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Report Highlights:

Following seven consecutive years of growth, Japan's hotel, restaurant, and institutional (HRI) food service industry achieved record sales of ¥33.1 trillion (\$299.8 billion) in 2018. The continuing surge in inbound tourism and recovery of sales in the quick-service segment have contributed to the industry's success. Evolution and innovation in home-meal replacements (HMR) and food service for the aging population are also driving growth, while sales at drinking establishments and hotels are relatively lackluster. U.S. suppliers are well positioned to compete in many product categories, provided they are willing to adjust to market demands.

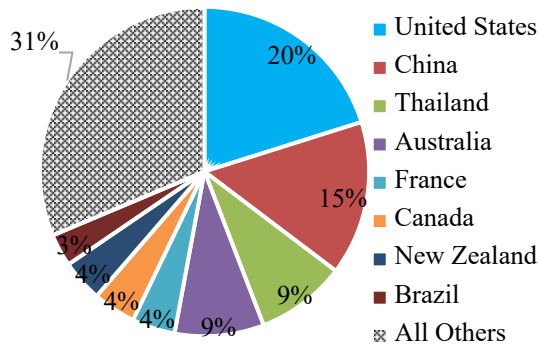
Market Fact Sheet: Japan

Executive Summary:

Japan relies heavily on imports -- accounting for over 60 percent of its caloric intake. The United States is the largest foreign supplier of food and agricultural products to Japan (26 percent of total import market share), and Japan is the third largest market for U.S. agricultural products (\$12.9 billion in 2018). Japan's food industries are well-developed and innovative in all sectors; including, retail, food service, and food processing, and distribution.

Population: 126,168,156 (July 2018 est.)
GDP: \$4.87 trillion (3rd)
GDP/Capita: \$38,428

Japan Consumer-Oriented Product Imports (\$33.3 Billion, 2018)



Food Processing Industry:

The food processing industry produces a wide variety of foods, including traditional Japanese foods, Western foods, and health-oriented foods for infants and the elderly. Food producers focus on maintaining market share among traditional product lines while developing creative products to attract consumers on the lookout for new and innovative foods. The food processing industry produced \$217 billion in food and beverage products in 2018.

Food Retail Industry:

In 2018, the total value of all retail food and beverage sales was \$479 billion. Supermarkets represent the bulk of the retail food sales, at 70 percent, but the fast-growing convenience store sector now represents 14 percent of sales. Ready-to-eat meals or take-home food items represent an area of growth.

Top Ten Growth Food Products

- | | |
|-------------------------|----------------------------|
| 1) Beef & Beef Products | 6) Peanuts |
| 2) Fish Products | 7) Distilled Spirits |
| 3) Processed Vegetables | 8) Dried Fruit |
| 4) Tree Nuts | 9) Preserved/Prepared Pork |
| 5) Wine & Beer | 10) Condiments & Sauces |

Food Industry by Channels (US\$)

Consumer-Oriented Imports	\$33 billion
Food Processing Industry	\$217 billion
Food Industry Gross Sales	\$779 billion
- Retail	\$479 billion
- Food Service	\$300 billion

Top Ten Retailers

AEON Retail	Ito Yokado
Seven Eleven Japan	Lawson Inc.
FamilyMart UNY Holdings	U.S.M.Holdings
Life Corporation	Izumi
Arcs	York Benimaru

Strength	Weakness
High demand for consumer-oriented products.	Managing expectations is key (negotiating and decision-making processes can take time).
Opportunity	Challenge
U.S. products are in demand and trendy.	Many other suppliers enjoy tariff concessions through FTAs.

Sources: Global Agricultural Trade System, Global Trade Atlas, Japan Ministry of Finance, Japan Ministry of Economy, Trade and Industry, Japan Food Service Association, The World Factbook, and The World Bank. For additional information, contact atotokyo@usda.gov

SECTION I: MARKET SUMMARY

Hotel, Restaurant, and Institutional (HRI) sales increased in 2018 for the seventh consecutive year. This trend is attributable to a variety of factors, including:

- A continued surge in inbound tourism,
- Evolution and growth in home-meal replacement (HMR), driven by young single professionals and the elderly,
- Recovery in sales of the quick service segment including hamburger shops, casual sushi restaurants, beef bowl and ramen shop chains, and
- The development of a new market targeted at the increasing aging population and their evolving dietary needs.

The variety of restaurants and menu items available continues to expand as Japanese consumers show interest in trying new cuisines. Foods from Europe, Asia, North Africa, and the Americas are becoming increasingly popular, partly due to the large number of Japanese traveling abroad every year (18.9 million in 2018, up six percent from the previous year). Additionally, the number of inbound tourists has skyrocketed since 2012; rising from 8.4 million to 31.2 million, mostly due to increasing traffic from nearby Asian countries. With the coming Tokyo Olympic Games in 2020, inbound tourism is expected to further increase.

Advantages	Challenges
When the U.S.-Japan Trade Agreement is implemented, approximately 90 percent of U.S. agricultural products will either be duty free or receive preferential tariff access.	Several competitors, including Canada, Australia, Chile, Mexico and the EU, have already implemented trade agreements providing preferential tariff access.
High Japanese farming costs and decline of domestic agricultural production make imported food products vital.	Japanese buyers are now sourcing from all over the world rather than their more limited historic suppliers.
The successes of American style restaurants provides an avenue for introducing U.S. recipes and food ingredients into the Japanese diet.	American cuisine has a less healthy image; many consumers view American food culture as being linked to obesity in the United States.
U.S. food manufacturers have a positive reputation for food safety relative to many Asian competitors.	Imported food products are viewed by many consumers as less safe than domestically produced food products.
U.S. food suppliers have a reputation for being reliable (in terms of availability, quality, and delivery) and reasonably priced.	Latin American and Asian exporters have been improving distribution infrastructures and quality assurance (QA) procedures.

SECTION II: ROAD MAP FOR MARKET ENTRY

A. Entry Strategy

There are no magic formulas for new-to-market exporters to enter the Japanese food service market. Strategies will vary depending on the type of food product being introduced and the

current competitive environment. However, there are some basic steps that new-to-market exporters are recommended to follow when they consider entering the market.

a. Market Access

One of the fundamental steps before entering the market is to determine whether or not a product is authorized for sale in Japan. There could be restrictions due to phytosanitary or food safety related concerns that can prevent product from being imported. Product must meet Japanese regulations for food ingredients, especially with regard to food additives. If the product contains prohibited ingredients it will have to be reformulated to meet the regulations. Exporters should also determine the import classification and tariff rate for products. Freight forwarders and traders can be helpful in determining into what category your product falls.

For more information, see the latest FAS Japan Food and Agricultural Import Regulations and Standards (FAIRS) report and Exporter Guide at: <http://www.usdajapan.org/reports/>

Japan Customs has a website for requesting an advance ruling on tariff classifications, which is available to importers and related parties at: <http://www.customs.go.jp/english/advance/index.htm>

b. Competitive Analysis

A preliminary analysis should be completed to determine market potential of products, pricing of similar products, key points of differentiation for the product compared to others, and what kind of packaging is used to sell competitor products. Visiting Japan is recommended. The Tokyo and Osaka Agricultural Trade Offices (ATO), U.S. Agricultural Cooperator Groups, and State and Regional Trade Groups (SRTG) are available as resources for obtaining information about the market. Private companies may also be hired to do product testing among actual consumers and to gauge their reactions to product taste, appearance, and texture.

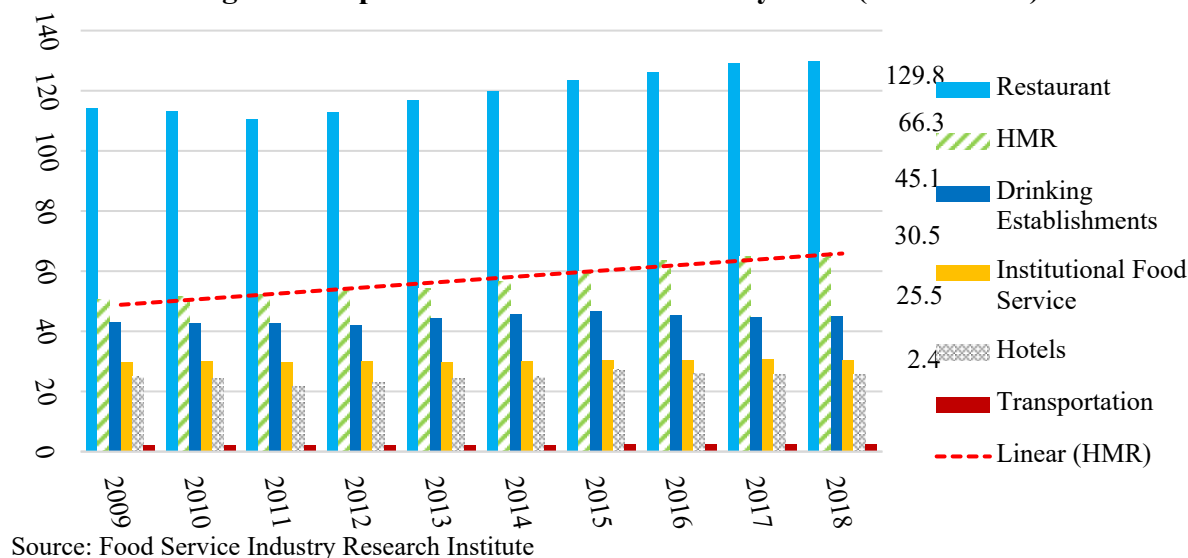
Participating in one of the food related trade shows or showcases will allow exporters to research a product's potential and meet Japanese importers who often do not respond to "cold calls" or requests for meetings from unknown companies. The ATO Japan offices organize U.S. pavilions at the Supermarket Trade Show in February and FOODEX Japan in March, and offers support to U.S. exhibitors such as market briefings and arranging meeting space. Other smaller trade shows can also be useful, depending on the target audience.

B. Market Structure

The food service industry, broadly defined, has six major segments, shown in Figure 1. The largest sector is Restaurants, with 43.3 percent of the market in 2018. The "Prepared Meals Sold at Retail Stores" sector includes ready-to eat HMR type products sold at *Obento* (lunch box) shops, convenience stores, supermarkets, and department stores. Sales in this market segment have increased by over twenty percent in the last five years and now account for 22.1 percent of the HRI market. Other sectors include: Drinking Establishments (15 percent),

Institutional Food Service (10.2 percent), Hotels (8.5 percent), and Transportation-related Food Service (0.8 percent).

Figure 1: Japan's HRI Sector Breakout by Year (Billion USD)



Note: In this report, the currency statistics used are converted using the 2018 average exchange rate, since year-to-year fluctuations in exchange rates can distort trends.

Annual Average Exchange Rates

Year Average	2014	2015	2016	2017	2018
JP¥ per US\$	106.85	122.05	109.84	111.19	110.40

Source: Mitsubishi UFJ Research & Consulting - TTS Yearly Average (2012-16), TTB Yearly Average (2017), Yearly average rate 2018, Tokyo Foreign Exchange Market, Bank of Japan (2018)

C. Distribution

Japan has one of world's most developed food supply chains. One major difference with the United States is that individual restaurants tend to buy food at nearby fresh food markets, super markets, and/or retail stores. Chain restaurants tend to procure food from food service industry wholesalers who offer combined shipment/delivery of all kind of foods and restaurant business materials. Some of these wholesalers import food directly from foreign countries but most of them buy imported foods through trading houses, which carry out a variety of functions, including: handling documentation, clearing customs, testing for quality assurance, warehousing, and financing the inventory.

Some "cash and carry" retailers, including wholesale clubs such as COSTCO and METRO, are popular sources for food products among smaller-sized food service operators. The biggest is Gyomu Super (Business Supermarket) owned by a local company, Kobe Bussan. Additionally, regional food wholesalers have formed strategic purchasing alliances and have opened cash and carry outlets. Bulk packed meat, seafood, fresh produce, coffee, seasonings/condiments, wine, cheese, frozen vegetables, and frozen baked items are popular selling food products at these

outlets. HRI-focused wholesalers are consolidating. In order to add value, most large wholesalers own their own distribution trucks and focus on carrying broad product lines that can provide small food service operators or small chains with one-stop service.

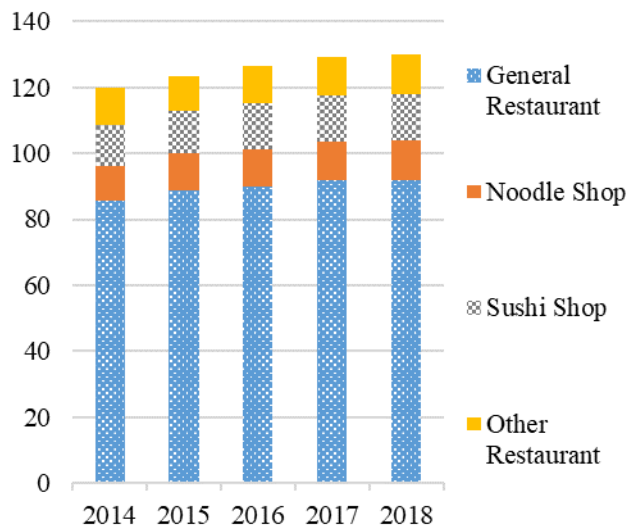
Large general trading companies (such as Mitsubishi, Marubeni, Mitsui, Itochu, etc.) have many divisions specializing in a wide variety of imported food products, while small importers tend to specialize in a limited line of high-value items. The majority of large food service operators utilize trading companies or use designated distribution centers rather than wholesalers, though some import products directly. Even then, they often contract supply chain operations including import processing, inventory management, and delivery.

While online shopping is popular for general consumers, among the food service industry, use is limited to high-quality fresh seafood and fresh vegetables delivered directly from production areas to restaurants. Most restaurant buyers want to check the quality of food while visiting shops and markets. The buyers are also reluctant to pay shipping costs; in general. Japanese wholesalers do not charge for delivery.

D. Sub-Sector Profiles

a. Restaurants/Fast Foods

Figure 2: Restaurant Sales (2018, Billion USD)



Source: Food Service Industry Research Institute

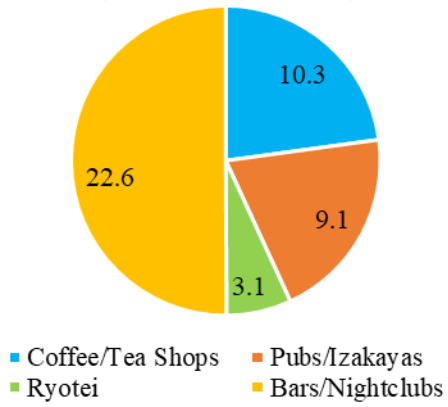
Since 2011, restaurant sector sales are up 17 percent, though growth was relatively slow in 2018, up 0.5 percent to ¥14.3 trillion (\$129.8 billion). General restaurants make up the largest portion of the sector and include a broad range of upscale and casual restaurants; family-style restaurants, and Japanese, Chinese, and Western-style restaurants. In 2018, sales at general restaurants increased marginally, but rose nearly ¥720 billion (\$6.5 billion) over the last five years (Figure 2). Sushi and noodle shop sales increased 1.2 percent and 1.3 percent, respectively. Other restaurants increased by 2.4 percent on strong sales by quick-service restaurants.

General restaurants offer the greatest opportunity for U.S. food exporters and often specialize in specific types of food such as steak, “Hamburg” steak (meat loaf/Salisbury steak), pizza, or pasta and Japanese restaurants commonly use U.S. beef, pork, frozen potatoes, and vegetables. Large family restaurant chains include Skylark, Royal Host, Denny’s, Saizeriya, Sizzler, Jonathans, and Gusto, while more upscale American restaurants include Morton’s The Steakhouse, Empire Steak House, Benjamin Steak House and Buvette

Gastroteque. In addition, casual steak restaurant chains, such as Ikinari Steak, Cowboy Family, Bronco Billy and Steak Miya have also thrived.

The Food Service Research Center categorizes a number of special food service concepts into its “All Other” category. These include “fast food” shops that specialize in hamburgers, pizza, fried chicken, beef bowls, curry and rice, *okonomiyaki* (pancake-like traditional Japanese food filled with meat, vegetables, and/or noodles) or other specialties. The total value of the fast food industry was over ¥3 trillion (\$27.7 billion) in 2018. Industry expectations are that the fast food sector will experience continued moderate growth.

Figure 3: Drinking Establishment Sales (2018, Billion USD)



Source: Food Service Industry Research Institute

Drinking establishment sales increased by 0.5 percent in 2018, reaching ¥4.97 trillion (\$45.1 billion). The sector is comprised of four segments: traditional Japanese pubs (*Izakaya*) and beer pubs, coffee shops and tea houses, high-end Japanese entertainment restaurants (*Ryotei*), and bar/nightclubs.

In 2018, the pubs and *izakaya* saw a marginal recovery and increase in sales, though increasing competition from quick-service restaurants (via evening alcoholic drink specials) has been dampening customer flow for the past several years. *Izakaya* are unique drinking pubs where a variety of homemade-style appetizers and meals are served with various kinds of alcoholic beverages including beer, sake, *shochu* (Japanese spirits), wine, whiskey and cocktails.

Coffee/tea shops have weathered industry streamlining over the past three decades. For the second consecutive year, coffee/tea shops have grown to ¥1.16 trillion (\$10.6 billion) in sales in 2018, an increase of 1.6 percent. The proliferation of new style coffee shops and chains (e.g. Starbucks, Blue Bottle Coffee, The Coffee Bean, Tea Leaf and Gorilla Coffee, Komeda Coffee, Hoshino Coffee, and Takakuramachi Coffee) and the development of food menus, which include items such as hot sandwiches and pastries, are possible factors contributing to the shift in trend.

b. HMR

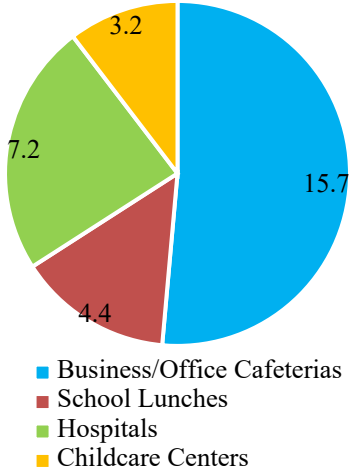
Over the last decade, the “Prepared Meals Sold at Retail Stores” sector has grown by ¥1.1 trillion to ¥7.3 trillion (\$66.3 billion), an increase of nearly twenty percent. In years past, HMR products catered to working-professional men, however, convenience and retail stores have been expanding their offerings of healthier, smaller-portioned meals to appeal to more health conscience consumers of both genders. To compete with retailers that offer HMR products, many restaurants and food service operators offer premium bento boxes that can be quickly purchased and taken on-the-go. U.S. exporters that provide products that could be made into pre-prepared meals should consider establishing relationships with manufacturers of these types of foods.

c. Institutional Food Service

The Institutional Food Service sector includes business/office cafeterias, school lunch programs, hospitals, and childcare centers (for infant & preschool). The sector’s sales were flat at ¥3.37 trillion in 2018 (\$30.5 billion). This represented 10.2 percent of total food service industry sales. Institutional food service operators are investing in refurbished business and school cafeterias in order to attract more customers; adding healthier and tastier menus.

In addition, there is a sub-sector of nursing home (for aging generation) meal services. According to industry estimates, this sub-sector saw growth of 4.1

Figure 4: Institutional Sales (2018, Billion USD)



Source: Food Service Industry Research Institute

percent in 2018, reaching more than ¥900 billion in sales (\$8.2 billion). Nursing home meal service sales are forecast to increase in 2019 and beyond as Japan’s senior population continues to expand. Many food service companies are starting to target what is called the “silver” market. Nisshin Healthcare Foods is the top meal service company for senior citizens and nursing homes with a market share of just over ten percent. The second largest provider is Fuji Sangyo with a market share just shy of five percent. The industry consists primarily of small operators spread throughout Japan. These companies tend to use traditional food ingredients such as, rice, seafood and fresh produce, though some frozen food products are also popular among the industry.

d. Hotels

Record high tourism in recent years has led to an increase in domestic and foreign-affiliated high-tier hotel openings. The surge in tourism is expected to continue through the 2020 Summer Olympics. However, the number of *Ryokans* (traditional Japanese-style inns) has fallen over the same period, resulting in stagnant food sales in the hotel sector, at ¥2.82 trillion in 2018 (\$25.5 billion).

The high-tier hotel companies offer a large variety of banquet rooms and on-site restaurants including Western, Chinese, and Japanese cuisine, and rely on a large volume of imported food products. These hotels often cater to international travelers, and regularly promote a variety of world cuisines, including “American Fairs.” Halal food is one area of growing interest in hotel food service as the number of Muslim tourists visiting Japan continues to increase. Most major hotels showed an increase in restaurant and banquet sales in 2018.

Ryokans are a popular lodging option with domestic holiday travelers and usually serve dinner and breakfast. The menus are limited to traditional Japanese dishes, making them a less inviting target for U.S. exporters. High maintenance costs coupled with the increasing-aging and shrinking-youth population has led many small family-owned ryokans to close their businesses, though many others are innovating with the time.

SECTION III: COMPETITION

Japan Imports of Agricultural Products in 2018

Partner Country	United States Dollars (Billions)			Market Share (Percent)			Change (percent)
	2016	2017	2018	2016	2017	2018	2018/2017
World	48.9	51.9	53.8	100.0	100.0	100.0	3.7
United States	11.7	12.7	13.9	24.0	24.5	25.7	8.7
China	6.2	6.2	6.5	12.7	11.9	12.2	5.6
Australia	3.7	4.0	4.3	7.6	7.8	8.0	7.1
Thailand	3.6	3.9	4.0	7.4	7.6	7.4	1.3
Canada	3.3	3.5	3.7	6.7	6.7	6.8	5.0
Brazil	2.7	2.5	2.1	5.5	4.8	4.0	-13.7

France	1.5	1.6	1.7	3.0	3.1	3.2	6.1
New Zealand	1.3	1.4	1.5	2.7	2.7	2.7	3.7
Indonesia	1.1	1.5	1.4	2.3	2.9	2.7	-3.5
Philippines	1.0	1.0	1.0	2.1	1.9	2.0	4.9

Source: Global Trade Atlas: Agricultural Total

The United States is Japan's number one agricultural trading partner, and known as a reliable exporter providing safe and high quality foods. However, other suppliers have implemented free trade agreements with Japan that reduce or eliminate food and agricultural tariffs, including the European Union, Canada, Australia, Chile, and Mexico. In September 2019, the United States and Japan announced a trade agreement that, when implemented, will enable American producers to compete more effectively with countries that currently have preferential tariffs.

SECTION IV: BEST PRODUCT PROSPECT CATEGORIES

In 2018, total U.S. agricultural exports to Japan increased in terms of both volume and market share, on higher imports of feed grains, oilseeds, meat, seafood, and dairy products. These products continue to have good potential in the market. However, the food service industry has been speeding up its ability to shift ingredient sourcing decisions compared to prior years. Japanese buyers are sensitive to exchange rate between U.S. Dollars and Japanese Yen, in particular paying strong attention on imported food when the dollar is comparatively weaker.

Meat has been the top consumer-oriented product, with an import share of 22.6 percent. According to the Global Trade Atlas, Japan imported a total of \$3.4 billion in meat in 2018, an increase of five percent. Imports of edible nuts and dried fruits also increased by eight percent, to \$943 million. The top three consumer-oriented products imported from the United States in value are meat and meat products, fish and fish products, and nuts and dried fruits. Japan is a top ten or higher market for most U.S. agricultural product categories.

U.S. products not present in significant quantities but which have good sales potential are sheep and goat meat (lamb), cheese, and craft beer and spirits. U.S. products not present due to significant trade barriers are fresh potatoes and butter.

SECTION V: KEY CONTACTS AND FURTHER INFORMATION

Reports from USDA Japan are frequently updated and can be found by searching the [FAS Japan Reports website](#).

ATO Tokyo

U.S. Embassy
1-10-5, Akasaka, Minato-ku
Tokyo 107-8420
Tel: 81-3-3224-5115
Fax: 81-3-3582-6429
E-mail address: atotokyo@usda.gov

ATO Osaka

American Consulate General
2-11-5, Nishi Tenma, Kita-ku, Osaka City
Osaka 530-8543
Tel: 81-6-6315-5904
Fax: 81-6-6315-5906
E-mail address: atoosaka@usda.gov

USDA Japan Webpages

<http://www.usdajapan.org/> (FAS Japan, English)
<https://twitter.com/usdajapan> (FAS Japan, English)

Japan External Trade Organization (JETRO)

Japanese market and regulations: <https://www.jetro.go.jp/en/reports/>
Japan Food Sanitation Law: <http://www.jetro.go.jp/en/reports/regulations/>
Specifications and Standards for Foods, Food Additives, etc. under the Food Sanitation Law:
<http://www.jetro.go.jp/en/reports/regulations/>

Cooperators and SRTG Contacts

Industry organizations and State Regional Trade Groups work closely with USDA to help food and agricultural companies advance their exporting goals: To learn more about these groups, and which ones may be working in Japan, please see:
<http://www.usdajapan.org/tradeservice/cooperators-industry-partner-groups/>

USDA Reports

Secondly, FAS publishes a variety of reports, which can help them prepare for entering the Japanese market such as the Exporter Guide, Food and Agricultural Import Regulations (FAIRS), and the Retail Guide. Links to most recent versions of these reports can be found here: <https://www.fas.usda.gov/regions/japan>. These and many other reports are also available for free on our website at [Global Agricultural Information Network \(GAIN\)](#).

Import Process Guides

For exporters who are new to the market, the Agricultural Trade Office (ATO) has commissioned a series of reports to detail regulatory requirements for bringing a wide variety of products into Japan. These reports are intended as a guide to navigate the process together with your importer/distributor, and not as ‘Do-It-Yourself’ manuals. To access the guides, please visit: <http://www.usdajapan.org/dl/>

Attachments:

No Attachments