercial growers. This company uses two routes for sales to home centre chains. It sells either directly to home centre chains – this route is becoming more popular – or through local distributors. These local distributors try to survive by providing more added value. They have more frequent contact with the home centres and the local distributors offer additional services to the individual retail outlets, such as taking care of display, watering the plants, doing other maintenance and putting price labels on the products.

Although one often hears that the distribution route gets shorter, home centre and supermarket chains will – according to a general trading company – continue using intermediary companies in the future. The intermediary companies add value by, e.g. in the

case of perennials, finding good growers, teaching growing methods and providing transportation to the individual outlets of the supermarket and home centre chains.

6.4.4 Distribution route: position of wholesalers

Different interviewees expressed their preference for shorter distribution routes. Home centre chains and garden centres experiment by purchasing propagating material – and also final products – directly from domestic growers or foreign exporters. In the case of young plants, it means that they may need contract growers.

Home centre chains and garden centres often choose using wholesalers and they mentioned the following arguments for that:

- it is standard in Japan to have a wholesaler;
- wholesalers provide delivery services and they can meet the special handling requirements for plants. Import companies or retail companies may not have these facilities;
- wholesalers reduce risks, such as weather risk, for garden and home centres. If they do not buy the products from the wholesaler, he can sell it to other customer or e.g. to an auction;
- wholesalers consolidate supply. Since Japanese farmers are small, supply from one individual farmer does not suffice to one home centre chain. The turnover of an individual farmer is very small compared with the turnover of a home or garden centre. Furthermore, farmers do not have delivery facilities; and
- wholesalers keep stock and have farm land themselves (or through contract growers) to further grow seedlings. If a garden or home centre buys seedlings from a trading company, the garden or home centre needs farmland to further grow them. In Japan, garden centres do not have land attached to their outlets, since land price are high.

In the case of other – nonliving – garden products, garden and home centres more often buy directly from manufacturers and import directly. These retail companies have warehouse facilities. When wholesalers are used less, manufacturers and import companies may have to change their organisational structure. They may need more sales offices.

6.4.5 Direct importing

The arguments mentioned in paragraph 6.4.4, stating why home centre chains and garden centres use wholesalers, also explain some of the unfavourable aspects of direct importing. An important aspect is that direct importing requires a large turnover. The market of an individual retail chain may not be large enough. Furthermore, plants require special handling facilities and they can only be imported in small size, otherwise it is not economic. The size of imported young plants is too small for selling directly to consumers. Flower bulbs are more often imported directly, since handling requirements are less complicated.

Japanese retail chains do see opportunities for direct importing. They could import young plants or seedlings and raise and pot it at Japanese (contract) growers. These growers may be linked to the particular retail chain.

6.4.6 Exporters' demand orientation: selling packages with different varieties

Japanese interviewees mentioned that Danish companies sell products that are similar to Dutch products. Although it is acknowledged that the Dutch quality is higher, Danish growers offer more attractive 'packages' containing different varieties (e.g. in the case of begonias). Japanese buyers appreciate these packages, since they do not need to purchase large quantities, but still have many varieties. Consequently, Danish growers are more demand-oriented.

Danish growers can sell packages with different varieties, since they are relatively large companies or co-operatives. Dutch growers are smaller and specialised independent companies. Since they hardly work together, they cannot offer these packages.

6.4.7 Handling information; information from horticultural research stations

Handling information for new products

Some Dutch exporters experience that Japanese growers do not know how to handle seedlings or how to pot plants. It means that providing additional information may be necessary, but Dutch exporters find it costly. Furthermore, providing information may be complicated since Japan has four climate zones.

Japanese growers receive handling information from different sources, such as international congresses, magazines (like 'nogyo to engei') and from active researchers of local research stations. Professional exporters provide growers with growing and handling information. The situation in Japan differs from the Netherlands regarding temperature, soil and humidity. Dutch exporters indicate the growing conditions in the Netherlands, but they do not mention the Japanese growing conditions, since that may be risky. Japanese importers and growers would appreciate more information about growing conditions specifically for the Japanese situation. Exporters could for example use an internet site (in Japanese) to provide this information.

Horticultural research stations

Most prefectures have at least one horticultural research station. The research stations do not co-operate much among each other, and even compete. The research stations work for their prefecture only. They conduct research for and disseminate information to the prefectural growers. New techniques are disclosed to the growers in the particular prefecture only. An example of this prefectural focus is the following. At the annual meeting of 45 research stations, information is exchanged only superficially, since the details must be kept in their own prefecture. The research stations do not give written

information to people outside their prefecture. A reason for this attitude may be the fact that the research stations are financed by local taxes.

In contrast to the above-mentioned, several interviewees indicated that the horticultural research station disseminate information openly through, among other ways, seminars and lectures. Probably, it is limited to the prefecture.

Regarding new imported products, it is experienced that horticultural research centres are sometimes hesitant. A solution may be involving them from the very beginning in order to avoid any reluctance.

6.4.8 Price information

From different sources information about prices and sales volumes of flowers and plants is available. Umbrella organisations publish detailed price information; not only prices of plants, but also prices of hardware.

The Japan Wholesale Market Association¹ collects price data around the country and publishes monthly prices of the major auctions. Furthermore, auctions – there are about 300 auctions – have daily and monthly reports with price information, comparisons with the previous year and the origins of flowers and plants. These reports are available to the members, who pay a subscription fee.

The auctions can provide a forecast for the next two to three weeks regarding the estimated supply of products, not regarding price information. A co-operative (nokyō) supplies to different auctions. The nokyō receives price information at the end of each day from the auctions it supplies to.

Several times per week, a specialised newspaper, named 'kaki engei shinbun', publishes the prices of the main cut flowers and potted plants.

6.4.9 Home centre chains, garden centres and supermarket chains

Garden centres versus home centres

Distinction needs to be made between garden centres and home centres. There are no garden centre chains. Garden centres are individual companies selling plants and garden articles, whereas home centres are organised as chain companies. Home centres are also referred to as DIY (do-it-yourself) shops. Besides do-it-yourself articles, Japanese home centres also sell garden articles and plants. In that sense, they are different from DIY shops in the Netherlands. The assortment in home centres varies substantially per chain. The share of (potted) plants in an average home centre's turnover is about 5%. If garden supplies (and fertiliser etc.) are added, the share is approximately 30%. In an average garden centre, plants and cut flowers constitute 60-80% of total turnover.

Although there are no national garden centre chains in Japan, there are national chains of flower shops. These companies are increasingly selling garden products as well.

¹ In Japanese: Nihon Oroshi-uri Ichiba Kyokai.

Many home centre chains started approx. 20 years ago. One started selling furniture; another started selling plants. The number of outlets is increasing and large chains are growing. Since home centre chains used to be active in one region only, competition between the different home centre chains took place in the border of the various regions. Home centre chains are spreading more and more to other regions, so that competition takes place in other areas too.

According to the home centre chains umbrella organisation, the total number of home centre outlets is roughly 3,500. The average size of an outlet is about 1,650m² and sells 20,000 to 30,000 articles. Compared to 5-10 years ago, the recent growth ratio of sales is low. Until 1996, annual sales growth was about 6-7%. In 1997 it was 4-5% and in 1998 growth ratio of sales was 2-3%. However, sales growth ratio of gardening products is still 10% annually. That trend started approximately five years ago.

Purchasing procedures in home centre chains

In home centre chains, there usually is a specialised 'green' department. Typically, there are two buyers: one for plants etc. and one for hardware (pots etc.). On the other hand, supermarket companies usually do not have specialised 'green' departments.

Mostly, the purchasing department of a home centre chain is located in the head office. Sometimes purchasing takes place by the individual outlets. It is a rare purchasing strategy, except for one home centre chain where buying is done by each individual outlet. This home centre chain has a different business attitude and finds that a buyer must be a seller at the same time, so that he becomes more professional and has a better feeling for the products.

'Green' and garden products in retail outlets

Garden products attract customers – one interviewee mentioned that they work like a 'magnet' – and shops reserve more space for 'green' and garden products.

The percentage of sales area floor space for flowers and plants is growing in home centres and supermarkets. The exact sales area depends on the season. In the future, the sales area for plants will increase in supermarkets. As for the division of green products in supermarkets: 30% of sales area is for plants and 70% for cut flowers. This division is different in shops outside the city. There 60% of the green area is reserved for plants.

Other outlet types

'One-stop-shopping' (i.e. consumers buying their goods in one shop at the same time) is an increasingly present trend. It means that convenience stores may sell flowers in the near future and some convenience store chains experiment with it. Sales in convenience stores means that flowers will be sold in the evening as well. A possibility may be a stand with JPY 500 bouquets in the shop.

Another possibility may be sales of bouquets through the internet. However, further investigation is required to know whether it is permitted under present Japanese legislation.

6.5 Import structure

6.5.1 Import regulations and experiences with the Plant Quarantine Agency

Imported plant material cannot go through customs unless they have undergone plant quarantine and a document is presented giving evidence that they have passed the inspection or that they have been approved after disinfection. Customs not only imposes customs duty, but also performs final checking to see if the imports are in compliance with the provisions of related laws other than the Customs Law. Figure 7.3 (paragraph 7.5.1) schematically shows the customs clearance process.

Exporters experience that the Plant Quarantine Agency applies the phytosanitary regulations strictly. However, when Japan needs certain products, e.g. for exhibitions, import regulations are applied less strictly. It should be noted in this respect that quarantine areas are created for exhibitions.

Experiences differ, but several interviewees mentioned that frequently when products cannot enter Japan, the Plant Quarantine Agency has valid reasons based on the strict regulations. Although some companies say they do not receive reports stating the reasons of disapproval, others receive an explanation in English (at the request of the exporter). For the most recent information in detail on import regulations the reader is referred to the Department of Industry and Trade of the Netherlands Ministry of Agriculture, Nature Management and Fisheries (Mr. J.J.M. Verbeek¹) and to the Office of the Agricultural Counsellor at the Royal Netherlands Embassy in Tokyo².

6.6 Topics of special interest

6.6.1 Illegal breeding

Only the following remark was heard about illegal breeding:

- Japanese companies breed imported freesia tubers. For older varieties of freesia, no royalty needs to be paid. However, breeding rights apply to newer varieties. It is confusing and difficult to explain this difference to Japanese growers. Lack of control may lead to illegal breeding.

¹ Telephone: (070) 3784064; fax: (070) 3786123.

² Address details can be found in appendix 2.

6.7 Conclusions

Propagating material for plants and flowers is a heterogeneous group. It includes products such as seeds, bulbs, tissue culture, cuttings, seedlings and young plants. Due to the diversity of the products and the differences among them, detailed conclusions applicable to all types of propagating material are hard to draw. Indicating concrete market opportunities for Dutch products requires a narrower focus on a small group of plants or flowers than the focus of this chapter.

After determining the focus on a specific product, the following step in this approach should be specifying the most important (i.e. popular or attractive) items on the basis of consumer demand in Japan or on the basis of present supply in Japan. Then the Japanese cost price of these items should be compared with the Dutch production plus transportation costs. That will lead to a conclusion whether opportunities for Dutch exports exist, since Japan's principal argument for buying foreign products is lower costs (besides, of course, lack of domestic supply). Demand for propagating material (by growers, breeders, importers, home centre chains, and etc.) is derived from the consumers' demand for the end product, viz. flowers and plants. Further detailed investigation into consumer preferences and the present and future trends will result in an indication of possible opportunities for propagating material exports.

In broad terms, it can be concluded that the average Japanese consumer continues buying more flowers, plants and gardening products. Japanese consumer preferences change rapidly and depend on, among other aspects, age group. Although 'standard' items are still popular and Japanese consumers become increasingly price-conscious, consumers like extraordinary and trendy products. Retailers are continuously looking for new, interesting products. Furthermore, they prefer to choose from a wide assortment. Communication to consumers of product characteristics, handling information and how the product will eventually look is essential.

The traditional distribution route, i.e. sales through flowers and plants shops and garden centres, is still used most frequently. However, recently sales through another distribution route, namely through retail chain companies, is becoming more important. Therefore, it receives relatively much attention in this chapter. Home centre and supermarket chains take advantage of the popularity of flowers, plants and garden products by increasing the share of sales area for these products.

Wholesalers and intermediary companies provide essential services, so that retail companies will continue using them. However, to a greater extent retail companies, and especially chain companies, wish to be involved in determining new products. It is beneficial for Dutch exporters to have direct contact with e.g. home centre chains on this matter. Co-operation with other companies that have access to breeders or (contract) growers – depending on the particular export product – may be required as well. Direct communication to breeders and growers or early involvement of horticultural research stations could lead to sufficient handling and growing knowledge at the companies concerned.

Consumers demand a wide selection. Therefore, purchasing departments within Japanese companies appreciate exporters who offer a package containing many different

varieties. From a demand-oriented point of view, it is an argument in favour of co-operation between Dutch exporters in order to meet the clients' requirements.

Opportunities for Dutch propagating material on the Japanese market exist, which is already shown by a number of Dutch exporters. Since the Japanese market requires ample attention on marketing aspects, additional promotion and support of e.g. growing techniques could improve long-lasting success.

6.8 Sources

In Japan, interviews were held with representatives of different companies (specialised import companies, general trading companies, manufacturers, wholesale companies and supermarket chains), umbrella organisations and research centres. The topics of the interviews were the supply chain and consumer developments in general and the different product groups in particular. In addition to interviews on the general topics, in-depth interviews related to floriculture and arboriculture propagating material were held with the representative office of a Dutch bulbs and plants export company, three large seed companies (involved in import, breeding, propagating, wholesale and retail), the agribio division of a large conglomerate, a general trading company, a small trading and consultancy company, a national supermarket chain, a home centre chain, the flower growers umbrella organisation, the home centre chains umbrella organisation and MAFF.

7 Vegetables: paprika

7.1 Arguments for choice of product group

On the basis of interviews with experts and representatives of exporting companies in the Netherlands product groups were chosen. The product group 'paprika' was chosen as subject of research mainly due to the following argument:

- during the past few years Dutch exports of paprika to Japan have increased rapidly. The Netherlands was the only country supplying high quality paprika. However, recently, exporters from other countries also supply high quality paprika to Japan. It was considered valuable to hear the opinion of Japanese experts on the developments in the past and the outlook for the future.

7.1.1 Research questions and topics of special interest

On the basis of interviews with experts and representatives of exporting companies in the Netherlands certain research questions were defined. The following topics were considered most important:

Consumption and consumer developments

- consumer preferences (in general): product characteristics valued by Japanese consumers;
- distinguishability of Dutch products: whether consumers distinguish between Dutch paprika and paprika from other countries;
- usage of paprika;
- consumer attitude towards organically grown products; and
- product information requirements by consumers.

Production and distribution structure

- distribution route (in general);
- structure of the sector (in general); and
- location of selling areas in Japan, e.g. mostly in Tokyo and Osaka?

Import structure

- import regulations (in general); and
- trend of direct importing.

Topics of special interest

- costs of air transport: how it is determined;
- attitude towards supply from other countries of origin, especially from South Korea; and
- opportunities for other Dutch vegetable and fruit products.

7.2 Introduction

The traditional Japanese version of a paprika is a vegetable called 'piman'. It tastes bitter. Especially children did not like piman much. Japan opened its borders for paprika in 1993. From 1993 to approximately 1995, the Netherlands was the sole supplier of paprika to Japan. Dutch paprika was introduced with a lot of promotion. One important issue in communication to consumers was that paprika is totally different from Japanese piman. In the first period after introduction to the Japanese market, paprika was consumed only in restaurants. Then individual household started buying them. The consumers realised that paprika is suitable for salads and need not be cooked (contrary to piman). From approximately 1996, Japan started importing from other countries, like New Zealand, South Korea, Saudi Arabia and UAE. Every year consumption increased.

7.3 Consumption and consumer developments

7.3.1 Consumption and imports of paprika

Since domestic supply in Japan is very limited, consumption of paprika equals imports of paprika. The following tables show the development of imports from the main suppliers. The view of the situation in 1999 is distorted because only data of a part of 1999 are available and the production seasons differ in the countries.

Table 7.1 Imports of paprika into Japan – 1997

	Quantity (tons)	% of total	Value b) (million JPY)	% of total	Av. price (JPY) per kg
Netherlands	4345	74.8%	2789	69.4%	642
New Zealand	805	13.9%	742	18.5%	922
South Korea	282	4.9%	197	4.9%	699
Saudi Arabia	375	6.5%	282	7.0%	752
TOTAL a)	5810	100.0%	4016	100.0%	691

a) Total includes imports from Belgium and Oman; b) CIF price.

Source: Office of the Netherlands Agricultural Counsellor in South Korea (based on Japanese statistics)

Table 7.2 Imports of paprika into Japan – 1998

	Quantity (tons)	% of total	Value b) (million JPY)	% of total	Av. price (JPY) per kg
Netherlands	5587	63.5%	3936	63.0%	704
New Zealand	1396	15.9%	1174	18.8%	841
South Korea	1250	14.2%	697	11.2%	558
Saudi Arabia	561	6.4%	431	6.9%	768
TOTAL a)	8804	100.0%	6245	100.0%	709

a) Total includes imports from Belgium and Oman; b) CIF price.

Source: Office of the Netherlands Agricultural Counsellor in South Korea (based on Japanese statistics).

Table 7.3 Imports of paprika into Japan – 1999 (January – July)

	Quantity (tons)	% of total	Value b) (million JPY)	% of total	Av. price (JPY) per kg
Netherlands	2025	34.0%	1089	37.2%	538
New Zealand	995	16.7%	532	18.2%	535
South Korea	2569	43.1%	1098	37.5%	427
Saudi Arabia	345	5.8%	198	6.8%	574
TOTAL a)	5961	100.0%	2930	100.0%	492

a) Total includes imports from Belgium and Oman; b) CIF price.

Source: Office of the Netherlands Agricultural Counsellor in South Korea (based on Japanese statistics).

Table 7.4 provides a detailed breakdown of the countries of origin during the years 1998 and 1999. It shows, among other things, that the Netherlands does not supply paprika in winter season. It also shows that Korean exports have increased drastically in a period of just one year and that the Dutch market share has dropped in 1999.

Table 7.4 Imports of paprika into Japan by country of origin and by month (1998 and 1999)

Year - month	Netherlands		New Zealand		South Korea		Month total a) Quantity (tons)
	Quantity (tons)	% of this month's total	Quantity (tons)	% of this month's total	Quantity (tons)	% of this month's total	
1998 - January			249	60.3%	45	10.9%	413
1998 - February			272	54.8%	99	20.0%	496
1998 - March	183	28.4%	232	36.0%	121	18.8%	644
1998 - April	390	52.3%	133	17.8%	155	20.8%	746
1998 - May	622	77.1%	55	6.8%	129	16.0%	807
1998 - June	620	79.1%			164	20.9%	784
1998 - July	878	88.1%			119	11.9%	997
1998 - August	830	97.8%			16	1.9%	849
1998 - September	795	95.7%	35	4.2%			831
1998 - October	644	88.8%	65	9.0%	16	2.2%	725
1998 - November	387	63.5%	136	22.3%	77	12.6%	609
1998 - December	233	26.1%	214	23.9%	304	34.0%	894
1999 - January			253	40.1%	250	39.6%	631
1999 - February			269	54.6%	207	42.0%	493
1999 - March	71	9.1%	246	31.5%	351	45.0%	780
1999 - April	219	27.0%	195	24.1%	380	46.9%	810
1999 - May	440	48.5%	31	3.4%	434	47.8%	908
1999 - June	555	49.7%			561	50.3%	1116
1999 - July	738				384		

a) Including small amounts of imports from Belgium, Oman and Thailand.

Source: Office of the Netherlands Agricultural Counsellor in South Korea (based on Japanese statistics).

7.3.2 Consumer preferences

Colour

The ranking of attractiveness for Japanese consumers is red, yellow and orange¹. The market shares of the different colours reflect this ranking too. The market share of red paprika is 50%. Yellow paprika has a market share of 20-30% and the remaining is for other colours (orange).

Dutch paprika has the best quality with regard to the colour. Paprika from other supplying countries sometimes shows different colours on one fruit.

Sweetness

The traditional Japanese piman is bitterer than paprika. Japanese consumers prefer sweet vegetables and fruits.

Size of paprika for sales in retail shops

- In Japan vegetables and fruits are not sold by weight, but by the piece or by the package. Therefore, individual pieces should be of the same size for sales in retail shops².
- Sizes of paprika differ. The number of paprika in a 5 kg box differs from about 28 to 32 pieces. Retailers prefer small paprika, since paprika is sold by the piece.
- Consumers often find a piece of paprika too big for a single serving. They prefer smaller sizes. Some supermarkets offer half paprika, e.g. half a red paprika and half a yellow paprika in one package. However, Japanese consumers are hesitant to buy cut fruits and vegetables.

Usage

- Consumers use paprika only for a few types of dishes. It is mostly used raw in salads. One interviewee mentioned that paprika is also eaten on bread.
- In general, Japanese consumers need to see examples of the ways products can be used. Supermarket companies make brochures with recipes, and well-known cooks show in television programmes how paprika can be prepared.
- Restaurants are more innovative to use new products in different ways. Western-style meals are more often taken in restaurants than prepared at home. During the last few years Italian food has become very popular, but consumption of Italian dishes is confined to restaurants.

¹ It is the same order as the price level.

² Processors and caterers do not need uniformity of size.

In order to increase the consumption of paprika, consumers and restaurants need to be educated how paprika can be used.

Product innovations

Japanese consumers generally demand new products regularly. In principle, interest exists in new products, like mini paprika. Some retailers are willing to experiment more than others. A possibility is selling three mini paprikas in one bag. One unfavourable point is that mini paprika resembles the traditional bitter piman.

7.3.3 Communication to consumers; presentation and packaging

Communication to consumers about a product in general is important. Consumers perceive paprika as a healthy vegetable, but information about paprika is considered to be insufficient. Additional promotion is required on different topics, such as taste, method of cooking and health- and safety-related issues. Many interviewees believe that consumption of paprika could increase if there is more promotion.

Health- and safety-related issues

Presently, health- and safety-related issues play a significant role in the consumer's purchasing decision. Demand for vegetables grown organically or without the usage of pesticides is growing¹. Supermarkets indicate in detail the origin of vegetable products: name, location and – sometimes – a photograph of the farmer.

Pesticide is, of course, used in Japan as well. However, Japanese consumers think that foreign farmers use more pesticide and use it less safely. Especially (sub-)tropical countries, like Thailand and the Philippines, have that image.

It is important to communicate safety-related issues. Retailers need a certificate or a 'proof' of the product's safety in their outlets. One interviewee mentioned the example of Ecuador bananas. Japanese retailers receive (from exporters and Japanese importers) information authorised by the government of Ecuador².

¹ As mentioned in paragraph 3.2.3, the average consumer does not have a clear conception of the true meaning of organically grown products. Takahashi (1997) indicated that there was no unified standard that has a legally binding force on organic agricultural products. Retailers could indicate 'organic agricultural products' without being restricted by guidelines and certification systems. However, recently adopted legislation changes it.

² These practices may hinder the acceptance of health- and safety-related requirements that generally apply in international trade.

Information at point of purchase

In addition to these certificates to be displayed at the point of purchase, retailers would also appreciate small-size, clear and simple brochures or pamphlets with e.g. recipes. Since they do not receive them from exporters, some Japanese retailers make pamphlets themselves, although they see it as the responsibility of exporters or manufacturers. If Dutch exporters decide to provide retailers with information material, retailers wish to be consulted about the size and design.

The Fair Trade Commission, which belongs to the Ministry of International Trade and Industry (MITI), monitors what is communicated; the truth needs to be respected. Interviewees mentioned that the unique selling points of Dutch paprika should be indicated and that a brand equity could be established. Furthermore, it was suggested that if the Netherlands as a whole would be better known, it would support sales of Dutch products.

Retailers mention the origin of vegetables in their outlets. Recent legislation requires retailers to mention the source of origin. Labelling of fresh produce is mandatory. MAFF has decided that it will require producers, wholesalers and retailers to put place-of-origin labels on all fresh food products. It requires an amendment to the Japan Agricultural Standard (JAS) law. Under the present JAS law, labelling of place and country of origin is required for a limited number of products (AgraFood Asia, 1999).

Since paprika is generally not wrapped one by one, only the sign in front of the shelves indicates the producing country. It means that consumers can be misguided if retailers do not accurately change the information. Regularly, retailers use a sticker of the country's flag. One retailer mentioned that the Dutch flag is easily mistaken for the Russian flag.

Distinguishability of Dutch products

Some exporters sell flowpacked¹ paprika (indicating the source of origin). Flowpacking in the Netherlands means that Japanese importers need to decide early in advance which share should be flowpacked, since restaurants and hotels do not need flowpacked products. So importers need to know early which share goes to caterers.

Another possibility to distinguish Dutch products is attaching a sticker on the product. Caterers object to the glue. Ordinary consumers do not object.

7.3.4 Price

During the interviews, price was a topic causing much concern. All remarks can be traced to two issues, viz. high price levels and fluctuations of the price. Remarks related solely to Dutch paprika will be discussed in paragraph 7.6.3.

¹ Flowpacking means that produce is packed in plastic foil.

Price stability

One large importing company mentioned that they are not accustomed to price fluctuations. Since they buy large volumes, they expect a stable price. Large retailers and import companies require price stability or price control. Now, they experience that sometimes dumping or severe price competition occurs.

High price level

Prices differ a lot. Presently, prices (per piece) can be summarised as follows:

- South Korean supply: wholesale: JPY 120; retail: JPY 158 or JPY 168; and
- Dutch supply: wholesale: JPY 150 or JPY 160; retail: JPY 198 or JPY 200.

Japanese consumers have become more price-conscious. In general, Japanese consumers have the image of a certain price connected to a product. Since consumers had the idea that the price of paprika is JPY 198 per piece, retailers also sold South Korean paprika for this retail price in winter, although wholesale price was much lower than in summer. Partly due to price competition of Dutch suppliers, retail prices fluctuated. So Japanese consumers lost the idea that the price of a paprika is JPY 198 per piece.

Since Japanese consumers find the present price too high, it is an important issue for retail chains. They expect a great increase of sales if prices are lower. It is not the objective of retailers to have the lowest price possible. They aim at a 'reasonable price'. The reasonable or ideal retail price range is: JPY 128 to JPY 148 per piece. For special promotional sales, a reasonable price range is: JPY 98 to JPY 128 per piece. Paprikas from New Zealand and South Korea are available at these prices. They offer different quality grades (at different prices). The Netherlands only offers the highest quality grade. Especially processors or caterers do not need the highest quality grade.

Since price is an important issue, interviewees advised to reduce the costs in all possible ways and avoid any measures increasing the price. Two suggestions in this respect are:

- buyers in Japan only look at the price per kg. It might even be better to have bigger (cheap) boxes of e.g. 10 kg. Paprika is repacked in Japan and the Dutch boxes are thrown away anyhow, so bigger boxes would decrease costs. On the other hand, some retailers indicated that they would prefer smaller (cheap) boxes of e.g. 2.5 kg; and
- flowpacking in the Netherlands increases the costs of Dutch export products. If Japanese retailers demand flowpacked paprika – and not all retailers do – they could be flowpacked in Japan. Although flowpacking in Japan is more expensive than in the Netherlands, the Japanese importers have to bear the costs if paprika is flowpacked after arrival in Japan.

Price difference between the different supplying countries (in detail)

The table below shows in detail the differences of CIF-price between the major supplying countries over the period 1997 to mid-1999. It clearly shows that the CIF-price of Korean paprika is significantly lower than paprika from the Netherlands and New Zealand.

Table 7.5 Average CIF-price of paprika imported into Japan by country of origin (in Yen per kg)

Year - month	Netherlands	New Zealand	South Korea
1997 - Average	642	921	698
1998 - Average	704	840	557
1998 - January		1024	422
1998 - June	690		524
1998 - August	672		437
1998 - October	641	630	473
1998 - December	781	738	621
1999 - January		557	516
1999 - February		513	541
1999 - March	702	564	490
1999 - April	724	507	480
1999 - May	621	514	368
1999 - June	466		371
1999 - July	470		351

Source: Office of the Netherlands Agricultural Counsellor in South Korea.

7.3.5 Prospects for the future

The opinions about the future of paprika differ significantly. A number of interviewees indicated that the 'ceiling' of the market is reached and that little increase is expected. Other interviewees see opportunities for extreme growth, provided that prices decrease and promotion increases. It also means that imports and domestic production will increase. Expectations for sales increase are based on two assumptions:

- a higher demand by present buyers (due to lower price, other usage and more promotion); and
- new consumers (in local cities). Currently, paprika is mostly sold in the major cities.

7.4 Production and distribution structure

7.4.1 Objective in the vegetable market in general: stable supply and stable price

A major objective of players in the market is to steadily supply produce at stable prices. One catch-phrase from the mission statement of a large fresh fruit and vegetables import and trading company, viz. 'our efforts are aimed at creating a steady supply of produce at stable prices', endorses this statement.

Due to its island nature, Japan cannot easily pass on surplus produce to other countries and markets and has to consume all produce within its borders. Since oversupply will result in decreasing market prices, the co-ordination of the market is considered imperative for market stability. Trading companies continuously strive for stability in the market. They aim at strong and long-lasting relations with their customers offering a stable supply.

7.4.2 Distribution structure for domestically produced vegetables and fruits (in general)

This paragraph does not relate to the distribution structure of paprika in particular, but describes the distribution structure in general for domestically produced fresh vegetables and fruits. Paragraph 7.4.3 contains details especially about imported vegetables, including paprika.

Figure 7.1, provided by a large fresh fruit and vegetable import and trading company, shows the general distribution channel for domestic fresh vegetables and fruits. So-called 'produce receiving companies' receive produce on consignment basis and then sell it by auction at the central wholesale markets. Produce receiving companies are situated in the main cities around Japan and they are the main distribution points for produce. Produce receiving companies are governed by existing market law. This market law basically prohibits these companies from selling produce to anyone else but the wholesalers, who own the right to purchase at the central wholesale markets. Furthermore, the market law prohibits wholesalers from purchasing produce from produce receiving companies that are not assigned to their particular central wholesale market. According to the interviewed large fresh fruit and vegetables import and trading company, restrictions are getting milder to cope with changes of the functional roles.

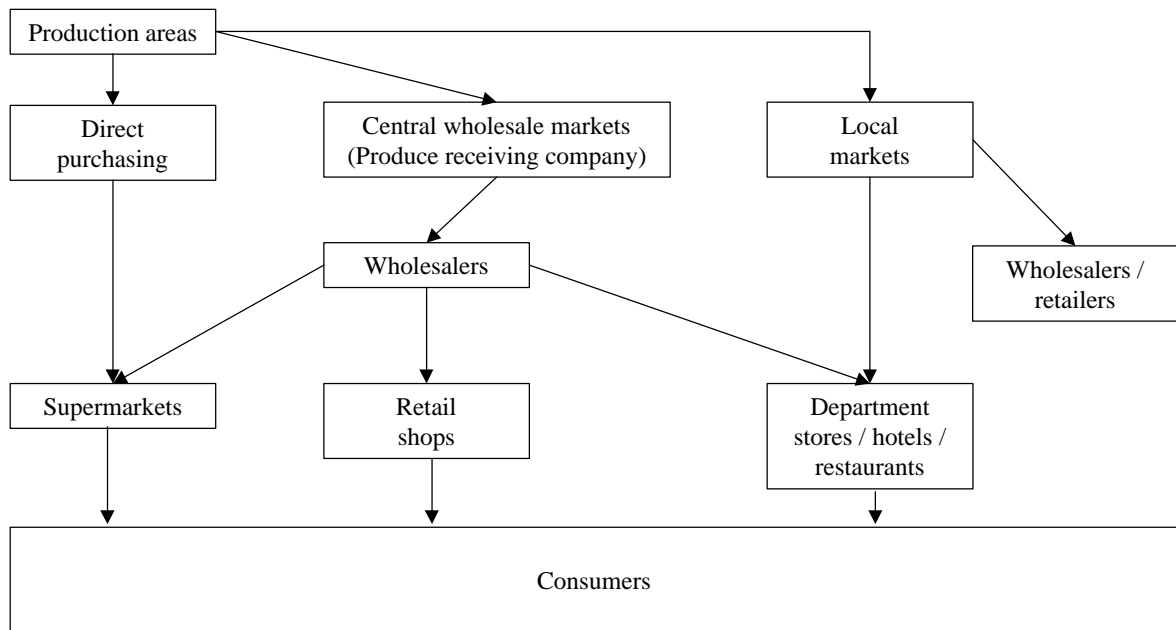


Figure 7.1 The domestic fresh produce market distribution channel
Source: large fresh fruit and vegetable import and trading company.

Jussaume (1994) indicates that the distribution system for domestically grown fresh fruits and vegetables is traditionally characterised by a long history, geographical proximity between production and consumption areas, and a large number of producers¹, middlemen, and retailers. The focal points of this system are the wholesale auction markets. Individual farmers can sell produce at any wholesale auction market in Japan, either directly or through local agricultural co-operatives. As a general rule², vegetables are shipped through co-operatives when long-distance marketing (to marketplaces in major urban areas) is involved. Shipping by individuals is almost entirely limited to small, nearby markets. In the case of shipping through co-operatives, wholesalers and retailers in urban areas pay higher prices.

There are a large number of wholesale markets. There are also many traders at each market. It is shown in Table 7.6 from the Japan Agricultural Yearbook 1998. In this figure, data on the Central Wholesale Markets are from 1996.

¹ Farmers in Japan are usually of small scale.

² Jussaume quotes Tanaka (1989).

Table 7.6 Wholesale markets in Japan

	Number of markets	Handling (in billion JPY)	Wholesale traders (oroshi- uri gyosha)	Intermediary wholesaler (chu-oroshi gyosha)	Purchase & sale participant (baibai- sankasha)
Central wholesale markets (total)	88 (of which 56 in major cities)	6,109 a)	262	6,249	50,950
Central wholesale markets (fruits and vegetables)	72 (of which 55 in major cities)	2,625 a)	113	2,440	29,591
Regional wholesale market (total)	1,521 a)	5,091 b)	1,790 a)	2,590 a)	212,049 a)
Regional wholesale market (fruits and vegetables)	781 a)	1,987 b)	878 a)		
Small-scale wholesale market (total)	845 a)	298 b)			
Small-scale wholesale market (fruit and vegetables)	254 a)	58 b)			
Total (all wholesale markets)	2,454	11,499			
Total (fruit and vegetable wholesale markets)	1,107	4,670			

a) Data from 1995; b) Data from 1994.

Source: Nihon Nogyo Nenkan 1998 (p. 229).

Jussaume explains that each wholesaler and retailer concentrates on purchasing the quality and size grades of the particular commodities in which its firm specialises. Especially for those commodities where freshness is a key element of product quality, there are advantages to both producers and retailers by operating through wholesale auction markets, since they promote rapid delivery and easily discriminate between produce shipments according to freshness and other quality characteristics.

Figure 7.2 shows the distribution structure of vegetables in more detail. About 80% of vegetables follow the traditional distribution route, i.e. it passes through all six different links in the supply chain. However, the distribution route is getting shorter and middlemen are being used less. The remaining 20% is direct trade between farmer and retailer. This route will be used more often. Especially mass merchandisers prefer this route. The traditional route is more common for smaller retail companies.

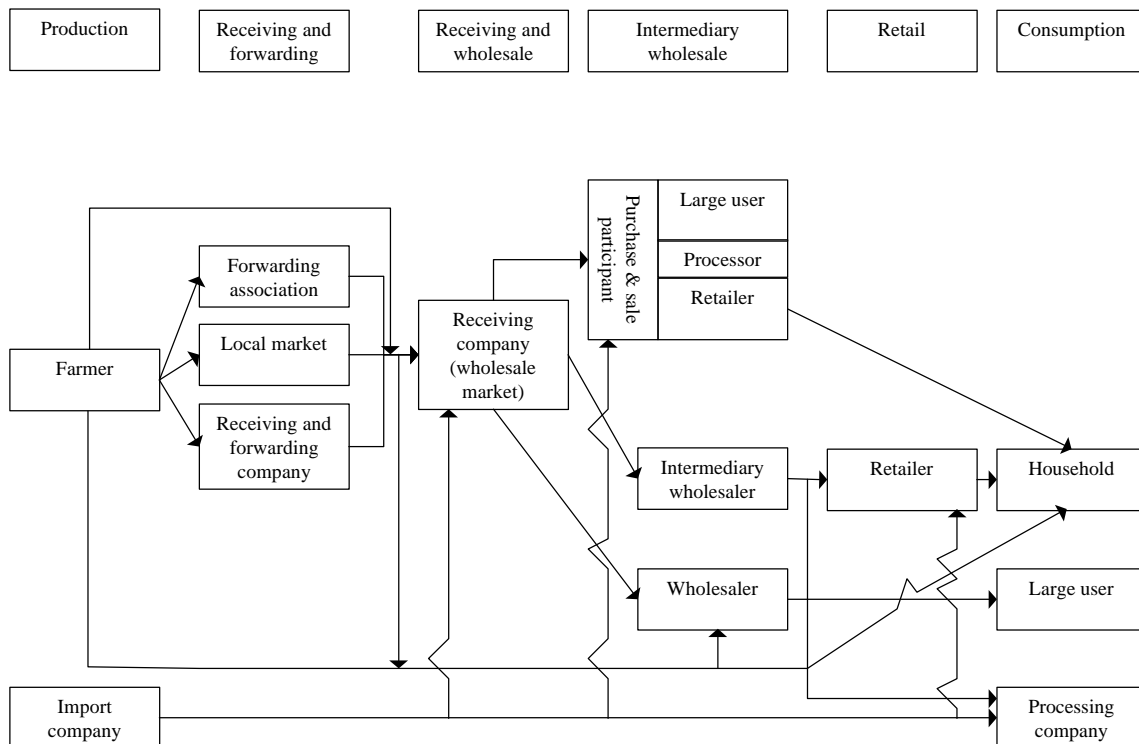


Figure 7.2 Distribution structure of vegetables
 Source: MAFF, Food & Marketing Bureau, Vegetable Marketing Division.

In addition to the development of more direct sales between farmers and retail companies, Jussaume indicates that there are changes occurring within the existing structure of the auction market-based distribution system. The so-called 'sakidori' method is increasing. Sakidori¹ means that wholesalers and supermarket companies make a promise with an auction house to buy a section of a particular quality and size lot(s) from a shipment of produce from a production area. The price is set at the highest price received for produce from that lot at that morning's auction. Since the premium produce of a given lot is often taken out by sakidori, the prices set at auction may be lower than they would be otherwise. Consequently, supermarkets can buy high-grade goods at a relatively low price and smaller retailers have limited access to the best produce.

Another movement, also mentioned by Jussaume, is 'sanchoku'. It refers to the direct sale of produce from farmers to consumers. This distribution route is frequently, although not exclusively, utilised for organic products.

Although it is noted that vegetables are traded more often directly between farmers and retail companies, wholesalers have an important function in the supply chain. They take care of physical distribution and store products. Other links in the supply chain do not generally provide these services, so that the wholesaler's function does provide significant added value. One of the major vegetable and fruit import companies is establishing

¹ Literally, it means 'taking before hand'.

distribution centres at several locations in Japan in order to provide the physical distribution service to retail companies¹. The latter cannot or will not take the risk.

7.4.3 Distribution structure for imported vegetables, including paprika

Imported produce follows different distribution routes. The distribution route is shortest when Dutch exporters sell paprika directly to Japanese retail chains. It is more common that paprika is sold to Japanese import and trading companies or to wholesale companies. Irrespective of to whom Dutch exporters sell it, they ask the same price.

Import and trading companies sell it either directly to retail chains or via wholesalers. On the one hand, it is sold through wholesale markets, although the percentage is not as high as it is for domestic commodities. It is generally not consigned for an auction sale. On the other hand, frequently sales are made directly between importing firms and market wholesalers (produce receiving companies) at a fixed price.

Sometimes the routes of physical transportation (e.g. from airport to auction or from airport to retail chain) and the administrative or financial route differ.

Dutch exporters receive feedback on price, but less on product quality. The Japanese clients do not always mention it when the quality is not satisfactory. The exporter concludes it from an order that remains forthcoming.

Links in the distribution route

An example of the different links in the distribution route of paprika for the consumers' market is as follows:

0. Dutch exporter
1. Japanese importer
- 2a. secondary importer; or
- 2b. wholesale market
- 3a. supermarkets; or
- 3b. wholesaler (can be the same as 2); or
- 3c. auction (oral)
4. retailer

¹ It is exceptional for an import company to do so, and only this company is known to set up a network of distribution centres for fresh fruits and vegetables.

7.4.4 Food retail market: additional remarks

Compared with other developed countries, the retail industry of Japan is often criticised for its surplus number of small retailers. The competition among them does not function well, resulting in a higher price level. This is particularly so in food retailing business, according to the Food and Agriculture Policy Research Center (1997, p. 78).

Table 7.7 shows in which outlet type consumers prefer to buy vegetables¹. During the last decades purchasing preference has shifted from a specialty retail store to a supermarket. It is consistent with the general development of a decline of single-merchandise shops (specialty shops) and the growth of multi-merchandise shops (or 'variety shops'), which is one of the structural changes in the food retail market.

Table 7.7 *Rate of consumer preference for retail type in purchasing vegetables by year*

Classification of industry	1964	1969	1974	1979	1984	1994
Retail store	75.7%	69.3%	63.0%	50.3%	39.4%	23.2%
Supermarket	11.6%	20.3%	28.3%	40.3%	49.4%	55.4%
Convenience store	0.0%	0.0%	0.0%	0.0%	0.0%	0.5%
Department store	1.6%	1.6%	1.5%	2.1%	2.5%	3.4%
Cooperatives	1.2%	2.1%	2.6%	3.8%	5.8%	8.9%
Others	9.9%	6.7%	4.6%	3.5%	3.3%	8.6%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: National Survey of Family Income and Expenditure.

A more detailed breakdown of vegetable sales per type of store in 1994 is given in Table 7.8. It shows, among other things, that specialty shops, viz. the categories 'specialty store' and 'miscellaneous retail store', form the largest group of establishments – in numbers – where vegetables are sold. However, annual sales of vegetables are largest in the variety shops, namely the supermarket categories in Table 7.8. Appendix 1 clarifies the classification of retail categories.

¹ The data originates from the National Survey of Family Income and Expenditure by the Statistics Bureau of the Management and Coordination Agency. It is published in *Principal Statistics of Food Industry* (p. 90).

Table 7.8 Vegetable sales per type of retail outlet (1994)

Retail category	Establishments		Annual sales	
	number	% of total	(million JPY)	% of total
RETAIL TRADE TOTAL	107,798	100.00%	2,905,406	100.00%
<i>Department store total</i>	-	-	-	-
- large department store	-	-	-	-
- conventional department store	-	-	-	-
<i>General supermarket</i>	-	-	-	-
- large general supermarket	-	-	-	-
- conventional general supermarket	-	-	-	-
<i>Other general supermarket</i>	83	0.08%	1,988	0.07%
<i>Speciality supermarket total</i>	5,918	5.49%	751,310	25.86%
- clothing supermarket	15	0.01%	93	0.00%
- food supermarket	5,893	5.47%	750,844	25.84%
- living related supermarket	10	0.01%	373	0.01%
<i>Convenience store total</i>	16,425	15.24%	410,860	14.14%
- open 24 hours	2,157	2.00%	9,630	0.33%
<i>Other supermarket</i>	24,691	22.90%	829,167	28.54%
<i>Speciality store</i>	17,595	16.32%	<i>n.a.</i>	<i>n.a.</i>
- clothing	2	0.00%	<i>n.a.</i>	<i>n.a.</i>
- food	17,516	16.25%	439,556	15.13%
- living related	77	0.07%	58	0.00%
<i>Misc. retail store total</i>	43,079	39.96%	472,450	16.26%
- general	108	0.10%	1,189	0.04%
- clothing	59	0.05%	466	0.02%
- food	40,719	37.77%	462,076	15.90%
- living related	2,193	2.03%	8,719	0.30%
<i>Misc. not elsewhere specified</i>	7	0.01%	<i>n.a.</i>	<i>n.a.</i>

Source: Census of Commerce¹.

7.4.5 Domestic production

Paprika and piman are grown at different locations in Japan. Areas that were mentioned are Koichi prefecture (Kyushu), Okinawa and Hokkaido. In Hokkaido it is grown only in

¹ The data originates from the Census of Commerce 1994 by the Ministry of International Trade and Industry. It is published in *Statistical Abstract of Japanese Distribution 1999* (p. 36) and in *Shokuhin Sangyo Tokei Nenpo* (p. 198).

summer in 'vinyl houses' (i.e. plastic greenhouses). An estimate of total Japanese production is 10 ha.

Some of the paprika grown in Japan are of Dutch seed. Climate and soil conditions differ between the regions in Japan. Japanese growers experience that Dutch exporters of seeds do not always communicate the right growing techniques to them. Dutch exporters sometimes communicate growing techniques for the Dutch climate and soil condition to the Japanese or they do not discern between the different Japanese regions and their specific situations.

Okinawa

A new variety of red piman is grown on Okinawa. It is different from the traditional Japanese piman. Although this red piman is not paprika, consumers cannot see the difference. It is sweeter¹ and the meat and skin are thinner. The price is about JPY 80, so half the price of paprika. Furthermore, Okinawa piman keeps long and does not have to be cooled. Transportation by boat to the main islands takes two days. There is not yet a big scale cultivation, because – according to one interviewee – growers do not know well how to sell it.

7.5 Import structure

7.5.1 Customs clearance and Plant Quarantine Agency

Customs clearance

Customs clearance applies to all fresh products. The customs tariff rate for paprika is 3.7%. For a vegetable product to enter Japan, approval on three fields is required: duty (under responsibility of the Ministry of Finance), several checks by the Ministry of Welfare and Health, and approval by the Plant Quarantine Agency (part of MAFF).

Imported vegetables and other plant material cannot go through customs unless they have undergone plant quarantine and a document evidencing that they have passed the inspection or that they have been approved after disinfection, like fumigation, is presented. Customs not only imposes customs duty but also performs final checking to see if the imports are in compliance with the provisions of related laws other than the Customs Law. Figure 7.3 schematically shows the customs clearance process.

¹ The sweetness of Okinawa piman is advantageous to that product, since consumers prefer sweet vegetables.

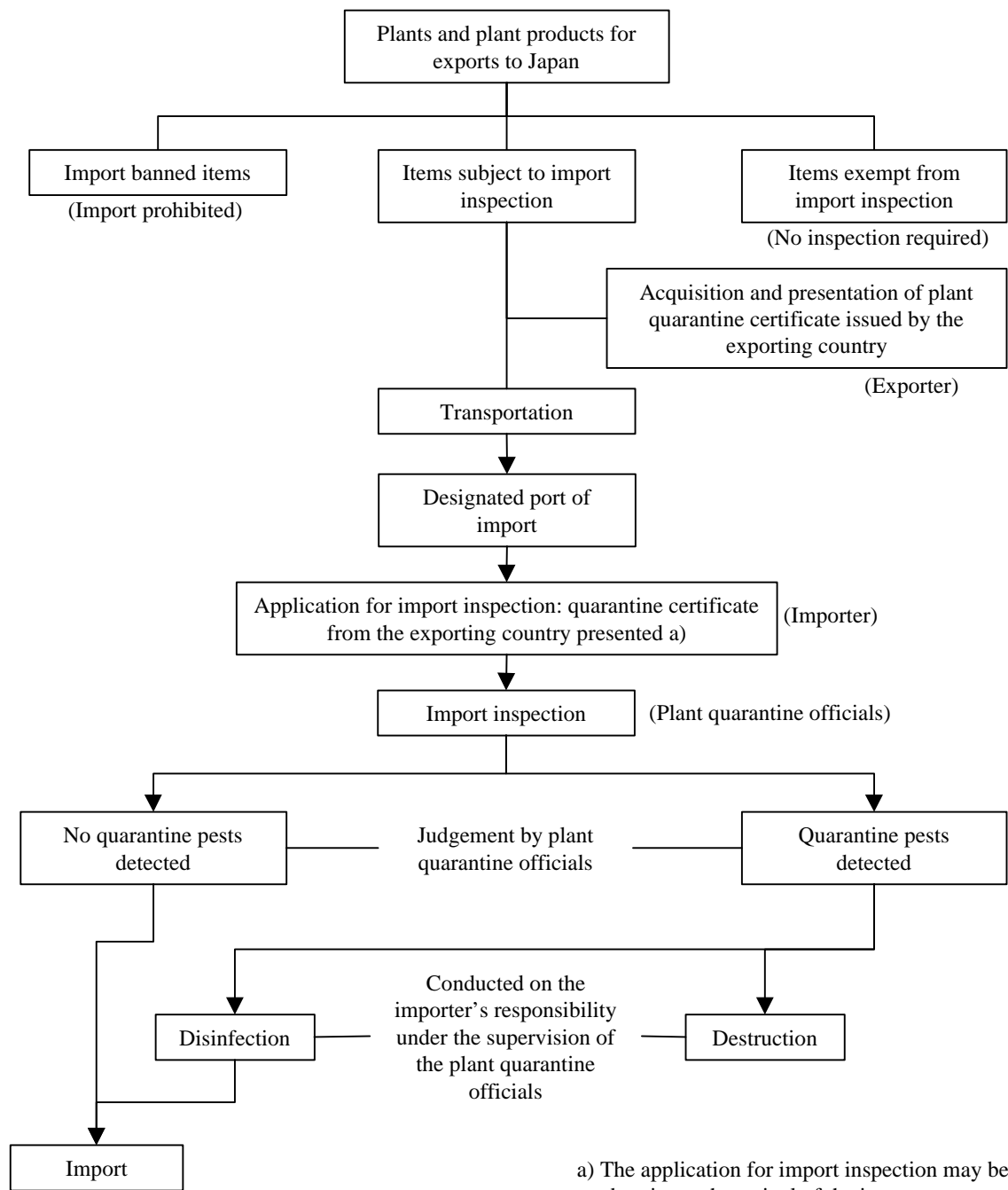


Figure 7.3 Flow of import quarantine.
Source: Ohkawa (1998, p. 28).

Plant Quarantine Agency

The Plant Quarantine Agency checks the paprika. Around the boxes of paprika is a net. If the net is broken on arrival, the paprika have to be thrown away. If inspectors find insects

(both insects native and not native to Japan), fumigation is required. There are two types of fumigation: by cyanide-gas and by methylbromide-gas. Fumigation takes about 20 minutes, but evaporation time takes two or five hours; two hours for cyanide and five hours for methylbromide. The Plant Quarantine Agency chooses the type of gas on the basis of the insects they find. Cyanide is used for moving insects. Methylbromide for not moving insects. Fumigation has three implications:

- cost: the importer must pay for the fumigation costs and cannot claim them from the exporter, according to Japanese rules. (In the case of a broken net, the importer can claim it from the exporter.)
- product quality: the quality is lower (also due to dehydration), so that the market price will be lower.
- time: products arrive in Japan at about 15:00 hrs. If fumigation is not necessary, custom clearance will be at about 17:00 hrs. If cyanide-gas fumigation is required, it will be 19:00 hrs. In the case methylbromide-gas fumigation, customs clearance cannot take place at the same day, so that the products must be stocked one more day.

Customs clearance and plant quarantine are difficult for Japanese importers due to the strict regulations. The average Japanese importer fears the government and is afraid of future inspections if he complains to the Plant Quarantine Agency about it.

7.5.2 Direct importing

Dutch exporters expect more direct importing by retail chains in the near future. According to Japanese interviewees, direct importing only has a merit when it involves large quantities. The major Japanese retail chains only have a limited share of the total market, so import quantities by one retail chain are not necessarily very large. One major retail chain imports directly, but even that is a small quantity. They have three options for procuring paprika: (1) directly, (2) through auction market, and (3) through a wholesaler or importer. It depends on the price which supplier they choose. Sometimes, importers dump products on the auction market.

One voluntary supermarket chain operates as follows. The Foreign Trade Department functions as the 'import company' of this retail chain. The Foreign Trade Department sells products to the Commodities Division. The different departments (relating to a product group) of the Commodities Division sell to the member stores. It is not compulsory for the Commodities Division to buy from the Foreign Trade Department. This supermarket chain's policy recommends direct imports. About 20-30% of total handling volume, depending on the commodity, has to be direct imports. For paprika it is about 30%. The Commodities Division has several reasons for sometimes not buying from the Foreign Trade Department, namely:

- if they only rely on information from the Foreign Trade Department, they have too limited information and lose the feeling with the market; and
- the retail chain wishes to reduce both price risk and quality risk.

The strict import regulations imply that retail chains run more risk if they import directly than if they buy from importing companies. If imported paprika have to be fumigated, then the importing companies bear the financial burden.

7.6 Topics of special interest

7.6.1 Costs of air transports

Rates of air transport from the Netherlands to Japan (\pm NLG 4 per kg) are higher than e.g. from the Netherlands to California, USA (\pm NLG 1 per kg). Price differences in the rate of air transport are not related to high landing taxes in Japan or a cartel in Japan. It is solely caused by supply and demand of air space.

7.6.2 Competition between the main supplying countries

Dutch paprika has to compete with paprika from other countries. Since consumers do not know any distinguishing features of paprika from a specific country, they do not care about the origin. Price and quality are more important issues determining the consumer's buying behaviour. Consumers tend to choose the cheapest product.

Regarding many quality aspects, such as uniformity of shape and size, colour, freshness and shelf life, Dutch paprika is ranked first. Paprika from New Zealand is second and from South Korea third. However, price differs significantly as well. Since the average consumer does not recognise any distinctive features, he buys the most economical product. Therefore, South Korea is the main competitor for the Netherlands on the Japanese market. Saudi Arabia also supplies a limited amount of paprika. Saudi Arabia uses (or used) the brand name 'Duchess'.

In the following paragraphs, experiences and opinions of the Japanese interviewees are discussed in detail for the main supplying countries: the Netherlands and South Korea. New Zealand paprika will be briefly touched upon.

7.6.3 Paprika from the Netherlands

Introduction

Japanese imports of Dutch paprika totalled to 5,587 tons in 1998. The Netherlands was the main supplier of paprika to Japan up to and including 1998. The Dutch season is from about April to November. The two principal reasons why Japanese importers and retail chains were compelled to look for other suppliers are:

- to supply paprika throughout the year in Japan; and
- to have a 'reasonable price'.

Product characteristics

Many remarks about characteristics of Dutch paprika related to its size. It is big and there are size differences, causing difficulties to retailers. In general, a box contains 32 plus or minus 2 pieces, but sometimes there are 25 or 40 pieces in one 5 kg box. Other characteristics are a long life and thick skin.

Quality

The high quality of Dutch paprika is acknowledged; although there is supply from South Korea at a lower price, Japanese importers and retailers still order from the Netherlands. However, fluctuations of quality occur and quality improvements are still possible. There is sometimes a rotten paprika in a box. Furthermore, there are sometimes (little) spots of green on red, orange or yellow paprika. It happens especially when there is shortage of production. Dutch exporters say that these green spots express the freshness of the product, but Japanese consumers think that the paprika is not ripe.

Health-related issues and chemical-free produce

Japanese consumers appreciate communication about safety- and health-related issues about paprika. A certificate, which is also hung in retail shops, could show that chemicals are not used. Growers both in and outside Japan more and more use biological crop protection methods (i.e. natural enemies killing vermin). Consequently, harmless insects may be present on the vegetables at the moment of customs clearance. The Plant Quarantine Agency requires these products to be fumigated. Then chemicals are used, so that it cannot be communicated that these paprikas are chemical-free.

Communication to consumers

Often promotion budget is used for in-store demonstrations. They are rather expensive, about JPY 20,000 a day, and increase consumption during demonstrations. However, consumption after demonstrations drops again.

Distinguishability of Dutch paprika

Since Japanese importers do not know any unique product characteristics of Dutch paprika, Japanese importers do not see advantages in trading Dutch products instead of products from other countries. Therefore, importers do not have arguments to recommend Dutch paprika to retailers.

Price

There are many types of contracts between Dutch suppliers and Japanese buyers. They can be traced to two fundamental types, namely a fixed price contract and constant

negotiations. Since the Netherlands is the price leader, a price policy is demanded. The Netherlands is expected to have the responsibility to control the price. However, prices fluctuate and regularly dumping occurs due to price competition in the Netherlands. Presently, the Dutch price is rather high. One interviewee wondered why Dutch exporters require a price in yen, whereas exporters from other countries ask a price in their local currency.

Specifications and grades

Between (groups of) Dutch growers, specifications are different. It hampers comparing products from different suppliers.

The Netherlands is reluctant to export B-grade paprika to Japan. Only A-grade paprika is exported to Japan. Nevertheless, Japanese customers, especially processors, hotels, and etc., wish to be able to choose between different grades and prices.

Dutch business attitude

The interviewees talked about their experiences with Dutch companies and the differences with Japanese business attitude. Some of the remarks follow below.

Demand-orientation

Japanese companies expect a demand-oriented viewpoint. It means that requests about product adaptations – and, consequently, the Japanese market – should be taken seriously. One argument for the Dutch supply-orientation may be that only a few percent of total Dutch production of paprika is exported to Japan.

Service and speed

Importers and retail chains, in general, do not see the advantage of one supplier over another. They offer prices within the same range and the quality is similar. Suppliers can only distinguish themselves by providing excellent service, such as quick reaction to requests. Direct imports, for example, by a retail chain amount to just a limited volume, which can easily be supplied by one company. This retail chain prefers to do business with only one or two companies that can offer the required service. Although they have established long-term business relationships, other exporters also come with offers and cause annoyance when they try to 'push' this retail chain to do (short-term) business with them.

Standing by an agreement

When a Japanese importer or trader receives an order from their Japanese client, he must supply the exact amount. Therefore, un-expected non-delivery from Dutch exporters is not acceptable. It sometimes happens due to lack of Dutch supply or lack of space for air transportation. It also happens that Dutch exporters communicate very late (even after shipment) that the amount shipped is less than the amount ordered. Then this particular buyer has to buy paprika at a high price from other Japanese parties.

7.6.4 Paprika from South Korea

Introduction

South Korean production – and exports – of paprika has increased drastically over the past few years. Table 7.9 shows the exports of paprika from Korea. In the winter of 1998-1999, South Korea exported for the first time relatively high volumes of paprika. All exports from Korea go to Japan, since consumption of paprika in South Korea is almost nil. Only, in 1998, a quantity of 20 tons went to Guam.

Table 7.9 Exports of paprika from South Korea

Year	Quantity (tons)	Value (USD 1,000)	Average price (USD) per kg
1994	54	331	6.13
1995	510	106	0.21
1996	266	1,288	4.84
1997	317	1,577	4.97
1998	1,276	4,786	3.75
1999 (Jan. - Aug.)	2,703	8,579	3.17

Source: Office of the Netherlands Agricultural Counsellor in South Korea (based on Korean statistics).

Transport from South Korea to Japan is done by ship. About 70-80% of total Korean exports go by ferry from Pusan to Shimonoseki in Japan. From there it is transported by railway or by truck to destinations in Japan. Sea freight is reasonably priced.

Production in South Korea¹

During 1991-1997 approximately 200 ha of glasshouses were build, highly subsidised by the Korean government. About 25 ha is used for growing paprika. Most of these glasshouses are of high quality, built by Dutch glasshouse builders or by using Dutch technology and equipment. High profits by growing paprika give other growers the incentive to change their present crops (e.g. tomatoes or flowers) into paprika. It is expected that the area of paprika glasshouses at the end of 1999 will be approximately 50 ha and the area of paprika plastic greenhouses will be about 15 ha.

The production season in South Korea is from November through July. Presently, the best season is January through March. Production costs are relatively high in winter, since expensive and imported energy (oil) for heating is required. The intensity of sunlight is good. High temperatures and high humidity in summer make it impossible (or very difficult) to grow paprika in this season. However, growers will look for solutions to produce also in summer, because that could very profitable.

¹ This paragraph is based on the interviews in Japan and on information provided by the Office of the Netherlands Agricultural Counsellor in Seoul, South Korea.

The Korean government provides (indirect) subsidies for export of paprika, such as (1) a financial assistance for packaging and transportation and (2) a tax exemption for using energy.

Quality

Presently, not all Korean production is of a quality level satisfactory to the Japanese market, but the quality of Korean production improves year by year. Since Dutch facilities and know-how is used, the production situation resembles the production situation in the Netherlands. Differences still exist. Korean growers use, among other things, more chemicals (pesticide). Pesticide-free production is difficult. Furthermore, the quality of water and soil is unclear to the Japanese buyers.

Japanese buyers assess the quality level of Korean paprika as lower than the Dutch quality level. It can be illustrated by the prices¹ at the wholesale markets of Tokyo and Osaka in December 1998. A box (5 kg) from the Netherlands was sold at JPY 4,200 and from New Zealand at JPY 4,500. The price for a 5 kg box from South Korea was JPY 3,500.

Product characteristics

Japanese interviewees mentioned about Korean paprika characteristics:

- that product life is shorter than the product life of Dutch paprika;
- that the skin is thinner;
- that the division of colours does not fit the Japanese demand: South Korea mainly produces red paprika (70%), but not enough yellow (30%) and no orange paprika; and
- that the price is lower; it is described in more detail previously in this chapter.

Korean paprika are sold in 2.5 kg packages as well. This meets the demands of (some of) the Japanese retailers.

System for grades and sizes

South Korea has set up a grading system for paprika. This system is only used in South Korea. It is fixed and convenient for Japanese buyers. The grading system consists of two elements: quality grades and size categories.

South Korea uses the following *quality grades*:

A = excellent

B = 2nd grade (irregular sizes included)

C = 3rd grade (injuries like scars included; products of this grade go to processors in Japan)

Each grade has its own price settlement.

¹ Source: Office of the Netherlands Agricultural Counsellor in Seoul, South Korea.

Within these grades, there are different *size categories*:

L-size: 23 pieces per 5 kg carton; weight: 200-220 grams; diameter: 80-100 mm

M-size: 28 pieces; 160-190 grams; 70-90 mm

S-size: 33 pieces; 130-160 grams; 60-80 mm

SS-size: 38 pieces; 110-130 grams; 50-70 mm

The L-size is most expensive; SS-size products have the lowest price.

Japanese importers can select their required sizes.

7.6.5 Paprika from New Zealand

The quality level of New Zealand paprika is high. New Zealand is said to adapt to Japanese requirements, sizes and prices. New Zealand's B-grade is reasonably priced for Japanese processors. A disadvantage for New Zealand's exporters is the costly airfreight to Japan. Phytosanitary systems in New Zealand are well developed. Furthermore, there are good risk control systems and traceability.

7.6.6 Other fruits and vegetables

Strawberries

Only one variety of Dutch strawberries is exported to Japan, namely El Santa. It has a high sugar content, meaning a short shelf life. A high sugar content fits in with the Japanese preference for sweet fruit and vegetable products (for raw consumption).

Dutch El Santa strawberries are transported by air, which still takes a lot of time. After arrival in Japan, they are transported by refrigerated trucks to retailers. Since there are many stops on the way to different retailers (meaning that the truck doors open often), the temperature in the truck fluctuates. It has a bad influence on high-sugar-content strawberries.

In summer, strawberries are also grown domestically, namely in Hokkaido. For confectioneries, California-grown strawberries are used. They have a low sugar content.

Interviewees gave the following concrete recommendations:

- consider other varieties;
- study the Californian method of exporting to Japan; and
- consult with Japanese clients (importers and retailers) about packaging and size.

Eggplant

There is sufficient Japanese domestic supply of eggplant.

Zucchini or courgette

A stable consumption of zucchini or courgette is not guaranteed. Occasional imports come from USA and New Zealand. In case of shortage of supply, imports from the Netherlands are considered.

Grapes

Grapes from the Netherlands will meet a lot of competition from Chile, USA and Mexico. These countries supply grapes at reasonable prices and can transport them by ship.

Melon

There are many varieties of melons. Imports mainly come from USA and New Zealand.

Apples

Apples from Washington State (USA) can enter the Japanese market now. They taste sweeter than Dutch apples. Although the market is opened, Japan does not import from USA, since Japanese domestic supply suffices. France exports many apples to Asia, but not to Japan.

Dean (1994, p. 71) has researched the opportunities for exports of vegetable products from Washington State to Japan. He focussed especially on the American opportunities and it is not necessarily applicable to the Dutch situation. However, his results are interesting, since Dean indicates the prerequisites for success on the Japanese market for fruits and vegetables. He concludes that Washington State 'should concentrate our marketing efforts in products that require technical skills, large land areas, and low production costs'.

7.7 Conclusions

When paprika was introduced on the Japanese market in 1993 it resembled the bitter Japanese piman. Partly due to a lot of promotion, first restaurants and later the average consumer started buying paprika. It is mainly used for raw consumption in salads.

For several years, the Netherlands was the principal supplier of paprika to Japan. Other countries exported to Japan in the Dutch off-season. Since 1998, South Korea supplies products of good quality at lower prices in the Dutch production season. South Korean market share has increased drastically over a period of just one year and further increase of Korean supply is expected, also in summer, which is the height of the Dutch season. High (expected) profits motivate Korean growers to change their present crops to paprika.

The quality of Dutch paprika is widely acknowledged, but the price is perceived as high. Price fluctuations contributed to the consumers' idea that JPY 198 per piece is

expensive. Retailers aim at a 'reasonable' price, not at the lowest price possible. A stable supply at stable prices is important for all participants in the supply chain.

Presently, South Korean prices better fit the 'reasonable' price level and the business attitude of South Korean exporters is more demand-oriented. The average Japanese consumer has become more price-conscious and he is not aware of quality differences between paprika from different suppliers or countries. Unique – positively valued – characteristics of Dutch paprika, such as e.g. pesticide-free production, may persuade Japanese consumers to pay a premium for Dutch products. Then, Dutch paprika must be clearly distinguishable and additional communication to consumers is required; it means that the establishment of brand equity is required. It should, however, be noted that South Korean paprika is grown using Dutch facilities and know-how. Furthermore, farmers in Japan experiment growing a variety of piman, which is almost indistinguishable from paprika, but costs less.

Japanese companies would appreciate a more demand-orientated business attitude of Dutch exporters. It may further increase their success on the Japanese market.

Although direct imports by retail chains may be a distribution route attractive to exporters, import and trading companies will continue to be an important player in the future as well. The reason is that they still provide added value to retailers for they have distribution facilities. Moreover, retailers reduce their risk when they use trading companies.

Consumers increasingly demand pesticide- and chemical-free vegetables. Growers both in and outside Japan more and more use biological crop protection methods (i.e. natural enemies killing vermin). Consequently, harmless insects may be present on the vegetables at the moment of customs clearance. These vegetables are fumigated, using cyanide- or methylbromide-gas, so that they are not chemical-free anymore when they are sold in the retail shops.

7.8 Sources

In Japan, interviews were held with representatives of different companies (specialised import companies, general trading companies, manufacturers, wholesale companies and supermarket chains), umbrella organisations and research centres. The topics of the interviews were the supply chain and consumer developments in general and the different product groups in particular. In addition to interviews on the general topics, in-depth interviews related to paprika were held with five import / trading companies (of different sizes), a general trading company, two wholesale companies (licensed under government sponsored central market system), two national voluntary supermarket chains, one regional supermarket chain, a marketing consultancy, an airline company, an organic products association, a food service companies association, a research institute of agricultural economics and MAFF.

8 Pork

8.1 Arguments for choice of product group

On the basis of interviews with experts and representatives of exporting companies in the Netherlands product groups were chosen. The product group 'pork' was chosen as subject of research mainly due to the following arguments:

- it is expected that the Japanese consumption of fish (per capita) will decrease in favour of meat, which contains more protein, so that the Japanese market for meat, including pork, is expected to increase; and
- looking at the Dutch supply of meat, the Japanese consumer preferences and the Japanese veterinary requirements, Dutch pork is a meat product of which export could most easily be expanded.

8.1.1 Research questions and topics of special interest

On the basis of interviews with experts and representatives of exporting companies in the Netherlands certain research questions were defined. The following topics were considered most important:

Consumption and consumer developments

- image of pork from the Netherlands.

Production and distribution structure

- distribution route (in general); and
- structure of the sector (in general).

Import structure

- expected future import regulations.

8.2 Introduction

This chapter will primarily focus on the research questions mentioned in paragraph 8.1.1, since other sources already provide detailed information. Various studies on the developments of and the opportunities on the Japanese pork market exist, such as¹:

- Japan External Trade Organisation, *Agro-Trade Hand Book 1998*. JETRO, Tokyo, 1998, pp. 87-89.

¹ The titles mentioned here do not form a comprehensive list.

- Japan External Trade Organisation, *JETRO Marketing Guidebook for Major Imported Products*. JETRO, Tokyo, 1997. (This publication covers fresh and frozen meat on pages 80 to 93) and processed meat on pages 94 to 101.)
- Japan External Trade Organisation, *Your Market in Japan; Meat Products*. JETRO, Tokyo, 1996 (No. 91, AG-43).

Furthermore, the most recent statistical information of Japanese trade and production of pork and other meat is available at the Dutch Product Board for Livestock, Meat and Eggs.

8.3 Consumption and consumer developments

8.3.1 Consumption of meat

The figures below provide data on the developments of meat consumption from 1990. Figure 8.1 shows the developments of annual per capita meat consumption. Figure 8.2 shows pork imports and domestic production (on carcass base); the sum is total demand. The following conclusions can be drawn from these figures:

- total per capita meat consumption has increased slightly from 1990 to 1997;
- per capita consumption of beef has increased slightly;
- per capita consumption of pork has remained equal;
- per capita consumption of poultry has increased; and
- demand for foreign pork has decreased in 1997 and 1998.

It is expected that per capita meat consumption will remain more or less stable in the future, and that the preference for the different types of meat will remain stable as well. Several interviewees held the opinion that consumer preference has already shifted drastically from pork to beef and that this development will continue. However, this view is inconsistent with data in Figure 8.1.

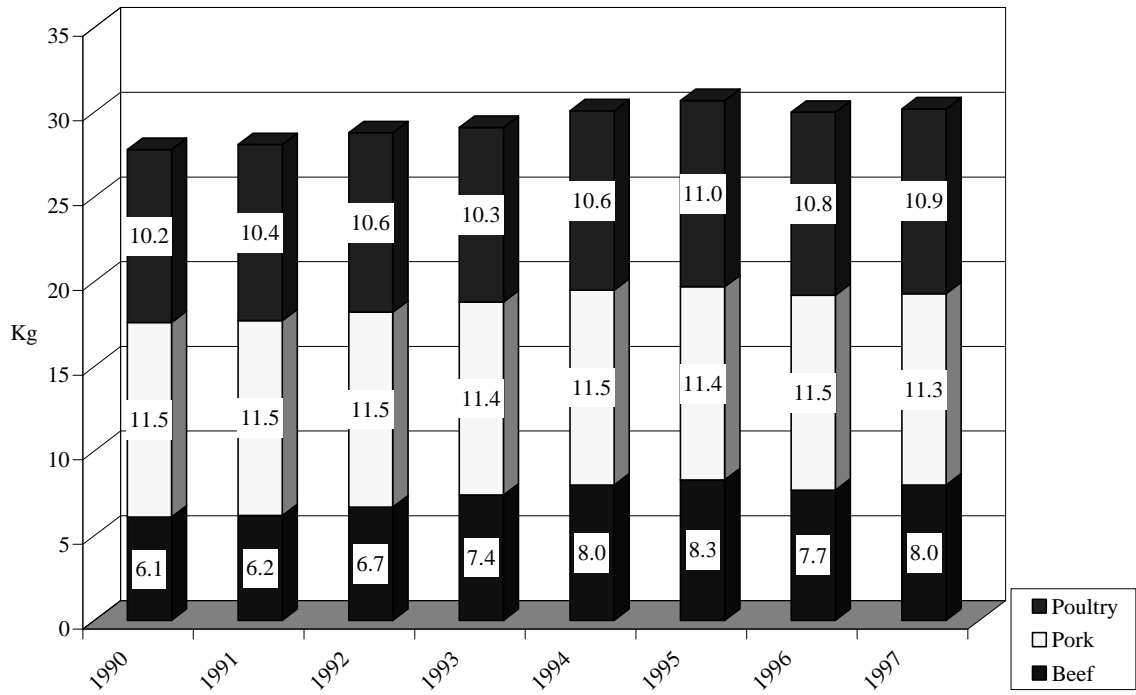


Figure 8.1 Development of annual per capita meat consumption (pure protein calculation)
Source: MAFF (obtained from the Japan Meat Trade Research Centre).

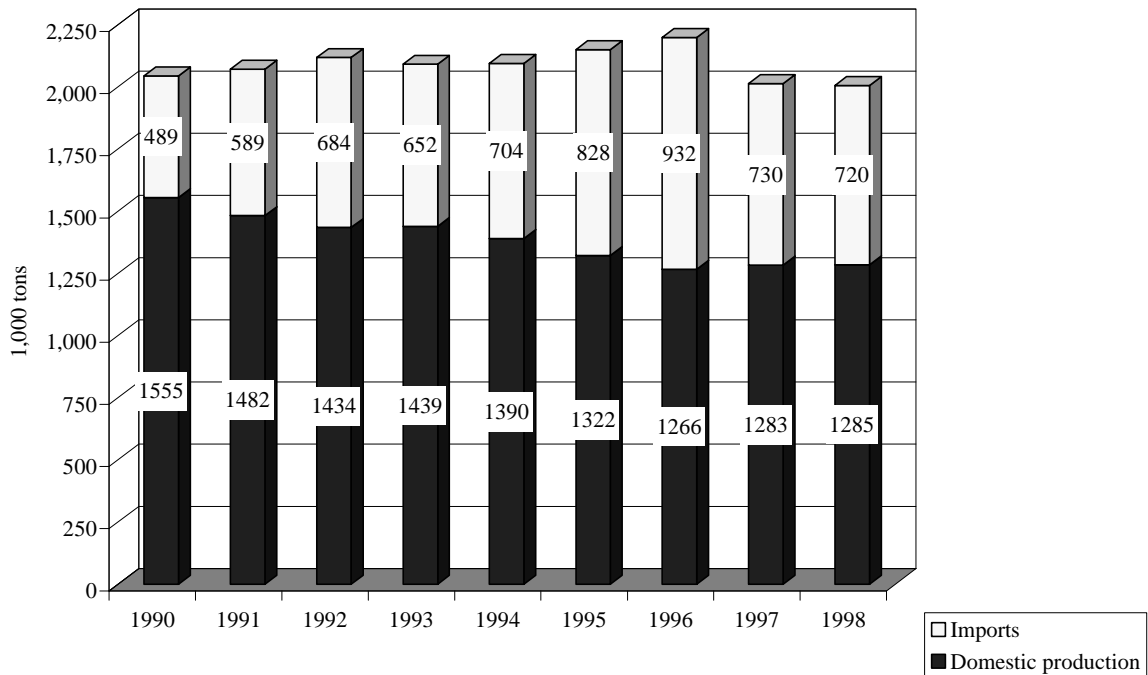


Figure 8.2 Development of pork imports and domestic production (carcass base)
Source: MAFF (obtained from the Japan Meat Trade Research Centre).

8.3.2 Pork imports

Import statistics

Table 8.1 shows the pork imports in 1998 and the countries of origin. The main suppliers of pork are the USA, Denmark and South Korea.

Table 8.1 Pork imports and the countries of origin (major suppliers in 1998)

Country	Chilled pork		Frozen pork		Total volume (tons)	Change with regard to 1997 (%)
	Volume (tons)	% of total	Volume (tons)	% of total		
USA	101,956	70.5%	58,258	16.2%	160,214	17%
Canada	20,338	14.1%	41,421	11.5%	61,759	13%
Denmark	323	0.2%	124,408	34.5%	124,731	-14%
Mexico	1,910	1.3%	28,694	8.0%	30,604	22%
South Korea	18,405	12.7%	71,776	19.9%	90,181	85%
TOTAL	144,548	100.0%	360,287	100.0%	504,835	-1.4%
Change with regard to 1997 (%)	12%		-6%		-1.4%	

Source: Japan Meat Trade Research Centre.

The most significant difference between pork products imported in Japan is whether it is frozen or chilled. Transportation usually takes place by ship, so that European countries only supply frozen pork to Japan, since transportation requires 35 to 40 days. Asian countries, and also the USA, can supply chilled pork. In very rare cases, fresh chilled European meat is transported by air to Japan.

Chilled pork

A large share of imported chilled pork came from Taiwan until foot and mouth disease broke out in early 1997. It will take several years before Taiwan is allowed to export to Japan again. Imports from South Korea have increased significantly in 1998. Many pork-manufacturing plants in South Korea (and also in Canada) are managed by Taiwanese business men. The total volume of chilled pork imports in 1998 was 144,548 tons. The major share was imported from the USA (70.5%). Canadian and South Korean shares were, respectively, 14% and 12.7%.

Frozen pork

Just after MAFF lifted the 'safeguard' – details will be explained in paragraph 8.5.1 – at the end of June 1997, many trading companies and processors imported large volumes of frozen pork. It resulted in excessive inventory levels, affecting imports in 1998. The total volume of frozen pork imports in 1998 was 360,287 tons. The major supplier was Denmark (34.5%). Hobbs et al. (1998) have studied the position of the Danish pork industry on the Japanese market and conclude the following:

'This success is achieved by a co-ordinated approach to production, processing and marketing, which is built on a thorough understanding of the requirements of different markets, a dedication to quality which includes the ability to provide a consistent and reliable supply of high quality products tailored to the needs of different markets, and a well-organised co-operative industry structure. [...] Co-operation, not confrontation, is the watchword throughout the supply chain and provides a useful lesson to meat supply chains in other countries.'

Denmark may experience this co-operation in the their pork industry as a very strong point. Japanese importers see it differently. They dislike their dependence on one country and one supplier, who can set the price. Therefore, they are looking for other suppliers, for example from the UK, France and the Netherlands.

8.3.3 Cut meat products

The Japanese only consume a limited number of cut meat products. The most popular meat products are shoulder¹ ('kata' in Japanese), loin ('roosu'), tenderloin ('hire'), ham ('momo') and belly ('bara'). Table 8.2 shows the domestic production and import volume of these products. It can be concluded from this figure that imports of especially loin and tenderloin are required.

Table 8.2 Distribution volume of meat parts (1997)

Type of pork meat	Domestic production (tons)	Import volume (tons)	Total volume (tons)	Import share (%)
Shoulder (incl. collar)	311,526	69,502	381,028	18%
Loin	171,788	267,205	438,993	61%
Tenderloin	21,794	41,129	62,923	65%
Ham	283,322	23,625	306,947	8%
Belly	162,814	95,452	258,266	37%
TOTAL	951,244	496,913	1,448,157	34%

Source: Japan Meat Trade Research Centre.

Japanese import regulations, which are explained in paragraph 8.5.1, hamper imports of a particular type of pork meat. Pork carcasses are imported. It means that together with the desired meat parts also less desired pork parts are imported. Consequently, retail prices of e.g. loin and tenderloin remain relatively high, but the other pork parts are very low-priced and are used by the processing industry.

¹ Including collar.

8.3.4 Processed pork products

Distinction should be made between two different target groups. Traditionally, processed pork products, such as ham and sausages, are considered as products for children, since they are nutritious. Consumers' major purchasing criterion is price. Consequently, the major Japanese processing companies primarily aim at offering low-priced products and find presentation and high quality less important. These products are sold mainly through ordinary retail outlets. It is for example one of the reasons why the water injection ratio is high, namely about 80%, for this type of processed pork products.

The other target group is adults. The products for this consumer group are of higher quality and price. The major domestic processors¹ do not yet aim very actively at this market for luxury, 'gourmet' processed products, like salami, pastrami and other snacks. These more expensive, high-quality processed products can only be found in department stores (instead of supermarkets), hotels and restaurants. Foreign manufacturers supply products to this market segment. Foreign manufacturers experience that they often need to adapt their products to meet both the Japanese taste and the Japanese regulations.

The Japanese processing companies realise that they further need to differentiate their products. Also the increasing popularity of home meal replacement products will motivate them to invest in new product developments. In the near future, they may aim more and more at higher added value processed products. This development is also noticeable in the market for fresh meat. Importing and trading companies look for products with a high added value, such as Berkshire pork or black-coloured pork.

8.3.5 Characteristics of meat from different sources of origin

Pork imported in Japan is both chilled meat and frozen meat. Clients for these products differ. The client for chilled meat is the average Japanese consumer, who buys it in a retail shop. The clients for frozen meat are Japanese processing companies. It means that certain remarks that only refer to chilled and fresh meat are not relevant for the Dutch situation. For example, Japanese consumers prefer less fat pork² and Dutch pork is more marbled and fatter than pork from other suppliers. However, processors are the clients and users of Dutch pork, so these consumer preferences are not directly relevant to Dutch exporters.

During interviews, Dutch pork was usually compared with Danish pork. The latter's characteristics have become more or less a standard for pork in Japan.

¹ The meat sector in Japan is characterised by an influential position of a limited number (five) processing companies. They are: Nippon Meat Packers, Ito Ham, Prima Ham, Marudai Food and Snow Brand. These five large meat processors have a market share of about 60% and have an extensive distribution network. They sell and distribute their products even to small supermarkets and retail shops. Due to their distribution network, they also play an important role in distribution of fresh meat.

² Consumers prefer less fat pork. However, they consider beef fat as worse for one's health than pork fat.

Frozen pork

Several general remarks about Dutch frozen pork – in comparison to pork from other countries – are listed below:

- *reputation* of Dutch pork is good;
- *size*: in general, Japanese processing companies prefer small loins and Dutch loin is bigger than Danish loin. However, trading companies are able to find processors that prefer bigger sized loin;
- *uniformity of quality*: it happens that Dutch quality is not uniform, although uniformity of quality is required;
- *fatness*: Dutch pork is marbled more. It means that the taste remains good after defrosting. Furthermore, due to its marbled structure, one can hardly see that it has been frozen;
- *colour*: Japanese pork is pink, whereas Danish pork is rather white. Also US pork is paler than Japanese pork. The colour of Korean and Taiwanese pork is similar to Japanese pork. Dutch pork is darker than Danish meat, but less pink than Japanese pork.
- *texture*: the texture of Japanese, Taiwanese and Korean pork is similar, viz. 'silky'. The texture of other pork is rougher;
- *taste*: no major difference between the different suppliers;
- *cutting method*: the Dutch cutting method is worse than the Danish cutting method. Sometimes the meat still contains bones;
- *price*: the price of Dutch pork is usually higher than the price of Danish pork, although in rare cases it is opposite; and
- *packing*: sometimes it is packed in a disorderly way.

Price is the most important long-term consideration for Japanese importers to choose a supplier.

Chilled pork

In the past, a Japanese regional retail chain imported chilled Dutch pork by air for direct sales in their supermarkets. This company chose Dutch pork due to its high reputation. However, the reputation was dented after experiences of pork dripping on arrival. Presently, this retail chain does not import chilled Dutch pork anymore, because the retail price has become relatively high due to costs of airfreight.

Specifications

The most important issue for Japanese processing companies is that their supply fully meets their requirements and specifications. They set strict specifications relating to size, weight, packaging and cost prices. Danish pork mostly complies with these requirements and specifications.

Dependence on limited number of suppliers

Japanese importers and processing companies dislike being dependent on supply from one country or from one exporter in a particular country. For strategic reasons, they wish to have several different suppliers. It means that in case one supplier (or supplying country) drops out, they still have alternative sources.

8.3.6 Communication to consumers and image of the Netherlands

Although Japanese consumers prefer fresh meat, which has not been frozen before, sometimes defrosted meat is offered in retail outlets. Of course, supermarket chains do not misguide consumers and do not communicate that it is fresh, but consumers may not realise that it has been frozen.

Due to the Danish investments in promotion, Denmark has a very strong image among the average consumer as a pork supplying country. Denmark has established a brand equity and puts a logo on Danish products (such as hams and sausages). The Dutch flag is sometimes used on Dutch products to indicate the country of origin. One retailer mentioned that the Dutch flag is easily mistaken for the Russian flag.

8.4 Production and distribution structure

8.4.1 Distribution structure (in general)

The figures below show schematically how domestic pork and imported pork are distributed. Figure 8.3 provides an overview of the production and distribution structure of domestically produced cut pork meat. The route of imported pork, including its breakdown, is explained in the next figure. About 20% of total imported pork were imported directly by supermarket chains, fast food chains and wholesalers.

(2) 豚 肉 Pork

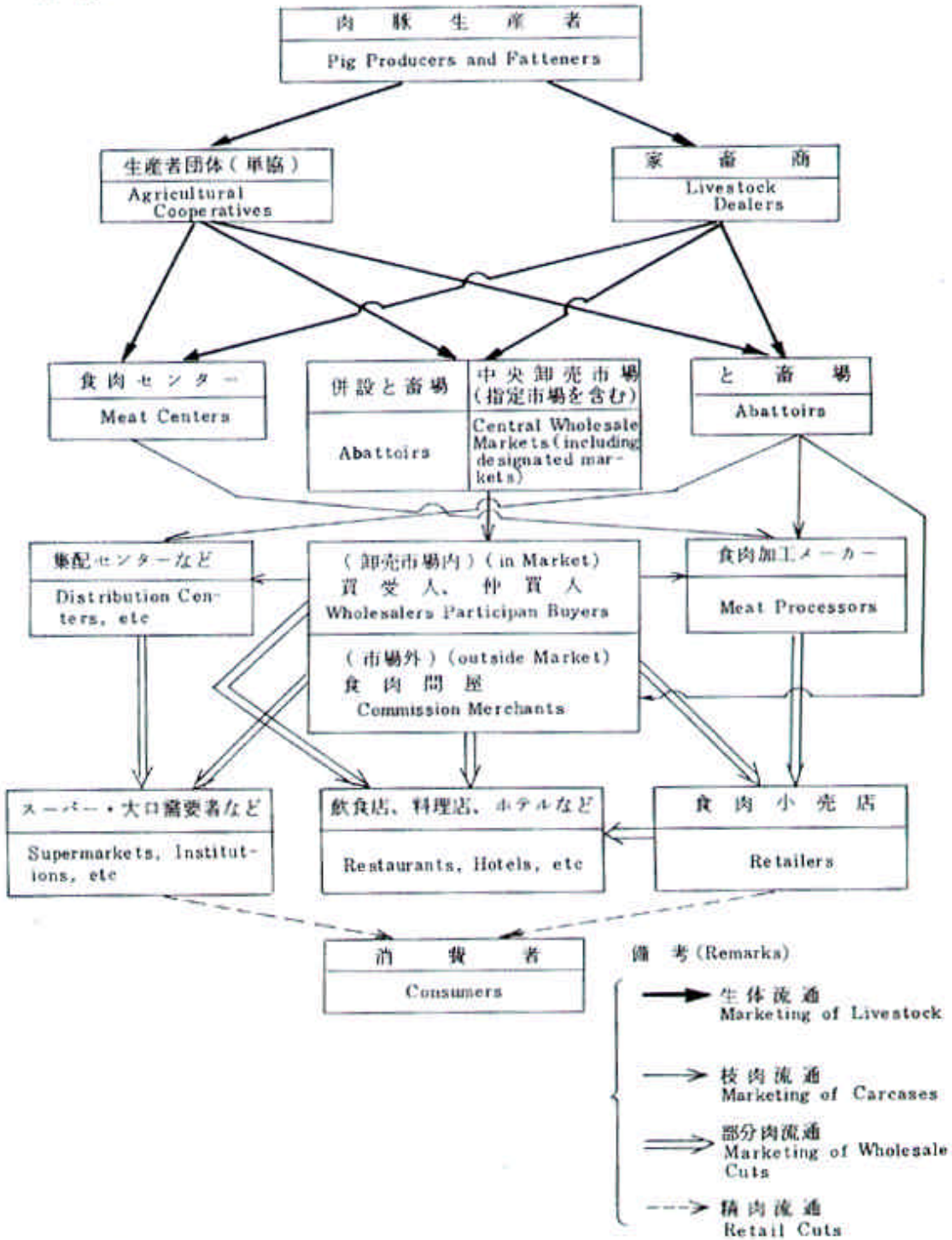


Figure 8.3 Production and distribution structure of domestically produced cut pork meat
Source: MAFF.

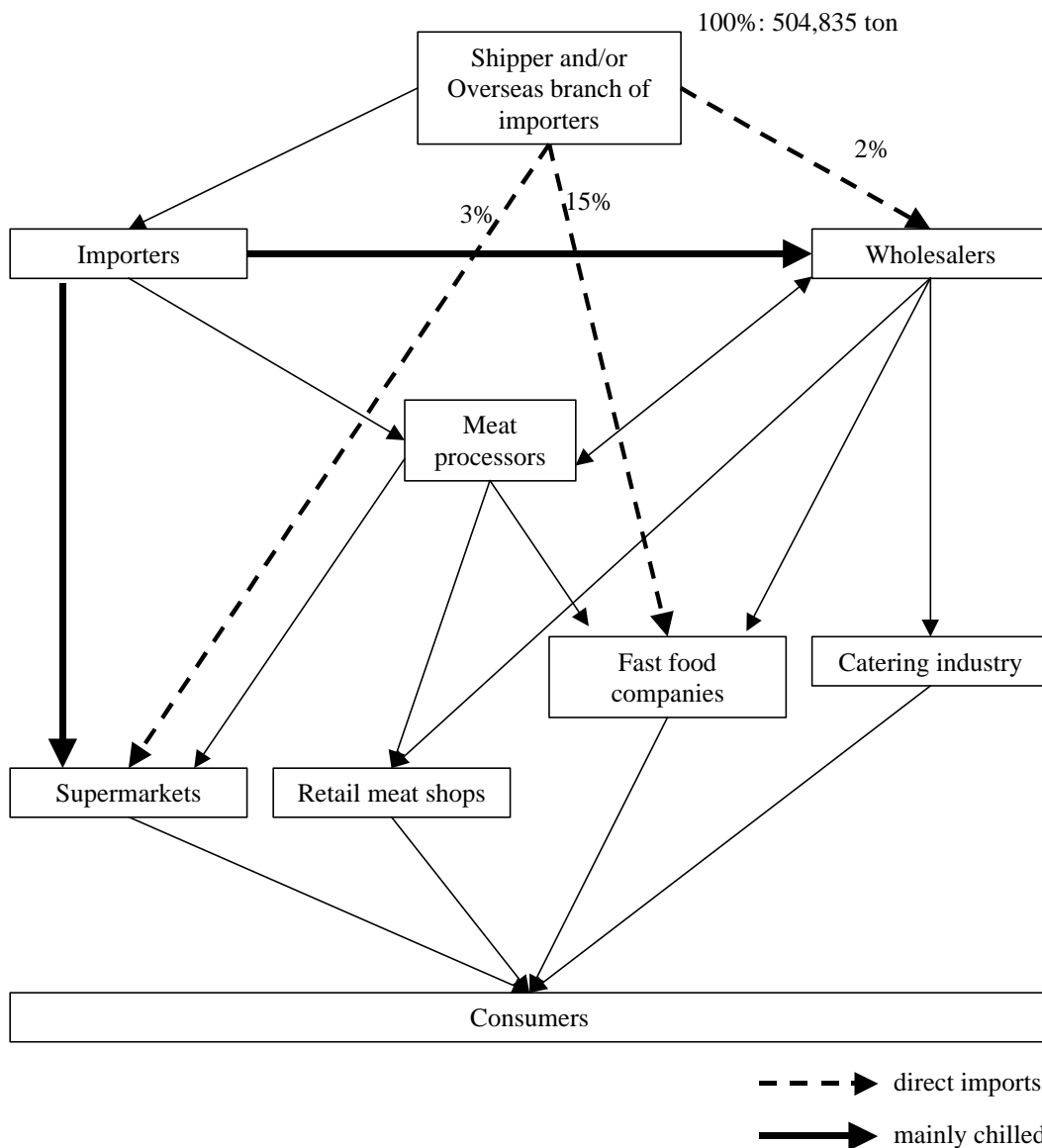


Figure 8.4 Distribution structure of imported pork
 Source: Japan Meat Trade Research Centre.

Processed meat products follow a different distribution route, which is shown in Figure 8.5. It should be noted that the large Japanese manufacturers in many cases deliver processed products directly to the retailers, since they have an extensive distribution network.

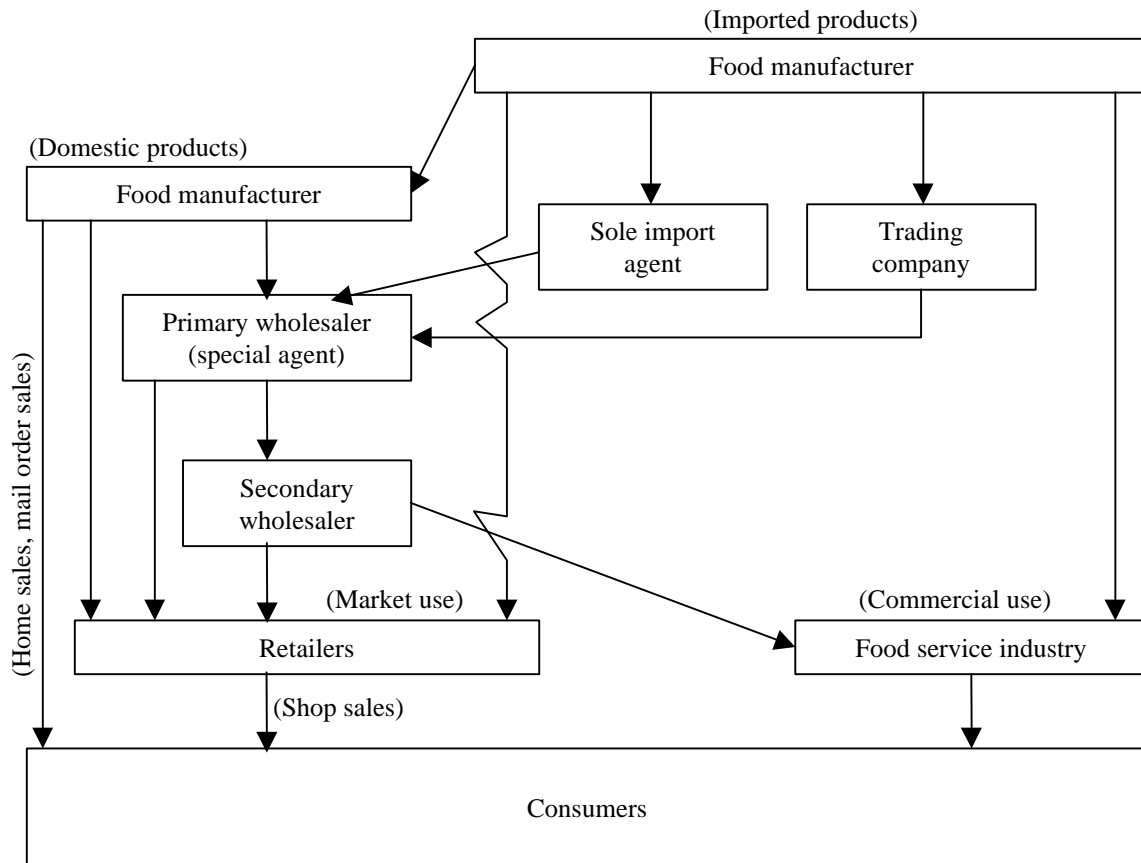


Figure 8.5 Distribution structure of processed meat products

Source: Mitsubishi Research Institute.

8.4.2 Direct importing

Due to the extensive distribution network of the large meat processors, they also play an important role in the distribution of imported pork. It was expected that after the liberalisation of the market for beef in 1991, retail chains would import more beef (and other meat) directly. However, interviewees mentioned that no drastic shift to direct imports occurred, because:

- inspection procedures are difficult, so that expert staff are required;
- retail chains have more flexibility to offer different products when they use importers. Since raw meat is rather standard, retailers can more easily import that directly. However, it is more difficult for processed products, since variety is large (and they wish to offer a large assortment in their outlets), but usually exporters require a minimum purchase quantity; and
- risks for a retail chain are high when they import directly. A typical Japanese phenomenon may play a role: in Japan, the manufacturer bears the risk of unsold retail products.

The most significant change in the distribution structure is the establishment of efficient distribution centres in order to reduce transportation and distribution costs.

8.5 Import structure

8.5.1 Present import regulations¹

Customs duties for pork are based on import prices. A so-called 'Minimum Import System' was introduced in 1971. Under this system, there are minimum import prices, so that it is not possible to import below the standard import price. Below, this system is briefly explained².

A fixed customs duty rate (4.4%) applies for pork imported at CIF-prices higher than the gate price (CIF; JPY 536.14). Pork imported at the gate price (CIF) will also be taxed for 4.4%, resulting in a price of JPY 559.73 (i.e. CIF plus duty), which is called the standard import price. For pork imported at a CIF-price lower than the gate price, a differential duty applies. The differential duty will be set at such a level that the price (i.e. CIF plus duty) will become equal to the standard import price.

The Uruguay Round Agreement contains a provision calling for a reduction in standard import prices and lower tariffs in 2000. However, signatories are authorised to raise these rates in the event of a rapid increase in imports. The last time Japan applied this measure was in 1997 (until 30 June). It is called the safeguard clause. In practice it works as follows. Per quarter of a year the volume of exports cannot increase by over 19% in relation to the average volume of the same quarters in the past three years. If it does, MAFF increases the minimum import price by almost 24%. In the second, third and fourth quarters of a year, the cumulated volume is used for this calculation.

The above-mentioned prices apply to a freight container. Customs does not differentiate between the various meat products (of different quality and price) in the container. In general, Japanese customers only demand high quality cut meat products, like belly, loin and collar. In order to keep the average price of meat in the particular container low, exporters and importers agree to put both the desired higher quality pork and 'unnecessary' pork parts in one container. The latter is sold at a very low price to processors.

8.5.2 Present import system

The large trading companies are members of the Japan Meat Traders Association. The major share of imported pork (both frozen and chilled) used to be imported by members. Recently, however, the major share of pork is imported by non-member companies via a back-door route. It means that the Japan Meat Traders Association has no influence over these imports.

¹ Sources: Office of the Agricultural Counsellor in Tokyo, and *Agro-Trade Hand Book 1998* (p. 87).

² Prices and rates in this example refer to cut meat per kg in fiscal 1999. For carcasses, the rate is the same and the gate price is JPY 402.10.

8.5.3 Expected future import regulations

Preferences for future import regulations after 2001 differ among the various parties concerned. There are two basic options, namely:

- continuation of the present minimum import system (with or without a safeguard clause); and
- change to a fixed duty system (with or without a safeguard clause).

If a fixed duty system will be proposed, the tariff rate will be relatively high (at least during the first years), but tariff rates will gradually decline. Another consequence of a fixed duty system is that back-door route imports will diminish.

The various parties concerned, including MAFF, have not yet taken in an official position. Some of the different parties' considerations and arguments, which will probably influence their definite official standpoint, are presented below.

MAFF

The liberalisation of beef imports has led to a decline of domestic cattle production. MAFF will probably be reluctant to put the pig producers in the same situation. Therefore, they will opt for continuing the present minimum import system. In case they will choose for a fixed duty system, the rate must be very high. Note that the fixed import duty for beef in fiscal 1999 is 40.4%.

Specialised meat import companies and large processing companies

Continuation of the present minimum import system may be more desirable to the specialised meat import companies and the large processors. Several of the arguments are:

- due to their long experience and expert staff, these companies have a competitive advantage working under the present rather difficult import system. If it will be simplified, their expertise may not be necessary anymore, so that their position will weaken;
- since containers hold a mixture of meat products under the minimum import system, processors can buy pork (for processing) at a low price; and
- it is still very uncertain how high the tariff rate will be, if MAFF will opt for the fixed duty system. Continuation of the present system will have less uncertain factors.

These companies experience that the safeguard clause causes confusion and high inventory levels. It is imaginable that they would like to see the safeguard clause abolished (but maintain the minimum import system).

Especially the members of the Japan Meat Traders Association may object less to shifting to a fixed duty system. They may even favour a different system, because it will improve their market position by diminishing back-door route imports.

General trading companies

General trading companies import pork, but have less expertise and experience than the specialised meat importers and processors. A fixed duty system will, in general, be more favourable to these companies. It will enhance fair trade and diminish imports via the back-door route. On the other hand, it can affect their business activities negatively, since large clients, such as retail chains, may import more pork directly and need not use their services anymore.

USA

The objective of the USA is changing the present minimum import system into a fixed duty system.

Retail chains

Supermarket chains would like the present system to change. Their principal arguments are:

- they are no experts in the present complicated import system; and
- in the present system they can only import freight containers holding a mixture of pork products. Another system will enable them to import the particular cuts and meat products they really wish to have.

8.5.4 Extermination of swine fever

Japan is taking measures to be able to declare itself swine fever free in October 2001. Already several prefectures have stopped vaccination against swine fever and vaccination will have stopped in all prefectures as of October 2000. Japan will also require countries exporting to Japan to be swine fever free. It will be of great consequence for South Korea and Mexico in particular.

8.6 Conclusions

In spite of the economic situation and the opinions of several experts, statistical data show that per capita consumption of both beef and pork has not significantly decreased from 1990 until 1997.

The product category 'pork' refers to three types of products: chilled pork, frozen pork and processed pork products. Japanese consumers prefer fresh meat, so that in principle only (imported) chilled pork qualifies for cut pork products in retail shops. However, defrosted retail cuts are sometimes sold as well. Chilled pork can only be supplied by countries relatively close to Japan, because air transportation often is too costly.

The major supplier of frozen pork is Denmark. Japanese processing companies – they also import – are the principal buyers. Since they dislike being dependent on one company

from one country, they are looking for other suppliers. Traditionally, the Japanese processing industry aims at manufacturing low-priced products. Consequently, price is an important criterion for purchasing raw material. The present, complicated import regulations lead to low prices of raw material, which strengthens the processors focus on price. However, meeting the buyers' specifications still remains very important.

Processed pork products, like salami and other snacks, form another market segment. They are luxury, higher added value products. They are distributed through department stores and catering industry rather than through supermarkets. Japanese processing companies realise they need to differentiate their products and also start paying attention to this market segment. It means that they see room for new processed products.

Denmark has a strong image as a pork supplying country. It is a result of the Danish investments in brand equity and promotion, which started already many years ago. The Dutch image is less strong, and the Dutch flag as an indication of a product's origin may lead to confusion.

The largest Japanese meat processors are important players. Since they have an extensive distribution network, they also play a major role in the distribution of fresh meat and not only in the distribution of processed products. Direct imports by retail chains and catering industry occur, but they continue using the services of processors and importers. Partly due to their experience with the complicated import regulations, they can maintain this position.

Preferences for future import regulations after 2001 differ among the various parties concerned. None of them, including MAFF, has already taken in an official position. Pros and cons exist for both options, viz. continuation of the present minimum import price system or change to a fixed duty system. It remains to be seen which and whose arguments weigh most heavily.

8.7 Sources

In Japan, interviews were held with representatives of different companies (specialised import companies, general trading companies, manufacturers, wholesale companies and supermarket chains), umbrella organisations and research centres. The topics of the interviews were the supply chain and consumer developments in general and the different product groups in particular. In addition to interviews on the general topics, in-depth interviews related to pork were held with a speciality food products trading company, two general trading companies, a national supermarket chain, a national voluntary supermarket chain, a regional supermarket chain, a processors' umbrella organisation and a meat trade research centre.

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Appendix 1: classification of retail categories

Type of store	Self-service a)	Merchandise line b)	Sales floor area	Business hours	Remarks b)
<i>1. Department store</i>					
- large department store	no		3000m ² and over (6000m ² and over in ku-area in Tokyo and 11 largest cities)		sales of each line 'clothing', 'food' and 'living related goods' are no less than 10% and no more than 70% of the total store sales; employees are 50 or more
- conventional department store			under 3000 m ² (under 6000 m ² in ku-area in Tokyo and 11 largest cities)		
<i>2. General supermarket</i>					
- large general supermarket	yes		3000m ² and over (6000m ² and over in ku-area in Tokyo and 11 largest cities)		
- conventional general supermarket			under 3000 m ² (under 6000 m ² in ku-area in Tokyo and 11 largest cities)		
<i>3. Speciality supermarket</i>					
- clothing supermarket	no	sales of 'clothing' are 70% or more of the total store sales	250 m ² and over		
- food supermarket		sales of 'food' are 70% or more of the total store sales			
- living related supermarket		sales of 'living related goods' are 70% or more of the total store sales			
<i>4. Convenience store</i>					
- open 24 hours CVS	yes	Sales of 'food'	30 m ² and over ~ under 250 m ²	more than 14 hours 24 hours	
<i>5. Other supermarket</i>					
- general store	yes	sales of 'clothing', 'food' or 'living related goods' are less than 50% of the total store sales			self-service store not classified by type 2 to 4 employees are under 50
<i>6. Speciality store</i>					
- clothing speciality store	no	sales of 'clothing' are 90% or more of the total store sales			
- food speciality store		sales of 'food' are 90% or more of the total store sales			
- living related speciality store		sales of 'living related goods' are 90% or more of the total store sales			

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7. <i>Sub-speciality store</i>			
- clothing store		sales of 'clothing' are 50% or more of the total store sales	
- food store	no	sales of 'food' are 50% or more of the total store sales	except store classified by 6 and 8
- living related store		sales of 'living related goods' are 50% or more of the total store sales	
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8. <i>Miscellaneous retail store</i>			
- general store	no		non-self-service store not classified by 1, 6 and 7
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a) Self-service means that more than 50% of selling area is operated by self-service; b) Definitions of 'clothing', 'food' and 'living related goods' are in accordance with the Census of Commerce. 'Clothing': dry goods, and apparel and accessories; 'food': beverage and seasoning, meat and poultry, fresh fish, dry food, vegetables and fruits, confectionery and bakery, rice and other cereals, miscellaneous food and beverage; 'living related goods': motor vehicle and bicycle, furniture, fixture and home furnishing, and miscellaneous living related goods.

Source: Census of Commerce 1997¹.

¹ The data originates from the Census of Commerce from the Ministry of International Trade and Industry. It is published in Distribution Economics Institute of Japan (1999, p. 48).

Appendix 2: addresses

This research project was commissioned by the Ministry of Agriculture, Nature Management and Fisheries and it was carried out by the Agricultural Economics Research Institute (LEI). The following persons can be contacted for further information:

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