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Japanese Organic Market

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Report Highlights:
The Japanese organic food market is estimated at approximately $1.3 to $1.4 billion as of 2010 with slow but steady growth. The Japanese organic market is still in its nascent stages with major stumbling blocks to its expansion, including undeveloped distribution channels, a low level of understanding of organics among consumers, and strict import regulations on organic food. Considering growing concerns over food safety among Japanese consumers, as well as the huge size of the existing Japanese food market, the growth potential is significant. ATO Japan would like to advise U.S. organic exporters to follow closely the progress of the ongoing negotiation between the U.S. and Japanese governments and be prepared to take advantage of the opportunities that the Japanese organic market may present.

General Information:

I. Market Overview

A. **Japanese Organic Market**

According to the Research Institute of Organic Agriculture (FiBL) and the International Federation of Organic Agricultural Movement (IFOAM), the world organic food market reached $59 billion in 2010. Data released by the Organic Trade Association (OTA) reveals that the U.S. organic food market recorded sales of $26.7 billion in 2010 and $29.2 billion in 2011, with annual growth rate of 7.7% in 2010 and 9.4% in 2011. According to OTA, the organic share in the total food market in the U.S. reached over 4% in 2011.

This is in stark contrast to the Japanese organic food market. According to the "Organic Market Research Project (OMRP)" survey conducted by a team led by IFOAM Japan, the Japanese organic food market is estimated at around $ 1.3 to $1.4 billion* as of 2010. According to Japanese Ministry of Agriculture, Forest and Fisheries (MAFF), the organic share in domestically grown agricultural food products in Japan was only 0.24% in 2011, still 0.14 percentage points up from a decade ago.

The comparison makes clear that the Japanese organic market is still in its nascent stages. This is partly due to limited domestic organic food supplies, undeveloped distribution channels and continuing strict import regulations, hindering the availability of organic products in the Japanese market. Considering that Japan imports about 60% of its food supply on a calorie basis from other countries, the stringent regulations on organic food imports is also a major impediment to the expansion of the organic market in Japan.

In view of the huge size of the Japanese food market, which is well over $820 billion** with retail and food service sectors being combined, as well as serious food safety concerns among Japanese consumers, the growth potential of the organic market is significant. The U.S. Government continues to negotiate with the Government of Japan to further facilitate a mutual equivalence agreement on organic trade between the two countries. ATO Japan advises U.S. exporters to closely follow the negotiation progress and be prepared to grasp opportunities that the Japanese organic market may present.

* The exchange rate used in this report is $1=100 yen.

** Please refer to "Japan Exporter Guide 2012" for detail.

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Exporter%20Guide_Osaka%20%20ATO_Japan_12-27-2012.pdf

B. **Selling as Organic in Japan**

Fig. 1

The production and distribution of organic food products are regulated by JAS law (Japan Agricultural Standard Law) in Japan. JAS Organic certification and JAS Organic seal (Please refer to Figure 1 on the left) are required for any food products to be sold as organic.

However, it should be noted that this requirement applies only to what is defined as "specified products" in the law. The JAS law defines agricultural food products (plants), such as grains, soybeans, fresh vegetables and fruits, and agricultural processed food products of plant origin as "specified products," and require them to be

JAS organic certified and affixed with JAS organic seal in order to be sold as organic in Japan.
On the other hand, the law defines all the other products as "non-specified products," which include meat, fish, and dairy products, and exempts them from the requirement. In other words, imports of these non-specified products, certified by NOP as organic (such as organic cheese), can be labeled as organic with the NOP organic logo and sold in Japan. However, these products are not legally recognized as organic under JAS law unless directly certified by a JAS regional certifying body.
Currently, imported multi-ingredient foods, such as cheese pizza, containing 5 percent or more of a non-specified product (in this case cheese) can be sold in Japan using the original NOP organic logo but are also not legally recognized as organic. That said, if the word "organic" appears on the ingredients list it must be covered. Conversely, multi-ingredient foods containing less than 5 percent of a non-specified product cannot be sold in Japan displaying the NOP organic logo and hence the logo must be covered. It is highly recommended that exporters coordinate with respective importers to determine exactly how a particular product will be treated. For more information on the current status of labeling requirements for multi-ingredient products please contact the Agricultural Affairs Office at agtokyo@fas.usda.gov.

C. **History and Background**
The Japanese organic/natural food market developed from what is called in Japanese "teikei-saibai," or "keiyaku-saibai," loosely translated as contract-base production and distribution, in which farmers and consumers establish a partnership and the former produces organic/natural produce and distributes it to the latter.
In Japan, the concept of anshin-anzen is strong. Anshin means peace of mind, or comfort. Anzen means safety. These two factors are critical to Japanese consumers' acceptance of the foods they eat. By partnering with producers through "teikei" or "keiyaku," Japanese consumers tried to secure the safety of the food they eat.
However, there was confusion among consumers surrounding organic food and natural food. Despite their serious food safety concerns, consumers in general did not understand the difference between organic and natural food such as gennoyaku (less chemicals), mu'nohyaku (no chemicals) and others. As confusing and misleading signs were also spreading, MAFF established organic grading system under JAS law in 1999. With the new grading system, organic products became identifiable with the JAS Organic.
For more information on the background of the establishment of the system, please see Section I of the following site: http://www.maff.go.jp/e/jas/specific/pdf/organic_products_system_1304.pdf

D. **Current Situation Surrounding the Organic Market in Japan**
Despite MAFF's efforts, consumer understanding about "JAS organic" is still low. Confusion with gennoyaku (less chemicals) and mu'nohyaku (no chemicals) remains. There is also "tokubetsu-saibai" or specially grown category produce, governed and certified by local governments. Although there is a national guideline for "tokubetu saibai", each local government may set up its own standards for their "tokubetsu-saibai" and certify products as they are, adding to the confusion among consumers.
In addition, the word "organic" is not well understood by consumers. According to the OMRP survey, 97% of consumers are aware of the word "organic", however, only 5% of them understand its meaning correctly.
Proper education about organic is required on a broad level in order to promote organic food in the Japanese market. As there is a strong concern over food safety among Japanese consumers, the demand for organic and

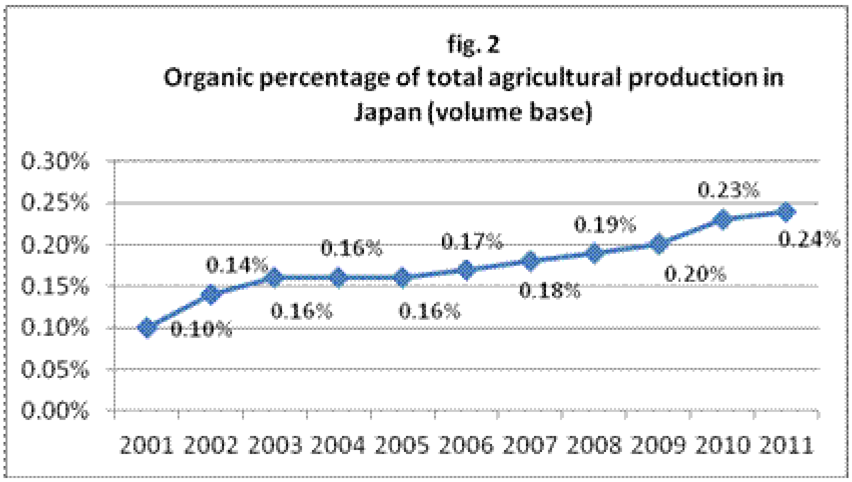
natural food is considered to be enormous. The OMRP survey indicates that the natural food market in Japan is estimated at around $6 billion, about five times of the organic food market. This implies that there is a great growth potential of the organic market, as adequate understanding is acquired among Japanese consumers.

E. **Domestic Production & Import of JAS Organic Certified Foods**

MAFF releases annual data of agricultural products certified to JAS Organic under JAS law.

a). **Domestic Production of JAS Organic Certified Agricultural Food Products**

In recent years, domestic production of organic food products (e.g. vegetables, fruits, rice, wheat, soybeans etc.) has seen modest growth in its share in the total production in volume, from 0.10% in 2001 to 0.24% in 2011.



Source: MAFF

Domestic production of organics has typically been dominated by vegetables. The production figures from recent years show that this pattern continues largely unchanged, with vegetables and rice together comprising 86% of the organic production in 2011.

Tab. 1: Domestic Production of JAS Organic Certified Agricultural Products (certified in Japan)

(metric tons)

	2001	***2003***	***2005***	***2007***	***2009***	***2011***	
vegetables	**19,675**	**28,444**	**29,107**	**32,780**	**37,644**	**40,288**	**68.9%**
fruits	1,391	2,163	2,222	2,199	2,436	2,275	3.9%
rice	**7,777**	**10,433**	**11,369**	**10,828**	**11,565**	**10,018**	**17.1%**
wheat	722	858	655	721	782	1,079	1.8%
soybeans	1,162	786	877	986	939	1,132	1.9%
green tea	927	1,487	1,610	1,702	1,873	1,986	3.4%
other products	2,081	2,019	2,332	4,230	2,103	1,666	2.9%
Totals	33,734	46,192	48,172	53,446	57,342	58,444	100.0%
Organic share in total ag. products	0.10%	0.16%	0.16%	0.18%	0.20%	0.24%	

Source: MAFF

b). **Japanese Import of JAS Organic Certified Agricultural Food Products**

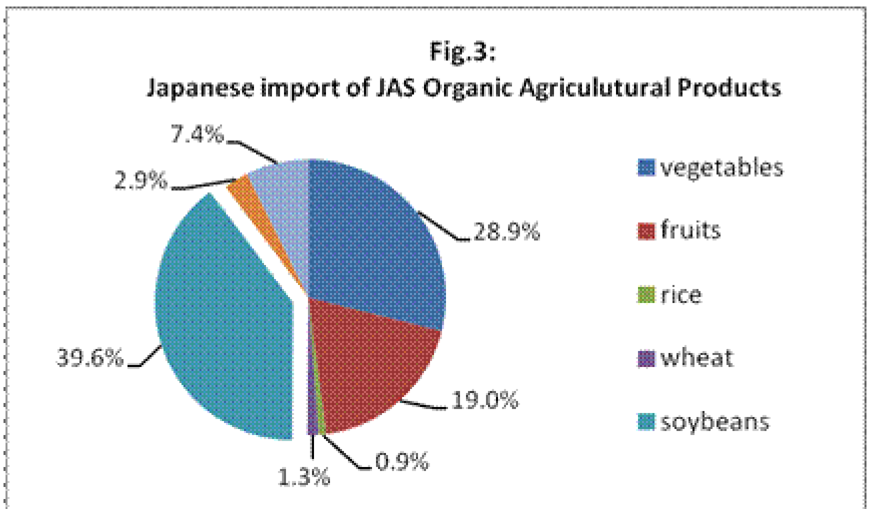
The situation with organic imports is quite different. While imports of fruits and vegetables are prominent, these products pale in comparison to imports of organic soybeans, which in 2011, made up 40% of the total. (Note that MAFF only began to release import data of JAS organic products certified in foreign countries in 2011, which does not allow historical comparison.) Among “other products,” coffee beans and nuts stand out, amounting to 2,638mt and 2,218mt respectively.

Tab. 2: Japanese import of JAS Organic Certified Agricultural Products (certified outside of Japan)

(metric tons)

	2011	
vegetables	**19,886**	**28.9%**
fruits	**13,064**	**19.0%**
rice	587	0.9%
wheat	905	1.3%
soybeans	**27,248**	**39.6%**
green tea	1,986	2.9%
other products	5,065	7.4%
totals	68,741	100.0%

Source: MAFF



c). **Domestic Production of JAS Organic Certified Agricultural Processed Food Products**

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 large share that imports make up of the conventional soy market and the central role these foods play in the Japanese diet.

Tab. 3: Domestic Production of JAS Organic Certified Agricultural Processed Food Products (certified in Japan)

(metric tons)

	2005	*2007*	*2009*	*2011*	
vegetables	3,749	3,137	4,888	4,527	5.0%
fruits	4,055	5,270	2,221	2,198	2.4%
soy products	114,746	90,183	69,044	63,038	69.5%
other products	27,261	35,320	21,728	20,889	23.0%
totals	**149,811**	**133,910**	**97,881**	**90,652**	**100.0%**

Source: MAFF

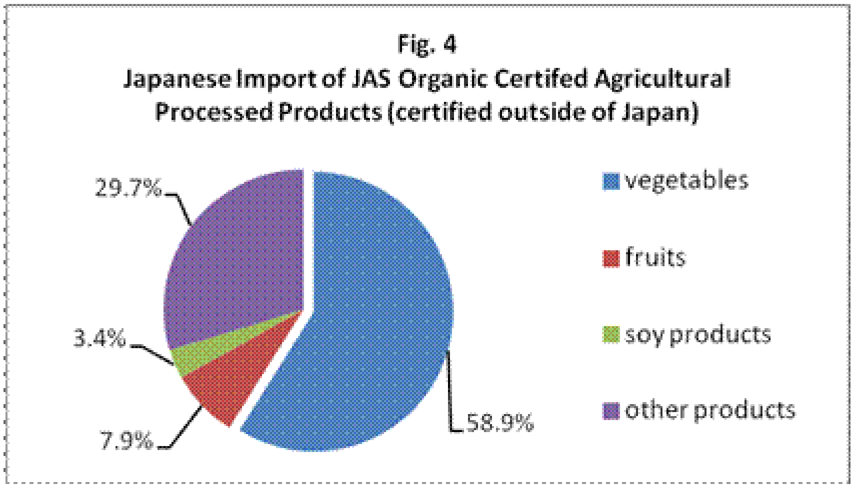
d). **Japanese Import of JAS Organic Certified Agricultural Processed Food Products (certified outside of Japan)**
The import of organic processed foods, meanwhile, is dominated by vegetables. While all the soy products certified to JAS organic outside of Japan was imported to Japan, the category made only 3.4% of all the import. (Note that MAFF only began to release import data of JAS organic products certified in foreign countries in 2011, which does not allow historical comparison of the data.)

Tab. 4: Japanese Import of JAS Organic Certified Agricultural Processed Food Product (certified outside of Japan)

(metric tons)

	2011	
vegetables	29,187	58.9%
fruits	3,933	7.9%
soy products	1,680	3.4%
other products	14,715	29.7%
totals	**49,515**	**100.0%**

Source: MAFF



II. Regulatory Framework

A. **History of Japanese organic regulation**

The organic portion of the JAS law, which is based on the Codex standard, has developed mainly as follows:

MAFF's first organic labeling guidelines published, although lacking punishments for non-compliance

the organic certification rule incorporated into JAS law

JAS Organic standards for agricultural food products and agricultural processed food products established

JAS Organic labeling rules take effect, including JAS seal

JAS Organic standards for livestock products, dairy products and feed established

B. **JAS Organic logo**

Fig. 1

Under the regulation, organic agricultural food and agricultural processed food products are required to be affixed with the JAS Organic logo (Figure 1). Without this logo, the products are banned from being sold as organic. Products under the "specified category" (see Section 2 under I. Market Overview) with signs or marks on the package which indicates "Organic" either in Japanese or English are required to be JAS Organic certified and affixed with a JAS Organic logo. Without a JAS Organic logo, these "organic" signs and marks have to be removed from the package under the JAS Law.

C. U.S. Export of organic products to Japan

Japan recognizes the National Organic Program (NOP) of the U.S. as equivalent to the JAS Organic system in Japan. This means that NOP certified products can be exported to Japan and sold as organic with JAS Organic certification. However, the government of Japan has not approved the use of the following two substances, which are allowed under NOP standards.

- alkali extracted humic acid,
- lignin sulfonate except as binder or anticaking agent

Under these circumstances, U.S. exporters can choose between two options to bring organic products to market in Japan: a). exporting USDA National Organic Program (NOP) certified products to JAS certified importers, and b). exporting products certified to JAS organic in the United States.

a). **U.S. Organic Product Certified to NOP Standards**

JAS law states that U.S. organic products certified to NOP standards may be exported to Japan as long as three requirements are met.

i). Two prohibited substances were not used in production:

- alkali extracted humic acid,
- lignin sulfonate except as binder or anticaking agent

Note: These two substances *are* allowed under U.S. NOP standards.

ii). Products must be accompanied by an Export Certificate. The organic certifier will provide an USDA Agricultural Marketing Service (AMS) Export Certificate (TM-11) if the above requirement is met.

iii). The product must be imported by a JAS Organic certified importer. The certified JAS importer can then affix a label to the product and sell it as JAS certified organic.

The key element in this first method is the role of the JAS-certified importer, who will act as a guide and insure that only qualified products are brought to export. Not all importers have this certification. Hence, it is important for potential exporters to partner with a reliable JAS-Organic certified importer.

Since April 2013, U.S. certified organic exporters are allowed to affix JAS Organic logo on their products, by

entering into a consignment agreement with JAS organic certified Japanese importers.
For more information on the new consignment agreement, visit the following website and read Q4-1 to Q4-12:
http://www.maff.go.jp/e/jas/specific/pdf/130329qa-organic-plants.pdf

For more information on import process, visit:
http://www.ams.usda.gov/AMSv1.0/getfile?dDocName=STELPRDC5089061
http://www.ams.usda.gov/AMSv1.0/ams.fetchTemplateData.do?template=TemplateJ&navID=InternationalTradePartnersNOPCertifyingAgents&rightNav1=InternationalTradePartnersNOPCertifyingAgents&topNav=&leftNav=NationalOrganicProgram&page=NOPInternationalAgreements&resultType=&acct=nopgeninfo

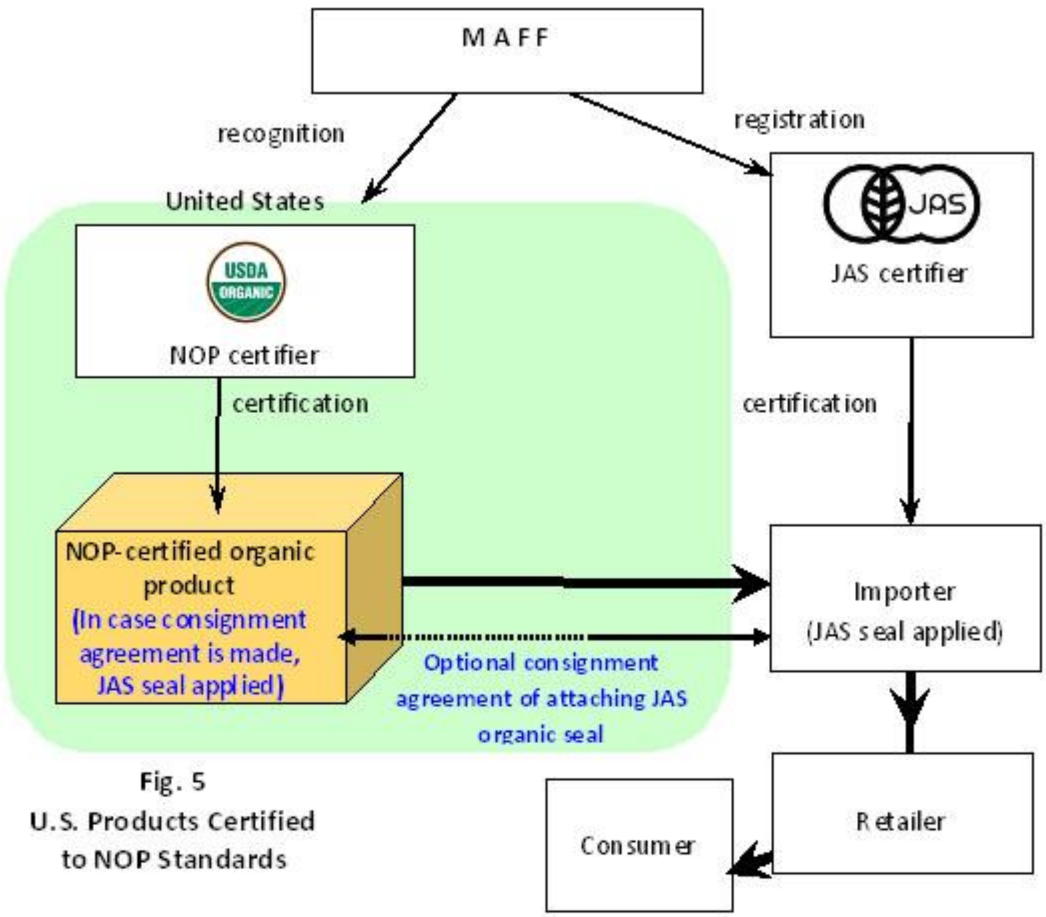


Fig. 5
U.S. Products Certified to NOP Standards

The second method is as follows:

b). U.S. Organic Product Certified to JAS Standards

United States organic products that are certified to JAS standards by a JAS registered certification organization may be exported to Japan as JAS organic products. As long as the product is JAS certified and JAS organic

labeled, the product can be traded with any Japanese importers as JAS organic.
This second method (obtaining JAS certification in the United States), while generally more costly on the front end owing to the rather more expensive JAS certification itself and other related costs, nonetheless results in a considerably smoother process in bringing the products to market in Japan.

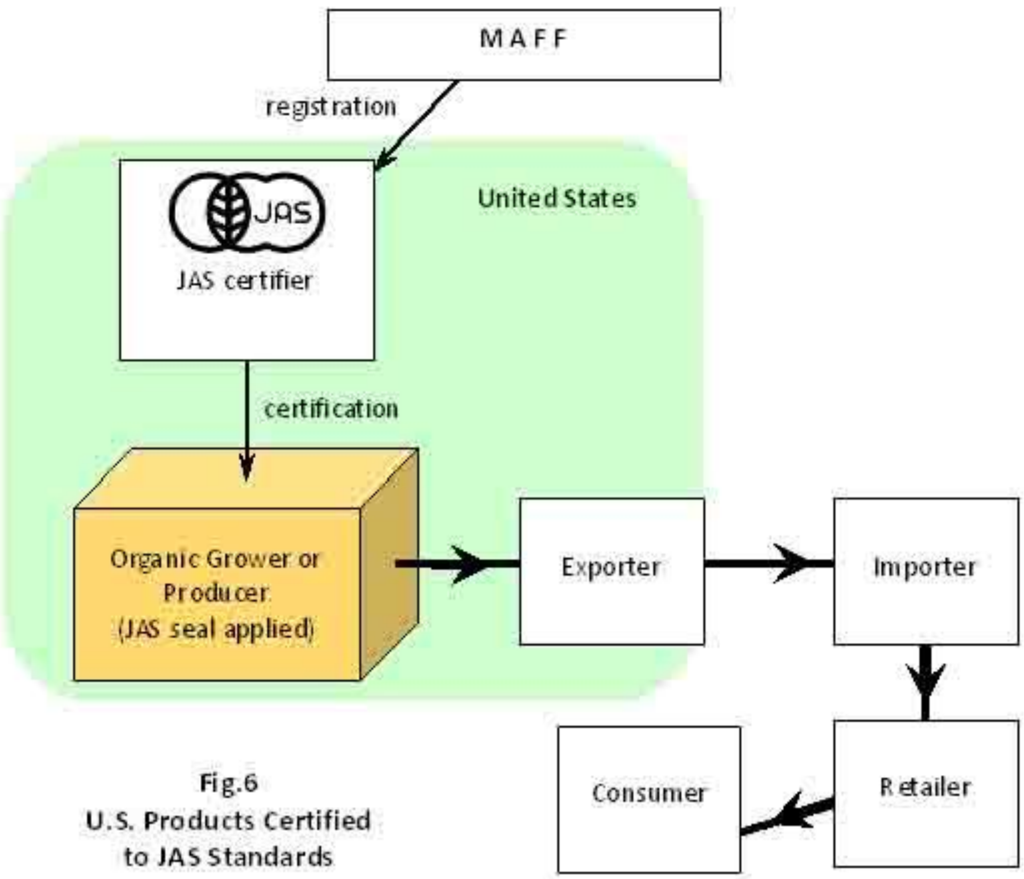


Fig.6
U.S. Products Certified to JAS Standards

Over 60 U.S. companies with over 80 locations have opted for this second option and are being certified to JAS organic in the U.S. (as of March 2013).
For more information on the import process of organic products to Japan, please see Section IV of the following site: http://www.maff.go.jp/e/jas/specific/pdf/organic_products_system_1304.pdf
Close attention should be paid to ongoing trade negotiations between the U.S. and Japan, as their outcome will have broad implications for the marketability of U.S. organics in Japan.

III. Marketing Organic Products in Japan

A. **Market Trend**

The organic market is growing slowly in Japan. As in the other markets in the world, food safety and environmental concerns have been supporting the growth of the market. In addition, the following trends should be noted as factors behind the growth in Japan.

a). **Post March 11 Great Earthquake**

Food safety concerns among Japanese consumers grew after the Great Earthquake in March 2011 in the northeast of Japan. Their main concerns were over radioactive contamination of agricultural products produced in Fukushima and neighboring areas following the Fukushima nuclear plant explosion. The heightened level of concern right after the accident has been slowing down gradually. The accident, however, alerted consumers once again about the importance of food safety. According to some industry sources, since the earthquake, consumers who used to look for domestically grown products have started accepting more and more imported food products as an option to secure safe foods.

b). **Organic as a fashion**

There is a trend in which organic is considered fashionable in Japan. There are numerous organic stylish cafes opening up in the downtown of Tokyo and Osaka. An example of these is the organic restaurant and store that Daylesford from England opened in Aoyama, Tokyo in 2010 (http://www.daylesford.com). Other cafes are also increasingly featuring organic dishes in their menu. The movement by new cafes may not be significant in terms of the volume of organic food consumption in Japan. These organic cafés, however, have a great appeal, in particular, to young generations and are assisting in promoting the concept of "organic" among young consumers.

B. **Distribution Channels**

There is no mass organic supermarket chain in Japan equivalent to Whole Foods Market in the U.S. Japan is still in, as it were, the pre- "Whole Foods" era. From a marketing perspective, the lack of a large, national chain specializing in organics continues to hamper a rapid growth of the customer base beyond a rather narrow pool of affluent, health and environmentally conscious consumers.

When natural and health foods first appeared in the 1970s, consumers of these products had options that were limited mainly to specialty stores and to contract-based *teikei* agreements. Over the years the availability of organics has steadily increased, however, to a point where they can now be found nearly everywhere from roadside stalls to convenience stores to prominent displays in department stores. At least a small display is now common in most major supermarkets.

From a consumer perspective, there is no definitive place to go that meets all of an organic shopper's needs: fresh vegetables can only be found in one store, tofu and condiments in another, and breads elsewhere still. Although there are small organic chains opening up in Japan, such as "Natural House" and "Mother's Organic Market," the number and the scale of these chains as well as the range of products available at the stores have not reached the level of Whole Foods Market in the U.S. yet. Limited shelf space in stores plays a role, but the real hindrance is that no major chain has yet taken the gamble to go organic in a significant way.

C. **Issues in Marketing Organic in Japan**

In addition to the limited distribution described above, cost is a stumbling block as well. The government rules of JAS Organic certification also brought new costs associated with the accreditation of farms, grading of produce, and intrusive testing. Consumers in general are aware of the price difference between organic and conventional, and those who buy organic products are willing to pay up to a 20-30% price premium, according to the OMRP survey.

The OMRP survey also indicates that non-uniformity of the organic produce is another perceived problem, especially in a market notoriously saturated with near-perfect products. Supply instability is also prevalent, given the generally small quantities being produced per farm as well as an inability to rely on chemicals to combat sudden infestations or blights. These issues need to be addressed by educating trade and consumers on organic.

D. **Prospective Sectors for Organic**

Given the circumstances surrounding the organic market in Japan, the following areas are considered to be potential for growth:

a). **Food Service:**

One area of positive potential growth is food service, ranging from family-oriented chains to fashionable cafes, and to upscale restaurants. A variety of restaurants are featuring organic or natural food, particularly fresh vegetables and fruits, along with health conscious menu item in order to differentiate themselves from others. Even major fast food chains such as MOS Burger (a Japanese hamburger chain) are following this trend. As the variety of organic food supplied domestically is still limited, there seems to be ample opportunities for organic imported food products, in particular, such as beef, pork and chicken.

b). **Internet Retail:**

Internet retail is also a growth area for organic products. The two giant on-line organic food suppliers, Oisix and Radish-Boya, are expanding their business rapidly. For example, Oisix, established in 2000, held as many as 600,000 subscribers and recorded $127 million in sales in 2012. Radish Boya, on the other hand, teamed up with Lawson, a giant convenience store chain and are developing its business by expanding variety of food items on sale. Although these companies are mainly dealing with fresh produce grown in Japan, there are many other on-line stores who deal with imported organic and natural products.

c). **Gift Retail:**

Gift retail has potential for growth. Major Japanese retailers — department stores, supermarkets, net retailers, and even convenience stores and some discounters — hold special sales events every six months to cater to customers wishing to send gifts to business contacts, clients, teachers, respected elders, etc: a large event takes place at the end of each year (*seibo*) and a smaller one in July (*chūgen*). The majority of these gifts consist of food items, many of which are high end and imported. Organic items that have begun appearing in seasonal gift sets are organic coffees, teas, soaps, vegetable oils, and cotton products. Entering such a market might be especially advantageous for an organic exporter, since seasonal gifts are typically produced in limited quantities and sold at premium prices.

d). **Prepared Foods**

Prepared foods are likely to be an area of growth. Recent years have seen a steady increase in small, delicatessen-like retailers specializing in main and side dishes and salads to be taken home and eaten with (home-cooked) rice. Supermarkets and department stores of course also have such sections, and similar if smaller scale cases even exist in many convenience stores. Typically younger office workers (who don't have time to cook) have been the target customers for such products, but as the society ages it is expected that older and retired people will increasingly buy from the deli as well, particularly since prices have become fairly reasonable and product variety has increased considerably. While organics are not at present especially common in prepared foods sections or stores, it is inevitable that they will begin to have a noticeable presence as these sections expand and diversify.

In conclusion, the Japanese organic sector is still developing. While the concept of organic is beginning to penetrate Japanese culture, there are still stumbling blocks such as undeveloped distribution channels, consumer confusion, and strict import regulations. The regulations have turned out to be the leading hindrance, in particular to US organic processed food products.

As the Japanese public learns more about organics and begins to understand how it differs from "natural" and "chemical-free", opportunities for U.S. exporters will begin to grow.

ATO Japan would like to advise U.S. exporters to start looking into growth potential sectors identified above while closely following the progress of the government negotiation.

IV. Information Sources

A. **ATO Assistance**

The Agricultural Trade Offices in Japan stand ready to assist you in your efforts to bring products to market in Japan.

ATO Tokyo
U.S. Embassy, Japan
atotokyo@fas.usda.gov
tel +81 3.3224.5115
fax +81 3.3582.6429

ATO Osaka
U.S. Consulate General Osaka-Kobe
atoosaka@fas.usda.gov
tel +81 6.6315.5904
fax +81 6.6315.5906

Office of Agricultural Affairs
U.S. Embassy, Japan
agtokyo@fas.usda.gov
tel +81 3.3224.5105
fax +81 3.3589.0793

B. **Agricultural Marketing Service (AMS) /USDA**

http://www.ams.usda.gov/AMSv1.0/nop
http://www.ams.usda.gov/AMSv1.0/getfile?dDocName=STELPRDC5089061

C. **Ministry of Agriculture, Forestry and Fisheries (MAFF)**

http://www.maff.go.jp/e/jas/specific/organic.html

You can find the following information from the above website

- The Inspection Certification System for Organic Products（PDF：189KB（PDF：325KB））
- Overview of the Organic JAS（PDF：267KB）
- Standards and Technical Criteria.
- Questions and Answers on the Japanese Agricultural Standards for Organic Plants and Organic Processed Foods（PDF：698KB）
- Questions and Answers on the Japanese Agricultural Standards for Organic Livestock Products and Organic Feeds（PDF：106KB）
- Standards and Individual Procedures for Judging Compliance of Substances Listed in Appendices 1 and 2 of Japanese

Agricultural Standards for Organic Plants（PDF：182KB）

- Site Inspection Handbook（PDF：269KB）
- List of certified importers（Excel：45KB）