

2003 BC Sea Urchin Producers Mission

Report on a Meeting with Japanese buyers at the Canadian Embassy in Tokyo

Wednesday, November 5, 2003



As part of the 2003 International Marketing Strategy Development Strategy mission to Japan by the Pacific Urchin Harvesters Association (PUHA) and the West Coast Green Urchin Association (WCGUA), a meeting was held with interested Japanese handlers of sea urchin products. The purpose of the meeting was to:

1. present goals and objectives of Canadian Urchin Fisheries in British Columbia;
2. provide a current update of the fishery;
3. discuss the current management policies of Fisheries and Oceans Canada;
4. get first-hand the thoughts and perceptions of Japanese sea urchin handlers about Canadian sea urchin products; and
5. identify interest in working jointly to improve the BC industry.

A summary of the presentation from the BC Urchin producers is attached.

Attendees

Mission members from Canada

Mike Featherstone - President of the Pacific Urchin Harvester's Association (PUHA)

Juanita Rogers - DFO - North Coast Invertebrate Manager

Tim Joys - Director PUHA

Ken Ridgeway - Director PUHA

Dave McRae - Director PUHA

Herb Watson - Director PUHA

Dave Kensall - Research Director for the West Coast Green Urchin Ass'n

Geoff Krause - Trade and Market Consultant



Japanese Attendants

Mr. Yasuhiro Okazaki - Ocean Trader Co. Ltd.
Mr. Eiji Hayasaka - Daiichi Suisan Co. Ltd.
Mr. Watanabe - Tsukiji Uoichiba Co. Ltd.
Mr. Ogawa - Tsukiji Uoichiba Co. Ltd.
Mr. Yoshitomo Shimawaki - Chuo Gyorui Co. Ltd.
Mr. Kuniaki Suzuki - Nisshin International Corp.
Mr. Kitaro Endo - Maruke Co. Ltd.
Mr. Kurita (?) - Daikai Food Co. Ltd.
Mr. Yoichi Hamaoka - Hama International Ltd.
Mr. Mack M. Nishida - Mack's Foods Japan Co. Ltd.

Japanese Perspectives of the BC Sea Urchin Issues

Once the BC delegation's presentation was complete, the Japanese attendees were invited to provide comments on the market situation in Japan and their perspective(s) on what the priority issues are and steps we can take together to improve the situation.

Mr. Nakai, the Canadian Trade Commissioner in Tokyo, took the floor first to provide additional data on the Russian imports coming into Japan and the market distortions caused by the massive

amounts of product with questionable pedigree. The numbers presented are included in the main body of the report but, because they include only legitimate imports reported to and subsequently supplied by the Japanese Ministry of Trade, these do not tell the whole story. There is significant anecdotal information that substantial quantities are being landed directly off Russian vessels which have not previously landed in Russian and are therefore not included in the tally. Getting an estimate on this quantity remains as a significant barrier to understanding the true extent of the world supply of urchin products to Japan.

1. Mr Okasaki

(Ocean Trader Co. Ltd.)

Canada has a 20 year history as an exporter of sea urchin products to Japan. The market was larger in those first days (but additional information on the extent of the shrinkage since was not provided). Once Canada was somewhat established in the market the primary product was sold in wooden trays. Wooden trays, though, are very expensive and the trade has moved more towards cheaper plastic trays. Approximately 15 years ago, the market for Canadian product in Japan switched to bulk packages which resulted in unit volume increases and reduced unit pricing. These packages are broken down and re-packed in Japan with very few being sold as trays.

Reduced price is one of the reasons why the bulk product is preferred from Canada. Only a small percentage of the product is boxed now (~ 1%) but this is extremely limited because of stiff price competition from other suppliers. The bulk sales are sold through bought deals where the transaction is completed at a pre-determined price. As a result of this predominating distribution channel the price is stable in comparison to the auction where the prices are much less certain. This price stability is very advantageous to Japanese buyers so they do not mind maintaining their buying levels.

Having said that, deflation has been affecting the Japanese market for the past few years and there is increasing demand to lower the price of supplies. It is proving very hard though to reduce the price from Canadian suppliers because of the licence costs. About 12 years ago, the Canadian fishery adopted a quota system which has apparently been very important to the continuing sustainability of the fishery. It also increased the cost of licences though and led to increasing costs to buyers in Japan which is detrimental to Japanese buyers. It is very difficult to meet all the demands of the market at the right price and this remains the main problem in the Canadian market.

2. Mr. Eiji Hayasaka

(Daiichi Suisan Co. Ltd.)

Mr. Hayasaka works at Tsukiji where he takes care of the uni auction interests of Daiichi Suisan. He acknowledged that the BC industry and DFO have a sophisticated management system but wondered why no product from BC went through Tsukiji. Approximately 80% of the Canadian product is sold through the bulk and Canadian urchins are not given any ratings because so little is sold through the auction. The major distribution channels remain outside of Tsukiji and the auction has no access to good quality product from BC.

He realizes that it is important to manage and control supply, but feels that the Canadian industry needs to satisfy “supply and demand” requirements or risk turning users away from Canadian product. We need to raise the profile of Canadian product – strengthen it’s appeal to users, through the auction.

Continuity of supply is critical to Tsukiji and a steady supply of good quality product is required to build and hold a rating. It is worth noting that while most supermarkets and other large users of uni buy from the re-packing companies, the clients of Tsukiji include specialty shops looking for high quality material for their stores and restaurants. Virtually all of the sushi restaurants in Tokyo buy their supplies competitively through the auction and do not get the opportunity to buy high quality Canadian product.

Selling though is not risk free- there will always be some bad days as well as good days but as the saying goes- no pain- no gain. Sometimes there is a price that must be paid but all the companies at Tsukiji do their best to maintain a sound, healthy market. In the long term, set quotas, prices and schedules are important, but Canadian industry needs to help the market, and through the market the Japanese consumer, understand the Canadian products – we need to take a risk on the auction to see the benefits in some situations with the understanding that there will be some losses, at least every once in a while, in others.

3. Mr. Watanabe

Tsukiji Uoichiba Co. Ltd.

Mr. Watanabe works at Tsukiji where he takes care of the uni auction interests of Uoichiba Co. Ltd. Mr. Watanabe similarly acknowledged Canada’s accomplishments in the successful management of its sea urchin resources.

Lots of Canadian sea urchin roe is sold in supermarkets but less and less is moving through Tsukiji. Tsukiji has seen good quality before, often superior to that obtained from Los Angeles, in some quantity but now there is only a much reduced supply and even that is generally very poor quality. The auction is the best place to raise the appeal of Canadian product, so we should be using it more often. It sounds like the pre-sold market is detrimental to the auction market and that competition for product, particularly better grade product, is emerging

Canadian production is currently focused on primarily the bulk tray trade where the price is low-but stable. The reprocessing costs hurt the margins of Japanese processors because only a portion of the higher costs can be passed along to the consumer before they refuse to buy. Circumventing these extra costs by increasing the amount of domestic processing in Canada so that only a more finished product is shipped may reduce the ultimate costs of the product.

4. Mr. Ogawa

Tsukiji Uoichiba Co. Ltd.

Mr. Ogawa also works at Tsukiji where he takes care of the uni auction interests of Uoichiba Co. Ltd. His first comment was an expression of thanks for taking the time to visit the market for 2

days so early in the morning. This has been their first opportunity as distributors to meet with a generally representative group like PUHA and they do appreciate the efforts made.

He then went to mention that in the (auction) market, quality is paramount even though quantity is also important and the success of the Canadian management system is very reassuring. Continuity is a good thing as well and they would like to be better appraised of the weather-caused interruptions to the supply. He usually discusses issues directly with Canadian distributors; main issues are weather, area-related quality, delays in shipping. Currently he relays complaints about quality and or lack of freshness to distributors but is unsure about how frequently this is communicated to the divers or if they change areas smoothly and on demand. He mentioned that perhaps it would be possible to establish better communication between the market and the harvesters. He feels that the Canadian and Japanese players need to ensure that this communication is required to optimize the effectiveness of any joint efforts.

Mr. Hayasaka asked whether there are particular areas closed for research that might have good quality. Mike responded that we have five long term study sites and that the authorities involved (PUHA and DFO) are taking small steps to address the purpose of these studies and consider them for eventual reopening.

Mr. Ogawa then regained the floor and mentioned that a strong feature for BC uni is the taste which is generally well regarded. The size is still a bit of an issue and it could be a bit smaller. Yellow, red and black roes are all produced, depending upon the area and they wonder if it is possible to tailor because they can all be marketed although the bright yellow colour is generally considered the premium. They communicate regularly with the processors but still are not getting satisfaction despite their conveyed requests.

5. Mr. Yoshitomo Shimawaki

Chuo Gyorui Co. Ltd.

Mr. Shimawaki also works at Tsukiji where he takes care of the uni auction interests of Chuo Gyorui Co. He passed around copies of a table he made that showing the effects of deflation- a decline of about 95 tons between fiscal 2001-02 to 2002-03 and an average price decline from 6,344 ¥/kg to 6,328 ¥/kg. During the first 5 months of fiscal year 2003-04, the volume has increased by 19 tons over the same period last year but the price has continued declining, moving from 6,272 ¥/kg in the period between April and November 2002 to 5,380 ¥/kg this year. This may not actually be an effect of deflation as it may be a result of declining average quality at the auction and increased monopolization of higher grade material by bulk buyers. Sometimes the bulk trays are not accepted by the pre-set buyer and are re-packed on large trays and sold on Tsukiji. Bulk products sold on the market this way usually get a lower price than the fixed price market and this has a negative effect on Canadian products. As far as a number of markets are concerned the consignment market is now in effect dealing with rejects.

The price for Canadian sea urchin is quite often higher in the supermarket than California product of a similar grade. Most sushi shops buy their product through Tsukiji where significant amounts of high-grade California product are sold and since their clients do not get high quality products from Canada, there is little good quality product identified as Canadian in restaurants.

(This is significant because sushi chefs are held in some regard in Japan and are very likely considered available and dependable authorities on the quality of particular ingredients they use. All the speakers from Tsukiji have indicated that the BC uni sold on the auction market is generally restricted to the poorer grade(s) and this can affect the reputation of BC product with these market makers only one way. Conversations between sushi chefs and customers are common and it is almost inevitable that the reputation of each jurisdiction as a supplier will get passed around. This is not good for the perception of Canadian product by the consumer and the logical conclusion reached by the consumer appears to be that BC uni is priced too high and is poor value. Pressure by Japanese customers, including the bulk buying companies and re-packers, to sell BC product more cheaply will continue to grow until the price balances with the 'search for good value' by the Japanese consumer.)

He hopes that more high grade material can be delivered to Tsukiji. 7 months of production is adequate for the market. Remember- consumers want smaller trays because they are less expensive than larger trays. We need to ensure that high quality users have access to best quality while maintaining supermarket-style products, i.e. some maintain LA provides the best quality, but he hopes that BC will again improve and effectively compete.

6. Mr. Kuniaki Suzuki

Nisshin International Corp.

Mr. Suzuki hopes that Canadian producers can get a better understanding of the Japanese market and the effects of deflation. It is for example- causing price declines in restaurants and even casual drink bars even as demand for quality increases. In general, there is an overall increase in quality and decrease in price in all industries The upshot is that increasing sales and prices will require joint efforts to improve the situation. Mr. Suzuki would like to see Canada able to accommodate the Japanese market better (eg. can licence fees be reduced?)

With regard to Quality factors, Japanese consumers and, as a result, the Health department, are very concerned about sanitation and food safety. All importers must now declare their source all the way back to the harvest vessel and to the area from which it was harvested. He further mentioned that any foreign material in a product is now a big deal and that microbiological issues might mandate further strengthening of QA/QC protocols. An approach by the Canadian government to the Japanese government with further assurances on the sustainable management of the resource and QA might allow a faster reduction of import duty.

7. Mr. Kitaro Endo

Maruke Co. Ltd.

Mr. Endo deals in bulk tray distribution, re-packing and processing. He has worked with Canadian product for over 15 years. He made the point that divers logically make more money by picking larger urchins and that, as a result, Canada has a reputation for uni that is too large for use in the premium sushi market. He feels this is something that is hurting Canada in the Japanese market and questioned what was being done about it (eg. can we get a upper size limit?). It is common knowledge that bulk processors also favor larger animals because their unit

production costs are often lower, again because of the simple fact that fewer urchins must be handled to obtain a set amount of uni and that the individual sizes picked are a matter of discussion between the processors and their harvesters.

8. Mr. Kurita

Daika Food Co. Ltd.

Daika foods is a wholesale importer of many seafoods which distributes to supermarkets, to bento box and other prepared food producers as well as restaurants, especially the circling-type sushi bars. Their first priority is taste and their second priority is cost. Currently 100% of their supply is from Chile, however if taste and price from Canada were competitive, they would consider a change. (This means they are very possibly dependent upon Chilean production and that a production fall-off there could be disastrous for the company and quite possibly for the whole market segment that has developed around these cheap supplies.) He feels that price for Canadian product is too high right now and therefore hard to use in sushi bars. Consumers generally don't like the C and D grade product but if the taste of the Canadian is good, they might be more accepting.

9. Mr. Yoichi Hamaoka

Hama International Ltd.

Mr. Hamaoka first expressed his thanks to the Canadian delegation for having this meeting. Hama International is primarily a tuna importing company but the company is looking for additional opportunities in the seafood import business. The company tried its hand with urchins a number of years ago with a supplier from New Zealand but had problems of all sorts with the supplier's inexperience including with export and import procedures and requirements and had to bail out. The company is now considering restarting in the market and is searching for a premium brand product, possibly a private label for/through a new company. His customers want small trays, so the cost for importing and packaging is significant. He needs co-operation between suppliers and Japan to build a new line of products, with a heavy priority on quality. He is still an amateur in the sea urchin business and hopes to be able to work with Canadian suppliers to build his knowledge and a new business.

10. Mr. Koji Kikoshima

Daiichi Suisan Co. Ltd.

Mr. Kikoshima said all the points he had were previously mentioned by other speakers.

11. Mr. Mack Nishida

Mack's Foods Japan Co. Ltd.

Mack has been involved with the Canadian industry for about 26 years and knows the Canadian industry very well. He stated that significant differences exist between the Japanese and

Canadian sides on the Canadian sea urchin production and that as an experienced importer of product from Canada that he must try to bridge these positions. Basically he feels the quality issues have been largely resolved but that the prices are too high. The problems right now are that no one is making any money on the product and there is no simple way to change this situation. He then mentioned that having fishermen sell directly to end users is impossible. (I believe the point should be made that it is not the intention of the harvesting sector to even try this- at least at this point. This quite possibly explains the reluctance of the processors to support this process despite the project's principals stated intentions to the contrary.)

Japanese buyers want smaller sized roe while Canadian processors seem to prefer larger urchins. Foreign exchange rates are beyond anyone's control (but again the fixation is totally on the depreciation of the US \$ which may be valid point to a degree because of the status of the California uni as the market benchmark price-setter as reflected by a number of comments at Tsukiji about how having abundant California uni available generally depresses prices for other producers simply because it has the reputation for consistent high quality.

He commented on prices of licences and leases again and how the same sort of appreciation had been seen in the geoduck industry fishery and how the resulting costs had alienated their Japanese buyers so the product was no longer sold in Japan. This position is a tacit reminder that things change and that the basic economic theory/practice says that products will be sold into those markets offering the best returns. In this instance, Japan was apparently just not willing to compete with China on price for this product. At any rate, he maintains that abandonment of the licencing system must be an option.

On the "transportation costs" side he felt further negotiations with the airlines and/or trucking interests might lead to some cost savings. He also questioned the government policy on the impacts of large sea urchins on kelp and abalone, stating a belief that the Canadian government is requiring fishing on larger animals. He questioned DFO's support for this industry..

Demand for bulk product can be traced back to the department stores which can have the product in refrigerated storage for up to 20 days, although there is a loss in quality.

The market in Japan has been difficult for the past 10 years- ever since the collapse of the real estate bubble economy in the early 1990's. The market for uni used to be a luxury market but has since become much more casual mainly as a result of lower prices from Chile and the development of casual sushi restaurants. This has resulted in a lower price point for uni and price is therefore the 1^o issue for Canadians to consider. On the up-side- if this issue is adequately addressed it may be possible to triple the volumes sold into Japan (from 400 MT to 1,200 MT/yr. Demand may well rise beyond this level if/when Chile and/or Russia cannot maintain their production levels- any Canadian processors which locks into long-term contracted prices as a means to ensure stable sales will not be able to take advantage of any such development).

Additional Comments from an Outside Meeting

At an 'ad hoc' meeting with an urchin processor from Hokkaido it became apparent that Hokkaido processors are familiar with product from BC, especially GSU and that the product

from Port McNeill is especially preferred. Processors on Hokkaido generally only source GSU from Japan, Russia and Canada and, after processing in Hokkaido, ship the finished product back to Tsukiji. Their main market is in December- January when they can get good quality Russian product from the Kuriles even though Russian operations continue through from November to April. Weather problems later in the winter leave a window open for BC product. The West Russian Kurile islands are best - although some places are getting pretty spotty. Main landings ports for GSU are Sapporo, Miagi (on the SE coast of Hokkaido) and Tokyo.

Yellow and orange colours are best, while the white product from Victoria is not considered favourably. Recoveries from BC GSU typically range from about 12-15%, with peaks at around 18%. Japan likes the product because it's the same species as was traditionally and historically fished and the same as the whole fishery and 'taste' historically developed around. The December price is about ¥1,500/kg, as opposed to approximately ¥1,000/kg for the Canadian product despite the generally better quality from BC.

RSU are mostly re-packed for supermarkets and, as many remarked throughout our trip, Canadian product is often considered too expensive. The size has been too large in the past but is considered good now. Chile has similar product to Canada at a better price but the flights are too long to have a decent fresh market; currently 1000 MT fresh, 2000 MT frozen (cheap sushi) - not good quality, a lot used for pasta sauce or rice flavouring.

Russian operations use divers on hookah and generally record landings of about 200 MT per day in March. The Russians fish very hard and do not seem to connect the dots when it comes to the importance of not over-supplying the market even when prices decline to ¥50 /kg. This company would buy more product from Canada if the price was bit more competitive.