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30° salone internazionale
del biologico e del naturale

Organic Processed Food Market Trends in Japan

August, 2018



Embassy of Italy, Tokyo Trade Promotion Section

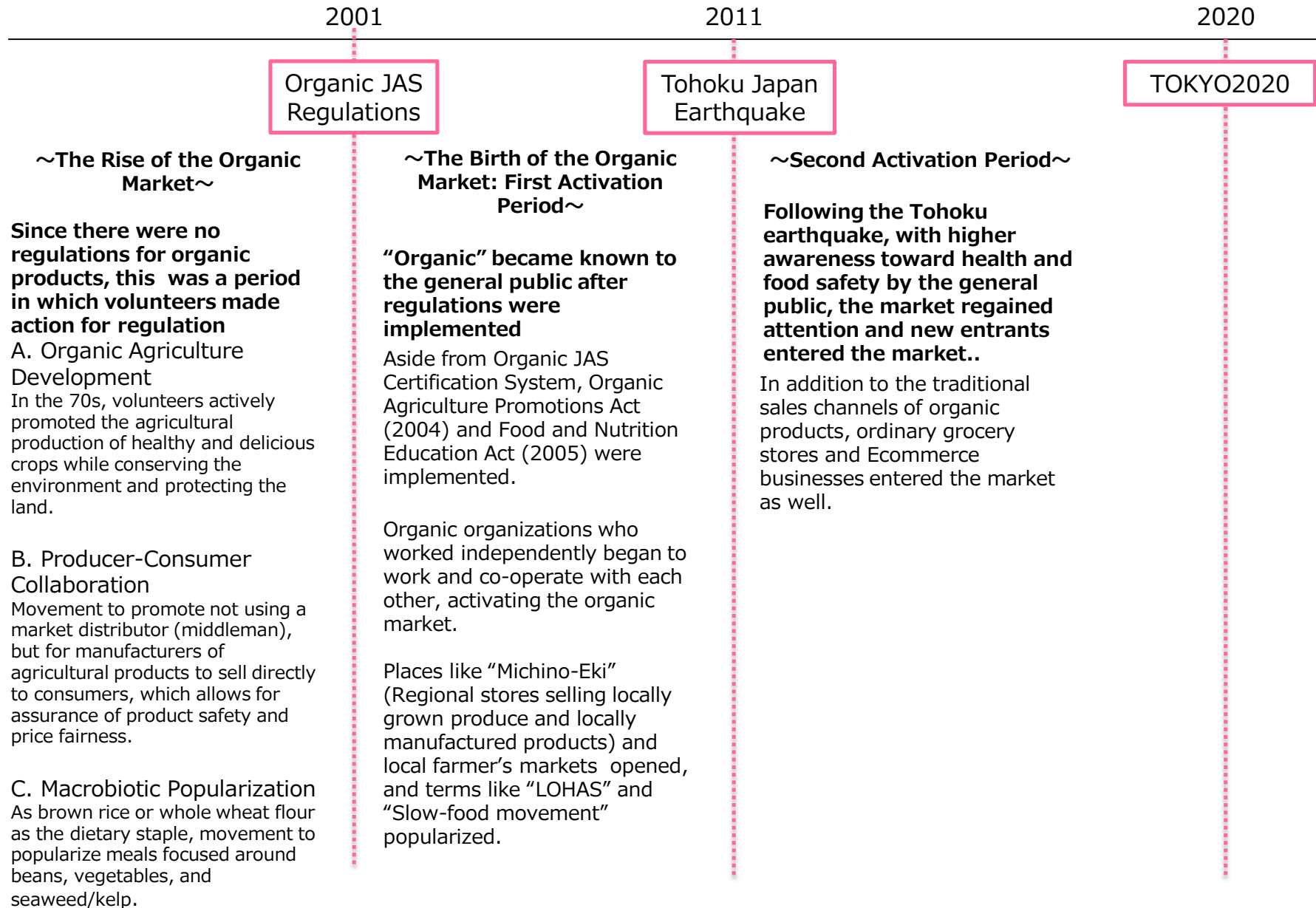
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1. Progression of the Organic Market in Japan



2. Organic Food Product Certification Regulations in Japan

- In Japan, organic food products are regulated under JAS Laws, “Law to standardize agricultural and forestry products, and to properly indicate the quality of the product”. The JAS Law is made under the guidelines of Codex Alimentarius Commission.
- Food products that meet the Organic JAS Standards will be given the “Organic JAS Symbol” by the certifiers (Image 1). Food products not certified with the Organic JAS logo are prohibited to be expressed in any way that may mislead consumers, such as using the term “Organic” on the packaging.

<Image 1 : Organic JAS Symbol>



<Image 2 : Regulations on the Production of Organic Processed Food Products>

- ❑ To avoid the usage of any food and chemicals additives.
- ❑ Not including salt and water, 95%+ of the ingredients must be organic agricultural^{*1}, livestock^{*2}, or processed food products.
- ❑ To produce the products in a properly managed facility to avoid contamination from any chemicals.
- ❑ Not to use any genetic engineering techniques.

*1 Regulations on the production of organic agricultural products: Use of composts and non use of prohibited agricultural chemicals and fertilizers for no less than 2 years before sowing and planting (3 years for perennial plants)

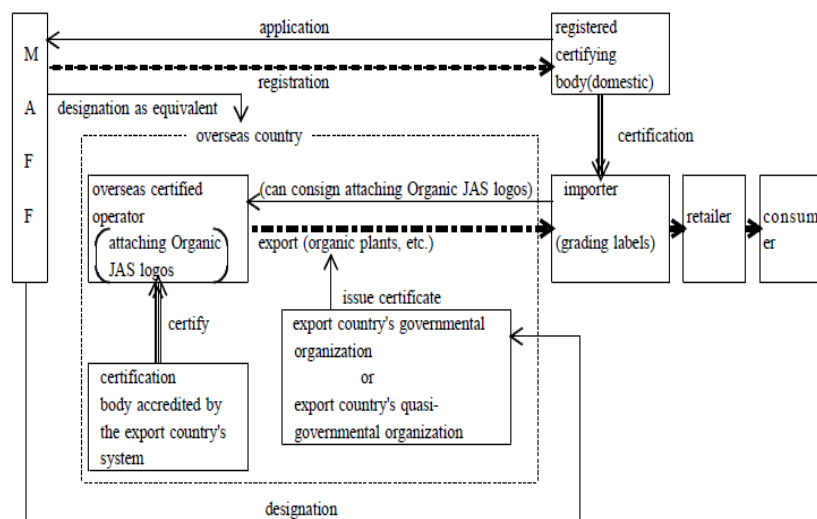
*2 Regulations on the production of organic livestock products: Food for livestock should mainly be organic. To raise them without giving them stress (i.e. leaving them out in open pasture, etc.). To not use any antibiotic for preventative measures. To not use any gene modification techniques.

3. Importing of Organic Food Products into Japan

- There are 2 ways to import organic processed food products from overseas into Japan.
- Countries certified by Japan with their organic food products: EU (28 countries), Australia, United States, Switzerland, Argentina, New Zealand, Canada. (As of March 2018)
- Reference: <http://www.maff.go.jp/e/policies/standard/jas/specific/organic.html> (English)

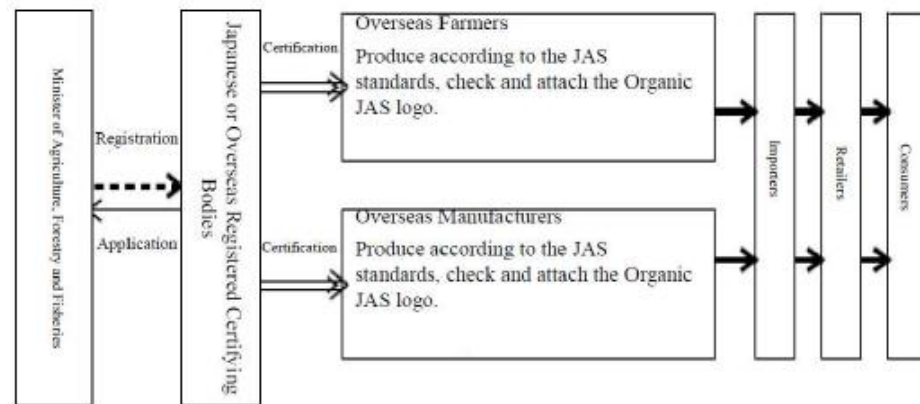
1

Method of having importers, that have received certification from a registered Japanese certification body, attach the Organic JAS logos to and distribute the products.



2

Method of attaching the Organic JAS logos to and distributing organic products produced or manufactured by international organic JAS certified companies.



http://www.maff.go.jp/e/jas/specific/pdf/organic_products_system_1501.pdf (English)

(Source: Ministry of Agriculture, Forestry, and Fisheries Website)

4. Accreditation Bodies For Organic Food Products, and Certified Companies in Japan

- There are 70 accreditation bodies for organic food in Japan. Of those, 26 are able to certify overseas as well (Includes companies that are limited to certain countries for accreditation, as of August 2018).

Organic Registry Accreditation Bodies in Japan

70

Companies That Can Certify Overseas

26

- The 3 categories below are those subject to the Organic JAS Certification System.

1. Production Process Management Companies

Companies managing or understanding the production of organic agricultural, livestock, and processed food products.

740

2. Re-packers

Companies who package organic agricultural and processed food products into smaller portions then put on the JAS symbol on the products.

234

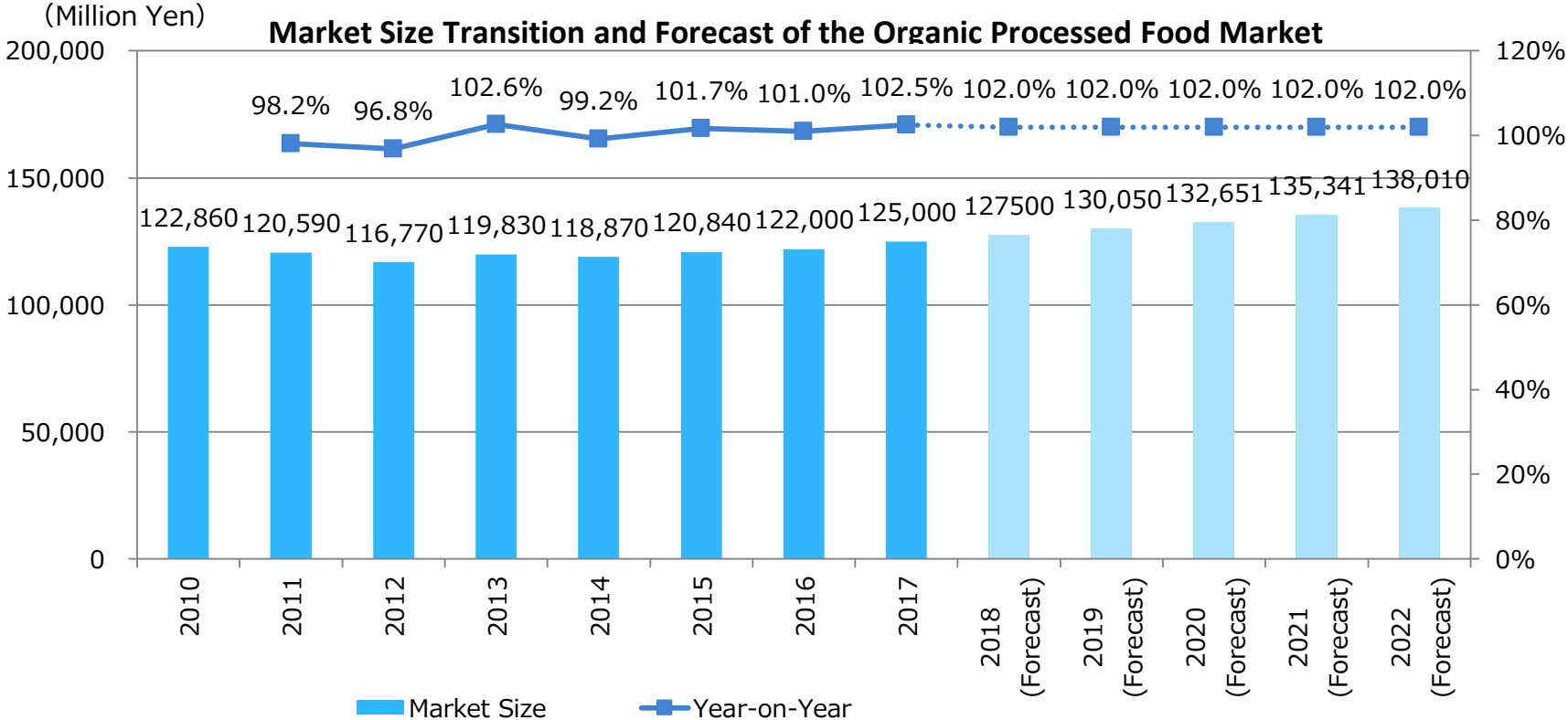
3. Importers

Companies that import products certified in respective countries (equivalent to JAS certification), and put JAS symbol on those with document of proof issues by respective country's governments.

107

5. Market Size Transition and Forecast of the Organic Processed Food Market

- Because organic processed food products are a bit pricier than non-organic, the market shrunk in size after the world financial crisis of 2008 and during the Tohoku Japan Earthquake in 2011~2012 when the economy stagnated. The market also shrunk a bit in 2014 when consumption taxes rose from 5% to 8%, but during the other years, it has seen steady growth of about 1~2% annually.
- Organic food products have begun gaining more attention in Japan since several store that focus on organic food products like "Bio c' Bon" (AEON) and "BIORAL" (LIFE) opened in 2016, and its market growth rate has drastically increased throughout 2017.
- Those involved in the industry mentioned that the organic processed food products market is not something that has seen a rapid growth over the last few years, but has been consistently growing at a rate of 1~2% annually over the years. As the market is said to gain even more attention as we approach the Tokyo Olympics and Paralympics, it is expected grow at an annual rate of about 2%, reaching about 138 billion yen in 2022.

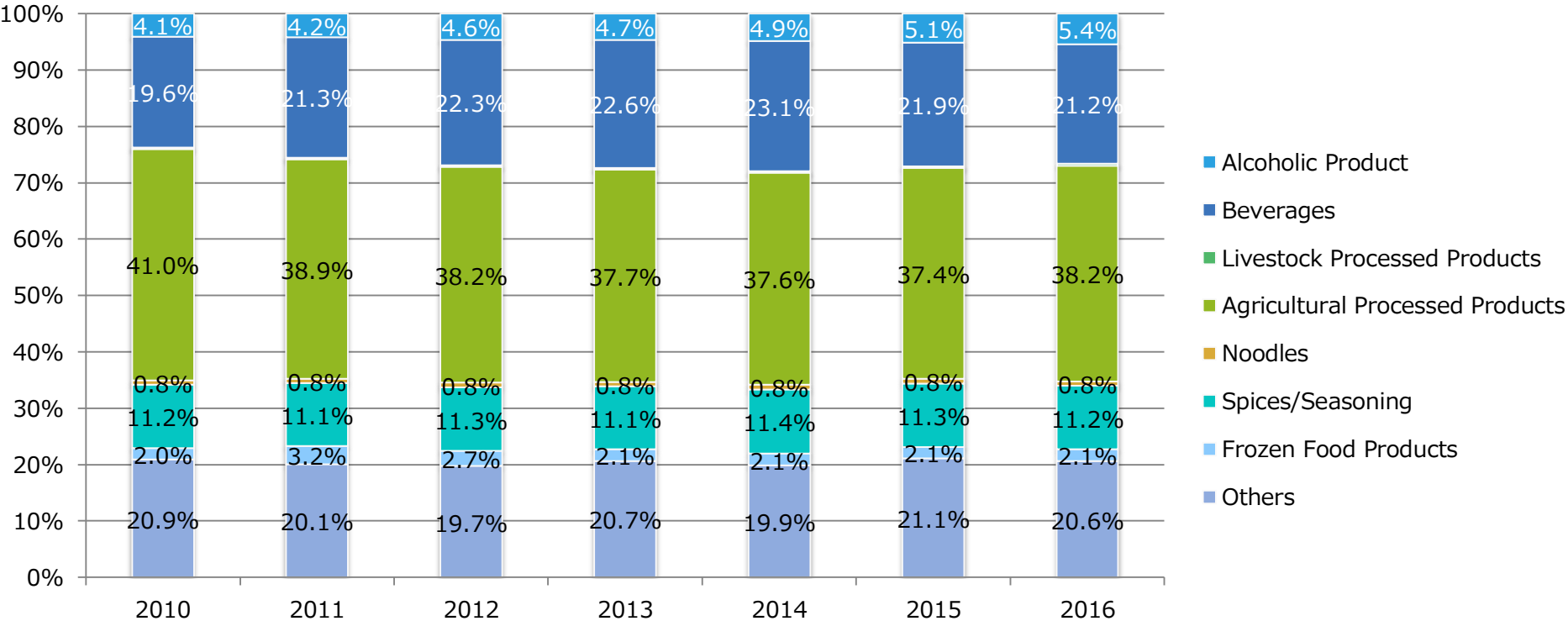


*Based on retail price

(Estimated by Yano Research Institute Ltd.)

6. Market Size Transition of Organic Processed Food Products by Category

- By category, agricultural processed products make up 40% of the market, being the largest. This is followed by beverages at 20%, and spices and seasonings (soy sauce, miso, dressing, ketchup, etc.) at approximately 10%.
- With an increase in EU produced organic wine distribution, alcoholic beverages ratio is increasing in the Japanese organic market.



(Based On Retail Price/Million Yen)

	2010	2011	2012	2013	2014	2015	2016
Alcoholic Products	5,000	5,050	5,400	5,620	5,800	6,200	6,600
Beverages	24,110	25,730	25,990	27,120	27,400	26,500	25,900
Livestock Processed Products	370	380	390	390	390	400	400
Agricultural Processed Products	50,420	46,920	44,650	45,130	44,670	45,160	46,650
Noodles	960	970	960	1,000	1,010	1,000	1,020
Spices/Seasonings	13,800	13,400	13,220	13,300	13,500	13,600	13,700
Frozen Food Products	2,500	3,900	3,120	2,500	2,500	2,480	2,600
Others	25,700	24,240	23,040	24,770	23,600	25,500	25,130
Processed Food Products Total	122,860	120,590	116,770	119,830	118,870	120,840	122,000

(Estimated by Yano Research Institute Ltd.)

7. Trends of Organic Processed Food Products by Category

~Agricultural Processed Products/Oil~

AGRICULTURAL PROCESSED PRODUCTS

- Agricultural processed products include low grade processed products such as juice, jam, dressing, tomato products, nuts, and dried fruit.
- For products like juice or jam where the ingredients are simple, domestic agricultural producers crop their own organic fruit and vegetables into products and sell them.
- A lot of the juice products are apple, orange, carrot, tomato, or blueberry. Many companies offer subscription services for everyday consumers. And not only for everyday consumption, but consumers purchase them for gifts as well.
- For tomato sauces, most are imported from countries like Italy, since it's cheaper to import the finished product rather than using domestically produced tomatoes in Japan. For ketchup, however, there cases in which the tomatoes (ingredient) are imported, but the product is manufactured in Japan.
- For tomato sauce, pasta, olive oil, etc., one brand/manufacturer tends to produce all of these products, so branding is an important factor.
- For nuts and dried fruit, their popularity comes from not only the packaged products, but also from the bulk sections of stores like "Bio c' Bon". Since organic nuts do not use sugar, oil, or additives, consumers enjoy the authentic taste of nuts, leading to repeating purchases.

WHEAT PROCESSED PRODUCTS

- Much of the organic wheat is imported from overseas since they are difficult to supply/manufacture in Japan.
- There are already numerous brands which sell "Italian" food and ingredients, such as pasta, olive oil, tomato processed products, etc. (GALOFALO, BIO IDEA, BARBAGALLO, ALCENERO, GIROLOMONI, etc.)
- Organic instant ramen are increasing in export demands in parallel with the rise of popularity of Japanese ramen overseas.

OIL

- There are many "Italy-manufactured" olive oil brands sold in Japan. Spain-manufactured ones are also reasonably priced, so imports of these are increasing as well. In addition to the two, Palestine, Greece, Tunisia, and Turkey manufactured ones are also reasonably priced, leading to increase in imports.
- Since health/beauty oils are being featured on mass media (TV, magazines, etc.), the market is gaining a lot of attention and is expanding. Particularly omega 3 oils which contain linolenic acid such as flaxseed oil, perilla oil, hempseed oil, and inca oil are growing within the market.

7. Trends of Organic Processed Food Products by Category ~Spice And Seasonings/Confectionaries~

SPICES AND SEASONINGS

- Since many types of spices and seasonings are packaged in jars, they have a longer expiry date and are easy/convenient to handle as import products. With this being, there are many different types of these products amongst organic processed food products.
- In Japan, basic seasonings like soy sauce and miso hold a large ratio of this category. Since organic soybeans are easy to supply, there is a demand from overseas where the organic market is larger, thus more companies enter the market in this business.
- Many Organic JAS Certified companies manufacture soy sauces that use organic soy beans, so there is a large distribution volume. Also with a rise in sushi and Japanese food popularity overseas, there has been a lot of international business inquiries, leading to companies expanding their exports.
- With miso, "Organic Powdered Miso" (Marukome) are popular in Japan, unlike the regular paste or liquid types. The world top-model, Miranda Kerr was the product supervisor, and with a higher focus on Japanese food world wide, the product is being used for soup, salad, as well as seasonings.

CONFECTIONARIES

- Demands for chocolate bars, bar type food products, chips, etc. are rising in demand. This is said to be due to the diversification of lifestyle and values, many people preferring to enjoy a "slow-living" style of life such as LOHAS (Lifestyle of Health And Sustainability). There has been a rise in needs and demands for businesses to sell their products at yoga studios or fitness gyms.
- Most confectionaries are imported into Japan, as there aren't many confectionary manufacturers in Japan who have obtained Organic JAS Certifications. One of the reasons behind this is because they have a short expiry date.
- Amongst chocolates, VIVANI, Stella Bernrain, and People Tree are popular. Since there are a wide variety in organic chocolate brands, it's common that consumers look for a little something extra upon purchasing the products, such as "Fair Trade".
- In 2017, MASH Beauty lab Co. who run their own Organic Cosmetic Shop, "Cosme Kitchen", obtained sales rights for a popular organic ice cream in the US, "Three Twins". In April 2018, they began selling the ice cream at a natural health foods convenience store, Natural LAWSON. In the summer, they began opening pop up store in major cities nationwide with the intention to popularize the brand further.

7. Trends of Organic Processed Food Products by Category

~Wine~

WINE

- Although the organic wine market in Japan only covers a small portion of the entire Japanese wine market, it has continued growing. The market gathers high attention from women, such that when an importer holds an organic wine seminar, the seats are filled up every time, with 95% of the attendants being women.
- The amendment of regulations to permit the manufacturing of organic wines at factories in the EU in 2012 is the background behind the growth of the organic wine market. Since the use of additives like preservatives and flavoring, and high-temperature pasteurization became permitted following the amendment, mass production and selling of the wines became possible for the manufacturers, leading to an increase in the production of organic wine by several fold in the EU.
- In Japan, a major wine distributor undertook the supplying of mass-produced organic wine (from the EU), leading to a gradual increase in the distribution volume of the products in Japan from around 2015.
- On the other hand, distribution volumes for organic wines manufactured in private wineries has not shown large growth or increase due to its limits in production capacity.
- However, since there is no organic certification regulations for alcoholic products in Japan including wine, products that have received organic certification in other areas like the EU cannot have the Organic JAS label on the products.

8. Distribution Trends of Organic Processed Food Products

~Traders/Wholesalers/Retail~

TRADERS/WHOLESALERS

- Traders and wholesalers are trying to expand their business by handling products that are organic or natural oriented. As long as the products meet the natural/organic criteria, most companies are not limited to just handling food products, but, also cosmetic and everyday essentials.
- Since the organic food market in Japan is small, companies also look to export their product to stabilize and grow their business. (In fact, many companies started the organic food business in response to oversea demands)
- Regards to the breakdown of imported organic food products from overseas, many companies not only import the finished product, but also the ingredients as well (to distribute to manufacturers). In comparing the ratios, many companies handle ingredients more than the finished products.
- Regards to the products that these companies handle, they try to handle products with Japanese Organic JAS Certification, as well as products not certified, but are manufactured based on its regulations (Made with Organic). Since it takes several years to obtain the Organic JAS Symbol in Japan, there are many traders/wholesalers who want to support those manufacturers, since many believe that handling "Made with Organic" (not just the JAS certified) will lead to a market expansion and growth.
- With food products like alcohol that can obtain organic certifications overseas but not in Japan, traders/wholesalers try to supply products with the overseas organic certification.
- Since profitability is low if just supplying products from other companies, many traders and wholesalers look to develop their own PB products. However, product development is said to be difficult because over 95% of the ingredients need to be organic, and some of these ingredients are hard to obtain in Japan. Organic ingredients especially hard to supply are milk, eggs, and wheat.

8. Distribution Trends of Organic Processed Food Products

~Traders/Wholesaler/Retail~

RETAIL

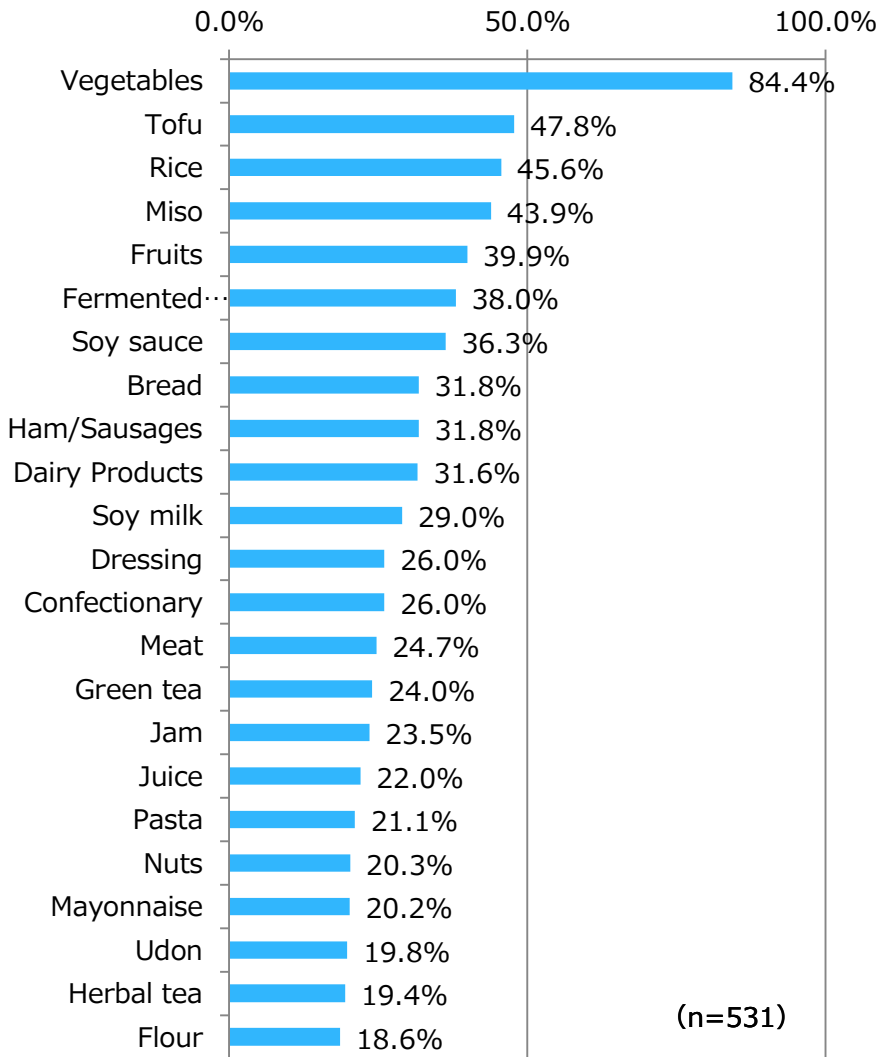
- For sale channels of organic processed food products, natural food store like “Natural House” or “Kodawari-ya” are the main stores.
- High-end stores where many foreigners living in Japan shop (e.g. Seijo-Ishii, Kinokuniya, NATIONAL AZABU, etc.) handle many different types of organic products as well, since the needs and demands from this population is relatively strong.
- Fresh products (produce) are sold at regular grocery stores as well.
- With increase in attention toward organic food products nowadays, sales channels are diversifying as well, especially with a strong growth in the e-commerce. Online shopping for organic food products used to only be natural foods delivery services like “Daichi wo Mamorukai (meaning Protecting Our Land)” or “Radish-Boya”, but sales from e-commerce sites like “Amazon.co.jp” and health foods/product site “Kenko-com” has been growing in recent years.
- Reasons behind the growth in e-commerce is due to consumer demands by those who don't live close to natural food stores that sell organic food products.

Featured Company ~Bio c' Bon (AEON)~

- Since the Organic JAS System was implemented in Japan in 2000, Bio c' Bon entered the organic food product market as taking part in environmental measures, and has proactively participated through selling of Japan's first organic certified product.
- Since there are many store overseas where organic products not exclusive to food are sold, AEON thought that something similar was needed in Japan in order for organic food products to popularize. With this reason, AEON partnered with the French company “Bio c' Bon” and opened its first store in Japan in 2016.
- The first store in Azabu-Jyuban, Tokyo carry almost 3000 types of products from fresh foods to cosmetics. A second store opened in Nakameguro in April 2018, a third store opened in West Gaien Street in May, and a fourth store opened in Shin-Yurigaoka in June. These three stores also carry about 2,300 types of products as well.
- With fresh food products, there are lots of domestically grown organic vegetables, but because organic fruit are hard to grow in Japan, there are many imported ones as well. There're also lots of imported processed food products, making up about 20% of the entire products sold at a single location.
- The bulk section is of the more popular sections at any “Bio c' Bon” locations, as customers can weigh out as much dried fruit and nuts at a certain price per weight.
- Strategies for opening more stores are focusing in central areas where organic demands are higher in Japan like Tokyo, and Kanagawa.

9. Consumer Needs and Demands of Organic Processed Food Products

1 Types of Organic Food Products Being Purchased

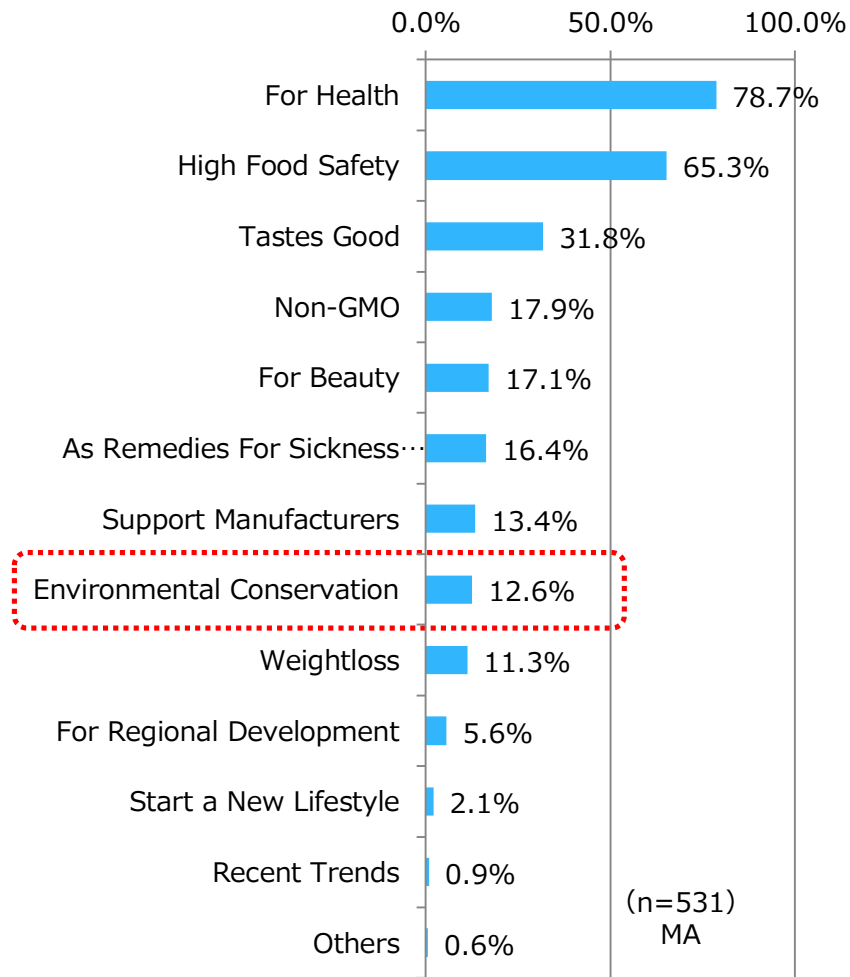


*SA = Single answers

MA = Multiple answers

2 Reasons For Purchasing Organic Food Products

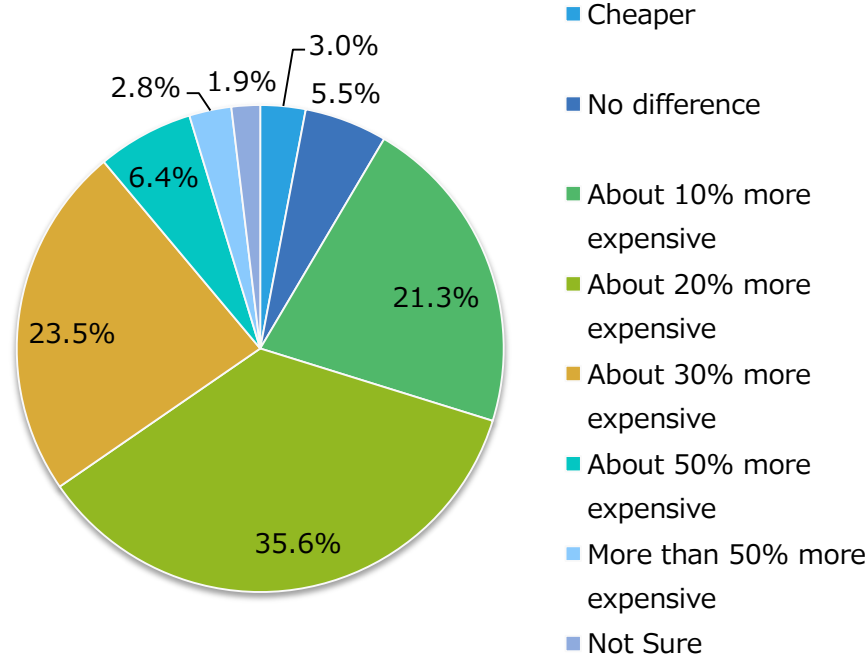
- Compared to overseas, Japanese consumers don't choose organic for environmental conservation purposes, but more for health and reassurance in food safety.



9. Consumer Needs and Demands of Organic Processed Food Products

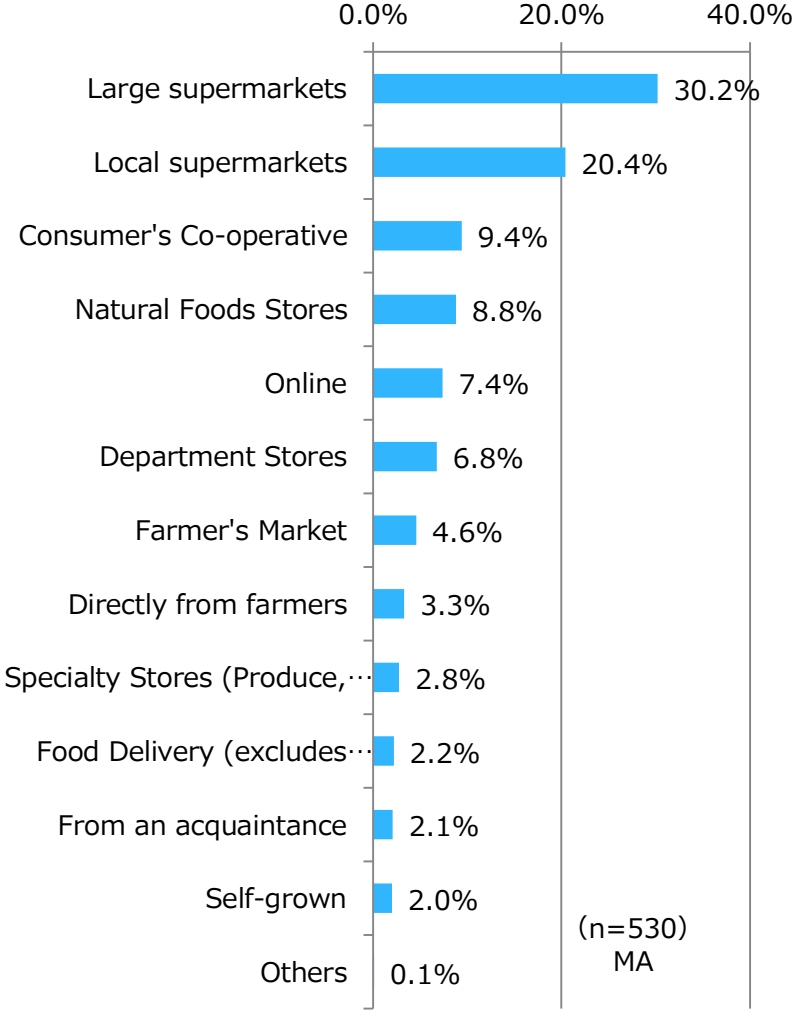
3 Views on Organic Food Product Prices

- If organic food products are at most, 20% higher than non-organic food products, they will still likely be accepted amongst consumers.



(n=531)
SA

4 Where Organic Food Products are Purchased



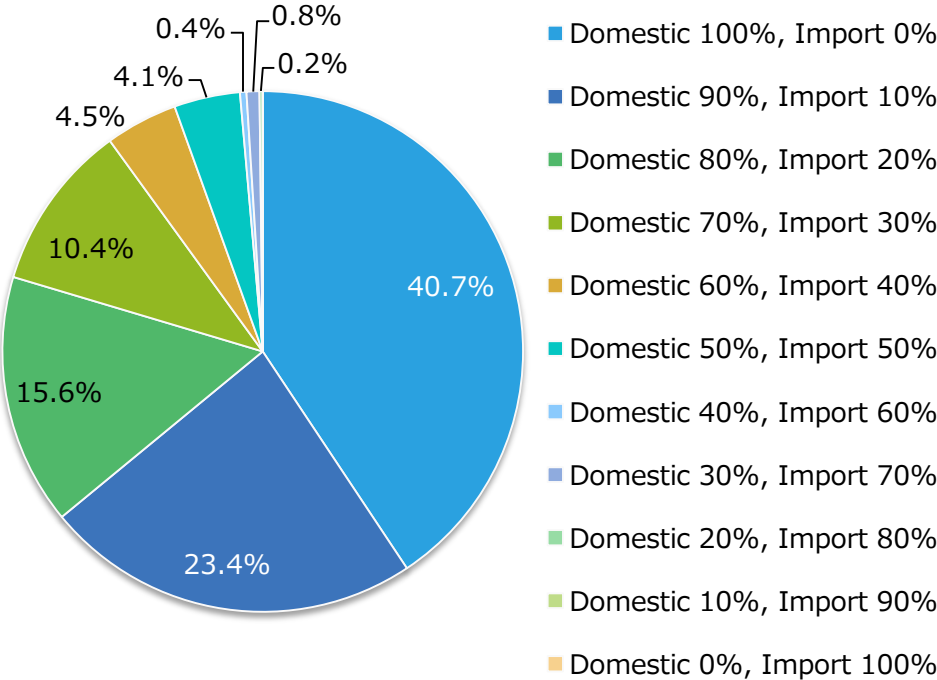
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(Source: Made by Yano Research Institute Ltd. based on report by ORGANIC VILLAGE JAPAN "Organic Market 2017+2016 Near Future Forecast")

9. Consumer Needs and Demands of Organic Processed Food Products

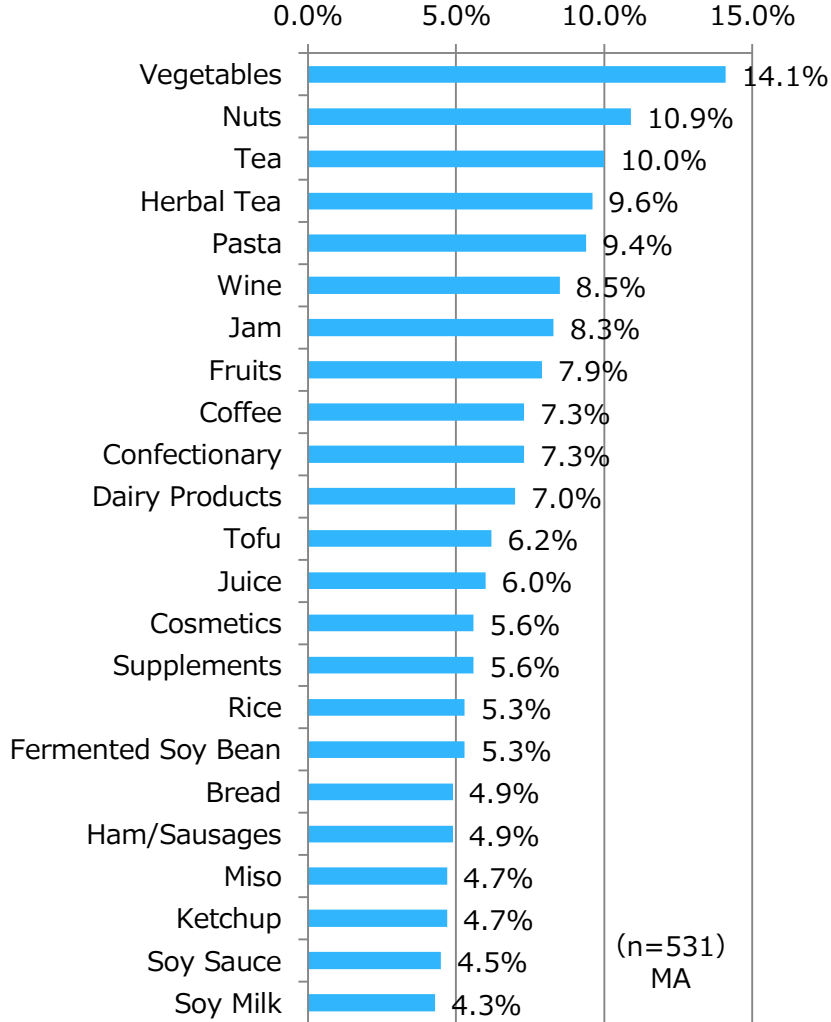
5 Which Organic Food Products are Purchased: Domestic or Imported

- Even with organic food products, domestically produced ones are preferred.
- Only about 5% of the market population purchase over 50% of imported products.



(n=531) SA

6 Which Imported Organic Food Products are Purchased



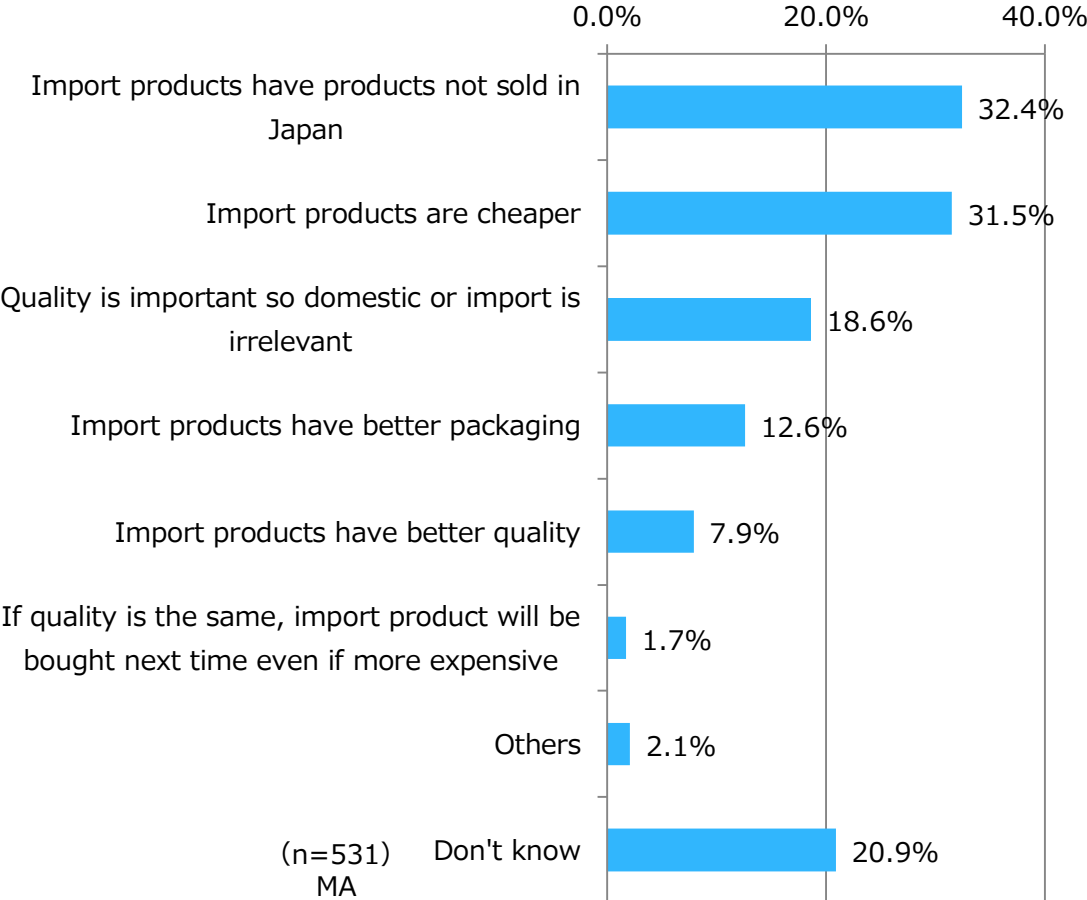
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(Source: Made by Yano Research Institute Ltd. based on report by ORGANIC VILLAGE JAPAN "Organic Market 2017+2016 Near Future Forecast")

9. Consumer Needs and Demands of Organic Processed Food Products

7 Ratings Toward Overseas Organic Food Products

- Consumers expect quality and uniqueness in imported organic food products that they can't find in Japanese organic food products.



(Source: Made by Yano Research Institute Ltd. based on report by ORGANIC VILLAGE JAPAN "Organic Market 2017+2016 Near Future Forecast")

10. Assignments for Future Expansion of Organic Processed Food Products

1. WITH HIGH LEVEL OF TRUST IN DOMESTICALLY GROWN/PRODUCED PRODUCTS, NOT MANY PEOPLE DEMAND FOR ORGANIC PRODUCTS

Since there is a high level of trust toward domestically grown/produced products, demands toward the more expensive, organic food products are limited.

There needs to be further knowledge and awareness about the merits of organic food products, and why they are more expensive in comparison to regular food products.

2. INGREDIENTS ARE DIFFICULT TO SUPPLY

With a country like Japan where the land area is small, it is difficult to crop fields for organic products, thus organic manufacturers and organic product volumes doesn't increase. Supplying imported ingredients for manufacturing processed food products are difficult to government regulations depending on the country.

If a sufficient amount of ingredient cannot be supplied, the taste ends up being sacrificed, or not enough products can be manufactured, unable to expand in market size.

Especially in Japan, organic ingredients like milk, eggs and flour are said to be difficult to supply.

10. Assignments for Future Expansion of Organic Processed Food Products

3. INCREASING COMPANIES WITH ORGANIC JAS CERTIFICATION SYMBOLS

For a type of food product to expand in the organic market, there needs to be a manufacturer that can produce these products on top of being able to supply the organic ingredients. However, depending on the type of food, those in the business are less compared to others. This is especially the case with confectionaries where not many manufacturers have the Organic JAS Certification compared to other types of food.

The reason behind this is because of the large amount of oil used in products, leading them to spoil faster, thus having a shorter expiry date. Also, since the domestic organic market is still small, in order to succeed as a business, exporting products is inevitable. For instance, products like soy sauce have high organic demands in North America and Europe where Japanese food and sushi are popular so many of these types of companies have Organic JAS Certifications. With confectionaries, however, there are many organic products already overseas, so exporting Japanese organic confectionaries in large volumes is unlikely, stopping companies from committing to obtaining Organic JAS Certifications.

This being said, with organic confectionaries, imported products currently stand out more in Japan as well. Since confectionary products use a lot of oil, which could seep into the package and ruin the product, which is one of the assignments for the organic confectionary market to overcome.

4. FORTIFICATION IN PROMOTING

To expand organic food products, there needs to be an understanding for consumers in its high quality and taste, and as why the prices are higher than regular food products. However, since companies that manufacture or handle organic food products are small-to-medium sized, they cannot invest enough money toward promotion whether it'd be through employees or mass media. There needs to be an effective way to let consumers know what ingredients are being used, and how each products are being manufactured.

10. Assignments for Future Expansion of Organic Processed Food Products

5. INCREASE PRODUCTS THAT ARE MORE REASONABLY PRICED

Since product values are higher, it's clear that prices are higher than regular food products, but in order to popularize an organic lifestyle, there needs to be products that are reasonably priced so consumers can purchase them daily without worrying about the price.

6. RELATE ORGANIC PRODUCTS TO ENVIRONMENTAL SUSTAINABILITY

Much of the Japanese consumers choose organic for health benefits and food safety. However, in North America and Europe where the organic lifestyle is more widespread, on top of those benefits, many choose organic for environmental conservation. To expand organic food product demands in Japan, there is a need to increase consumers who choose organic for the same reason as those in North America and Europe.

7. LACK OF ORGANIC JAS CERTIFICATION SYSTEM FOR ALCOHOLIC PRODUCTS

In Japan, the regulatory authorities for agricultural products and alcoholic products are the Ministry of Agriculture, Forestry, and Fisheries (MAFF), and the Ministry of Finance (National Tax Agency), respectively. Since the Organic JAS Certification System is under the jurisdiction of the MAFF, Organic JAS Certification System does not exist for alcoholic products in Japan. This being said, wines from overseas that has received organic certification would not receive the organic JAS symbol in Japan.

Since Organic JAS Certification System doesn't exist for alcoholic products, there's no clear definition or guideline in the production of "bio wines" or "natural wines", making it difficult to understand what would be considered "organic" wine products. In the EU, "BIO=ORGANIC" is legally regulated, so to label a product "Bio wine (organic wine)" would need an Organic Certification. However, with no such legal regulation for the using the word "bio", any wine could be labelled as such in Japan.

11. Future Outlooks of Organic Processed Food Products

DIVERSIFICATION OF LIFESTYLE AND VALUES WILL BE A TAILWIND FOR THE ORGANIC FOOD PRODUCT MARKET

- Since the high economic growth period brought upon an age of mass production/consumption, it was inevitable for pesticides to be used to effectively mass produce. However, with the current decrease in population, there has been diversification in lifestyle and values. These types of market changes works as a tailwind for the growth and expansion of organic food products.
- The Japanese farming population is aging, but younger farmers are slowly increasing as well. The younger farmers have a higher awareness toward environmental conservation, and are knowledgeable about organic food products, so although it may be difficult to see a drastic change in the market in a short period, it's possible to see market growth in a medium~longer span.

TOKYO 2020 IS EXPECTED TO BE A BIG CATALYST TO EXPAND THE ORGANIC FOOD PRODUCT MARKET

- Behind the reasons of opening organic-oriented retail stores like “Bio c’ Bon” and “BIORAL” opening one after another in 2016 lies the expectations that organic food product demands will increase heading toward the 2020 Tokyo Olympics/Paralympics.
- After much consideration, the food and ingredients supplied at the Olympic Village has been decided on GAP (Good Agricultural Practice) certified ingredients, with organic being recommended, but not mandatory.
- However, at the preparation camps where players and staff will prepare themselves prior to the Games are different from the Olympic Village, and regional municipalities can form independent agreements with respective countries. This being said, if municipalities decide to express their interest in providing organic food, it will leave a positive impression toward countries where organic lifestyles are common, enticing more of these types of visitors to Japan with the option of maintaining an organic lifestyle here. In fact, a few regional municipalities are proceeding to undertake an “Organic Town” plan.



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