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# GAIN Report

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Voluntary  Public

**Date:** 5/15/2017

**GAIN Report Number:** JA7060

## Japan

**Post:** Tokyo

### **Beef Market Competition to Intensify in 2018**

**Report Categories:**

Agricultural Situation

Trade Policy Monitoring

Livestock and Products

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**Report Highlights:**

In 2016, U.S. chilled beef exports to Japan exceeded the 2015 volume by 50 percent. Monthly total U.S. beef exports to Japan outpaced Australian beef shipments in February 2017 for the first time in 14 years. These recent successes have occurred in spite of a comparatively stronger dollar and an eight percentage point tariff disadvantage relative to Australian chilled beef, the dominant beef supplier in the Japanese market. Given Australia's significant tariff advantage, rebounding exportable supplies of Australian beef could present challenges as early as late 2017. Keywords: JA7060, Japan, Beef, Market Share

### **From Beef and Citrus to LT30**

In 1988, the United States and Japan struck the historic Beef and Citrus Understanding, after which Japan abolished its beef import quotas on and U.S. exports rose sharply despite a considerable hike in beef tariffs. After the Uruguay Round, which brought the duty on U.S. beef down from 50 percent to 38.5 percent, U.S. beef exports to Japan reached \$2.1 billion in 1995. See the USDA/ERS paper, “[U.S.-Japan Agreements on Beef Imports: A Case of Successful Bilateral Negotiations](#)” for more information on the history of U.S.-Japan beef negotiations.

Before a detection of *bovine spongiform encephalopathy* (BSE) in the United States closed the Japanese market to U.S. beef in 2004, the United States and Australia held 46 and 49 percent shares, respectively, of the total market for Japanese beef imports. While the balance of market shares had been relatively stable prior to the BSE detection, Australia filled the void after U.S. beef was shut out; Australia commanded a 90 percent share of the Japanese beef market in 2004.

Following years of trade policy effort and effective marketing, annual U.S. beef export values have largely rebounded, exceeding the 2003 level every year since 2013, when Japan raised the age limit on U.S. cattle slaughtered for beef to be exported to Japan to the present level of 30-months. Under the USDA Less Than 30 Month Age Verification Quality System Assessment (LT30 QSA) Program for Japan, U.S. beef has been competing directly with Australia in the Japanese market. Despite the LT30 QSA’s effective limit on U.S. exportable supplies and relatively larger supplies of lower-priced Australian beef, U.S. market share increased by 30 percent in less than two years, reaching a 39 percent market share by the end of 2014.

### **An Overview of 2015-2016**

In 2015, the United States ceded four percentage points of market share directly to Australian competition. A relatively strong U.S. dollar exacerbated the effect of tight U.S. exportable supplies, pushing up U.S. export price offers for Japanese buyers. U.S. chilled beef exports to Japan were also reduced by the West Coast ports labor dispute, which forced shippers to freeze scheduled chilled beef shipments and accept lower prices. In addition, the Japan-Australia Economic Partnership Agreement (JAEPA) entered into force in January 2015 with two rounds of front-loaded beef tariff cuts pushing Japanese duties on Australian chilled and frozen beef to 31.5 percent and 28.5 percent, respectively, within three months (see Table 1). Australia was still slaughtering at a higher than average rate throughout 2015, in response to years of drought-related deterioration in pasture conditions. However, by the end of 2015, pasture conditions had improved and Australian cattle herd rebuilding had begun. At the end of 2015, U.S. and Australian market shares were 33 percent and 58 percent respectively.

With the rebuilding of the U.S. beef cattle herd well underway and with significantly larger exportable supplies, the United States was poised to reclaim Japanese market share in 2016. U.S. beef exports benefitted from a relatively stronger yen throughout much of 2016, as well as declining exportable supplies of Australian beef and declining U.S. export price offers.

Despite the considerable disparity in Japanese tariffs on U.S. beef and Australian beef in 2016 (an 11 percentage point gap on frozen beef cuts and an 8 percentage point difference on chilled cuts), overall U.S. beef exports rose to \$1.5 billion in 2016, driving market share up 5 percentage points to 38 percent. A sizable volume of chilled beef shipments drove overall U.S. beef exports to Japan up 16 percent in 2016, despite an 8 percent drop in U.S. frozen beef exports to Japan.

By comparison, Australian beef exports to Japan fell by five percent in 2016, with chilled and frozen volumes falling by eight and three percent respectively, as heavier slaughter weights helped to mitigate declines in total slaughter. Though relatively small (less than 15,000 metric tons for a 3 percent market share), Canada's total beef exports to Japan rose 35 percent in 2016, with chilled volumes up 41 percent and frozen volumes up 34 percent.

### **The Outlook for 2017**

FAS/Tokyo does not foresee any significant changes from the 2017 market outlook presented in the September 2016 Livestock and Products Annual Report (see [JA 6019](#)), in which tight supplies of Japanese and Australian beef should continue to create opportunities for U.S. beef in the Japanese market. FAS/Tokyo anticipates the U.S. market share of total imported beef cuts could climb another four percentage points in 2017 to 42 percent, largely on lower Australian volumes, which FAS/Tokyo sees falling three percentage points to 51 percent.

Similar to 2016, FAS/Tokyo anticipates U.S. beef expanding its presence on Japanese retail shelves and in food service outlets, as continued high levels of U.S. production place downward pressure on export price offers for U.S. chilled cuts and as Australian supplies (especially short-fed, chilled cuts) tighten further in 2017. The [latest USDA forecast for U.S. beef production](#) anticipates a five percent increase in 2017. The most recent Meat & Livestock Australia analysis projects total cattle (including calf) slaughter falling an additional four percent in 2017 and the [latest USDA trade forecast](#) anticipates total Australian beef exports falling five percent on a carcass weight equivalent basis.

For more details on the Japanese beef market in 2016 and FAS/Tokyo's forecast for 2017, please see the February 27, 2017 [Livestock and Products Semi-Annual Report JA7011](#).

### **Competing Supplies in 2018 and Beyond**

FAS/Canberra is projecting the Australian cattle herd at the close of 2017 to be nearly as large as at the close of 2014. With Meat & Livestock Australia projecting 2017 Australian cow slaughter to fall by nearly 30 percent from 2015 levels, herd expansion appears to be well underway. If recently improved pasture conditions persist, the necessary components for further herd increases will be in place, and Australian exportable supplies should be sufficient for export price offers to begin receding from recent highs as soon as late 2017.

FAS/Ottawa is projecting that Canadian exportable supplies will be steady, if not higher, as a continued rebuilding of the U.S. cattle herd suppresses U.S. demand for Canadian feeder and slaughter cattle.

While there are other possible suppliers of beef to the Japanese market, including New Zealand, Mexico and several European Union (EU) Member States, their abilities to compete for the U.S. share of the Japanese beef market are likely to remain limited.

### **Market Access in 2018 and Beyond**

Australia remains the United States' largest competitor in the Japanese beef market. Australian beef exports currently benefit from the JAEPA and could realize further benefits if a modified Trans-Pacific Partnership (TPP) agreement were to enter into force without the United States.

In April 2018, Australia's tariff advantage over U.S. beef will be at least as wide as the JAEPA schedule, which will provide an 11.6 percentage point advantage for Australian frozen beef and a 9.2 percentage point advantage for Australian chilled beef.

Japan, Australia and others are advocating for modifications to TPP that would allow it to enter into effect without the United States. If such an agreement enters into force in 2018, then the Australian tariff rate advantage over U.S. chilled beef would be 11 percentage points, and the gap would grow at a faster pace than what is currently scheduled under the JAEPA (see Tables 1 and 2). Canada, New Zealand and possibly Mexico could also expand their respective shares of the Japanese beef market under a modified TPP agreement that excludes the United States.

Although EU Member States' access to the Japanese beef market and EU-origin exportable beef supplies remain limited, the Japan-EU Economic Partnership Agreement, currently being negotiated, could create a tariff advantage for EU suppliers, over U.S. beef as well.

### **Conclusion**

The widening gap between tariffs paid on U.S. beef and Australian beef will make the United States' recent market share gains in Japan increasingly difficult to maintain as Australian exportable supplies recover in 2018. Improved market access for Australia and other Pacific Rim beef exporters (New Zealand, Canada, and Mexico) under a modified TPP, or a comparable successor agreement, could further reduce U.S. competitiveness in its most valuable export market.