

4. Coffee

1. Definition of Category

Coffee beans (unroasted beans ^(Note 1) and roasted beans ^(Note 2)), instant coffee and coffee extracts. ^(Note 3)

HS Numbers

0901.11-000, 12-000
 0901.21-000, 22-000
 2101.11-210, 12-121
 2101.11-100, 11-290, 12-110, 12-122

Commodity

Green coffee beans
 Regular coffee
 Instant coffee
 Coffee extract and essence

Note 1: Coffee beans are stripped of their outer skin, flesh and inner skin and then are dried or otherwise processed using the seed part only.

Note 2: Includes roasted coffee beans ground or blended. Commonly referred to as regular coffee.

Note 3: The extract is removed from the coffee bean and stored as a concentrate. Used commercially and in processed foods such as canned coffee and coffee candy.

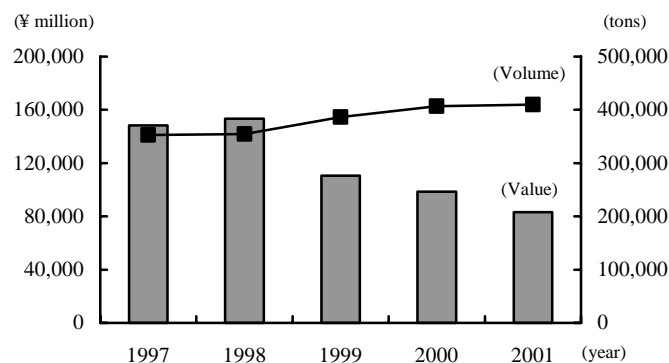
2. Import Trends

(1) Recent Trends in Coffee Imports

Japan does not produce any coffee beans at all and therefore relies on imports for its entire supply. Most coffee beans are imported unprocessed (as green beans), then are roasted, ground, and packaged for sale afterward. Japan also imports roasted coffee beans, instant coffee, and coffee extracts, but in much lower quantities than green coffee beans.

The producer price of green coffee beans depends on the weather and on supply and demand factors. Twice in the 1990s (in 1994 and 1997) there were green coffee bean price spikes, and both had a major impact on companies in the coffee industry in Japan, as well as on consumption. The price of green coffee beans in international market maintained low levels since 1999 onward, and the average import price for green coffee beans per ton in 2001 (¥172,964) dropped to less than half the 1998 level. As a result, import volume set an all time record of 409,797 tons, worth a total of ¥83.25 billion (down 15.6% from the year before).

Fig. 1 Japan's imports of coffee



	1997		1998		1999		2000		2001	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Green coffee beans	325,233	129,675	332,386	133,992	363,418	95,931	382,230	84,467	381,745	66,028
Regular coffee	1,795	2,643	1,580	2,815	1,817	2,269	2,749	2,788	3,630	3,894
Instant coffee	5,945	7,084	6,923	9,430	6,569	6,877	7,177	6,460	8,387	7,531
Coffee extract and essence	20,056	9,020	13,570	7,211	14,329	5,589	14,398	4,920	16,034	5,794
TOTAL	353,029	148,422	354,459	153,447	386,132	110,665	406,553	98,634	409,797	83,246

Units: tons, ¥ million

Source: Japan Exports and Imports

Finished product coffee imports consist mainly of coffee extract and coffee essence, which are used to make canned coffee drinks and in other commercial applications. The upscale trend in beverage demand in recent years has been accompanied by a changeover to domestic coffee products (made from imported coffee beans and roasted and ground in Japan).

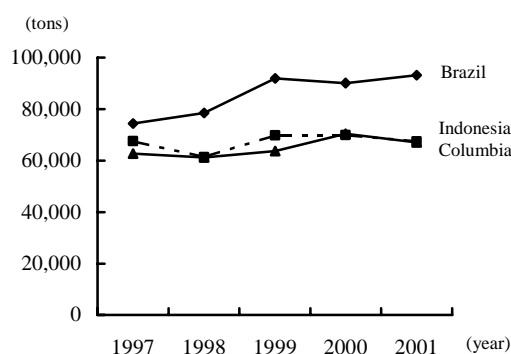
Imports of coffee extract and coffee essence had fluctuated around the 14,000-ton level, but 2001 saw a substantial increase, to 16,034 tons. There was also an increase in imports of instant coffee, to 8,387 tons, and in regular coffee, to 3,630 tons.

(2) Imports by Place of Origin

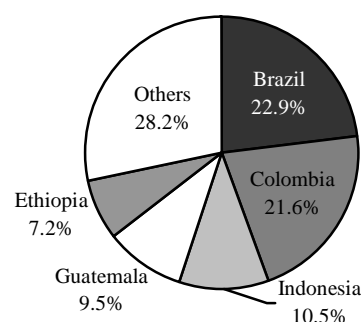
Japan imports green coffee beans from over 40 countries. Almost all of these are developing countries located in the belt 25 degrees to the North and South of the equator. The main suppliers are Brazil (24.4%), Indonesia (17.7%), and Colombia (17.6%). These three countries provide Japan with 59.7% of its green coffee beans in 2001. Japan imports Arabica beans from Brazil and Columbia, and inexpensive Robusta beans mainly from Indonesia. Guatemala and Ethiopia have also seen strong growth in their exports to Japan.

Fig. 2 Principal exporters of green coffee beans to Japan

Trends in import volume by leading exporters



Shares of green coffee bean imports in 2001 (value basis)



	1997	1998	1999	2000		2001			
	Volume	Volume	Volume	Volume	Value	Volume	Value	Volume	Value
Brazil	74,427	78,499	91,901	90,104	19,212	93,185	24.4%	15,148	22.9%
Indonesia	67,615	61,405	69,808	69,906	9,154	67,399	17.7%	6,922	10.5%
Colombia	62,703	61,202	63,761	70,463	19,267	67,027	17.6%	14,272	21.6%
Guatemala	16,900	19,032	26,045	28,060	7,484	31,260	8.2%	6,289	9.5%
Vietnam	16,042	19,045	23,463	25,315	2,428	29,727	7.8%	1,938	2.9%
Other	87,545	93,204	88,439	98,382	26,922	93,148	24.4%	21,460	32.5%
TOTAL	325,233	332,386	363,418	382,230	84,467	381,745	100.0%	66,028	100.0%
(E U)	729	856	813	602	169	461	0.1%	121	0.2%

Units: tons, ¥ million

Source: Japan Exports and Imports

As is clear from the following table, the United States (56.3%) and Italy (12.2%) lead in regular coffee, Brazil (42.6%), Columbia (13.6%), Germany (12.8%), and Ecuador (12.5%) in instant coffee, and Brazil (68.5%), Malaysia (12.3%), and Columbia (11.3%) in coffee extracts and essence.

Fig. 3 Principal exporters of coffee products to Japan (2001)

	Regular coffee		Instant coffee		Coffee extract and essence			
	Volume	Value	Volume	Value	Volume	Value		
U.S.A.	2,043	1,982	Brazil	3,572	2,524	Brazil	10,983	3,072
Italy	442	480	Columbia	1,144	1,159	Malaysia	1,974	739
U.K.	291	542	Germany	1,078	1,311	Columbia	1,806	837
Brazil	246	198	Ecuador	1,049	648	Netherlands	927	958
Columbia	113	92	Indonesia	321	242	Ecuador	268	117
Other	495	600	Other	1,223	1,647	Other	76	71
TOTAL	3,630	3,894	TOTAL	8,387	7,531	TOTAL	16,034	5,794
(E U)	872	1,213	(E U)	1,355	1,631	(E U)	942	981

Units: tons, ¥ million

Source: Japan Exports and Imports

(3) Imports' Market Share in Japan

Japan relies on imports for all of its green coffee beans. The overwhelming majority of the regular coffee sold in Japan, however, is produced domestically using imported beans, so imports account for only around 2% of the market in terms of final products.

Most instant coffee imports consist of bulky imports by coffee makers. Imports tend to rise and fall in counterpoint to rises and falls in domestic production. Imports' share of instant coffee is 15 – 18%.

Fig. 4 Imports' share in the Japanese market

		1996	1997	1998	1999	2000
Regular coffee	Domestic products	137,726	136,615	139,094	139,788	145,701
	Imported products	3,338	1,795	1,580	1,817	2,749
	Total	141,064	138,410	140,674	141,605	148,450
	Imports' share	2.4%	1.3%	1.1%	1.3%	1.9%
Instant coffee	Domestic products	35,055	33,157	31,410	32,067	33,764
	Imported products	6,056	5,945	6,923	6,569	7,177
	Total	41,111	39,102	38,333	38,636	40,941
	Imports' share	14.7%	15.2%	18.1%	17.0%	17.5%

Unit: tons *Source: Ministry of Agriculture, Forestry and Fisheries, Japan Exports and Imports*

3. Key Considerations related to Importing

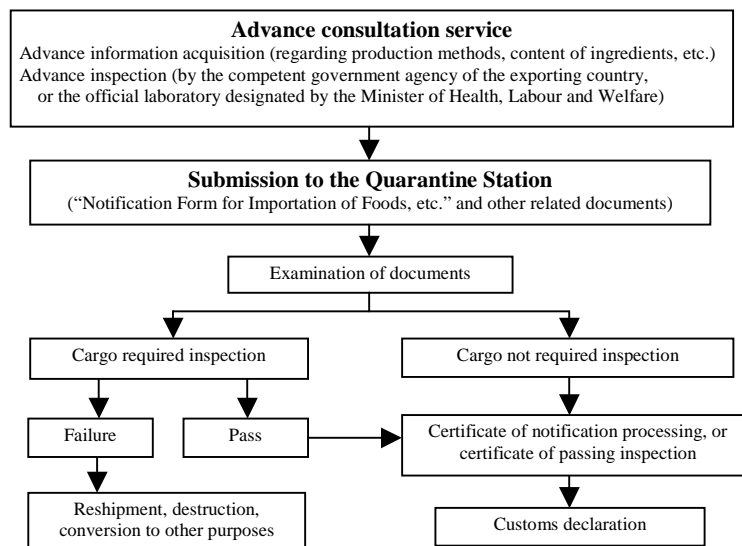
(1) Regulations and Procedural Requirements at the Time of Importation

The importation in Japan of green coffee beans, regular coffee, instant coffee and coffee extracts or essences is subject to provisions of the Food Sanitation Law. Green coffee bean imports are also subject to provisions of the Plant Protection Law.

1) Food Sanitation Law

Under provisions of the Food Sanitation Law, an import notification is required for green coffee beans and coffee products being imported for the purpose of sale or for other commercial purposes. Importers are required to submit the completed “Notification Form for Importation of Foods, etc.” to the Quarantine Station at the port of entry. A determination is made based on the document examination whether or not an inspection at the bonded area is required.

Fig. 5 Procedures required under the Food Sanitation Law



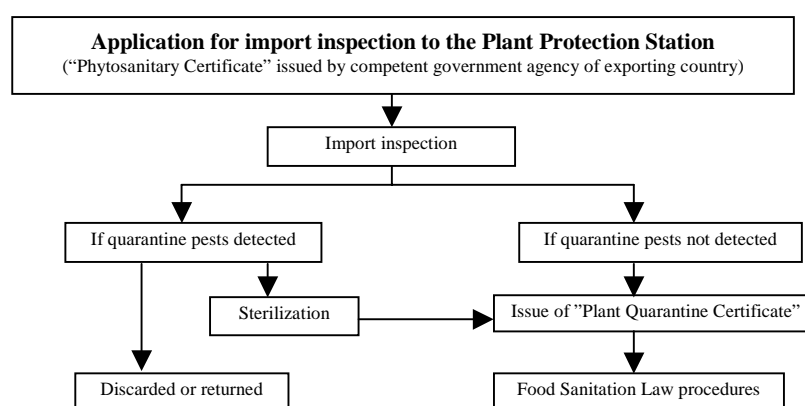
The “Notification Form for Importation of Foods, etc.” includes a space for listing the production method. Importers should be aware that instant coffee and coffee extracts or essences produced using certain prohibited solvents might not be imported into Japan. Instant coffee is checked for E. coli and the presence of arsenic, lead, etc. under food sanitation inspections.

Prior to importing, the importer may take a sample of forthcoming imports to official laboratories designated by the Minister of Health, Labour and Welfare in Japan or in exporting countries. Those test results may be substituted for the corresponding inspection at the port of entry, which expedites the quarantine clearance process. In addition, importers who wish to submit their notifications by computer may make use of the computerized FAINS (Food Automated Import Inspection and Notification System) for processing import-related documentation. Importers who have the required hardware and software may apply for a security code from the Minister of Health, Labour and Welfare to access the system.

2) Plant Protection Law

Green coffee bean imports are also subject to provisions of the Plant Protection Law, whose purpose is to prevent the spread of any injurious plants into Japan. Upon arrival at the port of entry, the importer must promptly submit to the Plant Protection Station an “Application for Import Inspection of Plants and Import-Prohibited Articles” along with a “Phytosanitary Certificate” issued by the competent government agency of the exporting country. Importers should note that only certain ports of entry equipped with plant quarantine facilities are designated for plant imports. If an infestation is detected, and then the importer will be ordered to decontaminate, discard, or return to the shipper.

Fig. 6 Plant Protection Law Procedures



3) Other Required Procedures

Under the International Coffee Agreement (ICA), an export allocation system had been established to restrict the exports of the member producing countries so as to try to stabilize international coffee prices. But since October 1989, this export allocation system has been suspended. At the present time, the coffee market is liberalized. Certain procedures might be required once again, however, as a result of study of a new agreement by the International Coffee Board.

(2) Regulations and Procedural Requirements at the Time of Sale

The sale of green coffee beans, regular coffee, instant coffee and coffee extracts or essences is subject to the Food Sanitation Law, the JAS Law, the Measurement Law, the Nutrition Improvement Law, the Act Against Unjustifiable Premiums and Misleading Representations, the Containers and Packaging Recycling Law, the Law for Promotion of Effective Utilization of Resources, and local government ordinances.

1) Food Sanitation Law

The Food Sanitation Law prohibits the sale of foods containing toxic or harmful substances and foods that are unsafe for human health. When selling packaged regular coffee, instant coffee and coffee extracts or essences, they must be labeled in accordance with provisions of the Food Sanitation Law (see 4. Labeling). There is no legally required labeling for green coffee beans. Existing labeling practices reflect international business practices, coffee wholesale exchange standards and producer country standards.

2) JAS Law

(Law Concerning Standardization and Proper Labeling of Agricultural and Forestry Products)

The JAS Law establishes quality labeling standard for all food and beverage products sold to ordinary consumers. (see 4. Labeling)

3) Measurement Law

Green coffee beans and coffee products sealed in wrapping or containers are required the labeling of the net content to certain accuracy (range of error specified by Cabinet Ordinance).

4) Nutrition Improvement Law

When employing labeling for nutritional ingredients or calories, labeling must be in accordance with the requirements under the Nutrition Improvement Law. (see 4. Labeling)

5) Fair Competition Code under the Act Against Unjustifiable Premiums and Misleading Representations

<Fair Competition Code Concerning Representations of Regular Coffee and Instant Coffee>

The industry has voluntarily adopted labeling guideline in order to assure consumer product choice availability and preserve fair competition, based on the Act Against Unjustifiable Premiums and Misleading Representations. (see 4. Labeling)

6) Containers and Packaging Recycling Law (Law for Promotion of Sorted Collection and Recycling of Containers and Packaging)

The Containers and Packaging Recycling Law was enacted to promote recycling of container and packaging waste materials. It provides for sorting by consumers, sorted collection by municipalities, and product reuse (recycling) by product makers and distributors for glass bottles, PET bottles, paper and plastic containers and packaging. Consequently, coffee product importers incur the obligation for recycling of containers and packaging (although stipulated small-scale importers are exempt). Please consult the competent government agencies listed below for more information.

7) Law for Promotion of Effective Utilization of Resources

As of April of 2001, new identifier labeling requirements apply to paper (not including beverage containers not containing aluminum) and plastic container materials, in addition to previously existing labeling requirements for steel and aluminum cans or PET bottles. (see 4. Labeling)

8) Local Government Ordinances

Local governments sometimes have additional labeling requirements for coffee products sold in their jurisdictions, under their ordinances.

(3) Competent Agencies

- Food Sanitation Law
Policy Planning Division, Department of Food Sanitation, Pharmaceutical and Medical Safety Bureau, Ministry of Health, Labour and Welfare
TEL: 03-5253-1111 <http://www.mhlw.go.jp>
- Plant Protection Law
Plant Protection Division, Agricultural Production Bureau, Ministry of Agriculture, Forestry and Fisheries
TEL: 03-3502-8111 <http://www.maff.go.jp>
- JAS Law
Standards and Labeling Division, General Food Policy Bureau, Ministry of Agriculture, Forestry and Fisheries
TEL: 03-3502-8111 <http://www.maff.go.jp>
- Measurement Law
Measurement and Intellectual Infrastructure Division, Industrial Science and Technology Policy and Environment Bureau, Ministry of Economy, Trade and Industry
TEL: 03-3501-1511 <http://www.meti.go.jp>
- Nutrition Improvement Law
Department of Food Sanitation, Pharmaceutical and Medical Safety Bureau, Ministry of Health, Labour and Welfare
TEL: 03-5253-1111 <http://www.mhlw.go.jp>
- Act Against Unjustifiable Premiums and Misleading Representations (Fair Competition Code)
Consumer Related Trade Division, Trade Practices Department, Fair Trade Commission of Japan
TEL: 03-3581-5471 <http://www.jftc.go.jp>
- International Coffee Agreement
International Economic Affairs Division, Trade Policy Bureau, Ministry of Economy, Trade and Industry
TEL: 03-3502-8111 <http://www.maff.go.jp>
- Containers and Packaging Recycling Law / Law for Promotion of Effective Utilization of Resources
Recycling Promotion Division, Industrial Science and Technology Policy and Environment Bureau, Ministry of Economy, Trade and Industry
TEL: 03-3501-1511 <http://www.meti.go.jp>
Recycling Promotion Division, Waste Management and Recycling Department, Ministry of the Environment
TEL: 03-3581-3351 <http://www.env.go.jp>
Food Industry Policy Division, General Food Policy Bureau, Ministry of Agriculture, Forestry and Fisheries
TEL: 03-3502-8111 <http://www.maff.go.jp>

4. Labeling

(1) Legally Required Labeling

When selling regular coffee, instant coffee and coffee extracts or essences sealed in wrapping or containers, following items must be listed all together on the label, under provisions of the Food Sanitation Law, the JAS Law, and the Measurement Law.

<Labeling items to be listed all together>

- | | |
|--------------------------------|---|
| 1) Product name | 2) List of ingredients |
| 3) Net content | 4) Date of minimum durability or best-before date |
| 5) Preservation method | 6) Country of origin |
| 7) Importer's name and address | |

<Labeling under the Local Government Ordinances >

Under the Tokyo Metropolitan Consumer Protection Ordinance established by the Tokyo Metropolitan Government, the following information must be provided on labels for instant coffee and regular coffee.

[Instant coffee]

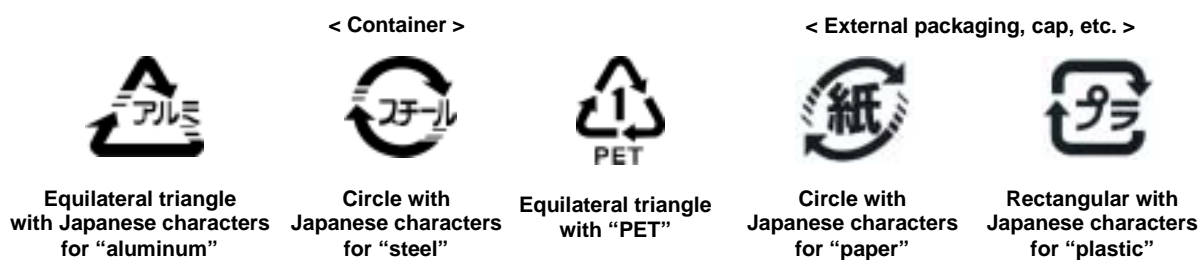
- List of ingredients
- Date of minimum durability or best-before date
- Preservation method
- Usage instructions

[Regular coffee]

- List of ingredients (including country of origin of green beans)
- Date of minimum durability or best -before date
- Preservation method
- Usage instructions

<Labeling under the Law for Promotion of Effective Utilization of Resources>

The Law requires that all canned or PET-bottled coffee and coffee drinks, whether produced in Japan or elsewhere, display an identifying mark affixed to or printed on at least one spot on the side of the container. Aluminum cans and PET bottle display a triangular symbol, while steel cans display a circular symbol. They are overlaid with the appropriate terms in Japanese. In addition, as of April of 2001, new identifier labeling requirements apply to paper (not including beverage containers not containing aluminum) and plastic container materials.



(2) Voluntary Labeling based on Provisions of Law

1) JAS Law

<Inspection and Certification of Organic Agricultural Products and Processed Organic Agricultural Products>

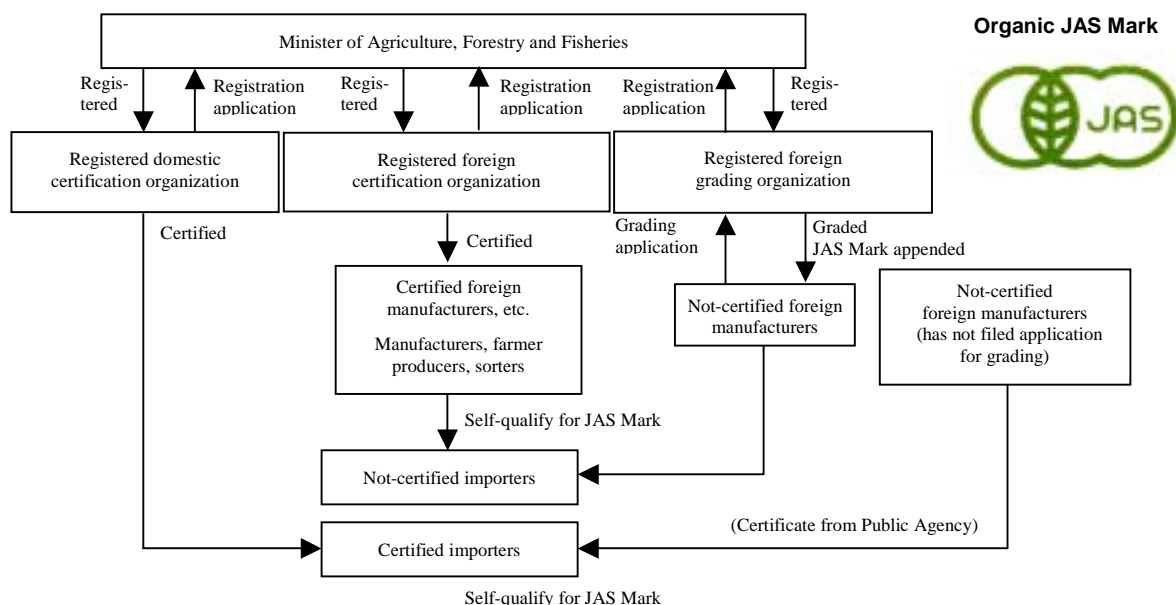
The JAS Law establishes a "special JAS standard" for organic agricultural products and processed organic agricultural products. Only those products that comply with this standard are allowed to include in their labeling the phrase "organic" and to display the Organic JAS Mark. Organic agricultural products produced abroad (in countries recognized as having a certification program equivalent to the JAS system) must be qualified according to one of the following methods in order to use the phrase "organic" and to display the Organic JAS Mark. (see Fig. 7)

- 1) Product is qualified by a foreign grading organization registered with Japan's Minister of Agriculture, Forestry and Fisheries, and is imported with the JAS Mark attached.
- 2) Manufacturers, production process supervisors (farmer producers) and sorters shall be authorized to self-qualify with the approval of a registered certification organization. This provision applies to foreign countries as well.

This means that foreign manufacturers, etc., may be authorized to self-qualify by registered a foreign certification organization, and to export the product with the JAS Mark attached to Japan.

- 3) Importers may obtain approval to qualify from a registered certification organization in Japan, and they may self-qualify the imported product by accompanied certificate (or copy) issued by a public agency abroad.

Fig. 7 Inspection and certification system for imported organic agricultural products and processed organic agricultural products



Contact:

Center for Food Quality, Labeling and Consumer Services Headquarters
Standard and Labeling Department TEL: 048-600-2371 <http://www.cfqlcs.go.jp>

2) Labeling under the Nutrition Improvement Law

When employing labeling for nutritional ingredients or calories in Japanese, either on the packaging or in accompanying documentation, labeling must be in accordance with the requirements under the Nutrition Improvement Law.

<Example> Labeling must contain the quantities of calories, proteins, fats, carbohydrates, sodium, and other nutritional ingredients present, in descending order by content volume.

(3) Voluntary Industry Labeling

<Fair Competition Code Concerning Representation of Regular Coffee and Instant Coffee>

Under this Code, importers are required to label the items listed below. Product descriptions may only use the phrases “regular coffee” and “instant coffee” if they are made from 100% coffee beans, and no other raw materials. Also, if the labeling features the name of the place of production, the variety of coffee, or the blend, then at least 30% of the coffee so indicated must be present as a raw material.

- 1) Product name
- 2) List of ingredients (production place of green beans)
- 3) Net content
- 4) Date of minimum durability (or best-before date)
- 5) Preservation method
- 6) Usage instructions
- 7) Grinding method (regular coffee only)
- 8) Importer and seller’s names and address
- 9) Country of origin, etc.

Contacts:

• Japan Coffee Fair Trade Council TEL: 03-3591-5241

<Recycling Mark for Paper Beverage Containers>

Paper beverage containers not containing aluminum are not required by law to include identifier labeling, but the industry has voluntarily introduced an identifier mark program.

Contacts:

• Paper Beverage Container Recycling Association

TEL: 03-3264-3903

Paper pack



5. Taxes

(1) Customs Duties

Green coffee beans are duty free. Regular coffee and other coffee products are subject to different tariff rates for each product category according to the country of origin.

Fig. 8 Customs duties on coffee

HS No.	Description	Rate of Duty (%)			
		General	WTO	Preferential	Temporary
0901.11-000	Coffee, not roasted:	Free	(Free)		
21-000	Coffee, roasted:	20%	12%	10%	
2101.11-100	1. Extracts, essences and concentrates,	24%	(24%)	*Free	
	(1) Containing added sugar			15%	
-210	(2) Instant coffee, not containing added sugar	12.3%	8.8%	*Free	
-290	(3) Other extracts, essences and concentrates, not containing added sugar	16%	15%	Free	
12-110	2. (1) Preparations with a basis of extracts, containing added sugar	24%	(24%)	15%	
-121	(2) Preparations with a basis of extracts (instant coffee, not containing added sugar)	12.3%	8.8%	*Free	
-122	(3) Other preparations with a basis of extracts	16%	15%	Free	

Note 1: “*Free” in Preferential Rate is applicable only for Least Less Developed Countries.

Note 2: Refer to “Customs Tariff Schedules of Japan” (published by Japan Tariff Association) etc. for interpretation of tariff table.

(2) Consumption Tax

(CIF + Customs duty) x 5%

6. Product Characteristics

<Green Coffee Beans>

There are roughly 200 different varieties of coffees in the world. However, there are differences in aroma and taste depending on the exact species of coffee and on soil and climate in the place of origin. Coffee beans may be broadly classified as follows:

1) Arabica type

Accounts for roughly two-thirds of world production. Originated in Ethiopia, but now produced mainly in Brazil, Colombia and elsewhere in South America. Arabica beans are superior in terms of taste and aroma, but they are highly susceptible to weather conditions. They are generally grown in high-altitude locations.

2) Robusta type

Accounts for roughly one-thirds of world production. Originated in the Congo region of Africa, but now produced in Indonesia, Cameroon and many other African and Asian nations. Robusta coffee beans are hardy and disease-resistant, with larger bean than Arabica coffee beans but generally less pleasing taste.

3) Liberica Type

Originated in Liberia. Inferior to Arabica coffee beans in flavor and aroma, and produced only in very small quantities. Nearly unavailable in Japan.

The classification system used in the International Coffee Agreement (I.C.A.) divides the Arabica coffee beans into three broad subcategories by place of origin (Colombia mild, Other mild, and Brazil and Other Arabica). Together with Robusta, the Agreement recognizes four categories of coffee in all.

The following table lists the main places of origin and the most prominent characteristics of the green coffee beans most commonly used to make regular coffee in Japan. Robusta coffee beans are widely used to make instant coffee and coffee extracts due to their high caffeine content and high extract yield with inexpensive price.

Fig. 9 Characteristics of green coffee beans by varieties

Variety	Place of origin	Characteristics
Mocha	Arabia	Distinctive aroma, slightly acidic, full-bodied
Kilimanjaro	Tanzania	High acidity, sweet aroma, elegant flavor
Brazilian	South America	Moderate taste, acidity and bitterness, rich aroma
Colombian	South America	Sweet aroma, slightly acidic, full-bodied
Venezuelan	South America	Lightly acidic, mild aroma, distinctive bitter flavor
Guatemalan	Central America	Sweet aroma, fine acidity, excellent taste
Mexican	Central America	Moderate acidity and aroma, elegant taste
Costa Rican	Central America	Excellent aroma, moderate acidity, elegant taste
Blue Mountain	Jamaica, West Indies	Well-balanced taste, high-quality product
Kona	Kona District, Hawaii	High acidity, sweet aroma
Robusta	Indonesia, Africa	High acidity, distinctive aroma
Mandarin	Sumatra, Indonesia	Full-bodied, slightly bitter, elegant flavor

The flavor and aroma of regular coffee is affected not only by the properties of the coffee bean used, but also by the roasting technique. Blend coffee, featuring a mixture of several varieties of coffees, is widely used in Japan.

Instant coffee is produced primarily using one of two methods: freeze-drying or spray-drying. Since coffee loses some of its flavor and aroma when exposed to heat, spray drying at high temperatures produces lower-quality coffee than freeze-drying, in which the coffee is processed at a temperature of -40 degrees Celsius. Freeze-dried coffee is more expensive, however. Each coffee maker has its own particular bean selection methods and blending techniques, but there is little to distinguish imported instant coffee from Japanese-made instants.

The flavor and aroma of coffee extract and essence varies not only with the type of coffee used but also with the extraction method employed. Brazilian coffee extract, a commonly imported variety, has a reputation for moderate acidity and bitterness with a rich aroma.

7. Domestic Distribution System and Business Practices

(1) Domestic Market Conditions

1) Coffee in general

Japan ranks third in the world in annual coffee consumption behind the United States and Germany. Japanese people drinks more regular coffee than green tea, Japan's traditional beverage, which shows that coffee has established itself as the non-alcoholic beverage of preference for most people in Japan. In the soft drink field as well, coffee drinks (canned or in PET bottled) consumption exceeds that of cola and fruit juice, making it the most popular soft drink of all (see Fig. 10). Coffee consumption has steadily grown in recent years, partly as a result of falling raw material prices, leading to lower prices for finished goods, as well as to the popularity of Starbucks and other foreign gourmet coffee shops. The driving force in the market during this time period was home use of both regular coffee and instant coffee.

2) Regular coffee

Estimates of regular coffee consumption by mode of use (on a green bean basis) in 2001 put industrial use (in making canned and PET bottled coffee drinks, etc.) at 40%, commercial use (in coffee shops, restaurants, and hotels, etc.) at 30%, and home use at 30%. In the market for regular coffee for home use, the introduction of easy to handle bagged coffee along with large size packs (400 – 500 grams) that are less expensive in packaging helped expand the market. Bagged coffee (packs with special valves to release gas buildup after roasting, and packs with vacuum-sealed packaging) outsold canned coffee in recent years. These types of packaging help keep coffee from becoming more acidic.

Another major factor in the acceptance of bagged coffee has been the adoption of the Containers and Packaging Recycling Law, which has prompted consumers and makers alike to become more aware of waste processing considerations. There was also solid growth in sales of coffee cassettes (with the coffee sold inside a disposable filter, allowing people to prepare coffee without a coffee maker) and coffee bags (like teabags, both those attached to a string and those fixed to the cup).

Most coffee for processing is used to make canned coffee drinks. A shift in consumer preferences to more upscale and authentic products has made for more growth in regular coffee for coffee drinks. Though canned coffee sales have leveled off in recent years, sales of coffee drinks in PET bottles has made up the difference, so the overall total in 2000 grew to 2.61 million kiloliters (see Fig. 10). Coffee drink makers seek to highlight their choice of beans and their unique manufacturing processes and resulting good flavor. They have developed a number of new products, including stronger blends that use more beans and appeal to consumers who want a more authentic coffee, and non-sugar and low-sugar types for health-conscious consumers.

Commercial coffee sales had been stagnant, due to effects of the recession. However, sales have rebounded somewhat due to the advent of Starbucks and European style coffee shops.

3) Instant coffee

Instant coffee is sold primarily in the consumer market (including gift purchases), about 92% in total. The remainder is sold for industrial use in beverages and confections, and for use in vending machines. The popularity of regular coffee had dampened instant coffee sales. But makers have been using new manufacturing techniques to improve flavor and body, and they have developed new products in an attempt to expand the market. These include instant *cappuccino*, *espresso* and other gourmet coffees, as well as specialized coffee for particular purposes (black coffee, iced coffee, etc.). As a result, the instant coffee market is starting to recover.

4) Coffee drinks

The following table compares the trends in production of coffee drinks and other types of soft drinks. As is clear from this table, overall soft drink market showed solid growth from 1996 onward. The leading product in the Japanese soft drink market is coffee drink. But, the fastest growing product category has been non-sugared drinks such as tea drinks and sport drinks, which demonstrates that tastes in the overall soft drink market are shifting toward drinks with fresh taste and health-conscious features such as low sugar/calorie content.

Fig. 10 Trends in soft drink production

	1996	1997	1998	1999	2000	2000/1999
Coffee drinks	2,483,000	2,568,000	2,562,000	2,600,000	2,610,000	100.4
Tea drinks	931,000	1,011,000	985,000	901,000	789,000	87.6
Oolong-tea drinks	1,207,000	1,260,000	1,210,000	1,280,000	1,295,000	101.2
Green tea and other tea drinks	1,311,000	1,605,000	1,795,000	1,876,000	2,296,000	122.4
Cola drinks	1,112,000	1,152,000	1,149,000	1,170,000	1,160,000	99.1
Other carbonated drinks	1,813,000	1,854,000	1,704,000	1,722,000	1,644,000	95.5
Soft drinks containing fruit juices	838,000	829,000	880,000	1,055,000	1,050,000	99.5
Natural fruit juices	620,000	573,000	570,000	550,000	556,000	101.1
Other fruit drinks	434,000	412,000	600,000	609,000	649,000	106.6
Mineral water	485,900	646,000	714,600	956,400	894,300	93.5
Sport drinks	993,000	1,068,000	1,065,000	1,156,000	1,378,000	119.2
Other soft drinks	560,100	989,000	1,237,000	1,291,500	1,172,000	90.7
TOTAL	13,149,000	13,967,000	14,471,600	15,166,900	15,493,300	
(Yearly change)	(103.3)	(106.2)	(103.6)	(104.8)	(102.2)	

Unit: kl

Source: The Japan Soft Drinks Association

(2) Distribution Channels

1) Green coffee beans

After being imported by trading companies, green coffee beans are distributed to various makers (or to green coffee vendors) for use in making various coffee products, and for industrial use.

2) Regular coffee

The three largest Japanese coffee makers account for more than half of both commercial and household coffee sales. Some large coffee makers own their own coffee plantations in producer nations and are able to import green coffee beans direct.

Most coffee makers (coffee roasters), however, are very small operators who buy green coffee beans from so-called green coffee vendors, roast the coffee, and sell the roasted beans in a very small geographic area. Commercial use coffee is often roasted and delivered to the commercial outlet the same day. Most regular coffee for home use is distributed through wholesalers. Generally it is supplied from coffee makers through processed food wholesalers to department stores, mass merchandisers, grocery stores, and coffee shops. Home use coffee is sold either as roasted coffee beans or ground coffee, pre-packages or measure as bought. Currently, pre-packaged products hold an overwhelming share of sales of ground coffee, which is generally packed with special valves or vacuum-packed to keep the coffee fresher.

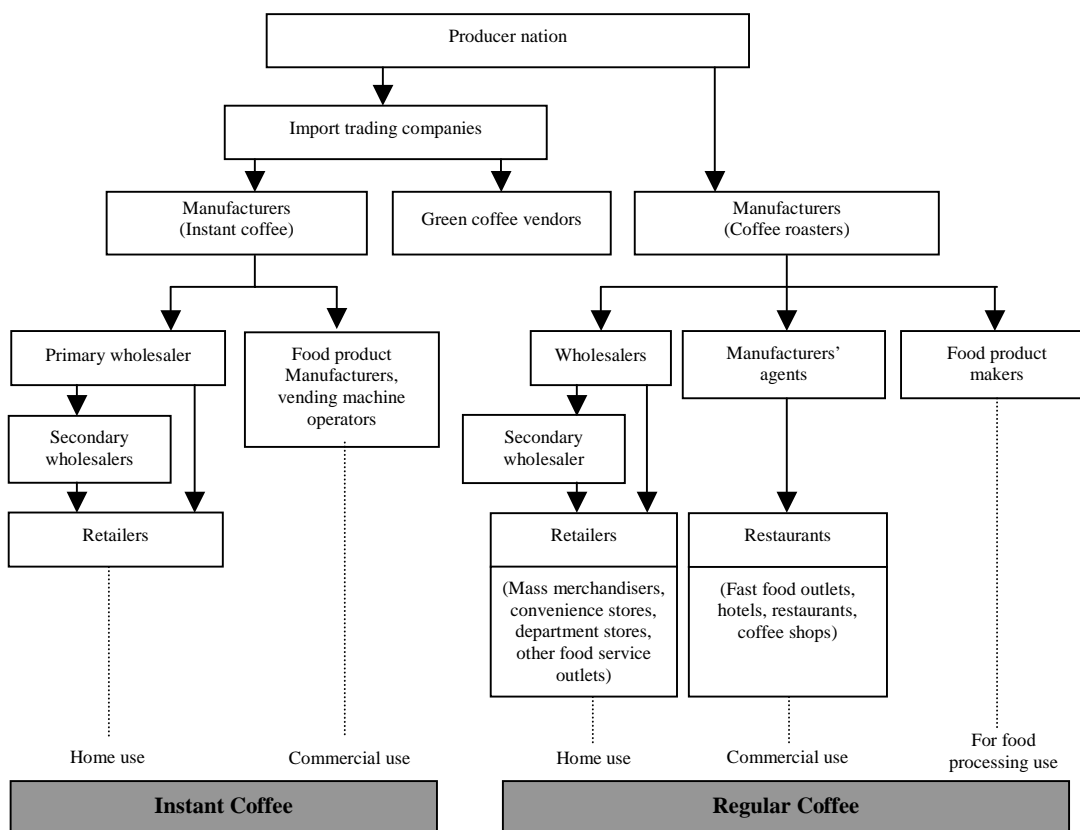
3) Instant coffee

Because instant coffee production requires special manufacturing technology and facilities, there are only three companies in Japan who produce instant coffee from the green bean stage onward in-house. Other makers either import powdered in bulk and package it in Japan, or import it as a finished product in the original packaging. Instant coffee for home use is distributed through agents and authorized dealers to secondary wholesalers, and then on to mass merchandisers and other types of retail stores.

4) Coffee extracts and essences

Coffee extracts and essences are delivered from trading companies to food product makers or coffee makers. After processing, they are sold to retail stores through wholesalers.

Fig. 11 Green coffee bean processing and distribution



(3) Key Considerations for entering the Japanese Market

Green coffee beans generally are imported in minimum lots of 250 bags, each of which contains 60 kilograms. The importer must pay for storage charges at the bonded warehouse while the merchandise is awaiting quarantine clearance. It is important to carefully calculate transportation and other costs.

Green coffee bean producers must choose an exporter who knows about green coffee beans and who will undertake rigorous quality control measures. Japan has no national standards as those in Europe and the United States. Nevertheless, leading coffee makers have developed their own in-house standards. Even if beans clear the product quality standards at the sample stage and pass up cup-tests (taste testing by a specialized quality assessment specialists), if the beans do not conform to standards at the actual time of import, they may be rejected.

Regular coffee becomes volatile as soon as it is processed. Coffee oxidizes on contact with air, causing its quality to deteriorate. Experts agree that coffee can remain fresh up to a year and a half sealed in an airtight container, but prospective importers still need to take care that proper quality controls are followed during and after import.

8. After-Sales Service

Importers and resellers bear legal responsibility for any defects in green coffee beans and coffee products.

9. Related Product Categories

The following laws and regulations apply to coffee drinks, green coffee beans, and cacao beans.

- Coffee drinks are subject to provisions of the Food Sanitation Law. The industry has adopted voluntarily the Fair Competition Code Concerning Representation of Coffee Beverage based on applicable laws and regulations.
- Green coffee beans are sometimes brought into Japan as a novelty item, and when it is, such imports are subject to quarantine requirements of the Plant Protection Law. Please note that the Law prohibits imports from certain specified countries and regions (areas with Mediterranean fruit fly infestations, including Africa, Central and South America, and the Hawaiian Islands).
- Cacao beans are subject to the same Plant Protection Law and Food Sanitation Law provisions as green coffee beans. Japan is a signatory to the International Cocoa Agreement, but the abolition of export quotas previously in force has freed Japan from the need to follow administrative procedures mandated by the Agreement.

10. Direct Imports by Individuals

Individuals may import without restriction quantities of all coffee products except green coffee beans deemed appropriate to personal use. Green coffee bean imports for personal use are subject to Plant Protection Law requirements. The individual importer must apply and submit the materials for inspection to Plant Protection Station at designated ports of entry.

11. Related Organizations

- | | | |
|--|-------------------|---|
| • All Japan Coffee Association | TEL: 03-5649-8377 | http://coffee.ajca.or.jp |
| • Japan Coffee Import Association | TEL: 03-3282-4869 | |
| • Japan Green Coffee Association | TEL: 03-3231-7373 | |
| • National Coffee Roaster Association of Japan | TEL: 03-3431-3446 | |
| • Japan Retail Regular Coffee Industry Association | TEL: 078-304-0023 | |
| • Japan Instant Coffee Association | TEL: 03-5769-6222 | |
| • Japan Coffee Fair Trade Council | TEL: 03-5649-8366 | |
| • Japan Coffee Beverage Association | TEL: 03-3275-1031 | |