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Japan

FOOD PROCESSING SECTOR

Food Processing Report

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Report Highlights:

The Japanese food processing industry is one of the worlds' most advanced and sophisticated, with yearly output valued at over $200 billion. Much of Japan's food processing industry relies on imported ingredients, and the United States is the number one supplier. In addition to the scale of this industry, technological advances combine with changing demographics and consumer preferences to create constant product churn and opportunities for new exporters.

Post:
Tokyo ATO

SECTION I: Market Summary
A. Overall Market Summary

The Japanese food processing industry is one of the worlds' most advanced and sophisticated. Japan's food manufacturers produce a wide variety of products, from traditional Japanese foods to health foods for infants and the elderly. Japanese food producers focus mainly on the domestic market, balancing the need to maintain market share with traditional product lines while developing creative products to attract consumers, who are always on the lookout for new and innovative foods. As a result, Japanese food manufacturing is characterized by high rates of product turnover.

Sales Value of the Japanese Food Processing Industry 2015-2017

Category of Foods	2015 (Billion Yen)	2016 (Billion Yen)	2017 Est. (Billion Yen)	Year to Year % (2015-16)	Year to Year % (2016-17)	Share (%) 2015	Share (%) 2016
Soft Drinks, Juices, Water	3,740	3,919	3,967	4.8	1.2	15.90%	16.50%
Alcoholic Beverage	3,366	3,357	3,391	-0.3	1	14.60%	14.10%
Wheat Flour	2,532	2,539	2,560	0.3	0.8	10.90%	10.70%
Confectionary	2,447	2,477	2,472	1.3	-0.2	10.30%	10.40%
Dairy	2,140	2,197	2,205	2.6	0.4	9.60%	9.30%
Fats & Oils	2,046	2,071	2,092	1.2	1	8.40%	8.70%
Other Processed Products (starch, pickled vegetables, fermented soybeans, etc.)	1,677	1,684	1,691	0.4	0.4	7.40%	7.10%

Source: Shurui Shokuhin Tokei Geppo

(酒類食品統計月報8月号, August 2017 pp20)

The Japanese food processing industry manufactured $216.1 billion worth of food and beverage products in 2016. Sales are estimated to have increased to $218 billion in 2017.

The largest food processing companies developed from traditional breweries that expanded their portfolios to include foods, distilled spirits, beverages, etc... Several other market leaders emerged from the dairy industry. Processed food products that are increasing in popularity include yogurt, meat, soups, and ramen. Popular beverage items include tea, vegetable juice, distilled spirits, and energy drinks. Frozen foods consumption has recently grown as well, due to their convenience and improvement in product quality. As more people seek single-size portions or do not have time to cook every meal, convenience and packaging are critical factor in product development.

Market entry takes time in Japan, especially for ingredient suppliers. Manufactures are frequently searching for specific ingredients but can be unwilling to disclose new product development plans, and may be reluctant to candidly 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, you will have a pre-existing relationship. In order to capitalize on those opportunities it is important have product and representation in-country. Therefore, building a relationship with a local importer is a critical early step.

Note: Because of the fluctuating exchange rate much of the data in this report is in Japanese Yen. The following table of average annual exchange rate is provided for the readers' reference:

Yearly Average Exchange rate, Yen/USD

Yearly average	2014	2015	2016
JPY per USD	106.85	122.05	109.84

Source: http://murc-kawasesouba.jp/fx/year_average.php

B. Domestic Companies

The Japanese food processing industry is dominated by 15 major companies of which Kirin Holdings Co., Ltd is the largest (See *Company Profiles).* Total production of processed foods, excluding beverage and alcohol, has risen continuously except for a short-term slump from 2008 to 2011. Ready-to-eat meals, processed grain products, and livestock products have been the main drivers of that growth. Growth in production of ready-to-eat meals in particular has been strong, increasing 54.1% from 2010 to 2017 per the Ministry of Agriculture, Forestry and Fisheries.

Company Profiles, *Source: Shurui Shokuhin Tokei Geppo (酒類食品統計月報 9 月号, September 2017)*

Ranking	Company (Main products)	Phone & Website
1	Kirin Holdings (Beverage, alcohol)	03-5541-5321 http://www.kirinholdings.co.jp/english/
2	Asahi Group Holdings (Beverage, alcohol)	03-5608-51112 http://www.asahigroup-holdings.com/en/
3	Suntory Ltd. (Beverage, alcohol)	03-5579-1000 https://www.suntory.com/softdrink/index.html
4	Meiji Holdings Co., Ltd. (Dairy, beverage, Confectionery)	03-3273-4001 http://www.meiji.com/global/
5	Nippon Ham Foods Ltd. (Meats)	06-7525-3026 https://www.nipponham.co.jp/eng/

6	Ajinomoto Co., Inc. (food and amino acids)	03 -5250 -8111 https://www.ajinomoto.com/en/?scid=av_ot_pc_cojphead_global

C. Key Market Drivers

Key market drivers for the food processing sector include:

- Continued diversification of the Japanese diet.
- As the number of women entering the workforce continues to increase-- and marriage and fertility rates continue to decline-- it is increasingly common that Japanese consumers purchase prepared foods instead of cooking at home.
- A declining and aging population.
- Weak economic environment, causing processors to seek out lower-cost food inputs and international processing options to maintain competitive prices. (However, a weak Japanese yen has recently caused a slowdown in import growth).
- Heightened consumer and retailer food safety concerns.
- Increasing interest in health and functional foods with an emphasis on the needs of the growing senior population.

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

Japanese consumers are familiar with ingredients from the U.S., recognize their high quality, and have confidence in the safety of U.S. products. In addition, the U.S. is one of few producers able to supply Japanese food processors with the volumes and quality of inputs that they require.

Advantages	Challenges
The U.S. has a reputation as a reliable supplier of food inputs in terms of availability and delivery.	Consumers perceive Japanese food production as safer than overseas production, including the U.S.
U.S. Manufacturers produce many specialties that are attractive to Japanese consumers.	Getting detailed information to the most appropriate purchaser can be difficult in Japan.
Many Japanese love American culture/cuisine.	Giving product information to the consumer is a challenge.

SECTION II: Check list for market entry

Market Structure & Entry

A. Market Structure

The Japanese market structure and distribution system is different from the U.S. The following illustration is a basic flowchart showing how imported products tend to enter and move through the traditional Japanese distribution system:

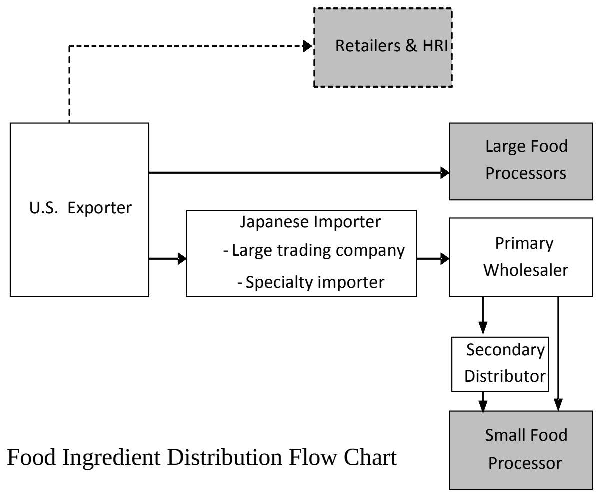
Ingredient products will most likely be handled by a:

1. General trading company

2. First-line wholesaler
3. Second-line wholesaler
4. Food processor

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

Large food processors and retailers are increasingly purchasing sizeable quantities of product directly from trading companies.



Food Ingredient Distribution Flow Chart

B. Market Entry

It can be difficult to enter the Japanese market. Regulations on ingredients and additives are very strict, and exporters must ensure that their products are permitted in Japan. 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 a great deal of specific information regarding product handling and composition. In addition, Japanese 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.

Despite the work involved, the Japanese market has enormous potential.
Strategies for entering the Japanese market will 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 showcases, where they can look at many products at once. Therefore, the best way to learn about the market while getting the chance to talk to potential business partners is to participate in one of Japan's many trade shows.

The largest food related trade show in Japan is FOODEX Japan, which takes place every March. Depending on your target market, other smaller trade shows can also be useful

C. Entrance Strategy:

Before You Start:

a. Ensure your company has the production capacity to commit to the market.
b. Ensure your company has the financial and non-financial (staff, time, etc.) resources to actively support your exported product(s).
c. Evaluate whether your company has the ability to tailor your product's packaging and ingredients to meet foreign import regulations, food safety standards, and cultural preferences.
d. Evaluate whether your company has the necessary knowledge 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.

1. Determine whether your product is permissible by Japanese food regulations.

a. Read the Exporter Guide and the Food and Agricultural Export Regulations Report, published by our office and available at: http://gain.fas.usda.gov/Lists/Advanced%20Search/AllItems.aspx and selecting "Japan" and "Exporter Assistance"
b. For plant or animal health information, contact your local APHIS office at: http://www.aphis.usda.gov/animal_health/area_offices/
c. If the product contains meat or meat products, please refer to the Food Safety Inspection Service Export Library: http://www.fsis.usda.gov/wps/portal/fsis/topics/international-affairs/exporting-products
d. Review Japanese food regulations to determine if your product(s) complies with (or needs to be altered to comply with) local laws regarding additives, residue levels, and processing procedures. Also understand regulations in terms of weight, size, and labeling. JETRO's Handbook for Agricultural and Fishery Products Import Regulations is a helpful tool: http://www.jetro.go.jp/en/reports/regulations/pdf/agri2009e.pdf

2. Perform Some Basic Market Research:

a. Determine the specific area of the market your product is targeting: http://www.fas.usda.gov/topics/getting-started
b. Determine whether there is demand for your product by searching online websites, speaking with other companies that have experience in Japan, visiting the market to conduct market tours, or attending a trade show in Japan.
c. Determine whether your product is price competitive versus Japanese and other producers, keeping in mind transportation and modification costs. Determine the comparative advantage of your products. Potential customers need to be convinced of the merit of using your products: Such as price savings, higher quality, higher value or more convenient packaging. Most packaging or labeling will have to be changed for the

Japanese market, as American packaging is usually too large.

You should also contact your industry organization or local State Regional Trade Group, which works closely with USDA to help food and agricultural companies advance their exporting goals: To learn more about these groups, and which ones may be working in Japan on your behalf, please see:

http://www.usdajapan.org/tradeservice/cooperators-industry-partner-groups/

3. Develop an Export Action Plan:
Once you have collected the general market, products, and regulatory information, begin the process of creating an export action plan. This will be instrumental in helping distributors and buyers see your vision. Keep in mind that many portions of this plan will change after personal interaction with the market or as more information is gathered. This action plan should include:

- Your 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:
Visit Japan to explore opportunities first-hand or find a representative. Be sure your partner has a good reputation and track record. This face-to-face interaction is very important in Japan, where personal relationships are highly valued.

D. Finding a Buyer

Trade shows: the best tools for market research as well as for finding potential distributors. A list of USDA endorsed trade shows can be found at: http://www.fas.usda.gov/topics/trade-shows

a. The recommended trade shows in Japan for the food processing sector are:

-FOODEX JAPAN http://www3.jma.or.jp/foodex/en/

-Supermarket Trade Show http://www.smts.jp/en/

-International Food Ingredients and Additives Exhibition (IFIA) Japan: http://www.ifiajapan.com
-Health Ingredients Japan: http://www.hijapan.info/eng/

b. Contact one of the State Regional Groups and ask if they have any upcoming activities involving your target market such as trade missions or showcases.

Section III Competition
U.S. Involvement in the Industry

The U.S. is Japan's number one agricultural trading partner, and the U.S. is known as a reliable exporter that provides safe and high quality foods.

Major Food Exporters to Japan in 2017,
Source: Global Trade Atlas: All commodities

Partner Country	United States Dollars (Billions)			% Share			% Change
	2015	2016	2017	2015	2016	2017	2017/2016
World	50.1	48.9	51.9	100.00	100.00	100.00	6.23
United States	12.6	11.7	12.7	25.11	24.03	24.51	8.34
China	6.4	6.2	6.2	12.88	12.74	11.93	- 0.49
Australia	3.7	3.7	4.0	7.42	7.64	7.78	8.22
Thailand	3.7	3.6	3.9	7.35	7.42	7.56	8.22
Canada	3.3	3.3	3.5	6.64	6.66	6.73	7.33
Brazil	2.7	2.7	2.5	5.46	5.53	4.76	- 8.51
France	1.4	1.5	1.6	2.87	3.03	3.08	8.15
Indonesia	1.1	1.1	1.5	2.21	2.27	2.87	34.10
New Zealand	1.3	1.3	1.4	2.57	2.70	2.71	6.72
Philippines	1.0	1.0	1.0	2.06	2.13	1.94	- 3.41

Japan Import Statistics from United States 2017,

Source: Global Trade Atlas, Japan Import Statistics, All AG Simplified. (Figures Rounded)

Description	United States Dollars (millions)			% Share			% Change
	2015	2016	2017	2015	2016	2017	2017/2016
Cereals	3,817	3,228	3,500	27.97	25.31	25.23	8.42
Meat And Edible Meat Offal	2,599	2,857	3,214	19.05	22.4	23.16	12.49
Oil Seeds Etc.; Misc Grain, Seed, Fruit, Plant Etc	1,798	1,598	1,716	13.18	12.53	12.37	7.39
Fish, Crustaceans & Aquatic Invertebrates	1,258	1,190	1,405	9.22	9.33	10.13	18.07
Edible Fruit & Nuts; Citrus Fruit Or Melon Peel	992	905	874	7.27	7.09	6.3	-3.44
Prep Vegetables, Fruit, Nuts Or Other Plant Parts	596	576	626	4.36	4.51	4.51	8.82
Edible Preparations Of Meat, Fish, Crustaceans Etc	465	427	480	3.41	3.35	3.46	12.52
Food Industry Residues & Waste; Prep Animal Feed	500	446	471	3.66	3.49	3.39	5.63
Beverages, Spirits And Vinegar	430	414	427	3.15	3.24	3.08	3.23
Miscellaneous Edible Preparations	285	314	329	2.09	2.46	2.37	4.93
Dairy Prods; Birds Eggs; Honey; Ed Animal Pr Nesoi	254	195	236	1.86	1.53	1.7	21.36
Edible Vegetables & Certain Roots & Tubers	216	243	226	1.58	1.9	1.63	-6.88
Prep Cereal, Flour, Starch Or Milk; Bakers Wares	143	105	108	1.05	0.82	0.78	2.8
Sugars And Sugar Confectionary	82	68	71	0.6	0.54	0.51	4.25
Cocoa And Cocoa Preparations	58	55	59	0.42	0.43	0.42	7.16
Animal Or Vegetable Fats, Oils Etc. & Waxes	56	57	48	0.41	0.45	0.35	-15.19
Milling Products; Malt; Starch; Inulin; Wht Gluten	49	40	46	0.36	0.31	0.33	15.83
Coffee, Tea, Mate & Spices	49	39	37	0.36	0.31	0.27	-6.6

Section IV Best products prospects

A. Consumer Trends

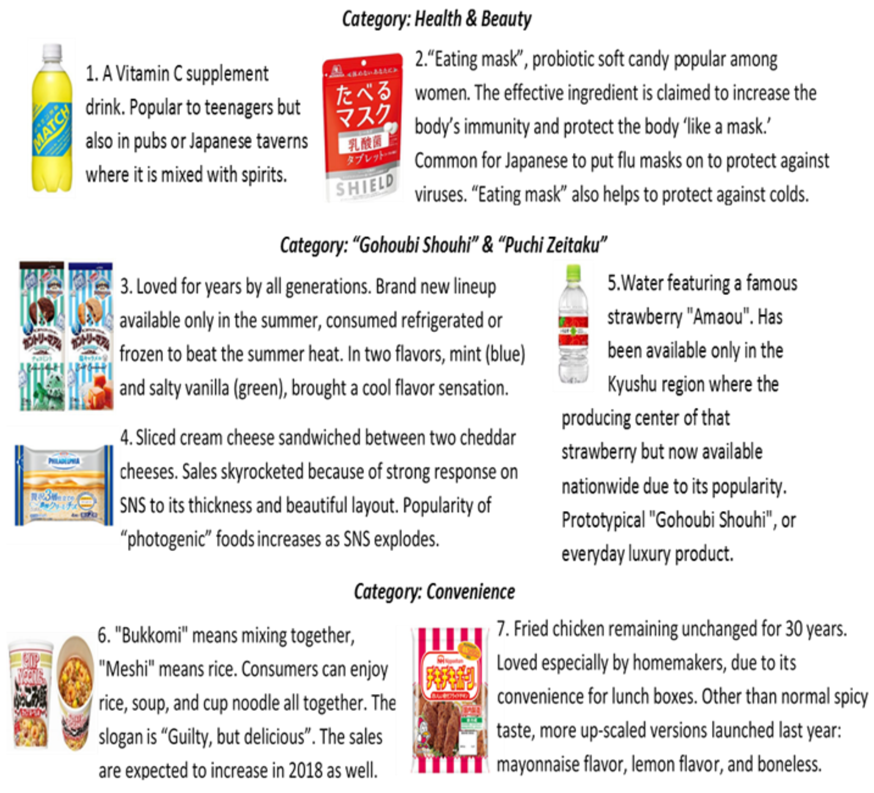
1. Health &Beauty

Products that offer health and beauty or anti-aging benefits have always been popular in the Japanese market. A recent study showed that over 70% of Japanese feel the need to live a healthy lifestyle, and over 90% of women have experience dieting. A healthy diet is an extremely valued concept. The official definition of functional foods (FOSHU) and drinks in Japan is “food which is expected to have a specified effect on health due to the relevant constituents or food from which allergens have been removed” such as dietary fiber, oligosaccharides, non-calorie sweeteners, calcium, iron, mineral absorption promoters, beta-carotene, chitosan, specified soy protein, collagen, polyphenols, lutein (e.g. blueberry smoothies) lactic acid bacteria cultures (e.g. yogurt or chocolate), soy isoflavones, and germinated brown rice (GABA) have been included.

Research has shown that over 80% of Japanese women are aware of the term “anti-aging.” Japanese green tea (maccha) has a well known reputation for containing ingredients to make skin beautiful. Maccha products contain the entire leaf, ground to powder. Through mass media and SNS, maccha-based beverages and foods have enjoyed continued gains in popularity.

Another example of such products is a popular gummy candy that has added collagen to improve skin health. Food manufacturers are always looking for the next anti-aging breakthrough ingredients, so exporters of ingredients with documented anti-aging properties are well positioned ot take advantage of that demand. It is especially helpful if exporters can offer something that is not yet widely available.

The major distribution line for these functional food products is through supermarkets and convenience stores.



2. “Gohoubi Shouhi”

There is a concept of enjoying small luxuries that is popular in Japan. This is called “*Gohoubi Shouhi*” (Reward Consumption).

“*Gohoubi Shouhi*” refers to rewarding yourself by purchasing pricier versions of everyday products. For example, approximately 38% of Japanese women spend extra money on dessert and confectionary products. To take advantage, many convenience stores have launched up-scale and premium versions of products in their confectionary lines.

“Puchi Zeitaku” (Miniluxury), “Otonano” (Adult or Upgraded) are other keywords that refer to this concept. Many products such as limited-time special flavor products and craft beers are sold at slightly higher prices than normal products for the *Gohoubi Shouhi* market.

3. Increasing Participation of Women in the Labor Force and Growth of Convenience Foods

Japanese women have always had a great deal of responsibility for daily purchases for both themselves and their families. More women are entering the Japanese work force today, according to a survey by Ministry of Health, Labor and Welfare. (http://www.mhlw.go.jp/bunya/koyoukintou/josei-jitsujo/16.html) Along with this development, there has been an increase in demand for convenience foods and easy-to-prepare meals. The best example is the rapid expansion of convenience (*konbini*) store chains offering a large variety of prepared meals, traditional bento lunch boxes, onigiri (rice balls), pasta dishes, sandwiches, salads, baked goods, and desserts. Ingredients such as low-cost processed vegetables for bento lunches or ingredients in snack foods such as croquettes, fried potatoes, and meat patties, are in high demand. Furthermore, many confectionery companies have launched products that target working women. For example, in convenience stores in Japan you can find a variety of mini-sized candy, snacks, and chocolates that target working women who want a sweet snack with their coffee or lunch.

Other demographic changes influencing food consumption include later marriages and increases in the number of elderly people living alone. Single people are increasingly targeted with easy-to-prepare single-portion meals. Packed sauces, meals in-a-box, instant meals, high quality frozen meals and other convenient options are growing in popularity and appear poised to continue to grow.

B. Producer Trends

Producer trends can be evaluated at the large trade shows in Japan. One of the largest food trade shows in Japan is called FOODEX (see D. Finding a Buyer, SECTION III). In 2017 FOODEX hosted over 80,000 visitors and 3,282 exhibitors; with 1,979 from overseas (see table below): *Source: FoodEX Japan 2017 (http://www.jma.or.jp/foodex/index.html)*

A wide variety of exhibitors including:

Ranking	Product Type	# of Companies
1	Alcoholic Beverages	405
2	Confectionaries, Sweets & Confectionary Ingredients	356
3	Organic / Functional Food & Drinks	323
4	Fresh Foods (Processed Foods)	292
5	Frozen Foods	256
6	Dried Foods & Legumes (Beans)	253
7	Canned Products, Bottled Products & Agricultural Preserved Foods	248
8	Beverages	183
9	Coffee & Tea	170
10	Seasonings & Condiments	161
11	Cooking Oils & Fats	153
12	Rice, Noodles & Flour	134
13	Sauces & Dressings	132
14	Special-Occasion, Certified & Professional-Use Foods	67
15	Dairy Products & Eggs	60

The Most Sought After Items According to Buyers Were:

Ranking	Product Type	% of Companies
1	Snacks / Desserts	14.2%
2	Vegetables / Fruits	10.1%
3	Coffee / Tea / Drink ingredients	9.9%
4	Alcoholic beverages	8.4%
5	Livestock / Processed meats	8.1%
6	Bread / Noodles / Pasta	8.0%
7	Seasoning / Spices / Raw Materials / Ingredients	7.6%
8	Marine products / Processed products	7.1%
9	Soft drinks / Water	5.7%
10	Functional foods / Health foods	5.7%
11	Grains	4.5%
12	Dairy / Egg products	3.9%
13	Environmentally-conscious foods / Organic foods	2.8%
14	Other / Food-related products / Information	2.6%
15	Sugar / Spreads	1.0%

C. Industry Developments

Manufacturers need to constantly introduce new products, tastes, packaging and ideas. Japanese manufacturers are always ready to change taste, texture, packaging or product names to catch consumers' attention. The year 2016 saw an increase in sales of soft drinks, juices, and water. However, sales of other categories showed either slight increases or remained flat compared to the previous year. Thus, many companies launched new brands as well as upscale versions of their original products in order to stimulate consumption.

SECTION V: Key Contacts

ATO Tokyo, U.S. Embassy 1-10-5, Akasaka, Minato-ku, Tokyo 107-8420 Tel: 81-3-3224-5115 Fax: 81-3-3582-6429 E-mail address: atotokyo@fas.usda.gov

ATO Osaka American Consulate General 2-11-5, Nishi Tenma, Kita-ku, Osaka City, Osaka 530-8543 Tel: 81-6-6315-5904 Fax: 81-6-6315-5906E-mail address: atoosaka@fas.usda.gov