

# Ranchers and Packers Beef Up Sales to Japan

By Hayden Stewart

Foreign-based packers and ranchers are digging their hooves into the world's largest and fastest growing market for imported beef—Japan.

The Japanese diet developed around rice, fish and vegetables, but most Japanese now eat "Western" foods as well. Modern day staples include bread, fruits, dairy products, and most recently beef.

Japanese eat less beef than Westerners, but the gap is closing. The average person in a country such as Australia or the United States annually consumes over 30 kilograms of beef (excluding bones and offal which includes organs like the heart, liver, and stomach). By contrast, the typical Japanese eats just 8 kilograms.

The surprise is that Japanese are turning to beef at a time when Westerners are shunning their traditional staple in pursuit of a leaner diet. Since 1988, Japanese have increased their per capita consumption from 4 kilograms each year to the current 8 kilograms. Over this same period, per capita consumption in most Western countries has been nearly flat or has even decreased slightly.

With sales of beef largely stagnant at home, major producers in Australia, the U.S., Canada, New Zealand, and other countries are looking for growth in Japan. In fiscal 1995, Japanese consumed 1.07 million tons of boneless beef as well as 500,000 to 600,000 tons of boned meat and offal. Imports accounted for 650,000 tons of the former as well as 300,000 tons of the latter types of meat.

Firms from Australia and the U.S. have supplied the majority of imports to date. Within the largest and most valuable segment of the market—boneless beef—they account for 48.6% and 46% of imports respectively.

Mike Hayward, manager of the Australian Meat and Live-Stock Corporation, an industry-funded group to promote exports of Australian beef, is optimistic that foreign companies will

continue to increase their sales. As beef consumption in Japan rises, he says, imports should increase faster than domestic production. "Imports could easily double again by the year 2000."

Hayward's optimism is shared by his American counterparts. Harada Susumu, director of the U.S. Meat Export Federation (USMEF), agrees with Hayward's prediction of import growth and adds that per capita beef consumption in Japan could reach as high as 12 kilograms annually within the next five years or so.

What is driving the popularity of beef? According to insiders, it is trade liberalization and efforts by overseas producers to satisfy the needs of local customers.

## Regulations and high prices

Japanese ranchers have long produced top-quality beef, known as J-beef, but their small size led authorities to consider them incapable of competing with foreign rivals. Japan's government therefore restricted imports of beef. But these measures back-fired: protectionism led to high prices that discouraged Japanese from consuming beef. The small size of Japan's beef market in turn exacerbated the problems of local beef producers who remained too small to exploit economies-of-scale.

The dairy industry is Japan's largest source of meat. In order to produce milk, dairy farmers require black-and-white Holstein cows who are either pregnant or have recently given birth. Frequent breeding is therefore necessary, and this requirement leads to a number of male and female calves. The former do not produce milk, however. Dairy farmers must either raise male calves for beef or sell them to feedlots where they can be similarly brought up.

Dairy ranchers produce the largest quantity of beef in Japan, but their product is not as famous as the beef of

ranchers who raise cattle for the sole purpose of producing meat. The beef of these latter ranchers is known as *wagyu* beef. There are some varieties of *wagyu* beef like Kobe beef, but all are taken from an indigenous Japanese cow that has eaten fatty grains for two years before its slaughter. The purpose of this period is to create an obese cow with intra-muscular fat. Beef from such animals has a "marbled" look.

Japanese regard *wagyu* beef as tasty and tender while its marbled look is considered a sign of quality. Even foreign competitors recognize the enduring reputation of *wagyu* beef. Says Ronald Trichon, chief operating officer of U.S.-based Independent Meat Co., it is "fabulous" beef.

Although Japanese beef is top-quality, high production costs hamper its competitiveness. A simple comparison illustrates the problem: Daniel Moore, international marketing manager of Australia-based Stockyard Meat Packers, reports that his company's ranch measures 65,000 square kilometers and has 120,000 head of cattle. Such a ranch is big, but not unusual. In Australia and the U.S., companies strive to achieve an economy-of-scale, including the use of heavy machinery and specialization amongst employees. By contrast, a small farm with around 50 cattle is the norm in Japan. There is correspondingly little mechanization and most employees are family members.

Inputs are also more expensive in Japan than in Western countries. Consider the following comparison: the U.S. beef industry annually produces more than 10 million tons of boneless beef, boned meat and offal. The size of production is sufficient to support companies who supply feed, nutritional supplements, and other inputs. By contrast, the annual output of all Japanese ranchers averages just 600,000 tons. Such a volume is not adequate to support suppliers of all types of inputs, forcing



ranchers to import many of these products. Buying overseas is expensive, however: feed is bulky and it must arrive in frequent shipments.

Fearing for the survival of Japan's beef industry, authorities relied on protectionism. The Livestock Industry Promotion Corporation (LIPC) was ordered by Japan's government to protect Japanese ranchers. Under the LIPC's regime, private companies could not bring foreign-grown meat into Japan; rather, the LIPC was Japan's sole importer. It determined the volume of imports (always less than profit-seeking companies would have imported), established a corresponding quota, and invited foreign companies to bid for a share of the quota.

Protection did not lead to an increase in local production, however: high prices merely discouraged consumption. There was a wide range of price and

quality for J-beef, but one would not be surprised to pay ¥1,000 for 100 grams of wagyu steak or ¥600 for a similar quantity of Holstein beef. People ate beef, recalls the USMEF's Harada, but it was too expensive for the average Japanese to consume as a staple.

### Market liberalization

Trade negotiators from the U.S., Australia and other countries initiated Japan's current beef boom. In 1988, they signed an agreement with authorities in Tokyo. The LIPC was ordered to stop setting quotas from April 1, 1991 when private companies would be allowed to import beef. In place of the quotas, a 70% tariff would be instituted. The agreement also stipulated that this tariff would fall in stages over nine years, reaching a permanent level of 38.5% in the year 2000.

Foreign businessmen are neither

entirely happy with the present regulatory system for imported beef nor are they upset. The Australian Meat and Live-stock Corporation's Mike Hayward reports that problems remain unsolved, but they are "minor."

The current tariff of 46.2% is one problem. However, it will fall by another 1.9% per year until 2000. Moreover, there is clear evidence that consumers and importers are benefitting.

Despite the high tariff, prices are coming down for imported and domestic beef. In 1990, one leading retailer, Daiei, began to sell 100 grams of imported steak for ¥458. This same meat costs just ¥338 today. In addition, USMEF's Harada estimates that imports have dragged down prices for Holstein beef by about 40% on average, while wagyu costs 20-30% less. Prices for the two varieties of domestic meat have fallen by different amounts because the



An example of Australian Meat and Livestock Corporation's efforts to promote Aussie Beef in Japan.



former is similar to imported meat in terms of quality whereas the latter continues to enjoy an esteemed position.

High tariffs have hardly slowed the growth of imports either. Imports of boneless beef have more than doubled since 1988 when they measured just 285,000 tons. Importers' share of the market has similarly risen from 40% to 58%.

The rapid growth of imports has led to some conflict over the tariff structure. According to a clause in the pact between Japanese and international trade negotiators, if tariffication leads to a surge in imports, then the tariff can be increased to 50%. Last year, this clause was enacted against imports of frozen beef. Other types like fresh-chilled beef were unaffected.

Foreign business people do not agree that an increase in tariffs was necessary. Japanese trade negotiators originally feared that a surge in imports would damage domestic producers, but this worst-case scenario has not occurred. In fact, the rapid growth of Japan's beef market has allowed domestic ranchers to maintain a stable level of output.

## Expanding the market

Because Japan is the world's largest and fastest growing market for imported beef, says Hayward, the Australian Meat and Live-stock Corporation and many individual companies are dedicating "the bulk of their resources" to expanding sales here. Ranchers in Australia and the U.S. already depend on Japan for 44% and 52% of their total exports respectively.

A recent wave of Japanese investment in Australia and the U.S. is further underlining ties between Japan's beef market and foreign countries. According to Hayward, Mitsubishi Corporation, Nippon Ham, Itoh Ham, and other leading domestic companies now operate ranches in Australia which focus on raising beef for export to Japan. Other firms like Daiei produce beef in the U.S. for sale in Japan.

Because they are committed to this market, foreign and Japanese importers have spent billions of yen to promote their beef in Japan. They are not only

offering reasonable prices and developing products for the country, but they are undertaking promotional campaigns.

These efforts are not designed to foster competition between foreign and domestic producers, says USMEF's Harada. "Our basic goal is to expand the overall market."

Regular television commercials and in-store demonstrations are a major part of promotional efforts. The Australian Meat and Live-stock Corporation, for one, sponsors a series of in-store demonstrations three times each year. This spring's campaign included 8,000 demonstrations at supermarkets around Japan over March, April and May.

Low prices have been another factor in popularizing the consumption of beef. When the market was liberalized in 1991, recalls Harada, "rampant discounting" ensued. Supermarkets introduced beef for up to 50% less than previous prices. Middle-income Japanese could then afford to consume beef as a staple, and makers of prepared foods could also use beef in their own low-priced products.

Although the low-end and middle segments of Japan's beef market have been stimulated by inexpensive prices, the high-end of the market has been nurtured by inexpensive prices and a sensitivity to local tastes. A case in point: Australians have traditionally fed grass to their cattle, but they now supply some herds with grains like barley, oats, and sorghum. On the view of most Australians, grass is cheaper than grains and the taste is nearly identical. But Australian executives also recognize that people in other parts of the world feel differently: both Japanese and Americans tend to regard grain-feeding as superior. Marc Sauvage, export sales and marketing manager of Australia-based Tender Plus, is one of these executives. His company provides high-end products to members of the food services industry, including a few five-star hotels and restaurants. Sauvage reports that Tender Plus can supply either grass-fed or grain-fed beef, but "Japanese tend to prefer grain-fed."

In addition to supplying grain-fed beef, ranchers from Australia and other

countries are making a number of other commitments. U.S.-based Independent Meat, for one, cuts, packages, and freezes beef in accordance with the demands of particular customers. Says Ronald Trichon, most of his customers are airlines, hotels, and other institutions who appreciate the convenience of serving-size packages. And they also like frozen beef which has a longer shelf-life and can be used at the establishment's convenience.

Australia-based Stockyard Meat Packers is striving in different ways to serve its customers who are primarily supermarkets. These establishments prefer "fresh-chilled" beef to frozen, says Daniel Moore. Retailers sell raw meat and many believe that freezing can damage taste and coloring. Although it remains a debate whether such claims are true, Stockyard Meat Packers has made the decision to sell fresh-chilled meat. There is one major challenge, however: slaughtering, boning, boxing, inspecting, and shipping can take around three weeks. But fresh-chilled meat lasts for only 60 days. Says Moore, the solution is to work closely with supermarkets so they can put fresh-chilled beef onto the shelves as soon as it arrives.

Stockyard Meat Packers sells only fresh-chilled meat and Independent Meat offers frozen, and still other companies supply both. According to insiders, such decisions generally depend on the needs of one's customers.

Importers and foreign governments have worked hard to develop Japan's beef market. Even local ranchers have little reason to complain. Although prices are falling, the market's size is growing. Says Harada, both importers and local producers should benefit in the long-run: "Because we sell here, we must explain to many people how we operate. By listening to such things, domestic producers can get many ideas about how to improve their operations."

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