JAPAN

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Summary

The Japanese economy is still in a so-called "deflationary spiral" wherein business conditions deteriorate through the interplay of falling prices and the contraction of production. Many business leaders are not yet sure whether the Japanese economy has bottomed out in the first half of 2002.

Food consumption expenditure per capita has continued to decline over the last 5 years, during which food prices have also shown negative signs. Expenditure for home cooking have shown a declining trend, while expenditure for eating out and prepared food are increasing.

The food industry is taking all measures to reduce costs of production, processing, and distribution, including electronic commerce, by fully using information technologies such as the Internet clearing system given today's competition and hard economic situation.

Concern for food safety shot up when four cows infected by BSE were confirmed in September, November, and December in 2001 and in May 2002. Japanese consumers have shown a greater awareness of food safety as a result of recent, consecutive incidents such as food poisoning accidents covering a wide area and the mixture into foods of genetically modified agricultural products that have not been examined for safety, other than the detection of BSE. Including the administrative organization, the parties concerned with food supply should continuously implement measures for securing food safety. The Japanese government plans to reform the food policy towards the consumer side and implement a drastic review and reform of its policies in order to secure safe and reliable "foods." The establishment of a Unified Single Food Control Authority is under consideration based on the recommendation of the BSE investigation committee.

Macroeconomic Situation and Outlook

The Japanese economic recovery that began in the spring of 1999 quickly lost its momentum around the beginning of 2001 and proved to be short-lived. The Japanese economy registered a negative real GDP growth rate of about 1.0 percent in fiscal 2001. A major factor contributing to this negative growth was the downturn in private demand resulting from non-performing loans and excess indebtedness, deteriorating employment conditions, continued concern for mounting fiscal deficits, and the sustainability of social security systems. Japanese government efforts to reform the economic framework, including institutions and regulations, have failed to keep up with changes in the present age and environment.

The terrorist attacks of September 11 on the United States have enhanced risks for global recession, and economic conditions and Japan's economic situation have deteriorated further. In addition to weakened personal consumption, exports and output have declined sharply. Business investment is also declining. As a result, Japan's unemployment rate has risen to the highest levels ever. Furthermore, the Japanese economy is still in a so-called "deflationary spiral" wherein business conditions deteriorate at an accelerating pace through the interplay of falling prices and the contraction of production.

The government's Economic Outlook released in December 2001 forecasts a real GDP growth rate of zero percent for fiscal year 2002. The Japanese government announced the bottoming out of the economy in May 2002. But private research institutes and business leaders are not sure yet whether the economy is on course for recovery or not, according to opinion surveys from June 2002. Many of them observe that it depends on the U.S. economic situation because the positive signs of the current economy come primarily from increased exports to the U.S. Thus, Japanese economic recovery is still uncertain in coming years.

The wholesale price index showed a negative 0.4 percent in FY2001 and is expected to remain unchanged in 2002, with a moderate increase of 1.0 percent in 2003, reflecting the continued weak domestic market situation.

The consumer price index fell by 0.8 percent in 2001 because of the stagnated economy. The consumer price index is expected to show no change in 2002, and a 1.5 percent increase in 2003, reflecting a modest recovery of consumer demand.

Food Prices and Consumption

The food price index in FY2000 dropped by 1.3 percent, including fresh vegetables and cereals. The real food consumption expenditure per capita of a non-farm household in FY2000 continued to decline over the 4 years up to FY2000, and it registered a decline by 0.6 percent in comparison to the previous fiscal year. During the period from April to December 2001, food prices dropped slightly by 1.0 percent in comparison to that of the corresponding period of the previous year, and real food consumption expenditures also decreased by 1.3 percent in the same period.

The price difference of foodstuffs between home and abroad fluctuates each year due to the influence of exchange rates. The differences reflect the cost at stages of distribution and processing in addition to the cost at the production stage.

While the food expenditures of non-farm households by item indicate that the expenditure ratio of the costs spent in home cooking has decreased, the expenditure ratio of eating-out and prepared food has increased from 21.3 percent in 1985 to 28.2 percent in 2000.

The Japanese dietary pattern has a character in the middle between those of Asian countries that consume many grains and Western countries that consume a large amount of meat, milk, dairy products, and oils. It has the feature of a high consumption of egg and fishery products, though the trends of a decrease in the ratio of carbohydrates and an increase of fat still continue.

Nutritional imbalances such as excessive intake of fat and insufficient intake of iron and calcium are becoming a problem. "Japanese dishes," which consist of rice as a staple food and a variety of foods as

side dishes, are viewed as nutritiously well-balanced and healthy.

The recent diverse lifestyle has caused irregularity in diet such as skipping meals and eating meals alone. In particular, the irregular dietary patterns of children have adverse effects on health. Another issue is the "food loss" in each stage from production to consumption, such as disposal of expired food products and leftovers in eateries and homes.

The Japanese government has created a "Dietary Guideline" for improving nutritional balance in dietary patterns and reducing waste disposal of food. It is promoting propagation of the Guideline to the citizens' level in households, workplaces, and schools.

Food Processing and Marketing

The agricultural and food industry is a "ten-percent industry" occupying 10.3 percent of the Gross Domestic Product of all industries in FY1999. The ratio of food industries such as related manufacturing industry, eateries, and related distribution industry is increasing while the ratio of agricultural and fishery industries is decreasing in relative terms.

With increased competition among food-service enterprises, there is a trend of reduced unit prices for purchasing food material for cheaper suppliers among the boarding-out industry.

Regarding food retailers, the number of shops and annual sales values of food supermarkets and convenience stores are increasing, while conventional specialized grocery stores and stores mainly handling food products are decreasing. Also, recently, there is a trend of diverse food distribution routes such as direct delivery from producers by co-operative societies, agricultural co-operatives, and so on; direct transactions between producers and large users; and transactions using the Internet.

The food products that are handled via wholesale markets are showing a long-term decline. However, at present, about 80 percent of vegetables and about 70 percent of fishery products are handled via wholesale markets, so wholesale markets still play important roles. The food marketing and processing industries are tackling such issues as diversification of consumer needs, deterioration of market management, and competition among markets in order to enhance their competitive power. Wholesalers are trying to reduce distribution cost by accurately identifying the quantities and locations of the inventory through information technology, enhancing loading efficiency, and realizing planned delivery by sharing and concentrating deliveries. Food marketing is heading for electronic commerce by full use of information technologies, such as the Internet clearing system.

About 30-40 percent of domestic agricultural products cater to the service demands of the food industry sector such as processing and food services. Another trend of the Japanese food industry is deeper dependence on imported ingredients. This trend is becoming more prominent with the recent deflation. Domestic agricultural production is behind needs to meet the demand of food services by promoting closer coordination between food industry and agricultural sector.

Food safety concern has increased dramatically since BSE-infected cows were first found in September 2001. Japanese consumers became panicked, and beef consumption has sharply declined.

Agricultural Production and Trade

The agricultural production index in 2000 showed an increase of 0.3 percent compared to the previous year due to increases in production of rice, wheat, and soybeans, although livestock production has declined. The agricultural producer prices of rice and vegetables dropped by 5.9 percent due to the influence of an increase in crop yields. Agricultural input prices dropped by 0.2 percent due to the decline in prices of feeds and fertilizers.

Crop Production

The terms of agricultural trade are continuously deteriorating, resulting in a fall of the index number of terms of agricultural trade by 5.2 points in comparison to the previous year. Recent supply and demand of rice have been easing dramatically. The rice production adjustment area has increased to 1.01 million hectares, which is the largest in the history of the adjustment program since 1969. The price of voluntarily marketed rice has recovered to the level that exceeds the price of the same period in the previous year in June 2002. Rice consumption per capita has returned to declining trends in FY2001 after showing a slight sign of bottoming out in FY2000.

Production of wheat and soybeans corresponding to demand Production of wheat and soybeans is increasing. However, the sharp production increase without quality enhancement causes increased mismatching of supply and demand.

Horticulture

The import of vegetables has continued to increase, although the rate in 2001 was more gradual than that of previous years. In particular, imports from China are fast increasing. The government is implementing structural reforms of vegetable production using the following strategic models as a guide; 1) reduction of cost, 2) transactions based on contracts, and 3) production of high value-added products.

Although consumption of fruits has recently leveled off, consumption of fruits by the younger generation still continues to decline. To promote consumption, the "National Council on Promotion of Dietary Pattern with Fruits" started the "Movement of Taking 200g of Fruit Every Day" from August 2001.

The production and quality of fruits are unstable due to the influence of weather changes. Alternate bearing, management stability measures have been introduced for production of Unshu mandarins and apples since production year 2001.

Livestock and Feed Production

The supply and demand of livestock products was stable in FY2000. However, in FY2001, the production of beef declined due to the sharp decline of beef consumption triggered by the discovery of BSE-infected milk cow. To stabilize the operations of livestock farmers, various measures related to BSE have been taken.

In FY2001, the production of domestic feed is expected to decline due to a reduction of cropping area and yield. Improvements in yield and expansion of cropping area are necessary for feed crops. Cropping areas of rice fermentation roughages have increased dramatically in 2000 and 2001 because they can be produced in paddy fields, leading to effective utilization of paddy fields.

Recent imports of food into Japan have been increasing on a quantity basis and decreasing on a value basis. Food import value by item has almost leveled off for grains and fats and oils. The import value of vegetables and meat is increasing.

The import value of fresh vegetables has increased by 1.5 in the past 5 years. Imports from China and Korea, in particular, have increased by 3.4 and by 6, respectively. The share of export of vegetables from China to Japan accounts for 42 percent on a quantity basis and 62 percent on a value basis, which are the highest. For vegetables produced in China, it is important to take measures against residual pesticides.

The Japanese government implemented tariff quotas for three products as a provisional safeguard measure on April 23, 2001, due to a sharp decline of domestic prices and domestic farmers' income for those three items. They are welsh onion, including green onions, shiitake mushroom, and tatami-omote (traditional Japanese straw mat). It was the first time in its history after joining GATT for Japan to apply safeguard measures. The provisional safeguard expired on November 8, 2001. Bilateral consultations between Japan and China produced an agreement on the safeguard in December. Both countries agreed that: 1) Japan wouldn't apply the safeguard on those items, 2) China would lift a countervailing duty on car parts, and 3) both parties would continue to consult to achieve a stable trade relationship and avoid trade friction.

Recently, the enhancement of relationships for regional economic cooperation has been progressing through the comprehensive Economic Partnership Agreement (EPA) and Free Trade Agreement (FTA). In January 2002, Japan signed the "Agreement between Japan and the Republic of Singapore for a New-Age Economic Partnership." Regarding agricultural, forestry, and fisheries products, as a result of consideration for the potential influence to the agricultural, forestry, and fisheries industries in Japan, the Japanese government decided that WTO concessional duty-free items and effective duty-free items only should be concessions of this agreement. Currently, the Japanese government is considering the possibility of an economic partnership with Mexico and the ASEAN.

Food and Agricultural Policy

While Japanese citizens are enjoying a variety of diets, they depend for most of their food on imports, and food self-sufficiency ratios are the lowest among major developed countries. Food self-sufficiency ratios show a long-term downturn, with the rate dropping dramatically from 73 percent to 40 percent during the period from FY1965 to FY2000 in Japan. Anticipating constraints in the world's supply and demand for food in the future, many Japanese citizens feel anxious about the situation.

Since the WTO Agreement was enacted in January 1995, the Japanese government has steadily implemented the Uruguay Round Agricultural Agreement. The WTO agricultural negotiations that began in the beginning of 2000 are extremely important negotiations that will determine the direction of the world's agricultural product trade rules in the 21st century. For Japan, it is extremely important that the basic principles of the Basic Law on Food, Agriculture, and Rural Areas and accompanying measures be properly recognized according to global rules, and Japanese farmers can farm with their a positive future outlook based on the negotiations.

Under the Basic Law of Food, Agriculture, and Rural Areas, systems are being developed for recycling food wastes and wastes derived from agricultural production.

For livestock manure, improvement of manure-processing facilities based on the Law on Appropriate Treatment and Optimization of Livestock Manure is progressing. Further promotion of distributed use of manure by association between crop cultivation farms and livestock farms is important. For food wastes, the food recycling law was enforced in 2001. For the food wastes discharged from operators, steady efforts are developing, such as recycling based on the law. For food wastes discharged from households, examination of the measures for promoting recycling is necessary.

The use of biomass resources such as livestock manure and food wastes as energy resources is gradually becoming recognized as suitable for a recycling-oriented society. The Ministry of Agriculture, Forestry, and Fisheries is also promoting the development of technology for converting biomass resources to energy resources such as methanol.

The output of plastics used for agriculture has recently decreased. The proportion of recycling has been increasing. The recycling rate of containers and packaging wastes has increased dramatically since the enforcement of the Law for the Promotion of Sorted Garbage Collection and Recycling of Containers and Packaging in 1997.

Food Safety

In September 2001, the first BSE (Bovine Spongiform Encephalopathy) infected milk cow was detected in Japan. Four cows infected by BSE were confirmed in September, November, and December in 2001 and in May of 2002. Food safety concern about BSE infection increased dramatically, and Japanese consumers became panicked. Since then, beef consumption declined to 40, 50, and then 60 percent in the 3 months following the detection of BSE-infected cows. Beef consumption has begun to recover but is still much lower than in previous years. BSE has caused serious damage not only to beef cattle production but also daily production. Japanese people lacked a sensitivity to risk because they have lived in the safest and most secure society in the world for a long time.

The Ministry of Agriculture, Forestry, and Fisheries established a system to prevent Distribution of Cattle at Risk of BSE in October 2001 by associating with concerned ministries and agencies including the Ministry of Health, Labor, and Welfare. The Ministry of

Agriculture, Forestry, and Fisheries enhanced the quarantine system, including a ban on the use of all livestock feed containing meat and bone meal by law.

A private advisory body of the Minister of Agriculture, Forestry, and Fisheries and the Minister of Health, Labor, and Welfare, the "Research and Examination Committee Regarding BSE Problem" verified the problems in handling by the administration regarding BSE, and carried out an investigation and examination of the way the administration should handle livestock sanitation and food sanitation in the future; its report was compiled in April 2002. (The report is provided on the websites of both the Ministry of Agriculture, Forestry, and Fisheries and Ministry of Health, Labor, and Welfare.)

This report largely criticizes the absence of any risk management system, low attention to consumer protection, the non-transparency of policy decision-making process, and incomplete information release. It points out that the government passed up a number of opportunities to place its own ban on the bone meal that is widely recognized as the major cause of BSE infections. The committee's report says: "Japan's laws, systems, policies, and administrative organizations related to agriculture are legacies from the period of food shortages in which producers took precedence over consumers." The BSE outbreak had also revealed a serious lack of coordination between the Ministry of Agriculture and the Ministry of Health. Two of the ministries most responsible for protecting public health had followed separate safety policies.

Based on this report, the Prime Minister requested the Minister of Health, Labor, and Welfare and the Minister of Agriculture, Forestry, and Fisheries to take utmost measures towards rectifying the situation in respect to consumer protection, including drastically changing the legal system related to securing food safety. The Prime Minister also requested a cabinet meeting of concerned Ministers, to make up concrete measures based on the principle of the new administrative organization to be reflected in a proposal in the next fiscal year budget.

Respecting this report and following the Prime Minister's instructions, the Ministry of Agriculture, Forestry, and Fisheries is planning to reform the food policy towards the consumer side and implement a drastic review and reform of the policies in order to secure safe and reliable foods.

Japanese consumers have shown a greater awareness of food safety because of recent, consecutive incidents concerning food safety such as food poisoning accidents and the mixture into foods of genetically modified agricultural products that have not been examined for safety, other than the detection of BSE. Including the administrative organization, the parties concerned with food supply should continuously implement measures for securing food safety.

One major recent case in which beef was mislabeled to earn government subsidies pushed one of Japan's most reliable food brands, the Snow Brand Food Company, into bankruptcy, and led to the arrest of seven former officers. The company's mother company, the Snow Brand Milk Products Company, which was formed in 1925, is on the verge of bankruptcy. Two years ago, thousands of people reported having suffered food poisoning after it was disclosed that the company had distributed spoiled milk. For decades, Japanese people have accepted paying high prices for domestically produced food on the theory that it was purer than imported food. Now, most city dwellers have the feeling that they are betrayed by producers, processors, and distributors of food.

Last fall, after the mad cow disease outbreak, slaughterhouses and meat companies sought to unload frozen meat stocks in the face of plummeting consumer demand. The government finally announced that it would buy up the beef from cows slaughtered in the month after the first case of mad cow disease. In April 2002, a government audit found that about half of the frozen beef purchased under the program was either Japanese beef stored in warehouses prior to the outbreak, or low-cost beef imported from Australia and the United States. With Japan as the largest destination for American beef exports, the American industry has begun a major advertising campaign to reassure the Japanese about the safety of American beef.

The food supply chain in Japan has become increasingly dependent on imports from other countries for its ingredients, and the processing and distribution system has become more diversified and complicated. The examination of "risk analysis" for food safety is attracting the attention of people concerned with building a mutual understanding between consumers and suppliers. The introduction of a food traceability system by utilizing information technology is recognized to be essential to gain consumer's confidence.

Reflecting the recent increase in consumers' awareness of food safety, the Japanese government has improved the food labeling and standard system, which enables customers to select suitable items according to their own judgment. Labeling of origins of fresh food products has changed consumers' attitudes on food purchase. Fresh food products are mostly labeled in supermarkets but are less labeled in individual shops such as local fruit and vegetable shops. The labeling of ingredients of processed foods and genetically modified foods is often implemented.

The origins of processed food ingredients have been labeled for pickled onions and pickled plums since October 2001. Labeling of processed fishery products (mackerel, Japanese horse mackerel, eel, and seaweed) was started in February 2002, and labeling of other pickled items was started in April 2002.

When false labeling of the origins and other components of beef by a major food company was detected in January 2001, the Ministry of Agriculture, Forestry, and Fisheries inspected the site immediately and instructed the company to take corrective measures based on the "Law Concerning Standardization and Proper Labeling of Agricultural and Forestry Products," the so-called JAS Law.

Since then, false labeling of the origins and other components of products by other food companies is being continually detected. The food labeling system was established to enable consumers to select food items by instructing suppliers to provide correct labels, based on the precondition of mutual trust between food suppliers and consumers. Considering the situation that has occurred this time, the utmost efforts for recovering consumers' confidence and trust are nec-

essary by reviewing the food labeling system and promptly implementing improvements and enhancements.

HACCP, GAP, or GMP has recently drawn the attention of the Japanese government and manufacturers, but they have not yet gained popularity among food manufacturers, farmers, agricultural cooperatives, or consumer groups.

JAPAN

	Units	1998	1999	2000	2001	2002E	2003F
FOOD CONSUMPTION PATTERNS *a/*							
Per capita caloric intake	Cal/day	2,602	2,619	2,645	2,620	2,630	2,640
From animal products	Cal/day	566	568	597	570	580	580
From vegetable products	Cal/day	2,036	2,051	2,498	2,050	2,050	2,050
Protein (% of calories)	%	13.2	13.1	13.3	13.1	13.1	13.2
Fat (% of calories)	%	28.4	28.5	28.8	28.6	28.6	28.7
Carbohydrates (% of calories)	%	58.5	58.4	57.9	58.3	58.3	58.1
INCOME AND FOOD PRICES *b/*							
Per capita income	US$/capita	23,334	26,465	27,114	23,739	23,452	23398
% of disposable income spent on food	%	16.2	16.1	16.0	15.9	16	16.1
% spent eating out	%	2.9	2.7	2.7	2.8	2.9	2.9
Food price index	1995=100	102.9	101.7	100.3	99.3	99.3	100.3
General price index (CPI)	1995=100	102.5	101.9	101.4	100.5	100.8	102.4
POPULATION							
Total population *b/*	Million	126.4	126.7	127.0	127.2	127.4	127.6
Urban *c/*	Million	na	na	na	na	na	na
Nonurban *c/*	Million	na	na	na	na	na	na
Share of population in the following age groups *c/*							
0-14 years	%	15.1	14.8	14.6	14.4	14.2	14.1
15-64 years	%	68.7	68.5	68.1	67.6	67.3	66.9
65-over years	%	16.2	16.7	17.4	18.0	18.5	19.0
Female labor force participation *b/*	%	50.1	49.6	49.3	49.1	48.9	48.8
LIFE EXPECTANCY *d/*							
Males	Years	77.2	77.1	77.7	77.8	77.9	77.9
Females	Years	84.0	84.0	84.6	84.6	84.7	84.7
FOOD INFRASTRUCTURE							
Trade capacity							
Grain exports *e/*	1,000 Tons	358	144	42	40	40	40
Grain imports *e/*	1,000 Tons	26,995	27,812	27,011	25,950	26,000	27,000
Total food and agricultural trade *e/*	Million US$	55,111	59,073	61,239	58,985	58,000	59,000
Total food and agricultural exports *e/*	Million US$	2,797	2,994	2,921	2,851	2,900	2,900
Fishery exports	Million US$	1,162	1,246	1,285	1,140	1,200	1,200
Total food and agricultural imports *e/*	Million US$	57,908	62,067	64,160	63,520	62,000	63,000
Fishery imports	Million US$	13,337	15,332	16,086	16,540	16,000	16,000
Road access *f/*	1,000 Kms	1,150	1,155	1,158	1,161	1,164	1,167
Rail access *f/*	Kms	27,453	27,600	27,500	27,400	27,400	27,400
Telecommunications *g/*	1,000 subscribers	58,559	55,547	52,528	51,000	49,000	48,000
Power generation *h/*	Gigawatts	934	957	980	985	990	990
Percent of population with refrigerators *b/*	%	98.1	99.2	99.4	99.6	99.7	99.7
FOREIGN INVESTMENT IN THE FOOD SECTOR *i/*							
Inward FDI in the food sector, total	Million US$	201	13	18	20	20	20
Outward FDI in the food sector, total	Million US$	1,268	14,905	1,850	1,500	1,500	1,500
ROLE OF AGRICULTURE AND TRADE IN THE ECONOMY *e/*							
Agriculture as a share of GDP	%	1.2	1.1	1.1	1.1	1.0	1.0
Self sufficiency in grains	%	27.0	27.0	28.0	28.0	28.0	28.0
POLICY TRANSFERS *j/*							
Consumer subsidy equivalents	%	-45.0	-43.0	-42.0	-41.0	-40.0	-40.0
Consumer support estimate	%	-52.0	-50.0	-49.0	-48.0	-46.0	-46.0
Total transfers (subsidy/tax)	Million US$	na	na	na	na	na	na
Total transfers (subsidy/tax, from 1998)	Million US$	66,544	69,681	73,269	65,000	64,000	64,000
Total transfers per capita	US$/capita	na	na	na	na	na	na
Total transfers per capita (subsidy/tax, from 1998)	US$/capita	526	550	578	540	545	545
MACROECONOMICS INDICATORS *b/*							
GDP growth (real)	%	-1.9	0.6	1.7	-1.0	0.2	0.5
Interest rate	%	0.5	0.5	0.5	0.5	0.5	0.5
Exchange rate	Yen/US$	115.20	102.08	110.50	122.20	123.00	123.00

*na = not available E = estimate F = forecast * = fiscal year.*

Sources:

a. MAFF, Food Balance Sheet, supplied calorie base.
b. Ministry of Public Management, Home Affairs, Posts and Telecommunication, Pocket Statistical Information.
c. Ministry of Public Management, Home Affairs, Posts and Telecommunication, Population Census.
d. Ministry of Health, Labour and Welfare, Life table.
e. MAFF estimate.
f. Ministry of Land, Infrastructure and Transport.
g. Ministry of Public Management, Home Affairs, Post and Telecommunications.
h. Agency of Natural Resources and Energy.
i. JETRO, Agrotrade Handbook.
*j. OECD, Monitoring Report (*from 1998, the index "Consumer subsidy equivalents" changed its name into "Consumers Support Estimate", as well as the way of calculation).*