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Herbal Products

Introduction

The earliest exposure the Japanese public had to Western herbs (hereafter simply “herbs”) in product form goes back to 1969, when the Japan Green Tea Co., Ltd. imported Pompadour herbal teas from what was then West Germany. This was followed in 1972 by Kanebo’s marketing of herbal teas containing hibiscus and other ingredients. Shortly thereafter, Yamanouchi Pharmaceutical started marketing herb candies. Herbs continued to become more prevalent in the ensuing years and herb consumption increased until finally, a number of pilot retail stores specializing in herbs began to appear in the Tokyo area in the early 1980s.

In 1985, “Timote” herbal shampoo and rinse made by Unilever (Nippon Lever K.K.) became widely known through its television commercials. The products gained substantial popularity, adding to the momentum of the ongoing herb boom. The herb market showed such significant growth during the 1980s that the period came to be referred to as the “first herbal boom.” From around 1993, a surge in demand occurred centering on aromatherapy, creating what came to be known as “the second herbal boom,” which lasted until about 1998.

Today, herbs have gained a sufficient degree of familiarity among consumers, and have come to be used on the merit of their benefits as raw materials for diverse applications, ranging from medications, food, cosmetics and toiletries to essential oils and dyes. Since herbs are used as raw materials in such a variety of applications, it is often difficult to determine the exact scope of the herb market. Accordingly, this report is limited to those commodities marketed specifically as of being of herbal origin as a means of creating product appeal. Other products which contain herbs, but are not specifically presented as such, are not covered in this report.

The object of this report will be to cover herbal products of the types shown in Figure 1; specifically, in foods (drinks, general food, health food), cosmetics/toiletries, home fragrances and aromatherapy.

Figure 1. Uses of Herbs and Product Applications Covered in This Survey

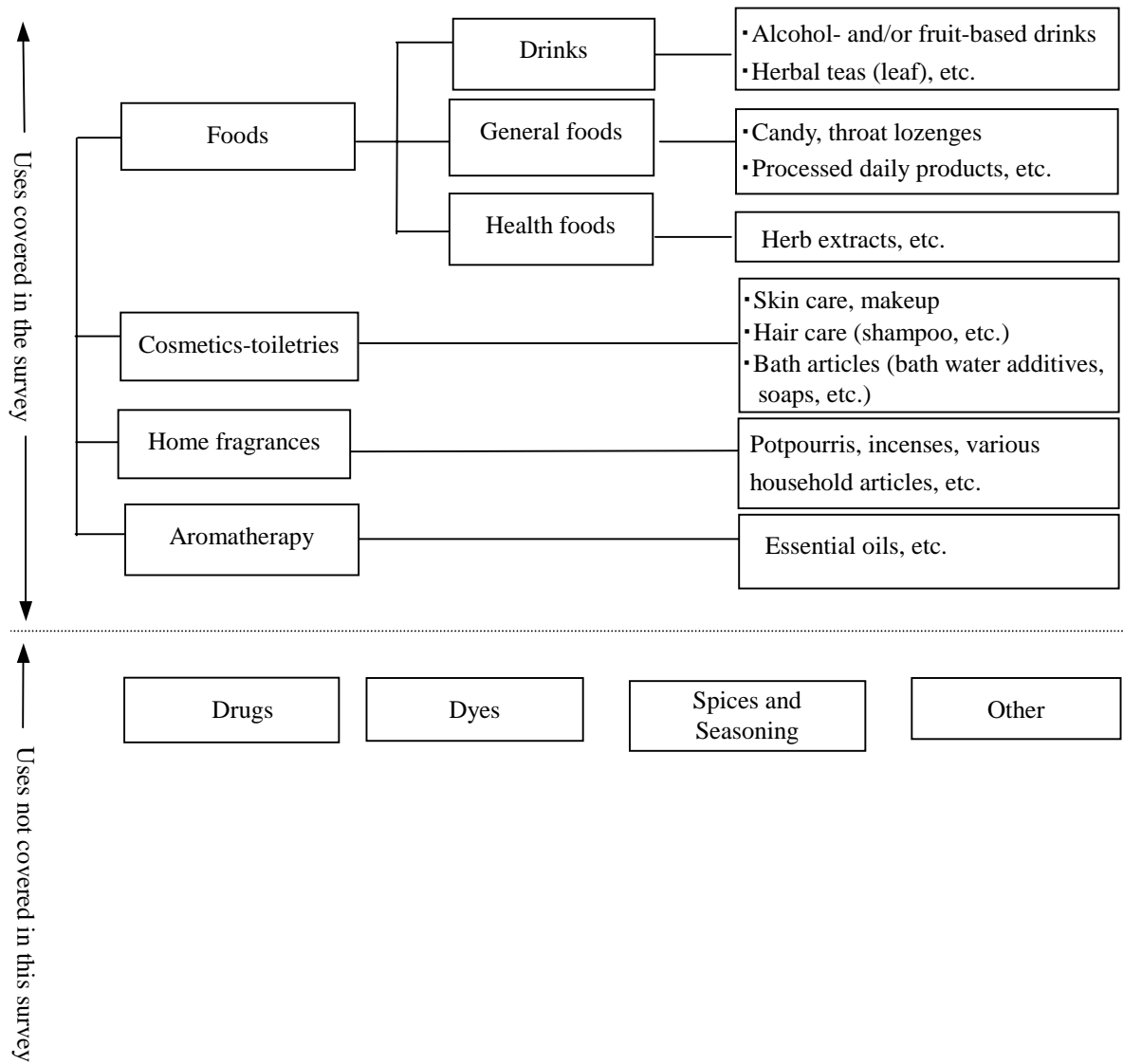


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Yen – Dollar Exchange Rates

Year	Yen / US\$
1996	109
1997	121
1998	131
1999	114
2000	108

Source: Bank of Japan, “ Financial and Economic Statistics Monthly ”

Summary

The first herbal product in Japan, herb tea, was imported approximately thirty years ago. Since then, herbs have become widely recognized by society and, owing to their intrinsic properties, begun to be used extensively as raw materials for medications, food, cosmetics/toiletries, essential oils, dyes, and so on.

The subjects of the survey used for this report are those herbal products that are marketed on the appeal that they are "of herbal origin." However, in reality there are a number of areas of use and areas for which herbal extracts cannot independently be produced, nor is publicly certified relevant statistical data available. Some industry sources estimate the size of the market to be over 358 billion yen, a figure that is not necessarily endorsed by other industry sources. Japanese dependence on overseas suppliers for herb shipments is said to be close to 100%, but a look at trade statistics yields no information regarding the actual import volume or value.

Today, none of the herbal product categories stands out as having been notable during the so-called "second herb boom" period, 1993-99. Consumer interest in health improvement and back-to-nature orientation, however appears here to stay. This major trend is reflected in the fact that herbal products continue to be on the increase in the areas of health food and toiletries.

Importers provide the basic distribution channel for both herbs as raw material and finished herbal products. Importers buy herbs from overseas suppliers and resell them to food processors or wholesalers, who in turn deliver them to department stores, specialty stores and other retail outlets for consumer purchase. There are, however, a few exceptions where importers wholesale directly to discount stores or specialty retailers handling the entire range of vertically structured activities including importation, manufacturing, wholesaling and retailing. The proliferation of Internet use has also ushered in a new era where consumers make their purchases directly from overseas or domestic mail order retailers.

The future Japanese herbal product market, with consideration given to the prediction that the Japanese lifestyle will come even closer to the Western model, is expected to continue expanding. However, it should be noted that given the foreseeable decrease in the young female population, which has been the driving force in herbal product consumption, products would need to cover a far wider scope if the herbal market is to achieve stable growth.

New uses of herbal products in the area of health foods (nutritional-supplement foods) are widely anticipated. In Western countries there is increasing demand for alternative approaches to health care at the primary care stage. This is expected to occur in

Japan as well, accompanying the tremendous increase in the senior population. It should be noted, however, that herbs are appreciated differently by different consumers, and many believe that sustained effort should be made to promote more extensive recognition of, and deeper understanding about, herbal products among consumers.

For herbal products, regardless of the Japanese market sector to be accessed, it is essential to acquire adequate knowledge of relevant Japanese laws and regulations, including the pharmaceutical Affairs Law and the Food Sanitation Law, which are generally said to be more restrictive than their Western counterparts. Also, another important point is to choose an enthusiastic and competent Japanese partner who can accompany the overseas company and help gain access to the Japanese market. Since herbal products do not by any meaningful standard constitute a major commodity, big corporations may not necessarily be suitable partners. One additional point of importance is to achieve a good understanding of Japanese tastes and certain distinguishing characteristics of the Japanese consumer: choosiness about the visual appeal of packaging and other “visible” aspects.

I. Market Overview

A. Scale of Market

While it is possible to provide a general definition of an herbal product, there are a number of products that cannot be independently classified as herbal products depending upon how the herbs are used. Furthermore, there is no publicly certified statistical data available for herbal products, ruling out the possibility of working with numerically reliable data.

According to estimates compiled by the Japan Herb Association, a trade association of voluntary participants formed around Japan Green Tea Co., Ltd., the oldest player in the herb business, the herb market can be broken down by herb use, as shown in Table 1. Since there are some problems in defining terms, however, many in the industry dispute quoted figures, claiming that they overstate market reality.

In the herbal product market, with the exception of the health food sector, many industry players tend to believe that the market continued to expand steadily up to around 1998, with a leveling off starting in 1999. Conversely, herbal products in the health food sector are thought to be enjoying gradual growth in line with the health food market in general.

Table 1. Estimated Herbal Product Market (Unit: billion yen)

Type of Product	FY 1996	FY 1998	FY 1999
Beverages, Foods	100	140	150
Cosmetics, Bath Additives	60	90	100
Aromatics, Dyes	100	130	95
Household Articles	10	15	13
Total	270	375	358

Source : Japan Herb Association

Notes : (1) Products in the categories of health food and medications are not included.

(2) No data available for 1997.

B. Import Trends

Herbs, for purposes of trade statistical compilations, are classified into a number of different item codes, each of which may also contain non-herbal items. Therefore, since it is impossible to delineate certain items as proper herbs or herbal products, there is no way to correctly ascertain the import volume of herbs and their monetary values.

Japan is said to depend almost 100% on overseas suppliers for herbs in the form of dried herbs, essential oils or extracts, and herbal products. One industry source estimates that about half of the herbal products on display at retail stores are imported as finished

products while the remainder are herbal products processed in Japan from imported raw-materials.

The bulk of imported herbal products come from France, Germany and the United States, while large volume of imported raw-material herbs come from such countries as Bulgaria, Egypt, Morocco, Pakistan, Poland, and Turkey. Among Japanese companies handling herbs, some engage in product development as well as importation. One such example is Tree of Life Co., Ltd., an herbal product wholesaler and operator of retail outlets specializing in herbs, which imports directly from contractually-retained farms in thirty-two countries.

In herbs used for aromatherapy, the majority of European and American brand products already have an established presence in the Japanese market. While products such as Neal's Yard Remedies are handled by a select few Japanese companies (importers and/or retailers), other products are being made available in Japan by general goods and food importers, and are found at retail stores all over Japan. In addition, many products are imported by individual buyers.

C. Trends in Domestic Production

An inconsequential quantity of herbs is produced and commercially supplied as fresh herbs to restaurants in the Japanese market. According to S & B Foods, Inc., a major spice maker that also supplies fresh herbs, the fresh herb market is only on the order of three to five billion yen.

Herbs are grown on herb farms all over the country, but they primarily serve as tourist attractions, and the variety of products (raw materials or finished products) sold at stores attached to such farms are for the most part imported items.

S & B Foods began supplying fresh herbs in 1987, deploying a strategy of developing an extensive market for fresh herbs, which at the time were carried only by a limited number of stores, with the cooperation of department stores and supermarkets. As a result, S & B Foods today enjoys the status of being the nation's leading fresh herb supplier.

Fifty-five businesses (including farm operators) engaged in herb farming, either to cater to herb consumers or to sell at their own stores, were studied to determine a pattern as to when they entered the herb business. The results of this questionnaire-based survey, conducted by the Japan Special Crops Production Association in July 1999, reveal that there was no particular point in time at which a sudden increase in the number of herb growers occurred. Entry into this field, as a general trend, seems to have occurred at a stable pace over a long period of time.

Table 2. Period When Herbiculture Was First Launched by Farmers

When Launched	Before 1978	1979-83	1984-88	1989-93	1994-99	Total
Number of Herb Growers	8	9	13	14	11	55
Component ratio(%)	14.5	16.4	23.60	25.5	20.0	100.0

Source: "Report on the Current State of Herbiculture," Japan Special Crops Production Association, September 1999

Note : Cut-off time for 1999 for statistical compilation purposes was July.

D. Trends in Supply by End Use

1. Beverages, Candy, Food in General

a. Herb Tea

Among herb-based beverages, herbal tea is by far the most popular and the most "historical" herbal product, with almost a thirty-year presence on the Japanese market. When first introduced in Japan, herbs were virtually an unknown commodity, and the market situation was such that herbal tea had to be presented as a "flower tea" for it to secure a niche in distribution channels as a beverage. Herbal tea today is handled not only by those importers who were among its earliest introducers, but also by food importers and major tea and coffee companies. Larger family restaurants feature what they call a "soft drink bar," where customers can have as much beverage as they like for a fixed price. Beverages offered typically include coffee, black tea, oolong tea and, increasingly as a standard item, herbal tea. Pompadour (of Germany) and Celestial (of the United States) are well known as makers of branded herbal teas.

b. Herbal Drinks

Herb-flavored canned black tea drinks and herb-flavored wines have been marketed by several major beverage manufacturers. Under these categories, new products are announced every few years, but it seems that none of them has yet taken root as a permanent, standard fixture in the Japanese market. Industry sources claim that, while the supply of raw materials that eventually appear in the form of these products can hardly be said to be on the increase, it is nevertheless a fact, overall, that supply is too substantial to ignore.

c. Herb Candy and Herb-Flavored Food in General

A major drug manufacturer, credited for having been the first to market herb-flavored candies back in 1972, has added to its product line an Echinacea sore-throat

care candy, which retains a large market share as a unique product. Recently, a number of candy makers and others firms have come up with similar products, but because these later arrivals are low-price items, they are said not to have contributed significantly to the expansion of the overall market.

There have also been new developments in the areas of processed dairy and fish products (wiener sausages, fried fish meat and other varieties) featuring herb flavoring as a major selling point. Only a few of them, however, appear to have managed to become permanent market fixtures.

2. Health Foods

In the area of health foods, vitamins and minerals make up the core of marketable material, but drug manufacturers and health food makers, increasingly aware of the intrinsic benefits associated with herbs, appear to be adding herb-based supplements to their standard product lines. It should be noted, however, that this area is extensively regulated by the pharmaceutical Affairs' Law and that, while there are signs indicating that deregulation is on its way, it is advisable to approach the handling of herbs with extra caution.

It should also be noted that herbal supplements are not quite yet firmly established as a category. In reality, there are items marketed by some supplement manufacturers as products with herbal ingredients, which, are actually based on non-herb raw materials.

3. Cosmetics and Toiletries

In the cosmetic field, a "back to nature" stance is gaining as a predominant trend, and all the market players are enriching their product lines with that factor in mind. Makers who champion herb-based products as a means of consumer appeal are rare. Among the handful of such organizations is Origins, a division of the major cosmetics manufacturer, Estée Lauder Group.

Basically, the same trend is observable in the bath toiletry field, which includes shampoos and soaps. Here, perhaps more so than in the case of cosmetics, there are groups of products featuring herb-based compositions, such as Kao Corporation's "Just Plucked Herbs" body soap bars, Pelican Soap's "Terre vie Herb Soap," FT Shiseido's "Peace of Mind with Potpourri" which are marketed with cute, memorable catchphrases. The major players have integrated them into their permanent collections.

4. Aromatherapy Products and Other

Aromatherapy began to attract attention in 1993, culminating five years later, around 1998, in what some have termed the “second wave of the herb boom.” Against such a backdrop, herbal products contributed to the growth of the field of stress reduction and emotional wellness, an area called “mental health” by the Japanese. Today the aromatherapy fever has subsided, and transactions in aromatherapy-related herbs appear to be conducted on an on-demand basis. Aromatherapy products are sold mainly by retail stores specializing in herbal products, although Internet-based mail order of herbs provided by individual vendors is notably on the rise. Aromatherapy classrooms continue to attract young women, if not as dramatically as some time ago, and reportedly there is a stable level of demand for sustained operation of such places of learning, as well as for the availability of books on related topics.

Fragrance items such as potpourris and other aromatics are mainly handled by retailers specializing in herbal products. This is one sector that is not affected by shifts in trends.

A noteworthy new application has made its debut in the form of herbal products for pets, such as pet colognes, shampoos and lotions.

II. Import Procedures and Relevant Laws and Regulations

A. Pharmaceutical Affairs Law

Herbal products with stated medicinal benefits come under the category of medical and pharmaceutical products. For the importation and customs clearance of such products, the importer must show proof of having been granted an import permit in accordance with the Pharmaceutical Affairs Law, pursuant to Article 70 (1) of the Customs Law.

As part of a series of the Japanese Government's deregulation measures, a circular notice entitled, "Concerning the treatment of what is called herbs" was issued in March, 1998 by the Director of the Medical and Pharmaceutical Products Safety Bureau of the Ministry of Health and Welfare. (from 2001, Health Service Bureau of the Ministry of Health, Labor and Welfare). With this Notice, the "standards concerning the scope of medical and pharmaceutical products" (so-called "Notice No. 46") were partially amended. Interestingly, the notice also contained the following provision: "Products made from (1) Echinacea or Purple Cone Flower, *Echinacea augustifolia* (root as well as plant stalk and leaves), (2) Siberian Ginseng, *Eleutherococcus senticosus* (root, root core), (3) Saw Palmetto, *Serenoa Repens* (fruit), (4) Milk Thistle, *Silybum marianum* (seed), (5) ginkgo leaf, (6) Saint John's wort, *Hypericum perforatum* (flower, and all above-ground portions) and (7) Evening Primrose, *Oenothera biennis* (leaf, stem, root, seed), are to be treated for the time being as non-medical, non-pharmaceutical products regardless of whether they are presented in capsule, tablet or pill form. They must bear explicit labels identifying them as food products on their containers, on the front of their packaging and on inner wrappings and they must not claim to have medical-pharmaceutical properties."

When importing cosmetics, the importer must hold a cosmetics import and sales permit in compliance with the Pharmaceutical Affairs Law, and must also have a permit for each of the specific items to be imported. It is to be noted that cosmetic products, in particular, can only be imported if they satisfy all of the regulations with regard to ingredients, ingredient blend ratios, etc., which are dictated by the cosmetics quality standards. Some products may be treated as quasi-drugs items in the eyes of the Pharmaceutical Affairs Law, and the importation of these products requires a different set of permits, namely quasi-drugs product import and sale permits, as well as itemized permits.

For essential oils used in aromatherapy and for other purposes, there are no particular restrictions so long as they come with no stated claim of specific medicinal benefits.

B. Food Sanitation Law

Concerning items that are ingested through the mouth, those not specifically defined by the pharmaceutical Affairs Law as medical and pharmaceutical items or quasi-medical and quasi-pharmaceutical items are regarded as foodstuffs. Companies contemplating the importation of such items are required to submit an “Importation Notice for Food, etc.” in compliance with the Food Sanitation Law.

When selling items that are treated as foods, importers are required to display information including: the importer’s name and address; place of origin of the imported item; date by which item must be consumed; and weight of contents.

C. Plant Quarantine Law

Raw-material herbs to be imported must be submitted for an inspection by the Plant Quarantine Station, in compliance with the Plant Quarantine Law. However, dried-herb teas and other similar products hermetically sealed in ready-to-sell containers are regarded as already processed to a high degree and need not be submitted for the inspection.

If harmful insects are found, items must be quarantined, and disinfecting, screening, elimination, disposal and/or other measures will be necessary.

D. Custom Duties and Consumption Tax

1. Custom Duties

Customs duty rates apply to different items on the basis of the HS Code. The specifics are spelled out in “Customs Tariff Schedules of Japan” and “Commentaries on the Customs Tariff Schedules” (both compiled by the Japan Tariff Association).

Herbs are classified into a number of item categories, so the applicable customs tariffs present a rather complex picture. The main categories are shown in Table 3.

Single, unblended dried herbs are usually classified under the No. 121190-990 category, and a 2.5% tariff rate is applied. Others, such as hibiscus, are classified as food items and come under category No. 121299-300, for which a 3% tariff rate applies.

Some blended herbal teas, on the other hand, are classified as a No. 210690-299 category item and are subject to a 15% tariff rate. However, in the case of a blended mint tea product composed of 70% black tea and 30% peppermint as a flavor ingredient, will still count as a No. 0902 black tea, to which a 12% rate applies if it is in quantities of less than 3 kg, and a 3% rate applies if it is in bulk quantity.

Natural aromatic products such as essential oils and extracts are classified under the No. 3301 category, and different tariff rates apply depending on the particular item. For example, peppermint oil and jasmine oil are subject to a 3.2% rate and lavender oil to a 2.2% rate, while geranium oil is tariff-free. A blend of these (a blended essence), on the other hand, would go tariff-free under the “Unassorted” category.

Potpourri, which is classified as a No. 330749-000 product, is subject to a 4% rate. Soaps, cosmetics and perfumes are tariff-free at the present time.

2. Sales Tax

Regardless of whether a tariff has been assessed, sales tax always applies. The tax amount to be levied is obtained by the formula (amount of the CIF price + customs tariff) × 5%.

Table 3. Sample Custom Tariff Rates Applicable to Herbs

HS Code	Product Designation	Tariff Rate
090230-010	Black tea	12%
090240-210	Other kinds of black tea and partially fermented tea.	3%
121190-990	Plants, parts thereof, and others mainly used as aromatics perfumery, medical and pharmaceutical items, insecticides, germicides, etc.	2.5%
121299-300	Seaweeds and other Algae, locust bean, sugar beet and sugar cane, as well as fruit stones and kernels and other vegetable products mainly used as food, etc.	3%
210690-299	Food preparations with the exclusion of those that come under other categories	15%
3301	Essential oils, resinoids, oleoresin extracts, essential oil concentrates, terpene derivatives obtained when terpene is removed from an essence, and aqueous distillates and aqueous solutions	
330121-000	Essential oils of Geranium	Tariff-free
330122-000	Essential oils of Jasmine	3.2%
330123-000	Essential oils of Lavender	2.2%
330124-000	Essential oils of Peppermint	3.2%
330190-000	Other	Tariff-free
330749-000	Preparations (and other articles) for use as aroma emitters for rooms or as room deodorants	3.9%
3304, 3305, 3401	Cosmetics, preparations for use on the hair soaps	Tariff-free

III. Distribution Situation and Commercial Practices

A. Distribution Channels

As shown in Figure 2, the basic distribution pattern starts with raw-material herbs and herbal products being first brought into the country by an importer to be passed on to food processors and/or wholesalers and finally, through them, to variously organized retail outlets for sale to consumers.

In the case of cosmetics and toiletries, as Figure 3 shows, aroma product manufacturers typically handle part of the distribution process by themselves. Additionally, Figure 3 shows an example where the importer creates a distribution system through which it directly wholesales to retailers such as discount stores. Or again, as in Figure 5, some specialty stores operate in a vertically integrated, multi-functional manner, with a portion of their setup handling the whole gamut of the importation, processing, wholesaling and retailing operations. With the increase in Internet usage, there are cases today of consumers ordering and purchasing either directly from overseas manufacturers or via domestic catalog sale distributors (see Figure 4).

Figure 2. Distribution Channels for Food Products (Herbal Teas)

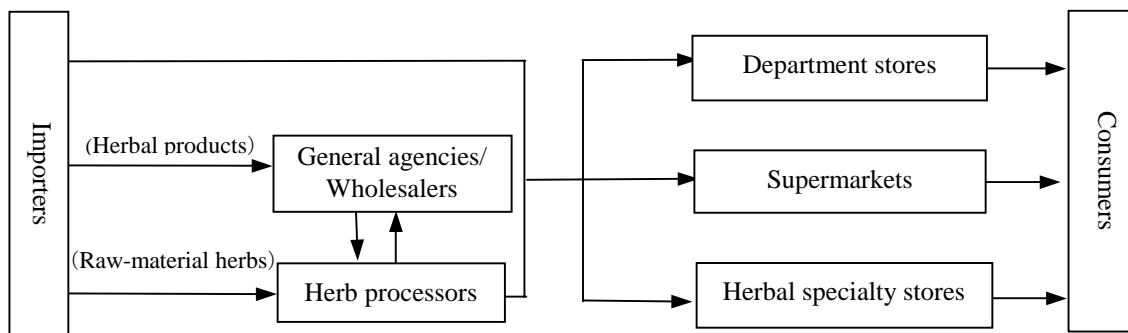


Figure 3. Distribution Channels for Herbal Cosmetics and Toiletries

(Raw material herbs = oils, extracts , aromas)

(Door-to-door sales)

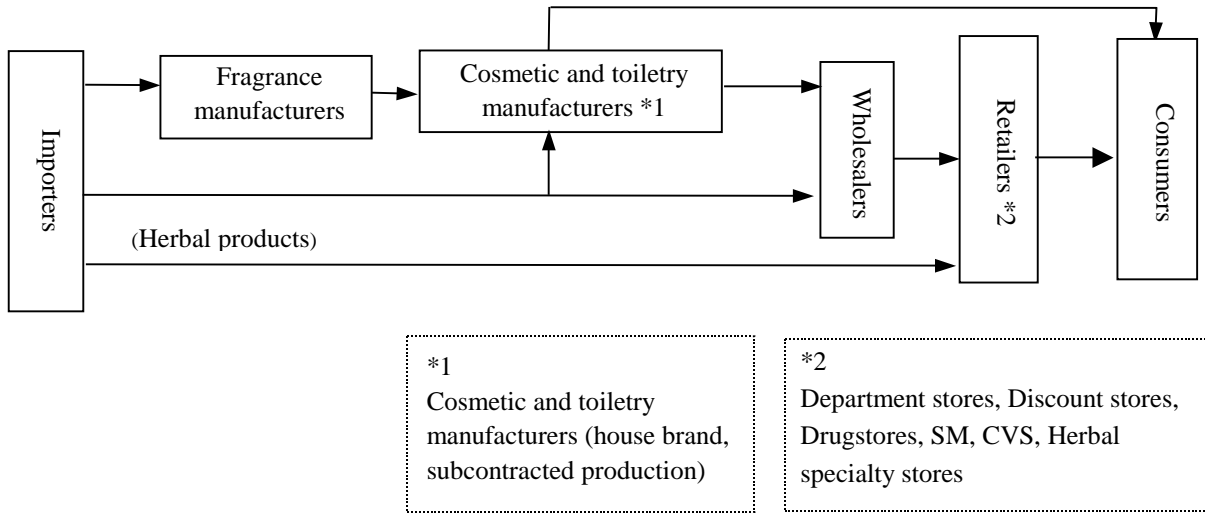


Figure 4 Catalog Order-Based Distribution Channels for Herbal Products Produced Overseas

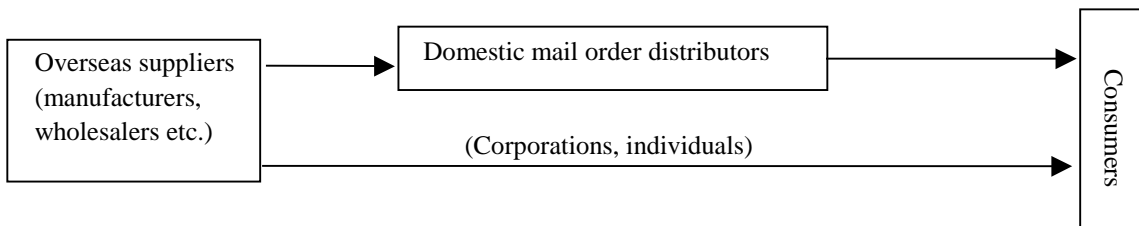
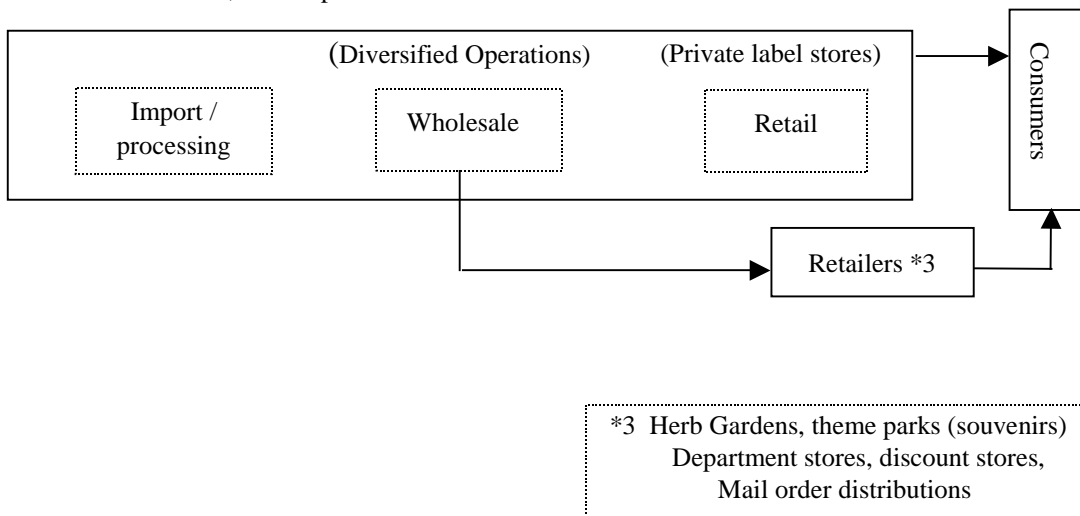


Figure 5. Example of an Herbal Product Handler Becoming Diversified

Raw-material herbs, Herbal products



B. Establishing Prices Merchandise, etc.

As an example of how selling prices are set, here are statistics for Tree of Life Co. Some essential oils for aromatherapy use, such as Damascus rose, rose extract, Rose Abs. Grasse, etc. are extraordinarily expensive. Yet many products, typically bottled in a 14-milliliter container, are in the 2,000 yen to 3,000 yen range.

Table 4. Commodity Lineup and Selling Prices at a Specialty Retail Shop (yen)

Major Product Class	Product Group	Retail Price
Aromatherapy	- Essential oils (14 ml)	1,800 – 54,000
	- Facial oils (30 ml)	2,400
Bathroom items, cosmetics	- Bath solution (3 units)	500
	- Bath oil (97 ml)	1,400
	- Shampoo (122 ml)	1,800 – 2,000
Potpourris, aromatic products	- Potpourri in small bags	500
	- Potpourri in jars (not for gifts)	450 – 1,300
Foods	- Herbal teabags (5 bags)	180
	- Herbal teabags (20 bags)	1,000
Pet care products	- Dog cologne (200 ml)	1,900

Source: “Herbal Life: General Catalog 2000 Tree of Life, February 2000

Table 5. Some Herbal Tea Brands and Retail Prices (yen)

Name of Manufacturer (Distributor)	Product Group	Retail Price
Pompadour (Japan Green Tea)	- Herbal teabags (10 bags)	350
	- Herbal teabags (20 bags)	600
Celestial (UCC Ueshima Coffee)	- Herbal teabags (10 bags)	350

Sources: Japan Green Tea Catalog, July 2000 and Home Page of UCC Ueshima Coffee, August 2000

C. Leading Companies

1. Tree of Life Co., Ltd.

Originally this company mainly retailed porcelain products, but after a takeover in the late 1970s by its present owner, who believed there was a bright future for herbs. He turned the business into one that specializes in potpourri, herbal tea and the like. As of July 2000, the company operates 23 stores (one of them a franchise outlet) nationwide, including a store in the fashionable Harajuku district of Tokyo, representing the largest chain of specialty retail stores in Japan today. The individual stores are on the order of 30 - 60 m² in area, a relatively modest size, but these stores carry a very large range of products ranging from aromatherapy items to soaps, cosmetics, bath solutions, potpourris, herbal teas and

more – in fact, some 1,500 items in all.

Many products displayed in the storefront are relatively low-priced. This style is not restricted to this chain, but rather represents a general trend by other herb-retailing stores including Charis Seijo Co., Ltd.

It should be noted, however, that Tree of Life does not limit itself to retailing herbal products, but goes beyond that to integrate other functions such as importation, processing and wholesaling. In short, it is a general distribution company for herbal products, and as such has all relevant functions for the herb distribution process, starting with importation and ending in retail. The same applies to Charis Seijo, also in the herb business. Tellingly, Tree of Life defines all retail stores as “antenna shops,” i.e., those set up to gather consumer trend information.

In April 1996, Tree of Life started Herbal Life College in Hanno, Saitama Prefecture, on the outskirts of Tokyo. The school offers an integrated curriculum of courses in such subjects as herb gardening, restaurant management, store operation, aromatherapy and herbiculture as part of its “soft-side” educational activities, designed to popularize the concept of herbs enriching today’s lifestyles.

2. Neial’s Yard Remedies Inc.

Neial’s Yard Remedies (UK) opened its first store in the Covent Garden area of London in 1981 and has since been opening stores not only domestically, but throughout the world. The stores feature essential oils extracted from plants and a whole range of other products, blending raw materials made from organically grown plants and vegetables. The Japan store has on display Neial’s Yard Remedies’ signature blue bottles, made of recycled glass, and which are themselves recyclable. The store expresses its commitment to addressing environmental concerns through a minimalist approach to wrapping and packaging.

The company’s Japanese operation was incorporated under Japanese law by its local representatives in 1984 as an all-Japanese company without foreign capital participation. Active at first as a wholesaler, it used to wholesale Neial’s Yard Remedies (UK) products to retail outlets, but a few years later, in 1996, it signed a separate franchise chain agreement, required for opening retail outlets in Japan, and set up a directly managed, fully owned outlet. Today the company operates four stores in Japan (two in Tokyo at Omotesando and Odaiba’s Venus Fort, one in Yokohama and one in Fukuoka). It opened a new store on the Ginza, Tokyo, in December 2000, and another in Tachikawa in January 2001. Thus, the company has a two-tiered contractual relationship with Neial’s Yard Remedies (UK), on the one hand as a wholesaler and on the other as an franchise retailer.

The wholesale business of the company consists of directly wholesaling to retail outlets the blue bottles the company imports from Neial's Yard Remedies (UK). Retail outlets include department stores, specialty retail outlets, and others, numbering some 100 nationwide. It wholesales to Charis Seijo Co., Ltd., which has opened specialty retail outlets of its own, with the proviso that the wholesale transactions will be restricted to the retail outlets directly operated by Seijo. Thus, the company is in a position to control the activities of its clients and is said to have secured a position of strength in that manner. In passing, the company's retail outlets carry ever wider varieties of items including dried herbs, books on related subject matters, etc., in addition to the blue-glass product line.

This company and another company, Culpepper House, are the only places that directly import and sell branded herbal products from overseas. Many other brand products are imported on an at-will basis without any special agreement regarding specific terms and conditions, and are marketed free of any restrictions. Reportedly, Neial's Yard Remedy (Japan) is the only company that deploys a multi-faceted business perpetuating a foreign brand of herbal products and operating retail outlets, aromatherapy facilities and classrooms. At its aromatherapy sessions, foot care and reflexology treatments are also available.

3. Japan Green Tea Co., Ltd.

Japan Green Tea is known as being the first company to import into Japan and sell herbal teas manufactured by the German company Pompadour. To this day, the company remains dedicated as a pioneer in the herb business, promoting the further diffusion of herbal products, while focusing mainly on herbal teas.

The key product lines the company handles are herbal teas from such producers as Pompadour (Germany), Sir Winston (UK), and Tea Boutique (Germany). They also handle seasonings (Jane's Crazy Mixed-Up Seasoning; U.S.) and herbal bath solutions, (Paradise Farm; Australia) which are all imported as finished products. The company, however, also imports, processes and wholesales raw material herbs. Its main clients are department stores and herb gardens.

VI. Consumption Trends

A. Herbiculture

Growing herbs is steadily spreading today as one form of gardening, becoming a boom in the latter half of the 1990s, primarily among housewives. With Italian cuisine firmly taking root as a normal option for dinner in Japanese homes, basil and mint have become popular items to grow as cooking herbs. Also worth noting is the status of lavender as the favorite aromatic plant among the Japanese, giving rise to such things as the cultivation of lavender farms which cater to tourists, and lavender flowerbeds for private enjoyment at home.

B. Relaxation

Along with the maturation of society has come increased demand for relaxation. A market has been developing, mainly addressing female consumers, featuring herbal products as an answer to such needs. These are commodities with appeal on par with fashion, and which take a cultural approach to personality enhancement.

During what one might refer to as “the second herb boom” that started around 1993 and lasted for several years, aromatherapy in general and herbal teas in particular found sympathetic acceptance, mainly among female consumers who found them effective tools for mental relaxation. The boom has begun to slowly transform into a constant, sustained body of supporters, mainly female, at aromatherapist training schools. This indicates that aromatherapy as a form of relaxation will continue to spread among consumers in general.

C. Health-awareness, Nature and Natural Materials

With the increased awareness of health issues, consumer demand is shifting from commodities based on chemical products to commodities based on natural materials. This tendency is making steady headway in a widening range of sectors including food, cosmetics and toiletries. In response to this development, suppliers are shifting the emphasis to commodities characterized by such key words as health and nature.

D. Nutritional Supplements (Health Foods)

According to “Household Expenditure Survey” conducted by the Ministry of public Management, Home Affairs, Posts and Telecommunications, the expenditure per

household for “health maintenance items,” which would be basically synonymous with “nutritional-supplement foods” follows the trend shown in Table 6. Although overall consumption is declining, expenditures on these items is trending upwards. This seems to show that since elements of American origin are being added to the eating habits of the Japanese, it is becoming increasingly common to add nutritional supplements to the new diet.

The Japanese today are faced with a number of health-related challenges including what are called “lifestyle diseases.” In the context of this development, a move is afoot to take a renewed look at the benefits of herbs from the standpoint of Oriental medicine, which is accompanied by a tendency toward deeper recognition of health benefits traditionally attributed to herbs.

Table 6. Trends in Expenditures for Health Maintenance Foods and Other Items (yen)

	1995	1996	1997	1998	1999
Amount	6,620	7,229	7,011	7,592	8,237
Growth rate(%)	-	9.2%	(3.0%)	8.3%	8.5%

Source: “Household Economy Survey Annual Report,” the Management and Coordination Agency
(updated yearly)

V. Prospects for the Future

The herb market, once booming and growing phenomenally until recently, began shifting to a more stable growth mode since 1998. Past growth may be ascribed to the support provided mainly by young female consumers using herbs in the context of the current back-to-nature orientation, and demanding them as a means of mental relaxation.

The young female segment of the population, which has so far acted to drive the major herb market, stands to shrink in the years to come. If the herb market is to achieve and maintain stable growth, new forms of herb application must be developed.

While it is difficult to grasp the exact size of the herb market, the very fact that the lifestyle of the Japanese will continue to increasingly resemble that of people in the West points to bright prospects for the future expansion of the herbal product market. Guided by this view, a number of countries, such as Great Britain, seem quite enthusiastic in their bid to secure a presence on the Japanese market.

Findings from a survey of herb handlers conducted by the Japan Special Crops Production Association, summarized in Table 7, show that some 59% of those businesses covered in the survey, the largest block of interviewees, thought that “demand would increase to some extent” for herbs, although their views must surely have been affected in one way or another by their high expectations as herb merchants. Most often mentioned fields in which demand for herbs would grow included fresh herbs; extracts, oils and oil products, and aromatherapy-related products. They also referred to participation in herb-related cultural events (cooking, horticulture, handicraft, dyeing, etc.).

Table 7. Future Prospects of Demand for Herbs

	Great Increase	Some Increase	Sustained Level	Decrease	Not Clear	Total
Number of Replies	31	190	73	15	13	322
Share (%)	9.6	59.0	22.7	4.7	4.0	100.0

Source: “Report on the Current State of Herbiculture,” Japan Special Crops Production Association, September 1999

Table 8. Areas of Use in which Demand is Expected to Increase (Up to 3 replies per field)

Field of Use	Number of Replies	Share(%)
Fresh herbs	107	48.4
Herb seeds or saplings	59	26.7
Planter cultivation of herbs; cut flowers	45	20.4
Herb gardens for tourist attractions; landscaping featuring herbs	70	31.7
Herbs as ingredients in beverages and food; herbal products	76	34.4
Herbs for use in household general goods; herbal products	25	11.3
Extracts, oils, herbal products, aromatherapy	105	47.5
Participation in herb-related activities (cooking, horticulture, handicraft, dyeing, etc.)	95	43.0
Other	6	2.7
Total	221	

Source: Same as for Table 7

Note : Because respondents were allowed to give multiple replies, the total number of replies is not equal to the total number of respondents figures.

There is great anticipation for the field of health foods (nutritional-supplement foods) as a new area to explore. In Europe and America demand for alternative medical approaches is already surfacing at the primary care stage, with a similar upsurge in demand for health foods expected in Japan, where the total number of senior citizens is certain to increase.

It is to be noted, however, that individual consumers have different perceptions about herbs, making it increasingly necessary in the future to work for enhanced social recognition of herbs and make sustained efforts to spread proper understanding of their use.

VI. Japanese Market Access Advice

A. Understanding the Pharmaceutical Affairs Law and Other Relevant Laws and Regulations

In the case of herbs, it is essential to acquire a good understanding of the pharmaceutical Affairs Law and other relevant laws and regulations of Japan, regardless of the area for which the company wishes to access the market. These regulations are said to be more stringent than their counterparts in the West. It is possible that items treated as herbs, hence unregulated items, in the organization's home country are in fact classified as coming under the regulation of the pharmaceutical Affairs Law in Japan and, therefore, cannot be imported into the country as mere herbs. Under such laws and regulations, claims or suggestions of medicinal benefits for herbs are not allowed. Accordingly, it is necessary to be aware that there are detailed restrictions imposed on the use of descriptive language.

It should also be noted that the controlling authorities, in a move toward further deregulation, are in the process once again of reviewing the standards that govern the definition of medical-pharmaceutical products and food products, and all concerned will do well to keep a close tab on developments in this regard.

B. Partner Selection

In securing a presence in the Japanese market, characterized by diverse sectors of use, each of which are hard to size up, interested parties would be well advised to choose the least risky of approaches, namely the forging of a tie-up with existing Japanese companies positioned to take stock of trends in consumer preferences and relevant laws and regulations. No case has been identified to date, in fact, of a foreign company that has on its own successfully entered the herb sector of the Japanese market.

Rather than a major corporation, a smaller-than-medium size company capable of making quick moves will probably make a better partner in the start-up phase. One reason for such thinking is that larger corporations, whose existence depends on the merits of volume in business dealings, are not necessarily cut out for the herb business, which is typically of a rather modest scale. As a matter of fact, the Japanese companies that handle foreign herb products are usually small-to-medium scale enterprises. Since smaller companies are, relatively speaking, not equipped with as much marketing prowess or credit standing as leading corporations, it goes without saying that partnership hunters should check out that aspect with due diligence. More importantly, however, whether or not the management of the potential partner is enthusiastic about herbal products ultimately be the

key factor in the choice of a local partner.

C. Development of Commodities Tailored to Japanese Tastes

In some cases it may become necessary to study and develop the types of commodities that appear more likely to be accepted by Japanese consumers. For example, whereas in the West certain items may sell in larger quantities at lower prices reflecting a higher consumption, many of the same items may sell better in Japan if supplied in smaller quantities, rather like samples because Japan has not yet reached a stage where herbal products are as integrated into daily life.

D. Quality Standard Maintenance in Packaging

This is not only limited to herbal products, but it has been observed that Japanese consumers, compared with their Western counterparts, are generally more particular about the appearance, or the “visual” aspect, of products, including such things as the printed information display on the packaging and even the packaging itself. For example, an incompletely sealed teabag with, say, an unglued flap would be unacceptable and discarded as a reject. Thus, in some cases it may be necessary to set higher quality inspection standards than for the exporter’s domestic market.

VI. List of Relevant Ministries and Corporations

A. Relevant Ministries

Pharmaceutical Affairs Law

Pharmaceutical and Medical Safety Bureau, Ministry of Health, Labor and Welfare

1-2-2 Kasumigaseki, Chiyoda-ku, Tokyo 100-8045

Tel: 03-5253-8111

<http://www.mhlw.go.jp>

Food Sanitation Law

Health Service Bureau, Ministry of Health, Labor and Welfare

1-2-2 Kasumigaseki, Chiyoda-ku, Tokyo 100-8045

Tel: 03-5253-8111

<http://www.mhlw.go.jp>

Plant Quarantine Law

**Agricultural Production Bureau, Ministry of Agriculture, Forestry and Fisheries
Ministry**

1-2-1 Kasumigaseki, Chiyoda-ku, Tokyo 100-8045

Tel: 03-3502-8111

<http://www.maff.go.jp>

B. Related Organizations

Japan Health Food & Nutrition Food Association

2-7-27 Ichigaya Sadohara-cho, Shinjuku-ku, Tokyo 162-0842

Tel: 03-3268-3131 Fax: 03-3268-3135

<http://www.health-station.com/jhnfa/> (Japanese site only)

Japan Special Crops Production Association

1-9-13 Akasaka, Minato-ku, Tokyo 107-0052

Tel: 03-3584-6845 Fax: 03-3584-1757

Japan Herb Society

6-15-15 Seijo, Setagaya-ku, Tokyo 157-0066

Tel: 03-3483-9111 Fax: 03-3483-9111

<http://www.02.246.ne.jp/~jhs/> (Japanese site only)

Japan Herb Association

Uchida Bldg. 1-24-16 Takadanobaba, Shinjuku-ku, Tokyo 169-0075

Tel: 03-3200-8207 Fax: 03-3200-7605

Aromatherapy Association of Japan

2-11-2 Yaesu, Chuo-ku, Tokyo 104-0028

Tel: 03-5205-0141 Fax: 03-5202-0248

<http://www.aromatherapy.gr.jp> (Japanese site only)

C. Major Herbal Product Related Companies**Asahi Soft Drinks Co., Ltd.**

Soft Drink Manufacturing

1-23-1 Aazumabashi, Sumida-ku, Tokyo 130-8602

Tel: 03-5608-5331 Fax: 03-5608-5174

<http://www.asahiinryo.co.jp> (Japanese site only)

Charis Seijo Co., Ltd.

Importing, processing, wholesaling and specialty retailing

6-15-15 Seijo, Setagaya-ku, Tokyo 157-0066

Tel: 03-3483-1960 Fax: 03-3483-1973

<http://www.charis-jp.com> (Japanese site only)

Dai-Nippon Meiji Sugar Co., Ltd.

Importing and wholesaling

1-5-3 Nihonbashi, Chuo-ku, Tokyo 103-0027

Tel: 03-3271-0824 Fax: 03-3281-1779

<http://www.dmsugar.co.jp> (Japanese site only)

Fancl Corporation

Health food mail order sales

109-1 Iijimacho, Sakae-ku, Yokohama 247-8577

Tel: 045-894-1111 Fax: 045-890-1603

<http://www.fancl.co.jp>

Find News Co., Ltd.

Production, processing, wholesaling and retailing

3-12-30 Shimogori Chuo, Oita 870-0954

Tel: 097-567-6782 Fax: 097-567-6660

<http://herb.herb.co.jp> (Japanese site only)

FT Shiseido Ltd.

Toiletry article maker

2-3-12 Hidashi-shinagawa, Shinagawa-ku, Tokyo 140-0002

Tel: 03-5462-4660 Fax: 03-5462-4648

<http://www.ft-shiseido.co.jp> (Japanese site only)

Japan Green Tea Co., Ltd.

Importing, processing and wholesaling

Uchida Bldg. Takadanobaba, Shinjuku-ku, Tokyo 169-0075

Tel: 03-3200-0611 Fax: 03-3200-8295

Kanebo Home Products Sales Co., Ltd

Toiletry article making

3-20-20 Kaigan, Minato-ku, Tokyo 108-8080

Tel: 03-5446-3210 Fax: 03-5446-3230

<http://www.kanebo.co.jp>

Kao Corporation

Toiletry article making

1-14-10 Nihonbashi Kayabacho, Chuo-ku, Tokyo 103-8210

Tel: 03-3660-7111

<http://www.kao.co.jp>

Kinokuniya Co., Ltd.

Retailing (Supermarket)

1-11-58 Naka, Kunitachi, Tokyo 186-0004

Tel: 042-575-1116 Fax:042-575-1119

<http://www.e-kinokuniya.com>

The Loft Co., Ltd.

Retailing (Mass sales store)

1-16-15 Minami-ikebukuro, 1-16-15, Toshima-ku, Tokyo 1171-8530

Tel: 03-5985-6210 Fax:03-3984-6210

<http://www.loft.co.jp> (Japanese site only)

Mitsui Norin. Co., Ltd.

Processing

3-2-11 Nishi-shinjuku, Shinjuku-ku, Tokyo 160-0023

Tel: 03-5325-2811 Fax: 03-5326-7511

<http://www5.mediagalaxy.co.jp/nittoh/> (Japanese site only)

Neal's Yard Remedies Inc.

Wholesaling and specialty retailing

KNK Bldg. 3-5-17 Kita-aoyama, Minato-ku, Tokyo 107-0061

Tel: 03-3405-7207 Fax: 03-3405-7287

<http://www.nealsyard.co.jp/> (Japanese site only)

Pelican Soap Co., Ltd.

Toiletry article making

3-3-3 Nishi-shinbashi, Minato-ku, Tokyo

Tel: 03-3432-0301 Fax: 03-3432-0309

<http://www.pelicansoap.co.jp>

Ryohin Keikaku Co., Ltd.

Product planning and retailing

4-26-3 Higashi-ikebukuro, Toshima-ku, Tokyo 170-8424

Tel: 03-3989-4403 Fax: 03-5954-7023

<http://www.muji.co.jp>

S & B Foods, Inc.

Herb Business Unit

Fresh herbal product wholesaling and spice importing

38-8 Miyamotocho, Itabashi-ku, Tokyo 174-8651

Tel: 03-3558-5531 Fax:03-5970-6827

<http://www.sbfoods.co.jp>

Sun-farm Co., Ltd.

Herb Center

Importing, processing and wholesaling

1-13-18 Higashi-kanda, Chiyoda-ku, Tokyo 101-0031

Tel: 03-3866-1712 Fax: 03-3866-2302

<http://www.sun-farm.co.jp> (Japanese site only)

Tokyu Hands Inc.

Retailing (Large-scale store)

2-29-20 Dogenzaka, Shibuya-ku, Tokyo 150-0043

Tel: 03-3780-5161 Fax: 03-3477-7371

<http://www.tokyu-hands.co.jp> (Japanese site only)

Toyotsu Foods Corporation

Importing and wholesaling

2-16-13 Nihonbashi, Chuo-ku, Tokyo 103-0027

Tel: 03-3272-1275 Fax: 03-5205-8727

<http://www.ias.biglobe.ne.jp/KFC/> (Japanese site only)

Tree of Life Co., Ltd.

Importing, processing, wholesaling and specialty retailing

6-3-8 Jingumae, Shibuya-ku, Tokyo 150-0001

Tel: 03-3409-1781 Fax: 03-3400-4988

<http://www.treeoflife.co.jp> (Japanese site only)

UCC Ueshima Coffee Co., Ltd.

Importing

7-7-7 Minatoshima Nakamachi, Chuo-ku, Kobe 650-0046

Tel: 078-304-8888 Fax: 078-304-8847

<http://www.ucc.co.jp> (Japanese site only)

Yamanouchi Pharmaceutical Co., Ltd.

Pharmaceutical Manufacturing & Technology Division

Candy Manufacturing

2-3-11 Nihonbashi-honcho, Chuo-ku, Tokyo 103-8411

Tel: 03-3244-3000 Fax:03-5201-6612

<http://www.yamanouchi.co.jp>

Note: The above business descriptions only cover the herb sector; the company's entire business scope is not given.

D. Related Fairs / Exhibitions

Foodex Japan

Makuhari Messe (Chiba) Yearly in March

Japan Management Association

3-1-22 Shiba-koen, Minato-ku, Tokyo

Tel:03-3434-8116 Fax:03-3434-8076

<http://www.jma.or.jp/convention/foodex/2001/ja/>