USDA Foreign Agricultural Service
GAIN Report
Global Agricultural Information Network

Required Report - public distribution

Date: 10/13/2011
GAIN Report Number: JA1043

Japan

Potatoes and Potato Products Annual

Increased Market Access Leads to Record Sales of U.S. Fresh and Frozen Potatoes to Japan

Approved By:
Jennifer Clever

Prepared By:
Kenzo Ito, Jennifer Clever

Report Highlights:
During MY2010/11, the United States secured a one-month extension in Japan's allowable shipping season and the approval of an additional chipping plant. Washington State began shipping potatoes to Japan. As a result, Japan became the third largest export destination for U.S. fresh potatoes. In addition, Japanese imports of U.S. frozen non-fried potato products nearly tripled and positioned the United States as Japan's chief supplier. Despite expected improvements in Japan's potato crop, Japanese food manufacturers' plan to continue outsourcing signal more opportunities for U.S. potato exports.

Commodities:
Potato Products, Frozen, and dehydrated

Fresh Potatoes

Fresh Potato Data:

Fresh Potatoes		Market Year Begin: July 2009 MY2009/10	Market Year Begin: July 2010 MY2010/11	Market Year Begin: July 2011 MY2011/12
Area Planted (HR)	**Total Area**	**83,120**	**82,300**	**81,300**
	For Fresh Market	24,940	24,700	24,400
	For Processing	58,180	57,600	56,900
Area Harvested (HR)	**Total Area**	**83,120**	**82,300**	**81,300**
	For Fresh Market	24,940	24,700	24,400
	For Processing	58,180	57,600	56,900
Production (MT)	**Total Production**	**2,458,700**	**2,283,400**	**2,466,000**
	For Fresh Market	737,600	685,000	740,000
	For Processing	1,721,100	1,598,400	1,726,000
Consumption (MT)	**Total Consumption**	**2,000,700**	**1,856,600**	**2,008,000**
	For Fresh Market	600,200	557,000	603,000
	For Processing	1,400,500	1,299,600	1,405,000

Source: MAFF

MY2011/12 data is estimated by Post

Breakdown for fresh market and for processing is estimated by Post

** Area measured in hectares*

 # Production and consumption measured in metric tons

Production

Hokkaido, Japan's northernmost island, is Japan's major potato producing region, accounting for 77 percent of nation's total output in 2010. Hokkaido's cool temperatures and large-scale agriculture land provide suitable conditions for potato production. Potatoes in the Hokkaido region are usually planted in late spring, after the ground has thawed, and harvested in September and October. Many of Hokkaido potatoes are kept in stocks and are available in the market through the following spring.

Honshu, the main island of Japan, and Kyushu, its southernmost island, also produce potatoes. Potatoes in Honshu and Kyushu are largely planted in the spring and harvested from April through August. These potatoes are mainly sold fresh as soon as they are harvested.

As anticipated by traders and growers, in MY 2010/11 Japanese production of fresh potatoes dropped by 7 percent from last season. The Ministry of Agriculture, Forestry and Fisheries (MAFF) reports that Japan produced 2.28 million metric tons of fresh potatoes from a total crop area of approximately 82,300 hectares. The planting area was down about 1 percent from the previous season and consistent with the annual declining trend. The average yield also lowered by about 6 percent to 28.1 metric tons

per hectare, a smaller decline compared to last year. In MY 2010/11, the Hokkaido region produced 1.75 million metric tons, down approximately 7 percent from the previous season.

According to the Hokkaido potato growers Association, Hokkaido experienced heavy rain falls in the spring which delayed seed planting. However, this year the return of milder summer weather provided ideal growing conditions during key developing months (June-July). As a result, Japanese potato growers expect the MY2011/12 crop to yield bigger and higher quality potatoes and for production to recover from last season. Last year's record high temperatures during the summer months yielded the worst potato crop in recent years. Hence, post estimates that in MY 2011/12 Japanese potato production will recover slightly at 2.46 million metric tons, up 8 percent from the last season, but still 3 percent down from the five-year average. It is important to note that while growers are expecting a modest recovery in the overall potato production, Japanese chipping manufacturers are not as optimistic about the future availability of domestic potatoes for processing.

Consumption

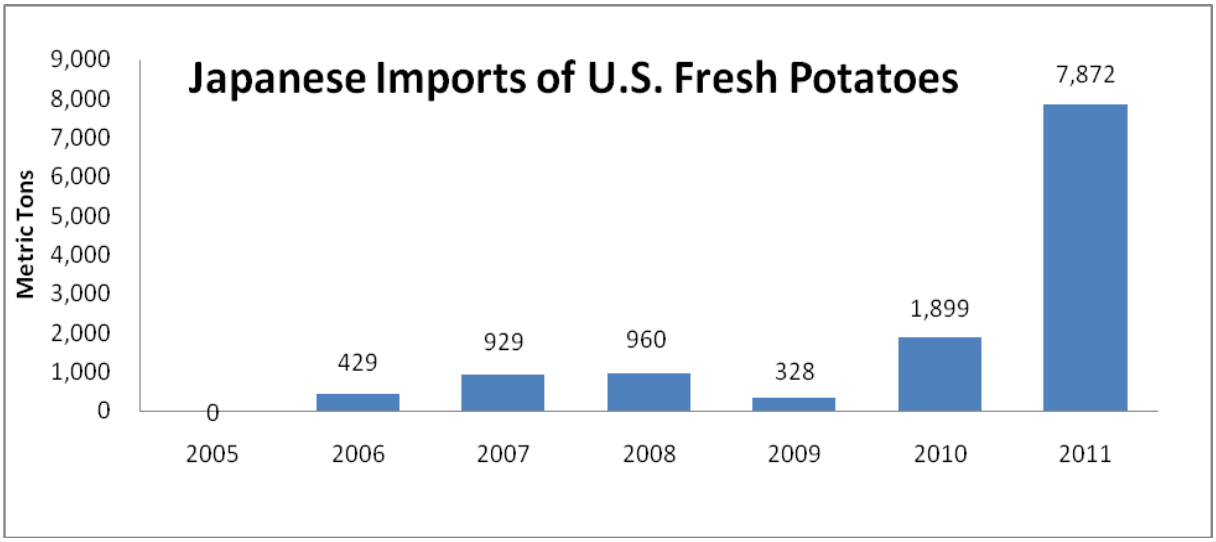
The Ministry of Internal Affairs and Communications (MIC) reports that in CY 2010, Japanese household consumption of fresh potatoes lowered by 6 percent to roughly 10.8 kilograms per year, with an average expenditure of about $35.60* (2,720 yen) per year. With no imports of fresh potatoes available at the market and a limited domestic supply, prices for fresh potatoes rose about 13 percent (yen/100kg prices) significantly discouraging consumption.

According to the Ministry of Agriculture, Forestry and Fisheries (MAFF), in CY 2009, 30 percent of nation's potatoes were consumed fresh, 64 percent were used as an ingredient in the food processing sector and 6 percent were used as seeds. Within the food processing sector, 47.2 percent of potatoes went to starch makers and 16.8 percent went to food manufacturing such as potato chips and frozen potato processors.

A relatively large volume of Hokkaido production goes to starch makers and food processors, 61.7 percent and 18.7 percent, respectively. Only 13.7 percent of production is sold at fresh markets. Japanese potato chip manufacturers utilize a total of 310,000 – 340,000 metric tons of fresh potatoes annually. Japan's largest potato chip manufacturer alone, already planning to expand capacity, already consumes roughly 240,000 – 250,000 metric tons of fresh potatoes every year.

** The 76.40 yen per dollar exchange rate is based on a Nikkei News quote from September 27, 2011.*

Trade – Imports



Source: Global Trade Atlas

** 2011 imports are the total of imports from February to July, while imports for all other years are the total of imports from February to June.*

In 2011, Japan became the third largest market destination for U.S. fresh potatoes, a significant jump after ranking ninth in 2010. This year, Japanese imports of fresh potatoes from the United States set a second record high, quadrupling to 7,872 metric tons from the previous year (1,899 metric tons). Japanese imports of U.S. fresh potatoes started in 2006 after the Japanese government allowed limited importation of U.S. fresh potatoes for potato chip manufacturing.

This season's astonishing increase in U.S. fresh potato imports, valued at $5.3 million (CIF basis), is largely due to the U.S. successfully securing a one-month extension in Japan's allowable shipping period (usually February to June). In fact, about 50 percent of this season's potatoes were imported during the extended month (July) which boosted this season's total potato sales (see policy section). Japan imported 3,767 metric tons of U.S. fresh potatoes in the month of July alone, valued at approximately $2.2 million (CIF basis). In addition, the U.S. gained MAFF's approval for an additional chipping plant in Kagoshima to import and process U.S. potatoes. Finally, this season the state of Washington became the second U.S. state, along California, cleared to ship U.S. chipping to Japan (see policy section).

Japanese chip manufactures state that from February through May 2011, Japan imported 3,230 metric tons of stocked potatoes from the State of Washington's 2010 crop. From June to July, Japan imported 4,642 metric tons of fresh potatoes from California's 2011 crop. All of the Washington potatoes and about half the tonnage from California were processed at the Hiroshima plant. Roughly 2,257 metric tons of California potatoes were processed at the newly approved plant in Kagoshima.
With now two chipping plants approved to process U.S. potatoes, two U.S. States cleared to ship potatoes to Japan, and the one month extension, Japanese chippers are already looking to increase their U.S. sourcing. While, Japan's poor crop last season provided an impetus for Japanese manufacturers to

increase their outsourcing, improvement in this season's crop is unlikely to satisfy Japan's additional chipping capacity. As mentioned earlier, despite the expected improvements on next season's crop, Japanese chipping manufacturers are not optimistic about the availability of domestic supplies for processing. Hence, traders are planning accordingly and indicating strong intentions to enhance outsourcing efforts. Moreover, the solid relationships between U.S. suppliers and Japanese manufacturers signal that Japanese imports of U.S. potatoes will continue to expand.

Trade – Exports

Japanese exports of fresh potatoes are extremely small, as domestic production is only large enough to partially satisfy local demand.

Policy

Currently, fresh potatoes are allowed to import from the United States, strictly for chip manufacturing. Under the protocol established in 2006, 14 U.S. states are eligible with limited access to the Japanese market. These are the states of Idaho, Arizona, Wisconsin, Oregon, California, Colorado, Texas, New Mexico, North Dakota, Florida, Michigan, Minnesota, Main, and Washington. However, fresh potato shipments from the state of Idaho have been banned since the finding of potato cyst nematode in Idaho in April 2006. While 13 U.S. states are eligible to ship fresh chipping potatoes to Japan, only fields in the State of California had been designated to ship since the market opened in 2006. However, in 2010 after much negotiations and a successful MAFF inspection, fields in the State of Washington were designated to ship to Japan. In February 2011, the first shipment of Washington State potatoes arrived in Japan. The addition of Washington State as an active supplier contributed $2.7 million (CIF basis) in U.S. potato sales.

Despite the recent success in moving policy issues forward, Japanese import protocol procedures for potatoes remain costly and strict. Nonetheless, building on a successful shipping season, USDA (FAS and APHIS) continues to work with the U.S. potato industry and with Japanese chip manufacturers to further increase market access for U.S. potatoes. A continuing challenge will be greater and more vocal opposition by the domestic industry.

Current successes and ongoing efforts include the following:

MAFF approves a one-month extension to Japan's allowable shipping period: Under the protocol established in 2006, Japanese industry had access to U.S. fresh potatoes from February 1 to June 30. Until last year, the Japanese industry imported new crop potatoes from California in May and June. However, weather conditions would usually delay harvest rendering this limited time frame impractical. Beginning in late 2010, the United States requested the government of Japan to extend the existing shipping period by one month to the end of July. After multiple public and private sector interventions, MAFF officially granted the one-month extension on July 1, 2011 just in time for this shipping season. Working together with Japanese chipping manufacturers, USDA and U.S. potato

exporters led MAFF to recognize the economic benefits of extending the import period in response to the season's short domestic supply. This one-month extension translated into $2.2 million worth of U.S. potato sales to Japan. Now that Washington State is shipping to Japan, both U.S. industry and Japanese manufacturers are interested in pursuing and additional one-month extension at the beginning of the allowable shipping period (to include January).

MAFF approves an additional chipping facility in Kagoshima: Under the 2006 protocol, only one port-area facility in Hiroshima was approved to import and process U.S. fresh chipping potatoes. Since then, USDA, the U.S. potato industry, and Japanese chip manufacturers have petitioned for MAFF's approval of additional chipping plants. Beginning in 2010, Japan's largest chipping manufacturer seeking to expand operations made a strong push for MAFF to also approve its newest port-area chipping facility in Kagoshima to process U.S. potatoes. USDA supported this request through bilateral discussions and letter exchanges. In May 2011, MAFF conducted a series of meetings with the local potato industry, explaining the possible implications of approving the chipping facility in Kagoshima. Finally, in June 2011, MAFF approved a second port-area facility to import U.S. fresh potatoes for chipping. In 2011, the approval of the additional plant increased chipping capacity, and thus doubled imports of California potatoes to Japan.

In-land transportation: According to the 2006 import protocol, MAFF does not allow in-land transportation of U.S. potatoes from the port to chipping facilities citing phytosanitary concerns. Hence, only port-area chipping facilities are able to be approved to import and process U.S. potatoes. Unlike the Hiroshima facility, the Kagoshima port (where the newly approved facility is located) is a local port that is unable to handle large-scale vessels and does not have electricity for refrigeration. Hence, U.S. potatoes need to be loaded into smaller vessels at the nearest port (Shibushi) approximately 100 kilometers east of Kagoshima. Once the smaller vessels are loaded, the travel time takes about 8-9 hours. This process is extremely inefficient and costly. More concerning is the impact that the lengthy travel time without refrigeration has on the quality of the potatoes. Japanese chipping manufacturers have requested MAFF to allow in-land transportation (by truck) from the Shibushi port directly to the chipping facility. The Shibushi port has the capacity to handle containerized cargo and is equipped with electricity that would allow potatoes to remain refrigerated. In addition, the shorter in-land travel time would minimize the risk of quality deterioration. Once again, USDA, in coordination with U.S. potato suppliers, has supported this request in multiple occasions. Although MAFF initially signaled to both Japanese manufacturers and USDA that in-land transportation could be a possibility, MAFF has since caved in to domestic pressures and recently stated the need for a pest risk assessment. The United States will continue its negotiating efforts with Japan to allow in-land transportation.

Seeking approval for additional states and reinstatement of Idaho as eligible shipper: The United States is requesting that Japan approve Montana seed potatoes to be used to grow chipping potatoes in the approved states. Montana was not one of the 14 original states approved to ship potatoes to Japan. Similarly APHIS is also requesting that the state of Nevada, not currently an eligible state, be approved

to ship to Japan. These efforts are in response to the increased interest among U.S. potato industry and Japanese manufacturers to begin using Nevada potatoes and sourcing Montana seeds during the 2012 season. In addition, the United States continues negotiations with Japan to reinstate Idaho as an eligible shipper. Japan is the only market worldwide that still maintains a prohibition on the entire state of Idaho.

MAFF inspectors examine U.S. potatoes at the Kagoshima Port (July 2011)

21 Containers of U.S. potatoes rejected due to findings of potato tuber worm: On June 29, 2011, 21 containers of U.S. chipping potatoes were rejected at the Hiroshima port due to the detection of potato tuber worm during a MAFF import inspection. The handling of tuber worm is not covered under the 2006 import protocol, thus MAFF followed regular plant quarantine procedures. While only one potato tuber worm was found, all containers were rejected since the importer requested only one inspection for the whole lot of 21 containers. Industry sources report that the rejected 21 containers were re-shipped to a subsidiary company in Asia. To avoid further problems, the importer plans to request inspection for smaller lots in future shipments. Incidentally, as part of a scheduled revision, MAFF removed potato tuber worm from its quarantine pest list on September 11, 2011.

MAFF temporarily suspends import inspections due to soil contamination in U.S. fresh potatoes: On July 14, 2011 MAFF temporarily suspended its import inspections for U.S. chipping potatoes due to soil findings on U.S. fresh potatoes. In response, APHIS immediately conducted an investigation and presented MAFF with the possible causes for the soil contamination and their mitigation measures. On July 21, 2011, MAFF accepted these measures and lifted the suspension of import inspections of U.S. potatoes. According to industry sources, the rejected containers were redirected to a subsidiary company in Asia. After this incident, all subsequent shipments successfully passed import inspections.

Marketing

In MY 2010/11, Japan made a record import of U.S. fresh potatoes (7,872 metric tons), since Japan started importing from the United States in 2006. In the early stage of Japanese imports of U.S. fresh potatoes, Japan's average import was only 661 metric tons annually, since Japanese chip manufacturers were unfamiliar with the quality characteristics of U.S. potatoes. Working collaboratively with Japanese chip processors, U.S. potato exporters have successfully supplied higher quality potatoes, providing suitable potato varieties and successfully meeting the needs of Japanese manufacturers. Japanese industry reports that the production yield of U.S. potatoes was reasonably high (the rejection rate of U.S. potatoes was reasonably small).

In addition, the yen appreciation against the U.S. dollar (34 percent between August 2007 and August 2011) has significantly contributed to the increased demand for U.S. potatoes. Japan's multiple year declining trends in potato productions has also encouraged Japanese chip processors to look for sources in the United States.

Last season, anticipating extremely low yields and seeking to stabilize potato supplies in the future, Japanese chip manufacturers actively looked for additional U.S. suppliers within and beyond California. The U.S. potato industry has been working very closely with Japanese manufacturers through reverse trade missions and other multiple activities to assist them in testing new potato varieties and expanding their foreign purchases. This year, these efforts paid off as Japanese importers report that the quality of the Washington State potatoes effectively met the needs of Japanese chipping manufactures which later contributed to the increase in U.S. sales.

Different from California potatoes, which are shipped fresh, Washington state potatoes are stored potatoes. Given that Japanese chip manufacturers were able to successfully utilize storage potatoes opens a great deal of opportunities for U.S. chipping potatoes in this market. So far only one Japanese manufacturing company is importing which indicates the potential that the Japanese market still holds for U.S. chip-stock sales.

In May 2011, Japanese Nikkei News reported that last season's domestic fresh potato shortage forced snack makers devoted to using domestic produce to find solutions abroad. A Japanese snack maker, for example, decided on emergency imports of potato chips manufactured at its subsidiary companies located in Australia and Hong Kong. That said, the strong partnership between U.S. suppliers and Japanese manufacturers and the favorable exchange rate will continue to place the U.S. in the best position to satisfy Japan's increased chipping capacity.

Imported chips are made in Hong Kong (left) and Australia (right)

Japan: Import Duties 2011

Tariff Code (HS)	Description	Duty Rate (%)*
0701.90	Fresh potatoes	4.3%

Source: Customs Tariff Scedules of Japan 2011

** all duties are charged on a CIF basis*

Japan: Imports of fresh potatoes (Quantity) HS: 0701.90

Marketing year: July-June / Quantity in metric tons

	MY 2007/08	MY 2008/09	MY 2009/10	MY 2010/11
Beginning month of marketing year:	July/07	July/08	July/09	July/10
World	**962**	**328**	**1,900**	**4,318**
United States	960	328	1,899	4,105
Market share:	*100%*	*100%*	*100%*	*95%*
China	2	0	1	205
All other	0	0	0	8

Japan: Imports of fresh potatoes (Value) HS: 0701.90

Marketing year: July-June / Value in thousands of U.S. dollars

	MY 2007/08	MY 2008/09	MY 2009/10	MY 2010/11
Beginning month of marketing year:	July/07	July/08	July/09	July/10
World	**513**	**176**	**1,115**	**3,401**
United States	511	176	1,113	3,169
Market share:	*100%*	*100%*	*100%*	*93%*
China	2	0	2	200
All other	0	0	0	32

Wholesale Price Table

Japan: Fresh Potato Wholesale Prices

Domestic (Yen/KG)		
	2010	2011
January	¥125	¥139
February	¥126	¥148
March	¥143	¥186
April	¥189	¥230
May	¥179	¥218
June	¥193	¥170
July	¥168	
August	¥146	
September	¥143	
October	¥145	
November	¥144	
December	¥139	

Source: MAFF

Frozen Potato Products

Frozen Potato Data:

Frozen Potato Products	Market Year Begin: July 2009 **MY2009/10**	Market Year Begin: July 2010 **MY2010/11**	Market Year Begin: July 2011 **MY2011/12**
Beginning Stocks	0	0	0
Production	35,546	33,943	34,000

Imports	328,882	358,206	370,000
Total Supply	**364,428**	**392,149**	**404,000**
Exports	295	407	400
Domestic Consumption	364,133	391,742	403,700
Ending Stocks	0	0	0
Total Distribution	**364,428**	**392,149**	**404,100**

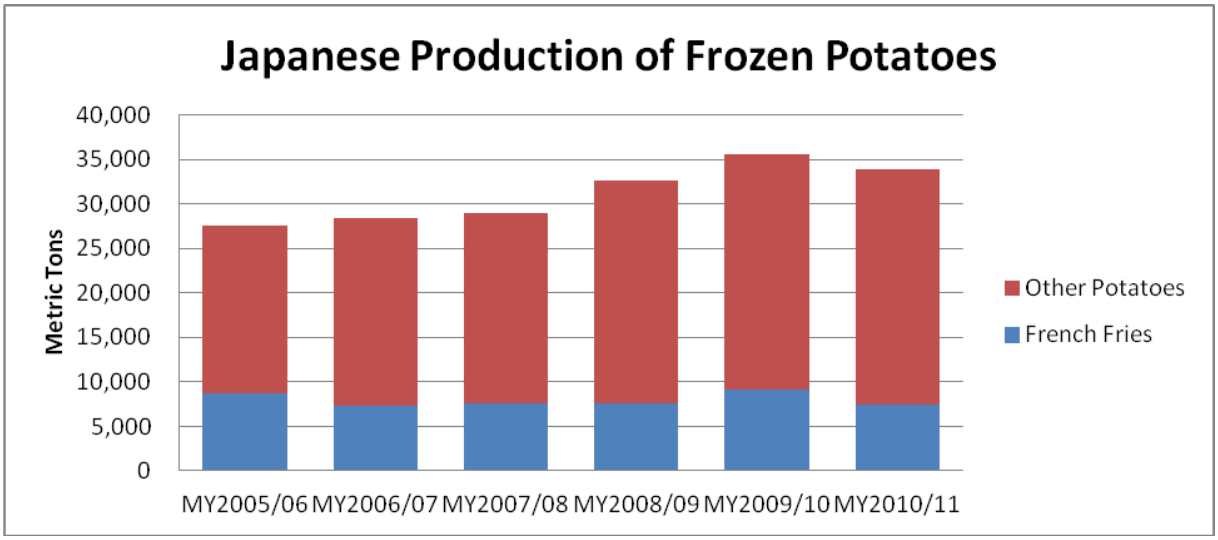
Source: Japan Customs, Japanese Potato Industry

** Trade data is based on HS 0710.10 and HS 2004.10*

*** MY2011/12 data: Post estimates*

 # Production, consumption, imports and exports measured in metric tons

Production



Source: Japan Frozen Food Association

According to the Japan Frozen Food Association, in MY 2010/11 the Japanese production of frozen food products was 33,943 metric tons, down approximately 5 percent from the previous season. Last season's record low production in domestic fresh potatoes (a 7 percent decline from the previous season) prompted the decline in frozen potato production. Demand for domestic products has been increasing since the Chinese food poisoning scandal in 2008. Already constrained by high production costs, shortages in domestic potato supplies increased input prices and slowed frozen production more than expected. While post initially anticipated frozen production to continue on an upward trend, lower crops simply fell short in satisfying the increasing industry demand. Industry sources expect Japanese fresh potato production to recover in MY 2011/12 but it is still expected to be lower than average. Hence, post estimates domestic frozen potato production to hold at 34,000 metric tons in MY 2011/12.

The majority of domestic frozen potato products are used for croquettes and potato salad manufacturing. The production of frozen French fries is minor, approximately 22 percent of the total domestic frozen production compared to 26 percent last year. In MY 2010/11, Japanese production of frozen French fries decreased by 18 percent to only 7,499 metric tons. Production of other frozen potatoes slowed

somewhat for the first time since MY2008/09 when the Chinese food poisoning scandal impelled demand for local supplies.

Consumption

According to Japanese industry sources, the majority of frozen potato products are consumed as French fries at quick serve restaurants (QSRs) or fast food chains such as McDonald's, Kentucky Fried Chicken, Moss Burger and Lotteria. McDonald's is by far the largest user of frozen French fries, consuming almost a half of the total Japanese imports of frozen French fries (120,000 – 130,000 metric tons annually). Kentucky Fried Chicken, Moss Burger and Lotteria also consumes significant amount of frozen potatoes at their nationwide outlets. Japanese consumption of frozen potato products is closely tied to the performance of QSRs. Under Japan's stagnant economy, QSRs remain fairly popular as Japanese continue to look for lower-priced menus.

In addition, Japanese industry sources report that the age groups who favor visiting QSRs and eating hamburgers are expanding to include older generations. Typically in Japan, hamburgers have been commonly favored by younger generations. QSRs and hamburger sandwiches were introduced in Japan for the very first time about 40 years ago, generations who grew up eating hamburgers is now reaching middle age. As this generation gets older, hamburger consumption will expand to include older generations. This expansion will likely encourage greater consumption of frozen potato products.

Japanese convenience stores also sell a fair amount of frozen potato products. Convenience stores set full size fryers in the store and sell freshly fried potatoes to consumers. According to Nikkei News, there are approximately 45,000 convenience stores in Japan and many stores have already adapted the sales of freshly fried potatoes at their storefronts. Today, the sales of freshly fried potatoes at convenience stores are a significant contributor to Japanese sales of frozen potato products. Japan's largest convenience store chain, Seven-Eleven stores, has expanded the sales of freshly fried French fries nationwide and currently sells fries at over 10,000 stores. Similarly, the Lawson's and Family Mart convenience store chains also sell freshly fried potato products at their stores. Family restaurants and "Izakaya", Japanese style pubs, are also consumption hubs for frozen potato products. Responding to Japan's stagnant economy, "Izakaya" pubs offer side orders of fried potatoes at more affordable prices at less than $5 (200 yen to 300 yen).

Japanese Food Service Outlets Recover from the March 11 Earthquake

The Great Eastern Japan Earthquake, Tsunami, and nuclear power crisis (beginning on March 11, 2011) devastated QSRs and food service outlets in the northeastern Japan region. Many food service outlets became out of operation after the earthquake, but since then the Japanese food service industry has made a surprisingly quick recovery. According to Nikkei News, 264 McDonald's restaurants went out of operation immediately after the earthquake. However, by March 20, 2011, 95.5 percent of

McDonald's restaurants were operational nationwide out of a total of 3,700 outlets. According to McDonald's sales in during March 2011 were down by 7.3 percent compared to the same month last year. Still, sales in unaffected regions were up by 1.7 percent compared to the previous year. On April 27, 2011 McDonald's announced that 33 restaurants were still out of operation, of which 15 outlets were scheduled to be closed permanently due to their close proximity to the Fukushima Daiichi Nuclear Power Plant. Today, over 6 months after the earthquake, many Japanese QSRs and food service outlets have fully recovered from the earthquake and resume normal operations. As a result, there was no significant impact on the overall consumption of frozen potato products.

Trade – Imports

In MY 2010/11, Japanese total world imports of frozen potato products (including both French fries HS: 2004.10 and non-fried potatoes HS: 0710.10) were 358,206 metric tons, up 9 percent from the previous season. The total value of imports was approximately $443.9 million on a CIF basis. Over 90 percent of Japan's frozen potato imports are French fries. Recent successful sales in Japan's QSRs (Quick Serve Restaurants) and convenience stores significantly contributed to the upward trend in frozen potato imports. In addition, the strong yen continues to encourage imports of frozen potatoes (the yen appreciation against U.S. dollar was 10 percent between September 2010 and September 2011). Correspondingly, for MY 2011/12, post estimates Japan's total imports of frozen potato products to continue their upward trend and increase roughly by 3 percent to 370,000 metric tons.

Among all the categories of frozen potato products imported in Japan, the proportion of the non-fried potato category is still small at about 10 percent of the total frozen potato imports. Nonetheless, it is worth noting that in recent years the growth rate of imports in this category has been significant. Particularly in MY 2010/11, imports of non-fried frozen potatoes tripled over the previous year. The majority of this success can be attributed to the strong partnerships between U.S. potato exporters and Japanese manufacturers. Under this cooperative environment, Japanese partners have been increasingly receptive to ideas presented by the U.S. potato industry on the innovative applications of frozen potato ingredients. This has solidified the position of U.S. frozen potatoes suppliers in Japan's snack manufacturing sector and is now paving the way to increase U.S. supplier presence in Japan's food service sector.

Imports of Frozen French Fries HS: 2004.10

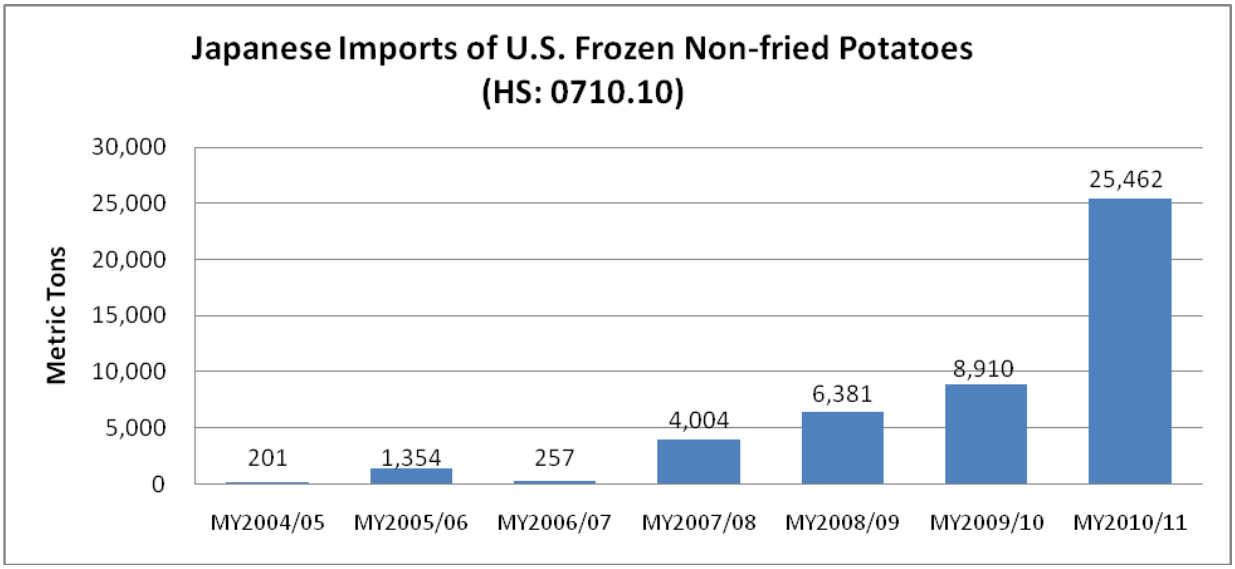
In MY 2010/11, Japanese imports of U.S. frozen French fries (HS: 2004.10) were 263,323 metric tons, an increase of approximately 2 percent from the previous season, and valued at approximately $325.1 million on a CIF basis. In the frozen French fry category, U.S. is by far the largest supplier to Japan. During the MY 2010/11, U.S. supplied approximately 81 percent of Japan's total imports of frozen French fries compared to 83 percent last season. Imports shares from Canada and Belgium increased somewhat to 12 percent and 6 percent respectively.

According to traders, Canada's largest frozen potato supplier has plants in both Canada and the United States. This gives the supplier the flexibility to ship its products from either the U.S. or Canada, and to take advantage of favorable exchange rates. In MY 2009/10, the Canadian company increased their product shipments from U.S. plants as shipments from Canadian plants lost their competitiveness. These operational changes were reflected in trade statistics as a slight increase in the share of imports from the United States. However, in MY 2010/11, the Canadian company resumed usual operations and began shipping more from Canadian plants. Correspondingly, trade statistics showed a 16 percent increase (to 32,455 metric tons) in Japanese imports from Canada.

Japanese imports of Belgium frozen French fries have increased steadily by about 20-25 percent over the past three seasons. In MY 2008/09, Japanese imports from Belgium jumped by 65 percent after the Chinese food poisoning scandal prompted Japanese importers to look for alternative suppliers. In MY 2010/11, Japan imported 16,270 metric tons of Belgium frozen potatoes, valued at $20.2 million on a CIF basis. According to industry sources, in 2010, Belgium frozen potato suppliers sold their products at significantly lower prices in order to expand their share of the Japanese market. In July 2010, the average CIF price for Belgium frozen French fries (HS 2004.10) was $1.04 per kilogram, approximately 18 percent cheaper than the competitive products from the United States ($1.27 per kilogram) or Canada ($1.22 per kilogram).

As Chinese Frozen French fries are generally sold at the retail level, where the source country can be identified, the 2008 food poisoning scandal has continued to temper Japanese demand for these and other retail Chinese food products. However, during MY2010/11, Japanese imports of frozen French fries from China showed the first sign of potential recovery, growing slightly for the second season by 6 percent to 2,444 metric tons. Nonetheless, import levels from China are still about 60 percent below the volume shipped prior to the 2008 food poisoning scandal.

Imports of Frozen Non-fried Potatoes HS: 0710.10



Source: Global Trade Atlas

In MY2010/11, Japan's world imports of frozen non-fried potatoes (HS: 0710.10) grew by an astounding 88 percent from the previous season to 34,386 metric tons, valued at $40 million (CIF) and the largest volume of imports on record. The jump is largely attributed to the reaction of Japanese manufacturers and traders to last season's reduced domestic crop and an overwhelming influx of imports from the United States.

Japanese imports of U.S. non-fried potato products nearly tripled to 25,462 metric tons from the previous year, valued at approximately $30 million (CIF). U.S. record sales to Japanese snack manufacturers following the successful development of a popular snack accounted for the leap. Additionally, a slightly stronger U.S. presence in the Japanese food service sector also contributed. In 2007, a Japanese snack food manufacturer developed a new product using U.S. frozen non-fried potatoes as an ingredient. Since then, reflecting the good sales of the product and its new varieties, Japanese imports of U.S. frozen non-fried potato products have skyrocketed. U.S. non-fried potato products are processed and frozen in U.S. plants; U.S. potatoes are blanched and cut into French fry potato shapes. Then, Japanese manufacturer turns them into crispy chips resembling French fries. Other types of U.S. non-fried potato products are blanched and cut into cube shapes in U.S. plants which the Japanese food service industry utilizes to prepare various menu items. Since last season, U.S. industry efforts to introduce innovative ways to utilize U.S. non-fried potato products in Japan's food service sector has started to pay off and may pave the way to greater U.S. sales in this sector.

The other key supplier to the Japanese market is China. While, the 2008 food scandal has negatively affected sales of Chinese frozen potato products at the retail level, the same has not been the case for imports of Chinese frozen (not fried) potato products. These Chinese imports are primarily destined for the Japanese food service industry where they are mixed with other domestic ingredients. As the origin of these imports then becomes unidentifiable to the Japanese consumers, demand has remained mostly

unaffected. In MY2010/11, imports from China slowed somewhat for the first time in four years. China's higher unit prices, about 8 percent higher this season, likely contributed to the slight deceleration.

According to Japanese industry sources, Chinese potatoes are blanched and cut into cube shapes at Chinese plants which then the Japanese food service industry uses to make various potato salad items. Potato salads are a very popular item at Japanese deli shops and supermarkets. While two global frozen vegetable companies have established frozen processing facilities in China and exports to Japan appeared imminent, this investment has yet to translate into increased Chinese sales to this market.

Until two seasons ago, China held the biggest share of the frozen (non-fried) potato market in Japan, followed by the United States. Last season, however, imports from the United States slightly surpassed China's for the very first time. This year, the U.S. became the largest supplier of frozen (non-fried) potato to Japan, supplying 74 percent of Japan's total imports. Imports from the U.S. and China are not typically considered to be in direct competition as they are not used for the same purpose. Imports from U.S. are mainly used for snack manufacturing and imports from China are directly used in the food service sector. That said, in MY2010/11 about 10 percent of imports from the U.S. reached the Japanese food service sector. With low domestic supplies, the Japanese food service sector tuned to U.S. imports and was more receptive to the introduction of new potato items. However, Japanese traders expect imports of Chinese frozen (non-fried) potatoes to continue growing and Japanese potato crops to recover. This would suggest a decreasing need for U.S. ingredients. Nonetheless, favorable reactions to new menu items using U.S. frozen potatoes signal further growth potential for U.S. sales in niche segments of Japan's food service sector (see marketing section).

Trade – Exports

Japan's exports of frozen potato products are very small. Japan exports around 400 metric tons to Taiwan, Singapore, Hong Kong, the Unites States and Australia, through local Japanese grocery stores.

Marketing

Under Japan's stagnant economy, Japanese consumers have become more price-sensitive. Quick serve restaurants (QSRs) or fast food restaurants have been performing well since Japanese prefer to choose lower-priced menu items over pricier ones. Japanese QSRs are the key users of U.S. frozen potato products. U.S. frozen French fry suppliers have earned a good reputation among their Japanese clients as they are able to provide a high quality product and a steady supply throughout the year.

In recent years, the sales of fried potatoes at convenience stores have been growing. Convenience stores set full size fryers in the store and sell freshly fried potatoes to customers. There are approximately 45,000 convenience stores in Japan and many stores have already adapted this system. In earlier years, European potato suppliers (Belgium and Germany) were the key suppliers to the convenience stores. Europeans targeted mediums size chain stores as their potato supplies are somewhat limited. Today, Japan's giant convenience store chains such as Seven-Eleven stores and Lawson's operate the sales of freshly fried potatoes at their stores. With 12,300 stores throughout Japan, Seven-Eleven requires bigger volumes and hence U.S. potato suppliers play an important role with their big supplying capacity. Similarly, Lawson's (around 9,500 stores) requires frozen potato products from the United States.

In 2007, a Japanese food manufacturer developed a snack food product using non-fried U.S. frozen potatoes (HS 0710.10). The sales of this product have been growing steadily since then and product development has expanded to include other flavors, thus imports of non-fried U.S. frozen potato products have increased significantly. As Japanese potato production remains in a declining trend, demand for non-fried U.S. frozen potato products as an ingredient in this type of products is expected to continue growing in the future.

A popular product using non-fried U.S. frozen potatoes

Non-fried frozen potato products are widely used by the Japanese food service industry. Japanese deli shops prepare potato salads using non-fried frozen potatoes as an ingredient. Family restaurants and "Izakaya", Japanese style pubs, also prepare their food menu items using non-fried frozen potato products. The large sales and popularity of "sozai" (prepared food purchased from the supermarket and department store) holds great potential for increasing sales of non-fried U.S. frozen potato products. Seizing this opportunity, the U.S. potato industry has expanded their outreach activities to different food distribution channels. Through their participation in the 2010 and 2011 Supermarket Tradeshows held in Tokyo, U.S. frozen potato exporters were able to showcase a range of new menu ideas targeting prepared food retailers.

Since then, two large Japanese retail chains are carrying U.S. frozen potatoes. In addition, the U.S. potato industry has worked with local pizza delivery companies and has been successful in getting them to carry alternative menu items using U.S. frozen potatoes. The new menu items have been reportedly well received among Japanese consumers.

The Japanese food service industry believes that Japan's frozen potato market has potential to grow. Given Japan's high quality and high safety standards, the United States is best-positioned to supply high quality frozen potato products and meet the needs of Japanese food manufacturers and retailers. While other suppliers are always looking for opportunities to expand their sales in this country, U.S. sales in MY2010/11 solidified the U.S. as a chief supplier. Targeting alternative segments in Japan's food service sector holds promise for continued expansion of U.S. sales of frozen potatoes in Japan.

Policy

Japan's testing for Coliform on U.S. Frozen Fries:

Japan applies a negative (zero) tolerance for coliform (a common microorganism) and requires coliform testing on U.S. frozen fries entering the country. The U.S. fry processing standards do not require a negative coliform result. The U.S. potato industry and, USDA worked closely with MHLW and discussed the usefulness of the testing requirements. In 2010, the U.S. secured an agreement with MHLW agreed with regards to the handling of coliform testing. Post has observed no trade disruptions since the agreement.

Tariff Table

Japan: Import Duties 2011

Tariff Code (HS)	Description	Duty Rate (%)*
0710.10-000	Frozen potatoes: Uncooked or cooked by steaming or boiling in water	8.5%
2004.10-100	Frozen potatoes: Cooked, not otherwise prepared (fried potatoes)	8.5%
2004.10-210	Frozen potatoes: Mashed potatoes	13.6%
2004.10-220	Frozen potatoes: Others	9.0%

Source: Customs Tariff Schedules of Japan 2011

** all duties are charged on a CIF basis*

Trade Data

Japan: Imports of frozen potato products - HS 2004.10 (Quantity)

Marketing year: July-June / Quantity in metric tons

	MY 2007/08	MY 2008/09	MY 2009/10	MY 2010/11
Beginning month of marketing year:	July/07	July/08	July/09	July/10
World	**302,175**	**308,496**	**310,599**	**323,820**
United States	241,711	253,482	258,864	263,323
Market share:	*80%*	*82%*	*83%*	*81%*
Canada	39,074	34,023	28,029	32,455
Belgium	6,607	10,886	13,059	16,270
New Zealand	3,658	3,506	4,069	4,045
Germany	2,155	2,425	2,018	2,568
China	5,972	2,191	2,311	2,444
Egypt	1,905	1,401	1,253	1,278
All other	1,093	582	996	1,437

Source: Global Trade Atlas

Japan: Imports of frozen potato products - HS 2004.10 (Value)

Marketing year: July-June / Value in thousands of U.S. dollars

	MY 2007/08	MY 2008/09	MY 2009/10	MY 2010/11
Beginning month of marketing year:	July/07	July/08	July/09	July/10
World	**319,704**	**372,954**	**380,091**	**403,766**
United States	253,362	305,985	314,529	325,119
Market share:	*79%*	*82%*	*83%*	*81%*
Canada	40,642	38,418	33,535	40,171
Belgium	7,380	12,966	15,616	20,164
New Zealand	3,747	4,300	4,824	4,813
Germany	2,986	3,193	2,763	3,238
China	7,672	5,527	5,306	6,039
Egypt	1,526	1,114	1,085	1,255
All other	2,389	1,451	2,433	2,967

Source: Global Trade Atlas

Japan: Imports of frozen potato products - HS 0710.10 (Quantity)

Marketing year: July-June / Quantity in metric tons

	MY 2007/08	MY 2008/09	MY 2009/10	MY 2010/11
Beginning month of marketing year:	July/07	July/08	July/09	July/10
World	**10,603**	**15,460**	**18,283**	**34,386**
United States	4,004	6,381	8,910	25,462
Market share:	*38%*	*41%*	*49%*	*74%*
China	6,060	8,409	8,822	8,231
Colombia	220	233	180	266
Vietnam	148	294	291	197
All other	171	143	80	230

Source: Global Trade Atlas

Japan: Imports of frozen potato products - HS 0710.10 (Value)

Marketing year: July-June / Value in thousands of U.S. dollars

	MY 2007/08	MY 2008/09	MY 2009/10	MY 2010/11
Beginning month of marketing year:	July/07	July/08	July/09	July/10
World	**11,896**	**18,837**	**24,176**	**40,133**

United States	5,487	9,603	14,576	29,977
Market share:	*46%*	*51%*	*60%*	*75%*
China	5,470	8,144	8,630	8,753
Colombia	545	601	503	817
Vietnam	162	343	363	289
All other	232	146	104	297

Source: Global Trade Atlas

Potato Flakes (Non-Frozen)

Japanese Imports of U.S. Potato Flakes and Flour (in Metric Tons)

HS Code	MY 2008/09	MY 2009/10	MY 2010/11	Description
1105.20	15,719	14,044	15,622	Flakes of Potatoes
1105.10	3,179	3,954	2,585	Flour & Meal of Potatoes
Total	18,898	17,998	18,207	

Source: World Trade Atlas

Tariff Table

Japan: Import Duties 2011

Tariff Code (HS)	Description	Duty Rate (%)*
1105.10	Flour, meal and powder of potatoes	20.0%
1105.20	Flakes, granules and pellets of potatoes	20.0%

Source: Customs Tariff Schedules of Japan 2011

** all duties are charged on a CIF basis*

Trade Data

Japan: Imports of potato flakes - HS 1105.20 (Quantity)

Marketing year: July-June / Quantity in metric tons

	MY 2007/08	MY 2008/09	MY 2009/10	MY 2010/11
Beginning month of marketing year:	July/07	July/08	July/09	July/10
World	**19,117**	**18,500**	**15,990**	**17,064**
United States	17,165	15,719	14,044	15,622
Market share:	*90%*	*85%*	*88%*	*92%*
Germany	1,788	2,356	1,637	944
China	136	352	230	357
Netherlands	10	70	74	138
All other	18	3	5	3

Source: Global Trade Atlas

Japan: Imports of potato flakes - HS 1105.20 (Value)

Marketing year: July-June / Value in thousands of U.S. dollars

	MY 2007/08	MY 2008/09	MY 2009/10	MY 2010/11
Beginning month of marketing year:	July/07	July/08	July/09	July/10

World	**26,407**	**28,639**	**25,517**	**26,359**
United States	23,572	24,643	22,708	24,211
Market share:	*89%*	*86%*	*89%*	*92%*
Germany	2,596	3,320	2,344	1,358
China	187	573	344	584
Netherlands	16	92	100	193
All other	36	11	21	13

Source: Global Trade Atlas

Japan: Imports of potato flakes - HS 1105.10 (Quantity)

Marketing year: July-June / Quantity in metric tons

	MY 2007/08	MY 2008/09	MY 2009/10	MY 2010/11
Beginning month of marketing year:	July/07	July/08	July/09	July/10
World	**2,648**	**4,554**	**5,304**	**4,382**
United States	1,876	3,179	3,954	2,585
Market share:	*71%*	*70%*	*75%*	*59%*
Germany	0	0	225	876
Netherlands	747	600	500	759
Poland	25	775	625	162

Source: Global Trade Atlas

Japan: Imports of potato flakes - HS 1105.10 (Value)

Marketing year: July-June / Value in thousands of U.S. dollars

	MY 2007/08	MY 2008/09	MY 2009/10	MY 2010/11
Beginning month of marketing year:	July/07	July/08	July/09	July/10
World	**4,042**	**6,944**	**8,066**	**6,916**
United States	2,951	5,087	6,356	4,380
Market share:	*73%*	*73%*	*79%*	*63%*
Germany	0	0	262	1,298
Netherlands	1,052	777	617	961
Poland	39	1,080	831	277

Source: Global Trade Atlas