

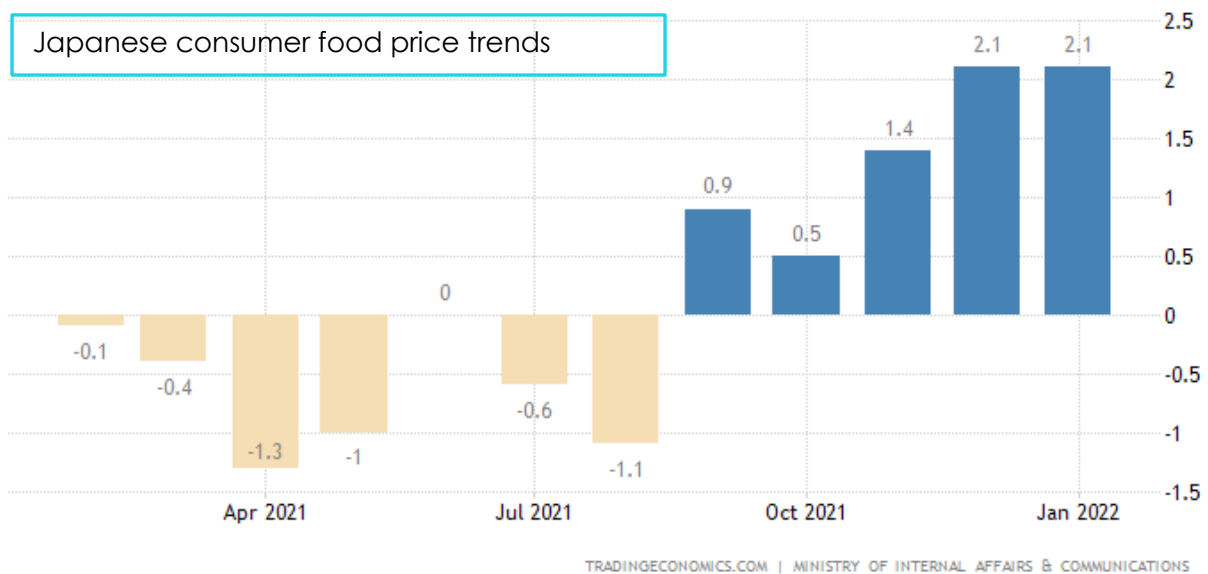


WUSATA Japan Monthly Report

February 2022

Executive Summary

As reported in previous month, reflecting the comprehensive price/cost increase of the food materials on global basis, food inflation in Japan stood at 2.1% year over year in January 2022---unchanged from December's 16-month high figure while marking the fifth straight month of rises. Major upward pressure came from fresh food, fish & seafood, fresh vegetables, meats, fresh fruits, dairy products, cakes & candies, oils/fats, beverages, meals outside home, cereal and cooked (prepared) food. In contrast, prices of alcoholic beverages declined for the fourth months in a row.



Change in chocolate promotion---Romantic vs. Ethical & Bulk for colleagues vs. gourmet for 'myself'

Just as February like in every year went, this time the St. Valentine's Day chocolate campaign swept over this country both in actual and in virtual shopping sites, which also moved varieties of gourmet food, wines and fresh flowers. As the lovers exchanged Valentine's Day chocolates this time, it wasn't just the brand or sweetness that counts. From using the right kind of cocoa beans to delivering the finished product by eco-friendly means, the entire journey, from tree to mouth, would ideally be ethical. The top-notch international chocolatiers' brands attracted the Japanese consumers while it was notable all of them shown the name of cocoa beans production point inside fancy gift boxes and the statements to claim on fair trade and eco-friendly practice for manufacturing the products.

In the same dimension, lots of major food service and hospitality industry members initiated and ran their programs for recycling the waste to play more prominent roles to reduce food loss and to build sustainable food supply chains from the production points to the consumer ends. This month, for example, Japan Airlines has announced to recycle 100% of airline food waste into fertilizer; Starbucks Japan is offering 20% off the price menus every day as the end-of-day discount. The food procurement may get tougher due to various factors including pandemic, war in Ukraine, surging oil price and lack of manpower---Industry leaders are showcasing

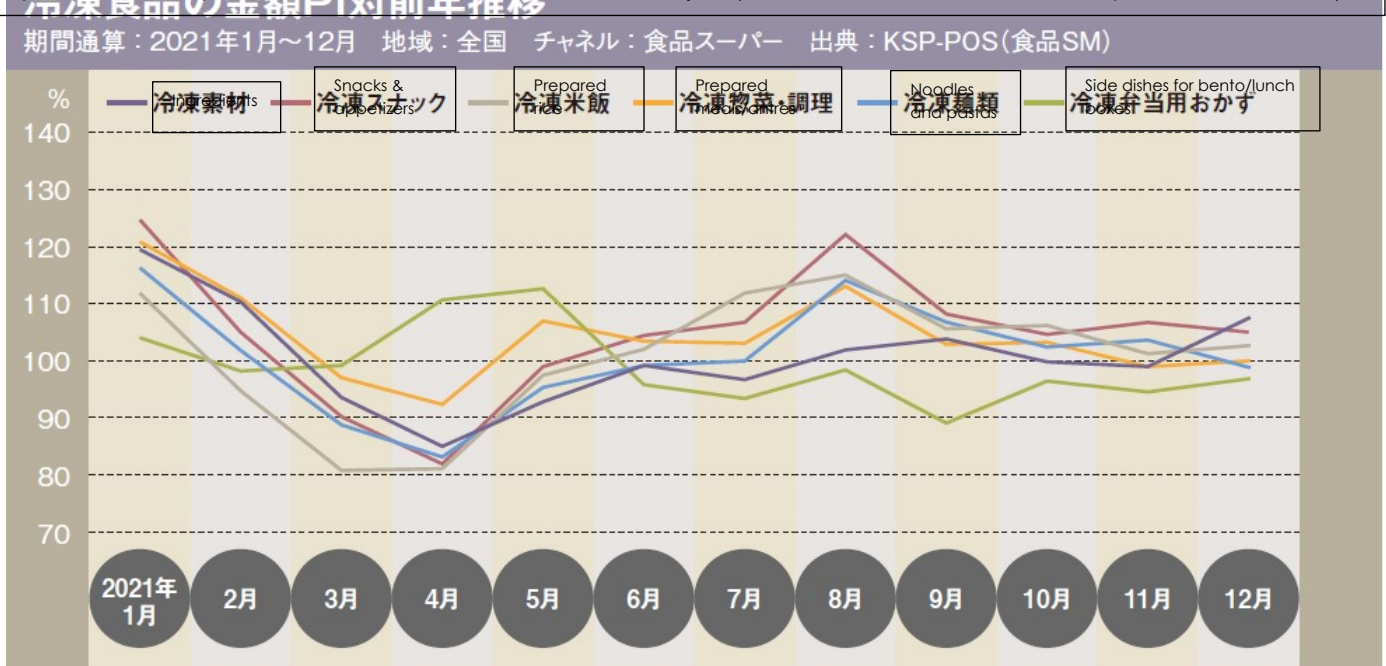
more actively than before that conserving natural environment and change of lifestyle and attitude can provide the food business sectors with feasible solutions.

Market intelligence update

In the end of this month, Russian invasion to Ukraine finally became reality---which brought next to the pandemic looking to exit the long dark tunnel before long, devastating news to all the conscientious and peace-loving people in the world. As widely reported, Russian action is rocking international grain markets price trends, making Japanese dining tables shaky as ever as Japan depends on so much food materials from overseas due to the Japanese uniquely shaped supply chain structures. Often time Japan is said to have only 40% of the food self-sufficient rate. By imported commodities, such as wheat and corns for example, have 90% share of supply in Japan which will severely impact not only the edible food products but also the feed for local production of meat cattle, pork and poultry. The other concern rose about big shortage of fertilizer when China decided to virtually stop exporting its product upon which Japan was relying much on. Since 60 years ago when Japan shifted its agricultural production from grains to meat and poultry/eggs, its dependence on the imported products particularly from the US has become a fait accompli. The current crisis has made Japanese food supply chain systems look more vulnerable and the consumers will have no choice but to put up with higher costs to afford food and drinks at least for the next several months.

Retail Sector: Frozen prepared food products continued to expand in sales as majority of consumers came to appreciate varieties of menu items, advanced tastes, affordable prices and convenience. Consumers shopping opportunities of the tasty, fast and easy to prepare frozen food got bigger while dining out ‘lunch’ needs in hotels and restaurants kept flying low. In the frozen food category, demand grew not only for the antres but for the staples like cooked rice, breads and noodles for home meal consumption.

Japanese consumer purchase index of frozen food & transition vs. last year (Jan-Dec, 2021, nationwide, POS at supermarket chain stores)



Under the pandemic, flagship stores of the major supermarket chains with strong financial backgrounds and electronic commerce systems. Traditional grocery store chains and supermarkets are now competing hard against drug stores, dark stores and convenient store chains as more consumers started buying things on-line. Those popular supermarket chain outlets in ‘my home-towns’ are those who have succeeded in attracting the shoppers to the uniquely merchandised shelves with seasonal, affordable, local and healthy food items. Among multiple shopping options, consumers look for the reasons why they go to certain places to buy what.

Real and Virtual markets are boarding on the same boat:

As reported in the past, EC of consumer goods including food grew by 21.7% compared with that of 2020. However, food sales has only 3.3% in the total EC market, meaning EC food market has tremendous opportunity to grow in the coming years. Pandemic has driven retail industries and consumers rapidly into the main users of EC sites where food suppliers and consumers have found unique contacting scenes and sharing points in digital communities to feel and develop new value added.



Major supermarket chain stores and EC platform operators like Amazon Japan and Rakuten are now becoming partners in the hybrid zone of the real and digital commerce. Japan's #1 retail company Aeon Group has partnered with Ocado Group, British on-line supermarket operator. Ito Yokado released new apps only for net-super purchase to promote consumer loyalty and their 'smarter' shopping behavior. By rowing the same boat virtually and actually at the same time, the players in different dimensions of the food distribution channels are trying to bring about new business models to provide consumers with pleasant shopping experiences, reliable information and comfort of buying good food. In big cities, major retail companies like Seiyu and Ito Yokado are constructing large scale warehouses and state of the art automated distribution centers to respond to the on-line shopping orders coming from coast to coast in Japan.

Foodservice Sector:

In staggering HRI sector, the western style fast food companies kept running top in the monthly track. Pizza chains kept moving tons of American natural cheese, actually all of which is frozen mozzarella products made by a couple of US dairy companies. On the other hand, McDonald's Japan decided to hike prices on rising food costs, increasing the in-store menu and nearly all deliveries by 20%. While consumer demand rose for the premium food materials, Japanese importers kept Western gourmet ingredients off their purchasing menu, as a return to fine dining in Europe and the U.S. pushes prices up by double digits. Russian invasion to Ukraine accelerated the dismal situation for the Japanese importers of fresh and perishable gourmet products from EU

countries. Japanese traders and importers for live shellfish, foie gras, fresh cheese, pork hams and salamis...are actively hoping to locate new suppliers in the US.

In February 2022, the following Japan market-related reports and news were released for the US food and beverage export opportunities:

Japan: Trade Show Opportunities in Western Japan

The western half of Japan, with its main hub in Osaka, accounts for nearly 40 percent of Japan's population and one-third of the country's gross domestic product. Many of Japan's largest food manufacturers and processors are headquartered in the Kansai region which includes the three major cities of Osaka, Kobe, and Kyoto. As a result, Osaka is host to several major food-related trade shows that may be of interest to U.S. exporters. This report provides details on the three largest shows and how U.S. exporters can participate. With Osaka set to host the World Expo in 2025 and the city's planned opening of Japan's largest integrated resort by 2029, international export opportunities in the region are set to grow.

Japan: Japan E-Commerce Market

This report features e-commerce trends in Japan and the potential for growth in the market. E-commerce in Japan is an approximately \$4 trillion market and Japan is the fourth-largest e-commerce market in the world. Despite ongoing COVID-19 disruptions, 2020 available data highlights that the Business-to-Consumer (B-to-C) e-commerce marketplace experienced marginal increases totaling \$180 billion. While e-commerce is growing, growth in the food and beverage sector is an area for continued development, representing an approximately \$20 billion market in 2020. Rakuten, Amazon and Yahoo! Japan are the major players in the e-commerce marketplace.

Japan: Cheese Consumption Remains Stable Despite Pandemic Disruptions

This report focuses on Japan's cheese market and the potential for continued growth. In 2020, the United States exported over \$162 million of cheese products to Japan, making Japan the third largest overseas market for American cheese. Cheese consumption in Japan exceeded expectations despite disruptions caused by the COVID-19 pandemic. Cheese consumption in Japan totaled 360,744 metric tons, with per capita consumption totaling 2.7 kilograms (5.9 pounds) in 2020. While Japan has a unique diet, consumers continue to learn more about the diverse ways to enjoy cheese, particularly while staying home amidst a sixth wave of COVID-19.

Japan: Frozen Food Sector Continues to Show Promise

Frozen food production that was nearly zero in 1958 has transformed into an approximately \$6.6 billion market today. The growing popularity and convenience among consumers in Japan for frozen foods, continue to steadily increase, particularly since the 2011 Tohoku triple disaster: earthquake, tsunami, and nuclear power plant meltdown. This report highlights frozen food production, the top frozen foods imported into Japan, the growing market trends within this segment and considerations for market entry.
