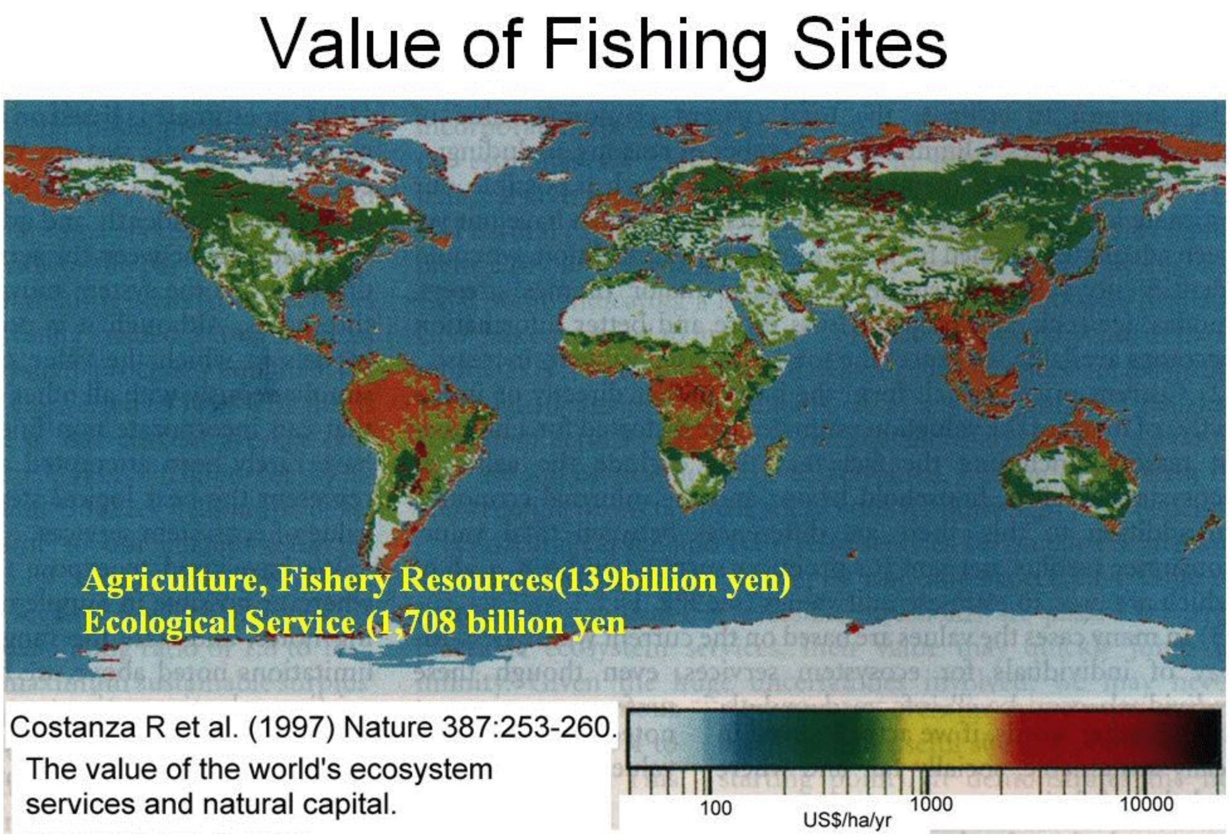
Pacific Urchin Harvesters Association

Report on an Agriculture and AgriFood Canada Seminar on the Outlook for the Japanese Market in 2025

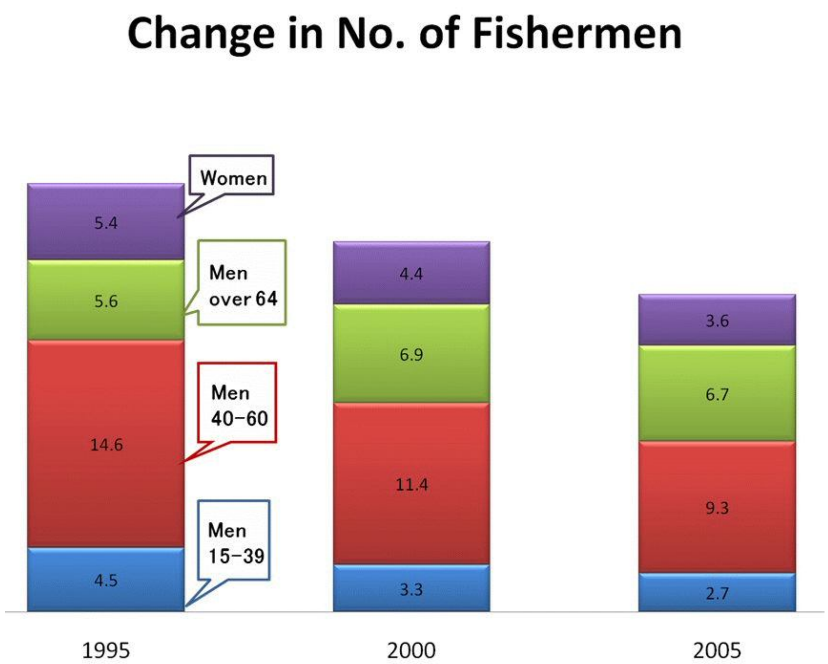
Agriculture and AgriFood Canada commissioned a study on the projections for the Japanese market up to the year 2025 and invited clients to a seminar in Vancouver where the consultants presented their findings. Geoff Krause and Ross Morris attended the 3 hour presentation on behalf of PUHA. This document is a report on some of the highlights of the presentation with some commentary on points of particular interest to seafood harvesters in BC. All of the graphics in this report were part of the presentation by NCI and Associates.



One of the first things that caught my attention was this picture of the value of agriculture, fisheries and ecological services around the world. The graphic is, at 11 years old, a bit dated but one of the more interesting points to me is that the ecological services outweigh the ag/fisheries values by a factor of more than 10. I believe the values printed in yellow mis-state the actual value one would get by working out and accumulating the values using the unit value per hectare listed in the legend by the total number of hectares in each ‘section’ but I am also guessing there is another more specific context which was not actually discussed.

The presenter confirmed that the value of Japan’s inshore fisheries, the ones owned, controlled and managed by the Fisheries Cooperative Associations (FCA’s), is declining significantly. These FCA’s have been used to manage rights to fishing resources in Japan for centuries and are generally referenced as among the best and most sustainable management systems in the world.

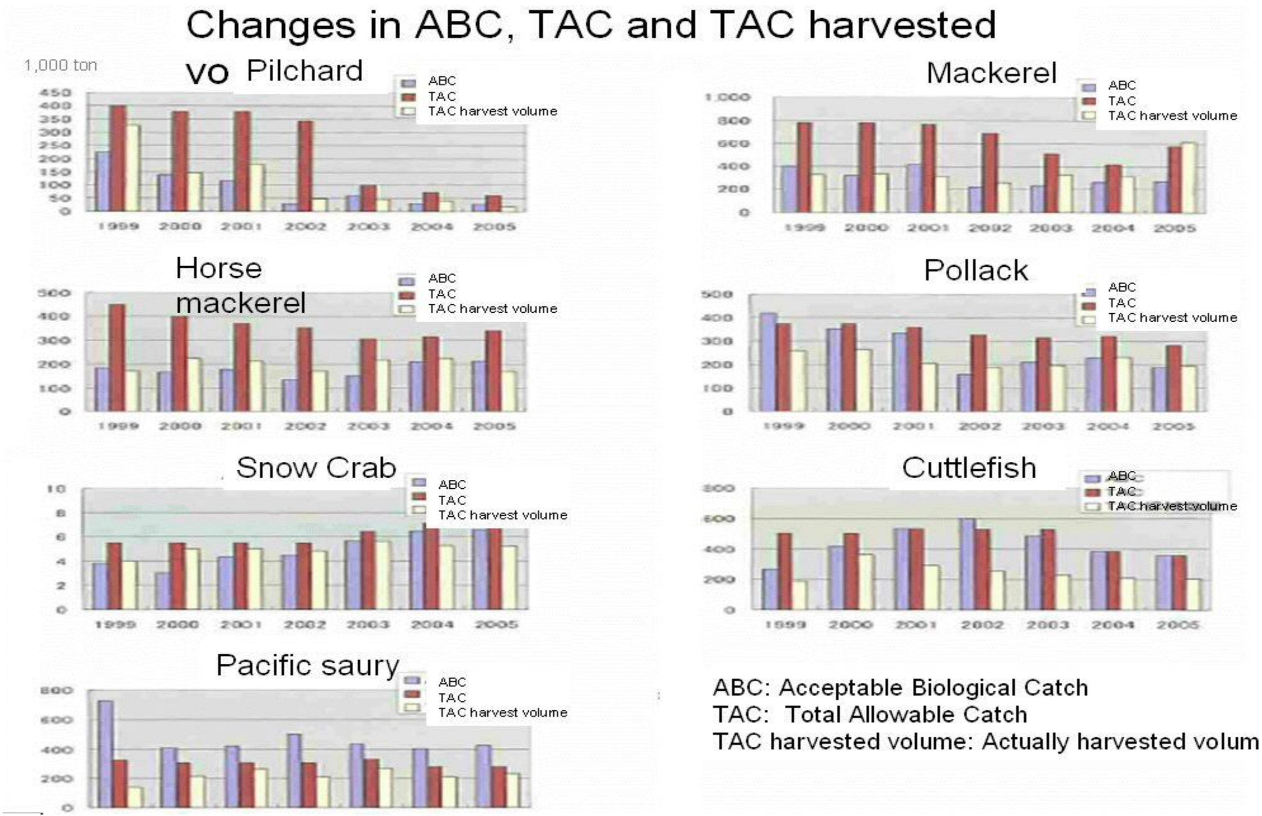
Despite this, it appears their reputation is currently taking a beating. The reasons behind this include declining interest by young people to work in the industry, a shrinking active workforce on the grounds, pollution, habitat decline (due in part to the lower levels of care and attention by the fishermen) and declining returns to the FCA's because of wholesale price declines imposed by a changing retail environment.



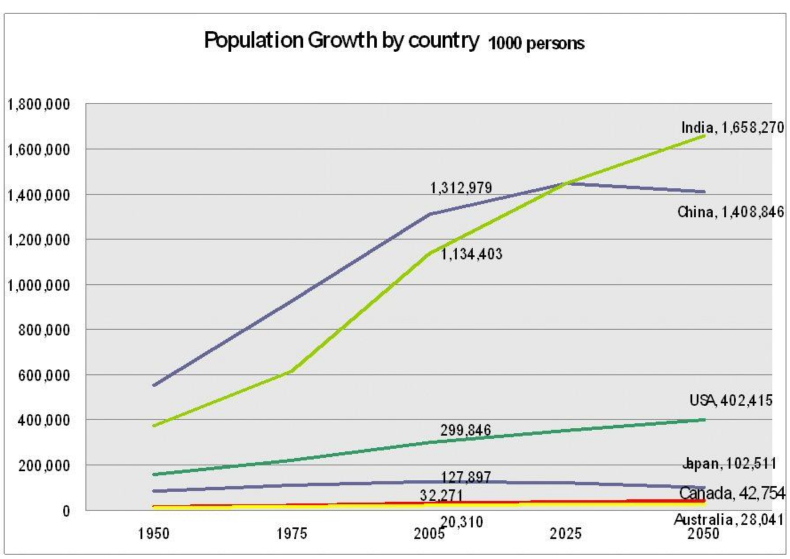
The trend for the fisheries sector is projected to continue into the future and the Japanese government is now considering opening things up to get more migrant workers into the country for these jobs. This is a solution applied throughout much of the developed world but it is a first for Japan. This may indicate that the country is becoming less insular and more tolerant of other ethnic groups wanting to reside in Japan but probably the upshot of most interest to PUHA members is that their domestic urchin production capacity is not likely to increase and Japan will remain dependent on imports for the majority of their supply. The government is however launching a Buy Japan program and hoping to increase seafood exports if surpluses can be produced as the population declines.

The global catch of seafood has topped out at about 100 million metric tonnes each year and sustainability is being increasingly recognized by Japan as an issue of some concern, although consumers in Japan apparently question the validity of that concern. This may reflect a fairly standard perception amongst consumers in many parts of the world, including Canada, who see themselves and their actions based on idealized perceptions which are actually at odds with reality. There is an old adage that people judge themselves on their intentions while judging others on their actions. I do not believe there is a cultural restriction on this observation.

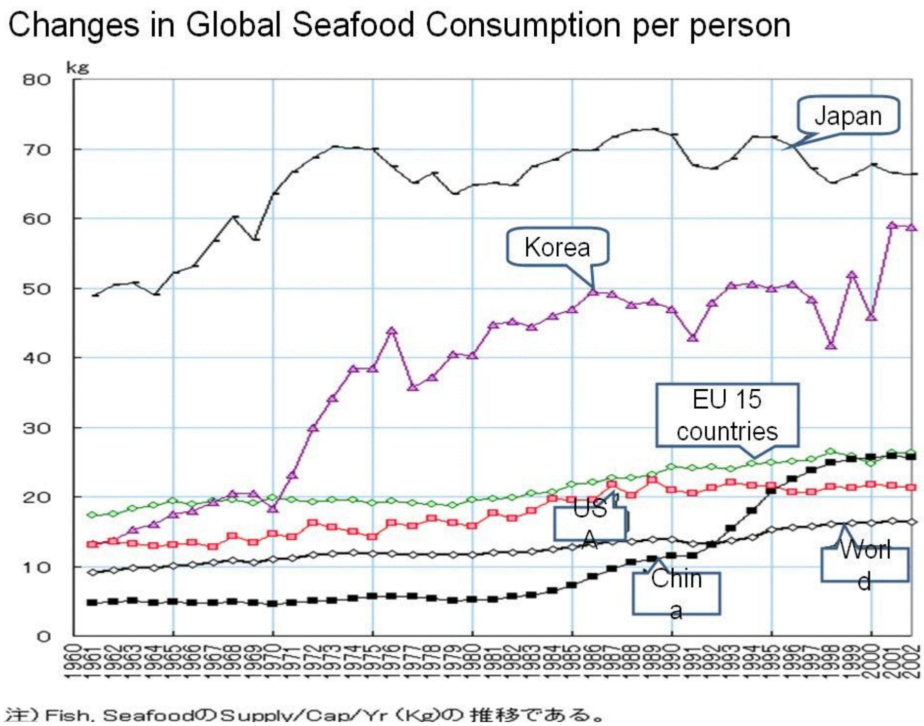
The growing consensus on the questionable sustainability of current fishing levels has not always found a lot of traction in Japan, a country with perhaps the greatest seafood preference in its cuisine. It also has extensive worldwide fishing interests and very strong cultural fishing traditions. The effects of ignoring scientific advice, though, has been driven home over the past few years as can be seen by comparing the biologically acceptable catch rates to the too often politically influenced Total Allowable Catch and the total realized catch in the following graph. The discrepancy is seen most dramatically in the pilchard catch where the TAC was set up to twice the scientifically recommended levels only to see a couple of years later that the science was right and the fishery ended up in virtual collapse.



This probably is not here nor there, but I thought the pilchard example was pretty demonstrative of how reality often responds when politics intrudes too far into management decisions. Probably the other big lesson was with cod in Canada and on that I don't think I need say more. News media are pretty much global now and any reports on questionable fishing practices that we see in Canada are likewise available to Japanese consumers so any assumption that others will recognize our fishing practices as sustainable must be tempered by the regular appearance of reports critical of them. The seminar included one such article published by the Globe & Mail on November 26, 2008 with the headline (inferring Canada is) "Fishing its fish stocks to extinction". This perception attaches to Canada and all fishery products coming from Canada. Ouch.

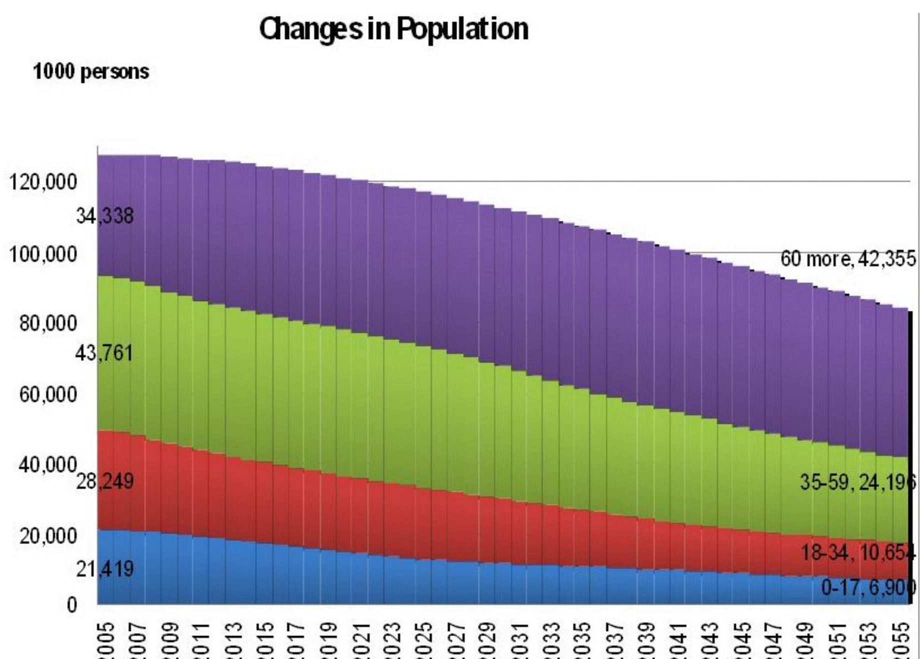


Moving along, China is taking an increasing share of the world seafood while Japan's share is decreasing. This is due in part to the population trends, numbers are increasing in China but decreasing in Japan, but also to the increasing wealth of China. India is also projected to take an increasing share in the future even though their annual per capita use is only about 5 kg vs. about 25 kg for Canada and China and 65 kg for Japan.

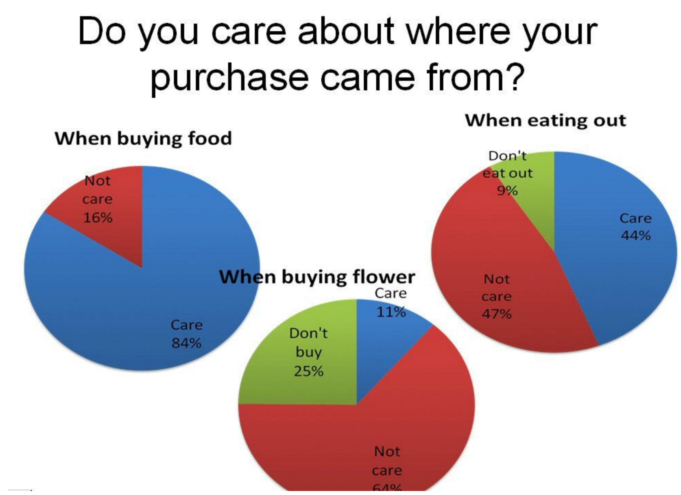


Japan’s per capita consumption has been fairly stable since the mid-1970's while China’s rose at a pretty good clip in the 1990's. Given the continuing population growth in China, the absolute value and volume of seafood used there is increasing. China is in fact bidding prices higher in all sorts of luxury goods and Japan and other countries are losing their capacity to keep pace. In many developed economies, an almost obsessive consumer demand for declining retail prices is pushing down the wholesale prices paid to their suppliers. In Japan this means even the ever-present bento boxes are coming down in price.

Japan’s population was increasing until just a few years ago so the steady seafood consumption and steady or slumping production translated into a declining self sufficiency in seafood. This has recently turned around, in part in part because their diet is becoming more western but also because the population recently started to decline as birth rates have declined and the average age of the population is increasing. Both trends are projected to continue.



There are a couple of implications to this. There is a big rise in home care in the cards but young people are less interested in providing it for their elders. There is, therefore, going to be more seniors in institutes. Also, older folks are saving more to pay for it and spending on luxuries is falling off. Actually it is the mid-range value goods that are



suffering the worst declines. Even while people are cutting back overall, they still tend to compensate by treating themselves with the high cost & prestige luxuries on occasion. The high cost of eating out means this is a special treat which is not often indulged. Interestingly, people do not care too much about where their food comes from when eating out, they trust the establishment to properly vet it but it is another story when they buy food for home consumption. I'll have more on that shortly.

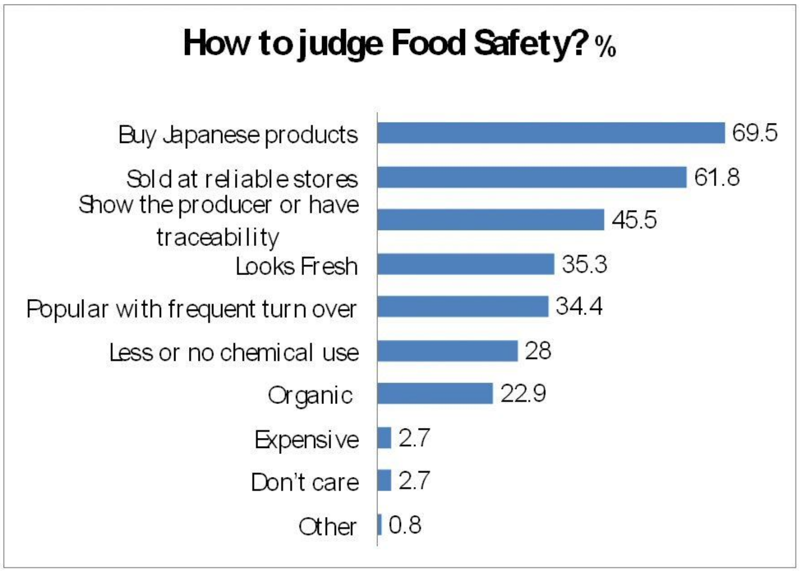
Japanese households are also trending smaller with more people choosing to not have children or even staying single. Work is often an all-consuming activity for all members of the workforce in Japan and the time and energy left over for things like preparing dinner is often pretty minimal. This has really boosted the focus on convenience in all things and in the case of meals and food there is increasing demand for smaller portions involving less preparation, waste and cleanup.

Even when families with children sit together to eat, they often each have a different dish. This has meant, for example, that pre-cooked, possibly marinated, meals which can be simply microwaved and mixed with rice from time activated rice cookers so the whole thing is ready to go in 2 to 5 minutes are increasingly popular. In this regard, frozen seafood has been and remains a big growth item. Most apartments have very small refrigerators so these meals are generally picked up at a local store, whether that be a supermarket or a neighbourhood convenience store, daily or at least a few times each week. More kitchens, especially of young people, also lack other useful things - like knives and ovens although microwave ovens, toaster ovens and double gas burners are still pretty much typical.

Interestingly, while sushi remains very popular because it is convenient, healthy and tasty, it is considered different from round or filleted fish, again primarily because of the convenience factor. Fish and most lesser-processed seafoods are seen as a hassle to prepare and, as a result, demand and prices of most such products are declining. Processed shrimp and crab are the only primary processed items which have seen a price increase.

Another thing about older folks is that they tend to care more about where their food is coming from, how it is produced and, perhaps most importantly, what sort of assurance they have in its safety. Based on how they actually shop, food safety to Japanese consumers is second only to convenience. Being hand- made, healthful, economic (price) and domestically produced round out the top 6 criteria they use when choosing which foods to buy. Younger people are not so worried about these things being, like young people everywhere throughout the developed world, more interested in things like travel, holidays and partying. This being Japan, they own fewer cars and more cell phones and food is generally situated at about # 3 in their priority list. Young people however are a smaller proportion of the population and we can rest assured that they will eventually come around as they too age.

In aggregate, the effect on food service industries (restaurants) is worth considering. Young people have less money for going out and while older folks are often less price sensitive they are also less interested in going out just because. These basically mean there is increasing demand for pre-cooked food that can be quickly made at home and appropriately sized containers for single servings are also favoured so waste is minimized.

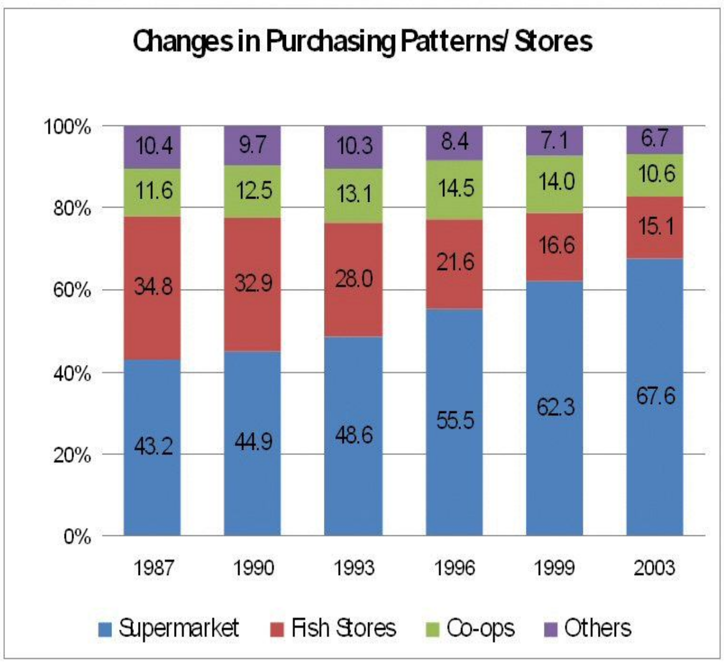


Getting back onto the food safety issue, the most frequently mentioned criteria used to judge Food Safety are presented on the chart to the left. Of particular interest to BC urchin producers are the presence of traceability, appearance and 'less chemical use' in positions 3, 4 and 6 respectively. We have problems with these three criteria: BC processors have discounted the value of traceability to Japanese consumers; BC uni trays in the Tsukiji auction are generally rated very poorly in terms of appearance; and BC uni is well known as having a very strong alum aftertaste according to Japanese buyers we have talked to.

On the first of these, traceability, New Zealand and Australia credit their superior system and their demonstrated willingness to step and accept responsibility and say sorry quickly for saving them lots of grief and money in Japan because of problems on some lots of food imported from their countries. The same claim is made by Maple Leaf Foods because of the instant, forthright and compassionate way they handled the listeriosis crisis in Canada in 2008. Nationally, overall Canada qualifies as not too bad in this regard while the US is considered less so.

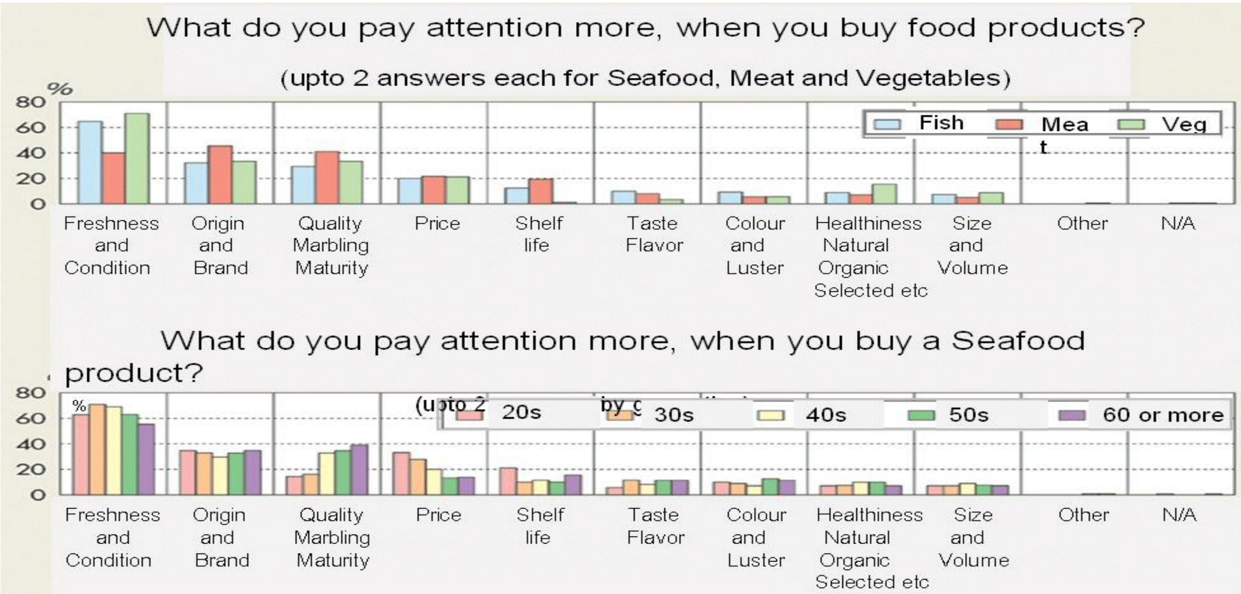
The chemical issue though has been mentioned to us by a couple of Japanese guys who know about these sorts of things, making it much more difficult to blow off. It is also unnecessary as there are hydro-packs which totally avoid the use of alum and still have a shelf life of up to a week. These packages, as pictured below, use acetic acid at 0.01% and storage at 0° C and may involve something called nano bubble technology. We enquired after further details on and/or references for the process but were not able to obtain these at the meeting. I was, however, assured that further information could be obtained from the AAFC, CFIA product development folks and if all else fails, through the consultants who prepared this presentation. The product reportedly retains the sea- fresh taste and sweetness and retails for between ¥3,800- 4,500 per 100 grams. Assuming a 100% margin, this would translate to ¥2,050 /100 g wholesale price. Using an exchange rate of ¥100 per Canadian dollar, that would work out to $20.50 per 100 g or $205.00 per kg. This is an amount sufficient, to my mind anyways, to suggest that further investigation is warranted., especially given the sales trends of Canadian uni in Japan over the past few years.

The other item of note in the safety criteria table is the first item is to buy Japanese. This, coupled with the reports of more Japanese companies buying shares in suppliers around the world as a means to secure a guaranteed supply without having to match bids from China etc, suggests that a productive strategy might involve using a Japanese partner for the final packaging of products caught in Canada. It may also be possible to get more value-added processes in Canada because of the higher costs and increasing labour constraints in Japan. One of the main guarantees needed by the Japanese partner is a steady supply, something that the Canadian fisheries have not yet been able to satisfy.



The impact of appearance on the consumer might be an issue for BC uni but only maybe because displaying the product is more the responsibility of the supermarket where it is sold. The problem we have witnessed at the wholesale market may not extend to the consumer because very little BC product is actually moved through the auction and the contract sales channels move a higher quality product. This is important because the major food shopping venue has changed over the past decades so the fish stores have lost a significant part of their trade to supermarkets. Supermarkets can be very creative getting product in and a bit “tricky” to position favourably it in the consumers mind, but they do not like to give away their margins.

Other studies looking at criteria for choosing which products to buy generally reinforce the conclusions of the food safety study referred to above. When considering seafood, by far and away the most significant factor is freshness and condition with origin/brand coming in next for all age groups. Beyond this there seems to be more differences showing up between age groups with older folks being more sensitive to quality (including packaging I expect) and less sensitive to price. In young people the order of these is reversed. Other features tested are apparently of less influence but at least some of these may also reflect decisions that have already been set in their minds and not worthy of too much additional consideration.



The main conclusions I drew from this seminar is that expenditures on food in Japan are expected to continue increasing fairly steadily until at least 2020 but that consumers will, because they are getting steadily older, be increasingly picky about their purchases. This means successful companies in Japan will have to give consumers what they want.

First and foremost this means a “Sense of Safety”. This will require full traceability and a trusted Quality Assurance Program, details of which must be available for viewing, preferably with the sales display, and the presence of which must be constantly reinforced. Brands are used by consumers as a shorthand way to assess things like food safety and in Japan they trust Japanese companies preferentially over all others. Because of this it may make sense to take on a Japanese company as a partner so they can put their name on the product and give consumers that instant, if somewhat inferential, guarantee. Country of Origin laws etc have to be considered in how such products are going to be labelled but there should be significant advantages for all companies involved and for consumers as long as various characteristics such as shelf life expectations and all other Brand Promises are detailed and invariably kept.

Another value that Japanese consumers and businesses respect and probably require to build a more favourable reputation is gradual improvement in all aspects of the operation and product. This may be a bit of a problem for Canadian firms as we are not generally recognized as being particularly innovative. We are apparently better known for being reluctant to move away from our traditional way of doing things, whether that is implementing new processes (eg. producing uni without using alum) or providing specialized packaging, even when customers are explicit in their preferences. It is reportedly especially difficult for Canadian companies to wrap their heads around convenience as a consumer requirement, even when the rewards for supplying such goods are beyond attractive.