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# Study on Japanese Organic Food Market

## 1) Summary:

In 1996, two major accidents hit the Japanese food market. One was BSE (Mad Cow Disease) and another was E-Coli O-157 food poisoning. Population in Japan is aging at a higher rate demographically. The number of the people suffering from heart disease and diabetes is growing even among the teenage generations. Because of these factors, Japanese people are becoming health conscious more than ever. Due to these reasons, organic foods are now attracting the attention of both food industry and general consumers. As Canada has huge farm land and the cold climate, Canada is regarded as the ideal production country of organic food. This allows Canada to play in this special market with advantage. This report briefs what is happening in the Japanese organic food market now and what will happen in the future.

## 2) "Organic Food" vs "YU-KI Shokuhin":

First, it must be noted that there is a misunderstanding in the meaning of "Organic Food" in Japan not only among general consumers but also among food industry players. "Organic Food" translates into "YU-KI Shokuhin" in Japanese. According to the organic food specialists, the word of "Yuki-Shokuhin" does not fully mean the idea of organic food. "Yuki-Shokuhin" means the food product that contains low or no chemicals added in the growing and production processes. However, it covers only one aspect of organic food. The key idea of the organic food, according to the international consensus, is the ecological-minded food production. There are other strict regulations on organic food production in North America or Europe that specifies the standard such as: forcing the growers to rest the crop field at least three years, prohibiting any kind of fumigation of fresh vegetables and prohibiting the usage of hormone treatment to livestock.

It is also true that production of the genuine organic crop or livestock in Japan is extremely difficult. This is because of land scarcity and Japanese hot and wet climate conditions. Because of these negative conditions, the definition of organic food (or YU-KI Shokuhin) is very vague in Japan. The Japanese Ministry of Agriculture, Fisheries and Forestry created guidelines on labelling of fresh "YU-KI Shokuhin". There are six categories depending on the history of the usage of agricultural chemicals and pesticides. According to the guideline, even fresh crops grown with 50% less chemicals and pesticides than what is "usual" can be labelled as "YU-KI Shokuhin". Furthermore, there is no definition of "usual" provided in the guidelines. It is natural that consumption of agricultural chemicals is depending on the region. In cool areas like Hokkaido, farmers do not have to use so much pesticides. On the other hand, in warm areas like Kyushu, they have to use more pesticides. Obscurity still exists even in the government guideline.

## 3) The current organic food market in Japan:

As there is no clear specification of organic food, it is very hard to tell the market size of the Japanese organic food market. Summarizing the comments of key food industry players, it is estimated between JPY 100 billion to 200 billion (C\$ 1.1 billion to C\$ 2.2 billion). In this market, organic food is distributed through three channels. These are: home delivery service companies, food service industry companies and usual retailers such as department stores and supermarkets.

Among them, distribution through the home delivery service companies seems to occupy the highest percentage both in terms of volume and value.

Regarding the products breakdown, 60% are fresh crops like vegetables and fruits and 40% are processed food such as frozen food.

The first paragraph of the report suggests organic food to be attracting the attention of both food industry and general consumers. According to some traders, this boom is significantly due to the attitude of supermarket buyers. To differentiate themselves from others, Japanese supermarket operators are trying to promote organic food in their stores. "Organic food" has much appeal for both general consumers and retailers. Special in store sale of organic food is the good attraction to collect the visitors to the store.

#### **4) Notes from interviews with key food industry players:**

##### **-Sumitomo Corporation**

Sumitomo Corporation established a project team called Organic Food Team in their foodstuff department. Sumitomo recognizes that the Japanese organic food market is far behind Europe or North America. Although they receive many inquiries from their customers on organic food, they found that customers' knowledge on organic food was very limited. They are now in the process to provide correct information with food industry players, especially Japanese food manufacturers, on "what is organic food." Sumitomo is very open to a wide range of varieties. They are handling both bulk commodities and packed products suitable for the retail market.

Sumitomo thinks that the Japanese organic food market is now in the transition stage. Many "fake" organic foods are still distributed in the market, but they believe that it will be screened out in the future.

Their particular interest is in frozen organic foods such as vegetables, because Sumitomo thinks that freezing process is the best way to keep quality of the organic foods when importing from overseas countries. Other areas of the interest are: organic chicken, egg, dairy products, wheat products, fruits, buckwheat and pork. According to them, they were not able to find a good supplier of organic dairy products in the US.

##### **-Consumers Cooperative Kobe (CO-OP Kobe)**

Consumers Cooperative Kobe (CO-OP Kobe) is the largest leading consumers cooperative in Japan with over 1.2 million members. Members generally join the CO-OP to have access to healthy and safe foods at reasonable prices.

As they are keener for food safety than other consumers, CO-OP Kobe feels the great demand for organic foods. On the other hand, as a major retailer, CO-OP Kobe also feels strong demand for lower priced food products. As production of organic food costs higher than other products, they are faced with the dilemma of consumer needs for safety organic foods vs. lower priced foods. They have conducted an interesting market survey on appropriate price of organic food. They questioned members that "if usual fresh cabbage is JPY 100 per piece, at which price do you wish to buy organic fresh cabbage?" Most replied that they will buy organic fresh cabbage if it is lower than JPY 120. According to this result, CO-OP Kobe believes that premium of organic food should be 20 - 30% maximum.

Besides the price, they feel that taste is another important factor. They used to sell organic bananas imported from Mexico at 20% higher price than other Philippine banana, but these were

not popular with consumers because of the taste. They moved again to Philippine banana. CO-OP Kobe learned that they should pay special attention to the delicate balance between price and taste when promoting organic food. Another difficulty they are facing is that they are not able to put wide variety of organic food in their store shelves, especially fresh vegetable and fruits.

As a major retailer, they are responsible for lining up variety of fresh crops varying from radish to orange. However, if they stick to organic too much, variety of products will be very limited.

However, CO-OP Kobe believes that the organic food market will be expanding from now on. Developing the organic food suitable for the Japanese market is one of their long-term strategies by the year 2000. They will soon form a special task force focussing on organic food. Among their fresh crops, approximately 10% are organic fresh crops now.

### **-Nissho Iwai Corporation**

Same as Sumitomo Corporation, Nissho Iwai established an Organic Food Team in their Foodstuff Department. They are handling organic frozen vegetables, wheat, dairy products, sugar and tea. They are mainly handling bulk commodities that will be distributed to the Japanese food manufacturers as main ingredients. Their next step is to look for consumer packed products suitable for the retail market.

Nissho Iwai will establish the joint venture in Japan in cooperation with OCIA, Ohio, U.S. The new company name will be OCIA Japan. As the OCIA standard is one of the most popular organic food standards in Japan, Nissho Iwai plans to introduce their standard in Japan to stop the confusion of the Japanese organic food market and to make themselves the forerunner in this area.

However, they are concerned that Japanese "YU-KI Shokuhin" will not be certified as organic food under the OCIA standard. The establishment of OCIA Japan is officially decided, but no start date is fixed yet.

Besides the OCIA, Nissho Iwai is hoping that some international standard of organic food will be determined in the CODEX activity which will allow them to act under the worldwide consensus. Another important activity of Nissho Iwai is to assist Japanese food manufacturers to obtain the certification (or approval) issued by foreign organic food association such as OCIA.

Interviews with other major traders were also conducted such as Toshoku or Itochu Corp. They are showing interest in organic food also, but are not as aggressive as Nissho Iwai and Sumitomo Corporation at this moment.

### **5) Conclusion / Suggestion:**

As the result of the research, it was felt that the Japanese organic food market is led by major trading companies particularly for import organic food. Because of the limited knowledge of their customers on organic food and unclear Japanese standards, they are now in the process to provide the correct information on organic food with Japanese food industry.

However, they are unanimously in agreement that organic food is one of the areas in which market growth can be expected. Also, they are saying without exception that Canada is the ideal production country of organic food. They commented with hope that there should be certificate organization of organic food such as OCIA in Canada to issue an official certificate to Canadian organic food. There will be a competition with US or NZ in organic food market like other regular food products. Many US organic foods certified by OCIA or OGBA were already introduced in Japan. This creates a good impression to Japanese food industry and general consumers. Organic

food certification will be one of the advantages to promote Canadian organic food in the Japanese market.

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