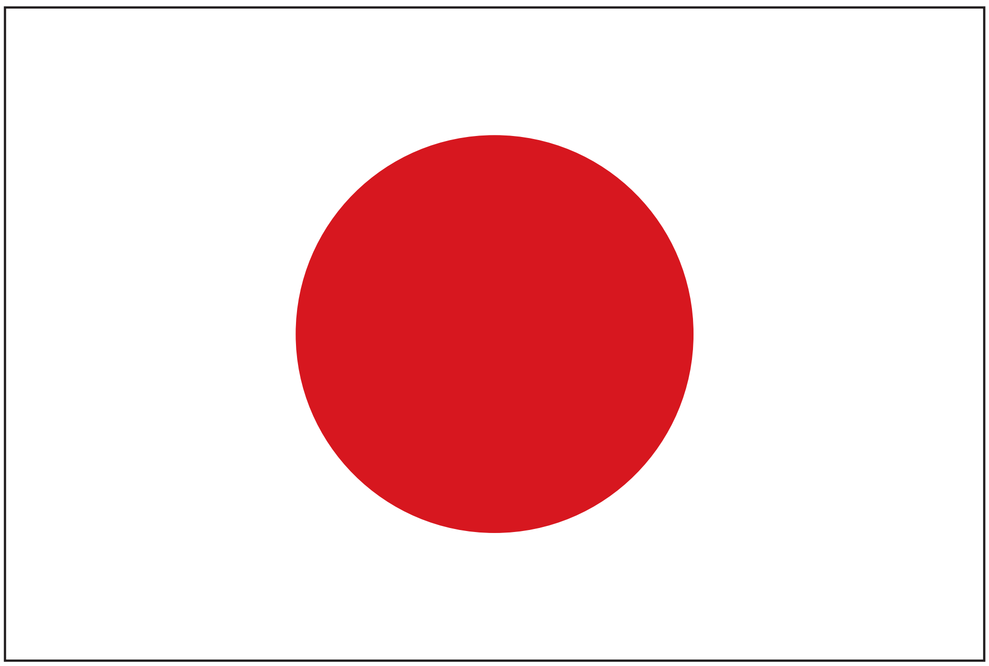
GO TO MARKET REPORT:
Japan



The U.S. Department of Agriculture's Foreign Agriculture Service (FAS) provided funding for these reports through the Organic Trade Association's Organic Export Program

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Overview:

Japan is the world's third largest importer of agricultural products, after the United States and the European Union (EU), and the fourth largest market for agricultural products from the United States. Furthermore, Japan is the world's largest food importer, relying on other countries for over 60 percent (based on calories) of its food in an overall combined retail and food service market valued at over $820 billion.

The market for organic products is still in its early stages, however. According to the "Organic Market Research Project (OMRP)" survey conducted in collaboration with the International Federation of Organic Agriculture Movements Japan, organic food sales comprise roughly one percent of the Japanese food market, which was estimated at around $1.3 to $1.4 billion (based on an exchange rate of $1 =100 yen) in 2010. Meanwhile, the market for natural foods was estimated at around $6 billion, or five times the size of the organic market.

Given Japanese consumers' concerns about food safety and desire for quality organic, product sales show significant potential. Industry experts forecast up to 12 percent growth in organic sales by 2014. Limited supplies of domestic organic food, instability of supply, undeveloped distribution channels and continuing strict import regulations have hindered the growth of the organic market in Japan, as have consumer perceptions that organic produce is not uniform.

According to Japanese Ministry of Agriculture, Forest and Fisheries (MAFF), only 0.24 percent of domestically-grown agricultural food products were organic in 2011, compared to 0.10 percent in 2001. Vegetables and rice, comprising 6 percent of organic production in 2011, are Japan's principal organic crops, with vegetables leading the way in recent years.

Equivalency Agreement

U.S. and Japan have an organic equivalency agreement. Beginning January 1, 2014, all certified organic plant and plant-based processed products that are produced in the U.S. and Japan, or which have final processing, packaging, or labeling in the U.S. or Japan, may access either market. Other USDA-certified organic products, such as meat, dairy products, and alcoholic beverages, continue to enjoy access to both markets.

This new agreement is expected to overcome barriers that have limited opportunities for U.S. organic products in Japan. Plant-based products will no longer have to have separate certifications for each market, and the export certificate process has been streamlined.

The Japanese Agricultural Standards (JAS) seal is mandatory on organic plant and plant-based products:

- Plants, including fungi.
- Processed foods of plant origin, such as grape juice or corn meal.

U.S. exporters may apply the JAS logo to their plants or plant-based processed products in one of two ways:

1. U.S. exporters who have a contract with a JAS-certified importer may apply the JAS logo to their products directly for sale in either Japan or the U.S.
2. U.S. exporters who do not have a contract with a JAS-certified importer may not apply the JAS logo to their products prior to export. A JAS-certified importer must import the product, and that importer must apply the JAS logo to the product prior to sale within Japan.

All organic plants, including fungi, and plant-based processed products exported from the U.S. to Japan must be accompanied by an export certificate. (TM-11).

Non-JAS eligible products, including meat, dairy, honey and textiles, may be sold as organic in Japan; however, they may not use the JAS seal.

For further details on the requirements, see the USDA National Organic Program fact sheet Exporting Organic Products to Japan.

Commonly Imported Products

Over 25 percent of Japan's total agricultural imports come from the United States, making it Japan's largest supplier, followed by the Association of Southeast Asian Nations, China and European Union.

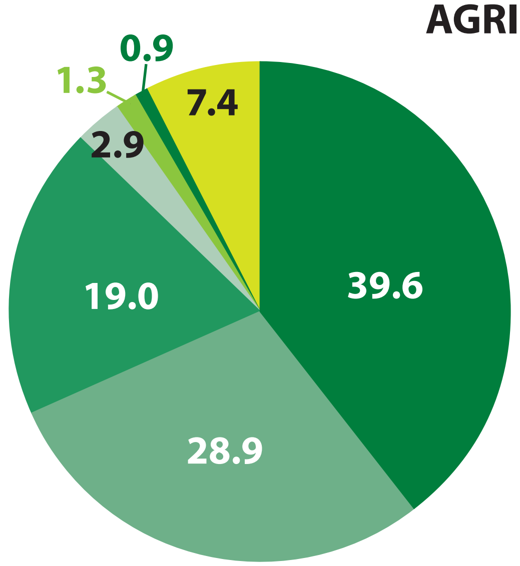
Non-organic: Japan imports more meat than any other country, favoring pork, beef and poultry meat. Comprising about 20 percent of agricultural imports, meats are the largest component of Japan's agricultural imports based on the value of imports. Only countries free from foot-and-mouth disease may export frozen and chilled beef and pork to Japan.

Exports of U.S. of agricultural products to Japan totaled $13.5 billion in 2012. Among the leading categories by dollar value is:

- Red meat and products ($3.1 billion)
- Feed and products ($3.04 billion)
- Corn ($2.97 billion)
- Pork ($1.9 billion)
- Wheat ($1.07 billion)

Organic: Although fruits and vegetables are important import categories, soybeans dominated the organic agricultural imports in 2011. Coffee beans, at 2638 metric tons, and nuts at 2218 metric tons are notable in the "other products" category.

JAPANESE IMPORTS OF JAS CERTIFIED AGRICULTURAL PRODUCTS 2011

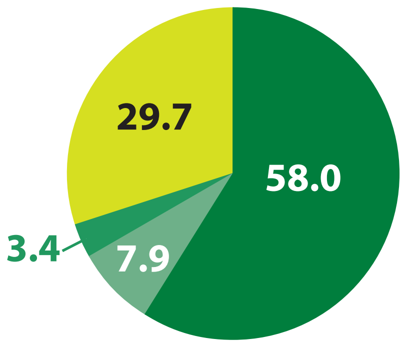


Soybeans—27,248 metric tons 39.6%
Vegetables—19,886 metric tons 28.9%
Fruits—13,064 metric tons 19.%
Green tea—1,986 metric tons 2.9%
Wheat—905 metric tons 1.3%
Rice—587 metric tons 0.9%
Other products—5,065 metric tons 7.4%

Based on statistics from Japan's Ministry of Agriculture, Forestry, and Fisheries

Among organic processed food products imported to Japan, vegetables, by volume, were the leaders in 2011. All soy products certified to JAS organic outside of Japan comprised only 3.4% of organic imports.

PROCESSED ORGANIC FOODS PROCESSED OUTSIDE OF JAPAN, AND IMPORTED IN 2011



Vegetables—29,187 metric tons **58.9%**

Fruits—3,933 metric tons **7.90%**

Soy products—1,680 metric tons **3.40%**

Other products—14,715 metric tons **29.7%**

Total—49,515 metric tons

Source: MAFF

Market Sector Overviews:

Food Retail: No major chain has taken the plunge to focus on organic products, thus there is slow adoption of organic products beyond a narrow pool of affluent, health and environmentally aware customers. Although Japan does not have a brick-and-mortar mass market organic/natural supermarket chain, organic foods can be found at a wide variety of retail outlets, including roadside stands, convenience stores, small specialist stores, department stores, most major supermarkets, and luxury outlets. The upscale Kinokuniya stores, for example, offer more than 200 domestic and imported organic products. One of the biggest Japanese retail chains, AEON, is looking into developing private brand organic juice. Furthermore, organic products can now be found in suburbs and residential areas as well as city centers.

Shoppers, however, are hard-pressed to find all of the organic goods they may seek at any one retail outlet. Instead, they may find vegetables at one place, tofu at another, and yet a third location for baked goods. Meanwhile, a few small chains featuring organic products, such as Natural House (30 locations, plus online shopping) and Mother's Organic Market have opened.

Supermarkets are the most popular place to buy organic products, followed by cooperatives, according to the Organic Market Research Project study. One example is Seikatsu Club Consumers' Cooperative Union (SCCCU), which was founded in 1965 and now has over 300,000 members and approximately 30 regional cooperatives across Japan. It purchases directly from processors and producers and stocks about 3000 organic products, as well as non-GMO and regional foods, for sale to members.

Beyond brick-and-mortar stores, internet sales offer opportunity for growth. Key online shops carrying organic food and beverage products include:

Oisix: With 600,000 subscribers, recorded $127 million in sales in 2012
Radish Boya: In 2011, partnered with the Lawson's convenience store chain to expand the variety of foods for sale.
Choosee
Tengu Natural Foods

Businesses may operate in multiple channels. For example, the MIE Project not only runs the Choosee online shop for organic, natural and fair trade products, but also supplies over 200 products to gourmet stores, such as Dean and Deluca, supermarkets such as Kinokuniya, Meidi-Ya, and National Azabu; natural foods stores (Natural House), department stores (Isetan), other online retailers (Amazon.com and Kenko.com), and more.

Organic food and beverage exporters may also consider the gift market. Seasonal gifts are typically produced in limited quantities and sold at premium prices, making imported goods an excellent option, and gifts are often high-end food items. Two major gift-giving times are in July and at the end of each year, when gifts are sent to business associates, teachers, respected elders, and more. Many retailers offer sales for customers seeking appropriate gifts. Examples of organic products that might be found in seasonal gifts include coffee, tea, soap, vegetable oil and cotton products.

Hotel, Restaurant, Institution: Many venues offer prepared foods to be taken away and eaten at home, and organic offerings at these small delis, supermarkets, department and convenience stores are expected to increase. Currently, these services target young office workers, and as the population ages, organic products are likely to have a greater presence.

Furthermore, a range of restaurants feature organic or natural food. Even Japan's own fast food hamburger chain MOS Burger is in on the trend, although most restaurants differentiating themselves in this way feature fresh vegetables and health-conscious menu items. This may provide a good opportunity for imported organic products, since domestic supplies are limited, especially for pork, beef and poultry meat.

Meanwhile, organic cafes are becoming fashionable destinations, especially for the younger generations. One example is Daylesford, in Aoyama, Tokyo, an organic restaurant and store based on the farm and stores of the same name in England.

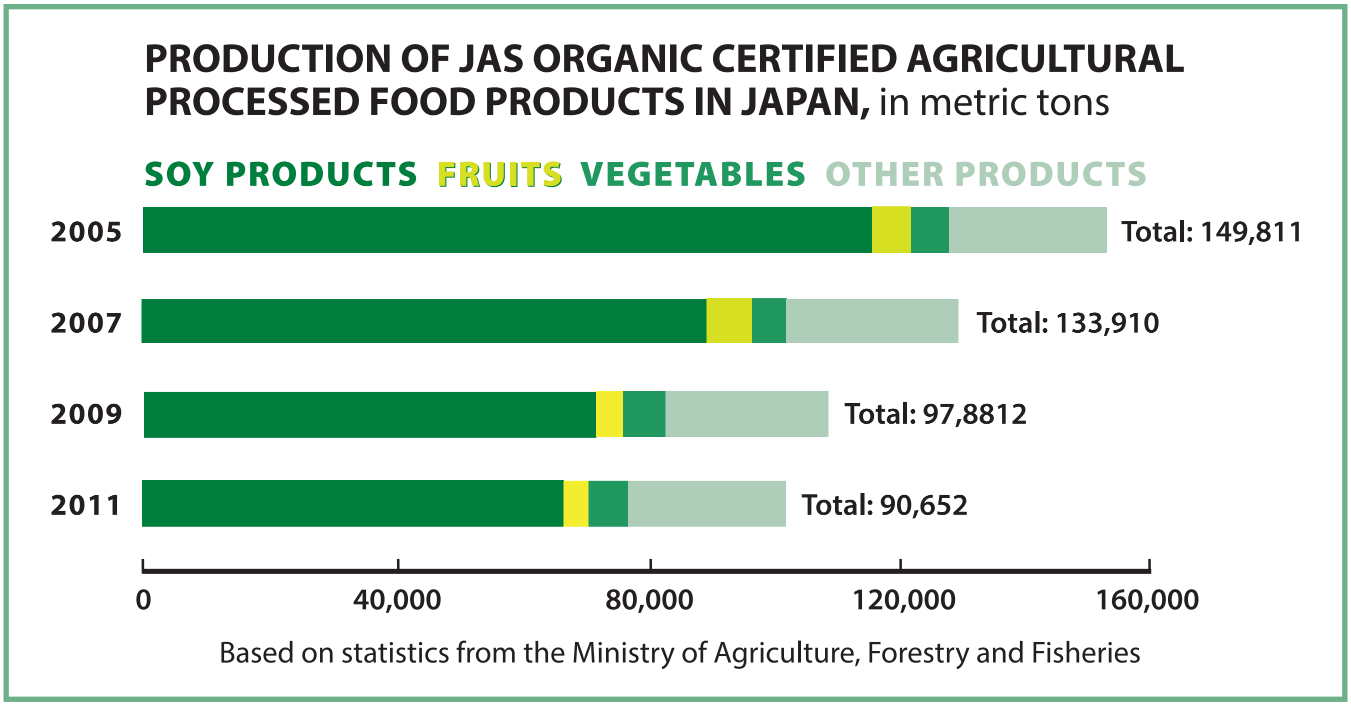
Food ingredients: The value of the Japanese food processing industry was estimated at $280.2 billion in 2011, up 8.93% from 2010. The health foods sector grew 10.5%, making it the sector with the most growth in 2011.

After the March 2011 earthquake and tsunami and resultant damage to the Fukushima nuclear power plant, consumers are more open to imported products. Furthermore, imported foods are often less expensive for processing than comparable domestic products. It has become more common for processors to go off shore to source processed foods, and very common for processors to import ingredients for processing and packing in Japan.

Key market drivers in food processing overall include:

- Processors seeking out lower cost food ingredients and processing options, due to a decade of a deflationary economy
- Increasing interest in health and functional foods, particularly as the population ages
- Increasing emphasis on convenience, ready-to-eat, and value-priced foods.
- Ongoing diversification of the Japanese diet.
- Personalization and individualization of food and food marketing.
- Larger focus on the demographic of twenty to thirty year olds.
- Heightened concerns about food safety

The domestic production of organic processed food products has typically been dominated by soy products (such as tōfu, nattō, miso, and soy sauce) which is understandable given the central role these foods play in the Japanese diet and the large share that imports comprise of the conventional soy market.



Distribution chain

The Japanese market and distribution structure differs from that used in the United States, although the Japanese system is changing in order to reduce costs. Traditionally, trading companies would sell to first-line wholesalers, who would then sell product to secondary distributors. Large food processors and retailers are now purchasing sizeable quantities of product directly from trading companies. In some cases, if the size of the transaction makes it cost effective, the retail and hotel, restaurant and institution (HRI) sectors directly import items themselves. These HRI importers are often large family chain restaurants, kaiten (conveyer belt) sushi restaurants, and regional restaurants. Importers or trading companies often need to add value through special processing, designing, or packaging.

Characteristics of organic products users

Japanese consumers are some of the most demanding in the world. About 29 percent of the Japanese adult population would be considered part of the LOHAS (Lifestyle of Health and Sustainability) category. Desire for uncontaminated, healthy and sustainably produced food is generally high, but the word "organic" is not well understood by consumers. According to the Organic Market Research Project survey, 97% of consumers were aware of the word "organic"; however, only 5% of them understood its meaning correctly. Confusion between organic products, reduced chemical products, no chemical products, and specially grown products that are certified by local governments is rampant.

Nevertheless, the Organic Market Research Project study also revealed that about two-thirds of survey respondents have used organic products at least once, and about 20 percent used organic products at least once per week. About five percent of those surveyed used organic food almost exclusively, and 19 percent increased their spending on organic food in the last year.

Overall, households typically spend more than 21 percent of disposable income on food each month. Japanese consumers tend to buy food products on a daily basis, visiting several outlets looking for the highest quality products. Important purchase criteria for fresh organic products include:

- Freshness (40%)
- Taste (35%)
- Food safety (32%)
- Price (26%).

Meanwhile, in choosing organic processed foods, shoppers' purchase criteria include;

- Food additives (44%)
- Food safety (41%)
- Taste (36%)
- Price (21.8%)

Trends in the Organic Market

Although Japanese consumers generally prefer to buy domestic goods, heightened concerns about food safety and potential radioactive contamination following the March 2011 earthquake and tsunami resulted in greater acceptance of imported foods as a safe option. Whether imported or domestic, organic foods cost two-three times more than comparable non-organic products. Having more food manufacturers and retail chains committed to using organic ingredients and offering a wider array of organic products could help change the situation.

Japan is the world's second largest market for cosmetics, and there is increasing interest in both international brands and organic products. In 2009, organic cosmetic sales were valued at 6,700,000,000 yen, up 21.8% from the previous year. In 2012, the market for certified organic cosmetics was estimated at 15-20 billion yen, within the overall organic and natural cosmetics sector of 167 billion yen. A lack of uniform certification and consistent labeling of organic personal care products is an impediment to growth of the category; however some private certification seals, such as Ecocert, are familiar to consumers. CosmeKitchen, with over 20 locations and online shopping, is a leading organic and natural cosmetics retailer.

There is also interest in organic cotton. A program with two Japanese companies, ITOCHU and kurkku, is expected to result in over 250 Japanese apparel brands using over 5000 tons of organic cotton, primarily from India, by 2015. Currently, about 60 Japanese apparel brands are using organic cotton. Organic cotton products are sold at natural food, specialty, co-op and department stores, as well as online and through catalogues.

Resources

IN JAPAN

The United States Department of Agriculture Foreign Agriculture Service Agricultural Trade Office Japan (http://www.us-ato.jp)
Offers a trade leads service, and publishes monthly reports on Japanese food trends.

Japan External Trade Organization (http://www.jetro.go.jp)
Offers an International Business Matching Database, as well as other services for those looking to invest in Japan.

Japan's Ministry of Agriculture, Forestry and Fisheries (http://www.maff.go.jp/e/jas/specific/organic.html)
Offers a list of JAS-certified importers for download.

IN THE UNITED STATES

Regional trade groups can provide assistance for entering the Japanese market.

Midwest: http://www.foodexport.org/
West: http://www.wusata.org/
Northeast: http://www.foodexportusa.org/
South: http://www.susta.org/

Visit http://www.usorganicproducts.com and http://www.theorganicpages.com/topo/index.html to search for organic businesses that may be able to assist US exporters.

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Acknowledgement

Go To Market Report: Japan 2014 prepared by Wolf, DiMatteo + Associates (www.organicspecialists.com) for Organic Trade Association.