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B R I E F I N G

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Japanese Import Demand for U.S. Beef and Pork

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Objective

Analysis

for Informed

Decision Making

The U.S. beef and pork industries have become more dependent upon foreign markets as a source of increased red meat sales. Increases in per capita incomes in certain foreign countries, reduced trade barriers, preferences for animal-source proteins, and product promotion in foreign countries have resulted in increased foreign demand for U.S. beef and pork (red meat) products. Moreover, U.S. exports of beef and pork have increased more than U.S. imports of beef and pork (excluding livestock), resulting in a more favorable trade picture. From 1985 to 2001 U.S. net beef imports (imports of meat less exports of meat) as a percent of beef supplies decreased by about 4 percent, while U.S. net pork imports as a percent of pork supplies decreased by about 9.0 percent (figure 1). The United States continues to be a net importer of beef, but the United States became a net exporter of pork in 1995.

Japanese Export Market

Japan is the largest export market for U.S. red meat products. From 1985 to 2001 Japan received about 54 percent of U.S. beef exports. Other major export markets include Canada, Mexico, and South Korea. Japan constituted about 49 percent of U.S. pork exports with Canada, Mexico, South Korea, and Hong Kong representing the other major export markets. Recently, Russia has become an important export market for U.S. pork.

Japan's role as a major U.S. meat export customer is important because Japanese consumers demand high value meat cuts which U.S. producers are able to supply. There was rapid growth in U.S. beef and pork exports to Japan from 1985 to 2001 (figure 2). In 2001 these exports represented about 4 percent of total U.S. beef and pork supplies. Beef and pork exports to Japan were less than one-half percent of supplies in 1985. This export growth partially offset U.S. domestic demand trends. From 1985 to 2001 retail pork demand remained relatively flat while poultry demand substantially increased; however, retail beef demand declined by about 30 percent. During this period beef's market share of red meat and poultry consumption declined by about 8 percent and that of poultry increased about 11 percent. Meanwhile, U.S. pork and beef production continued to increase because of technological changes that produced heavier livestock.

Until 1988, the Japanese domestic market was highly protected by import quotas and *ad valorem* tariffs. Japan's beef import quotas were relaxed in 1989 and 1990. In 1991, import quotas were replaced by a 70 percent *ad valorem* tariff which was subsequently reduced to 60 percent in 1992 and 50 percent in 1993. Under the 1994 Uruguay Round of the General Agreement on Tariffs and Trade (GATT), the tariff-rate quota was scheduled to be reduced to 38.5 percent by 2001. However, Japan retained the right to reinstate the higher rate under safeguard provisions if

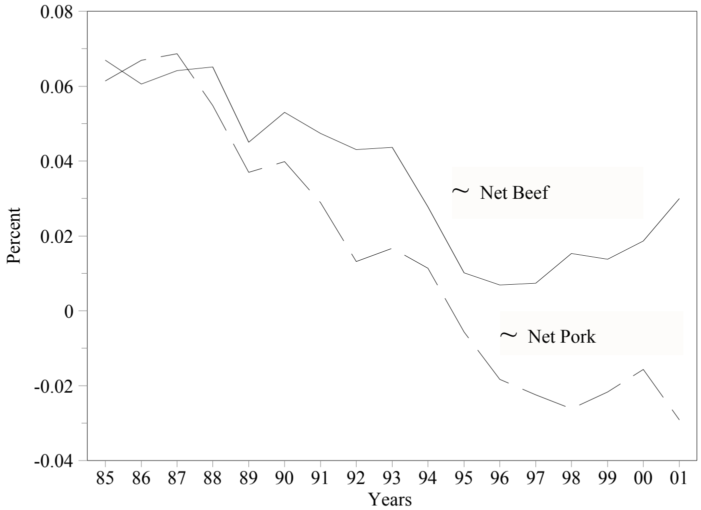

Figure 1: Net Imports of Beef and Pork as Percentages of Beef and Pork Supplies, 1985-2001

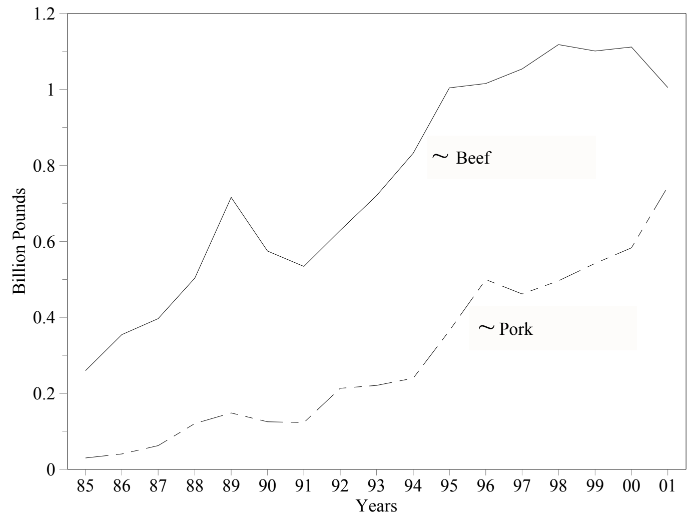

Figure 2: U.S. Exports of Beef and Port to Japan, 1985-2001

imports of frozen or chilled beef over a specified period were greater than 17 percent of import levels for the corresponding period of the previous year. The safeguards have been employed frequently in the past few years. Japanese pork trade policies are similar to those for beef. Domestic pork production safeguards have been almost continually binding.

The United States competes with other foreign suppliers of red meat in the Japanese market. The United States primarily sells prime and choice table cut beef in Japan. The United States has a 46 percent import share while Canada has about a 6 percent import share for table cut beef imported by Japan. Australia supplies about 48 percent of Japan's beef import requirements primarily in the form of ground beef.

The United States primarily competes with Canada and Denmark in exporting pork products to Japan. The U.S. import share is about 49 percent, Denmark's share is about 30 percent, and Canada's pork import share is about 21 percent.

Since the mid 1990s Japan's economic recession has exposed U.S. livestock producers to additional market risk. Additional risk occurred in this beef export market when the Japanese beef industry experienced four cases of BSE (mad cow disease) in 2001. The USDA estimates that as a result of BSE, Japanese beef consumption may have declined by as much as 50 percent. The occurrence of BSE, coupled with the economic recession, led to a significant decrease in Japanese demand for U.S. beef products. U.S. beef exports to Japan in 2001 declined by about 10 percent from the previous year. In the first quarter of 2002 U.S. beef exports to Japan were down by another 12 percent from the fourth quarter of 2001.

The U.S. pork industry, however, appeared to benefit from the decline in beef exports to Japan. Japanese consumers turned to more pork products that were a lower priced meat alternative with fewer food safety concerns. Japan’s increased demand for pork resulted in an expansion of pork exports, with the U.S. exporting about 28 percent more pork to Japan in 2001 than in 2000.

Statistical Modeling and Economic Effects

Japan's role as the major importer of U.S. beef and pork products implies that changes in Japanese macroeconomic policies or trade policies could impact the economic well-being of U.S. beef and pork producers. This impact would manifest through changes in Japanese demand for U.S. red meats which would effect U.S. meat and livestock prices. We recently estimated an econometric model of Japanese import demand for U.S. beef and pork products to determine the effects of import demand factors on U.S. beef and pork exports, domestic red meat supplies, and live cattle and hog prices.

The primary factors affecting Japanese import demand for U.S. red meats were Japanese incomes, currency valuation, and trade barriers including tariffs and quotas. Normally increases in Japanese (consumer) incomes increases the volume of U.S. meat exports to Japan, but increases in the exchange rate (more yen per dollar) or tariffs have the opposite effect by raising the cost of meat imports to Japanese consumers. When Japanese demand for U.S. beef and pork changes, wholesale meat supplies available for U.S. domestic use and boxed meat prices also change. Meat packer demand and prices of live cattle and hogs are affected. Other factors unchanged, increases in Japanese incomes would increase U.S. beef and pork exports, reduce red meat supplies available for U.S. domestic use, and, subsequently, increase wholesale meat and slaughter livestock prices.

The dynamics of these variables have historically impacted U.S. livestock markets. From 1995-1998 the Japanese yen depreciated by about 39 percent relative to the dollar. This increased the cost of imported meat to Japanese consumers resulting in a 35 percent reduction in U.S. beef exports and a $1.30/cwt (per hundred weight) reduction in slaughter steer price. On the positive side, the 1994 Uruguay Round of the General Agreement on Tariffs and Trade (GATT) mandated reductions in Japan's beef tariff rate quota. These tariffs declined by 14 percent between 1995 and 1998. The result was to improve U.S. market access, increasing beef exports to Japan by 13 percent and slaughter steer price by about $0.50/cwt.

Conclusions

Japanese trade liberalization should continue to stimulate import demand for U.S. red meats. Under GATT Japan was to reduce its beef tariff rate quota from 50.0 percent in 1993 to 38.5 percent in 2001. Other factors constant (i.e., ignoring safeguard provisions), we estimate this reduction in the tariff rate quota would result in a $1.00/cwt increase in slaughter steer price.

Exposure to the Japanese meat import market yields both positive and negative effects for U.S. producers. The rapid growth in U.S. beef and pork exports to Japan from 1985 to 2001 supported U.S. cattle and hog slaughter prices by about $3.50 and $1.50/cwt, respectively. But the Japanese BSE problem in 2001 decreased the U.S. slaughter steer price by about $0.36/cwt. U.S. pork producers benefitted from Japan's BSE concerns through pork export increases which resulted in a $0.33/cwt increase in U.S. hog slaughter prices.

Efforts to increase access to foreign markets can result in price and income benefits to U.S. livestock producers. U.S. beef and pork producers will continue to have a vested interest in international trade policies that affect their net trade position, i.e., meat exports relative to meat imports. Realistically, reductions in net meat imports will primarily occur through expanding exports. This expansion will be supported by less restrictive trade barriers, improved food quality and safety, increased promotion and product development programs, and economic policies in importing countries and the world that increase consumer incomes.

Reference

Miljkovic, D., J.M. Marsh, and G.W. Brester. "Japanese Import Demand for U.S. Beef and Pork: Effects on U.S. Red Meat Exports and Livestock Prices." *Journal of Agricultural and Applied Economics* 34(December 2002):501-512.