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Japan

Market Development Reports

Pet Food

2009

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Report Highlights:
Amid an ongoing pet boom, pet ownership is increasing in Japan. Although the Japanese pet food market has been in a downward trend in volume for the past several years, due mainly to the popularity of small dogs, it is still an attractive market for U.S. exporters. Imports were recorded at 368,412 MT in 2008 accounting for 52% of the total pet food market. The U.S. is one of the major exporters to the market. Japanese consumers are getting more conscious of the health of their pets and their demands for their pet foods are being diversified. Products that meet their demands with distinguishing functions and merits have a good chance to be accepted in the Japanese market.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Osaka ATO [JA3]
[JA]

Table of Contents

I. Executive Summary

- Amid an ongoing pet boom, pet ownership has been expanding in Japan. The number of dogs and cats kept as pets is increasing. It reached a record high of 26.8 million in 2008.

- The pet food market in Japan totaled 727,485 metric tons (MT) in JFY2007 (April-March) ($2.15 billion on a shipment value basis), out of which dog food amounted to 432,260 MT, accounting for 59% of the market and cat food reached 255,911 MT accounting for 35%. The market has been stable at around $2.15 billion in value, though it is in a downward trend in a volume shipment basis.

- Pet food imports to Japan amounted to 380,604 MT in JFY2007, accounting for 52.3% of the total pet food market in Japan. The main exporters are Thailand, the United States and Australia.

- The most common distribution system for pet food products in Japan is through wholesalers specialized in food or pet products. The main outlets are home centers, supermarkets, pet shops, and drug stores.

- A newly created law, "Pet Food Safety Legislation," is to come into force in June 2009, which defines the responsibility of importers/wholesalers/retailers and the scope of the government authority and regulates the distribution of pet food in the Japanese market.

Note: This report focuses on pet foods for dogs and cats put up for retail sale (HS numbers 2309.10).

II. Market Overview

A. Expansion of Pet Ownership

According to the latest survey conducted by the Pet Food Association Japan (PFAJ)*, the number of dogs and cats kept as pets collectively reached 26.8 million in 2008, making the record high in Japan. Amid an ongoing pet boom, pet ownership has been expanding in Japan.
(*Pet Food Manufacturers Association Japan was renamed as Pet Food Association Japan as of Apr. 1st 2009.)

Table1. Number of Dogs and Cats Kept as Pets

(Unit: thousand)

	2006	2007	2008
Dog	12,089	12,522	13,101
Cat	12,457	13,004	13,738
Total	24,546	25,526	26,839

Source: Pet Food Association Japan

The boom has been boosted by recent social trends in Japan toward a declining birthrate, an aging population, and an increase in single-person households. The Japanese Ministry of Health, Labor and Welfare (MHLW) reported that the birth rate marked its record low of 1.26 per woman in 2005. In the following year, the number of pets recorded 24.5 million, surpassing the number of children of 14 years old or younger (17.4 million) for the first time in Japan. Single urbanites, especially women, often keep their pets as companions and so-called eight million baby boomers, who are reaching retirement age, keep their pets as substitutes of their grown children. More and more people are keeping pets for companionship and treat them as a member of the family.

Another factor contributing to the latest boom is an environmental improvement. In the past, pets were not allowed in most condominiums in Japan. However, according to a survey compiled by the Real Estate Economic Institute Co. Ltd. in 2007, over 85% of condominiums in the Tokyo metropolitan area now allow pets amid the recent pet boom.

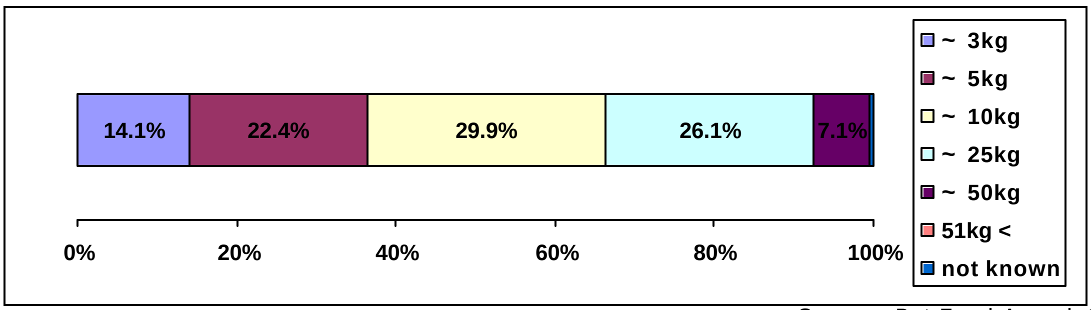
B. Trends in Pet Ownership

The aforementioned PFAJ survey identified major pet trends in Japan: 1) the popularity of small dogs, 2) advanced aging among pets, and 3) an increase in the number of indoor pets.

1. Popularity of Small Dogs

Small dogs have been gaining popularity in Japan. Dogs weighing 10 kg or less account for 66.4% of the total dog population in 2008 (up from 50.1% in 1998 and 58.3% in 2003), in which ultra small dogs weighing 3kg or less are 14.1% and small dogs between 3 kg and 5kg are 22.4%.

Chart1. Distribution of Dog Population by Weight in 2008



Source: Pet Food Association Japan

2. Advanced Aging among Pets

Dogs over 7 years old account for 55.3% of the total dog population, up from 51% of the previous year. Cats over 7 years old account for 47.4% of the total cat population, up from 45.8%. Dogs and cats over 10 years old are 29.3% (up from 29.0%) and 31% (up from 28.3%) respectively. Due to the wide availability of well-balanced pet foods as well as well-advanced pet medical care, pets are living longer now.

3. Increase in Indoor Pets

The PFAJ survey shows that over 70% of dogs and over 78% of cats are kept indoors. Keeping pets indoors is now more common than in the past in Japan. Pets kept indoors are less likely to become sick and live longer. This trend is also a driving factor to the aging among pets.

C. Pet Food Market

1. Market Size

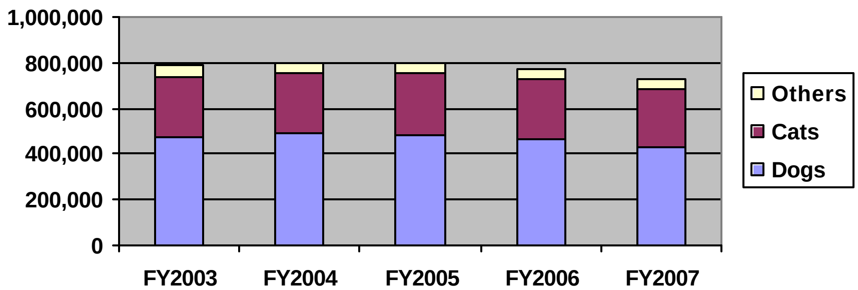
The Japanese pet food market was estimated at $2.15 billion on a shipment value basis with 727,485 metric tons (MT) as of JFY2007 (down 5.8% from a fiscal year earlier).

While the market size in value has been stable at around $2.15 billion for the past several years, the market size in volume peaked in FY2005 and has been down continuously since then. The downtrend in volume despite the increase in the number of pets can be explained by the ongoing popularity of small dogs, which consume less food than large dogs. Increases in unit price of pet food, caused by the price hikes of food ingredients as well as fuels/packing materials in recent years, have been compensating and stabilizing the market size in value terms.

Dog and cat food are the mainstay of the pet food market in Japan. The shipment of dog food reached 432,260 MT with 59% of the total pet food market in volume, while it totaled $1.19 billion with 55% in value in JFY2007. The shipment of cat food recorded was 255,911 MT with a 35% share in volume and $0.84 billion with 39% in value in the same year.

Chart2. Pet Food Market in Volume JFY2003-JFY2007

(unit: metric ton)



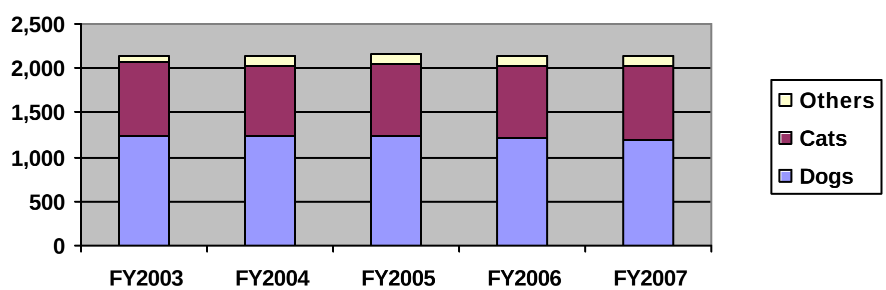
(unit: metric ton)

	FY2003	FY2004	FY2005	FY2006	FY2007
Dogs	474,600	490,153	482,356	465,119	432,260
Cats	264,138	261,928	268,654	262,459	255,911
Others	51,051	47,422	49,052	45,129	39,314
Total	789,789	799,503	800,062	772,707	727,485

Source: MAFF
Note: Japanese fiscal year starts in April and ends in March.
Exchange rate $=113.7, the average rate from 2003 to 2007

Chart3. Pet Food Market in Value JFY2003-JFY2007

(unit: $million)



(unit: $million)

	FY2003	FY2004	FY2005	FY2006	FY2007
Dogs	1,231	1,244	1,249	1,206	1,193
Cats	834	779	803	815	839
Others	77	105	120	115	114
Total	2,142	2,129	2,171	2,136	2,146

Source: MAFF

2. Sub Sectors by Product Type

Dog and cat foods are categorized into the following five types based on water content:

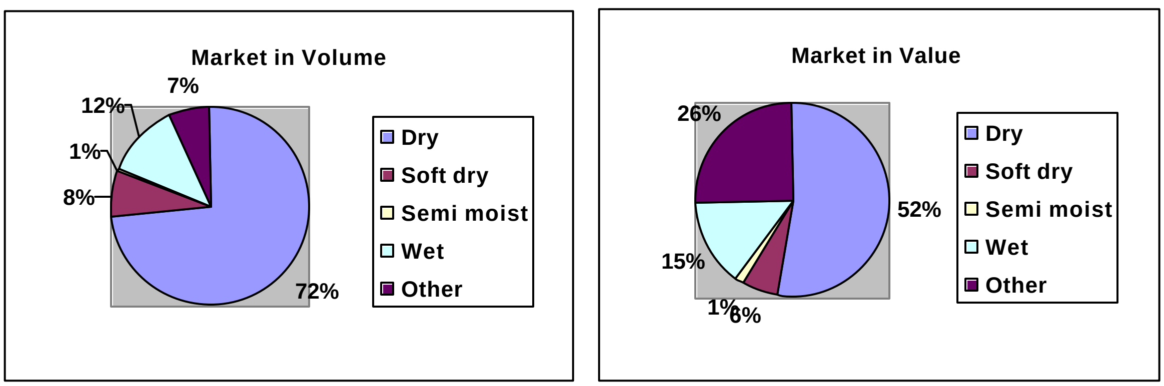
Table2. Product Type of Pet Food

Type	Definition
Dry	Water content of around 10%, produced by an expander (foamed)
Soft dry	Water content of around 25-35%, produced by an expander (foamed)
Semi-moist	Water content of around 25-35%, produced by an extruder (not foamed, including jerky, etc.)
Wet	Water content of around 75%
Other (snack)	Other than above, including biscuits, gum, jerky, and bone products

Source: JETRO Marketing Guidebook for Major Import Products 2005, Pet Care Products and Pet Foods

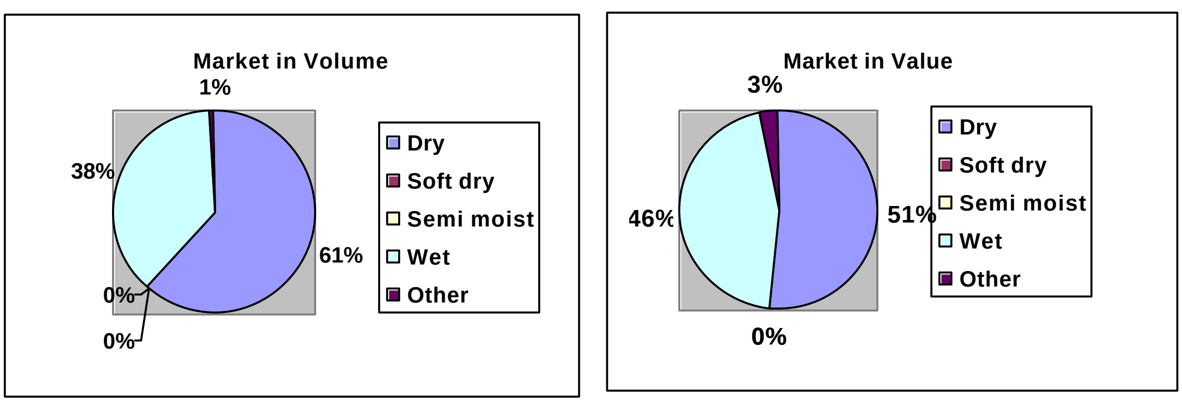
In the dog food market, dry food is dominant with over a 70% share in volume and over a 50% share in value. In the cat food market, dry food and wet food are the main categories. Dry is the largest category with 61% in volume and 51% in value followed by wet food with 38% in volume and 46% in value.

Chart 4. Dog Food Market by Type



Source: Pet Food Association Japan

Chart 5. Cat Food Market by Type



Source: Pet Food Association Japan

3. Major Manufacturers

The major pet food manufacturers in the Japanese market are listed in the following table. Foreign companies are active and account for a large share of the market, with domestic companies following foreign counterparts.

Table3. Share by Major Pet Food Manufacturers in Japan in JFY2007

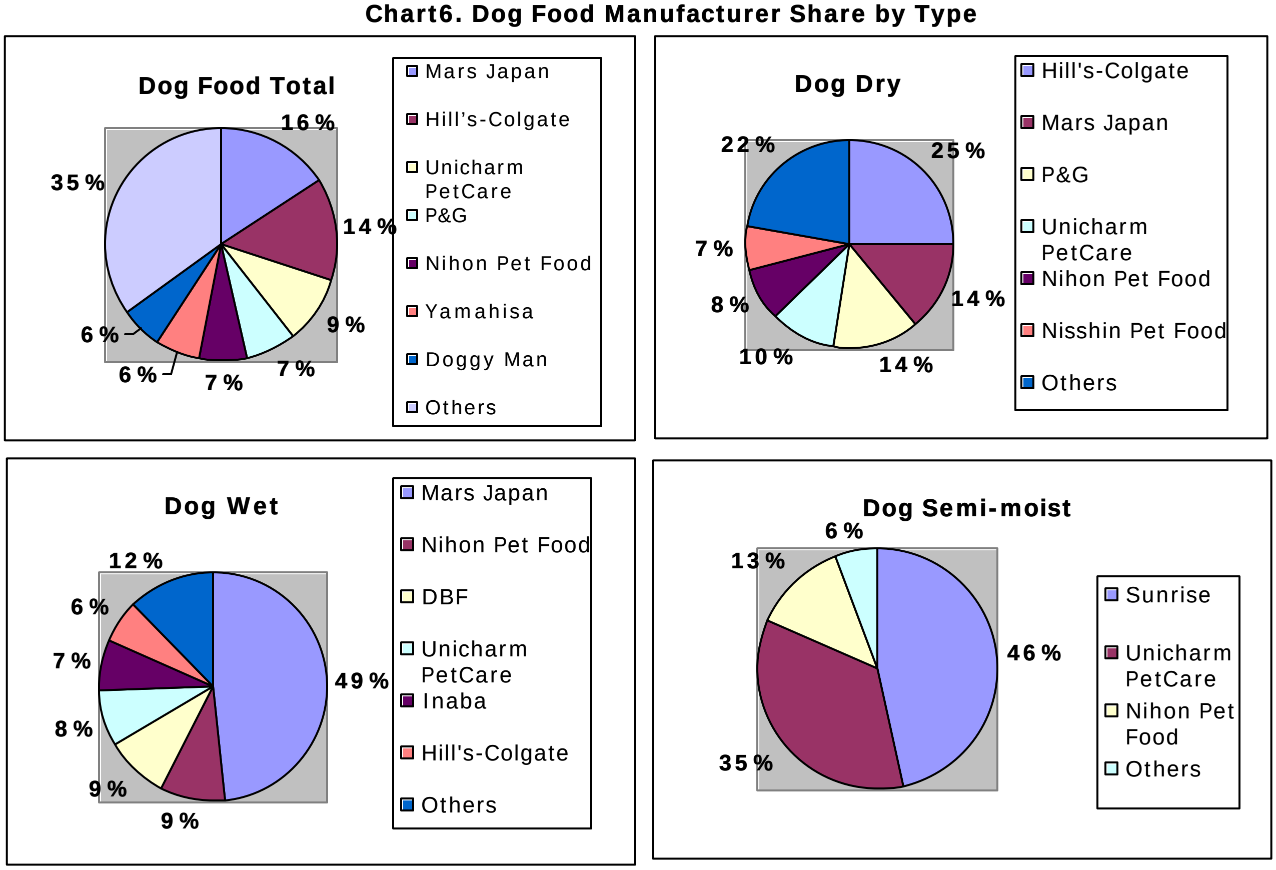
Manufacturers	Share	Major Brands	
		Dogs	Cats
Mars Japan Inc.	13.9%	Pedigree, Cesar, Perfect Fit	Kalkan
Unicharm PetCare Corp.	9.9%	Aiken-Genki, Best Balance, Gin-no-sara	Neko-Genki, Neko-no-spoon
Hill's-Colgate (Japan) Ltd.	9.9%	Science Diet	Science Diet
Nestle Purina Petcare	9.2%	Purina One, Purina, Pro Plan	Purina One, Mon Petit
Nisshin Pet Food Inc.	5.9%	Run, JP Gold	Carat
Nihon Pet Food	5.0%	Vita One	Mio
P&G Japan	4.8%	I AMS, Eukanuba	IAMS, Eukanuba
AXIA Corporation	4.0%		MiawMiaw, Black Can, Gold Can, Sea Can
PETLINE	3.7%	Dog Pit	Cannet
Yamahisa	3.5%	More Soft, Petio	Petio
Doggy Man H.A. Co., Letd.	3.4%	Healthy Jerky	
INABA-PETFOOD Co., Ltd.	3.3%	Inaba	Ciao
Others	23.6%		
Total	100%		

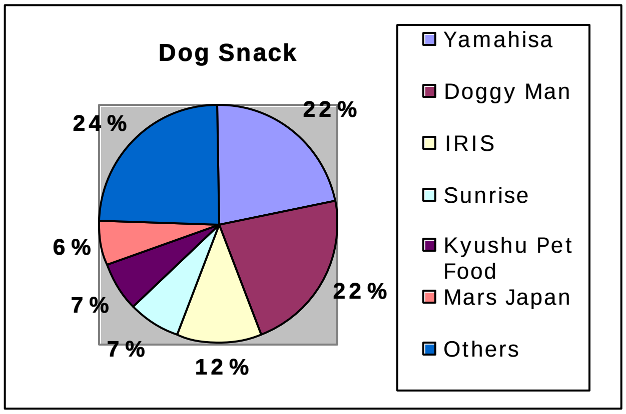
Source: Pet Business Hand Book 2009, Sankei-Shimbun Medics

a. Dog Food

Mars Japan Inc. and Hill's-Colgate (Japan) Ltd. are the leading manufacturers in the dog food category. When looking into each food type, Hill's-Colgate leads in the dry-food segment, while Mars Japan Inc. is by far the dominant player in wet food. In semi-moist and snack, the major suppliers are Japanese companies.

Chart6. Dog Food Manufacturer Share by Type



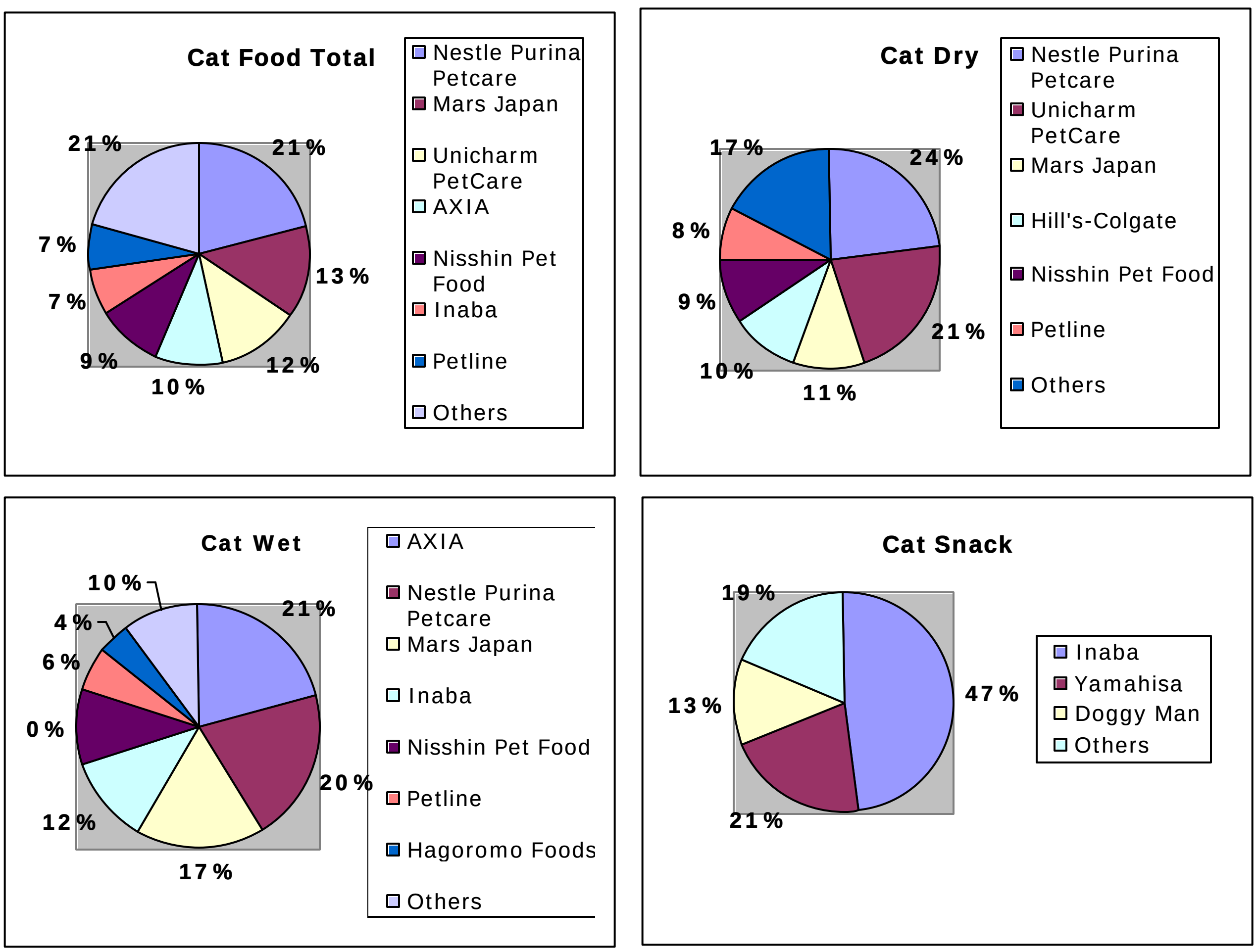


Source: Pet Business Hand Book 2009, Sankei-Shimbun Medics

b. Cat Food

Nestle Purina Petcare is the leading supplier in the cat food market, followed by Mars Japan Ltd. and Unicharm PetCare Corp. In dry cat food, Nestle Purina Petcare and Unicharm PetCare Corp. are competing for the top share of the segment. The major suppliers in the snack segment are Japanese companies with Inaba dominating the segment with nearly a 50% share.

Chart7. Dog Food Manufacturer Share by Type



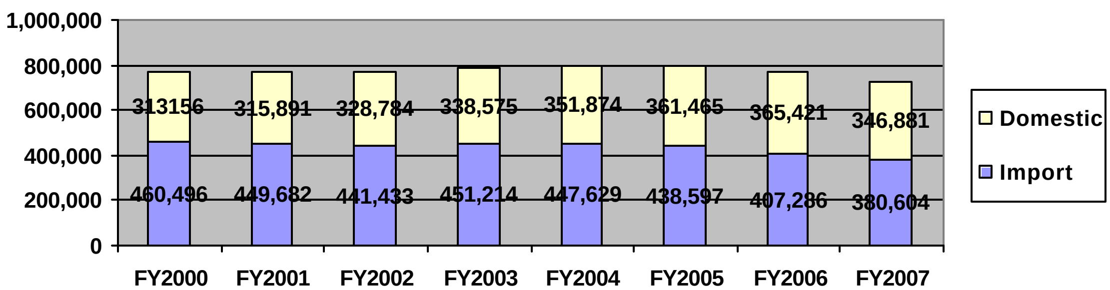
Source: Pet Business Hand Book 2009, Sankei-Shimbun Medics

III. Market Opportunities

A. Pet Food Import

A report compiled by Ministry of Agricultural, Forestry and Fisheries (MAFF) indicates that the shipment of pet food amounted to 727,486 MT in JFY2007, out of which imports amounted to 380,604 MT, accounting for 52.3% of the total market. Imports still account for more than a half of the market, though their market share in volume has been contracting since JFY2004.

Chart8. Japanese Pet Food Market (Domestic/Import) JFY2000-JFY2007
(unit: metric ton)



(unit: metric ton)

	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007
Import	460,496	449,682	441,433	451,214	447,629	438,597	407,286	380,604
Share	59.5%	58.7%	57.3%	57.1%	56.0%	54.8%	52.7%	52.3%
Domestic	313,156	315,891	328,784	338,575	351,874	361,465	365,421	346,881
Share	40.5%	41.3%	42.7%	42.9%	44.0%	45.2%	47.3%	47.7%
Total	773,652	765,573	770,217	789,789	799,503	800,062	772,707	727,485

Source: MAFF

The leading exporters to the Japanese market are Thailand, the United States and Australia, with the three countries collectively accounting for more than 80% of the total imports in volume and over 70% in value in 2008. Thailand is the main supplier of wet cat food packaged in airtight containers due mainly to abundant low-cost seafood ingredients available in the country. Pet food manufacturers both domestic and abroad have their key production facilities in Thailand. Major foreign manufacturers in the Japanese market have production facilities in the United States and Australia and export their products to Japan.

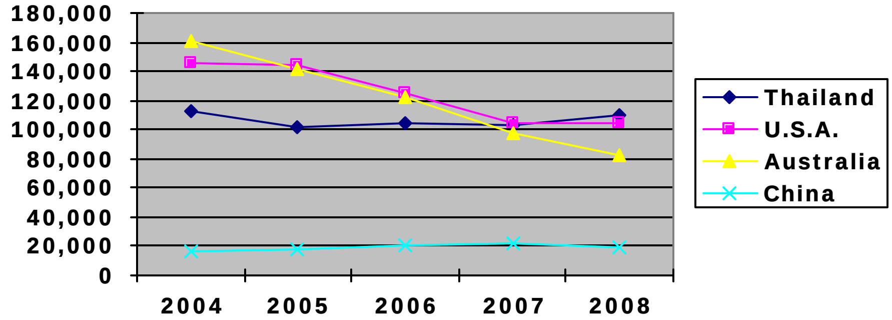
Table4. Principal Exporters of Dog/Cat Food to Japan 2004 – 2008

	CY2004		CY2005		CY2006		CY2007		CY2008			
	Volume	value	volume	value	volume	value	volume	value	volume	share	value	share
Thailand	112,695	196,717	101,934	189,787	104,465	191,909	103,534	210,911	109,275	29.7%	258,153	32.5%
U.S.A.	145,300	250,058	144,873	247,396	124,907	220,013	103,927	175,010	103,979	28.2%	199,630	25.1%
Australia	161,338	161,676	142,102	145,336	121,838	131,591	97,782	111,514	81,967	22.3%	124,069	15.6%
China	15,960	47,742	17,253	62,117	20,911	80,276	22,057	86,228	19,085	5.2%	97,782	12.3%
France	8,620	18,219	11,102	24,643	13,017	28,126	15,983	34,266	18,378	5.0%	49,826	6.3%
Netherlands	9,696	685	8,174	745	7,335	8,589	18,006	20,926	16,804	4.6%	23,427	2.9%
Others	19,912	43,804	18,240	41,300	24,859	39,482	25,700	42,795	18,924	5.1%	42,745	5.4%
total	473,521	718,901	443,678	711,324	417,332	699,986	386,989	681,650	368,412	100.0%	795,632	100.0%

Source: Global Trade Atlas / Unit: volume=metric tons, value: $ thousand

Chart9. Trends in import by Leading Exporters (Volume)

(unit: metric tons)



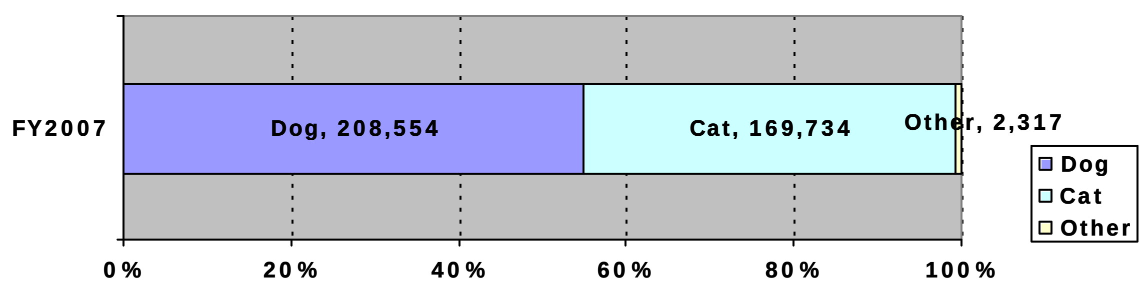
Source: Global Trade Atlas

As the above chart shows, the import volume has been in a downward trend lately along with the total pet food market. However, the import value has been relatively stable. It even went up 16.7% when the import volume went down 4.8% in 2008. This was due mainly to a hike in the pet food unit price caused by a rise in oil price as well as ingredient/packing material prices in recent years.

When dividing the imports into dog and cat food categories, imports reached 208,554 MT with a 48.25% share in the total dog food market and 169,734 MT accounting for 66.3% of the total cat food market. Imported products enjoy a larger share in the cat food category than the dog food category.

Chart11. Import by Category in JFY2007

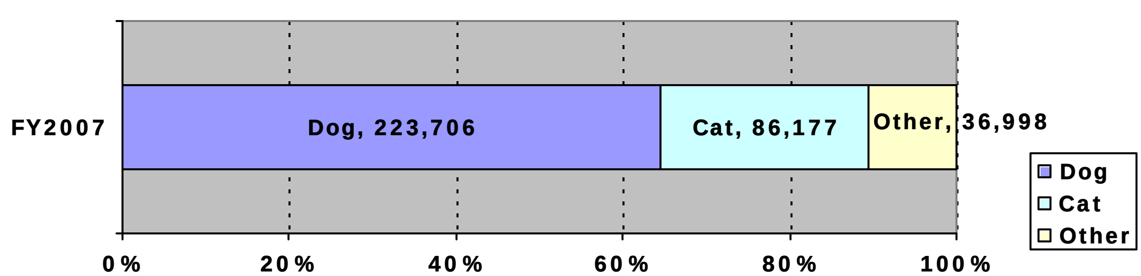
(unit: metric tons)



Source: Pet Food Association Japan

Chart10. Domestic Shipment by Category in JFY2007

(unit: metric tons)



Source: Pet Food Association Japan

B. Key Market Issues and Trends

1. Highly competitive market

The Japanese market is highly competitive with fierce price competition going on. Home centers, the largest outlet of pet food products in Japan, often put pet foods on sale as a loss leader to draw customers to the stores. This has been contributing to severe price competition in the whole industry.

2. Bipolarization

There has been a tendency toward consumer bipolarization between those who buy big-bag economical-type products seeking for budget prices, and those who search for highly value-added premium-type products with conscious for the health of their pets.

3. Premium Food Segment

While the severe price competition is under way especially among low-end products, manufacturers have been trying to shift their product line toward premium pet food, a segment in which larger profit is attainable. As more and more pet owners are concerned about the quality of pet foods, a wide variety of premium pet foods has been introduced to the market in order to meet the new and diverse needs of these pet owners. The premium food segment including functional pet food and special therapy diet is estimated to account for 20-30% of the total pet food market.

4. Mounting Concern over Product Safety

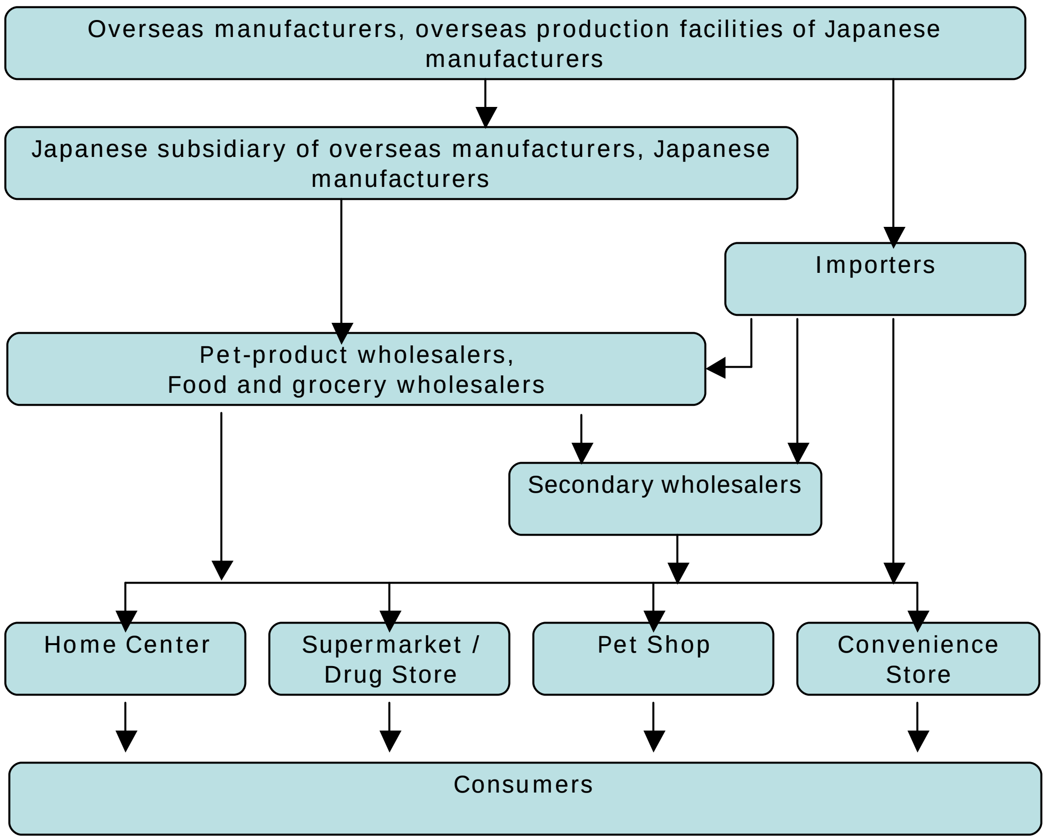
Due in part to the cases of Chinese pet food contaminated with melamine in 2007, and to other imported food-related safety problems, Japanese consumers are in general concerned over the safety of imported products and tend to give preference to domestic products over imports. Amid this environment, domestic companies that own production facilities in Japan have been touting “made in Japan” as their sales pitch. Still, imported pet foods, especially from the United States and European countries, are usually recognized as quality products in the Japanese market. Products with distinguishing functions/taste/merits have a high chance to be accepted in the market.

C. Distribution System

1. Distribution Channel

The most common distribution system for pet foods in Japan is through importers, wholesalers specialized in pet food or food/grocery, and, in some cases secondary wholesalers, to retailers. In the case of Japanese manufacturers who own production facilities abroad, products are imported through themselves or their subsidiaries and then distributed to the retailers through wholesales as described above. Although there are cases in which retailers buy directly from importers, these cases are limited.

Chart12. Distribution Channel for Imported Pet Food Products



Source: JETRO Marketing Guidebook for Major Import Products 2005, Pet Care Products and Pet Foods

2. Major Wholesalers

There are about 25 major wholesalers who deal with pet-related products in Japan. The top 10 listed below account for 83.1% of the wholesale pet food market in Japan. Among them, Japell Co., Ltd. and Echo Trading Co., Ltd. lead the way with outstanding shares. In general, large-scale wholesales are expanding their business, while small-to-medium counterparts are barely surviving. As chain retailers expand their pet product lines, large-scale wholesalers that have nation-wide distribution and sales expertise in full-line pet products have an advantage in the wholesale market.

Table 5. List of Top 10 Pet Food Wholesalers

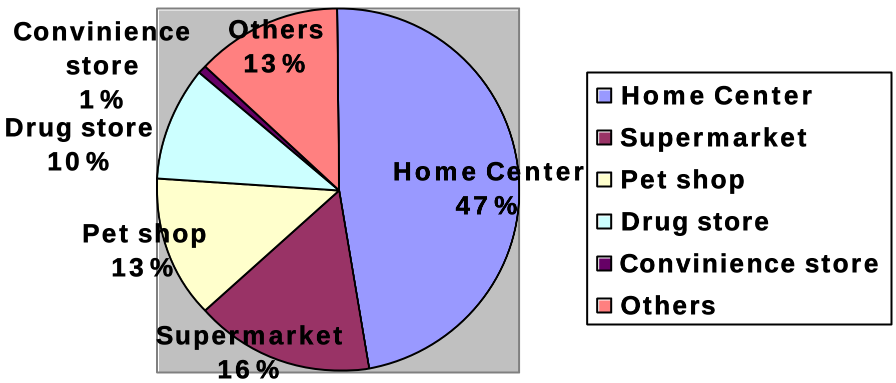
	FY2007	
	Sales ($million)	Share (%)
Japell Co., Ltd.	420.06	23.2%
Echo Trading Co., LTd.	407.23	22.5%
Mitsui Foods	126.21	7.0%
Lovely Pet Trading Co.	106.10	5.9%
Nihon Penet	99.15	5.5%
Tosho	82.65	4.6%
Arata Corp.	76.45	4.2%
Misato Sangyo	66.74	3.7%
Kokubu	62.03	3.4%
Morimitsu Shouten	60.61	3.3%
Industry Total	1,812.77	100.0%

Source: Pet Business Hand Book 2009, Sankei-Shimbun Medics

3. Retailers

The main retail outlets for pet food products are categorized into the following six types: 1) home centers, 2) supermarkets, 3) pet shops, 4) drug stores, 5) convenience stores and 6) others, including the Internet.

Chart 13. Share by Retail Outlets in Value in FY2007



Source: Pet Business Hand Book 2009, Sankei-Shimbun Medics
Note: the shares are based on the sales of pet food and pet-care products combined.

a. Home Center:

Home centers are the leading outlets for pet foods/pet-related products, accounting for nearly half of the retail market. They are characterized with a wide sales space filled with a full-range of pet-related products. As they stock a large amount of low-end pet food products and often put them on sale as a loss leader, home centers are highly price competitive.

b. Supermarket / Drug Store

Supermarkets and drug stores are also major players in the distribution of pet food. Supermarkets account for 16% of the sales through wholesalers, while drug stores account for 10%. They meet steady needs of customers from incidental purchases of pet food while shopping.

c. Pet Shop:

Pet shops are characterized with a wide range of products, especially a variety of premium foods, as well as the expertise of store staff. Customers tend to buy pet foods and pet-care products when they buy animals at pet shop. They tend to rely on advice from store staff. Dog foods account for more than 70% of the total pet food sales at the outlets, while the sales of cat food account for only 22.3%.

d. Convenience Store:

Convenience stores are not major outlets for pet-related products. Their sales space is extremely limited and only a couple of pet food brands are exhibited at stores. Still, they meet the steady needs of incidental or emergency purchase. Wholesales to the convenience stores are dominated by Mitsui Shokuhin, a food wholesaler with over a 40% share. The outlets are characterized by the large share of cat food with over 70% of the total pet food sales through these outlets. As the sales space is limited at convenience stores, cat foods often sold in small packages, are more suitable for these outlets.

e. Other (the Internet):

Although the sales through the Internet are still low with only a 0.6% share of the pet-related product wholesales, the expansion of the business is expected as in the sales of other products on line. For example, on the "Rakuten Ichiba" (http://www.rakuten.co.jp/), one of the major Internet shopping sites in Japan, "the pet food & pet care products" is one of the most popular sections on the site.

IV. Market Access

A. Regulation

There is no legislation to regulate the production and distribution of pet food in the Japanese market at the time this report is being drafted, except that some pet foods with medical claims may be subject to the Pharmaceutical Affairs Law. There exists only a voluntary industry labeling code created by the Pet Food Fair Trade Association.

The unfortunate incidents that U.S. dogs and cats became sick or died from eating Chinese pet foods contaminated with melamine in 2007 shed the light on the lack of laws to regulate pet food in Japan. The MAFF and the Japanese Ministry of Environment (MOE) started examining the issue and realized the necessity of a new law to secure the safety of pet food to be distributed in the Japanese market.

A new law, "Pet Food Safety Legislation," is to come into force on June 1, 2009 to assure the safety of pet foods. It defines the responsibilities of pet food manufacturers, importers, wholesalers and retailers, the scope of the government authority to regulate the market and the specifications and standards of pet food products to be distributed in the market. The law establishes the minimum criteria for labeling as well while the existing voluntary labeling code is to be maintained as an industry-wide self-imposed requirement in addition to the law.

B. Tariff Duties

The tariff duties on pet food are presented below.

Table 6. Tariff duties on pet foods

HS No.	Description	Duty General	Duty WTO	Duty Preferential
2309.10	Dog or Cat food, put up for retail sale			
-010 -091	1. Containing not less than 10% of lactose by weight	Per each kg, ¥70 plus ¥7 for every 1% exceeding 10% by weight of lactose contained	Per each kg, ¥59.5 plus ¥6 for every 1% exceeding 10% by weight of lactose contained	Free*
	2. Other			
-092	(1) In airtight containers not more than 10kg each including container	Free	(Free)	
	(2) Other			
-093	A. More than 70yen/kg in value for customs duty, excluding those containing 35% or more by weight of crude protein	Free	(Free)	
	B. Other			
-099	(a) In powders, meals, flakes, pellets, cubes or similar forms	Free	(Free)	
	(b) Other	¥60/kg	¥36/kg	Free*/ ¥18/kg
2309.90 -297	Other For dogs, cats and other similar kind of ornamental animals and pet animals	Free	(Free)	

Source: Customs Tariff Schedules of Japan 2008 published by Japan Tariff Association

Note 1) Preferential rate, WTO rate, General rate are applied in descending order.

2) Free* is applicable to the Least Developed Countries, based on the provision of paragraph 3 of Article 8-2 of the Temporary Tariff Measures Law.

V. Key Contacts and Further Information

A. Post Contacts

For further information and questions, the U.S. Agricultural Trade Offices in Japan offer assistance at the following addresses:

Tokyo

U.S. Agricultural Trade Office
U.S. Embassy, Tokyo
1-10-5 Akasaka, Minato-ku
Tokyo 107-8420
Tel: 81-3-3505-6050
Fax: 81-3-3582-6429
E-mail: atotokyo@fas.usda.gov

Osaka

U.S. Agricultural Trade Office
U.S. Consulate General, Osaka-Kobe
2-11-5, Nishi-tenma, Kita-ku,
Osaka 530-8543
Tel: 81-6-6315-5904
Fax: 81-6-6315-5906
E-mail: atoosaka@fas.usda.gov

B. Websites of Foreign Agricultural Service / Agricultural Trade Office in Japan

http://www.fas.usda.gov/ (FAS, English)
http://www.usdajapan.org/ (FAS Japan, English)
http://www.us-ato.jp/ (ATO Japan, B2B web site, English & Japanese)

C. Gain Reports on the Japanese Pet Food Market

Japan Establishes New Standards for Health Claims on Pet food 2008
(Gain Report: JA8048 Date: 7/22/2008)
http://intranetapps/GainFiles/200807/146295254.pdf

Japan Reviews Pet Food Regulations 2007
(Gain Report: JA7064 Date: 11/15/2007)
http://intranetapps/GainFiles/200711/146293005.pdf

Pet Food Market Research on the Japanese Market 2003
(Gain Report: JA3702 Date: 4/02/2003)
http://intranetapps/GainFiles/200304/145885127.pdf

The above reports as well as newly created or updated reports are available from FAS Japan report website at: http://www.fas.usda.gov/scriptsw/attacherep/default.asp

D. Regulations & Standards

Regulations and Standards on pet foods will be found on the following web sites:

Pet Food Safety Law
http://www.famic.go.jp/ffis/pet/hourei/sub1_houritu.html (Japanese only)

Fair Competition Code on Pet Food Labeling
http://www.pffta.org/pdf/kotorikiyaku070620.pdf (Japanese only)

E. Other Information Sources

Japan External Trade Organization (JETRO)
http://www.jetro.go.jp

Japan Customs
http://www.customs.go.jp/english/index.htm

Pet Food Association
http://www.petfood.or.jp/index.html (Japanese only)

Pet Food Fair Trade Association
http://www.pffta.org/ (Japanese only)

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