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Japan

Stone Fruit Annual

2017 Stone Fruit Annual

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Report Highlights:
Favorable weather conditions in marketing year (MY) 2016/17 increased Japanese cherry production to 19,800 MT. However, FAS/Tokyo forecasts MY 2017/18 production will fall to 19,000 metric tons (MT) due to minor frost damage in the largest producing region. Although Japanese cherry imports have been on the decline for several years, FAS/Tokyo forecasts cherry imports in MY 2017/18 will increase to 5,000 MT due to competitive prices for U.S. cherries. For peaches, FAS/Tokyo forecasts a decline in Japanese production in MY 2017/18, to 125,000 MT, from record-high production levels in MY 2016/17.

Key words: JA7107, stone fruit, cherry, peach, nectarine, sakuranbo, satonishiki, benishuho.

Commodities:

Fresh Cherries,(Sweet&Sour)

Fresh Peaches & Nectarines

Cherries:

PS&D

Fresh Cherries, (Sweet&Sour)	2015/2016		2016/2017		2017/2018	
Market Begin Year	Jan 2015		Jan 2016		Jan 2017	
Japan	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	4820	4820	4810	4810	0	4800
Area Harvested	4440	4440	4430	4420	0	4410
Bearing Trees	0	0	0	0	0	0
Non-Bearing Trees	0	0	0	0	0	0
Total Trees	0	0	0	0	0	0
Commercial Production	16300	16300	17500	17700	0	17000
Non-Comm. Production	1800	1800	2000	2100	0	2000
Production	18100	18100	19500	19800	0	19000
Imports	4900	4923	5000	4600	0	5000
Total Supply	23000	23023	24500	24400	0	24000
Fresh Dom. Consumption	21370	21393	22750	22690	0	22250
Exports	0	0	0	0	0	0
For Processing	1630	1630	1750	1710	0	1750
Withdrawal From Market	0	0	0	0	0	0
Total Distribution	23000	23023	24500	24400	0	24000
(HA) ,(1000 TREES) ,(MT)						

Crop Area

The crop area for cherry production in Japan is continues to gradually decline primarily due to aging farmers and the lack of successors and labor. Almost all fresh cherry farms in Japan are family-owned, and reliable labor sources are limited to family members. Although the local Japan Agriculture (JA) [1] growers association arranges for part-time labor to support cherry farmers (particularly during harvest), the lack of a stable labor supply prevents even successful farmers from expanding or consolidating their operations. Industry sources have noted that family-owned cherry farms without automated production practices (e.g., mechanical harvesters) cannot tend to more than one hectare of land. Additionally, although farmland is increasingly going unused in Japan as farmers retire from agriculture, few people are willing to sell their land due to cultural and economic customs related to land ownership. As a result, the fresh cherry planted and harvested area in Japan in marketing year (MY) 2016/17 continued its year-on-year decline (down to 4,810 hectare (ha) and 4,420 ha, respectively). FAS/Tokyo forecasts

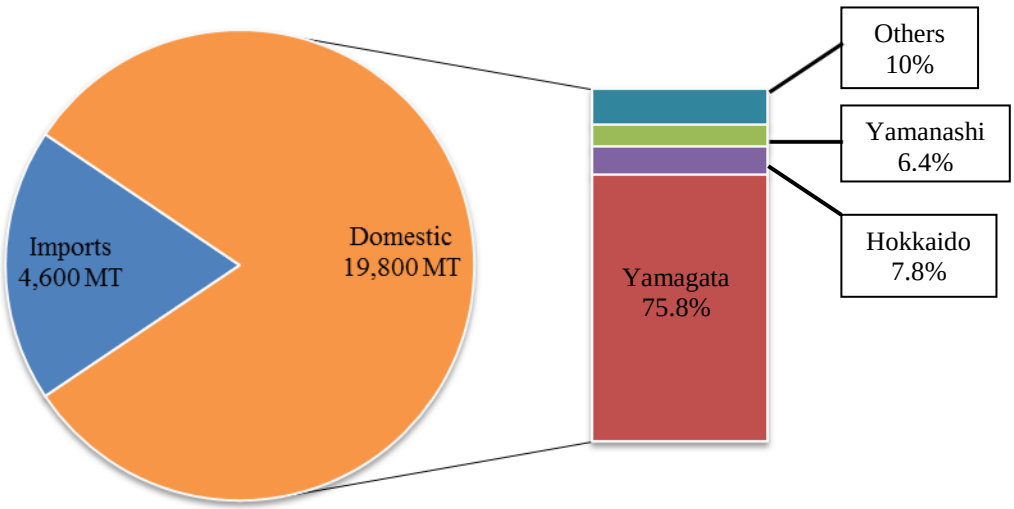
[1] JA is engaged in various activities in support of agriculture in Japan, including, for example, supplying production inputs, offering credit and insurance programs, providing farm guidance, and marketing farm products.

further reductions of fresh cherry planted and harvested area in MY 2017/18 (down to 4,800 ha and 4,410 ha, respectively) as these trends are expected to continue.

Production

Cherry cultivation in Japan requires substantial periods of low temperature to allow the trees to break dormancy during winter. Moreover, during the fruit ripening stage between mid-June to mid-July (the rainy season in Japan) fruit exposed to rain can develop damages. Accordingly, Japan's cherry production is limited to the Northern parts of Japan where the weather is favorable for production.

Chart 1 - Japan's Cherry Production and its Share by Regions in MY 2016/17



Source: Ministry of Agriculture, Forestry and Fisheries of Japan

Yamagata prefecture, located 250 miles north of Tokyo, is Japan's leading cherry producing region, accounting for approximately 75 percent of Japan's fresh cherry crop. Yamagata is not only blessed with favorable weather for producing cherries, but also with exceptional drainage and temperature swings between day and night (in summer as well as winter) that are ideal for Japanese cherry (Sakuranbo) production. Although Hokkaido, located 500 miles north of Tokyo, also has favorable weather for cherries, the region's large, flat fields are generally used to cultivate more valuable crops (such as soybeans and potatoes) over cherries. Accordingly, Hokkaido only accounts for 7.8 percent of Japan's cherry production. Additionally, the geographical conditions in Yamanashi prefecture (at the base of mountain ranges) provide for an adequate climate for cherry production, even though Yamanashi is located only 80 miles west of Tokyo. However, Yamanashi (accounting for a high of 9.0 percent of Japan's cherry production in MY 2007/08) has recently experienced difficulties producing high quality cherries due to climate changes and temperature increases, reducing Yamanashi's cherry production to 6.4 percent of Japan's production in MY 2016/17. The remaining 10 percent of production occurs across Japan in more limited volumes.

The leading variety of Japanese cherries is Satonishiki, accounting for 72 percent of total production. However, Yamagata prefecture has been converting acreage and promoting a new variety called Benishuho, which now accounts for 13 percent of the market. Farmers are favoring Benishuho due to its early flowering and late maturity which extends the domestic cherry season until mid-July. It also produces larger fruit and has a longer shelf-life compared to Satonishiki. This gradual change in production is also facilitating Yamagata prefecture's efforts to explore exports opportunities for Japan, particularly in Asia.

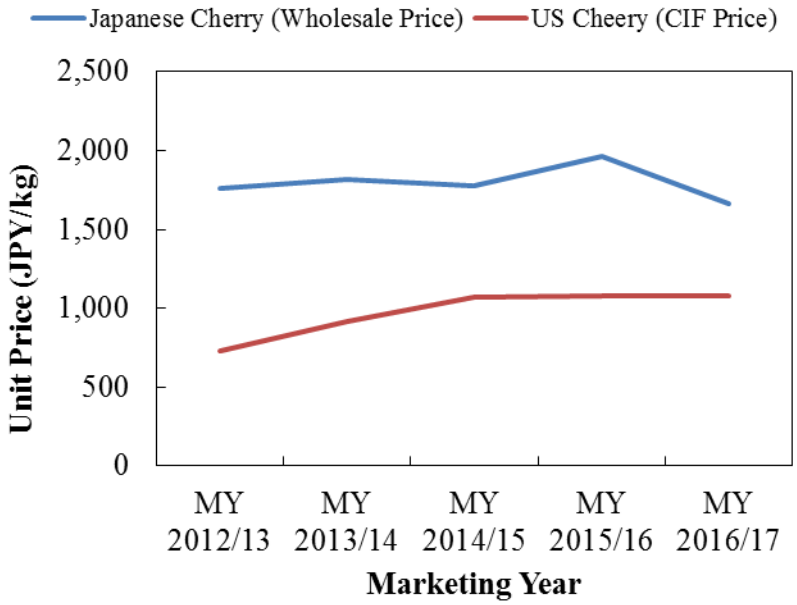
Weather conditions are a leading factor in determining the production of fresh cherries in Japan. In MY 2016/2017, weather was favorable, resulting in an 8.6 percent increase in production (17,700 metric tons (MT)). In MY 2017/18, however, the early-flowering trait of Benishuho turned out to be disadvantageous when it sustained frost damage during flowering, causing an estimated 30 percent reduction in Benishuho production. This damage is expected to reduce Japan's total cherry production by 4 percent in MY 2017/18, exacerbating the decline in production resulting from retiring farmers.

Consumption

There are two major types of cherries distributed in Japan: domestically produced yellow cherries and imported red cherries, but these types are not considered analogous and do not compete with one another. Japan has a custom of exchanging gifts during the period between June and July, as well as in December, and Japanese cherry producers have directed their attention to the production of the flawless cherry that maximizes the cherry's reputation and helps to make Sakuranbo one of the most popular gifts of summer. Consequently, substantial volumes of Japanese yellow cherries are distributed in premium gift boxes, in addition to retail establishments, whereas imported red cherries are almost all distributed through retail establishments. The average price of yellow cherries in wholesale markets for retail sale ranged between 1,700-2,000 Japanese Yen (JPY) per kilogram (kg) (approximately $15-18 per kg) in MY 2016/17, whereas the CIF price for U.S. red cherries was 700-1,100 JPY per kg (approximately $9-10 per kg) (illustrated in Chart 2). Even though they share similar peak seasons (between early May and late July), the Japanese consumer perceives these cherries as different from one another (see, e.g., JA6023 for further details).

Many Japanese cherry farmers receive the majority of their earnings from the production of gift cherries, but these efforts contribute to low yields as farmers prefer to thin early fruit and discard any fruit at harvest that is substandard. Furthermore, while the custom of summer and winter gift giving remains strong, especially among Japan's wealthy retired population, and driving the consumption of cherries in Japan, younger generations are more often unable to afford the price of premium Sakuranbo. As a result, the demand for domestic cherries is receding year-on-year.

Chart 2 - Unit Price of Japanese and US Cherries in Japan



Source: Tokyo Wholesale Market and Global Trade Atlas

Unlike recent years, consumers enjoyed lower market prices of domestic cherries in MY 2016/17 due to high production with favorable weather, which drove consumption up by 6 percent to 24,400 MT. Although Japan imported large volumes of U.S. cherries in MY 2017/18 because higher-than-average production levels in the United States led to more competitively priced cherries and increase in consumption in Japan (see "Trade" section below for further details), the decline in domestic production (accounting for the lion's share of cherry consumption in Japan) leads FAS/Tokyo to forecast Japanese cherry consumption will still fall in MY 2017/18 (down 1.7 percent to 24,000 MT).

Trade

Because 98 percent of Japan's imported cherries originate from the United States (see Table 1 below), imported cherries are often referred to as "American Cherries" in Japan. Imported cherries are one of the few fruits to market in-season between late April and early July, and have enjoyed a premier retail position in Japan for many years. Although domestic cherries and imported cherries do not compete with each other as described, the market success of kiwi fruit, with more competitive pricing and year-round availability, has gradually taken over the premier position of U.S. cherries over the last decade in Japan. Furthermore, stronger buying power in other Asian markets, such as South Korea, means Japan competes with other international buyers for U.S. cherries. As a result, U.S. cherry imports experienced several years of consecutive decline, falling to 4,600 MT in MY 2016/17.

In MY 2017/18, however, favorable weather conditions in U.S. cherry producing regions, led to increased production and lower prices, resulting in increased Japanese imports of U.S. cherries.

Accordingly, FAS/Tokyo estimates the volume of cherries exported to Japan will increase by 9 percent, to 5,000 MT, in MY 2017/18.

Table 1: Japan's Fresh Cherry Imports by Country

	Quantity (MT)				
Country/Year	MY 2012/13	MY 2013/14	MY 2014/15	MY 2015/16	MY 2016/17
World	10,471	7,377	5,354	4,923	4,619
United States	10,415	7,332	5,292	4,844	4,562
Australia	15	15	14	28	27
Chile	11	0	36	31	16
New Zealand	31	30	13	19	14

Source: Ministry of Finance of Japan

Marketing

Cherries are one of the few in-season fruits from late April to early July in Japan. Although imported fruit from the Southern hemisphere (such as kiwi fruit and table grapes) challenge cherry consumption in Japan, cherries maintain a strong position in Japanese gift markets (represented almost entirely by domestically produced yellow cherries).

Contrary to the recent trend of Japanese retailers reducing the grade of imported cherries to "11.5 size" to maintain low prices, retailers provided both large and smaller sized containers of U.S. cherries in MY 2017/18. Although increased import volumes of U.S. cherries are expected in MY 2017/18, retailers maintained last year's retail price for U.S. cherries (1,500-2,000 JPY per kg), or higher. Despite this, according to multiple retail sources, Japanese consumers recognized the higher quality of U.S. cherries this year, and demand nominally increased.

Policy

There have been no policy changes impacting cherries since the previous report (see JA3035). The import duty of fresh cherries (Tariff code: HS 0809.29) is 8.5 percent.

Peaches and Nectarines:

PS&D

Fresh Peaches & Nectarines	2015/2016		2016/2017		2017/2018	
Market Begin Year	Jan 2015		Jan 2016		Jan 2017	
Japan	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	10500	10500	10400	10500	0	10400
Area Harvested	9690	9690	9500	9710	0	9700
Bearing Trees	0	0	0	0	0	0
Non-Bearing Trees	0	0	0	0	0	0
Total Trees	0	0	0	0	0	0
Commercial Production	114000	114000	120000	116000	0	115000
Non-Comm. Production	7900	7900	10000	11300	0	10000
Production	121900	121900	130000	127300	0	125000
Imports	0	0	0	114	0	200
Total Supply	121900	121900	130000	127414	0	125200
Fresh Dom. Consumption	119560	104310	114200	112106	0	110300
Exports	1000	1150	1400	1308	0	1400
For Processing	16440	16440	14400	14000	0	13500
Withdrawal From Market	0	0	0	0	0	0
Total Distribution	121900	121900	130000	127414	0	125200
(HA) ,(1000 TREES) ,(MT)						

Crop Area

Japan's aging farming population, as well as the lack of succeeding young farmers, is a problem for many agricultural sectors in Japan, including for peach and nectarine farmers. Consequently, Japan's planted area and harvested area of peaches and nectarines in MY 2017/18 continued to decrease marginally to a total of 10,245 and 9,545 ha, respectively.

Three major peach producing regions in Japan - Yamanashi (33 percent of production), Fukushima (15.9 percent of production), and Nagano (10.8 percent of production) - account for two thirds of Japan's peach production. Yamanashi prefecture, located 80 miles west of Tokyo, is Japan's largest peach producing prefecture with 3,200 ha of harvested area.

The Government of Japan (GOJ) releases the "Basic Policy for Promoting Fruit Agriculture" every 5 years. The policy set a target for planted area for fresh peaches at 10,700 ha in 2025, representing the GOJ's goal to maintain the current level of production for the next decade. Considering that Japan's farmer population continues to age, the observed trend of decreasing acreage, and decreased consumption due to a declining population, Japan's 2025 planted target may prove ambitious.

Japan's planted area and harvested area for nectarines are also steadily declining, and reached 160 ha in MY 2016/17. Nagano prefecture, located 80 miles west of Tokyo, is Japan's largest nectarine producing prefecture with 100 ha of harvested area (accounting for 62 percent), followed by Fukushima (17 percent) and Yamanashi (10 percent). FAS/Tokyo anticipates Japanese nectarine production will continue to fall in MY 2017/18 to 155 ha.

Production

Yamanashi prefecture produced the highest volume of peaches (40,000 MT) in Japan in MY 2016/17. Fukushima followed with 29,000 MT in MY 2016/17, but its yield of 19 MT per ha was much higher than Yamanashi's 12.5 MT per ha, attributed to the relatively flat landscape of Fukushima's peach growing area.

Weather conditions are a leading factor in the production of fresh peaches in Japan. Favorable weather conditions increased Japan's peach production by 4.4 percent to 125,350 MT in MY 2016/17. Although weather conditions remained good in MY 2017/18, reduced planted and harvested area resulted in a marginal decline in Japan's peach production (123,100 MT, down 1.9 percent).

With regard to nectarines, Nagano prefecture produces 75 percent of Japan's production. Nectarine production is also decreasing year-on-year due to reduced planted and harvested areas. Accordingly, FAS/Tokyo estimates Japan's nectarine production in MY 2017/18 will total 1,900 MT, down 2.5 percent from MY 2016/17.

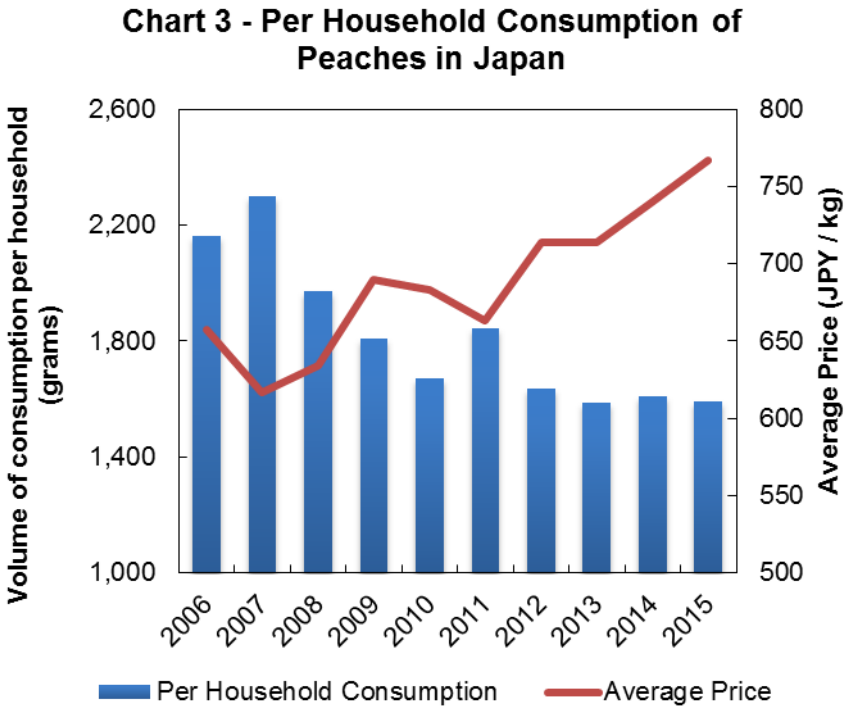
Consumption

Japanese consumers do not spend significant portions of their disposal income on fruit, which fall outside of the traditional Japanese diet. Furthermore, average retail prices for fruit, including peaches (illustrated in Chart 3), have steadily increased in recent years. Consequently, Japanese perceive fruit, including peaches and nectarines, to be relatively expensive. Accordingly, consumption in Japan continues to decline.

Despite a general trend of declining consumption of fresh peaches, Japan's fresh peach consumption increased 4.4 percent to 110,156 MT in MY 2016/17 due to reduced unit prices attributed to high production levels (as a result of favorable weather). In particular, the unit price for fresh peaches in August, when market demands were highest, was nearly 20 percent lower in MY 2016/17 than it was the previous MY.

However, given the marginal production decline anticipated in MY 2017/18 (described above in the "production" section), Japan's fresh peach consumption in MY 2017/18 is expected to fall to approximately 108,400 MT, a 2 percent decline from MY 2016/17 levels.

Almost all produced nectarines are consumed fresh in Japan. FAS/Tokyo forecasts that reduced nectarine production will result in a marginal decline in Japan's nectarine consumption to 1,900 MT in MY 2017/18, down 2.5 percent from 1,950 MT in MY 2016/17.



Source: Ministry of Internal Affairs and Communications of Japan

Trade

The GOJ aims to increase exports of fresh agricultural products to 1 trillion Japanese yen (roughly $9.1 billion) by 2019, of which 25 billion yen (approximately $2.3 billion) is projected to be fresh produce. Fresh peaches are designated as one of the focal fruits for export, primarily to Hong Kong and Taiwan (which accounted for nearly all of Japan's peach exports in 2016/17). Continuous reductions in Japanese consumption, coupled with higher prices in foreign markets, have motivated Japanese peach growers to expand market opportunities outside of Japan. Consequently, Japanese peach export volumes increased 9 percent to 1,308 MT in MY 2016/17, and FAS/Tokyo anticipates a further expansion of exports, albeit limited, in MY 2017/18 (an increase of 7 percent to 1,400 MT).

Japan only permits the import of fresh nectarines from the United States and New Zealand due to phytosanitary concerns. In MY 2016/17, the United States resumed exports of nectarines for the first time since 2005 (Japan imported a total of 114 MT of U.S. nectarines at the end of the season in August). Retail contacts reportedly received positive comments from consumers, resulting in an earlier start for U.S. nectarine imports in MY 2017/18 (i.e., mid-June). Accordingly, FAS/Tokyo forecasts Japan's imports of nectarines will increase 75 percent to 200 MT in MY 2017/18.

Marketing

Japan's fresh peach season begins in late June and runs until early September. In July and August, fresh peaches enjoy their prime market placement, competing with melons, watermelons, and grapes. Producers, together with local government officials and JA, promote sales and public awareness campaigns in various ways (e.g. store demonstrations, peach-picking events at local farms, etc.).

Public awareness for nectarines, however, still remains very low in Japan. Therefore, Japanese retailers avoid selling nectarines in late July and early August when domestic peaches have their peak season. Instead, retailers worked to increase consumer awareness of U.S. nectarines in MY 2016/17 by focusing sales in late June and in early July when the Japanese fruit market was less competitive. This marketing strategy proved successful enough for retailers to expand nectarine sales beyond late June and early July to include an additional marketing period in late August of MY 2017/18. Increased recognition for U.S. nectarines will potentially provide more market opportunities in the years to come.

Policy

Japan restricts nectarine imports to six designated varieties and only allows imports from the United States and New Zealand due to phytosanitary concerns: 'Summer Grand', 'Spring Red', 'Firebrite', 'Fantasia', 'May Grand', and 'Red Diamond'. The GOJ also requires mandatory fumigation of imports with methyl bromide.

The import duty for fresh peaches and nectarines (Tariff code: HS 0809.30) is 6.0 percent.