Japan Allows Expanded Access for U.S. Beef

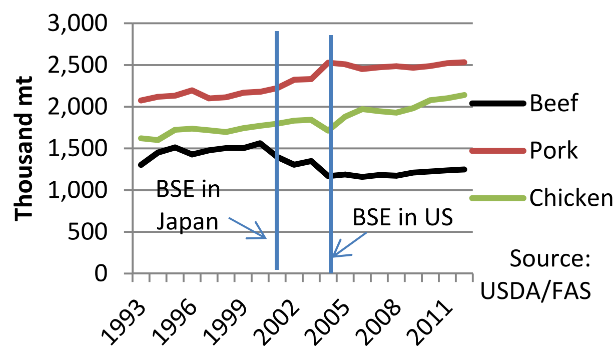
John Giamalva (202) 205-3329 john.giamalva@usitc.gov, Michael McConnell, (202) 205-3443 michael.mcconnell@informaecon.com
Agriculture and Fisheries Division, Office of Industries; Informa Economics

On February 1, 2013, Japan began allowing imports of U.S. beef from cattle up to 30 months of age. Japanese regulators had closed their market to all imports of U.S. beef in December 2003, following the discovery of bovine spongiform encephalopathy (BSE)—also known as "mad cow disease"—in the U.S. cattle herd. In 2005, Japan began allowing some imports of U.S. beef from cattle no more than 20 months of age. Japan's recent decision to raise the age limit to 30 months improves market access for U.S. beef and could potentially expand the entire Japanese beef market with lower prices for Japanese consumers. However, U.S. plans to regain market share will be challenged by two factors: (1) increased competition in the Japanese market from meats that benefited from the absence of U.S. beef—most notably beef from Australia and pork from the United States—and (2) limited U.S. beef supplies and rising prices stemming from shrinking U.S. cattle inventories.

History

Japan was the leading foreign customer for U.S. beef until 2004. Exports to Japan in 2003 amounted to 37 percent of U.S. beef exports ($1.3 billion). Japan's market was particularly valuable because its consumers were willing to pay a premium for certain high-quality, grain-fed beef cuts that are in less demand in the United States, as well as for offal (also with less U.S. demand). These complementary factors helped U.S. beef producers increase total carcass value, gaining more revenue from each processed animal. The ban brought this trade to an immediate halt.

Figure 1: Japanese Meat Consumption



The initial ban and subsequent restriction on imports of beef from cattle older than 20 months created a vacuum in the Japanese market for imported animal proteins. As a result, Japan imported more beef from other suppliers, in particular Australia. However, because most Australian beef is grass-fed, it was unable to fully capture the market that U.S. producers yielded. Japanese consumers then switched to consuming more pork and chicken, a trend exemplified by the addition of "pork bowl" on the menu of many famous Japanese "beef bowl" restaurant chains (figure 1). Japanese beef consumption was already in decline before the ban due to a BSE outbreak within Japan in 2001. Now U.S. beef producers will have to compete against these new entrants into the Japanese market—both other beef suppliers and producers of other meats—in order to recapture their market share.

Increased Opportunities for the U.S. Beef Industry

Raising the age limit for imports of U.S. beef to 30 months affects the U.S. industry in two important ways. First, the new rule will allow beef from more animals to be exported to Japan. Until the new rule went into effect, an Export Verification (EV) Program for Japan was in place that required U.S. beef be from cattle verified as no older than 20 months, using either birth records or an evaluation of carcass maturity at the time of slaughter. In the United States it typically takes 17 to 21 months to raise an animal to produce high-quality beef for export, so most high-quality U.S. beef already comes from cattle under 20 months of age. However, maintaining birth records is costly, and the standards used to judge carcass maturity are relatively restrictive, with many cattle under 20 months failing to qualify.

Nonetheless, U.S. beef exports to Japan have grown with the number of age-eligible cattle. Even before the change in regulations, the number of age-eligible cattle slaughtered in the United States grew from 1.5 million in 2008 to nearly 4.5 million in 2012, and the volume of U.S. fresh and frozen beef shipped to Japan nearly doubled. Under the 30-month standard, in addition to birth records, age can be verified by examining dentition (teeth development). This approach is less restrictive and gauges age more precisely than carcass maturity evaluation.

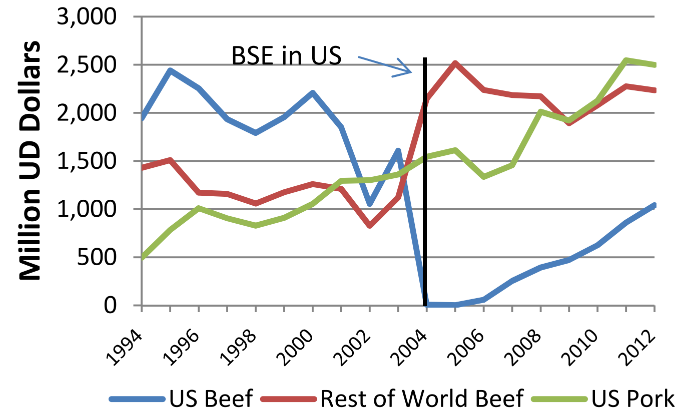
So while the new regulation will not substantially affect production methods in the United States, the pool of cattle that qualify, and therefore the supply of beef for export to Japan, will be substantially larger.

The second important impact is that the new standard brings Japan's regulations in line with those of other foreign markets, including Korea and Taiwan. This will help beef producers by simplifying the supply chain and harmonizing requirements for different customers. Previously, beef processors were required to segregate herds and production lines to meet the requirements for different destinations, increasing processing costs.

Increased Competition in the Japanese Market

Without access to U.S. beef, Japan increased its imports of beef from other suppliers (figure 2). Recognizing a market opportunity, producers in Australia have targeted the Japanese market since 2004, the first full year of the initial ban. The Australian industry has increased its capacity for high-intensity grain feeding, and the share of beef that is grain-fed rose from 6 percent in 1990 to about 31 percent in 2011. Increased imports from Australia have mostly been grain-fed beef. While droughts hampered Australia's grain and livestock production from 2006 to 2009, the industries there have started to recover. Australia likely will remain a fierce competitor, even with relaxed restrictions on U.S. beef.

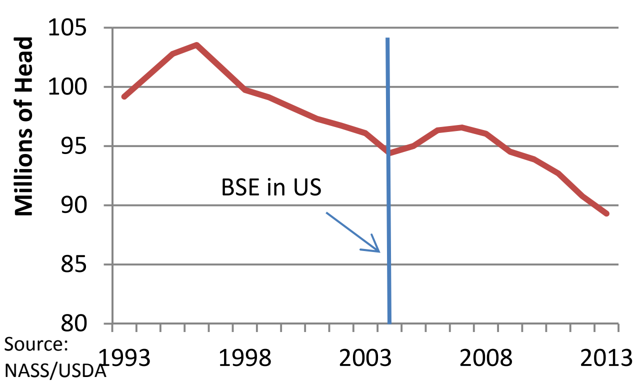
Figure 2. Japan's Meat Imports



Source: GTIS

U.S. beef is also facing more competition from U.S. pork in the Japanese market. Between 2003 and 2012, U.S. exports of fresh and frozen pork to Japan increased 67 percent in volume and 150 percent in value. By contrast, U.S. fresh and frozen beef exports to Japan were 22 percent lower in value and 53 percent lower in volume over the same period. Studies have shown that Japanese consumers are sensitive to the price of beef, and are likely to substitute pork when beef prices rise. The average import price for frozen short plate, the most popular cut of U.S. beef in Japan, increased 20 percent between the end of 2011 and 2012, while the price for frozen U.S. boneless pork cuts remained essentially flat over the same period, and Japanese consumption of pork increased. However, if increasing availability of U.S. beef lowers Japanese prices, Japanese consumers would consume more beef, expanding the beef market at the expense of pork consumption and U.S. pork exports.

Figure 3. U.S. Cattle Inventories



Source: NASS/USDA

Further complicating the picture is that the past few years have witnessed a steady decline in U.S. cattle inventories due to high feed prices, droughts, and weakened demand during the economic downturn (figure 3). Inventories will likely take at least two years to begin to recover and several more years to rise substantially. While higher slaughter weights have offset some of the decline in inventories, there is still less beef available overall, particularly for the specific cuts that are in high demand in Japan. The increased demand from Japan is encouraging, but likely not strong enough to reverse inventory trends by itself.

Sources: USITC, *Global Beef Trade: Effects of Animal Health, Sanitary, Food Safety, and Other Measures on U.S. Beef Exports*,2008; Obara, McConnell, and Dyck, *Japan's Beef Market*, USDA, ERS, August 2010; ABARE, *North Asian Markets for Australian Beef*, 1994; Australian Lot Feeders' Association, "Grain Fed Cattle Numbers Rebound Slightly." February 20, 2012; USDA, FAS, PS&D Online (accessed February 4, 2012); USDA, NASS, *Cattle* (accessed February 5, 2012); USDA, AMS, *Final Report to the Government of Japan on the USDA Maturity Study*, January 19, 2004.

Note: The views expressed are those of the authors and not those of the USITC or any of its Commissioners.