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Organic Products

Organic Foods in Western Japan

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Report Highlights: Interest in organic products is growing in Western Japan prompted by consumer's perception that "Organic" is symbolic for more nutritious and safer foods. Currently, sales are constrained because of low consumer awareness, limited product variety and high prices. Good potential exists for U.S. suppliers to achieve a dominant market position among foreign suppliers provided they offer competitively priced products and offer ample variety. Moreover, a lot hinges on implementation of the new Japan Agricultural Standards (JAS) stipulating organic labeling requirements and smooth implementation of the U.S. National Organic Program (NOP).

Includes PSD changes: No
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Unscheduled Report
Osaka ATO [JA3], JA

Organic Food Products in Western Japan

I. Summary:

In response to rising demand for organic food products in Western Japan, ATO Osaka is taking a closer look at organic marketing trends in the Kansai area (Osaka, Kobe, and Kyoto) by meeting with area retailers and importers as well as interviewing local consumers. The overall perception among consumers interviewed (age 27-64) was that they occasionally purchase organic products because they consider them to be healthier, safer and more nutritious than conventional foods. However, concerns over false labeling, relative lack of understanding of organic products in general, pricing and upcoming regulatory controls have kept organic products constrained to a niche market.

The largest constraints facing the organic market in Western Japan are high prices, small product variety, consumer distrust of the legitimacy of organic products, and low consumer awareness. Consumers emphasize health and food safety considerations when shopping, and have shown interest in organic products if they are reasonably priced. Imported organic products with the greatest potential for success in this market are reported to be dried fruits, frozen vegetables, and soybeans for tofu production. In general, there is an acknowledged unawareness about organic products, compounded by product unavailability in conventional supermarkets. In addition, newspapers report that the impact of the new JAS law (see also GAIN Report#JA0051) may decrease domestic organic sales because many Japanese organic producers may not be able to conform to these strict standards, thereby creating a demand for more organic imports.

Total sales of organic products, including domestically produced foods marketed as "no chemical", and "reduced chemical" were forecast to jump 15 percent to nearly \$3 billion in 1999 and to \$3.2 billion in 2000. The largest overall category by far of organic and reduced chemical foods in the Japan market is fresh vegetables making up over 53 percent of domestic production followed by rice and fresh fruit at 24 and 22 percent respectively. Imported organic foods account for an estimated 10 percent of total sales. The largest category of U.S. organic product imported into Japan is soybeans, however, imports are forecast to decline to around 5,000 MT in 2000 compared to an estimated 20,000 MT imported in 1999.

Advantages	Constraints
Japanese have a high regard for food safety and a healthy lifestyle	Low awareness about benefits organic products
Best prospects for importation are snack items, juices, and perishables	Limited distribution and market penetration
U.S. and Japanese Organic regulatory standards provides credibility	Consumer distrust of legitimacy of current organic labeling
Japanese are interested in learning more about organic products	Lack of variety among products currently in the market
The U.S. enjoys largest market share among foreign suppliers, especially soybeans and frozen vegetables.	High prices

II. Regulations and Policies

The U.S. Department of Agriculture (USDA) and the Japan Ministry of Agriculture, Forestry and Fisheries (MAFF) are currently preparing for discussions regarding equivalency of their respective certifier accreditation procedures and organic production standards. Japan's new standards for organic products were made official April 1, 2000 with a one-year transition period. The USDA is projected to implement the new U.S. NOP by the end of 2000. Smooth implementation of the U.S. NOP will be critical in ensuring that U.S. organic products can take full advantage of the Japanese market.

Japan's MAFF has established four methods by which foreign suppliers may export organic products to Japan. Most U.S. organic suppliers seem to be preferring the "Trust Contract" method as being the least complicated. Under this method, a U.S. organic certification organization enters into a trust contract with a registered certification organization in Japan. Once the production method is certified as passing Japanese organic standards, the supplier obtains a Japanese Agricultural Standard (JAS) Organic label and affixes it to the product package. For further details regarding this and the other methods of export certification to Japan, exporters may contact directly the Japanese certifying organizations listed at the end of this report.

During the interviews with Japanese retail and trade contracts, a recurring theme was concern that lack of an agreement on organic products between the United States and Japan would severely disrupt trade. The Japanese importers and retailers typically react several months in advance of regulatory changes so as not to be caught holding inventories of products they cannot sell. Some illustrations of comments received are provided below:

A) A leading soybean importer in Western Japan, disclosed that he is anticipating that the announcement of a bi-lateral agreement will increase sales. "When the new JAS law is officially implemented, we think the market will expand because consumer trust will be established. Currently, in the United States the many independent certifiers, each having different standards raises doubts in the eyes of many potential Japanese consumers who feel more confident with a government regulatory system and assurance".

B) Two representatives from an upper-class retail supermarket specializing in healthy and natural products, report that organic products make up 1% of their total sales.

This firm's Goods and Distribution Director is apprehensive about the new JAS laws. "If these talks and negotiations cannot be completed and implemented smoothly by April 1, 2001, then U.S. organic imports will be drastically reduced. We stand firm behind the new JAS regulations, even if it means we cannot import U.S. organic products. Consumer trust and loyalty is most important to us."

C) Consumers interviewed were consistent in their assertions of the importance of government regulatory controls on the labeling and sale of organic products. One 50-year old housewife from Kyoto expressed her concerns, "Right now I'm wary of buying organic products. I don't trust the source, especially if they are imported. I don't know what is going on in other countries. I could be wasting my money."

III. Consumption Trends and Market Opportunities

According to some supermarket representatives interviewed, the typical organic customer is an upper middle class housewife in her 30s or 40s with children. These women tend to have a university education and are concerned about their children's health. Consumers are more concerned about their personal health rather than the environmental benefits of organic products. In visiting various organic and conventional retail markets, ATO/Osaka observed that customers were mostly women in their thirties and forties and appeared to be housewives.

Soybeans, along with frozen vegetables, are two of the largest examples U.S. organic product exports to Japan. Of the total 3.86 million tons of soybean exports in 1999, 20,000 tons of these were organic valued at approximately \$19 million. One importer contact disclosed that he first experimented in importing organic soybeans in 1992, and today, organic soybeans represent ten percent of their total product imports by volume (500 MT). When GMO concerns first erupted a few years ago, his non-GMO soybean products sold very well and today non-GMO makes up ninety percent of their total soybean importation (11,500 metric tons). Organic soybeans are still imported from suppliers in Iowa, Minnesota, Michigan and South Dakota for use in producing organic tofu. However, non-GMO sales are rising while organic sales are decreasing. The following are wholesale prices for various types of soybeans imported into Japan by this importer (*values converted at one dollar equals approximately 107 Yen):

Classification	Price per 60 kg bag
Non-Gmo imported	\$28
Organic imported	\$56
Conventional domestic (not GMO)	\$65

As a comparison, imported GMO soybeans reportedly sell for \$9.35 yen per 60 kg bag wholesale price. According to the American Soybean Association (ASA) Tokyo office, imports of organic soybeans in 1999 totaled 20,000 MT, however imports in 2000 are projected to decline to only 5,000 tons. Two reasons were cited for the decrease:

1. Mid-western U.S. has been hit with a drought in 2000 reducing output and increasing price;
2. Price of Chinese organic soybeans has become cheaper relative to U.S. soybeans.

The following is a chart of various retail products observed in retail stores in Western Japan. This chart is not inclusive and is only meant to provide the reader with a rough idea of organic products in the market (Exchange Rate: US\$1.00 = 105 Yen).

Examples of American Organic Products in Western Japan

Product Weight *Retail Price

Organic cocoa	150 grams	\$7.50
Organic pasta (spaghetti)	300 grams	\$3.35
Millina's Finest "Organic Tomato and Mushroom Pasta Sauce" fat free	388 grams	\$5.15
Organic chickpeas	500 grams	\$4.50
Rice Dream milk	1 liter	\$4.00
California Almond Spread	110 grams	\$6.35
Organic strawberry jam	140 grams	\$4.85
Seattle's Best Organic coffee	340 grams	\$14.95 non-organic=same price
Cascadian Farm organic jam (strawberry and blueberry)	235 grams	\$3.75
Muir Glen organic tomato juice	1.35 liters	\$4.10
Muir Glen organic tomato sauce	15 oz	\$2.15

Examples of Non-U.S. Organic Products in Western Japan

Japanese natural vacuum packed rice ("duck agriculture") brown, white, semi-milled varieties	5 kilograms	\$37.20
Canadian Maple Syrup	250 ml	\$9.15
Japanese natural peanut butter	250 grams	\$3.75
Dominican Republic organic bananas	Bunch of three bananas	\$2.80
Sri Lanka organic cinnamon sticks	20 grams	\$2.80
Japanese konnyaku	300 grams	\$3.10
Italian organic spaghetti	500 grams	\$1.95

*Converted from Yen prices at US\$1.00 equals approximately 107 Yen.

IV. Promotional Activities

One supermarket's promotional activities for organic food products includes newspaper inserts, point-of-sale displays, and in-store sampling. Every two or three months, this supermarket provides inserts in the local newspaper focusing on the health and safety aspects of organic and natural products. Advertisement of organic and natural products is conducted together since this supermarket carries only a limited amount and variety of organic products.

Marketing tactics differ on whether organic products should be displayed separately or side-by-side with conventional food products. Currently organic products are mostly sold in separate locales, although there was a boom about three years ago in which organic products were sold in conventional supermarkets. This boom fizzled due to high cost and lack of conformity in labeling practices. There is a belief among the food trade contacts interviewed that if the U.S. national standard will "guarantee" (certify) organic production methods and ensure a high-quality product, perhaps consumer loyalty and trust can be achieved. Furthermore, quick adoption of standardization of organic labeling and marketing practices in the United States and Japan will most likely give U.S. organic products an edge over other foreign competitors with less-demanding organic regulatory requirements.

Additionally, separate organic sections in conventional supermarkets would be well received by consumers. A separate section would highlight the distinctiveness of organic products which appeals to consumers' health consciousness. These consumers would not mind paying a bit more for these products that satisfy their demand for perceived health advantages.

At a large department store in Osaka, a promotional organic product display exhibited a poster explaining the term organic and a product demonstrator handed out samples of tomato juice to passing shoppers. This is a typical method of introducing new products in Japanese retail stores. Plans are currently being discussed between a regional high-end supermarket and ATO/Osaka to create an "organic corner" in one of the supermarket's highest sales locations in Kobe. At another conventional supermarket in Kyoto, organic coffee was promoted as a fall special and sold alongside traditional coffee at a slightly more expensive price, but with more advertising. The salesmen reported strong sales as expected. As another example, one U.S. coffee importer reports that their brand of organic coffee is selling well, mostly due to its attractive green packaging and the fact that it is the same price as their conventional coffee.

Recent U.S. Organic Promotion Activities Organized by ATO/Osaka:

AMS Administrator Merrigan Presents U.S. National Organic Program in Osaka - On May 19, ATO/Osaka conducted a seminar on organic food products where AMS Administrator Kathleen Merrigan was the featured speaker, supported by the Agricultural Affairs Section of the U.S. Embassy. Over 150 regional trade and media contacts learned about the new U.S. National Organic Program and the development of U.S. organic food production. Participant questions indicated much interest with regard to the state of discussions between USDA and MAFF on the future certification procedures for U.S. certifying agents and product clearance. Subsequent meetings included a lunch with leading importers of processed organic foods and soybeans and an upscale supermarket chain. Current U.S. exports of organic products to Japan are estimated at \$100 million, with significant potential for expansion.

Great American Food Show Kansai 2000 - Bigger and Better!-

The Great American Food Show Kansai 2000, organized by ATO/Osaka was held July 18-19 with 75 booths and 80 exhibitors including a 30 member US Organic Trade Mission. In its third consecutive year, this was the largest stand-

alone American food trade event to date and was visited by 1,045 Western Japan food industry representatives. Highlights of the event included a U.S. organic food showcase, seminars featuring U.S. cranberry products, U.S. organic product trends, GMO safety, and an organic trade delegation from Korea organized by ATO/Seoul. The seminars were attended by 580 show visitors. Pre-marketing of the event included key contact visits and a press conference attended by 22 media companies generating 11 articles and TV coverage. Sales contracts reported by exhibitors during the show totaled \$1.65 million.

V. Challenges and Recommendations

The greatest constraints facing the organic market in Western Japan are high prices, small product assortment, consumer distrust of the legitimacy of organic products, and low consumer awareness. Consumers report paying at least ten to twenty percent more with a few willing to pay twice as much. Trade contacts say that consumers would pay up to 30% more for an organic product over conventional. One 50-year-old housewife from Kyoto, has bought organic apples and vegetables in the past, but is frustrated by how difficult they are to find. She is willing to pay twice as much for organic vegetables, fruits, and juices "if they were sold at the regular supermarket. As it is, they are just not easily available. Supermarkets should have separate organic sections to make it easier for those who place health above price." Another consumer was less enthusiastic about organic products. "Even if organic products were sold along with conventional ones, consumers cannot tell any differences by looking and will only purchase based on price. Plus, I have no idea who is certifying these products and whether its an advertising gimmick or not." Consumers in Japan are accustomed to uniform standards and would find it difficult to accept or trust in multiple certification standards as currently practiced in the United States for organic products.

Many customers reported an interest in organic products, yet indicated that they were not stocked at their regular supermarket. As one housewife put it, "I haven't heard much about organic products. They are not sold at my supermarket, meaning I would have to go to a specialty store. Since preparing meals for my family is something I do 365 days a year, I'm not interested in making numerous trips looking for something that no one knows anything about." Increasing consumer awareness is one challenge facing the organic market. One consumer and her husband buy organic products every chance they get. "Why? Because if bugs and insects can't eat the vegetables I buy, then how are they safe for me and my family? I don't like the idea of buying vegetables that insects die from eating. It's natural for them and us to eat what nature's provides. The problem is that they don't sell organic products on a regular basis in my store. I wish they would."

Another constraint is the lack of widely recognized brand names. Many Japanese consumers already know what they will purchase when they enter the store and tend to stick to their trusted brand names. With this in mind, unless an organic product is selling well, it may be a good idea to sell them separately as organic products can be easily overlooked due to their high price and non-brand label. Unfortunately, many brand name organic products have only been on the market a short time. However, according to the International Trade Representative of one U.S. State Trade Office, "Over time, brands will become more established and consumers will not only begin to recognize these brands but go out of their way to purchase 'their' brand. The organic category will see an increasing level of brand awareness and brand importance over the next decade."

Consumers, when purchasing organic products, prefer frozen vegetables (corn, peas, and mixed), dried fruits, vegetable juice, soybeans, and fresh products. In short, the organic market in Japan, considering the Japanese preference for safety and health, is an untapped market that could benefit from more aggressive advertising, competitive prices, and

consumer education.

Useful Contact Information

MAFF Approved Organic Certifying Organizations in Japan: As of August 11, 2000 MAFF announced six certifying organizations which were approved as registered certification organizations. Among the six, the three organizations listed below can certify organic products from the U.S.

1. ICS Japan Co.
45-14 Chigasaki-chuo, Tsuzuki-ku, Yokohama, Kanagawa
Tel: 011-81-45-949-4620
2. Kaigai Kamotsu Kensa Co. (Overseas Freight Inspection Co.)
15-6 Kabuto-cho, Chuo-ku, Tokyo
Tel: 011-81-3-369-5184
3. Japan Organic & Natural Foods Association
3-5-3 Kyobashi, Chuo-ku, Tokyo
Tel: 011-81-3-3538-1851

Disclaimer: Please note, that in supplying this list, no discrimination is intended and no degree of reliability is implied.

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American Embassy, Tokyo	American Consulate General
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Fax: (011-81-3) 3589-0793	Fax: (011-81-6) 6315-5906

Further information on organic products, including a monthly organic newsletter, can be found at the Horticultural and Tropical Products Division/FAS/USDA homepage at the following address:
<http://www.fas.usda.gov/http/organics/organics.html>

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