MARKET OPPORTUNITIES FOR EU AGRIBUSINESSES IN THE CONTEXT OF THE EU-JAPAN EPA

William Fournel, MINERVA visiting fellow
SCOPE

1. Trends only, no technical advice provided
2. Food products:
   – Sections I to IV (HS 2012 )
   – Non-edible products excluded
3. Data:
   – MoF – Japanese customs
   – Customized classification based on DG Agri’s classification
Opportunities

Market trends
Food expenditures, diet, consumption patterns...

Market access
Current issues and EPA benefits

Internal drivers
Economic and demographic trends
Trade integration: EU-Japan EPA, TPP?, etc.

External driver

Interview

Analyse

Recommend

Explain
INTERVIEWS

- EU Embassies and Chambers of Commerce
- EU food exporters, importers and local producers
- A renowned Chef
- A Japanese importer with a EU franchise
- Prominent Japanese economists
An economy driven by strong trends
- A progressive economic recovery
- An inexorable demographic decline

A growing need for imported food products
- A large, wealthy and changing demand
- A declining domestic supply
- A leading importer of food products

The wind of trade integration
- Trade policy as a shield
- The multiplication of FTA negotiations
- Toward a more open market with the EU-Japan EPA

Trends and opportunities in a changing market
- Consumption patterns
- Sectorial review

Recommendations
- Policy recommendations
- Recommendations for businesses
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AN ECONOMY DRIVEN BY STRONG TRENDS
A PROGRESSIVE ECONOMIC RECOVERY

Contribution to percent change in real GDP growth

Source: CAO
AN INEXORABLE DEMOGRAPHIC DECLINE

Population based on standard projections*

- 0-14: 8 M
- 15-64: 44 M
- 65+: 35 M

Total: 86 M

Population change in the prefecture of Tokyo

- Actual: 12.14
- Projections: 12.97
- Net internal migration: +0.7 M

Growing but aging!

*Medium fertility/medium mortality scenario

Source: NIPSS

Source: Statistics Bureau

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A GROWING NEED FOR IMPORTED FOOD PRODUCTS
A LARGE, WEALTHY AND CHANGING DEMAND

International comparisons of population, purchasing power and old-age share, in 2015

- CHN: 126.9 M inhabitants; 26.3 years old; €36,846
- IND: 509.6 M inhabitants; 19.2 years old; €34,984
- JPN: 126.9 M inhabitants; 26.3 years old; €36,846

Source: World Bank

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A LARGE, WEALTHY AND CHANGING
DEMAND (2)

Average monthly food expenditures, per age of household's head and Engel’s coefficient

Source: MIC
A LARGE, WEALTHY AND CHANGING DEMAND (3)

Share of monthly food expenditures for home cooking, per age of household’s head, in 2016

Source: MIC
A LARGE, WEALTHY AND CHANGING DEMAND (4)

International comparisons of average calorie intake, in 2011

Change in seafood consumption

Source: FAO

Source: FAO
A DECLINING DOMESTIC SUPPLY

Exploitable land area, from 1961 to 2014

-25.4% over the period, about 11.6% of the land area (4.2 million hectares in 2014)

Source: MAFF

Demographic decline in rural areas, from 1960 to 2015

Source: MAFF
A DECLINING DOMESTIC SUPPLY (2)

Long-term growth in agriculture value-added

Food self-sufficiency ratios in Japan, in 2015

<table>
<thead>
<tr>
<th>Total food self-sufficiency ratio based on calorific value</th>
<th>39</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self-sufficiency ratio of grains for food</td>
<td>59</td>
</tr>
<tr>
<td>Self-sufficiency ratio for feeding</td>
<td>27</td>
</tr>
<tr>
<td>Grains (including feed grains) self-sufficiency rate</td>
<td>29</td>
</tr>
<tr>
<td>Total food self-sufficiency ratio based on production volume</td>
<td>64</td>
</tr>
</tbody>
</table>

Source: MAFF

Source: World Bank

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A LEADING IMPORTER OF FOOD PRODUCTS

Principal supplying countries to the Japanese market

Source: MoF
A LEADING IMPORTER OF FOOD PRODUCTS (2)

Change in import shares, by region

- **USA**: Decreased from 22.3% in 2006 to 20.6% in 2011, then slightly increased to 20.3% in 2016.
- **CHN**: Decreased significantly from 29.0% in 2006 to 16.9% in 2011, then slightly increased to 17.0% in 2016.
- **EUN**: Remained relatively stable at around 11.2%.
- **Other APAC**: Increased from 20.6% in 2006 to 22.3% in 2011, then slightly decreased to 21.9% in 2016.
- **Others**: Increased significantly from 11.2% in 2006 to 16.9% in 2011, then slightly decreased to 16.6% in 2016.

Specialization, in percentage of imported value

- **Commodities**
  - **USA**: 22.3%
  - **CHN**: 16.9%
  - **EUN**: 11.2%
- **Primary agricultural products**
  - **USA**: 22.3%
  - **CHN**: 16.9%
  - **EUN**: 11.2%
- **Primary seafood products**
  - **USA**: 22.3%
  - **CHN**: 16.9%
  - **EUN**: 11.2%
- **Agricultural processed products**
  - **USA**: 22.3%
  - **CHN**: 16.9%
  - **EUN**: 11.2%
- **Processed seafood products**
  - **USA**: 22.3%
  - **CHN**: 16.9%
  - **EUN**: 11.2%
- **Food preparations**
  - **USA**: 22.3%
  - **CHN**: 16.9%
  - **EUN**: 11.2%
- **Beverages**
  - **USA**: 22.3%
  - **CHN**: 16.9%
  - **EUN**: 11.2%

**Source:** MoF
A LEADING IMPORTER OF FOOD PRODUCTS (3)

"Specific" products
- Mostly B2C and upscale food service
- Stronger competitions with EU countries
- Strongly differentiated
- Price matters to some extent but quality is absolutely necessary

"Undifferentiated" products
- Mostly B2B, large volumes
- Strong competition with the US, Australia, etc
- Similar products
- Price based on exceptional quality matters the most
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TOWARD A MORE OPEN MARKET WITH THE EU-JAPAN EPA
**TRADE POLICY AS A SHIELD**

International comparison of protectionist policies, in 2015

<table>
<thead>
<tr>
<th>Ranking, out of 151 countries based on GCI</th>
<th>Trade-weighted average tariffs</th>
<th>Prevalence of trade barriers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>JPN</strong></td>
<td>36</td>
<td>115</td>
</tr>
<tr>
<td><strong>USA</strong></td>
<td>33</td>
<td>52</td>
</tr>
<tr>
<td><strong>EUN (average)</strong></td>
<td>5</td>
<td>40</td>
</tr>
<tr>
<td><strong>FRA</strong></td>
<td>5</td>
<td>76</td>
</tr>
<tr>
<td><strong>DEU</strong></td>
<td>5</td>
<td>64</td>
</tr>
<tr>
<td><strong>ITA</strong></td>
<td>5</td>
<td>48</td>
</tr>
<tr>
<td><strong>ESP</strong></td>
<td>5</td>
<td>86</td>
</tr>
</tbody>
</table>

Average tariffs effectively applied in Japan, in percentage, in 2015

<table>
<thead>
<tr>
<th>Section code</th>
<th>JPN</th>
<th>EUN</th>
<th>USA</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>19.67%</td>
<td>8.11%</td>
<td>4.78%</td>
</tr>
<tr>
<td>02</td>
<td>14.93%</td>
<td>2.69%</td>
<td>2.03%</td>
</tr>
<tr>
<td>03</td>
<td>3.42%</td>
<td>3.26%</td>
<td>2.03%</td>
</tr>
<tr>
<td>04</td>
<td>11.01%</td>
<td>5.31%</td>
<td>5.70%</td>
</tr>
</tbody>
</table>

Source: WEF Global Competitiveness Report

Source: ITC

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EPA BENEFITS

- **Medium to very high market share**
  - "Specific" products
    - Strong impact of some tariff reductions (wine, cheese, chocolates, etc.) and a residual impact on the rest
    - Strong impact of GI recognition

- **Small to medium MS**
  - "Undifferentiated" products
    - Strong impact of tariff reductions but will also depend on TPP11

- **Inexistent or small MS**
  - Heavily restricted products
    - Immediate impact of some solved NTB and SPS issues

Timeline

EIF
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TRENDS AND OPPORTUNITIES IN A CHANGING MARKET
CONSUMPTION PATTERNS

Increasingly parsimonious consumers

A need for convenience and proximity

Organic food

Food service

Frozen food

E-Shopping

Busy lifestyles/population aging

Online orders

Single portions

Prepared meals

Growing concerns over food safety and health

GIs

Food claims

With high-quality expectations

Keen to try new products

High-end food

Bulk, discount and weekly shopping trips

Private labeling

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RECOMMENDATIONS
## RECOMMENDATIONS

### Policy recommendations

1. **Pursue EU level dialogues with Japan on market access issues related to food products.**

2. **Communicate more effectively on EU food products, especially with the EPA around the corner.**

3. **Raise awareness of national brands.**

4. **Increase educational projects or events promoting EU food culture.**

### Recommendations to businesses

5. **Understand what makes a foreign company successful in the Japanese market.**

6. **Prepare yourself and your product(s) carefully and specifically for the Japanese market.**

7. **Diversify and expand your consumer base by competing in several segments.**

8. **Participate strategically in trade fairs taking place in Japan.**
Conclusion

Market environment

• A **favourable economic outlook**
• A **demographic decline which doesn’t undermine market size**
• A growing **need for food imports** (a large and wealthy demand and a declining domestic supply)
• A strong EU share in Japanese food imports and a **dual specialization able to meet the changing demand** (food expenditures, diet, consumption patterns, etc.)

Opportunities

• **Emerging trends**: frozen food, organic food, GIs and food service
• **Products benefiting from preferential terms** under the EU-Japan EPA: the largest concessions made by Japan regarding its food market.
• **No “magical” products selling rapidly, easily and forever... but all products if adequately tailored to consumers**
Q&A

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