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Report Name: Food Processing Ingredients

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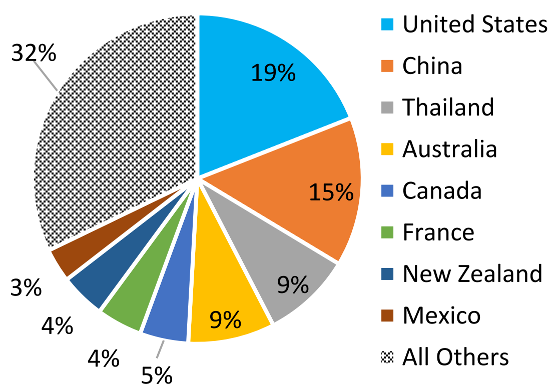
Report Highlights:

In 2019, Japan's food processing industry manufactured $219.7 billion of food and beverage products, up from $216.8 billion in 2018. Health-oriented products are rapidly increasing in popularity and frozen food consumption has significantly increased over the past decade. Additionally, there is a growing demand for convenient, ready-to-eat food options, as consumers generally cook fewer meals at home. The United States is the top agricultural supplier to Japan and has a reputation for being a reliable supplier of safe and high-quality foods.

MARKET FACT SHEET: JAPAN

Executive Summary:
The United States is the largest foreign supplier of food and agricultural products to an import-reliant Japan (24 percent of import market share)—the fourth largest market for U.S. agricultural products ($11.7 billion in 2019). On January 1, 2020, the U.S.-Japan Trade Agreement (USJTA) entered into force, providing preferential tariff access for many U.S. agricultural products. Japan's food industries are well-developed and innovative in all sectors, including, retail, food service, and food processing, and distribution.

Consumer-Oriented Imports ($33.8 Billion, 2019)



Food Processing Industry:
The $220 billion food processing industry produces a wide variety of foods: traditional Japanese, Western, and health-oriented foods for infants and the elderly. Food processors focus on maintaining market share among traditional product lines while developing creative and innovative food products to attract consumers.

Food Retail Industry:
In 2018, the total value of all retail food and beverage sales was $479 billion. Supermarkets represent the bulk of the retail food sales (70 percent) but the fast-growing convenience store sector now represents 14 percent of sales. Ready-to-eat meals or take-home food items represent an area of growth.

Population:	125,507,472 (July 2020 est.)
GDP:	$4.97 trillion (3rd)
GDP/Capita:	$39,290

Top Ten Growth Food Products
1) Beef and Beef Products
2) Pork and Pork Products
3) Processed Vegetables
4) Wheat and Wheat Products
5) Fresh and Processed Fruit
6) Tree Nuts and Peanuts
7) Distilled Spirits
8) Wine and Beer
9) Cheeses
10) Condiments and Sauces

Food Industry by Channels (US$)

Consumer-Oriented Imports	$34 billion
Food Processing Industry	$220 billion
Food Industry Gross Sales	$779 billion (2018)
- Retail	$479 billion
- Food Service	$300 billion

Top Ten Retailers

AEON Retail	Ito Yokado
Seven Eleven Japan	Lawson Inc.
FamilyMart UNY Holdings	U.S.M. Holdings
Life Corporation	Izumi
Arcs	York Benimaru

Strength	Weakness
U.S. products are in demand and remain trendy.	The negotiating and decision-making process can take time.
Opportunity	**Challenge**
With USJTA, nearly 90 percent of U.S. products are duty free or receive preferential tariff access.	For products not covered in USJTA, many other suppliers enjoy tariff concessions through other FTAs.

Sources: Global Agricultural Trade System, Global Trade Atlas, Japan Ministry of Finance, Japan Ministry of Economy, Trade and Industry, Japan Food Service Association, The World Factbook, and The World Bank. For additional information, contact atotokyo@usda.gov.

SECTION I: MARKET SUMMARY

A. Overall Market Summary

The Japanese food processing industry is one of the world's most advanced and sophisticated, manufacturing $219.7 billion of food and beverage products in 2019, up from $216.8 billion in the previous year. Japan's food manufacturers produce a wide variety of products, from traditional foods to health-oriented foods for infants and the elderly. The largest food processing companies developed from traditional breweries that expanded their portfolios to include foods, distilled spirits, beverages, etc.

Production Values of the Japanese Food Processing Industry

Category of Foods	Value in Billion Dollars			1-year % Change	Category Share
	2017	2018	2019		
Soft Drinks, Juices, Water	35.23	36.44	36.70	0.7%	16.7%
Alcoholic Beverage	29.73	30.25	30.63	1.3%	13.9%
Wheat Flour	22.60	23.30	23.46	0.7%	10.7%
Confectionary	22.10	22.58	22.60	0.1%	10.3%
Dairy	19.50	19.76	19.88	0.6%	9.0%
Fats & Oils	18.82	19.21	19.34	0.7%	8.8%
Processed Other Foods	14.83	15.18	15.70	3.4%	7.1%
Health Foods	10.29	11.31	12.52	10.7%	5.7%
Tea, Coffee, & Cocoa	8.20	8.18	8.30	1.5%	3.8%
Processed Meats	6.66	6.72	6.71	- 0.1%	3.1%
Frozen Foods	6.34	6.52	6.55	0.5%	3.0%
Other Marine Products	5.80	5.71	5.83	2.1%	2.7%
Sugars	4.31	4.34	4.36	0.5%	2.0%
Retort*	3.00	3.11	3.09	- 0.6%	1.4%
Fish Paste	2.33	2.37	2.39	0.8%	1.1%
Canned & Bottled Foods	1.72	1.77	1.65	- 6.8%	1.0%
Total	211.47	216.76	219.72		

Source: Shurui Shokuhin Tokei Geppo Jan. 2019, Feb. 2020
*Retort is food products that are cooked, sterilized, and packed in pouches or containers made of plastic film, metallic foil, etc., for convenience and prolonged shelf life.

Note: Because of the fluctuating exchange rates, we provide a table showing the annual average exchange rate of Yen to U.S. Dollar. Source: http://murc-kawasesouba.jp/fx/year_average.php

Yearly average	2017	2018	2019
JPY per USD	113.19	111.43	110.05

Food producers balance the need to maintain market share with traditional product lines. However, they are also constantly developing creative products to attract consumers who are interested in new and innovative foods, causing the food manufacturing industry to have high rates of product turnover.

Processed foods that are increasing in popularity include yogurt, meat, soups, and ramen. Popular beverages include tea, vegetable juice, distilled spirits, and energy drinks. Frozen food consumption continues to grow due to convenience and improvements in product quality and safety. As consumers are cooking fewer meals at home, convenience and packaging—especially single serving sizes—are critical factors in product development. According to Fuji Keizai, the top growing domestic processed foods are salad chicken (ready-to-eat chicken breast), freeze-dried products, *Chuhai* (kind of canned cocktail), carbonated water, cheese, and pre-packaged rice. Notable trends in convenience-oriented foods include:

- Health-oriented foods or products that augment nutrients such as vitamins and minerals are increasingly popular. In 2015, Japan's Consumer Affairs Agency (CAA) established a new food labeling and health claims category called Food with Function Claims (FFC). With the relative ease and affordability of the FFC registration process compared to the Food for Specialized Health Uses (FOSHU) registration process, the volume of companies and products that are marketing health food products has risen substantially. For more information, see JA5025.
- Small-sized packages: Demand for individual or small-sized packaging is strong due to limited kitchen and refrigerator storage, growing elderly population, and the large number of single-member households.
- Ready-to-eat or easy-to-prepare meals: Increased participation of women in the labor force and busy urban lifestyles contribute to a higher demand for convenience foods. For more information, read JA2019-0185.
- Premixes: The term "premix" is an abbreviation for "prepared mix." According to the Shurui Shokuhin Tokei Geppo, the production of prepared mixes was 300,000 tons in 2019, up 2.4 percent from 2018. Popular items for 'premix' are pancake, *tempura* (batter for frying seafood and vegetables), and *okonomiyaki* (savory, stuffed pancakes). Premixes are increasingly popular among restaurants and supermarkets.

Producer trends are also evident at trade shows, such as FOODEX Japan, which annually attracts more than 80,000 visitors including food service representatives, wholesalers, manufacturers, and retailers. The trade show organizers provide data on the types of products exhibited.

B. Key Market Drivers for the food-processing sector include:

- Continued diversification of diet,
- Increased demand in pre-prepared foods,
- A slow economic environment, causing processors to seek out lower-cost food inputs and international processing options to maintain competitive prices,
- Heightened consumer and retailer food safety concerns,
- Increasing interest in health and functional foods with an emphasis on the needs of the aging population.

C. Key Advantages & Challenges for U.S. Food Products

Advantages	Challenges
The United States has a reputation as a reliable supplier of food inputs in terms of availability, volume, and delivery.	Consumers perceive domestic food production as safer or higher quality than overseas production.
U.S. manufacturers produce many specialties that are attractive to Japanese consumers.	Connecting to the appropriate purchasing authority can be difficult.
Consumers have an affinity for American culture/cuisine.	Marketing and advertisement costs can make it difficult to get product information to consumers.
The U.S.-Japan Trade Agreement (USJTA) provides preferential tariff access for many U.S. agricultural products.	Japan is a highly competitive marketplace and many other suppliers have implemented trade agreements that provide equal or greater tariff access.

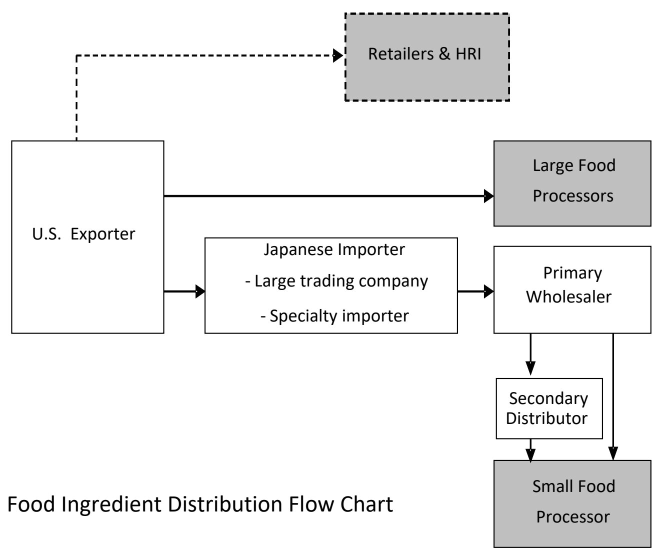
SECTION II: ROAD MAP FOR MARKET ENTRY

A. Market Structure

Large food processors and retailers are increasingly purchasing sizeable quantities of product directly from U.S. exporters. The basic flowchart shows how imported products tend to navigate the Japanese distribution system:

Ingredient products will most likely be handled by a:
1. General trading company,
2. First-line wholesaler,
3. Second-line wholesaler,
4. Food processor.

Trading companies provide the following services:
1. Import processing,
2. Financing,
3. Customs clearance,
4. Warehousing,
5. Preparation of order and shipping documentation.



Food Ingredient Distribution Flow Chart

B. Market Entry

Market entry may take a considerable amount of time, especially for ingredient suppliers. Manufactures frequently search for specific ingredients but may be unwilling to disclose new product development plans and may be reluctant to discuss product-sourcing needs. The challenge for U.S. ingredient suppliers, therefore, is to build a relationship with potential manufacturer partners so that when new product needs arise, that relationship can be leveraged. In order to capitalize on those opportunities, it is important to have product and in-country representation. Therefore, building a relationship with a local importer is a critical early step.

Regulations on ingredients and additives are very strict, and exporters must ensure that products are permitted. For additional information, please see below (Section C. 1.). As part of the product clearance and approval process, it is also common that local processors and the Japanese government request specific information regarding product handling and composition. In addition, local manufacturers have a reputation for demanding very high standards of product quality and consistency, while also having a reputation for working collaboratively with suppliers to develop long-term supply relationships.

Strategies for entering the market vary depending on product characteristics, competition, and the market environment. However, buyers in the food and beverage industry often prefer to find new products at large trade shows, or specially targeted trade shows, where they can look at many products at once. Therefore, participating in one of Japan's many trade shows is highly recommended to learn about the market and meet with potential business partners. The largest local food related trade shows are the Supermarket Trade Show and FOODEX Japan, which take place every February and March, respectively. Other trade shows often relevant for the food-processing sector include International Food Ingredients and Additives Exhibition (IFIA) Japan and Health Ingredients Japan. For more information on trade shows, read JA2020-0054.

Companies should contact their appropriate State and Regional Trade Group (SRTG) or USDA Cooperator to inquire about upcoming activities such as trade missions or showcases.

For exporters who are new to the market, the ATO has commissioned a series of reports to detail regulatory requirements for bringing a wide variety of products into Japan. Visit http://www.usdajapan.org/dl/ for general guidelines to prepare to export your product.

C. Entrance Strategy:

To get started, companies interested in exporting should:

a. Ensure production capacity to commit to the market,
b. Ensure sufficient financial and non-financial (staff, time, etc.) resources to actively support exported product(s),
c. Evaluate whether the ability exists to tailor product packaging and ingredients to meet foreign import regulations, food safety standards, and cultural preferences,
d. Ensure knowledge necessary to ship overseas, such as being able to identify and select international freight forwarders, manage climate controls, and navigate export payment mechanisms, such as letters of credit,

e. Research USDA cooperators or local State Regional Trade Groups (SRTG) by visiting the "Getting Started" FAS webpage. These groups work closely with USDA to help food and agricultural companies advance their exporting goals.

Once a company has established a foundation for exporting, they should:

1. Determine whether product is permissible by Japanese food regulations.
   a. The Exporter Guide and the Food and Agricultural Export Regulations Report (FAIRS), published by the USDA Japan offices contains much of the necessary information.
   b. For plant or animal health inquiries, local APHIS offices can provide information.
   c. If the product contains meat or meat products, companies should reference the Food Safety Inspection Service Export Library.
   d. JETRO's Handbook for Agricultural and Fishery Products Import Regulations is a helpful tool for reviewing Japanese food regulations to determine product compliance local laws regarding additives, residue levels, and processing procedures, as well as regulations in terms of weight, size, and labeling.
2. Perform basic market research by:
   a. Determining the specific area of the market that company product is targeting,
   b. Determining whether there is demand for the product by searching online websites, speaking with other companies that have experience in the market, visiting Japan to conduct market tours, or attending a trade show,
   c. Determining the comparative advantages of product versus Japanese and other suppliers, keeping in mind transportation and modification costs. Potential customers need to be convinced of the product merits: price savings, higher quality, higher value, or more convenient packaging.
3. Develop an export action plan:

   Once the general market, product, and regulatory information is collected, companies should begin the process of creating an export action plan. This can be a helpful tool for relaying product vision to distributors and buyers. The plan should have some flexibility as portions may change after personal interaction with the market or as more information is gathered. This action plan should include:

   - The company's story
   - Product
   - Objective
   - Market
   - Marketing plan
   - Schedule
   - Evaluation
   - Literature in Japanese
   - Goals and benchmarks, short/long-term
   - Product modifications, if applicable
   - Product packaging and handling
   - Financial resources to be committed
   - Non-financial resources to be committed
   - Additional financing
   - Potential importers and buyers
4. Get to know the market personally:

   Companies should visit Japan to explore opportunities first-hand or find a representative. Face-to-face interaction is very important in Japan, where personal relationships are highly valued. Companies should vet their partners to ensure they have a good reputation and record of accomplishment.

D. Selected Major Domestic Companies

Company (Main products)	Website
Kirin Holdings (Beverage, alcohol)	https://www.kirinholdings.co.jp/english/
Nippon Ham Foods Ltd. (Meats)	https://www.nipponham.co.jp/eng/
Meiji Holdings Co., Ltd. (Daily, beverage, confectionery)	https://www.meiji.com/global/
Ajinomoto Co., Inc. (Food and amino acids)	https://www.ajinomoto.com/en/?scid=av_ot_pc_comehead_logo
Yamazaki Baking Co., Inc. (Bread and bakery products)	https://www.yamazakipan.co.jp/english/index.html
Maruha Nichiro (Seafood)	https://www.maruha-nichiro.com/
Itoham Foods Inc. (Ham and Sausage)	http://www.itoham.co.jp/english/index.html
Megmilk Snow Brand Co., Ltd. (Dairy products)	http://www.meg-snow.com/english/
Kewpie Corp. (Mayonnaise and Dressing)	https://www.kewpie.co.jp/english/
Asahi Group (Beverage, alcohol)	https://www.asahigroup-holdings.com/en/
Suntory Ltd. (Beverage, alcohol)	https://www.suntory.com/softdrink/index.html

SECTION III: COMPETITION

Japan Imports of Agricultural Products in 2019

Partner Country	United States Dollars (Billions)			% Share			% Change
	2017	2018	2019	2017	2018	2019	2019/2018
World	51.9	53.8	54.1	100.0	100.0	100.0	0.6
United States	12.7	13.8	12.8	24.5	25.7	23.7	- 7.2
China	6.2	6.5	6.3	11.9	12.1	11.6	- 3.1
Australia	4.0	4.3	4.2	7.7	8.0	7.8	- 2.3
Thailand	3.9	4.0	4.0	7.5	7.4	7.4	0.0
Canada	3.5	3.7	3.8	6.7	6.5	7.0	2.7
Brazil	2.5	2.1	3.1	4.8	3.9	5.7	47.6
France	1.6	1.7	1.8	3.1	3.2	3.3	5.9
New Zealand	1.4	1.5	1.6	2.7	2.8	3.0	6.7

Source: Trade Data Monitor: BICO Agricultural Products

The United States is the top agricultural supplier to Japan and known as a reliable exporter that provides safe and high-quality foods. On January 1, 2020, the USJTA entered into force. Now nearly 90 percent of U.S. agricultural products are either duty free or receive preferential treatment, making U.S.

products more competitive with other suppliers that have implemented free trade agreements with Japan, including the European Union, Canada, Australia, Chile, and Mexico.

The United States competes intensively with Canada in the chilled pork sector. The U.S. share of the frozen pork has fallen to 10 percent while competitors such as Spain, Denmark, and Mexico have increased their total share to 57 percent. The United States competes in the beef market with Australia. U.S. wheat accounts for roughly half of Japan's annual wheat imports, with Canada and Australia making up the other half. Soybean imports are primarily from the United States on a value basis at approximately 70 percent, with Canada being the main competitor for food-grade soybeans. The EU, New Zealand, and Australia lead in the supply of cheese, while the U.S. market share is just 12 percent. The United States' main competition in vegetables and fruit is regional, with China primarily suppling on proximity, price competitiveness, and varietal preferences.

SECTION IV: BEST PRODUCT PROSPECTS CATEGORIES

A. Products Present in the Market which have Good Sales Potential

With the implementation of USJTA, USDA Japan published one-page fact sheets to highlight key product categories that received preferential tariff treatment in the agreement (linked in the table below). More information on tariff treatments may be found at USDAJapan.org.

Beef & Beef Products	Demand for U.S. lean beef and products continues to increase, mainly through the food service and restaurant channels. This longstanding growth can be attributed in part to Japan's aging population and single-person households, coupled with health-conscious attitudes. New and existing restaurant chains that feature U.S. beef are expanding. For more information, see JA9105.
Pork & Pork Products	Japan imports around 50 percent of its pork supply. Pork is one of the most popular protein choices for Japanese households and is likely to overtake fish as the most consumed protein within the next few years. Ground seasoned pork (GSP) is a key ingredient for domestic sausage manufacturers. For more information, see JA9105.
Processed Vegetables	After China, the United States is the second largest supplier of processed vegetables, with roughly 20 percent of the import market share in volume. The United States is a major supplier of prepared potatoes, tomato paste, and prepared sweet corn. Higher consumption of home-meal replacements is expected to bolster producer demand for processed vegetables. For more information, see JA9710.
Wheat and Wheat Products	U.S. food wheat is a key ingredient in Japanese bakery and noodle production. USJTA provides tariff parity with competing food wheat suppliers such as Australia and Canada. It also gives the United States a tariff advantage over Turkey, one of the leading pasta suppliers. Pasta is the primary wheat product imported by Japan. For more information, see JA2020-0058.

Fresh & Processed Fruit	Japan imports one-third of its fresh fruit and 90 percent of its processed fruit, with the United States ranked as the second largest supplier for each. Opportunities for U.S. fresh fruit exports to Japan are expected to increase due to falling domestic production. The United States supplies large quantities of raisins and prunes as well as frozen blueberries and strawberries. For more information, see JA8706.
Tree Nuts and Peanuts	U.S. tree nuts are increasing in popularity in the convenience health snack sector, as detailed in JA9502. Almonds, walnuts, pecans, and peanuts, in plain, roasted and salted forms, are common in single-serve snack packaging at convenience stores across Japan. The Japanese food service industry is beginning to explore new salad creations that incorporate tree nuts.
Whiskey	In 2019, increased domestic consumption and surging global demand for Japanese whiskies led to a record $429.3 million in imports, which are often blended and bottled by local producers. U.S. whiskey exports to Japan reached a record $121.9 million and accounted for 88 percent of total spirits shipments. For more information, see JA2020-0053.
Wine & Beer	Wine consumption in Japan has risen steadily over the last decade. Total imports were valued at $1.8 billion in 2019. For more information, see JA9501. In 2019, the United States became the largest supplier of beer by value at $15.6 million, due to premium craft beer sales. For more information, see JA8507.
Cheeses	Nearly 90 percent of cheese consumed in Japan is imported. Cheese consumption has grown continuously since 2013. Consumption has traditionally focused on domestically produced processed cheese products which use imported natural cheese as ingredients. Popular processed products include sliced cheese, cheese sticks, and bite-sized cheese wedges. For more information, see JA2019-0183.

B. Best High-Value Prospect Categories

Alternative/Substitutional Food
Several of Japan's largest meat processing companies have announced plans to develop plant-based alternative meat products for retail. Other companies, including tofu manufacturers and pharmaceutical companies, are also looking to enter this sector. For more details, see JA2020-0024.

Freeze-Dried Food
The freeze-dried foods' market is expanding. The top-selling product is miso soup, followed by other soup products. Miso soup sales have nearly quadrupled since 2013 and other soup products also expanded 45 percent in the same period. According to Fuji Keizai Group, freeze-dried soup consumption was $186.3 million in 2019, up 2.5 percent from 2018.

SECTION V: KEY CONTACTS

Reports from USDA Japan, including the Agricultural Trade Offices and the Office of Agricultural Affairs, are frequently updated and can be found by searching the FAS Japan Reports website.

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USDA Japan Webpages
http://www.usdajapan.org/ (FAS Japan, English)
https://twitter.com/usdajapan (FAS Japan, English)

Japan External Trade Organization (JETRO)
Japanese market and regulations: https://www.jetro.go.jp/en/reports/
Japan Food Sanitation Law: http://www.jetro.go.jp/en/reports/regulations/
Specifications and Standards for Foods, Food Additives, etc. under the Food Sanitation Law:
http://www.jetro.go.jp/en/reports/regulations/

Attachments:

No Attachments