

Food Imports Up, Prices Down

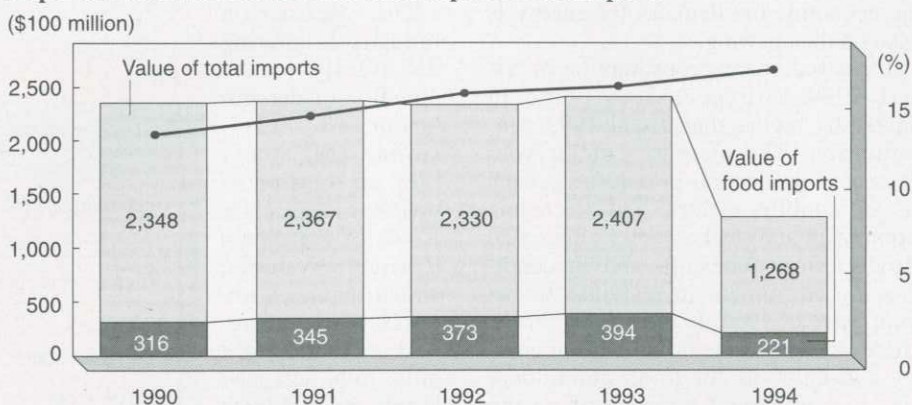
In its scope and variety, the Japanese food processing industry is impressive, covering everything from marine products and meat to dairy products and beverages. According to industry figures compiled by the Ministry of International Trade and Industry, this sector has annual shipments of ¥33 trillion (1992) and represents 11% of total industrial output.

Fiscal 1994 witnessed a large, retailer-led influx of imported food products, making the industry more conscious than ever of the need for a global strategy. The sale of imported beverages—beer, cola, etc.—carried out by Daiei, a large supermarket operator, appealed to consumers through strategic pricing and, with the help of a hot summer, recorded sales greatly exceeded the original forecast.

Convenience store Seven-Eleven Japan, which has grown to be the largest in a market valued at approximately ¥7 trillion, also drew attention with its sales of imported beer, tying up with another giant manufacturer overseas, Philip Morris. The affiliation of these two firms is premised on a wide variety of food products, and it is expected that the trend they are setting will have considerable influence on domestic manufacturers.

Among agricultural products, which are the main source of material for the food processing industry, the import of vegetables showed major growth in fiscal 1994. In the past, quality-control problems have been a greater impediment to the expansion of vegetable imports than was the case with beef and fish. But supermarkets and food service operators improved their controls, from seedlings to shipment, making it possible to supply the kind of high-quality products so valued by Japanese, and this helped lead to the increase in imports. On the pricing front, the appreciation of the yen, combined with lower costs in raw materials, personnel, public utilities and taxes, has allowed for

Imported Food Products as a Share of Japan's Total Imports



Source: Ministry of Finance, *Overview of Japanese Trade*

Note: Money amounts represent CIF prices; 1994 figures are cumulative from January to June.


lower manufacturing costs, thus allowing sellers to tap the domestic demand for lower-priced products.

We are also seeing more cases in which Japanese companies receive supplies of fresh products from their large-scale farming operations in various overseas locations. Currently, perishable foods produced by such companies or purchased from abroad are brought in either fresh or frozen. In the future, however, we can expect to see more instances of Japanese companies importing foods that they have not only raised but also processed to a high degree.

With the December 1993 conclusion of the GATT Uruguay Round, fiscal 1995 will see the first steps toward complete liberalization of food products. The objective is to render the food product market borderless through the tariffication of all categories (except rice), followed by a staged reduction of the tariff barrier. The vanishing of borders will impact upon price controls of the past which, while serving to stabilize supply, often resulted in prices being higher in Japan than in overseas markets, with flour being just one example.

Liberalization is expected to have a considerable affect on domestic producers. As of now, the government will con-

tinue its policy of controlling the price of flour even after tariffication (by buying and lumping together domestic and imported flour, then portioning it out to the flour mills at a set price). Japanese mills, therefore, will not be much affected by liberalization. The makers of secondary products, however, will be seeking out low-priced flour overseas to cope with the price competition in Japan, and demand trends on the domestic scene will be watched carefully.

With the removal of national boundaries that heretofore have hemmed in the food markets, food imports are expected to grow even further. In particular, the proportion of vegetables acquired from abroad, already robust in fiscal 1994, should continue to expand with the objective of securing a stable, low-cost supply. There is a strong possibility that the inflow of attractively priced products will motivate food makers to accelerate their production output overseas. And control of manufacturing costs will become even more essential for the producers, who must enhance their links with retailers and make a full-scale commitment to building the distribution infrastructure. 

(Saji Hiroshi, economist)