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Japanese Organic Market

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Market Development Reports

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Report Highlights:
The Japanese organic food market was estimated at approximately $1.4 billion as of 2009 with slow but steady growth to that point. Nonetheless the Japanese organic market is still limited in scope with significant challenges to expansion; including limited domestic supply; underdeveloped distribution channels; and a low level of consumer understanding of organics. Organic industry insiders believe that consumer interest in organics is increasing and that the growth potential of the market is significant. With the U.S. - Japan organic equivalency arrangement in place, ATO Japan can offer U.S. organic suppliers assistance with following market movements in Japan and taking advantage of opportunities that the Japanese organic market may present.

I. Market Overview

A. Japanese Organic Market

According to the Research Institute of Organic Agriculture (FiBL) and the International Federation of Organic Agricultural Movements (IFOAM), the world organic food market had a value of $81.6 billion in 2015. Data released by the Organic Trade Association (OTA) reveals that the U.S. organic food market recorded sales of $43.09 billion in 2016, with an annual growth rate of 8.4%, accounting for 5.3% of total food sales.

This is in stark contrast to the Japanese organic food market. To begin with, there has not been a comprehensive survey of the overall Japanese organic market other than the "Organic Market Research Project (OMRP)," conducted by a team led by IFOAM Japan in 2010. That study estimated the value of the Japanese organic food market at around $ 1.3 to $1.4 billion* as of 2009. The Japanese Ministry of Agriculture, Forestry and Fisheries (MAFF) as well as the Japanese organic industry has been quoting this figure to refer to the Japanese organic market.

According to MAFF, the share of organic in the domestic production of plants, including fungi, was a mere 0.24% in 2015.

This comparison makes clear that the Japanese organic market has not expanded to the extent seen in other markets. This is partly due to limited supply of domestic organic products and undeveloped distribution channels for organic products, limiting the availability of organic products in the market. In addition, many consumers lack a clear understanding of what is meant by the word "organic" and confuse the term with "natural." Industry contacts believe that tendency hampers growth of the organic market.

** The exchange rate used in this report is $1=100 yen, unless otherwise mentioned.*

B. Selling as Organic in Japan

Fig. 1

The production and distribution of organic food in Japan are regulated by JAS (Japan Agricultural Standards) Law. JAS Organic certification and placement of the JAS Organic seal (Figure 1) on each product is required for food products to be labeled and sold as organic in Japan.

It should be noted, however, that this requirement applies only to what are defined as "specified products." The JAS law defines plants, including fungi, and plant-based processed foods as "specified products" and requires them to be JAS Organic certified and affixed with JAS Organic seal in order to be sold as organic.

According to the JAS law, the "plant" category includes, but is not limited to, fresh fruit & vegetables, grains, and soybeans. The "plant-based processed food" category, limited to processed foods made from at least 95% plant-based ingredients, includes a wide range of processed foods such as canned fruit & vegetables, fruit & vegetable juice, sugar and processed soybean products.

On the other hand, the law defines all the other foods—including, e.g., meat, fish and dairy products—as "non-specified products," and exempts them from the JAS requirements. At present these non-specified organic products can be sold as 'organic' without being certified to JAS Organic standards and without affixing JAS Organic seals. Also exempted are organic processed foods containing more than 5% non-plant-based ingredients; such as a frozen pizza in which the cheese might exceed 5% of product weight.

C. History and Background

The Japanese organic/natural food market developed from what is called "teikei-saibai" or "keiyaku-saibai" in Japanese, which can be translated as contract-base production and distribution, in which farmers and consumers establish a partnership and the former produces organic/natural fresh produce and distributes/sells it to the latter.

However, misleading labels became prevalent in the market, which led to consumer misunderstanding of the marketing terms of "organic" and "natural". In response to this situation, MAFF established an organic grading system under the Japan Agricultural Standards (JAS) Law in 1999. The JAS organic system prohibits the marketing of products as organic or "Yuki" (有機) that are not certified by an authorized organic certifier.

For more information, please see "Overview of JAS" from the following site:
http://www.maff.go.jp/e/policies/standard/jas/specific/organic.html

D. Domestic Production and Import of Organic Food Certified to JAS Organic

While data on overall Japanese organic market have not been available, MAFF has been compiling and releasing data on JAS Organic certification annually (on a volume basis). The latest figures show that the total organic food products certified to JAS Organic was 222,063 MT in 2015, of which the domestic production was 128,465MT and the import from the other countries amounted to 93,598MT.

Tab. 1: Domestic Production & Import of Organic Food Certified to JAS Organic in 2015
(volume: metric tons, share :%)

JAS Organic certified food in the Japanese market	FY2015	
Total Domestic Production	128,465	57.9%
- *Organic plants, including fungi*	*60,584*	
- *Organic plant-based processed food*	*67,881*	
Total Import	93,598	42.1%
- *Organic plants, including fungi*	*37,481*	
- *Organic plant-based processed food*	*56,117*	
Grand Total	222,063	100.0%

Source: MAFF

Details on each category are described in the following.

a. Domestic Production of JAS Organic Food

a). Organic Plants Certified to JAS Organic

Domestic production of organic plants certified JAS Organic has seen modest growth in volume over the years. The production figures from recent years show that the production and share of vegetables (as a percentage of all organic sales) increased steadily and reached a 70% share in 2015. During that time the overall organic vegetable sales volume grew by more than 40%. Rice, while seeing its share of organic production decline, was still the second largest item with 14.6% share in 2015.

Tab. 2: Domestic Production of Organic Food (plant, non-processed) Certified to JAS Organic

(metric tons)

	2005	2007	2009	2011	2013	2015	
Vegetables	**29,107**	**32,780**	**37,644**	**40,288**	**41,524**	**42,386**	**70.0%**
Fruit	2,222	2,199	2,436	2,275	2,769	2,298	3.8%
Rice	**11,369**	**10,828**	**11,565**	**10,028**	**11,035**	**8,831**	**14.6%**
Wheat	655	721	782	1,069	1,074	1,037	1.7%
Soybeans	877	986	939	1,132	1,088	1,201	2.0%
Green tea (crude/unprocessed)	1,610	1,702	1,873	1,986	1,897	2,608	4.3%
Other products	2,332	4,230	2,103	1,666	1,922	2,223	3.7%
Total	48,172	53,446	57,342	58,444	61,309	60,584	100.0%
Organic share as a total of plant production	0.16%	0.18%	0.20%	0.24%	0.24%	0.24%	

Source: MAFF

The share of organic plant products, as a percentage of total production reached 0.24% in 2011 and has remained steady at 0.24% since 2011.

b). Organic Plant-based Processed Foods Certified to JAS Organic

Domestic production of organic plant-based processed food is dominated by soy-based products, and has been on the decline thanks largely to a 65% decline in production of those products since 2005. Soybean products, such as *tōfu*, *nattō*, *miso*, and soy sauce, while declining over the years, still represented almost 60% of overall production of processed organic foods in 2015. Meanwhile items such as processed vegetables and ready-to-drink coffee & tea are increasing.

Tab. 3: Domestic Production of JAS Organic Certified Plant-based Processed Food (certified in Japan)

(metric tons)

	2005	2007	2009	2011	2013	2015	
						volume	share
Processed Vegetables	3,749	3,137	4,888	4,527	4,317	4,937	7.3%
Processed Fruit	4,055	5,270	2,221	2,198	2,398	1,919	2.8%
Soybean products	**114,746**	**90,183**	**69,044**	**63,038**	**56,858**	**39,993**	**58.9%**
Ready-to-drink coffee & tea	2,902	13,962	3,862	3,443	4,434	5,480	8.1%
Green tea (refined/processed)	1,423	1,231	1,426	1,595	1,482	2,492	3.7%
Coffee Beans	1,930	3,053	3,132	2,249	2,700	2,580	3.8%
Processed Beans & Nuts	8,974	7,587	5,161	4,984	1,701	1,656	2.4%
Milk		430	669	684	620	753	1.1%
Other Processed Products	12,032	9,057	7,478	7,934	7,571	8,071	21.1%
Total	149,811	133,910	97,881	90,652	82,081	67,881	100.0%

Source: MAFF

b. Import of JAS Organic Food

a) Organic Plants Certified to JAS Organic

The total import of JAS Organic certified plants has fluctuated widely over the years, due mainly to a wide variation in soybean import volumes. Soybeans, a leading item in this category, accounted for almost half of total import in 2015, followed by fresh fruit with 25% share. The import of green coffee beans is also notable; amounting to 2,860MT with 7.6% of the import share in the same year. (Note: MAFF began to release the import data in 2011, which allows historical comparison only since 2011.)

Tab. 4: Japanese Import of Organic Food (plant, non-processed) Certified to JAS Organic
(metric tons)

	2011	2012	2013	2014	2015 volume	2015 share
Vegetables	19,886	20, 671	9,807	2,434	1,306	3.5%
Fruit	13,064	11,534	9,184	10,327	9,501	25.3%
Rice	587	199	1,482	635	616	1.6%
Wheat	905	712	2,774	1,877	1,742	4.6%
Soybeans	**27,248**	**9,042**	**15,887**	**7,972**	**17,978**	**48.0%**
Green coffee beans	**2,638**	**1,837**	**1,827**	**1,428**	**2,860**	**7.6%**
Other products	4,413	4,645	12,479	2,122	3,478	9.3%
Total	68,741	48,640	53,440	26,795	37,481	100.0%

Source: MAFF

b). Organic Plant-based Processed Foods Certified to JAS Organic

Imports of total plant-based processed foods have also varied substantially in recent years, but processed vegetable products have dominated import volumes. While imports of that category have fallen, they still held a 33.2% import share in 2015, followed by sugar & molasses at 12.0%, and processed fruit products at 8.6%. (Note that MAFF only began to release the import data in 2011, which allow historical comparison of the data since then.)

Tab. 5: Japanese Import of Organic Plant-based Processed Food Certified to JAS Organic
(metric tons)

	2011	2012	2013	2014	2015 volume	2015 share
Processed vegetables	29,187	22,261	21,629	17,916	18,651	33.2%
Processed Fruit	3,933	3,196	3,855	5,094	4,809	8.6%
Soybean products	1,680	2,134	2,464	1,743	1,218	2.2%
Wheat products	1,867	1,565	1,322	1,596	1,535	2.7%
Processed Beans & Nuts	4,879	5,609	12,361	4,394	4,151	7.4%
Plant Oil & Fat	1,622	1,674	4,831	1,719	3,002	5.3%
Sugar & Molasses	1,150	5,945	1,654	20,921	6,753	12.0%
Other processed products	5,197	5,769	16,622	14,539	15,998	28.5%
Total	49,515	48,153	64,738	67,922	56,117	100.0%

Source: MAFF

II. Regulatory Framework for Organic Trade with Japan

A. U.S. – Japan Organic Equivalency Arrangement

The United States and Japan concluded discussions on the organic equivalency arrangement in September 2013, and it went into effect in January 2014. The arrangement allows products that are certified organic by the U.S. National Organic Program (NOP) or by the Japanese Agricultural Standards (JAS) organic system to be sold as organic in either country. With this arrangement in place, NOP-certified organic products can be exported to and sold as organic in Japan.

It should be noted, however, that this organic equivalency arrangement only applies to plant products that fall under the category of "specified products" as defined by the JAS Organic regulation. As JAS does not regulate "non-specified products", U.S. organic dairy products, meat, and alcoholic beverages are not covered by the equivalency arrangement and may be exported to Japan and sold as organic.

For more detail about the equivalency arrangement, please visit the following site and read "Questions + Answers (PDF)" section:
https://www.ams.usda.gov/services/organic-certification/international-trade/Japan

a) U.S. Exports to Japan through the Equivalency Arrangement

Under the framework of the equivalency arrangement, the United States may export NOP-certified organic "specified products" to Japan through JAS Organic-certified importers. These importers then affix a JAS organic label to the product and sell it as JAS certified organic. When being imported, U.S. organic products must be accompanied by a USDA Agricultural Marketing Service Export Certificate (TM-11) provided by a NOP accredited certifier.

The key element in this framework is to partner with a reliable JAS-Organic certified importer. A list of certified importers can be found on the following website:
http://www.maff.go.jp/e/policies/standard/jas/specific/organic.html

Since April 2013, U.S. organic exporters are only allowed to affix a JAS Organic label to their products by entering into a consignment agreement with a JAS Organic certified Japanese importers.

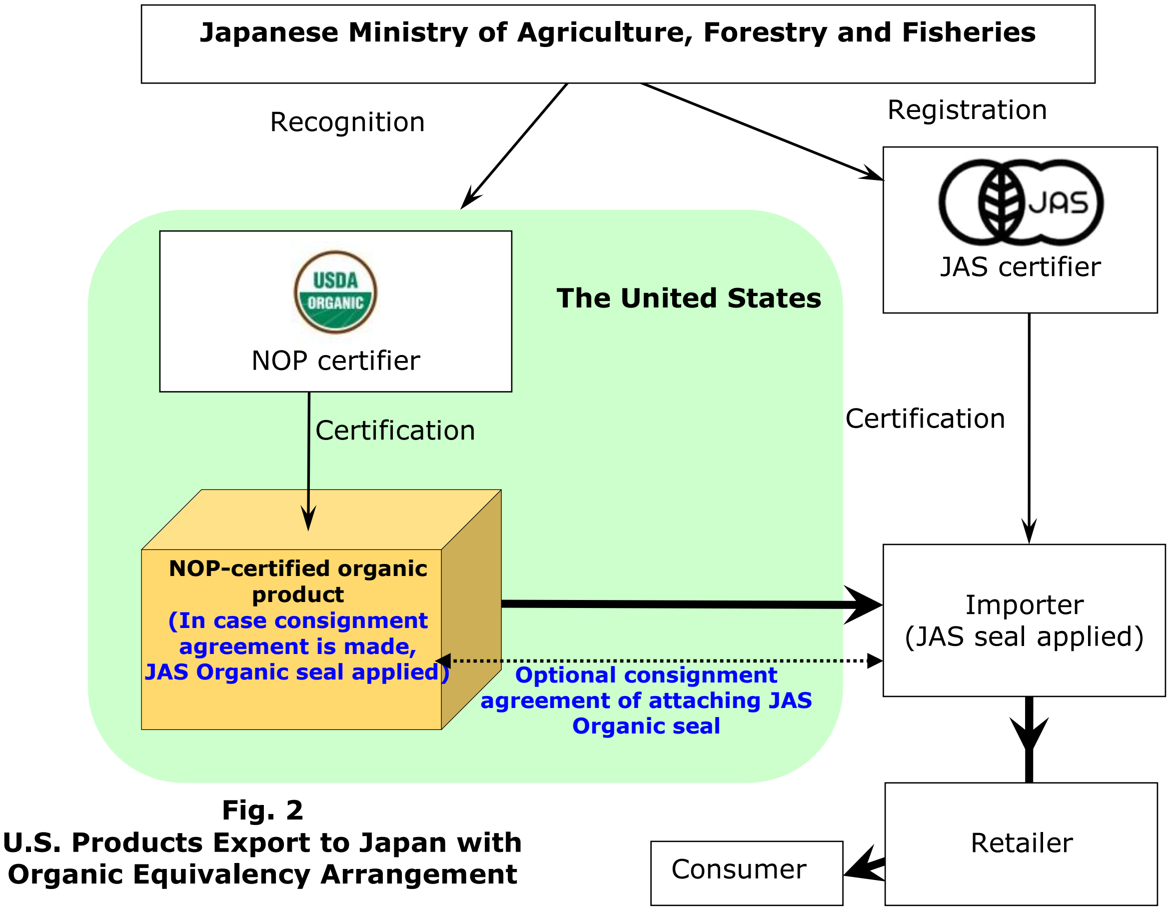


Fig. 2
U.S. Products Export to Japan with Organic Equivalency Arrangement

b). U.S. Exports to Japan with Direct JAS Organic Certification

There is an additional method, which is outside of the framework of the organic equivalency arrangement. U.S. organic products that are directly certified to JAS standards by a JAS registered certifier may be exported to Japan as JAS organic products. As long as the product is JAS certified and labeled JAS organic, the product can be traded with any Japanese importers as JAS organic.

The list of registered JAS Organic certifying bodies is found on the MAFF's websites:
http://www.maff.go.jp/e/policies/standard/jas/specific/organic.html
(There are no JAS registered certifying bodies residing in the United States, as of November 2017.)

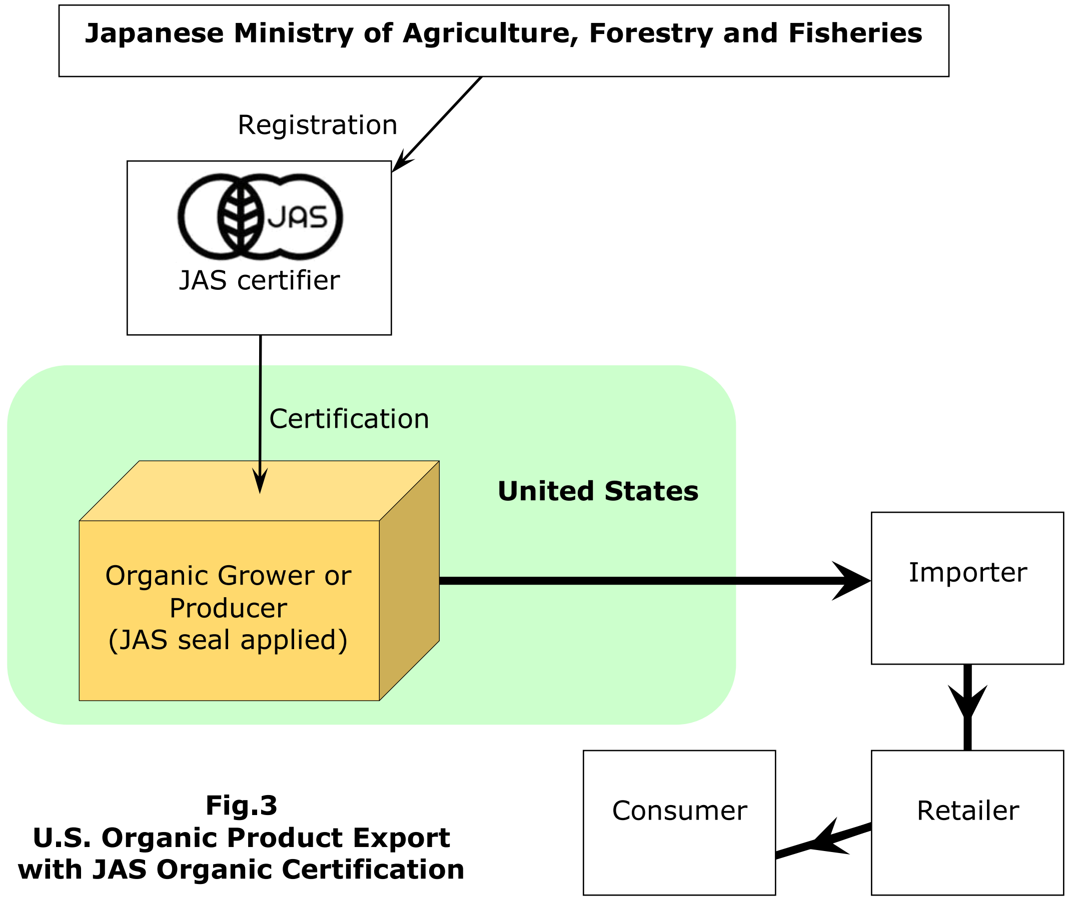
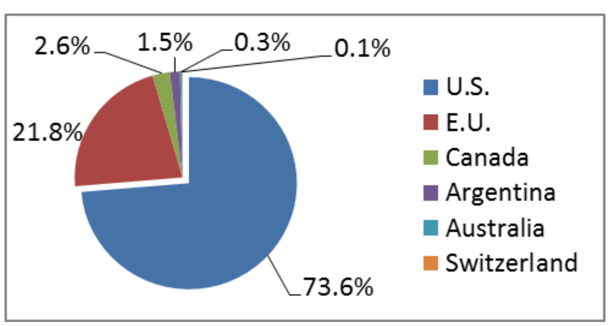


Fig.3
U.S. Organic Product Export with JAS Organic Certification

c). Japanese Imports from the United States

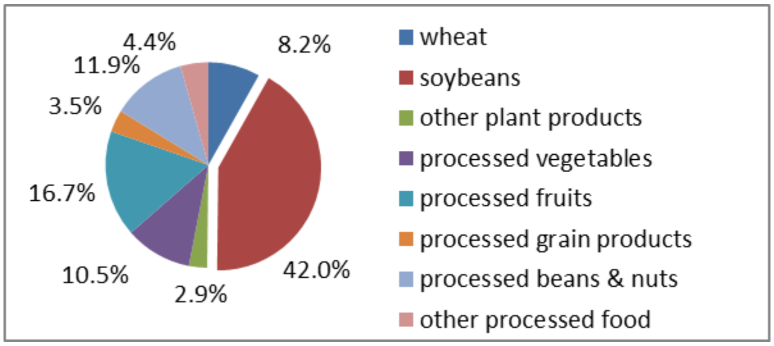
According to MAFF, the United States has benefited from the equivalency arrangement. Japan imported a total of 15,355MT of organic food under the category of "specified products" from the U.S. in 2015. Of these, over 88% (13,558MT) were certified under the equivalency arrangement and the rest of 12% (1,797MT) came with direct JAS certification. Also, while Japan currently has equivalency arrangement with 6 countries (the U.S., Argentina, Australia, Canada, Switzerland, and New Zealand) and the E.U., imports from the U.S. accounted for 73% of all the Japanese organic imports through equivalency arrangements; leaving the other countries far behind.

Fig. 4: Japanese Imports of Organic Food through Equivalency Arrangement by Country in 2015



Data from MAFF also itemize the import from the U.S. through the equivalency arrangement by product. The following chart shows details of those imports in 2014. Soybeans stood out with 42.0% import share, followed by processed fruits (16.7%), processed beans & nuts (11.9%), processed vegetables (10.5%), wheat (8.2%) and others.

Fig.5: Japanese Imports of Organic Food Certified to JAS Organic from the U.S in 2014



III. Marketing Organic Products in Japan

A. Market Trend and Movement

Despite the low share in Japan's overall food and agriculture sales, there are some trends in the Japanese organic market to be noted.

a. Organic as a Fashion

Many feel that "organic" is now considered fashionable in Japan. There are numerous stylish "organic" cafes and retail stores now opening in downtown Tokyo and Osaka. A number of department stores and high-end food retailers are featuring organic food products together with fashion and lifestyle goods. This movement by new cafes and retail stores may not yet be significant in terms of the volume of sales; however, they have a great appeal to young consumers and are assisting in promoting the concept of "organic" among young shoppers.

b. Organic Tradeshows in Japan

International Organic Expo was held in Tokyo in August 2017. This trade show started as "Biofach Japan" in 2001 and was renamed later as International Organic Expo. This year's was the 16th show in Japan. Over 180 exhibitors participated in the show and about 14,000 visitors attended during the 3-day period. The show is intended to increase B-to-B business opportunities and to educate consumers about organic. For more information, visit: https://organic-expo.jp/en/index.php

At the same time, a group of leaders in the organic industry have organized an additional organic trade show. The 1st Organic Life Style Expo was held in November 2016 in Tokyo as a way to create new B-to-B and B-to-C business opportunities in the industry, attracting over 190 exhibitors from organic food to cotton to cosmetics sectors and 20,000 visitors during two-day period. The second show was carried out in July 2017 and drew over 220 exhibitors and over 22000 visitors. The show was considered a great success by many in the industry and this "Organic Life Style Expo" has now become an annual event. The third show is scheduled in September 2018.
For more detail visit: https://ofj.or.jp/en/

B. Distribution Channels for Organic Products in Japan

There is no mass organic-oriented supermarket chain in Japan similar to Whole Foods Market in the U.S. From a marketing perspective, the lack of a large, national chain specializing in organics is seen as a limiting factor in growing the customer base beyond a narrow pool.
While there are small organic chains opening up in Japan, such as "Natural House," the number and the scale of these chains as well as the range of products available at those stores have not reached the level of the U.S. market.

However, just recently, two major supermarket chains took first steps to try and build organic store models in Japan. AEON, the largest supermarket chain in Japan, established Bio c' Bon Japan Co., Ltd., jointly with Marne & Finance Europe, and opened its first organic "Bio c' Bon" store in Tokyo in December, 2016. The location is a lucrative residential area in the downtown of Tokyo. According to Bio c' Bon Japan, they have gained a solid base of loyal customers who constantly look for organic. The store sells a variety of organic food ranging from fresh produce to dry fruits & nuts, juice, dairy, snacks etc. They are currently consdiering a plan to open additional stores in the Tokyo area.
Just a few months prior to the opening of Bio c' Bon, Life Corporation (a major national supermarket chain in Japan), opened its first natural & organic store, "BIO-RAL" in downtown Osaka. The store sells a variety of natural and organic food products along with conventional ones. According to BIO-RAL, they are targeting customers who want to lead a healthy life.
Other chains have also showed interest in the organic market but are currently waiting to see how these trials pan out.

C. Issues in Marketing Organic in Japan

a. Consumers' Understanding of organic

Despite MAFF's efforts to enhance understanding of organics among Japanese consumers, the level of consumer's understanding about "JAS organic" is still low. According to the OMRP survey, although 97% of consumers are aware of the word "organic", only 5% of them understand its meaning correctly. Confusion with descriptive labels such as "natural" remains. Many industry participants believe that proper education about organics will be needed to promote organic food in the Japanese market. 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 may be growth potential of the organic market, if a better understanding about organics is acquired among Japanese consumers.

b. High Cost and Irregular Quality and Quantities in Organics

High cost is also considered as a stumbling block for the growth of the organic market. JAS Organic certification entails additional costs associated with the accreditation of farms, grading of produce, and testing. Consumers in general are aware of the price difference between organic and conventional, and according to the OMRP survey those who buy organic products are generally willing to pay up to a 20-30% price premium. Still the current premium for organic products often exceeds 50%; discouraging potential consumers.

The OMRP survey also indicated that the lack of uniformity among organic produce is another perceived problem, especially in a market notoriously saturated with near-perfect products. Supply instability is also prevalent, given generally small per-farm production volumes and increased susceptibility to infestation or blights. These issues can be addressed partly by educating trade and consumers on organics and cultivating an increased tolerance for the supply and uniformity issues which challenge the organics industry.

D. Prospective Sectors for Organic

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

a. Food Service:

One area of potential growth is food service, ranging from family-oriented chains to fashionable cafes, and upscale restaurants. A variety of restaurants feature organic or natural foods, particularly fresh fruits and vegetables, along with health conscious menu items, in order to differentiate themselves. Even major fast food chains such as MOS Burger (a Japanese hamburger chain) are following this trend. As the variety of organic food supplies is still limited, there may be opportunities for imported organic food products.

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 110,000 subscribers and recorded $200 million in sales in 2016. It recently teamed up with another organic food supplier and is accelerating its growth. Radish Boya, established in 1988, working closely with a convenience store chain, a national supermarket chain and cooking schools, has been expanding its business outlets. Although these companies deal mainly with fresh produce grown in Japan, they are including more and more imported food products and providing a platform for imported organic food products as well.

c. Gift Retail:

Gift retail has potential for growth. Major Japanese retailers hold special sales events every six months to cater to customers sending gifts to business contacts, clients, teachers, respected elders, etc…: a large gift-giving season 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 include organic coffees; teas; soaps; vegetable oils; and cotton products. Entering such a market might be especially advantageous for organic exporters, since seasonal gifts are typically produced in limited quantities and sold at premium prices.

In conclusion, while the concept of organics is beginning to penetrate into the Japanese culture, there are still stumbling blocks in the Japanese organic market such as undeveloped distribution channels and consumer confusion. Still, insiders in the Japanese organic industry see growth opportunity for the organic market as consumer interest grows. ATO Japan would like to advise U.S. exporters to look into growth potential of the sectors identified above, while closely following the movement of the Japanese organic market as a whole.

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
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Office of Agricultural Affairs
U.S. Embassy, Japan
agtokyo@fas.usda.gov
tel +81 3.3224.5102/fax +81 3.3589.0793

B. Agricultural Marketing Service (AMS) /USDA

https://www.ams.usda.gov/services/organic-certification/international-trade/Japan

C. Ministry of Agriculture, Forestry and Fisheries (MAFF)
http://www.maff.go.jp/e/policies/standard/jas/specific/organic.html