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Japan Announces New Rules for Imports of U.S. Beef

John Dyck jdyck@ers.usda.gov

Rachel J. Johnson rjohnson@ers.usda.gov

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In a decision that removes much of the import restriction on U.S. beef imposed at the end of 2003, Japan has allowed imports of beef from U.S. cattle less than 30 months of age, effective February 1, 2013. Late in 2003, Japan banned U.S. beef in reaction to the discovery of bovine spongiform encephalopathy (BSE) in the United States. In 2005, Japan reopened its market to U.S. beef imports from cattle slaughtered at less than 21 months. However, U.S. beef exports to Japan and Japanese beef consumption have not recovered to the levels they reached in 2003 and earlier. The latest action is expected to increase the volume of U.S. beef and byproducts exported to Japan; to allow somewhat lower prices in Japan for U.S. beef; and to raise the value of beef carcasses in the United States.

Japan and the United States Are Mutually Beneficial Partners in Beef Trade

Japan consumes over 1 million metric tons of beef per year, but the country's domestic beef production is limited. Japan has little land on which to graze cattle, increasing the cost of raising beef. Instead of grazing until a certain age or weight, cattle in Japan are fed intensively from weaning until slaughter, which typically occurs later than in the United States. This intensive feeding regime produces meat heavily marbled with fat, which consumers prize for its tenderness. Retail prices for Japanese beef are thus relatively high. Production of wagyu beef—referring to Japanese cattle breeds predisposed to heavy marbling—serves a specialized market that has been stable in size for the last two decades.

The market for less expensive beef for more casual uses grew in the 1990s after Japan ended its beef quota. By 2000, Japan was importing about two-thirds of the beef being consumed, and about half of those imports were U.S. beef. In Japan, grain-fed U.S. beef was preferred to imported grass-fed beef for most purposes, partly because of the tenderness and flavor of marbled grain-fed beef.

Growing concern about BSE and serious outbreaks of E. coli infections in Japan in the late 1990s and early 2000s slowed beef demand. Concerns were compounded by confirmation of a number of BSE cases in Japan beginning in 2001. To address BSE fears with Japanese

cattle, every animal in Japan was tested for BSE after slaughter. After the discovery of a case of BSE in the United States, Japan banned imports of U.S. beef at the end of 2003. Japan's measures related to BSE exceeded the recommendations of the World Organization for Animal Health (OIE). Since there was no case of BSE found in Japan in animals younger than 21 months of age, Japan began to allow the import of U.S. beef from animals under 21 months in 2005. The age restriction on U.S. beef limited imports from the United States. Because only U.S. and Canadian beef (also restricted) could provide the Japanese market with grain-fed beef on the scale the market preferred, total beef supply and total beef imports in Japan shrank and have yet to recover to the levels of 2003. In 2011, the United States exported 207,000 tons of beef (carcass weight equivalent) to Japan, the highest level since 2003, but still only 41 percent of the level exported at the peak of pre-BSE U.S. exports to Japan in 2000. U.S. exports fell slightly in 2012, to 204,000 tons.

Until 2003, Japan had been the largest market for U.S. beef and was valued as a customer by the U.S. industry because it imported certain cuts and byproducts at a higher price than U.S. consumers were willing to pay. Differences in tastes and preferences in beef products between U.S. and Japanese consumers created a mutually beneficial trading relationship. Beef products, including offals, preferred by Japanese consumers could be supplied by U.S. exporters, while the U.S. market was still provided with the muscle cuts that it most values. This raised the value of U.S. beef carcasses, and Japanese consumers were able to purchase beef at reasonable prices.

Implications of Japan's New Rules for Future Trade

Beef from most cattle in the U.S. herd now qualifies for export to Japan. Trade will become easier because age can be verified more easily using dentition. Under the previous rules, beef could be verified as eligible for export to Japan either through documentation of the animal's age or carcass evaluation by the physical grading program of USDA's Agricultural Marketing Service (AMS) demonstrating a grade of A40 or below. In practice, the physiological threshold was on the conservative side in that most A40-graded animals were 17 months or younger. Since animal traceability is often not available for U.S. slaughter cattle, beef from many U.S. cattle aged 18-20 months could not be verified for export to Japan. Under the new rules, most slaughtered animals meet physiological thresholds that show they are under 30 months by dentition. Furthermore, animals over 30 months also receive different treatment in the U.S. market (more parts must be removed from the food chain). Thus, there will be less need to give special treatment to beef destined for Japan, which will lower costs.

The new program also revises Japan's definitions of specified risk materials from bovine carcasses to make them correspond to internationally recognized standards. Beef products must be verified by a U.S. Government program, such as the AMS "LT-30" program, to be derived from animals aged younger than 30 months.¹ Beef and beef products from cattle 30 months of age and older remain ineligible for export to Japan at this time. The cuts and offals favored by Japan in 2003 and before—the short plate, short rib, hanging tender, tongue, etc.—continue to have receptive markets in Japan. Japanese buyers now have access to a larger pool of beef and products, and imported quantities are expected to increase. These products will be bid more away from current uses in the United States or other export markets, leading to stronger prices for some cuts and offals.

Greater Japanese beef imports are more likely to come from increased Japanese demand than from replacing Japan's own beef production, which satisfies a different market niche. The potentially greater supply of U.S. beef cuts and offals will allow retail prices for some products to fall in Japan, stimulating consumption of such popular meals as Korean barbecue, a major user of hanging tender and tongues, and beef on a bowl of rice, sold as a fast food. At the same time, U.S. grain-fed beef is likely to displace some beef from Australia and New Zealand, where grain feeding is less prevalent (no BSE restrictions were imposed on beef from these countries). Over time, it is reasonable to expect that the beef trade will return to levels and composition similar to that which prevailed in 2003, before the

¹ Details of the program can be found at:
<http://www.ams.usda.gov/AMSV1.0/getfile?dDocName=STELPRDC5070306>.

BSE-related disruption to trade. The U.S. export market to Japan may even return to the peak levels reached in 2000.

The potential for increased imports is supported by the history of higher imports prior to the ban on U.S. beef and a significantly larger U.S. share of Japan's imports. In 2003, the volume of Japanese beef imports was over 20 percent (120,000 metric tons) higher than in 2012, and was as much as 50 percent (290,000 tons) higher in 2000. However, the opportunities for growth in total beef imports may be limited by several factors. Japan's population is slowly shrinking and aging, which may dampen beef consumption. Current slow growth in disposable income and high global beef prices also present challenges to beef demand.

Nonetheless, trade may be expected to rebound over a multiyear period as a result of increased access to U.S. beef, which is likely to gain more share in the Japanese import market—from the 26-percent level achieved in 2012 towards the 50-percent share held in 2000-2003. At 2012 import levels, a return to a 50-percent share of Japanese imports by the U.S. would be equivalent to a 145,000-ton increase in U.S. beef and offal exports.

Potentially offsetting an increase in demand by Japan are changes in the supply and demand for U.S. beef and beef products. Lower U.S. beef cow inventories and tightening supplies are forecast to lead to declines in U.S. beef production through at least 2015. The recent decline in value of Japan's yen versus the U.S. dollar makes U.S. exports more expensive in Japan, and a looming increase in Japan's value-added tax will increase the consumer price of all products. In addition, imports by Korea, Taiwan, and Hong Kong are larger than a decade earlier, and these markets are likely to compete for some of the same beef products that are easiest to sell in Japan.

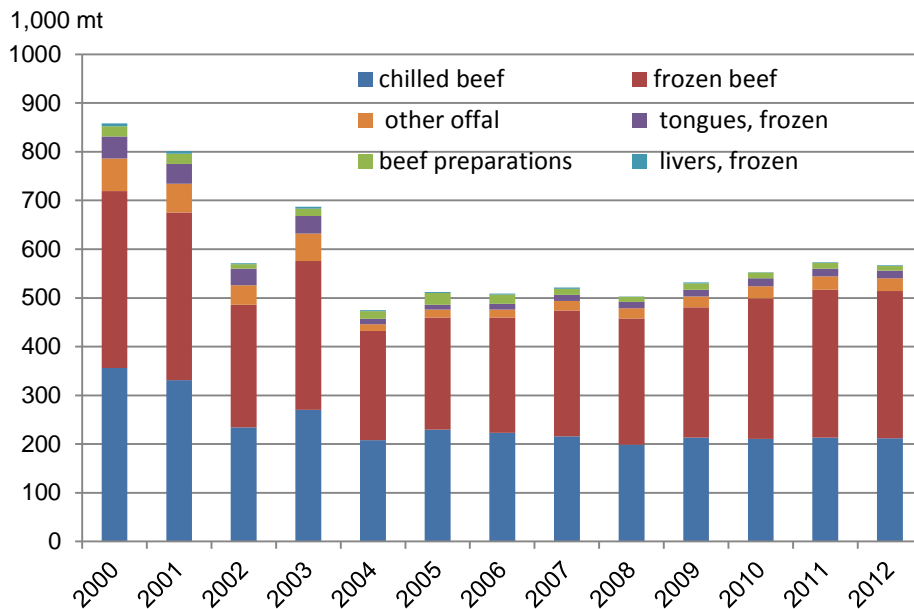
However, in the long term, the relaxation of the rules governing trade between the world's largest grain-fed cattle herd and the largest import market for grain-fed beef is likely to lead to steady increases in the volume of U.S. beef sent to Japan.

Two ERS reports provide additional information about the market for beef byproducts and the Japanese beef market:

Where's the (Not) Meat?—Byproducts From Beef and Pork Production, LDPM-209-01, November 2011
<http://www.ers.usda.gov/publications/ldpm-livestock,-dairy,-and-poultry-outlook/ldpm209-01.aspx>.

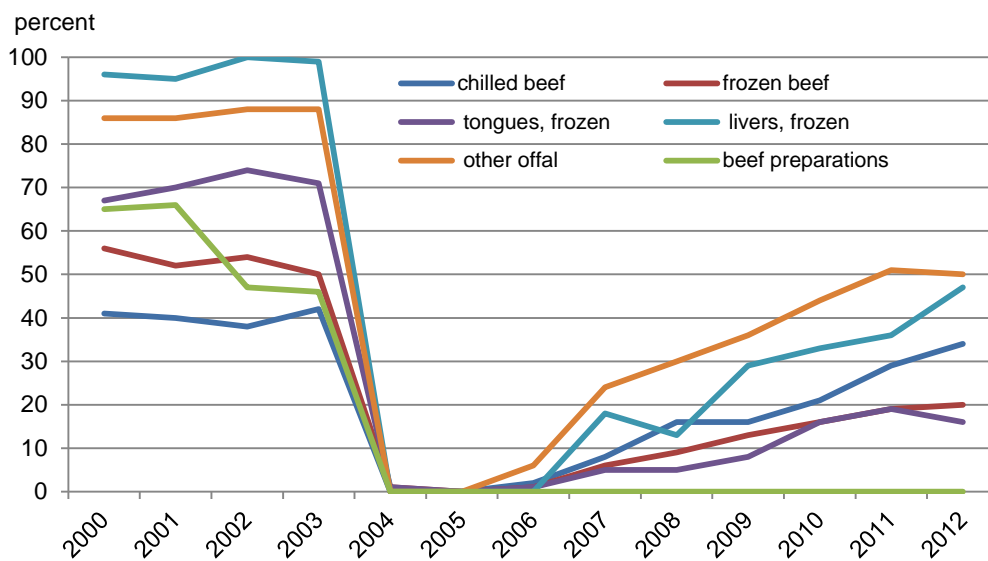
Japan's Beef Market, LDPM-194-01, August 2010
<http://www.ers.usda.gov/publications/ldpm-livestock,-dairy,-and-poultry-outlook/ldpm194-01.aspx>.

Japanese beef imports, 2000-2012



Source: USDA, Economic Research Service, using official Japan trade data in the World Trade Atlas.

U.S. share of Japanese beef imports, 2000-2012



Source: USDA, Economic Research Service, using official Japan trade data in the World Trade Atlas.