

Ripe for the Picking

Once seen as the preserve of the likes of New Agers and hippies, Japan's growing organic food industry is increasingly seen as part of the economic mainstream.

By Thomas Caldwell

Northern Yokohama, a major transportation hub south of Tokyo, is one of those few places in Japan where the roads seem to suit modern vehicles. Cars, buses, vans and trucks of all sizes buzz around this port city at all hours of the day and night, moving their respective cargoes (and passengers) to and from the four corners of the archipelago.

Lining the busy roads are the kinds of structures you would expect: industrial buildings and cargo depots, with the odd family or fast-food restaurant catering mostly to the lunchtime crowd. Yet, off on a side road, tucked between a used foreign car dealership and a large vacant lot, sits a gray, unassuming warehouse. Like most establishments in Yokohama, it is buzzing with activity most of the time. However, the people employed here work hours that would make the most dedicated salaryman cringe, and just about all of them believe they are on a mission to protect the purity of Japan's food supply.

When Props Japan Co. Ltd.'s Chikyu-jin Club began operations in 1987, few people believed that anyone could make a business of selling food produced free of chemical fertilizers, pesticides and preservatives. The term "organic food" was not well known in Japan outside of the New Age/Back-to-Nature communities with whom it has long been associated. But Hideki Inoue and the others who founded one of Japan's oldest and largest organic food cooperatives, believed the demand was there and that they could put producer and consumer together, making everyone happy, healthy and, to an extent, wealthy.

"Some consumers, as well as food growers, had started noticing the tons of agro-chemical and unnatural additives that were being used in food production," says Inoue, the president. "All of us believed that what we call 'the essence of food' had been lost. Thus, we founded Chikyu-jin Club to serve as a network between [organic] food producers and consumers."

Some people at Chikyu-jin often find themselves working seven days a week—by choice. Many employees spend their days off visiting farms and producers, offering tips and feedback from consumers, and (to an extent) seeing to it that the coop's exacting standards are being met. Indeed, Chikyu-jin will immediately drop a product—or an entire line of products—should this not be the case. In fact, the company's almost fanatical commitment to providing quality food for its customers initially led some to believe that there must have been ulterior motives behind it.

"Quite often we were asked if the real owner was a political party, a citizens' group or a religious cult," Inoue says with a smile. "People didn't believe that a corporation could be so earnest."

Although long lumped together with chanting hippies, non-mainstream religions, healing music and alternative lifestyles, organic food (yuki) has now become big business in Japan—and is getting bigger. Statistics vary on the size of this market because of organic certification issues. Nonetheless, according to figures provided by the government's Japan External Trade Organization (JETRO), the Japanese organic food market has gone from ¥30 billion per year in fiscal 1990 to ¥350 billion in fiscal 2000, representing more than a tenfold increase over a decade. By some estimates, almost half-a-trillion-yen worth of organic food was sold in Japan during 2001.

Consumer concerns

This rise in organic food consumption has been fueled by consumer concerns related to genetically-modified foods, Japanese-bred cows infected with bovine spongiform encephalopathy (BSE, or mad cow disease) and a milk poisoning scandal. Japan's biggest dairy-product maker, Snow Brand Milk Products Co., has been in the dubious spotlight since 2000. In the summer of that year, over 13,000 consumers in western Japan fell ill after drinking the company's products. Bacterial toxins

in powdered skim milk from Snow Brand's Taiki factory in Hokkaido, used to produce low-fat milk and yogurt drinks in their Osaka factory, was the culprit. Then there were a series of meat scandals involving employees of its subsidiary, Snow Brand Foods Co. In late September, workers falsely labeled beef from northern Hokkaido, where the first case of mad cow disease had been discovered earlier that month, as coming from southern Kumamoto prefecture, then shipped the 20 to 30 kilograms to 10 wholesalers and retailers in the Kansai region. Later, in October, employees repackaged 13.8 tons of Australian beef as domestic meat to claim government compensation under a state-run beef buyback arrangement due to the BSE scare. In February, news reports had sources saying that investigators suspected Snow Brand's Kansai Meat Center in Hyogo prefecture of not selling domestic beef under the buyback plan in order to avoid generating losses. Next, it was revealed in February that excessive inventories of butter, which had resulted from the June 2000 food-poisoning scandal, had been tested for quality, repackaged after their expiration date and delivered in January to the company's factories for use in processed milk and ice cream. Prior to the scandals, some 30% of the subsidiary's sales were in the meat-product sector, but by April, Snow Brand Foods opted to disband because sales had plummeted to 20% of their pre-scandals' level.

Japan's growing hunger for organic food could breathe new life into the nation's shrinking agricultural sector and prove to be a windfall for foreign producers of organic products, most of which are based in the U.S.

The selling points of organic and chemical-free food appeal to a wide variety of consumers. Those that are environmentally and socially conscious are attracted by the idea of buying products aimed at protecting the environment, preventing soil erosion, helping out small farmers and reducing fossil-fuel consumption. Others are pleased with the idea of keeping dangerous, carcinogenic chemicals off their plate, and the fact that organic food usually tastes a lot better than that produced on a large factory farm. Professional chefs at top restaurants often use organically grown ingredients in their recipes, though they often don't advertise the fact.

Mail-order business

An American who has already capitalized on the Japanese taste for pure food is Connecticut-born Jack Bayles. A 20-year resident of the Far East, he began a small, organic food mail-order business aimed at foreign residents back in 1987. Since Bayles and his Taiwanese-born wife Fay Chen began Tengu Natural Foods in their living room, their company has grown into one of the largest organic food importers in Japan. The company, officially known as Alishan, is now headquartered in an imported red New England-style barn, called the Alishan Organic Center. It's in a remote corner of Saitama, in Hidaka city, near Koma station (a one-hour train ride from Ikebukuro). Several warehouses, on site and nearby, stock more than 300 items regularly delivered to consumers, restaurants and retailers of all sizes.

"As a culture, North Americans worry about their hearts, while Japanese worry about their stomachs. They are also very suspicious of food from afar," says Bayles, sitting in Alishan's new organic café, overlooking the Koma River. "Well, you can be less suspicious of the food if it is organic because there are different people in organizations along the way that are inspecting the food and verifying its method of growth."

Like almost everyone feeding the Japanese demand for organic food, Bayles has seen exponential growth the past few years that is being driven by a growing number of food contamination scandals in Japan. He cites the Snow Brand debacle, the 1996 O-157 E.coli bacteria outbreak, as well as the mad cow disease and the way the authorities have handled it, as making the Japanese "increasingly paranoid and convinced that the food industry doesn't care about the consumer. Given that, for sure, there will be more bad news coming down the pike; the future for organic is very good."

Bayles goes on to explain that the traditional pride in workmanship that has always been a selling point in the Japanese market is also being adopted by domestic organic farmers.

"When you go to a natural food store in Japan and you buy a carrot, you will probably see the name and the photo of the farmer who grew the vegetable," he says. "That's not so common in North America." He adds that Japanese organic consumers are demanding to a degree "unfathomable" to most retailers, even by Japanese standards. "They know their stuff, they read

their labels,” Bayles notes. “Here, it is algorithmic how knowledgeably and how closely they scrutinize the product.”

Attracting attention

The Japanese organic market has not yet shown up on the radar screens at most financial institutions, but it is beginning to attract attention. “The entire Japanese food industry is about ¥40 trillion in size, so the organic industry is still very small,” says Masaaki Yamaguchi, senior analyst at Nomura Securities Co. “However, people tend to be very health-conscious in Japan, so food producers can promote organic and similar food products very easily.”

The analyst goes on to explain that the Japanese demand for health-conscious foods can best be demonstrated in the number of TV shows dedicated to healthy food products. Usually, processed foods such as natto (fermented soybeans), miso (soybean paste), soy sauce and other traditional products are involved. Often, these foods are produced using organic ingredients. Getting your product on a TV program viewed by millions of homemakers can do wonders for a company’s bottom line.

“Very often the day after a product is featured on one of these programs, any store carrying it will be out of stock,” says Yamaguchi. “The stuff just flies off the shelves.”

Most experts are saying that the real money to be made in Japan’s organic industry, as far as imports are concerned, is with raw materials provided to domestic packaged-food producers—due to Japan’s preoccupation with food self-sufficiency.

Like with any new industry that requires quality control, though, fraud can be a serious problem. For many years, the term “organic” had no real definition. Given that it comes from the ground and is made up of bio-matter, for instance, crude oil could fall under certain definitions of an organic substance.

In the 1980s, third-party organic certifiers started to come into existence, operating very much like the organizations that award ISO certifications to industrial firms. They have the capability to go to a food processor, farmer, retailer or anyone else along the development line—from the soil to the grocery bag—and determine if any and all processes meet one or more of several different international standards. If they do, the company under inspection receives a seal of approval and can legally call its product “organic.”

“The BSE crisis has raised people’s awareness of where their food comes from,” says Donald Nordeng, president of ECOCERT-QAI Japan, Ltd., one the leading organic certifiers in Japan. “If you are a producer of organic products, now is the time to get established in Japan and get your products into the market.”

Nordeng set up QAI Japan in 1996 as a subsidiary of Quality Assurance International, the leading U.S. organic certificate issuer based in San Diego, California. The company became formally incorporated in 2000 so as to qualify to grant Japan Agricultural Standards (JAS) to its clients. Earlier this year, Europe’s leading organic certifier, ECOCERT SA, bought into QAI Japan. The new company now has the ability to grant organic certification using all major international standards, including those of the U.S., the EU and Japan. ECOCERT-QAI processes the certification for some 80 producers in Japan, China and several other counties. Among its more well-known Japanese clients are Kikkoman Corp., Yamasa Corp., Takanashi Milk Products Co., Ltd. and Nippon Del Monte Corp.

The certification process is a very complicated procedure, according to Nordeng. “No one passes the first time.”

He’s sharing his thoughts while sitting in his futuristic office at Kanagawa Science Park, Inc. outside Tokyo, sipping on a cup of organically grown coffee. “That does not necessarily mean that they don’t meet the standards,” adds Nordeng. “It usually means they need to improve their audit-trail system, which is the key component of organic production.”

Nordeng, like most in his industry, predicts at least 20% growth per annum for the foreseeable future. However, not everything is bright and sunny on the organic horizon. There is growing concern over the issue of generically-engineered food products and its impact on who will control the world’s food supply.

“Biotech has pretty much destroyed the organic canola market,” says Nordeng. “It is now virtually impossible to grow organic canola anymore. That is because most was from Canada, but a recent court decision there has effectively ended it.”

The Canadian court decision has sent a shockwave through much of the international food industry. A Canadian canola farmer was sued by a maker of genetically modified seed for “illegally infringing on their patent.” The farmer claimed that pollen of the genetically modified seed had blown onto his fields, contaminating them and effectively destroying a strain of canola the farmer had developed over 40 years. He lost the suit, however, and was ordered to turn over his entire crop to the seed maker. The case is still on appeal and has fueled the international controversy surrounding genetically modified food. (The entire story can be found at www.percyschmeiser.com.) Similar cases are expected to be played out in courtrooms around the world in the coming years.

Most of Japan’s supermarket chains still mainly supply food that was grown using what many consider the old fashioned method of applying generous amounts of pesticides, herbicides and petrochemical-based fertilizers. Most experts agree that the food-quality issue will continue to be of major concern to Japanese consumers. One reason is that as Japan’s population continues to age, more and more people will take an interest in their bodies and what they put into them. And with Japan still considered an affluent country, people like Tengu’s Bayles believes the future of organic foods in Japan is as green as it gets.

“If people want to live a long time, they want to live right,” he says. “And people who start to think about their food intake will naturally come to organic.”

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