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Japan

Food Processing Ingredients

Japan Food Processing Sector Annual Report

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Report Highlights:
In 2018, Japan's food processing industry manufactured $216.8 billion of food and beverage products, up marginally from 2017. Health-oriented products are increasing in popularity and frozen foods consumption has doubled over the past two decades. 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 Japan's number one agricultural trading partner, and has a reputation for being a reliable supplier of safe and high-quality foods.

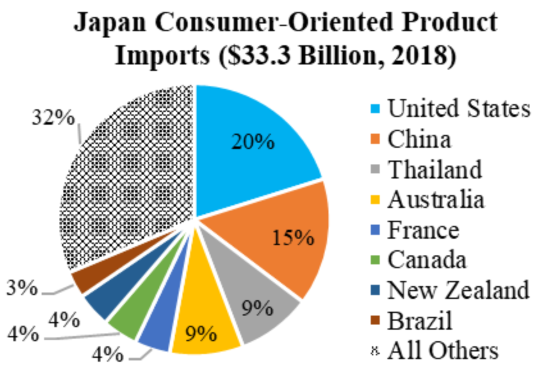
Post:
Tokyo ATO

Market Fact Sheet: Japan

Executive Summary:

Japan relies heavily on imports -- accounting for over 60 percent of its caloric intake. The United States is the largest foreign supplier of food and agricultural products to Japan (25 percent of total import market share), and Japan is the third largest market for U.S. agricultural exports ($12.9 billion in 2018). Japan's food industries are well-developed and innovative in all sectors; including, retail, food service, food processing, and distribution.

Population: 126,168,156 (July 2018 est.)
GDP: $4.87 trillion (3rd)
GDP/Capita: $38,428



Food Processing Industry:

The food processing industry produces a wide variety of foods, including traditional Japanese foods, Western foods, and health-oriented foods for infants and the elderly. Food producers focus on maintaining market share with traditional product lines while developing creative products to attract consumers who are always on the lookout for new and innovative foods. The food processing industry produced $217 billion in food and beverage products in 2018.

Food Retail Industry:

In 2017, the total value of all retail food and beverage sales was $474 billion. Supermarkets represent the bulk of the retail food sales, at 72 percent, but the fast-growing convenience store sector now represents 14 percent of sales. Ready-to-eat meals (REM) or take-home food items represent an area of growth.

Top Ten Growth Food Products

1) Beef & Beef Products	6) Peanuts
2) Fish Products	7) Distilled Spirits
3) Processed Vegetables	8) Dried Fruit
4) Tree Nuts	9) Preserved/Prepared Pork
5) Wine and Beer	10) Condiments & Sauces

Food Industry by Channels (US$)

Consumer-Oriented Exports	$3.8 billion
Consumer-Oriented Imports	$33.3 billion
Food Processing Industry	$217 billion
Retail (2017)	$474 billion
Food Service (2017)	$295 billion
Food Industry Gross Sales (2017)	$769 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
High demand for consumer-oriented products	Managing expectations is key (negotiating and decision-making processes can take time)
Opportunity	**Challenge**
U.S. products are in demand and remain trendy	Many other suppliers enjoy tariff concessions through FTAs

Data sources: Global Agricultural Trade System, Global Trade Atlas, Japan Ministries of Finance, and Economy, Trade and Industry, Japan Food Service Association, The World Factbook, The World Bank. For additional information, contact ATOTokyo@fas.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 $216.8 billion of food and beverage products in 2018, up from $211.5 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.

Consumer Trends

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. As consumers are cooking fewer meals at home, convenience and packaging—especially single serving sizes— are critical factors in product development. Notable trends in convenience-oriented foods 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.
- 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.
- Premixes: The term "premix" is an abbreviation for "prepared mix." According to the Japanese Prepared Mix Association, the production of prepared mixes has increased by 2.3 percent since 2017. 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).

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. There are nearly 1,000 individual products approved as FOSHU (Foods for Specified Health Uses) and 1,500 items as "Foods with Function Claims." Organic foods are also seeing a boost in consumer demand. According to Fuji Keizai, the top growing domestic processed foods are salad chicken (ready-to-eat chicken breast packed in a small portion), *namazake* (a traditional sweet fermented rice drink), tomato drinks, and rice snacks. These results reflect consumers' increased consciousness toward health and beauty. Key words often used to sell these products are "low-calorie," "low-fat," "high-protein," and "sugar-free."

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. In 2018, there was a significant boost in alcoholic and other beverages, organic/functional foods, canned products, bottled products, preserved foods, cooking oils and fats, and sauces or dressings.

Production Values of the Japanese Food Processing Industry

Category of Foods	Value in Billion Dollars			1-year % Change	Category Share
	2016	2017	2018		
Soft Drinks, Juices, Water	35.67	35.23	36.44	3.4%	16.8%
Alcoholic Beverage	30.57	29.73	30.25	1.8%	14.0%
Wheat Flour	23.11	22.60	23.30	3.1%	10.8%
Confectionary	22.55	22.10	22.58	2.2%	10.4%
Dairy	20.00	19.50	19.76	1.3%	9.1%
Fats & Oils	18.81	18.82	19.21	2.1%	8.9%
Processed Other Foods	15.33	14.83	15.18	2.4%	7.0%
Health Foods	10.11	10.29	11.31	9.9%	5.2%
Tea, Coffee, & Cocoa	8.46	8.20	8.18	-0.3%	3.8%
Processed Meats	6.75	6.66	6.72	0.9%	3.1%
Frozen Foods	6.26	6.34	6.52	2.8%	3.0%
Other Marine Products	6.21	5.80	5.71	-1.4%	2.6%
Sugars	4.44	4.31	4.34	0.6%	2.0%
Retort*	3.01	3.00	3.11	3.5%	1.4%
Fish Paste	2.58	2.33	2.37	1.6%	1.1%
Canned & Bottled Foods	1.84	1.72	1.77	3.1%	0.8%
Total	215.70	211.47	216.76		

Source: Shurui Shokuhin Tokei Geppo

*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, much of the data in this report is in Japanese Yen. For reference, this table shows the annual average exchange rate of Yen to U.S. Dollar:

Yearly average	2016	2017	2018
JPY per USD	109.84	113.19	111.43

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

B. Key Market Drivers

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.

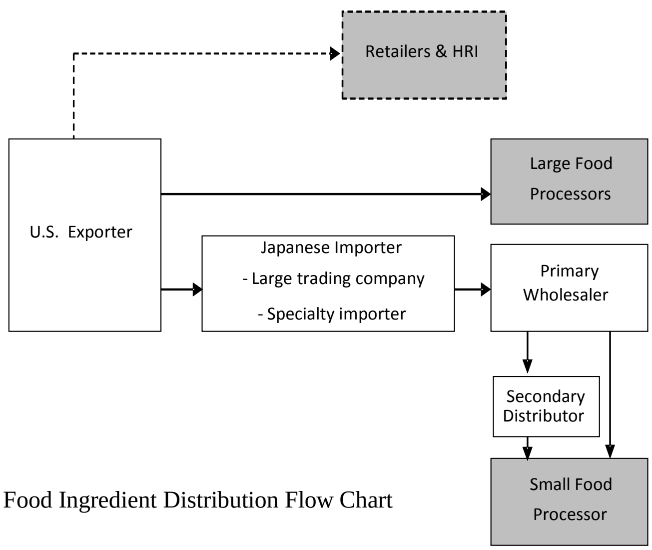
C. Key Advantages & Challenges for U.S. Food Products

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

SECTION II: CHECK LIST FOR MARKET ENTRY

Market Structure & 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.



Food Ingredient Distribution Flow Chart

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.

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.

The recommended local trade shows 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/en
- Health Ingredients Japan: http://www.hijapan.info/eng/

Companies should contact their appropriate SRTG or USDA Cooperator to inquire about upcoming activities such as trade missions or showcases.

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. However, other suppliers recently reached free trade agreements with Japan that reduce or eliminate food and agricultural tariffs, including the European Union, Canada, Australia, Chile, and Mexico.

The United States is the leading supplier of fresh pork. However, the top three exporters of frozen pork, Spain, Denmark, and Mexico, comprise 56 percent of the import market, while the U.S. market share has dropped to just ten percent. The United States has a strong association with beef and shares the market 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.

Japan Imports of Agricultural Products in 2018

Partner Country	United States Dollars (Billions)			% Share			% Change
	2016	2017	2018	2016	2017	2018	2018/2017
World	48.9	51.9	53.8	100.0	100.0	100.0	3.7
United States	11.7	12.7	13.9	24.0	24.5	25.7	8.7
China	6.2	6.2	6.5	12.7	11.9	12.2	5.6
Australia	3.7	4.0	4.3	7.6	7.8	8.0	7.1
Thailand	3.6	3.9	4.0	7.4	7.6	7.4	1.3
Canada	3.3	3.5	3.7	6.7	6.7	6.8	5.0
Brazil	2.7	2.5	2.1	5.5	4.8	4.0	-13.7
France	1.5	1.6	1.7	3.0	3.1	3.2	6.1
New Zealand	1.3	1.4	1.5	2.7	2.7	2.7	3.7
Indonesia	1.1	1.5	1.4	2.3	2.9	2.7	-3.5
Philippines	1.0	1.0	1.0	2.1	1.9	2.0	4.9

Source: Global Trade Atlas: Agricultural Total

SECTION IV: BEST PRODUCT PROSPECTS CATEGORIES

A. Top Growth Sectors

Beef and 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. U.S. lean beef lends itself to larger portion sizes when compared to traditional highly marbled Japanese beef. New and existing restaurant chains that feature U.S. beef are expanding rapidly as overall beef consumption continues to climb.

Tree Nuts & Peanuts

U.S. tree nuts are increasing in popularity in the convenience health snack sector, as detailed in the Tree Nuts Market Overview. Almonds, walnuts, pecans, and peanuts, in plain, roasted and salted forms, are common in single-serve snack packaging at convenience stores across Japan. These serve the large fast-paced health conscious working population. In addition, candy- and/or chocolate-coated tree nuts snacks continue increasing both sales and the scope of new product offerings. The Japanese food service industry is beginning to explore new salad creations, many of which incorporate tree nuts.

Fish Products

Japan has the highest rate of seafood consumption in the world, and at $14.9 billion in 2018 is the second largest importer. Shrimp, tuna, salmon, and squid are the top imports. Japan is the third largest export market for the United States, valued at $843 million in 2018. The top U.S. export is Alaskan Pollock (Surimi), followed by roe and sockeye salmon. The United States is not a major supplier of shrimp or tuna. Other major seafood suppliers are China, Russia, Chile, Vietnam, Thailand, and Norway.

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, which will bolster producer demand for processed vegetables.

B. Best High-Value Prospect Categories

Lamb and Lamb Products

The U.S. recently gained access for lamb and lamb products after a 14-year absence from the market. As a result, U.S. lamb and lamb products are expected to see growth in the coming year among high-end hotels and restaurants. For more details, read Japan Reopens Market to U.S. Lamb.

Wine and Craft Beer

Recently, the Tokyo ATO published a Wine Market Overview and a Craft Beer Market Overview. Since publishing, U.S. Census Bureau Trade Data was released for 2018 showing that U.S. premium wines and craft beer are continuing to gain sales. Last year, total U.S. wine exports to Japan reached $91.2 million, up slightly from $90.8 million in 2017, while total beer exports came to $11.0 million, a one-year increase of 74 percent.

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/