

# 1. Coffee

This chapter defines coffee according to the H.S. code of the Tariff Schedule (Fig. 1-1), covering green coffee beans, regular coffee, instant coffee, and extracts, etc. Coffee beverages (excluding the products categorized as milk beverages) are discussed in the soft drink chapter instead of this chapter.

**Fig. 1-1: Scope of coverage for coffee in this chapter**

Item name	Description	H.S. code
Green coffee beans	Seeds prepared by removing the outer and inner skins and pulp from the fruits of coffee tree produce. They are dried in the next processing step.	0901.11-000 0901.12-000
Regular coffee	Roasted coffee beans prepared by roasting green coffee beans from coffee tree fruits. This category also includes coffee products prepared by grinding these roasted beans.	0901.21-000 0901.22-000
Instant coffee	Coffee in soluble powder, granules, and other solid forms prepared by drying extracts of roasted coffee beans.	2101.11-210 2101.12-121
Coffee extracts, essences	Concentrated extracts of coffee beans, which are used for industrial or processing purposes, such as canned coffee, coffee candies and other confectioneries, etc.	2101.11-100 11-290, 12-110 12-122

## I. Points to Note in Exports to and Sales in Japan

### 1. Relevant Laws and Institutional Regulations

#### (1) Regulations and Procedural Requirements for Importing to Japan

The importing of coffee is subject primarily to 1) the Plant Protection Act, 2) the Food Sanitation Act, and 3) the Customs Act.

##### <Plant Protection Act>

Dried green coffee beans that have not been heat-processed are handled as fresh produce, and undergo quarantine procedures, including screening for contamination by pests or harmful plants, under the Plant Sanitation Act. Quarantine procedures performed at airports and ports are under the authority of the regional Quarantine Stations. Roasted beans and processed products are exempt from the Plant Protection Act, and subject only to food sanitation inspection under the Food Sanitation Act.

##### <Food Sanitation Act>

In compliance with Notification No. 370 of the Ministry of Health, Labour and Welfare, "Standards and Criteria for Food and Additives" issued under the Food Sanitation Act, and the standards for pesticide residues, etc. (including feed additives and drugs for animals) which are included therein, coffee is subject to food sanitation, which is conducted to assess the types and details of the raw ingredients, and to test the types and contents of additives, pesticide residues, mycotoxins, and so on. Import bans may be imposed on food in the event of an additive, pesticide, or other contents which are prohibited in Japan, when their levels exceed approved limits, or when the presence of mycotoxins, etc. is above allowable levels. Accordingly, coffee and products should be checked at the production site prior to import. If levels exceed the limits of Japanese standards, guidance should be given.

Pesticide residue standards adopted a negative system until 2006, under which pesticides would not be subject to control if there was no requirement for them. Amendments to the law introduced a positive list system, however, and the distribution of products is now prohibited in principle if they contain a specific level of pesticides, etc. even if there is no established requirement.

Green coffee beans are subject to monitoring performed by the Ministry of Health, Labour and Welfare Quarantine Station, in accordance with its annual schedule. Should violation of the pesticide residue requirements be detected, screening is conducted more frequently. If violations persist, compulsory testing is imposed, in which all lots are tested at the expense of the importer. As of March 2011, green coffee beans subject to such compulsory testing are those produced in Ethiopia for  $\gamma$ -BHC (lindane), DDT, heptachlor, or chlordane that may potentially be detected; and those produced in Indonesia are tested for carbaryl.

##### <Customs Act>

Under the Customs Act, the importing of cargo with labeling that falsifies the origin of the contents, etc. is banned.

## **(2) Regulations and Procedural Requirements at the Time of Sale**

There is no specific law applicable to the sale of coffee. Regulations relevant to sales are summarized below.

### **<Food Sanitation Act>**

Under the Food Sanitation Act, the sale of products that contain harmful or toxic substances or those with poor hygiene is prohibited. Sales of coffee in containers and packaging are subject to mandatory labeling under the Food Sanitation Act, and provisions concerning safety labeling such as indication of food additives, allergy information, raw ingredients and source, and genetic modification, etc. are applicable.

### **<Product Liability Act>**

The Product Liability Act stipulates the liability of manufacturers, etc. for damages to consumers in association with product defects, and importers are included in the category of manufacturers, etc. Coffee sold as processed food is subject to the Product Liability Act, and care should be taken for safety management in relation to food-poisoning outbreaks, contents, and containers and packaging.

### **<Act on Specified Commercial Transactions>**

The Act on Specified Commercial Transactions stipulates the protection of purchaser interests in the direct commercial transactions made with consumers. Sales of coffee in such routes as mail-order, direct marketing, telemarketing, etc. are subject to provisions of the Act on Specified Commercial Transactions.

### **<Act on the Promotion of Sorted Garbage Collection and Recycling of Containers and Packaging>**

Under the Act on the Promotion of Sorted Garbage Collection and Recycling of Containers and Packaging, importers, etc. that sell contents using containers and packaging that are controlled by the Act (parts of paper containers and packaging, and plastic containers and packaging) shall be liable for recycling (however, small-scale enterprises of below a certain size are excluded from among enterprises subject to the Act).

## **2. Procedures**

### **(1) Procedures for Authorization of Importing and Sales**

#### **<Plant Inspection>**

Because the Plant Protection Act rules that the bulk importing of green coffee beans is handled only at certain seaports and airports that are capable of sufficient plant protection measures for the purpose of preventing diseases and pests from entering the country, care should be taken in selecting the seaport/airport of entry before exporting from the country of origin. (\*Note that not all Quarantine Stations perform plant inspection.)

In filing an application for inspection with the Ministry of Agriculture, Forestry and Fisheries Quarantine Station, one must submit the required documents (Figure 1-3) promptly after entry to port. In the event of rejection due to the detection of diseases or pests as a result of quarantine, fumigation or other measures are ordered.

#### **<Food Sanitation Inspection>**

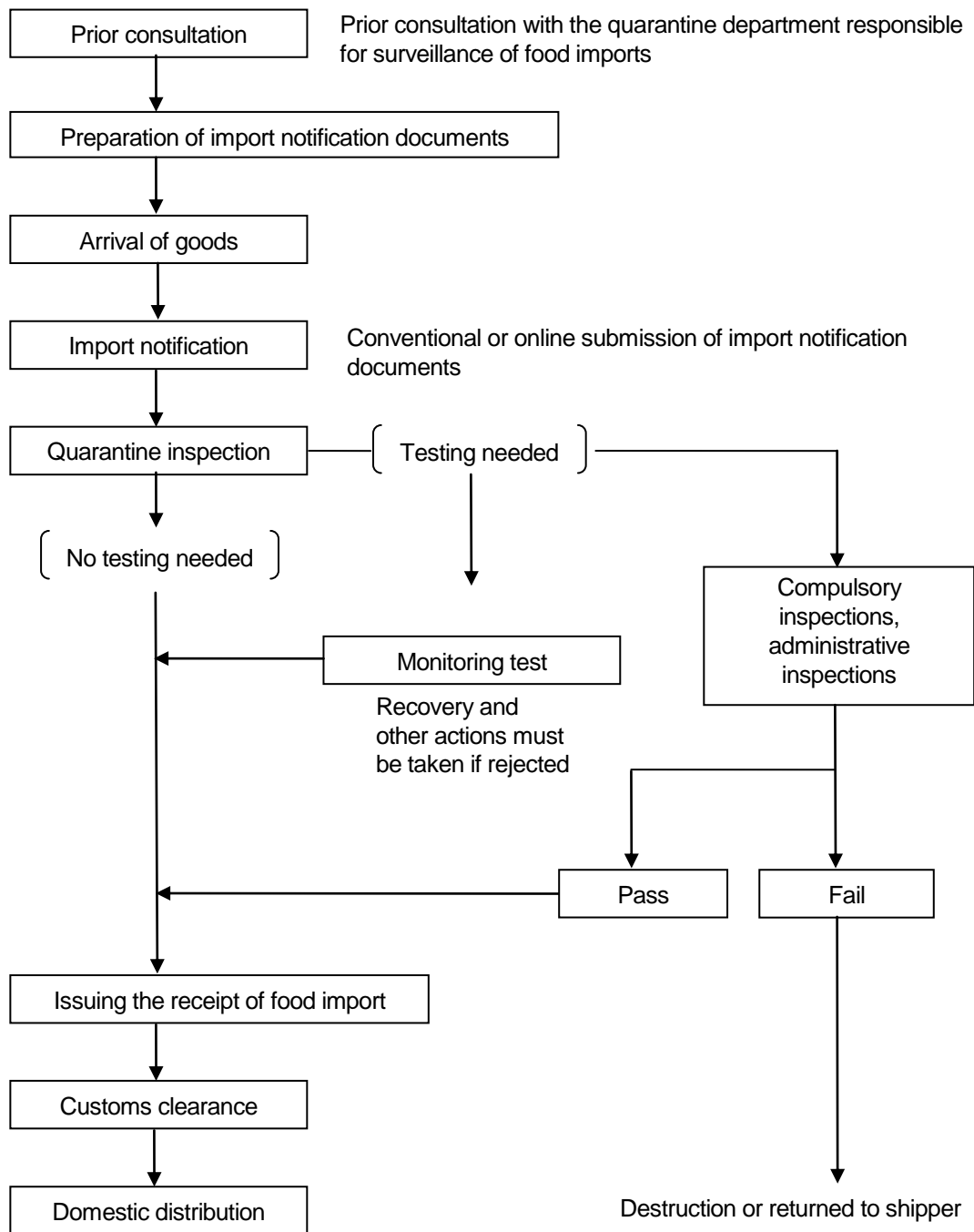
Under the Food Sanitation Act, one must submit required documents (Figure 1-3) when filing an application for inspection with the departments responsible for surveillance of food imports of Quarantine Stations at the Ministry of Health, Labour and Welfare. Inspection is conducted where it has been decided necessary to check the standards and criteria or safety issues at the initial review stage. If, as a result of the initial review and inspection, no issue has been detected under the Act, the registration certificate is returned, which the applicant shall submit, along with customs documents, upon filing an application for import with Customs. In the event that it has been ruled unfit for importing, measures such as destruction or returning to the shipper are taken (Figure 1-2).

#### **<Customs>**

Under the Customs Business Act, import declaration must be made by importers themselves or commissioned to those qualified as registered customs specialists (including customs brokers).

To accept the entry of incoming cargo arriving from a foreign country to Japan, one shall make an import declaration to the competent Customs office for the bonded area where the cargo is stored. Cargo for which customs inspection is required shall undergo required inspections first, and upon payment of customs duty, national and local consumption taxes, import permit may be given in principle.

**Fig. 1-2: Flowchart of import procedure**



Source: Ministry of Health, Labour and Welfare

**(2) Required documents**

Documents required for importing are summarized below in Figure 1-3 according to the authorities to which each document is submitted.

**Fig. 1-3: Documents required for import clearance**

Submitted to	Required documents	Green coffee beans	Processed products
Quarantine Information Office, Ministry of Health, Labour and Welfare (Plant quarantine under the Plant Protection Act)	Application for import inspection	○	—
	Phytosanitary certificate issued by the plant quarantine service of the exporter	○	—
Departments responsible for surveillance of food imports of Quarantine Stations, Ministry of Health, Labour and Welfare (Food sanitation inspection under the Food Sanitation Act)	Notification form for importation of foods	○	○
	Material/ingredient table	—	○
	Production flow chart	—	○
	Table of analysis results issued by the designated inspection institute (if there is a past record of import)	—	○
Local customs offices (Customs clearance under the Customs Act)	Declaration of import	○	○
	Invoice	○	○
	Packing list	○	○
	Bill of lading (B/L) or airway bill	○	○

Source: Ministry of Agriculture, Forestry and Fisheries; Ministry of Health, Labour and Welfare; Ministry of Finance  
○: Required —: Not required

As a phytosanitary (inspection) certificate, one should in principle submit the original copy that indicates the absence of pathogen or pest contamination, issued by the plant protection authority of the exporting country in a form in compliance with the International Plant Protection Convention. While the Convention stipulates that the phytosanitary certificate submitted to the authorities of the importing country be the original copy, the following two are deemed valid in Japan, taking into consideration such cases where the original copy is lost or the delivery of the original copy is delayed:

- a) A "carbon copy" of the original produced simultaneously; and
- b) A copy that has been proven as being identical to the original copy by the plant protection authority of the exporting country.

**(3) Competent Authorities****Fig. 1-4: Contacts of competent authorities**

<b>Plant Protection Act</b>	Plant Protection Division, Food Safety and Consumer Affairs Bureau, Ministry of Agriculture, Forestry and Fisheries	TEL: +81-3-3502-8111 <a href="http://www.maff.go.jp">http://www.maff.go.jp</a>
<b>Food Sanitation Act</b>	Inspection and Safety Division, Department of Food Safety, Pharmaceutical and Food Safety Bureau, Ministry of Health, Labour and Welfare	TEL: +81-3-5253-1111 <a href="http://www.mhlw.go.jp">http://www.mhlw.go.jp</a>
<b>Customs Tariff Act</b>	Customs and Tariff bureau, Ministry of Finance Japan	TEL: +81-3-3581-4111 <a href="http://www.mof.go.jp">http://www.mof.go.jp</a>
<b>Act for Standardization and Proper Labeling of Agricultural and Forestry Products</b>	Labelling and Standards Division, Food Safety and Consumer Affairs Bureau, Ministry of Agriculture, Forestry and Fisheries	TEL: +81-3-3502-8111 <a href="http://www.maff.go.jp">http://www.maff.go.jp</a>
<b>Measurement Act</b>	Measurement and Intellectual Infrastructure Division, Industrial Science and Technology Policy and Environment Bureau, Ministry of Economy, Trade and Industry	TEL: +81-3-3501-1511 <a href="http://www.meti.go.jp">http://www.meti.go.jp</a>
<b>Health Promotion Act</b>	Food and Labeling Division, Consumer Affairs Agency	TEL: +81-3-3507-8800 <a href="http://www.caa.go.jp">http://www.caa.go.jp</a>

**Fig. 1-4: Contacts of competent authorities (continued)**

<b>Act against Unjustifiable Premiums and Misleading Representations</b>		
	Representation Division, Consumer Affairs Agency	TEL: +81-3-3507-8800 <a href="http://www.caa.go.jp">http://www.caa.go.jp</a>
<b>Product Liability Act</b>		
	Consumer Safety Division, Consumer Affairs Agency	TEL: +81-3-3507-8800 <a href="http://www.caa.go.jp">http://www.caa.go.jp</a>
<b>Act on Specified Commercial Transactions</b>		
	Consumer Advice Office, Ministry of Economy, Trade and Industry	TEL: +81-3-3501-1511 <a href="http://www.meti.go.jp">http://www.meti.go.jp</a>
	Consumer Safety Division, Consumer Affairs Agency	TEL: +81-3-3507-8800 <a href="http://www.caa.go.jp">http://www.caa.go.jp</a>
<b>Act on the Promotion of Sorted Garbage Collection and Recycling of Containers and Packaging / Act on the Promotion of Effective Utilization of Resources</b>		
	Recycling Promotion Division, Industrial Science and Technology Policy and Environment Bureau, Ministry of Economy, Trade and Industry	TEL: +81-3-3501-1511 <a href="http://www.meti.go.jp">http://www.meti.go.jp</a>
	Office for Recycling Promotion, Waste Management and Recycling Department, Ministry of the Environment	TEL: +81-3-3581-3351 <a href="http://www.env.go.jp">http://www.env.go.jp</a>
	Food Industry Policy Division, General Food Policy Bureau, Ministry of Agriculture, Forestry and Fisheries	TEL: +81-3-3502-8111 <a href="http://www.maff.go.jp">http://www.maff.go.jp</a>
<b>Unfair Competition Prevention Act / Trademark Act</b>		
	Intellectual Property Policy Office, Economic and Industrial Policy Bureau, Ministry of Economy, Trade and Industry	TEL: +81-3-3501-1511 <a href="http://www.meti.go.jp">http://www.meti.go.jp</a>
	General Affairs Division, Japan Patent Office, Ministry of Economy, Trade and Industry	TEL: +81-3-3581-1101 <a href="http://www.jpo.go.jp">http://www.jpo.go.jp</a>

## II. Labeling

### 1. Labeling under Legal Regulations

Quality labeling of coffee products must be in Japanese and conform to the following laws and regulations: 1) Act for Standardization and Proper Labeling of Agricultural and Forestry Products, 2) Food Sanitation Act, 3) Measurement Act, 4) Health Promotion Act, 5) Act on the Promotion of Effective Utilization of Resources, 6) Act against Unjustifiable Premiums and Misleading Representations, and 7) intellectual asset-related laws (e.g., Unfair Competition Prevention Act., Trademark Act).

When selling coffee (green coffee beans) as fresh product, the importer must provide the following information on labels in accordance with the quality labeling standards for fresh foods of the Act for Standardization and Proper Labeling of Agricultural and Forestry Products: 1) product name, 2) country of origin, 3) content, and 4) name and address of importer.

When selling heat-treated coffee (e.g., processed foods), the importer must provide the following information on labels in accordance with the quality labeling standards for processed foods of the Act for Standardization and Proper Labeling of Agricultural and Forestry Products, and the similar requirements for processed foods packed in containers under the Food Sanitation Act: 1) product name, 2) ingredients, 3) content, 4) expiration date, 5) storage method, 6) country of origin, and 7) name and address of importer.

#### < Product name >

The name of the product must be provided on the label in accordance with the Act for Standardization and Proper Labeling of Agricultural and Forestry Products and Food Sanitation Act.

#### < Ingredients >

The ingredients of the product must be listed in descending order from highest to lowest content on the label in accordance with the Act for Standardization and Proper Labeling of Agricultural and Forestry Products and Food Sanitation Act.

**<Additives>**

The substance name of additives used must be listed in decreasing order from highest to lowest content on the label in accordance with the Food Sanitation Act. The substance name and use of the following eight additives must be indicated on the label: sweeteners, antioxidants, artificial colors, color formers, preservatives, whiteners, thickeners/stabilizers/gelators/bodying agents, antifungal agents, and antimold agents). For details on usage and storage standards of additives, Notification No. 370 of the Ministry of Health, Labour and Welfare "Standards and Criteria for Food and Additives" prescribes the maximum allowable limit of approved additives for each food article.

**<Content weight>**

When importing and selling coffee (processed product), the importer must weigh the product in accordance with the Measurement Act and indicate the weight in grams on the label. The product must be weighed so that the difference between the actual weight of the product and the figure indicated on the label is within the prescribed range.

**<Expiration date>**

The expiration date of the product when stored according to the given preservation method in the unopened state must be indicated on the label in accordance with the Act for Standardization and Proper Labeling of Agricultural and Forestry Products and Food Sanitation Act. As the quality of coffee does not deteriorate easily, the "best by" date should be indicated on the label.

**<Preservation method>**

The preservation method for maintaining flavor in the unopened state until the "best by" date must be indicated on the label in accordance with the Act for Standardization and Proper Labeling of Agricultural and Forestry Products and Food Sanitation Act. For coffee products which can be stored at room temperature, the preservation method can be omitted from the label.

**<Country of origin labeling>**

The quality labeling standards for processed foods, specified by the Act for Standardization and Proper Labeling of Agricultural and Forestry Products, require the country of origin to be indicated on the labels of import foods.

**<Importers>**

The name and address of the importer must be indicated on the label in accordance with the Act for Standardization and Proper Labeling of Agricultural and Forestry Products, and the Food Sanitation Act. For products processed in Japan using imported ingredients, the name and address of the manufacturer or dealer must be indicated on the label.

**<Nutrition facts>**

The nutritional components and calorie count must be indicated on the labels of coffee products (processed products) in accordance with the nutritional labeling standards prescribed by the Health Minister. The required information includes nutritional components, structural components (e.g., amino acids in protein), and types of components (e.g., fatty acids in fat).

Components must be indicated in the following order and unit:

- a) Calories (kcal or kilocalories)
- b) Protein (g or grams)
- c) Fat (g or grams)
- d) Carbohydrate (g or grams)
- e) Sodium
- f) Other nutritional components to be indicated on labels

The Health Ministry also prescribes standards on the labeling of other nutritional components and on information to be highlighted.

Labels for specified health foods must follow the respective standards and be screened for approval.

**<Organic labeling>**

The Act for Standardization and Proper Labeling of Agricultural and Forestry Products defines organic agricultural products and organic agricultural processed foods, which include coffee, as Specified JAS (JAS-certified organic). Only products which meet these standards and affixed with the JAS-certified organic mark (Figure 1-5) can be labeled as "organic coffee" in Japanese.

Organic agricultural products produced abroad and imported must be graded by one of the following methods and affixed with the JAS-certified organic mark, to be permitted to have organic labeling.

- a) Labelling of JAS-certified organic mark and distribution of organic foods produced/manufactured by overseas manufacturers certified by JAS registered certifying bodies inside and outside Japan.
- b) Labelling of JAS-certified organic mark and distribution of products by importers certified by registered certifying bodies in Japan (limited to organic agricultural products and organic agricultural processed foods).

For approach b), certificates issued by the government of a country with a grading system recognized to be of the equivalent level as that based on the Japanese Agricultural Standards (JAS), or copies must be attached as a prerequisite. As

of March 2011, the following countries are identified by the ministerial ordinance to have equivalent grading systems for organic agricultural products as Japan in accordance with Article 15-2 of the Act for Standardization and Proper Labeling of Agricultural and Forestry Products: 27 countries in the EU, Australia, U.S.A., Argentina, New Zealand, and Switzerland.

**Fig. 1-5: JAS-certified organic mark**



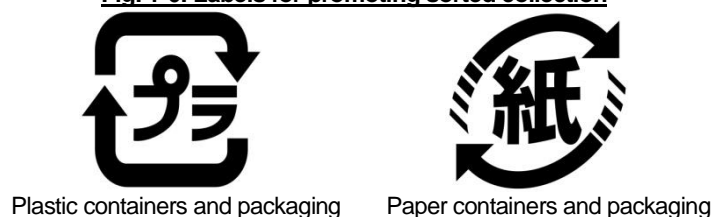
### <Containers and packaging>

The Act on the Promotion of Effective Utilization of Resources requires labeling for promoting sorted collection on specified containers and packaging. Import products which meet the following conditions are required labeling for identification by law.

- When administrative instructions have been given on the materials and structure of containers and packaging and the use of trademark for the imported product.
- When the containers and packaging of the import product is printed, labeled, or engraved with Japanese.

When the following two types of containers and packaging are used for coffee products, either or both marks shown in Figure 1-6 must be labeled on one area or more of the containers and packaging in the designated format.

**Fig. 1-6: Labels for promoting sorted collection**



Plastic containers and packaging

Paper containers and packaging

### <Description>

Product descriptions with false or misleading expressions are prohibited by the Health Promotion Act, Act against Unjustifiable Premiums and Misleading Representations, and intellectual property-related laws and regulations (e.g., Unfair Competition Prevention Act, Trademark Act), which is applicable to all articles in addition to food products.

## 2. Labeling under Industry Voluntary Restraint

The Japan Fair Trade Coffee Commission prescribes fair trade rules for the labeling of regular and instant coffee, and authorizes the use of the mark shown in Figure 1-7 on products of Council members that have been certified as bearing appropriate labels. The Council also has guidelines on the setting of “best by” dates for regular coffee and instant coffee which group products according to type and container and summarize rules on the setting of expiration dates.

**Fig. 1-7: Membership mark of Japan Fair Trade Coffee Council**



Contact:  
Japan Fair Trade Coffee Commission TEL:  
+81-3-5649-8366

### III. Taxation System

#### 1. Tariff duties, consumption tax, and other relevant taxes

Tariff duties on coffee are shown in the table below. In order to apply for preferential tariff rates on articles imported from preferential treatment countries, the importer should submit a Generalized System of Preferences (GSP) Certificate of Origin (Form A) issued by the customs or other issuing agency in the exporting country, to Japan Customs before import clearance (not required if the total taxable value of the article is no greater than ¥200,000). Details may be checked with the Customs and Tariff Bureau of the Ministry of Finance.

If the importer wishes to check the tariff classifications or tariff rates in advance, it may be convenient to use the prior instruction system in which one can make inquiries and receive replies in person, in writing, or via e-mail.

**Fig. 1-8: Tariff duties on coffee (FY2011)**

H.S. code			Description	Tariff rate					
				General	Temporary	WTO	GSP	LDC	
0901	11	-000	Coffee, not roasted Not decaffeinated	Free		(Free)			
	12	-000	Coffee, not roasted Decaffeinated	Free		(Free)			
	21	-000	Coffee, roasted Not decaffeinated	20%		12%	10%	Free	
	22	-000	Coffee, roasted Decaffeinated	20%		12%	10%	Free	
	90	-100 -200	Coffee husks and skins Coffee substitutes containing coffee	Free 20%		(Free) 12%	Free		
2101	11	-100	Extracts, essences and concentrates, of coffee and preparations with a basis of these extracts, essences and concentrates or with a basis of coffee						
			Extracts, essences and concentrates						
				1. Containing added sugar	24.0%		(24.0%)	15.0%	Free
				2. Other					
				1) Instant coffee	12.3%		8.8%		Free
				2) Other	16.0%		15.0%	Free	
	12			Preparations with a basis of extracts, essences and concentrates or with a basis of coffee					
1. Preparations with a basis of extracts, essences and concentrates									
1) Containing added sugar				24.0%		(24%)	15.0%	Free	
2) Other									
- Instant coffee				12.3%		8.8%		Free	
- Other	16.0%		15.0%		Free				
			2. Preparations with a basis of coffee						
			1) Not less than 30% of natural milk constituents by weight, calculated on the dry matter	35% + 799 yen/kg				Free	

Source: Ministry of Finance

Note 1) Special emergency tariffs may be imposed on articles if their import volume has increased by more than a specified percentage or their import price has decreased by more than a specified percentage.

Note 2) Special preferential rate is applicable only for the Least Developed Countries.

Note 3) Normally the order of precedence for application of tariff rates is Preferential, WTO, Temporary, and General, in that order. However, Preferential rates are only eligible when conditions stipulated by law or regulations are met. WTO rates apply when those rates are lower than Temporary or General rates. Refer to "Customs Tariff Schedules of Japan" (by Customs and Tariff Bureau, Ministry of Finance) for a more complete interpretation of the tariff table.

#### 2. Consumption Tax

(CIF + Tariff duties) × 5%

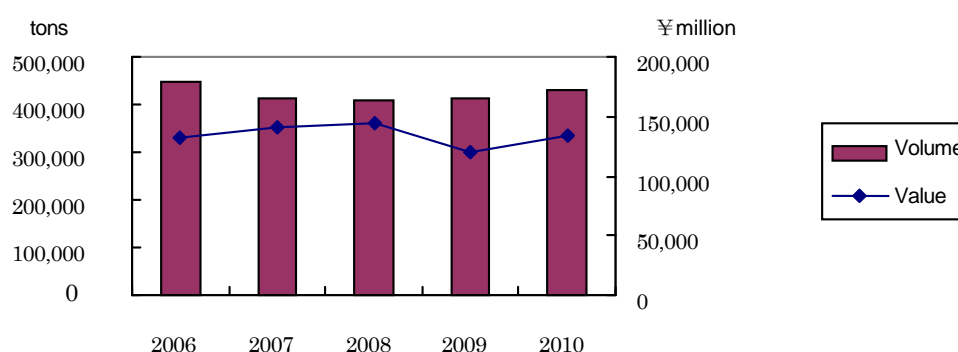


## IV. Trade Trends

### 1. Changes in Imports

In the past, trading prices for green coffee beans at the place of origin largely depended on supply and demand as well as weather conditions. However, in recent years, following the sharp rise of commodity prices in 2007, imports exceeded the previous year on a value basis despite the decrease on a volume basis, showing signs of prices continuing to be influenced by factors other than consumption trends. Furthermore, there has been a significant and rapid increase in the number of coffee consumers in emerging countries such as China and Russia. Domestic consumption is also rising in the largest supplier nation Brazil, and the supply situation has become increasingly tight. Consequently, companies are placing more importance on diversifying their suppliers.

**Fig. 1-9: Changes in coffee imports**



Source: Trade Statistics (MOF)

**Fig. 1-10: Changes in coffee imports by item**

Units: volume = tons, value = ¥ million

Item	Volume					Value				
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
Green coffee beans	422,696	389,818	387,538	390,938	410,530	113,207	117,645	122,284	101,054	116,355
Regular coffee	5,588	5,816	6,652	6,020	6,311	5,605	7,710	8,901	6,484	6,724
Instant coffee	7,444	7,089	7,850	7,400	7,445	7,828	8,230	8,860	6,982	6,909
Coffee extracts, essences	11,269	12,139	8,610	8,938	7,844	5,341	6,599	4,928	4,875	3,802
Total	446,997	414,862	410,651	413,295	432,130	131,981	140,184	144,973	119,394	133,790

Source: Trade Statistics (MOF)

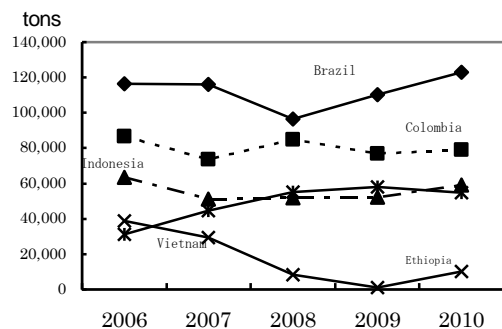
### 2. Regional breakdown

Places of origin for green coffee beans are distributed within latitude 25 degrees north and south of the equator. The top three exporters to Japan in 2010 were Brazil (123,073 tons), Colombia (79,060 tons), and Indonesia (59,068 tons), and accounted for 60% or more of the total import volume of green coffee beans. Brazil and Colombia mainly export Arabica coffee beans and Indonesia is an exporter of Robusta coffee beans.

Among African nations, Ethiopia, well known for its coffee production, exported a considerable amount to Japan, with 10,245 tons on a volume basis and ¥3,332 million on a value basis in 2010. Tanzania, famous for its Kilimanjaro Coffee, also exported 10,485 tons (75.0% vs. previous year) or ¥3,674 million (93.2% vs. previous year) in 2010. Coffee bean prices have been soaring in recent years. The average unit price for green coffee beans imported from Brazil in 2004 was ¥154/kg, but in 2010 it has risen to ¥266/kg. Brazil is not an exception, and the same situation can also be seen in other countries. In addition to the supply not being able to accommodate the skyrocketing global demand, coffee bean prices have become an object of speculation in financial markets which is another factor for the steep rise in prices.

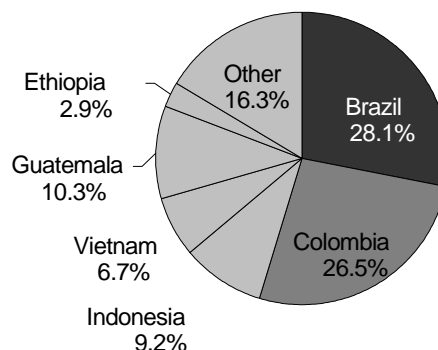
Regular coffee is produced in Japan using imported green coffee beans, and the import ratio only makes up around 2% of domestic consumption (refer to Fig. 1-17). The United States exports approximately 40% of the regular coffee to Japan, and green coffee bean producers such as Brazil and Colombia follow in line.

**Fig. 1-11: Trends in leading partner imports**



Source: Trade Statistics (MOF)

**Fig. 1-12: Shares of imports in 2010 (value basis)**



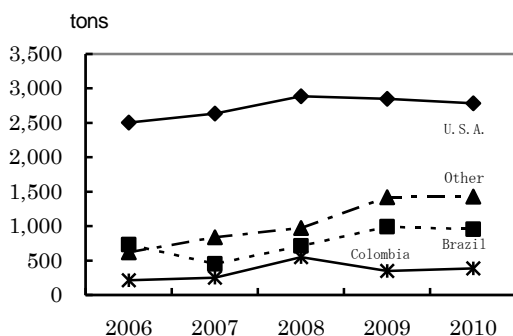
**Fig. 1-13: Principal places of origin of green coffee beans**

Units: volume = tons, value = ¥ million

Country	Volume					Value				
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
Brazil	116,507	116,074	96,406	110,214	123,073	31,291	33,645	28,944	27,376	32,678
Colombia	86,725	73,698	84,809	76,911	79,060	26,223	24,842	29,291	23,788	30,847
Indonesia	63,419	51,100	52,030	52,350	59,068	11,141	12,470	13,546	9,831	10,751
Vietnam	31,325	44,484	55,055	57,865	54,737	4,643	9,010	12,948	9,009	7,807
Guatemala	27,596	24,762	34,826	33,329	34,180	8,728	9,114	12,993	10,277	12,005
Ethiopia	38,753	29,327	8,413	1,114	10,245	10,479	8,950	2,758	452	3,332
Other	58,371	50,374	55,999	59,156	50,167	20,702	19,614	21,804	20,321	18,935
Total	422,696	389,818	387,538	390,938	410,530	113,207	117,645	122,284	101,054	116,355
(African countries)	50,417	36,579	18,085	17,498	22,093	14,128	11,460	6,129	5,244	7,639

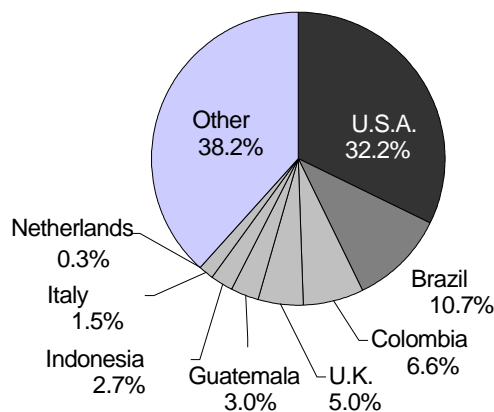
Source: Trade Statistics (MOF)

**Fig. 1-14: Trends in leading partner imports**



Source: Trade Statistics (MOF)

**Fig. 1-15: Shares of imports in 2010 (value basis)**



**Fig. 1-16: Principal places of origin of regular coffee**

Units: volume = tons, value = ¥ million

Country	Volume					Value				
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
U.S.A.	2,502	2,633	2,886	2,848	2,784	2,425	2,575	2,630	2,392	2,163
Brazil	730	451	713	990	956	527	516	719	827	717
Colombia	213	251	551	350	388	167	217	784	403	446
Guatemala	179	207	196	113	232	175	213	208	110	199
Indonesia	160	181	187	125	218	168	194	194	153	179
U.K.	209	369	641	95	212	405	736	1,296	173	333
Italy	454	538	477	77	82	471	552	473	102	102
Netherlands	519	350	28	1	13	515	382	32	1	17
Other	621	837	973	1,421	1,427	750	2,326	2,566	2,323	2,569
Total	5,588	5,816	6,652	6,020	6,311	5,605	7,710	8,901	6,484	6,724
African countries	120	297	273	267	214	153	318	277	304	267

Source: Trade Statistics (MOF)

### 3. Import Market Share in Japan

Green coffee beans are rarely produced in Japan. Hence, almost all of the domestic demand relies on imports. However, most of the regular coffee is manufactured domestically using imported green coffee beans, and the ratio of imported products in the market is small.

**Fig. 1-17: Import market share in Japan**

Unit: tons

	Statistics	2004	2005	2006	2007	2008
		<b>Instant coffee</b>				
	Domestic production	35,794	35,189	36,668	34,239	37,127
	Import volume	7,633	7,778	7,444	7,089	7,850
	Export volume	1,779	1,193	756	1,708	3,777
	Domestic consumption	41,648	41,774	43,356	39,620	41,200
	Share of imports	18.3%	18.6%	17.2%	17.9%	19.1%
<b>Regular coffee</b>						
	Statistics	2004	2005	2006	2007	2008
	Domestic production	236,000	240,500	257,020	269,275	254,019
	Import volume	4,150	4,776	5,588	5,816	6,652
	Export volume	311	311	426	364	486
	Domestic consumption	239,839	244,965	262,182	274,727	260,185
	Share of imports	1.7%	1.9%	2.1%	2.1%	2.6%

Sources: Trade Statistics for imports and exports; Food Industry Promotion Division, Ministry of Agriculture, Forestry and Fisheries for the domestic production of instant coffee; Estimates produced by Nikkan Keizai Tsushin for the domestic production of regular coffee (excluding industrial coffee)

### 4. Background of Changes in Volume of Imports and Other Trends

Imported coffee products have generally been on an increasing trend, and Japan is the third largest coffee consumer in the world (according to research by ICO: International Coffee Organization, import volume up to September 2010). However, the cost of raw ingredients is seeing a sharp rise in 2011 due to the recent development of emerging countries and the influx of speculative money into the market.

Therefore, companies have been busy dealing with this situation, announcing price hikes one after another. It appears that the present situation will affect domestic consumption trends in the future. Since the growth of products for industrial use and processing remains stagnant, new areas of production for commercial use must be sought or a new brand must be built. However, there is no doubt that cost will be the most important factor in the years to come.

## V. Domestic Distribution

### 1. Trade Practice, Etc.

Almost all green coffee beans are imported, and then distributed to instant coffee manufacturers, regular coffee manufacturers, roasters, and major retailers through import firms. The distribution channel for green coffee beans is straightforward, and the margin tends to differ according to the transaction volume. Furthermore, since the degree of processing is low, domestic sales prices tend to be susceptible to the rise and fall of the cost of raw materials.

### 2. Domestic Market Situations

The Japanese climate is not suitable for growing coffee beans. Accordingly, coffee is not grown in Japan except for an area of Okinawa Prefecture, and most of the coffee consumed domestically relies on imports.

The number of regular cups of coffee consumed per week is 4.51, ranking first, followed by instant coffee at 3.21 cups per week. The Japanese drink an average of 6.52 cups at home, and 2.77 cups at the workplace, showing a strong trend to consume instant coffee and regular coffee at home and at the workplace. Although there has been much attention placed on the health benefits of polyphenols in coffee, interest in this effect has passed and sales of coffee on the whole have levelled out.

Sales by types of coffee have been influenced by the trend to eat at home, triggered by the recent economic slump and the rise in coffee prices. Instant coffee and portion coffee packs, which are more convenient and reasonably-priced compared to regular coffee, have increased sales. Portion coffee packs refer to one-cup coffee products that can serve coffee or café au lait just by adding water or milk. Nestlé Japan and Ajinomoto General Foods together account for around 80% or more of the market share.

**Fig. 1-18: Cups of coffee consumed by a drinker per week (2008)**

Type of coffee	Cups
Canned coffee	2.05
Liquid coffee	0.82
Instant coffee	3.21
Regular coffee	4.51
Total	10.60

Source: All Japan Coffee Association

\* Subjects ranged from junior high school students to adults aged 79 or less.

**Fig. 1-19: Cups of coffee consumed by a drinker per week by place of consumption (2008)**

Place of consumption	Cups
Home	6.52
Cafe, coffee shop	0.22
Restaurant, fast-food restaurant	0.10
Workplace, school	2.77
Other	0.91
Total	10.60

Source: All Japan Coffee Association

\* Subjects ranged from junior high school students to adults aged 79 or less.

**Fig. 1-20: Changes in sales by coffee type**

Item	2006	2007	2008	2009	Unit: tons
					2010 (forecast)
Regular coffee	177,500	178,000	178,400	178,600	177,000
Instant coffee	45,700	43,000	43,800	44,900	46,100
Portion coffee pack	—	—	2,850	3,300	3,050

Source: 2011 Food Marketing Handbook No. 6, Fuji Keizai

#### (1) Instant coffee

Instant coffee is coffee in the form of powder or granules produced by drying the extract made from roasted beans, and prepared by adding hot or cold water. Thanks to its convenience and reasonable pricing, it is well established in the market as a beverage that can be easily enjoyed. Due to its nature as an item of taste, lower-priced private labels (PLs) have a very small share of the market, which is dominated instead by national brands (NBs). With increasingly intense price competition, there is a growing trend of premix instant coffee products, or instant coffee blended with sugar, milk, etc. in advance. They typically come in a packet that contains one serving, saving consumers the time of adding these themselves. In addition, there are a variety of types and flavors available, including reduced-calorie or -fat varieties and flavors such as espresso, café au lait, and café mocha. In 2010, one hot issue in this increasingly price-competitive instant coffee market was the launch of a high-end product under the Starbucks brand. On the other hand, organic instant coffee products are often available by mail order. One

leading instant coffee manufacturer, for example, offers four kinds of instant coffee made from coffee beans organically grown in Ethiopia, Columbia, Brazil, and Jamaica, under the brand of Organically Grown Coffee.

In the instant coffee market, Nestlé Japan occupies a share of close to 60%, followed by Ajinomoto General Foods with an approximate 30% share, together commanding about 90% of the market. Major brands produced by Nestlé Japan include Nescafé Gold Blend and Nescafé Excella, and the Maxim and Blendy product lines by Ajinomoto General Foods. Both manufacturers offer their coffee in jars or in the refillable form of plastic bags or paper pouches.

\* Private label (PL) products are those for which a retail company or wholesaler is involved in product development and labels under its own brand. Advertising or handling by a wholesaler is not required, and items can thus be priced lower than manufacturer brands.

National brand (NB) products, meanwhile, are those that are developed and marketed by manufacturers.

## (2) Regular coffee

Regular coffee is coffee made by grinding roasted coffee beans or roasted beans. As in the case of instant coffee, national brand (NB) products make up most of the market share.

The share according to usage showed around 60% for consumption at home, 20% for commercial use such as in cafes, and another 20% for industrial use or processing, such as for canned coffee. For home use, the spread of simple-extract type drip coffee packages which include ground coffee beans (powder) and a filter for one cup, and coffee brewers or espresso machines have contributed in expanding consumption of regular coffee at home. Coffee is also sent as gifts during the midsummer and year-end gift giving seasons.

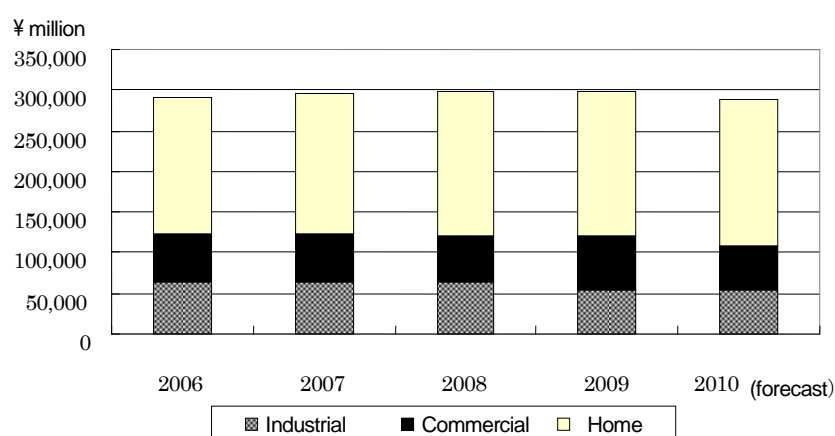
Top-manufacturer-produced regular coffees sold at mass merchandisers include the comparatively low-priced Original Blend, which makes up the largest share, followed by the Mocha Blend, the Kilimanjaro Blend, and the Blue Mountain Blend. Top exporters of coffee beans (green coffee beans) to Japan are Brazil, Colombia, Indonesia, Ethiopia, and Vietnam (refer to Fig. 1-13). These top supplier countries except for Vietnam are well known as producers of coffee beans. Therefore, regular coffee sold in stores is usually displayed according to the country of origin, and consumers select beans from the country of their preference. Since most of the coffee beans from Vietnam are Robusta beans, they are rarely used for regular coffee and instead used as processing material for instant coffee or canned coffee. The same can be said for Indonesian coffee beans, of which Arabica beans are distributed for regular coffee, and Robusta beans are mainly used for processing. Furthermore, organic or pesticide-free regular coffees are sold mainly through mail-order channels or organic grocery stores as premium products.

Coffee for commercial use is seeing a declining trend, due to consumers becoming hesitant to stop by cafes or coffee shops because of the stagnant economic conditions.

Coffee for industrial use is mainly used in canned coffee and liquid coffee. Since sales of these products have remained flat, sales of coffee for processing have also generally remained unchanged.

The regular coffee market has not become as oligopolistic as the instant coffee market with UCC having the top share, and Key Coffee second in line. These companies account for around 30% of the market share.

**Fig. 1-21: Changes in coffee sales by use**



Source: 2011 Food Marketing Handbook No. 6, Fuji Keizai

**Fig. 1-22: Changes in sales by use and ratio**

Unit: ¥ million

Use	2006	2007	2008	2009	2010 (forecast)	Ratio
Home	168,800	173,000	177,800	178,800	179,300	62.1%
Commercial	58,200	57,500	56,000	65,600	54,300	18.8%
Industrial	64,700	65,200	64,800	55,000	55,000	19.1%
Total	291,700	295,700	298,600	299,400	288,600	100.0%

Sources: 2008 Food Marketing Handbook No. 5, 2009 Food Marketing Handbook No. 5, 2010 Food Marketing Handbook No. 6, 2011 Food Marketing Handbook No. 6, Fuji Keizai

**(3) Cafes, coffee shops**

94% of eateries that serve coffee are full-service type cafes. Many of the cafes are operated independently, and some of them sell home-roasted coffee beans retail. The number of cafes has been dwindling due to the spread of self-service coffee shop chains such as Starbucks Coffee or Doutor.

Self-service type coffee shops have been able to serve coffee at a lower price compared to cafes, precisely by adopting the self-service system. These coffee shops have been increasing the number of stores by taking up the demand from cafes. Furthermore, Seattle-based coffee shop chains such as Starbucks Coffee and Tully's Coffee have opened outlets in Japan, taking into consideration the demands of female customers by serving new espresso-based coffees such as café lattes despite expensive pricing. This has led to an increase in the number of branches. "Diverse-crop type" coffee shops are services that serve coffee during the daytime and turn into bars that serve alcoholic beverages in the evenings.

**Fig. 1-23: Changes in the number of coffee shops**

Unit: shops

Category	2006	2007	2008	2009	2010 (forecast)	Ratio (forecast for 2010)
Cafe	73,100	72,000	71,100	70,200	69,400	94.3%
Coffee shop	3,510	3,630	3,780	3,840	3,930	5.3%
Diverse-crop type	200	230	260	260	265	0.4%
Total	76,810	75,860	75,140	74,300	73,595	100.0%

Source: 2010 Restaurant Industry Marketing Handbook Vol. 2/2, Fuji Keizai

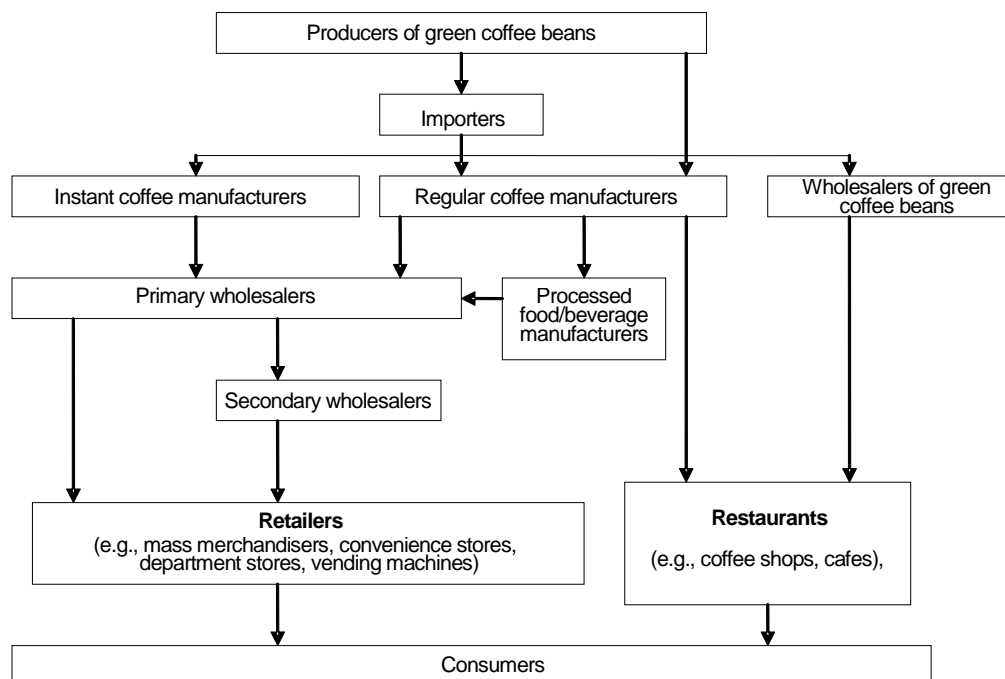
**(4) Other**

For offices, OCS (Office Coffee Service), has been popular with coffee services using rental espresso machines or coffee servers. Since continuous sales of coffee beans leads to the company's profits, the quality of coffee beans has become an important aspect and companies are showing keen interest in organic coffee beans etc.

### 3. Distribution Channels

The general distribution channels for coffee are as illustrated below in Fig. 1-24.

**Fig. 1-24: Distribution channels for coffee**



Source: Fuji Keizai research data

Green coffee beans are delivered to domestic manufacturers, wholesalers specializing in green coffee beans, and roaster companies etc. through importers. Some major regular coffee manufacturers even have contract farms.

Regular coffee consumed in the household is delivered from leading regular coffee manufacturers to food product wholesalers. Wholesalers then deliver the products to retail stores such as supermarkets, and finally it reaches the consumer. Regarding cafes and coffee shop chains, it is generally the case that coffee beans are delivered through wholesalers specializing in green coffee beans for independently-operated cafes. However, coffee shop chains also sometimes receive coffee beans from import firms or regular coffee manufacturers. Furthermore, some cafes managed individually sell roasted coffee beans retail. Recently, there has been a growing trend for fair trade coffee. Leading restaurant chains, coffee shop chains, and retail chain stores also have started to carry fair trade coffee. Major restaurant chains have paid a direct visit to the coffee bean producers and conducted research etc. on the farmland environment and the state of cultivation. These restaurant chains buy the coffee beans directly from the producers and sell fair trade coffee beans through mail order. Also, a large retail chain sells Mexican fair trade coffee beans grown strictly without pesticides and chemical fertilizers.

Instant coffee is distributed from instant coffee manufacturers to retail stores, via wholesalers.

### 4. Issues and Considerations for Entering the Japanese Market

Exports of green coffee beans to Japan must meet the requirements specified under the Food Sanitation Act, and also must pass the standards set for pesticide residues according to the Japanese positive list system. Since the year 2000, Japan has seen continuous food product scandals such as the issue regarding pesticide residue in frozen vegetables from China. Therefore, there is a high level of interest in issues such as pesticide residue in imported products, which may lead to reluctance in purchasing products depending on how the issue is handled upon the time of occurrence. Pesticides used in growing coffee beans must be managed in a consistent manner in terms of cultivation, storage, and transport.

**<Exhibitions>****Fig. 1-25: Exhibitions for coffee products**

Overall food products	FOODEX	
	<a href="http://www3.jma.or.jp/foodex/ja">http://www3.jma.or.jp/foodex/ja</a>	TEL: +81-3-3434-3453
	Supermarket Trade Show	
	<a href="http://www.smts.jp">http://www.smts.jp</a>	TEL: +81-3-5209-1056
Coffee	SCAJ	
	<a href="http://www.scaj2011.jp/index_e.html">http://www.scaj2011.jp/index_e.html</a>	TEL: +81-3-5400-5506
Dessert, cake, beverage	Dessert Sweets & Drink Festival	
	<a href="http://www.dainichiad.co.jp/html/fabex/deza_top.htm">http://www.dainichiad.co.jp/html/fabex/deza_top.htm</a>	TEL: +81-3-5294-0071

**5. Failure Cases****<Pesticide Residue>**

In 2008, residual pesticides exceeding approved limits were found in coffee beans from Ethiopia and Yemen, and imports of coffee green beans from both countries decreased drastically.

**6. Import Associations & Related Organizations****Fig. 1-26: Coffee importer associations and related organizations**

All Japan Coffee Association	<a href="http://coffee.ajca.or.jp/">http://coffee.ajca.or.jp/</a> TEL: +81-3-5649-8377
Japan Instant Coffee Association	<a href="http://ajca.or.jp/instant/">http://ajca.or.jp/instant/</a> TEL: +81-3-5769-6213
National Coffee Roasters Association of Japan	<a href="http://www.ncraj.org/">http://www.ncraj.org/</a> TEL: +81-3-3431-3446
The Specialty Coffee Association of Japan	<a href="http://www.scaj.org/">http://www.scaj.org/</a> TEL: +81-3-5400-5506
Japan Coffee Society info@jcs-coffee.org	<a href="http://www.jcs-coffee.org/">http://www.jcs-coffee.org/</a> TEL: +81-78-302-8880