

From Our Pastures to Japanese Palates: A Trans-Pacific Journey of US Beef

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Motivation

- Japan is the largest beef export market for the U.S.
- BSE
 - Discovered in a Japanese cow in 2001
 - Safeguard
 - Traceability and US-Canadian trade

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Japanese Meat Market

- Meat plays a relatively small role in the Japanese diet.
 - 46% of caloric intake from carbohydrate
↔U.S. 28%
 - An average Japanese eats 1/3 of the meat eaten by an American
 - Retail beef price (\approx \$13.80/lb in 1990s)
 - = 2.2 \times pork price
 - = 3 \times poultry price

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Japanese Meat Market(Cont'd)

- Domestic beef:
 - Wagyu \rightarrow Japanese native breed cattle with heavier marbling
 - Dairy \rightarrow byproduct from the domestic dairy industry



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Japanese Meat Market(Cont'd)

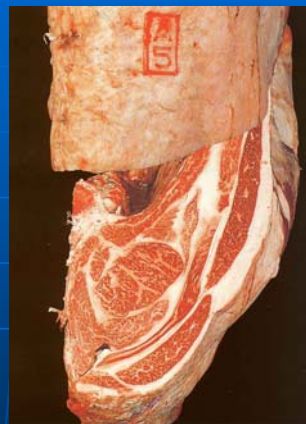
- Imported beef:
 - 70% of Japanese beef supply during the late 1990s.
 - U.S. → comparable quality to dairy beef
 - Australia → hamburger



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Carcass Quality in Japan

- Yield
 - "A" >72%
 - "B" 69%<, <72%
 - "C" <69%
- Meat quality : "5" ~ "1"
 - Marbling
 - Color & brightness of meat
 - Firmness & texture of meat
 - Color, luster, and quality of fat



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Wagyu vs Holsteins

Wagyu steers						
Yld\Qty	5	4	3	2	1	Sum
A	13.7	25.2	25.0	13.9	0.1	78.0
B	0.8	3.7	7.7	8.7	0.2	21.1
C	0.0	0.0	0.1	0.4	0.4	0.9
Sum	14.5	29.0	32.9	23.0	0.7	100.0
Holstein steers						
Yld\Qty	5	4	3	2	1	Sum
A	0.0	0.0	0.1	0.2	0.0	0.3
B	0.0	0.3	13.6	55.7	1.3	70.9
C	0.0	0.0	4.1	22.0	2.6	28.7
Sum	0.0	0.3	17.9	77.9	3.9	100.0 ⁷

Japanese Beef Farms

- 40% of cattle operations rely mainly on farm income
- Avg wagyu breeding cowherd = 6
 - 41% of cow-calf operations own 1-2 cows
- Avg wagyu feeding herd = 37.4
 - 51% of feeding operations own under 10
- Avg Holstein feeding herd = 120.2
 - Difference in scale reflects risk

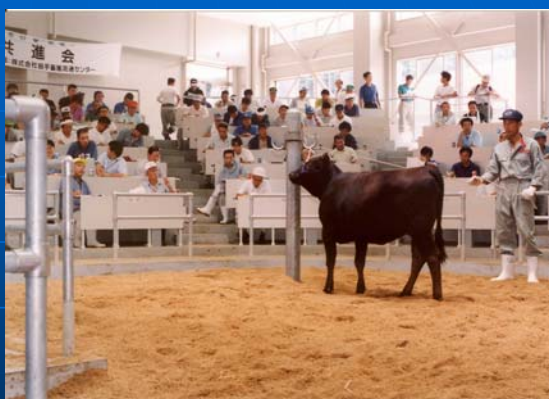
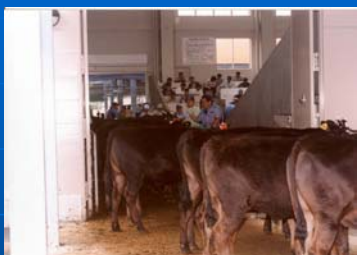
Japanese Beef Production

- Wagyu cattle
 - Weaned at 4-6 mo.
 - Raised for 2-4 mo. ≈ 640 lbs.
 - Fed for 20 mo. ≈ 1,500 lbs.
- Dairy steers
 - Purchased at 1 wk.
 - Weaned at 5-6 mo. ≈ 620 lbs.
 - Fed for 16 mo. ≈ 1,650 lbs.



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Cattle Auction



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Slaughtering Facilities

- 3 types of facilities
 - 35% adjacent to wholesale markets
 - 42.8% regional meat centers
 - 22.3% local
- Largest capacity \approx 130 head / day
 - Individual carcass inspection is feasible.

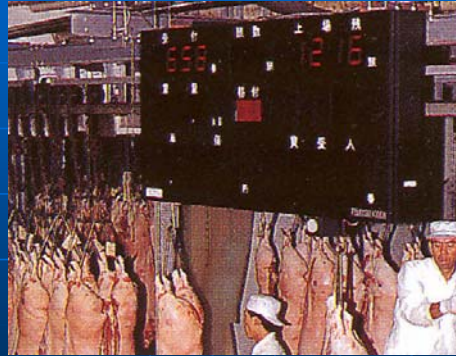
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Meat Distribution

- Price is discovered through auctions of individual carcasses.
 - 36% of all domestic slaughter
 - Weight, grade
 - Origin (feeder), gender, age, breed

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Carcass Auction



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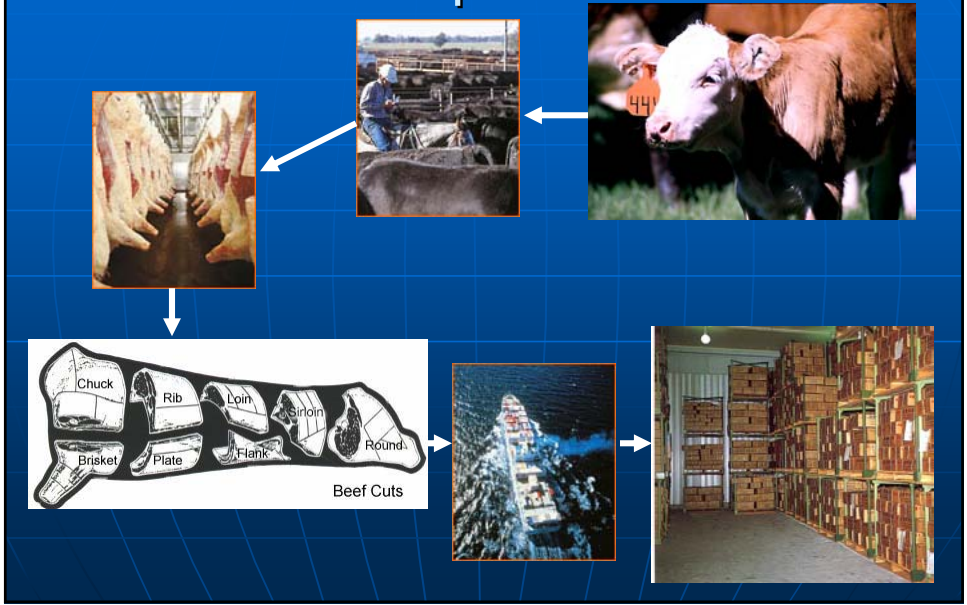
Meat Distribution (Cont'd)

- Cut meats are priced relative to auctioned carcass prices.



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Imports



More Handling



“Kansas Beef”

KS beef



980 yen / 340 g
≈ \$10.80 / lb



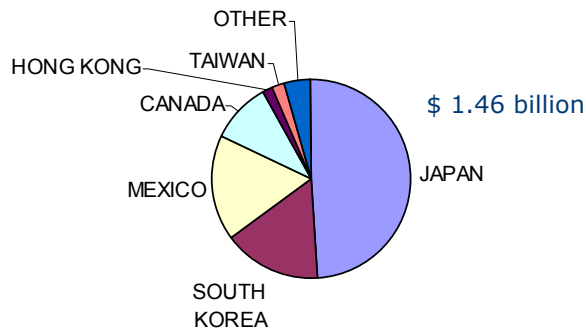
Wagyu
beef

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US Export Market, 2000

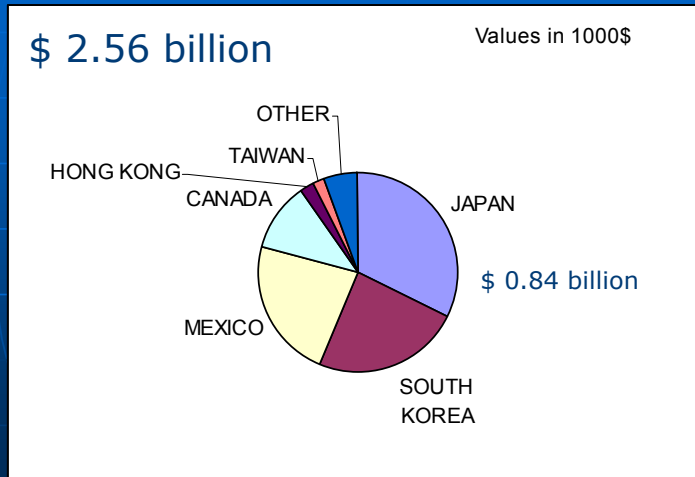
\$ 2.99 billion

Values in 1000\$



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US Export Market, 2002



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2000 → 2002?

- **BSE in Japan**
 - The first case in **September, 2001**
 - The first outside Europe
 - To date **7** cases
 - All in **domestic dairy cows**

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2000 → 2002?

■ BSE in Japan

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BSE in Japan (Cont'd)

- Per capita consumption of beef in October 2001 dropped **44%** from September.
- **1 out of 4** people stopped eating beef altogether.
- Consumption of **all beef** dropped **regardless of origin.**

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BSE in Japan (Cont'd)

- Government response
 - Oct 2001~ BSE screening test for all cattle slaughtered
 - Ban on imports, manufacturing, and distribution of meat and bone meal
 - Elimination of domestic beef placed in storage prior to Oct 2001
 - Producer subsidy
- ≈ \$125 million (through Mar 2002)

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BSE in Japan (Cont'd)

- Plausible infection routes
 - Meat and bone meal imported from Italy before 1998 were likely not properly treated with heat.
 - At least 4 cases were fed with milk replacer made from animal fat from the Netherlands.

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BSE in Japan (Cont'd)

- It took demand **5 months** to normalize.
 - Sept 2001-Jan 2002
- During the transition period:
 - Chaos
 - Demand for **all beef** VERY sensitive to price
 - People switched to pork and poultry but not to seafood

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BSE in Japan (Cont'd)

- After the transition period:
 - Demand for **U.S. and domestic** beef appear to be more responsive to prices and expenditures than prior to the scare
 - **Australian** imports improved their position with Japanese consumers

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Unintended Consequences

- As of **August 1, 2003**, Japanese government exercised **safeguard** against **chilled beef imports** according to WTO agreements

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Safeguard & WTO

- 1991 Japan liberalized beef trade
 - Replaced import quota with import tax
- 1995 Uruguay Round
 - Voluntary reduction of tax rate
 - Safeguard

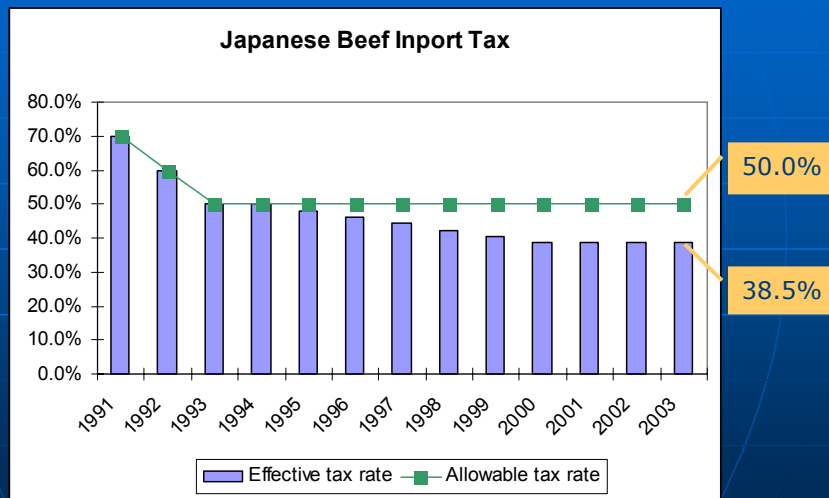
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Safeguard & WTO (Cont'd)

- If quarterly total imports are **over X%** from the same quarter in the previous year, **allowable tax rate** is applied.
 - For beef products, X = **117%**

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Safeguard & WTO (Cont'd)



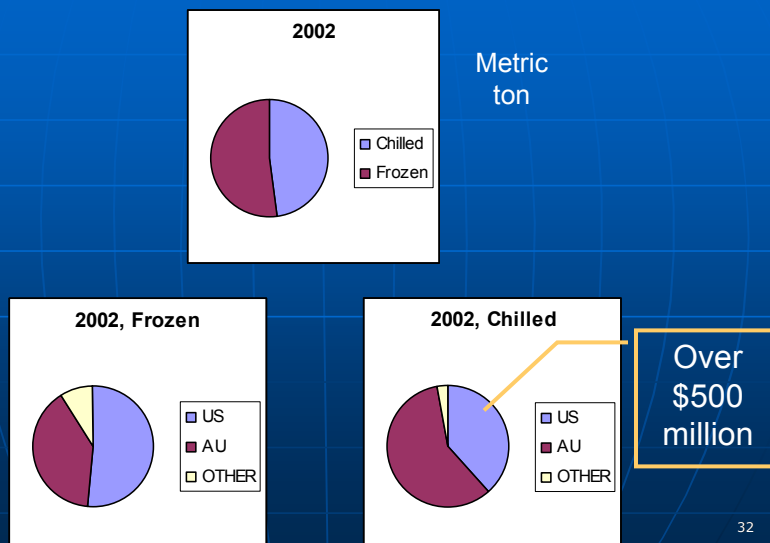
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Safeguard & WTO (Cont'd)

- Chilled beef imports during 2003.II were 134% of 2002.II
 - Tax for chilled beef is 50% through March 2004
 - Tax for frozen beef remains 38.5%
- Reason: chilled beef imports during 2002.II were about 60% of 2001.II

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Chilled vs Frozen



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Safeguard & WTO (Cont'd)

- Japanese government
 - “the exercise of safeguard is automatic, according to the WTO agreements”
 - Estimates of price increase
 - 8% at wholesale
 - 2.5% at retail
 - Estimated tax revenue increase
 - At least \$1 million
 - Will be spent on the farm sector

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Safeguard & WTO (Cont'd)

- Japanese consumers
- Japanese food service industry
 - Feels the government is transferring its mishandling of BSE to them
 - Estimated increase in cost \approx \$30 million
 - Won't pass on to consumers

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Safeguard & WTO (Cont'd)

- Japanese beef producers
 - Mixed
 - Some don't find it necessary
 - Others concerned about overall beef demand to decline again

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Proposed Traceability System

- Implementation of a **traceability system for domestic meat** expected by **Dec 2004**
 - Individual cattle identified through processing
 - Records of feeding history, etc.
- A **bill** is debated in the Diet to require similar traceability for imported beef

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Traceability System (Cont'd)

- U.S. is BSE-free, but Canada is not.
- Japan wants U.S. guarantee that U.S. beef contains **no Canadian beef**.
 - **Labeling** issue
- U.S. hesitant to raise ban on Canadian beef and cattle imports.
 - Other countries with a single BSE case are still banned
 - Austria, Finland, Greece, Israel

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Questions / comments?

