

# Food Manufacturing Industry Challenged

In 1995, two significant changes occurred that affected the food industry. First, deregulation based on the December 1993 accord reached during the GATT Uruguay Round went into effect. The accord reduces tariffs on all agricultural products that have already been deregulated. It also gradually reduces tariffs over a six-year period (through fiscal 2000) for wheat, dairy and other agricultural products that had until then been designated as national trade products and for which private trade had been restricted. In practice, however, a steep tariff is levied on such items to ensure that market liberalization does not proceed at too sudden a pace. This means that for certain items, imports on the private level have not yet taken off. (In fiscal 1995, for instance, the tariff on wheat

was ¥65/kg, hardly an improvement over the ¥56/kg government selling price for imported wheat in fiscal 1994.) In these circumstances, potential users (secondary processing manufacturers) with an eye on procuring ingredients at low cost continue to stock up on imports of processed flour products.

A second change is the decline in prices of processed food. According to the Seiyu Price Index, food prices (excluding fresh foods) for the first half of fiscal 1995 (March to August) were down 3.6% from the same period in the previous year. This estimate is lower than the 1.4% drop (March to August, Japan Industrial Bank, Industrial Research Department estimate) recorded by the consumer price index (Management and Coordination Agency). Both surveys show that food prices are dipping progressively lower, especially in chain stores.

In addition to these two changes, 1995 saw the revision and advent of several regulations governing food safety and environmental protection for food manufacturers. Among these were a date labeling system, a recycling law for containers and packaging, and a product liability law. Such measures cannot help but hike costs, but as they expand the social responsibility of food

manufacturers, they should be followed to the letter.

The two environmental changes that impacted all food industry enterprises in 1995 (import liberalization and a drop in retail prices) will probably continue to affect the industry in 1996.

Imports of wheat and other items newly deregulated in fiscal 1995 will probably stay low due to the systemic factors mentioned above. More imports, however, are expected of both processed flour products and finished flour products. Increases are also expected in imports of dairy products, which were liberalized like wheat, and of sugars, which were liberalized but had continued to be priced higher domestically through a price support system.

The drop in food prices will also likely continue in 1996, especially in chain stores. In such circumstances, food manufacturers would be wise to introduce open pricing and other new transaction systems instead of the current transaction system that is based on official quotations.

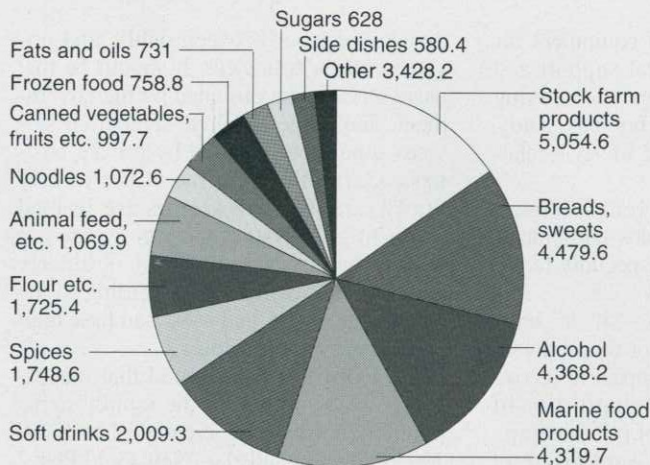
Selling and promotion fees for distribution, which is also based on an official quotation system, are gradually increasing costs to manufacturers, and such fees interfere with manufacturers' abilities to improve profits by cutting fixed costs and improving their profits structure. Companies that do introduce open pricing must strengthen their management system in terms of sales and costs.

Food manufacturing companies will have to be innovative to preserve their commercial holds in the maturing, enormous domestic market.

(Saji Hiroshi, economist)

## Japan's Shipped Food Industry— Breakdown by Food Type

Total shipments: ¥32.9719 trillion (1993)



Source: Fiscal 1993, Table of Industrial Statistics, Manufacturing Section  
Unit: ¥1 billion Note: Tobacco products excluded