

MarketWatch — Japan —

Information for Canadian Functional Food and Natural Health Product Firms

Considering Export to Japan

Special points of interest:

- Japan is the world's second largest economy.
- Japan's population exceeds 128 million people in a land area that is less than 4% of Canada's land area.
- The term 'functional food' was coined in Japan in the 1980s.
- The functional food market in Japan is one of the strongest in the world.

Inside this issue:

Regulatory Considerations	2
Business Strategies	2
Consumer Profile and Demand	3
Distribution Channels	3
Domestic Production and Imports	3
Additional Information and Resources	3
References and Reports	4

Market Trends and Opportunities

An increase in health awareness and an aging population is driving the functional food market in Japan. Japanese consumers are looking to adopt a healthy lifestyle to maintain or improve their body image, decrease their risk of diabetes and manage allergy symptoms¹. In addition, the Japanese government is supportive of the functional food market, seeking proactive, non-medical means to reduce health care costs associated with obesity and diabetes³.

The adoption of a healthy lifestyle involves choosing foods that have reduced sugars, fats and carbohydrates and increased fibre, vitamins and minerals¹. However, due to long commutes, one-person households, older consumers and more women working outside the home, take out and pre-cooked, pre-packaged, ready-to-eat, ready-to-heat meals in

small, easily opened packages are increasing in demand^{1,2}.

The following ingredients and categories are expected to have significant growth rates in Japan in the coming years.

Ingredients³

- Omega-3;
- Selenium;
- Grape seed extract;
- L-Carnitine;
- Methyl-Sulfonyl-Methane (MSM);
- CoQ10;
- Alpha Lipoic Acid (ALA) and other amino acids;
- Soybean peptide and
- Lutein.

Categories³

- Blood sugar control and the role of dietary fibre related to insulin sensitivity and glucose response;



Upcoming Event

Health Ingredients Japan

October 4-6, 2006

Tokyo, Japan

<http://www.hijapan.info/>

- Natural ingredients and probiotic drinks to address allergy symptoms and gastrointestinal health;
- Anti-aging products;
- Health vinegars for overall well-being; and
- Meal replacement products.

MarketWatch — Japan —

Regulatory Considerations³

“Japan continues to be the only country in the world with a legal definition of functional food.”

There are two, well-defined categories of functional food in Japan: unregulated and regulated.

Unregulated food and beverages are defined as conventional products fortified with health ingredients to promote general and specific health conditions without making a specific claim regarding what a product will do for the target group.

The regulated category, Food for Specified Health Uses (FOSHU), allows

labels to explicitly state that a product has certain health benefits. Detailed information and proven results on Japanese natives concerning the way in which a product will increase health is required to grant FOSHU approval.

Ingredients for some functional foods may be considered as drugs and are therefore tightly regulated and cannot be easily integrated into food or beverages without strict testing. However, the Japanese government is declassifying some types

of ingredients and reclassifying them as food ingredients. Exporters may want to closely watch the ingredients that are being reclassified.

Market Value

The unregulated segment, with 18 subcategories, is valued at C\$15 billion.

The size of the FOSHU market was expected to reach C\$9 billion in 2005; an increase of approximately 30 % from the estimated 2003 figure of C\$6.17 billion.

Business Strategies

Canadian exporters should choose a viable, Japanese partner to aid in labeling, safety and document requirements and to access distribution channels, especially if they are seeking FOSHU approval. Firms will require access to wide distribution channels to recover the average FOSHU approval cost, estimated at C\$92,000 per product³.

Due to the high cost of FOSHU approval, it may be more realistic if Canadian firms establish relationships with

Japanese functional food makers and supply ingredients with proven, positive health effects³.

Canadian firms may want to consider partnering with non-competing firms outside the functional food industry to increase synergies and the development of new products.

Attending annual trade shows in Japan is a useful way to determine trends in research and commercial development in Japan. Also, companies should consider focusing on the health-related priorities identified by the govern-

ment to aid in approval times and labeling allowances⁴.

Factors to consider when choosing a viable partner in Japan³:

- Degree of involvement with the partner;
- R&D capacity;
- If the relationship is a licensing agreement, the capabilities of the partner organization's researchers and scientists;
- Import / export and partnering experiences;

- The influence/relationship with the media;
- Marketing capabilities;
- Size of their sales force; and
- The ability to understand the properties of the product in order to best market to the Japanese consumers.

Canadian firms should be prepared to provide extensive information to potential partners and understand it may take time for a decision to be made.

Consumer Profile

Japanese consumers are well educated, technology driven and demand innovative, quality products¹.

Consumers are extremely choosy and require extensive information before making any decisions. They rely heavily on personal recommendations and scientific data when choosing

to purchase new products^{1,3}. Television and radio are also important sources of health food information³.

Although Japanese consumers are generally price sensitive, they are willing to pay for quality, convenience and brand names¹. They are loyal to, and have confidence in, Japanese products.

Consumer Demand

Consumer demand for functional foods is driven in part by an aging population and the taste and preference differences between generations. The younger, more international consumer is more positively disposed to imports and non-traditional tastes. The older generation prefers traditional Japanese tastes.

Distribution Channels

The majority of functional foods are sold in retail stores including supermarkets, department stores, drug stores and convenience stores. Home delivery, catalogue sales and vending machines are also popular channels³.

Domestic Production and Imports¹

Only a small portion of Japan is suitable for agricultural development; Japan has to import over 60% of their foodstuffs.

Self sufficiency rates in consumer-orientated food and edible seafood imports decreased from 45% in 1994 to 40% in 2004, indicating export opportunities in these categories. In 2004, Ja-

pan's top sources for consumer-orientated food products were United States, China, Australia, Denmark and Canada.

Although Japanese firms are highly competitive and well-established in Japan, they are beginning to invest in offshore, food production facilities to produce products specifi-

cally for the wants and needs of the Japanese market.

Japan is also looking to import significant quantities of organics from outside Asia. Exporters will have to obtain Japanese certification, YU-KI, if they wish to market products directly to Japanese consumers as organic.

Next Issue
European Union

Additional Information and Resources

On-line Resources

Agri-food Trade Service <http://www.ats.agr.gc.ca/info/asia-e.htm#japan>

Team Canada Inc. <http://exportsource.ca/gol/exportsource/site.nsf/en/index.html>

Virtual Trade Commissioner. <http://www.infoexport.gc.ca/ie-en/MarketReportsAndServices.jsp>

Agriculture and Agri-Food Canada

Regional Contacts for Japan

BC—Sharon Brar, (604) 666-2861, brars@agr.gc.ca

AB—Lorrie McFadden, (780) 495-2119, mcfaddenl@agr.gc.ca

SK—Art Bélanger, (306) 975-5842, belangerar@agr.gc.ca

MB—Ron Wonneck, (204) 983-4596, wonneckr@agr.gc.ca

ON—Greg Folinazz, (519) 780-8005, folinazzog@agr.gc.ca

QC—Andrée Vachon, (514) 283-3815 x532, vachona@agr.gc.ca

Atlantic Region - Sandra Canning, (902) 426-3130, cannings@agr.gc.ca

National Contact for Functional Food and Nutraceutical Sector for Japan—Pam Ominski, (613) 759-7643, ominskip@agr.gc.ca, http://www.agr.gc.ca/misb/fb-ba/nutra/index_e.php

MarketWatch — Japan —



Wellness West, a collaborative partnership amongst federal, provincial and industry stakeholders, was established in September 2003 as a result of extensive consultations. Its mission is to advance Functional Food, Nutraceutical and Natural Health Products (FFN NHP) in western Canada and work collaboratively in addressing issues to assist in the sector's growth. *MarketWatch* is published with the support of British Columbia Ministry of Agriculture and Lands; Province of Alberta; Government of Saskatchewan; Province of Manitoba; the National Research Council of Canada; Agriculture and Agri-Food Canada and Western Economic Diversification.

Comments and Suggestions Please write to

Rhonda Barton, Coordinator

Wellness West

603 - 1726 Dolphin Avenue

Kelowna, BC V1Y 9R9

Phone: 250-470-5047

Fax: 250-470-5083

E-mail: rhonda.barton@telus.net

Funding support provided by the Wellness West partnership



References and Reports

1. Agri-Food Consumer Profile. Japan. June 2006. Agriculture and Agri-Food Canada. http://www.ats.agr.gc.ca/asia/4150_e.htm
2. Changing Consumer and Market Demands in Canada's Priority Markets: Japan. October 2005. Agriculture and Agri-Food Canada. Publication no. 54152B. http://www.agr.gc.ca/pol/pub/jap/pdf/jap_e.pdf
3. The Functional Food Market in Japan. January 2006. International Trade Canada. <http://www.infoexport.gc.ca>
4. Japan Functional Foods and Nutraceuticals Partnerships Study. March 2005. Agriculture and

Agri-Food Canada. This publication is available in English or French by request. Contact Justin Sugawara at (613) 759-7744 or sugaraj@agr.gc.ca.

DISCLAIMER

Information contained in this publication consists of the opinions expressed by the authors of the selected reports listed here; consequently the views expressed herein are those of the originators and do not necessarily represent the opinions of Wellness West. Wellness West and its employees or agents make no representations or warranties as to the accuracy of the report or completeness of the information contained in this newsletter. Parties who rely on the information do so at their own risk.



Copyright 2006, National Research Council Canada. Reproduction without permission is prohibited.

MarketWatch is published by Wellness West.

Writer/Layout/Design/Editing

Rhonda Barton, Wellness West

Editorial Committee

Ann Eastman, BC Ministry of Agriculture and Lands

Angela Ierullo, Agriculture and Agri-Food Canada

Danya Kordan, Saskatchewan Industry and Resources

Penny Mah, Alberta Economic Development

Pam Ominski, Agriculture and Agri-Food Canada

Renee Umezuki, Agriculture and Agri-Food Canada