Required Report: Required - Public Distribution **Date:** March 31, 2021

Report Number: JA2021-0044

Report Name: Food Processing Ingredients

Country: Japan

Post: Tokyo ATO

Report Category: Food Processing Ingredients

Prepared By: Sumio Thomas Aoki

Approved By: Barrett Bumpas

Report Highlights:

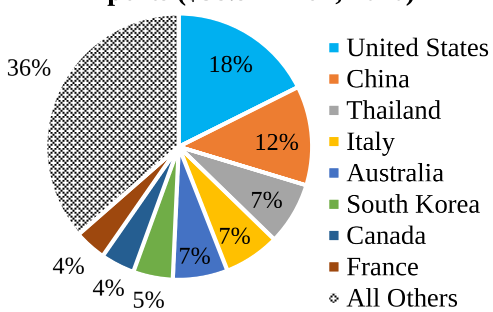
In 2020, Japan's food processing industry manufactured $218.3 billion of food and beverage products, down 1.1 percent from $220.8 billion in 2019. The COVID-19 pandemic limited dining out and led to increases in home cooking. With that, large drops in the production values of soft drinks, juices, water, and alcoholic beverages were nearly offset by growth in wheat flour, dairy, health foods, and convenience or ready-to-eat foods. The pandemic further contributed to the decade-long upward trend in frozen food consumption, which has jumped from $5.56 billion in 2010 to $6.57 billion in 2020. The United States is Japan's number one agricultural trading partner 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 (22 percent of import market share)—the fourth largest market for U.S. agricultural products in 2020 ($11.7 billion). 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, food processing, and distribution.

Japan Consumer-Oriented Product Imports ($38.9 Billion, 2020)



Food Processing Industry:

The $218 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 2019, the total value of all retail food and beverage sales was $483 billion. Supermarkets represent the bulk of the retail food sales at 70 percent and the convenience store sector accounts for another 14 percent of sales. Ready-to-eat meals or take-home foods represent an area of growth.

Population: 124,687,293 (July 2021 est.)
GDP: $5.08 trillion (3rd)
GDP/Capita: $40,247

Top Ten Growth Food Products

1) Beef and Beef Products
2) Dairy Products (Cheeses)
3) Wheat and Wheat Products
4) Pork and Pork Products
5) Soybeans and Soybean Meal
6) Processed Vegetables
7) Tree Nuts and Peanuts
8) Wine and Beer
9) Distilled Spirits
10) Condiments and Sauces

Food Industry by Channels (US$)

Consumer-Oriented Imports	$34 billion
Food Processing Industry	$218 billion
Food Industry Gross Sales	$789 billion
- *Retail (2019)*	*$483 billion*
- *Food Service (2019)*	*$306 billion*

Top Ten Retailers

AEON	Arcs
Seven & I Holdings	Lawson Inc.
FamilyMart	U.S.M. Holdings
Life Corporation	Izumi
OK	Yaoko

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.

Data sources include: 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, The World Bank.

COVID-19 Impacts on Food Processing Sector
The Tokyo Agricultural Trade Office (ATO) is following developments and publishing a series of reports titled "COVID-19 Impacts on Food Distribution in Japan." As of the date of publishing, the latest report can be downloaded here, though please refer to the following websites for any updates: USDA GAIN or FAS Japan Reports.

SECTION I: MARKET SUMMARY

The Japanese food processing industry is one of the world's most advanced and sophisticated, manufacturing $218.3 billion of food and beverage products in 2020, down 1.1 percent from $220.8 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. Several other market leaders emerged from the dairy industry.

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 foods consumption has doubled over the past two decades and continues to grow due to convenience and improvements in product quality and safety. In recent decades, at-home cooking gradually declined and convenience and packaging—especially single serving sizes— became critical factors in product development. However, since the beginning of the COVID-19 pandemic, consumers have increasingly sought foods and beverages to prepare at home that are as delicious as restaurant gourmet, entertaining, easy-to-prepare, and healthy. Notable trends include:

- Small-sized packages: With limited kitchen and refrigerator storage, growing elderly population large number of single-member households, demand for individual or small-sized packaging that can be finished in one sitting is strong. Additionally, with COVID-19 related increase in home consumption, manufacturers are considering package sizes that will continue to satisfy food service but can also be sold through retail.
- 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. These have shown an even greater importance in 2020 with an increased demand from consumers working from home.
- Premixes: The term "premix" is an abbreviation for "prepared mix." According to the Shurui Shokuhin Tokei Geppo, the production of prepared mixes was 212,260 tons in 2020. The projected quantity for 2025 is 230,440 tons. 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, which offer *souzai* (home-meal replacements).
- Frozen foods: In the past decade, consumption of frozen foods has increased 17.5 percent to 2.88 MMT in 2020. This is attributed to improved equipment in Japanese homes, such as an increase in microwave ovens and larger freezer space in refrigerators. Renovations and newly constructed plants since 2014 have fulfilled the growing demand. Imported frozen foods have gained market share in Japan as well, led by China and Thailand.

- Health foods: According to Ministry of Agriculture, Forestry and Fisheries (MAFF), over 70 percent of Japanese people prefer to live a healthy lifestyle. Consumption is increasing for products that augment nutrients such as vitamins and minerals. For more information, please see GAIN JA2020-0068.

Production Values of the Japanese Food Processing Industry

Category of Foods	Value in Billion Dollars			1-year % Change	Category Share %
	2018	2019	2020		
Soft Drinks, Juices, Water	36.44	37.50	35.92	-4.2	16.1
Alcoholic Beverage	30.25	31.03	29.22	-5.8	13.1
Wheat Flour	23.46	23.78	24.83	4.4	11.1
Confectionery	22.58	23.13	23.15	0.1	10.4
Dairy	19.76	20.01	20.93	4.6	9.4
Fats, Oils, Seasonings	19.21	19.59	19.57	-0.1	8.8
Processed Other Foods	15.18	15.87	16.03	1.0	7.2
Health Foods	11.31	12.66	13.40	5.8	6.0
Tea, Coffee & Cocoa	8.18	8.29	8.34	0.6	3.7
Processed Meats	6.72	6.97	7.10	1.9	3.2
Frozen Foods	6.52	6.54	6.57	0.5	2.9
Other Marine Products	5.71	5.77	5.87	1.7	2.6
Sugars	4.36	4.41	4.38	-0.7	2.0
Retort*	3.11	3.19	3.42	7.2	1.5
Fish Paste	2.39	2.36	2.44	3.4	1.1
Canned & Bottled Foods	1.77	1.60	1.65	3.1	0.7
Total	216.76	220.79	218.25		

Source: Shurui Shokuhin Tokei Geppo Jan. 2019, Feb. 2020, Feb. 2021

*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:

Yearly average	2018	2019	2020
JPY per USD	110.424	109.008	106.725

Source: IRS Yearly Average Currency Exchange Rate
https://www.irs.gov/individuals/international-taxpayers/yearly-average-currency-exchange-rates

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.

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.	The cost of marketing and advertisement can make it difficult to get product information to the consumers.

SECTION II: ROAD MAP FOR MARKET ENTRY

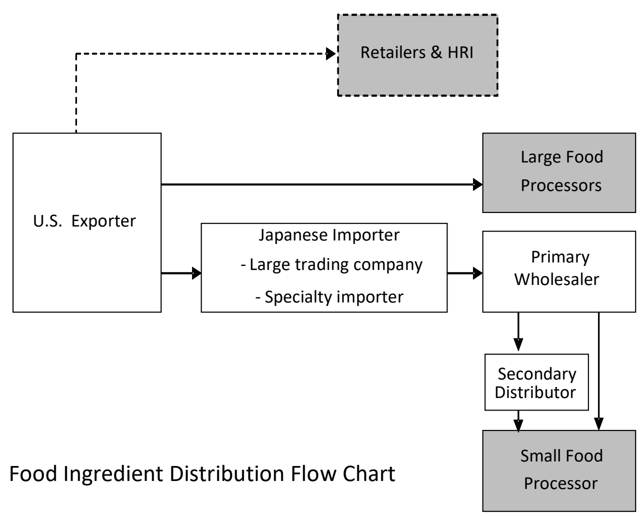
Market entry may take a considerable amount of time, especially for ingredient suppliers. Manufactures frequently search for specific ingredients but may be unwilling to disclose new product development plans and may be reluctant to discuss product-sourcing needs. The challenge for U.S. ingredient suppliers,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

A. Market Structure

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.



Food Ingredient Distribution Flow Chart

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

B. Market Entry

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.

Despite the work involved, the Japanese market has enormous potential. 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 as a way 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. Depending on the target market, other smaller trade shows can also be useful.

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. Finding a Buyer

Trade shows are excellent tools for market research as well as for finding potential distributors. FAS updates the list of USDA-endorsed trade shows annually. Companies should contact their appropriate SRTG or USDA Cooperator to inquire about upcoming activities such as trade missions or showcases. For more information on trade shows in Japan, please read GAIN JA2020-0054.

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

The United States is Japan's number one agricultural trading partner and known as a reliable exporter that provides safe and high-quality foods. On January 1, 2020, the USJTA went into force, and with it nearly 90 percent of U.S. agricultural products now have preferential tariff access in Japan. However, many other suppliers have their own free trade agreements with Japan that similarly reduce or eliminate food and agricultural tariffs, including the European Union, Canada, Australia, Chile, and Mexico.

The United States is the leading pork supplier to Japan followed by the EU and Canada. Japanese consumers strongly associate beef with the United States, for which the import market is shared with Australia. U.S. wheat accounts for roughly half of annual 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 mainly supply cheeses, while the U.S. market share is just ten percent. The United States' main competition in vegetables and fruit is regional, with China primarily suppling on proximity, price competitiveness, and varietal preferences. Thailand dominates the poultry meat market, ahead of Brazil and China; together comprising 98 percent of imports. The United States is the top supplier of corn, followed by Brazil.

Japan Imports of Agricultural Products in 2019

Partner Country	United States Dollars (Billions)			% Share			% Change
	2018	2019	2020	2018	2019	2020	2020/2019
World	59.9	60.3	58.6	100.0	100.0	100.0	-2.97
United States	14.1	13.2	12.9	23.6	21.9	22.0	-2.42
China	6.7	6.5	6.2	11.2	10.7	10.7	-3.29
Canada	3.7	3.8	3.9	6.1	6.4	6.6	0.62
Australia	4.3	4.2	3.8	7.2	6.9	6.4	-10.06

Thailand	3.6	3.6	3.5	6.1	6.0	6.0	-3.39
Brazil	2.4	3.4	3.4	4.0	5.7	5.9	0.36
Italy	2.9	2.7	2.8	4.9	4.5	4.9	3.69
South Korea	1.9	2.1	2.1	3.2	3.5	3.6	-0.05
France	1.9	2.0	1.8	3.2	3.4	3.1	-11.41
New Zealand	1.5	1.6	1.6	2.5	2.7	2.7	-0.1

Source: Trade Data Monitor: BICO Agricultural Products

SECTION IV: BEST PRODUCT PROSPECTS CATEGORIES

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	Prior to the COVID-19 pandemic, demand for U.S. lean beef and products was trending up in 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. For more information, see JA2021-0026.
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 JA2021-0026.
Processed Vegetables	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 JA2021-0035.
Fresh & Processed Fruit	Opportunities for U.S. fresh fruit exports to Japan are expected to increase due to falling domestic production. The United States is the top supplier of dried fruits to Japan but has lost market share to other frozen fruit suppliers in recent years. For more information, see JA2020-0158.
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 2020, Japan's total whiskey imports were $418.6 million, down $64.9 million

	from 2019. U.S. whiskey exports were $121.8 million, a 29 percent market share. For more information on the whiskey market, see JA2020-0053.
Wine & Beer	Wine consumption in Japan has risen steadily over the last decade. Total imports of wine and related products were $1.7 billion in 2020, though primarily from the EU. For more information on the wine market, see JA9501. In 2020, the United States continued to be the leading supplier of beer by value at $15.3 million, due to premium craft beer sales. For more information on the craft beer market, 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 JA2020-0174.

Products Not Present in Significant Quantities which have Good Sales Potential

Japan imports a broad array of products representing the full spectrum of America's consumer-ready, intermediate, and bulk food production. However, Japanese importers and consumers frequently seek new, trendy, and innovative products. The freeze-dried foods' market is expanding. The best sellers are miso soup which followed by other soup products. Opportunities may be found at any time for competitively-priced, quality, or novel products, e.g. alternative meat (plant based protein) products, prepared chicken, craft beer and spirits. For more details on alternative foods, read Japanese Companies Exploring Alternative Meat Product.

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.

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@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: 81-6-6315-5906
E-mail address: atoosaka@usda.gov

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