PRIMAFF Symposium

EU Efforts to Build a Sustainable Food System
and Implications for Japan

Scale and Structure of the Organic Food Market in Japan

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Introduction

<Report background>

Food produced using a sustainable method (Ex.: organic agricultural products/foods, etc.) requires a food system that smoothly supplies products
⇔ However, there is little statistical data on the organic food market

<Purpose of this report>

In fiscal 2018 - 2020, attempted to quantitatively grasp the organic food market (Project commissioned by the Policy Research Institute, Ministry of Agriculture, Forestry and Fisheries)
→ Exhibit survey results and issues going forward

<Today’s report details>

(1) Collection and estimates for the organic food market data thus far
(2) Estimation method this time around and results
(3) Issues facing the expansion of the organic farming and organic food markets

Main Estimates Associated with the Scale of the Organic Food Market in Japan

(1) Bureau of Citizens and Cultural Affairs, Tokyo Metropolitan Government (1995)

(2) General Marketing Institute Inc. (1997, 1999)

(3) IFOAM Japan Organic Market Research Project (OMR) (2010)

(4) Organic Village Japan (OVJ) (2018)

(5) Yano Research Institute Ltd. (2018, 2020)

(6) Ministry of Agriculture, Food and Fisheries (MAFF) (2018)

(1) Bureau of Citizens and Cultural Affairs, Tokyo Metropolitan Government (1995)

- Targets: Producer/producer groups (973), individual agriculture co-ops (657), municipalities (1,621)
  (Including cultivation that uses fewer agrochemicals and less chemical fertilizers, etc.)

- Method: Number of organic farmers/cultivation in municipalities that answered the survey
  The area ratio was also applied to municipalities that did not respond to estimate the nationwide organic cultivation area

- Result: Estimate that rice farms accounted for 3%-7%, and upland farming made up 2%-4% (Tokyo Metropolitan Government handled estimates up to this point)

- Based on this, multiplying per household expenditures for non-glutinous rice and fresh vegetables by the number of households

→ as of 1993, the estimate is in the neighborhood of approximately 154.0 billion yen - 336.0 billion yen

(2) General Marketing Institute (1997, 1999)

- Target: 47 prefectures (questionnaire)
  Agricultural product distribution/processors (hearings)
  (Including cultivation that uses fewer agrochemicals and less chemical fertilizers, etc.)

- Method: Rice: Estimate for area used to cultivate organic rice based on questionnaire and existing materials (*) → Estimate for final consumption value
  Fruits and vegetables: Estimated 60%-70% of the off-market distribution value
  Imported food and processed food: Estimate based on hearing results

* Nikkei, "Actual situation of organic farming by prefecture," January 17, 1994
Value Distribution Division, Bureau of Citizens and Cultural Affairs, "List of Producers that Wish to Carry Out Transactions, including for Organic Agricultural Products," March 1995
Agricultural Industry Foundation, "Report on the commissioned project for a survey on production, distribution and consumption of organic farming, etc." March 1995

→ Estimated 194.5 billion yen in 1996, 226.0 billion yen in 1997, and 260.5 billion yen in 1998

(3) IFOAM Japan OMR (2010)

- Target: Consumers (Web survey (2,876 people in primary survey and 501 people in secondary survey))
  (JAS organic agricultural products/organic agricultural products and processed foods)

- Method: (1) Pareto distribution model of purchasing amounts for heavy users Estimate applying
  (households in the top 20% of the ranking for purchasing amounts, model accounting for 75% of the market)

  (2) Estimate calculated by multiplying the number of products with organic JAS logo by product item by the sum of prices

→ As of 2009, estimate is in the neighborhood of 130.0 billion yen - 140.0 billion yen

(6) MAFF (2018) also used nearly the same method

(4) Organic Village Japan (2017)

- Target: Consumers (Web survey (10,000 people))
  (Pesticide-free, chemical fertilizer-free, additive-free food)

- Method: Estimate based on the average purchase price for a purchasing frequency of one or more times a week applied to the Pareto distribution model

→ As of 2017, the estimate for market scale is approximately 411.7 billion yen

(5) Yano Research Institute Ltd. (2018, 2020)

- Target and method: Retail, ready-to-eat food, restaurant operators, etc. are indexed at 100
  Hearings and questionnaire survey. Estimate market scale based on a handling volume track record of 55 transactions (2018)

→ Estimate as of 2017 of 178.5 billion yen, and 190.2 billion yen as of 2019

By plotting market scale trends based on these estimates...

Trends in the scale of the organic food market (estimate)

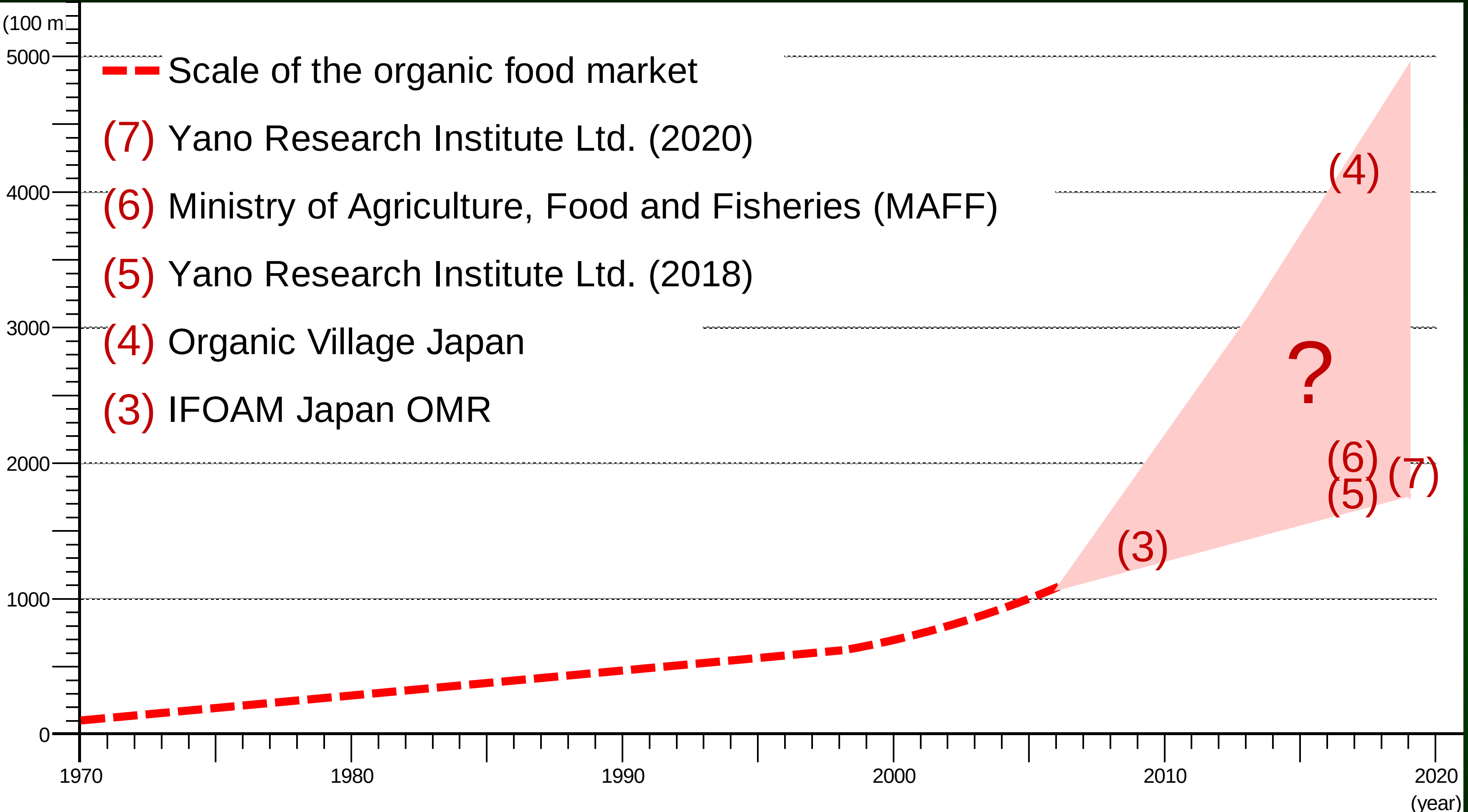


Figure 1: Scale of the organic food market in Japan (estimate)

Source: "2020 Organic/Natural Food Market Trends & Outlook," Yano Research Institute Ltd. (2020)
Current Situation and Policy on Organic Agriculture in Japan, Sustainable Agriculture and Environment Adaptation Division, Agricultural Production Bureau, Ministry of Agriculture, Food and Fisheries (2019)
"2018 Organic Food Market Trends & Outlook," Yano Research Institute Ltd. (2018)
"2017 White Paper on Organics + 2016 Near-future Forecast," Organic Village Japan (2018)
Survey Report on the Organic Market in Japan, Japan Organic Market Research Project conducted by the IFOAM (2010)

Background of the Expansion/Diversification of the Organic Agricultural Products Market

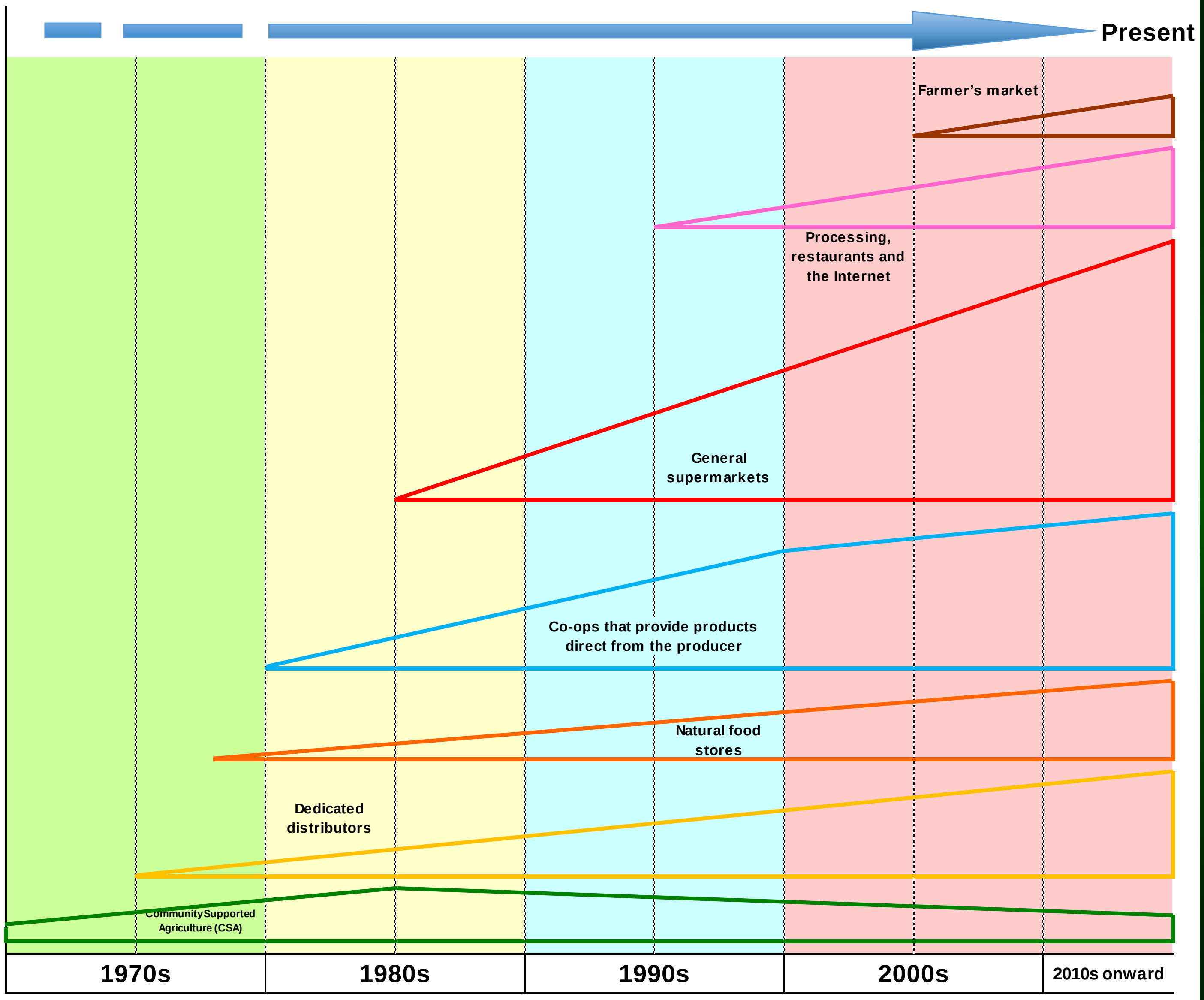


Figure 2: Diversification of the distribution of organic agricultural products in Japan

Note: Prepared based on Toshio Oyama, Diversified Marketing Systems for Organic Products and Trade in Japan, 2004

IFOAM Japan OMR Market Structure Estimate

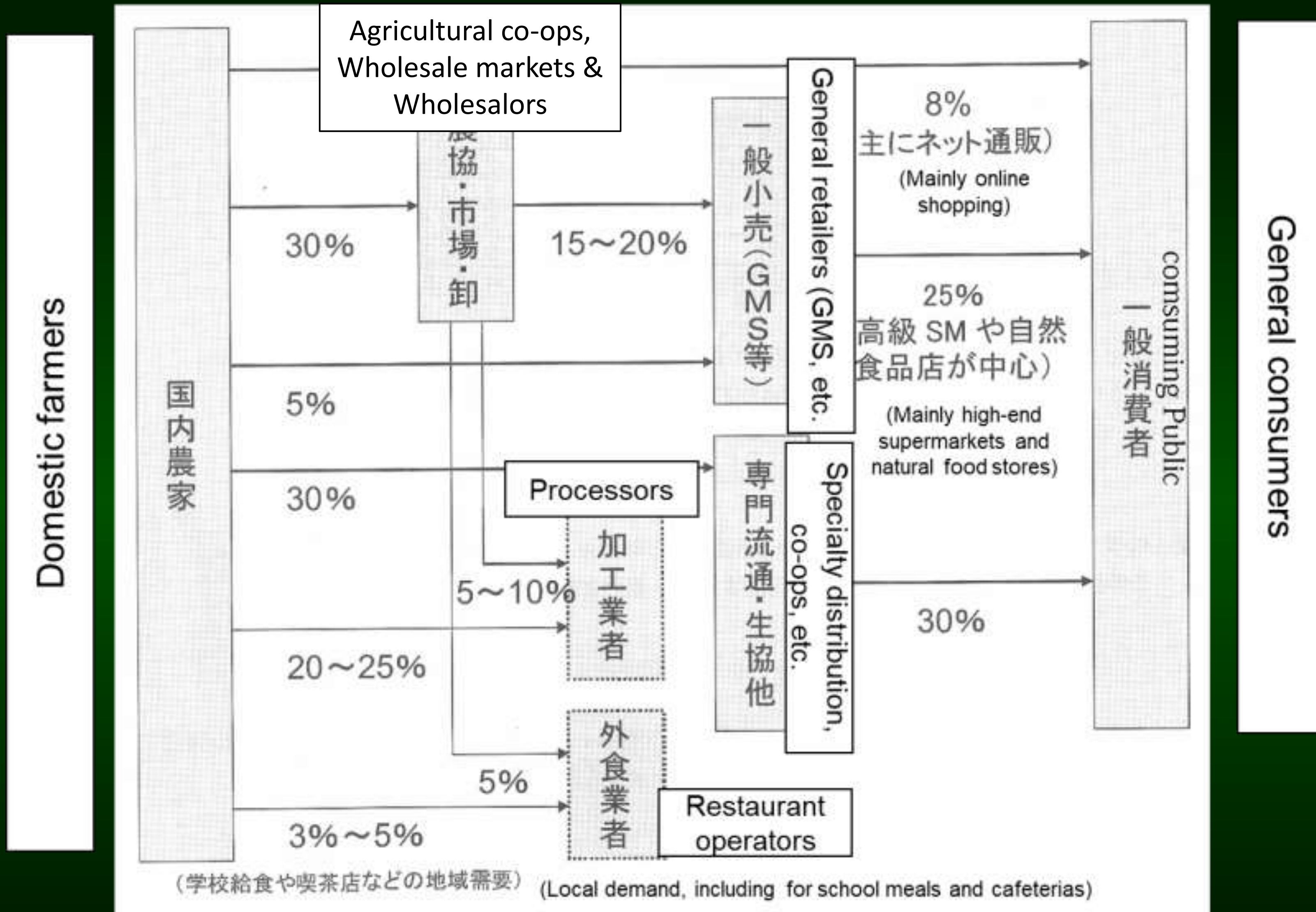


Figure 3: Organic Food Market Structure in Japan (2009)

* IFOAM Japan Organic Market Research Project
Reprinted from page 98 of the Research Report on the Organic Market in Japan

Method Used for this Organic Food Market Survey (1)

<Hearing survey>
Natural food distributors (retail/wholesale), natural food stores, and co-ops/food producers/wholesalers aggressively handling organic foods (Total 20 business operators)

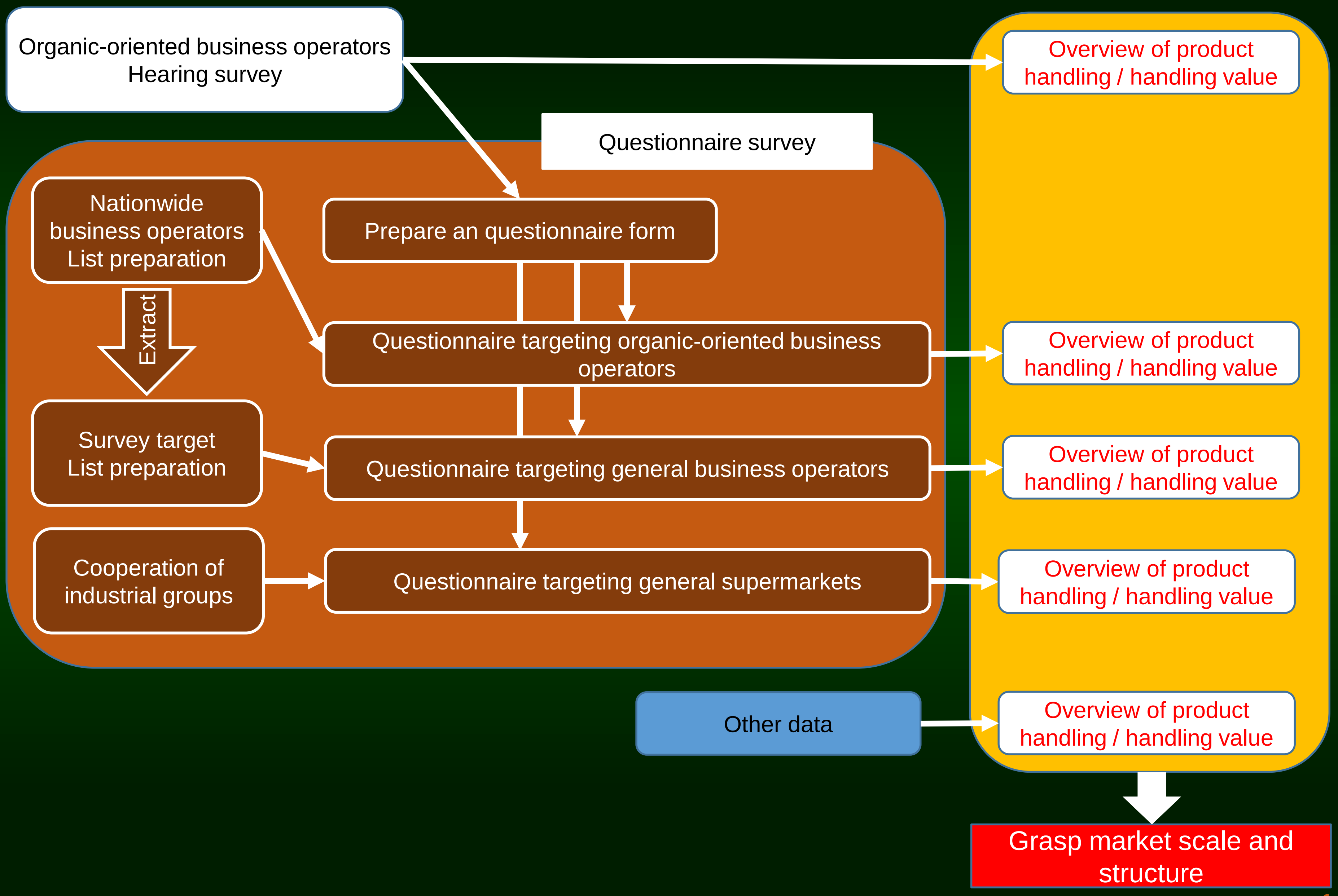
<Questionnaire survey>
In addition to the above businesses, organic-oriented restaurants, farmer's markets, general supermarkets (nationwide/Japan/All Japan Supermarket Association), general food producers, general retailers, general restaurants, hotels, trading firms (Total 7,712 business operators)

→ Market scale/structure estimates based on product handling volume of business operators with a track record in handling products

- Survey product handling track record for each distribution channel to grasp market structure
- Estimates according to a large-scale survey rather than existing estimates

(Reference) Yano Research Institute, Ltd. (2018): Estimates based on a track record for 55 transactions out of 100 transactions

Method Used for this Organic Food Market Survey (2)



Main Distribution Channels for Organic Foods

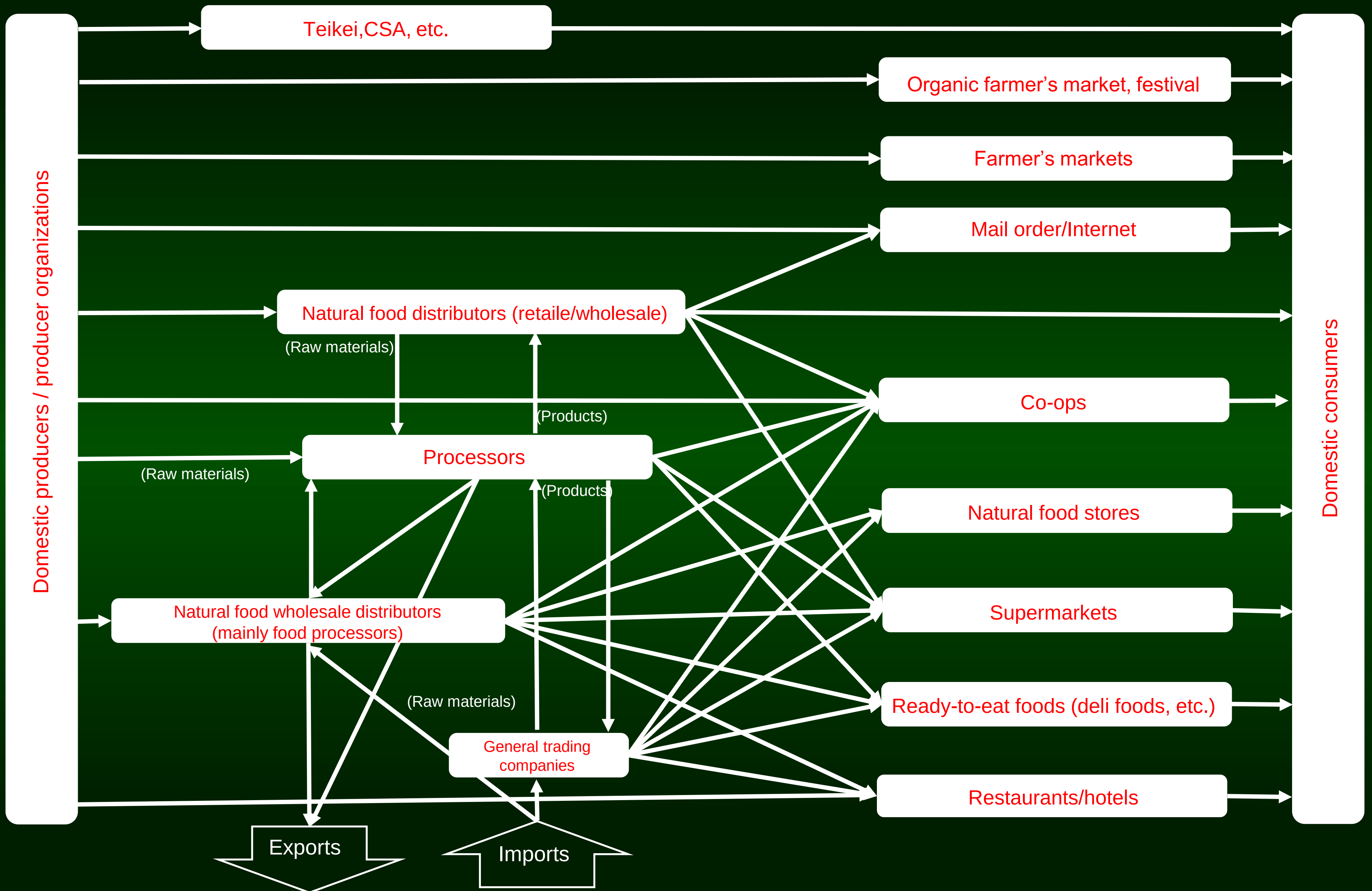


Figure 4: Main Distribution Channels for Organic Foods

Distribution Channels for Surveyed Organic Foods

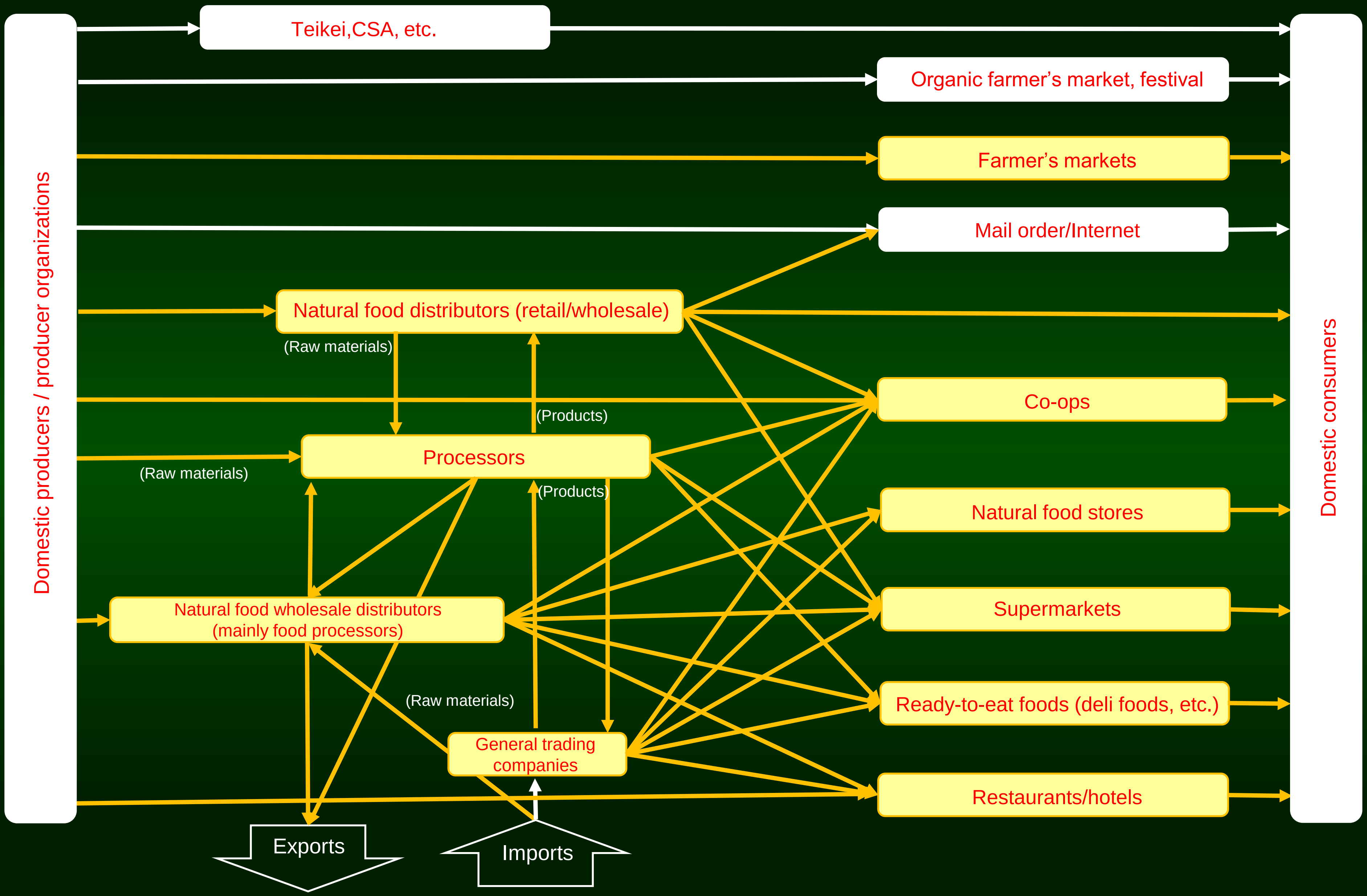


Figure 5: Survey targets for fiscal 2019 and 2020

Organic Food Market Questionnaire Survey Targets

(1) Natural food distributors (retail), natural food stores: 756 business operators

(2) Co-ops: 241 individual co-ops + 5 associations

(3) Organic/nature-oriented restaurants: 294 business operators

(4) General supermarkets: 904 business operators that belong to one of 3 associations

(5) Farmer's markets: 900 locations

(6) General restaurant, hotel: 1,070 business operators

(7) General retailers: 709 business operators

(8) Organic/nature-oriented food producers: 286 business operators

(9) Organic/nature-oriented wholesalers: 116 business operators

(10) General food producers: 2,361 business operators

(11) Trading firms: 70 companies

* Agricultural products and processed foods with organic JAS logo, agricultural products that do not used agrochemicals or chemical pesticides even though they do not have the organic JAS logo, and processed foods made from 95% or more "organic" raw materials based on weight

Organic Food Market Questionnaire Survey Items

<Items common to all industries>

- Business description, business format, management format, annual sales, value of food products handled
- Whether to handle organic foods
- Start time of handling organic foods
- Organic food trading value, and of the value of food handled, the ratio of organic food
- Of the organic food handled, ratio of food with an organic JAS label
- Trading value and trading value ratio by organic food item
- Percentage by supplier by organic food item
- Issues

<Individual items>

- Retail industry: Change in annual sales
- Wholesale industry: Ratio of sales by customer, ratio of imports
- Manufacturing industry: Change in annual sales, items handled

Survey results (1) (Retail, restaurants/hotels/school meals)

(1) Natural food distributors (retail), natural food stores
Responses: 87/756 (12%), Products handled: 82 (94%)
→ 40.7 billion yen + 2.7 billion yen = 43.4 billion yen

(2) Co-ops
Responses: 32/241 (13%), Products handled: 17 (53%)
→ 20.9 billion yen + 1.5 billion yen = 22.4 billion yen

(3) Organic/nature-oriented restaurants
Responses: 19/294 (6%), Products handled 16 (84%) → 900 million yen

(4) General supermarkets
Responses: 149/904 (16%), Products handled: 66 (44%)
→ 656 + 15 + GMS 265 = 93.6 billion yen

(5) Farmer's market
Responses: 223/900 (25%), Products handled: 46 (21%) → 3.8 billion yen

(6) General restaurants/hotels (No overlap with (3))
Responses: 83/1,070 (8%), Products handled: 17 (21%) → 14.8 billion yen

(7) General retailers
Responses: 31/709 (4%), Products handled: 16 (52%), Estimate for department stores only → 6.7 billion yen

Survey results (2) (Manufacturing, wholesale, other)

(8) Organic/nature-oriented food producers
Responses: 78/286 (27%), Products handled: 67 (86%)

(9) Organic/nature-oriented wholesalers
Responses: 19/116 (16%), Products handled: 18 (95%)

(10) General food producers
Responses: 379/2,361 (16%), Products handled: 81(21%)

(11) Trading firms
Number of effective responses: 7/70 (10%), Products handled: 2 (29%)

(12) Other (items that could not be surveyed)
- Teikei,CSA, etc.: 7.1 billion yen based on the producer survey
- Mail order/Internet: 10.0 billion yen based on producer survey
- Farmer's markets/organic festival, etc.: 100 million yen
- Ready-to-eat foods: 100 million yen

→ Based on (1) to (7) + (12), estimate as of 2018 is around 202.9 billion yen

Trends in the scale of the organic food market (estimate)

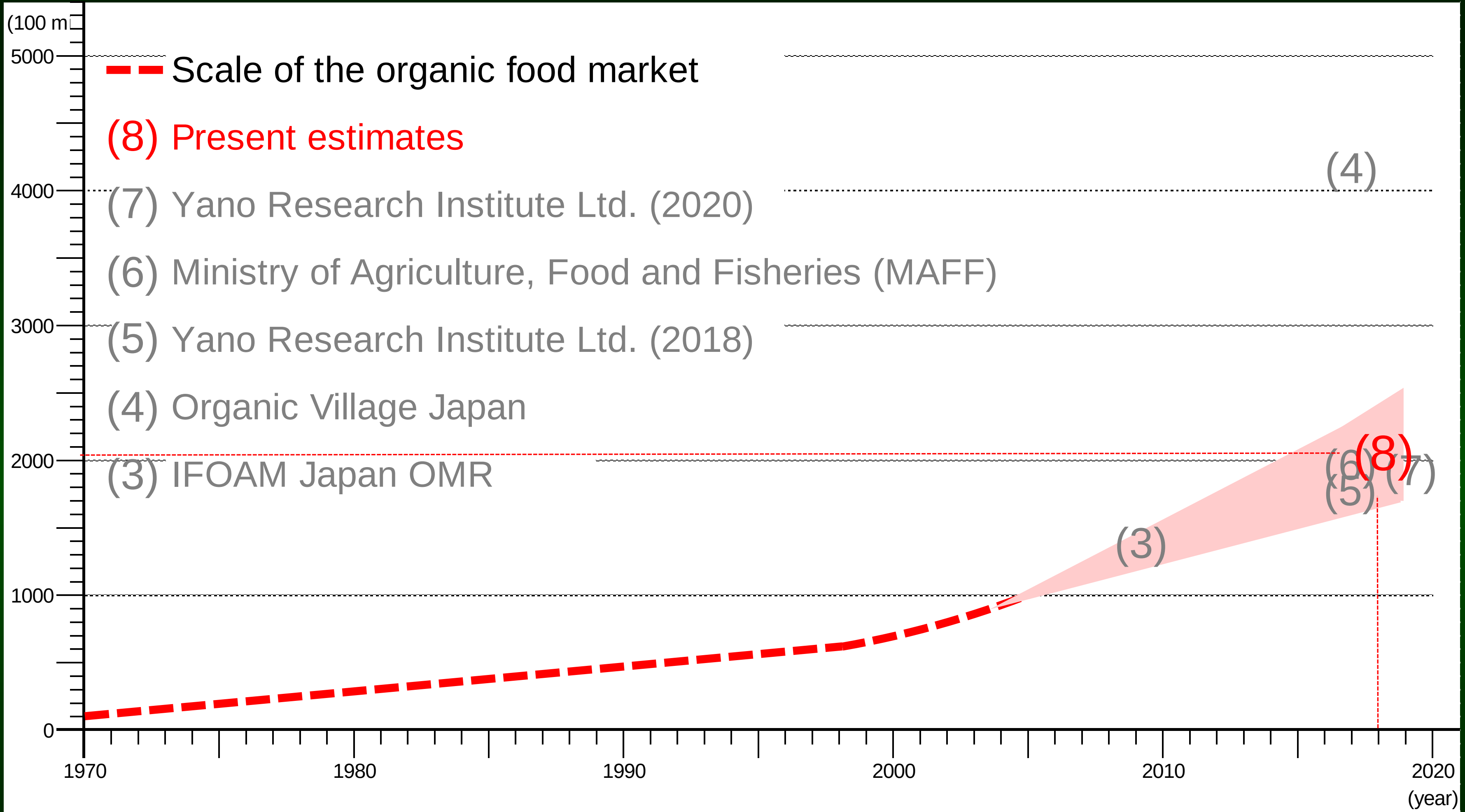


Figure 6: Scale of the organic food market in Japan (estimate)

Source: “2020 Organic/Natural Food Market Trends & Outlook,” Yano Research Institute Ltd. (2020)
Current Situation and Policy on Organic Agriculture in Japan, Sustainable Agriculture and Environment Adaptation Division, Agricultural Production Bureau, Ministry of Agriculture, Food and Fisheries (2019)
“2018 Organic Food Market Trends & Outlook,” Yano Research Institute Ltd. (2018)
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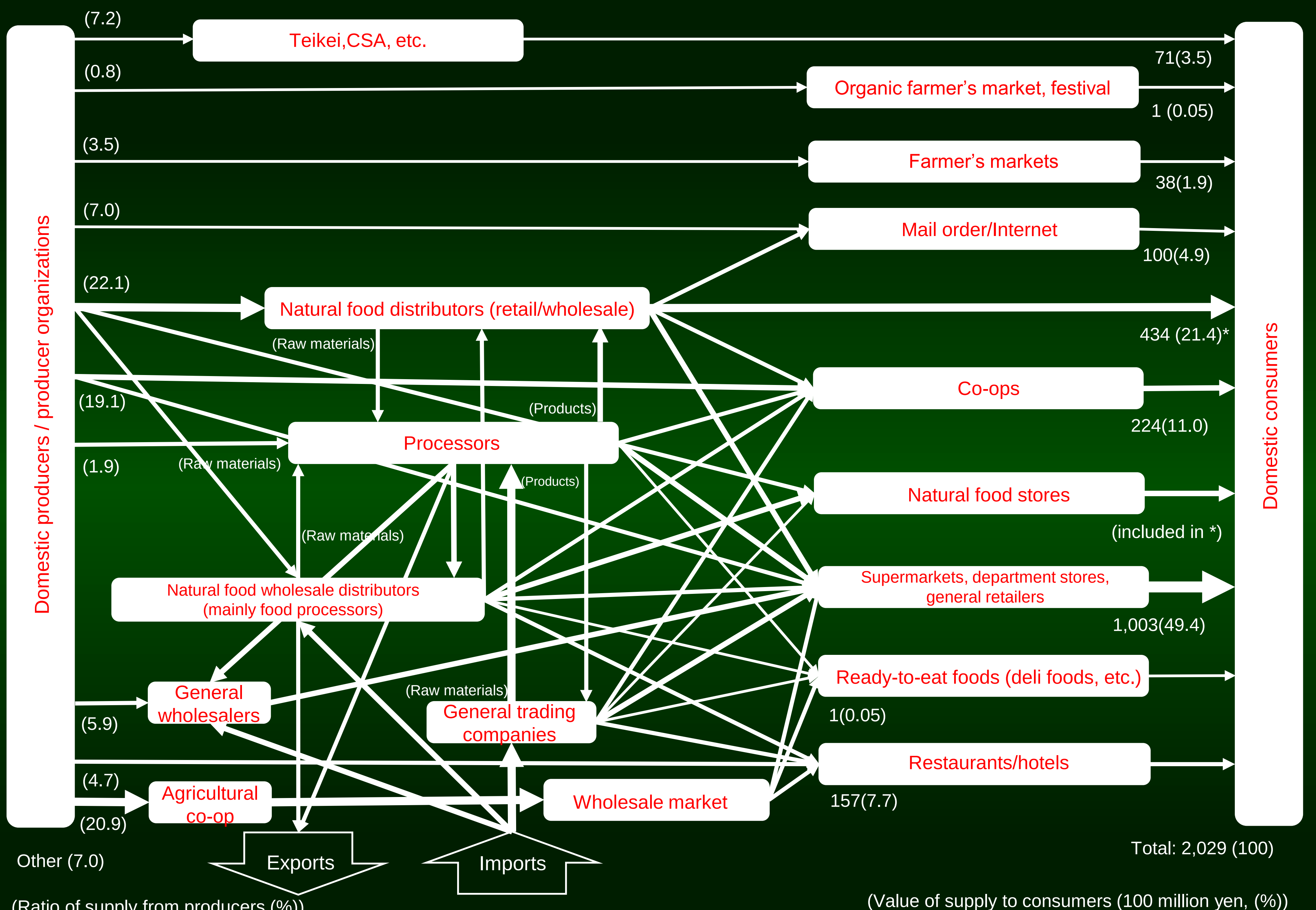

Figure 7: Structure of the organic food market in Japan (2018)

Issues on organic food handling

Table 1: Example of issues with handling organic food (free form response)	
Issues	Details
Small-scale of demand	Low consumer recognition, emphasis on outer appearance, low purchasing power
Standards/certifications for organic food	Authentication costs (application cost, time required to prepare documents) Strict standards (tough obstacles for authentication) Lax standards (Many materials can be used, including agrochemicals)
Sales and distribution issues	Few businesses that carry organic food Insufficient understanding of organic food High distribution cost (small-lot distribution) High disposal rate at retail stores
Supply stability	Cultivation technologies not yet established Difficult to undertake as producers are aging No reparation for damages due to pests and diseases Small supply volume and unable to secure raw materials
Pricing	Price gap with customary goods is large Small profit (cannot pass on costs to products) High distribution costs
Quality	Poor product lineup, uneven lineup of different varieties, inconsistent standards Quickly perishable, poor exterior and taste
Other	Cannot be sold at produce stands operated by the farmer Cannot secure a production line, cannot prevent contamination Difficulties differentiating products
Prepared based on a research survey of the organic food market	

Conclusion of Survey Results

(1) Progress in the generalization of the organic food market
- Handled by 20% of general distributors.
- For share at the retail stage, general retail stores, including supermarkets, account for around 50%,

Natural food distributors and natural food stores account for around 20%, co-ops make up about 10%

(2) Expansion of wholesale functions of Natural food distributors
(Domestic → natural food distributors → general distribution, overseas → trading firms → general distribution)

(3) Expansion of use in the manufacturing industry as well
(However, mainly for imports, JAS labelling is minimal)

(4) Also handled at farmer's markets
(However, JAS labelling is minimal)

(5) Share by sales channels from domestic producers (based on producer survey)
Natural food distributors, co-ops/wholesale market, co-ops/supermarkets, direct sales
(including Community Supported Agriculture (CSA) and Internet sales)
but each accounts for around 20% respectively

Moving Forward

< Market survey >

(1) Grasp trends mainly for mail order, Internet sales, restaurants/hotels and trading firms
(Survey not yet implemented due to impact of COVID-19)

(2) Ongoing survey
(Combine large-scale and small-scale surveys, employ multiple methods)

(3) Review and use survey targets, survey content and survey form

<Aiming for the expansion of organic farming and the organic food markets>

(1) Promote degree of consumer recognition and understanding (Shorten the distance between production and consumption)

(2) Production/certification cost compensation, coverage of risk aspects

(3) Streamline distribution
(Improve distribution efficiency, promote handling at farmer's markets, support for direct sales market, etc.)

(4) Promote use, for school meals, etc.