# Red Meat Market Report

## Japan

# Beef market – Japan 2013 update


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# Market Highlights

Despite contracting 6% year-on-year, to 288,796 tonnes swt, Japan remained Australia's largest beef export market, taking 26% of all beef exported. Increased supplies of US beef into Japan, combined with a surge in demand from China for Australian red meat, challenged Australian beef trade with Japan throughout 2013.

- Changes to the US beef import protocols – Japan now allows imports of US beef from cattle less than 31 months of age – enabled the US to expand market share in Japan during 2013. Imports from the US reached 186,056 tonnes swt in 2013, up 41 % from 2012 but still 30% less than the pre-BSE 2003 volumes. As a result, the share of Australian beef in the imported beef market declined to 54% in 2013 from 62% the previous year.

- The Japanese economy finally saw signs of improvement during 2013, under the Prime Minister Abe's strong leadership. His administration is expected to further progress current economic initiatives on trade liberalisation and domestic issues in 2014. Both bi-lateral (Australia-Japan Free Trade Agreement, AJFTA) and multi-lateral (Trans Pacific Partnership, TPP) negotiations have not been concluded at the time of this publication, and beef remains a sensitive item in both talks.

- For 2014, Australian exports to Japan are forecast to fall a further 7% to 270,000 tonnes swt, on the back of anticipated tight supplies from Australia. The economic climate, US supplies into Japan and demand from other markets will continue to heavily influence the Australian beef trade with Japan.

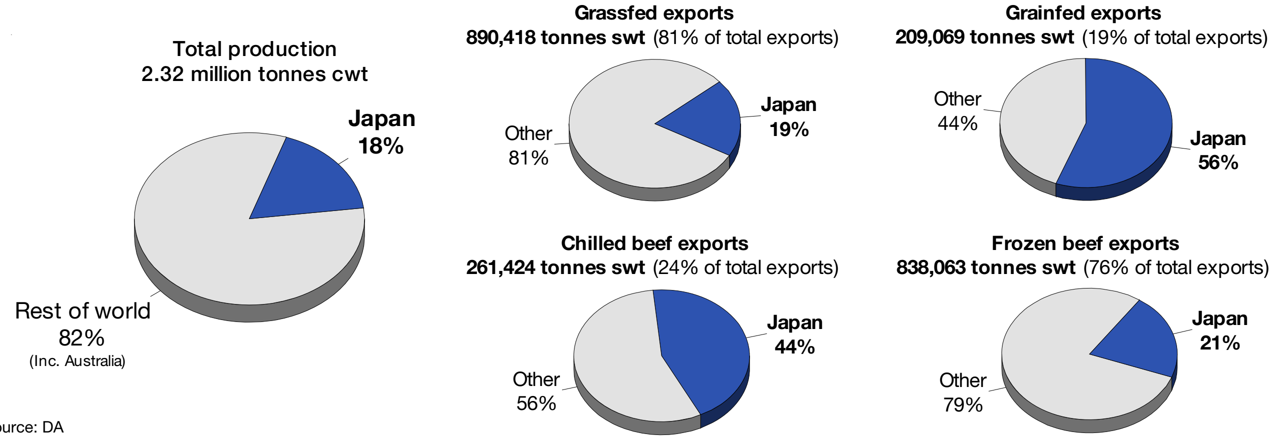
- Despite challenges, the strategic importance of the Japanese market in the Australian beef industry will remain unchanged in 2014, with the market remaining the top export destination for brisket, as well as various other primal cuts including striploin, cube roll, tenderloin, silverside, outside and rump. The mature and long-standing trade relationship with Japan, combined with established commercial credentials, is vitally important to the Australian beef industry.

## Australian beef export composition to Japan

- **Total exports:** Out of the record total production in 2013 (2.32 million tonnes cwt), Australia exported 1.6million tonnes cwt (69%) or 1,099,487 tonnes swt to overseas markets – an increase of 14% on the previous year and the highest yearly volume on record. Increased production was largely absorbed by the rapid growth markets such as China and the Middle East region, while shipments for traditional destinations were comparatively subdued.

**Figure 1**

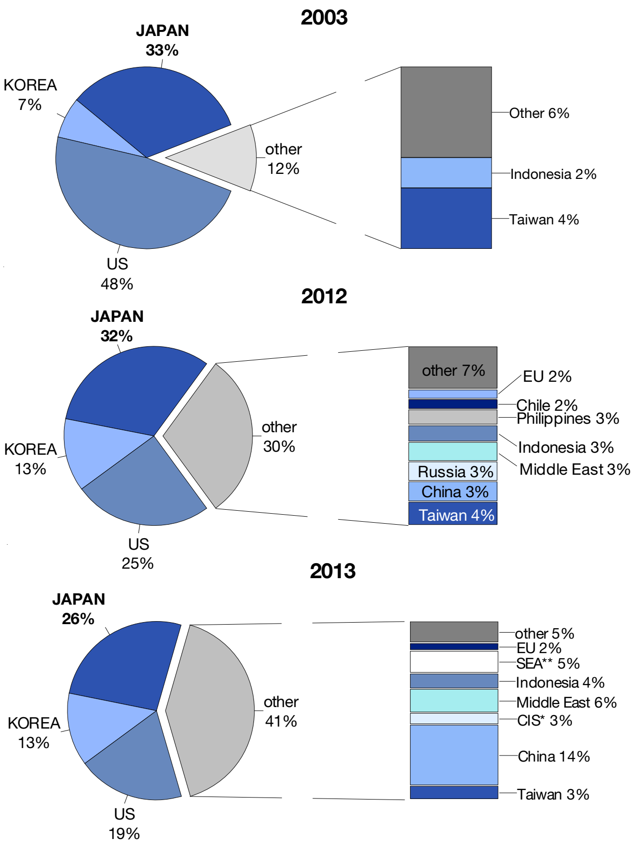
Australian beef production and exports of grassfed/grainfed beef - 2013




Source: DA

***Despite a fall in volumes, Japan continued to provide a strong foundation for the Australian beef business, taking 44% of chilled products exported from Australia, and over the half of grainfed exports***

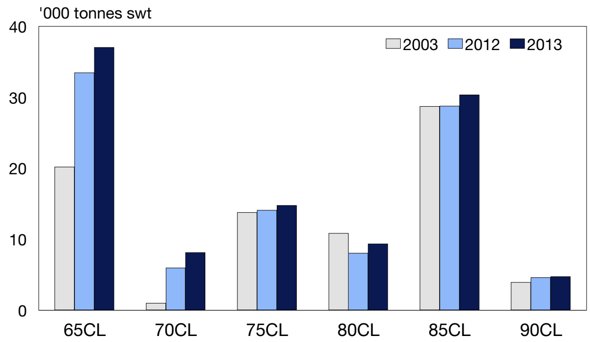
**Figure 2**
Australian beef – export destinations




Source: DA *CIS - includes E Europe, ** excludes Indonesia

***Between 2003 and 2013, Australia's beef exports to 'other' destinations grew from 12% to 41%, responding to strong demand from emerging markets.***

**Figure 3**
Australian beef exports to Japan - by CL




Source: DA. Cuts include manufacturing, shin/shank and other

■ **Japan:** Australian beef exports to Japan eased during 2013 to 288,796 tonnes swt, down 6% from the previous year and the lowest volume since 2003. Japan's share of Australia's global beef trade declined from 32% in 2012 to 26% in 2013.

■ **Composition (chilled/frozen, grass/grain):** While volumes declined, Japan continued to provide a strong foundation for the Australian beef business, taking 44% of chilled products exported from Australia (down six percentage points from 2012, to 115,767 tonnes swt). Japan also took over the half of grainfed exports (56% or 116,383 tonnes swt), despite a 21% increase in chilled beef imports from the US into the market.

■ **Value:** In value terms, beef exports to Japan for the year were worth A$1.434 billion (excluding offal), down 5% from 2013, but still 40% greater than the second largest export market (US, at A$1.02 billion), and almost double exports to China (at A$723 million). The average unit value to Japan was A$4.96 per kilo in 2013, up 1% from the previous year.

■ **Cuts:** The main decline in shipments was brisket (down 27% or 17,364 tonnes less – see box column '2013 – the year of brisket') and ribs (down 37% or 3,133 tonnes swt less). Yet, Japan was the top export destination for brisket, as well as various other primal cuts, including striploin, cube roll, tenderloin, silverside, outside and rump in 2013.

■ **Fullset:** Having peaked in 2000 occupying 27% of total exports to Japan, fullset trade accounted for only 6% of the total in 2013[1], at 16,316 tonnes swt, indicating that the majority of both Japanese importers and Australian exporters now focus on the parts business, minimising inventory costs (for Japanese buyers) and maximising returns (for Australian exporters).

■ **CL:** Within the Chemical Lean (CL) products, Japan's intake of 65CL, 85CL and 75CL increased by 11% year-on-year to 37,039 tonnes swt, 5% to 30,337 tonnes swt, and 5% to 14,753 tonnes swt, respectively, assisted by higher production volumes in Australia, combined with firm demand from the foodservice sector in Japan.

**Table 1**
Australian beef exports to Japan – by category (tonnes swt)

| | Chilled | | | Frozen | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2012 | 2013 | Change | 2012 | 2013 | Change | 2012 | 2013 | Change |
| Grass | 43,510 | 39,668 | -9% | 140,930 | 132,744 | -6% | 184,439 | 172,412 | -7% |
| Grain | 85,720 | 76,098 | -11% | 38,381 | 40,284 | 5% | 124,101 | 116,383 | -6% |
| **Total** | **129,230** | **115,766** | **-10%** | **179,310** | **173,028** | **-4%** | **308,540** | **288,796** | **-6%** |

Source: DA

[1] Semi-cuts (standard set of cuts minus loin) and other variances (of cuts contained, as well as methods of description in the export documents) may have not been captured under the fullset category in the DA data.

**Table 2**

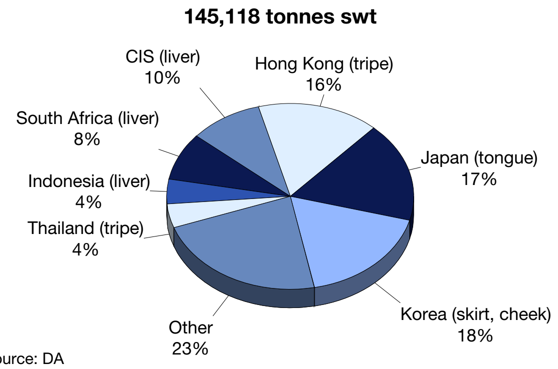
Australian beef exports to Japan – by cut (tonnes swt)

| | Chilled | | | | Frozen | | | | Total | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2012 tonnage | 2013 tonnage | Net change | % change | 2012 tonnage | 2013 tonnage | Net change | % change | 2012 tonnage | 2013 tonnage | Net change | % change |
| Manufacturing | 297 | 176 | -121 | -41% | 97,029 | 109,821 | 12,792 | 13% | 97,326 | 109,997 | 12,671 | 13% |
| Brisket | 24,717 | 21,345 | -3,372 | -14% | 40,162 | 26,170 | -13,992 | -35% | 64,879 | 47,515 | -17,364 | -27% |
| Chuck roll | 16,641 | 14,678 | -1,963 | -12% | 1,455 | 1,125 | -330 | -23% | 18,096 | 15,803 | -2,293 | -13% |
| Blade | 15,971 | 14,629 | -1,342 | -8% | 1,978 | 3,182 | 1,204 | 61% | 17,949 | 17,811 | -138 | -1% |
| Silverside/Outside | 12,124 | 10,982 | -1,142 | -9% | 3,711 | 3,419 | -292 | -8% | 15,835 | 14,401 | -1,434 | -9% |
| Topside/Inside | 9,251 | 8,385 | -866 | -9% | 6,394 | 6,816 | 422 | 7% | 15,645 | 15,201 | -444 | -3% |
| Fullset | 15,019 | 16,315 | 1,296 | 9% | - | 1 | 1 | | 15,019 | 16,316 | 1,297 | 9% |
| Striploin | 7,576 | 6,357 | -1,219 | -16% | 2,281 | 2,541 | 260 | 11% | 9,857 | 8,898 | -959 | -10% |
| Ribs | 834 | 652 | -182 | -22% | 7,561 | 4,610 | -2,951 | -39% | 8,395 | 5,262 | -3,133 | -37% |
| Thin Flank | 3,055 | 2,561 | -494 | -16% | 4,448 | 3,811 | -637 | -14% | 7,503 | 6,372 | -1,131 | -15% |
| Other | 23,745 | 19,687 | -4,058 | -17% | 14,291 | 11,533 | -2,758 | -19% | 38,036 | 31,220 | -6,816 | -18% |
| TOTAL* | 129,230 | 115,767 | -13,463 | -10% | 179,310 | 173,029 | -6,281 | -4% | 308,540 | 288,796 | -19,744 | -6% |

Source: DA Note: *may not sum to total due to rounding

**Figure 6**

Australian beef offal exports - volume and key cut 2013




Source: DA

■ **Offal:** Japan became the second largest market for Australian beef and veal offal in 2013 at 25,627 tonnes swt, after Korea (26,018 tonnes swt). The yearly volume was 7% higher than 2012, and stable (1% higher) on the five-year average, assisted by firm demand from yakiniku (Japanese/Korean style barbecue) users.

■ **Offal cuts:** One third of total offal shipments to Japan consisted of tongue (at 8,802 tonnes swt, up 9% year-on-year), followed by skirt (7,929 tonnes, up 7%) and tripe (3,105 tonnes swt, up 16%). Reportedly, higher-than-expected prices from the US supported demand for these Australian products, while exports of intestines – another popular yakiniku item that the US has traditionally been strong in supplying to Japan – declined 12% from last year to 2,831 tonnes swt. Strong buying from Korea of this product (up 21% year-on-year to 5,477 tonnes swt) also limited volumes for Japan.

**Table 3**

Australian beef offal exports to Japan by cut 2013

| | 2012 | 2013 | Net change | % change |
|---|---|---|---|---|
| Tongues | 8,069 | 8,802 | 733 | 9% |
| Skirt | 7,419 | 7,929 | 510 | 7% |
| Intestines | 3,222 | 2,831 | -391 | -12% |
| Tripe | 2,674 | 3,105 | 431 | 16% |
| Other | 2,605 | 2,960 | 355 | 14% |
| Total | 23,989 | 25,627 | 1,638 | 7% |

Source: DA

## 2013 – the year of brisket

Australian brisket exports during 2013 clearly illustrated the changing nature of beef demand and the critical significance of market access conditions in the global beef trade.

In September 2012, the Food Safety Commission in Japan finalised its risk assessment report on US beef, supporting alterations to the US beef import protocols to younger than 31 months. The news reportedly prompted the Japanese trade to speed up their negotiations with their potential US suppliers, and secure greater volumes of shortplate, which had been severely restricted due to the age limitation.

Subsequently, Japanese buyers' interest in Australian brisket was impacted, with some business reportedly revising orders they had placed prior to the announcement.

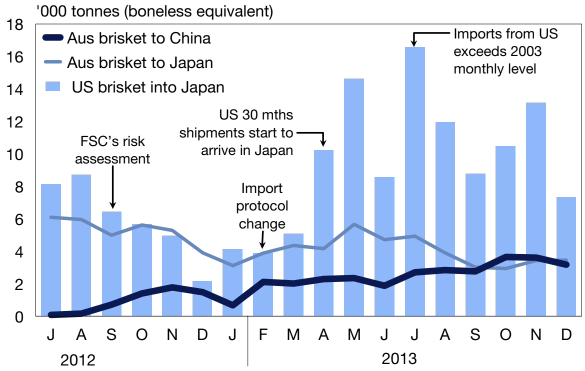
Also in 2012, China had gradually been increasing its interest in Australian beef, particularly brisket that is commonly used for hot pots and other finely sliced cuisine in the market. Imports of beef from the US into China has been banned since 2004 because of food safety concerns relating to the outbreak of bovine spongiform encephalopathy (BSE) in North America in late 2003.

The result of these two occurrences coinciding in late 2012, was the surge of brisket exports to China, and declining volumes to Japan. The trend was reinforced with the confirmation by Japan's Ministry of Health, Labour and Welfare (MLHW) in November 2012 to revise the age protocol on the US beef, and actual change to the country's regulation in February 2013.

While Japan's share in the Australian brisket exports declined from 74% in 2012 to 48% in 2013, the brisket market in Japan has in fact expanded by 12.5% during the year, with the fall of Australian volumes being more than offset by the surge in imports from the US.

**Figure 4**

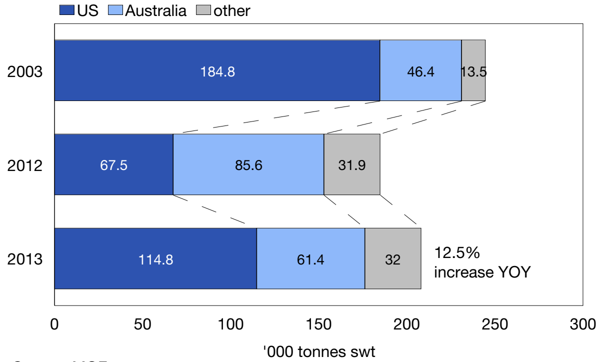
Brisket trade from Australia and the US




Source: Australian exports (DA) US imports (MOF), MLA.

**Figure 5**

Brisket imports into Japan




Source: MOF

# Australian beef exports – Japan and global beef market outlook

■ The Japanese government's policy to ease Japanese yen improved confidence in its export and business sector in 2013, but drove import costs higher. The trend is forecast to continue, with the weak yen offsetting the easing of the Australia dollar in 2014.

■ Along with the lower yen, strong demand from China is expected to continue, putting Japanese buyers under pressure, while overall beef supply is anticipated to tighten in 2014, following high slaughter numbers in 2013.

■ For 2014, Australian beef exports to Japan are forecast to fall a further 7% to 270,000 tonnes swt, with demand from foodservice and fast food outlets expected to be sustained for frozen beef, while demand for chilled product will continue to be heavily influenced by price and availability of the US beef.

■ US beef exports will also greatly influence Australia's trade with Japan. With US beef production volumes being projected to ease this year, US' strong buying of Australian high chemical lean beef will lift prices of this product, increasing competition for Japanese buyers.

**Table 4**

Australian exports of beef and veal to key markets (in '000 tonnes swt)

| | Major cuts in 2013 | 2013 (% change YOY) | *2014 f* (% change YOY) |
|---|---|---|---|
| **Japan** | Brisket, 65CL, 85CL, Blade, Chuck roll | **288.8 (-6%)** | ***270 (-7%)*** |
| US | High lean CLs, Thin Flank, Topside, Silverside | 212.7 (-5%) | *210 (-1%)* |
| Korea | Chuck roll, Blade, Manufacutring, Short Rib, Skirt | 144.4 (15%) | *120 (-17%)* |
| Taiwan | Shin/shank, blade, intercostals, manufacturing | 35.7 (-7%) | *33 (-8%)* |
| China | Shin/shank, Brisket, Silverslide, Carcase | 154.8 (371%) | *155 (0%)* |
| Philippines | 75CL, 85CL, 65CL, shin/shank | 27 (5%) | *27 (0%)* |
| Indonesia | 85CL, Thick flank/knucke, Blade | 39.4 (45%) | *50 (27%)* |
| Middle East | Topside, Carcase, 65CL, 85CL, Silverside | 61 (95%) | *45 (-26%)* |
| E Europe & CIS | Silverside, thick flank/knuckle, 65CL, blade | 30.5 (-13%) | *20 (-34%)* |
| EU | Topside, striploin, rump, silverside | 19.8 (33%) | *21 (6%)* |
| Other | | 85.4 | 69.0 |
| **Total** | | **1099.5 (14%)** | ***1020 (-7%)*** |

Source: DA, MLA forecasts
Main countries in other = PNG, South Africa, Central and South America
Eastern Europe & CIS includes Poland

For full details of market projections, refer to MLA 2014 Australian cattle Industry projections

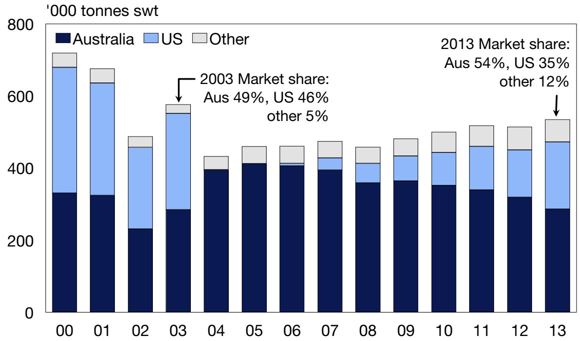
# Competitor supply situation

## Imported beef

■ **2013 volumes:** Total Japanese beef imports during 2013 amounted 534,254 tonnes swt, up 4% on the previous year, and the highest since 2003.

**Figure 7**

Beef imports in Japan




Source: MOF

■ **Suppliers:** Besides Australia (285,923 tonnes swt, down 10% year-on-year) and the US (186,056 tonnes swt, up 41%), other key suppliers during 2013 were New Zealand (29,429 tonnes swt, down 6% year-on-year), Mexico (19,570 tonnes, down 4%), and Canada (12,690 tonnes swt, up 11%).

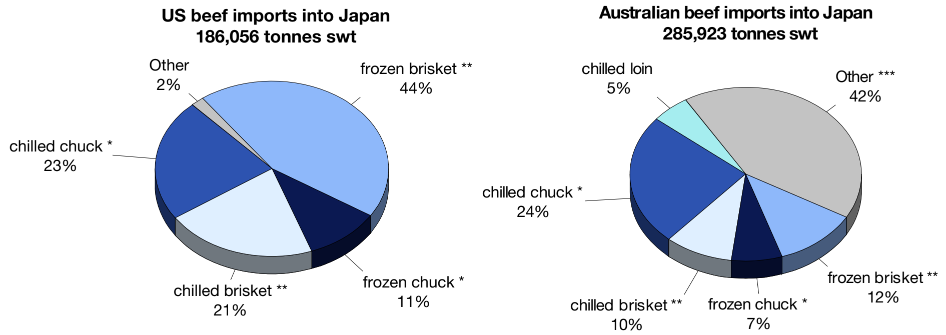
■ **2014 forecast:** Trade paper *Shokuniku Sokuho* projects the 2014 import volumes to increase around 5% on 2013, to 560,800 tonnes swt, underpinned by the recovering economy. However, concerns remain re the weak yen and the rise in consumption tax.

## US beef

■ **Market share:** Imports of US beef into Japan during 2013 were the highest since 2003 at 186,056 tonnes swt (up 41% from 2012), with its share of the imported beef market reaching 35% (9% points higher than the previous year). As a result, Australia's share of the imported beef market slipped from 62% in 2012, to 54% in 2013.

■ **Cuts:** Approximately two third of imports from the US into Japan were shortplate, classified in 'brisket/plate' category under the Japanese import code.

**Figure 8**
US and Australian beef imports in Japan - 2013

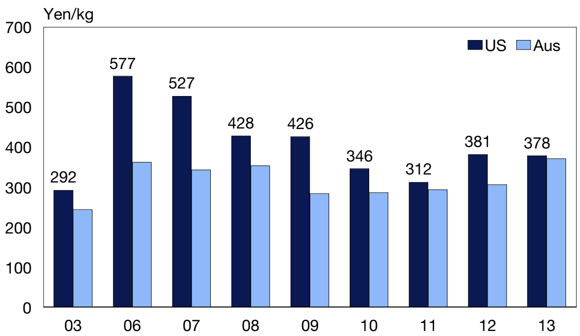



Source: MOF

* Includes clod & round ** Includes plate ***mostly frozen manufacturing beef

*The CIF value of the US frozen brisket/plate during 2013 averaged 378 yen/kg, only 1% lower than the previous year, despite its 93% increase in volume.*

**Figure 9**
CIF value of frozen brisket/plate into Japan




Source: MOF

■ **CIF value:** Despite the relaxation of the age protocol (from beef sourced from cattle less than 21 months, to 31 months), US prices in 2013 remained higher than what the Japanese trade hoped for, due to the tight supply situation in the US, combined with the depreciation of the Japanese yen. The CIF value of the US frozen brisket/plate during 2013 averaged 378 yen/kg, only 1% lower than the previous year, despite its 93% increase in volume.

■ **US vs. Australia:** The weak yen also pushed up CIF value of Australian beef, with difference between the US and Australian brisket narrowing to only seven yen/kg in 2013, from 75 yen/kg in 2012 (CIF average, frozen brisket/plate category, no segregation between grass and grain).

■ **US supply outlook:** The US Department of Agriculture suggest that beef production during 2014 will be lower than 2013, at 11.04 million tonnes cwt. The US market information body CattleFax forecasts reductions in cow slaughter and the retention of more heifers for breeding will further tighten beef supplies for the next couple years, but beef exports are expected to be even in 2014.

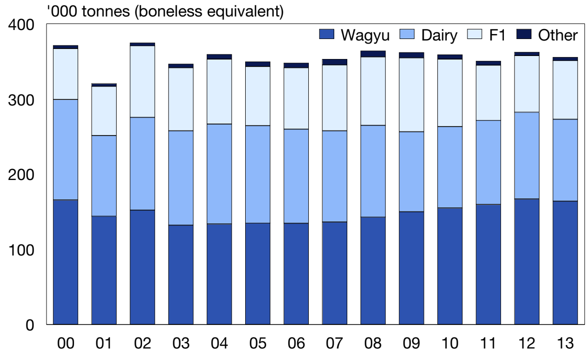
**Table 5**
Trends and analysis of key sectors

| | Gyudon | Family restaurant | Yakiniku | Retail |
|---|---|---|---|---|
| Key cuts | brisket and plate | loin and shoulder steak cuts, manufacturing | Offal (inc. tongue), brisket and plate | chilled cuts and tongue |
| Trends in 2013 | •Growth in number of outlets •Demand mostly sustained by low price •Preference for US products •Introduction of high price menus to improve profitability | • Firm demand for western style (steaks and hamburgs) outlets •Some Australian steak menus were replaced by US products | •Strong recovery in sales •Spend per customer also increased •Public concerns on meat safety (BSE and other disease or contamination issues) have subsided | •Gradual improvement in beef sales (both domestic and imported) •Increase in US brisket, shoulder cuts and tongue items •Firm demand for yakiniku sets (sliced, or mixed with non-beef items) |
| Analysis | •Increase in market size, but loss of market share for Australia. •US likely to continue sending large quantity of shortplate to Japan, while Australia responds to strong demand from China | •Some loss of market share for Australia (steak cuts) •Versatile menu options and wider customer profile of family restaurants suggest ongoing opportunity for Australia | •Increase in market size •The sector's strong performance and strong US prices assisted to minimise loss of market share for Australia •Yakiniku is not limited to foodservice – but also in retail and value add products. Room for further retail expansion for Australia | •Market size remains stable, with potential for growth, especially in the cooked meal/delicatessen areas •Recovering economy and consumer sentiment can lead to higher consumption of beef at home |

## Japanese domestic beef

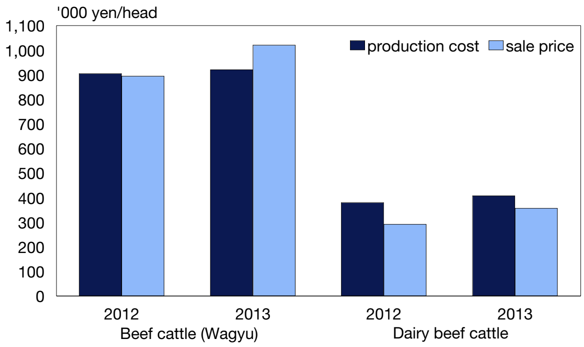
■ **Production:** Japanese beef production in 2013 eased 2% from 2012 volumes, to 355,606 tonnes (boneless equivalent), from relatively high volumes in 2012.

**Figure 10**
Japanese beef production




Source: ALIC, Shokuniku Sokuho

**Figure 11**
Japanese cattle prices - averages




Source: ALIC 'Beef cattle arming stabilisation support measure' November 2012 and 2013 averages

■ **Cattle number and prices:** The Japanese cattle herd as of December 2013 was 3.95 million head (down 3% from 2012, Japan Livestock Improvement Centre). Increasing costs and challenging trading conditions continue to add pressure to Japanese beef producers, resulting in reduced supplies during the year. Combined with the lingering effect of the Foot-and-Mouth disease in 2010, short supplies of calf and adult cattle resulted in historically high prices, while demand from consumers was comparatively soft.

■ **Farm numbers:** Faced with increasing feed costs (Japan relies on imports fpr the majority of its feed requirements) and high calf prices (largely due to short supply), small and/or aging producers continued to exit the industry. The number of beef cattle farms in Japan declined from 116,500 in 2000, and 65,200 in 2012, to 61,300 in 2013.

■ **Slaughter forecast:** The Japanese trade media *Shokuniku Sokuho* forecasts a decline in slaughter numbers during 2014, to 1.15 million head, down 2.8% year-on-year. Turnoff of Japanese Black Wagyu, dairy beef cattle and F1 (Wagyu and Holstein cross) are estimated to reach 508,400 head (down 3.9% from 2013), 396,832 head (down 1.5%), and 227,725 head (down 3.1%) in 2014, respectively. Estimates were based on Japan's traceability system which records each animal's movements, as well as their exact age and breed type.

■ **BSE[2] counter measures:** Japan's Ministry of Health, Labour and Welfare (MHLW) revised its BSE testing requirement for domestic cattle over 48 months of age in July 2013. Japan is now recognised by the World Organisation for Animal Health (OIE) as a negligible BSE risk country, the same status as Australia and the US.

[2] See Appendix 1 on page 14 for a summary of Bovine spongiform encephalopathy (BSE) incidents and US beef imports.

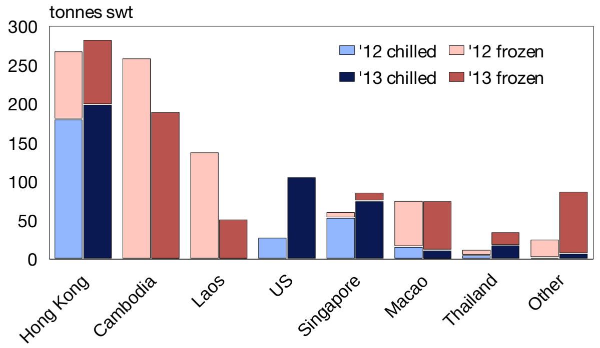
## Japan increases Wagyu beef exports in 2013

Japan exported 909 tonnes swt of beef in 2013, up 5.3% from the previous year and the highest annual total on record (data by Japan's Ministry of Finance). While the Japanese volume in the global beef trade context is extremely small, its value – 6,437 yen, or A$68 per kilo – and the country's commitment to develop a high quality beef reputation, are attracting attention in the international trade.

Japanese beef exports (mainly high value Wagyu beef) have had challenges over the years, including the outbreak of BSE in 2001, Foot and Mouth Disease in 2010 and radioactive contamination after the earthquake/tsunami disaster in March 2011. However, substantial efforts and investments by the Japanese government, regional authorities and producers, saw a strong recovery in export volumes during 2012 and 2013.

In 2013, exports to the top destination, Hong Kong, grew 6% year-on-year to 282 tonnes swt, while shipments to the US, Singapore and Thailand also increased, to 105 tonnes swt (up 279%), 86 tonnes swt (up 41%) and 34 tonnes swt (up 185%). Shipments to Cambodia and Laos decreased in 2013, reportedly due to the tightening of China's 'grey channel'.

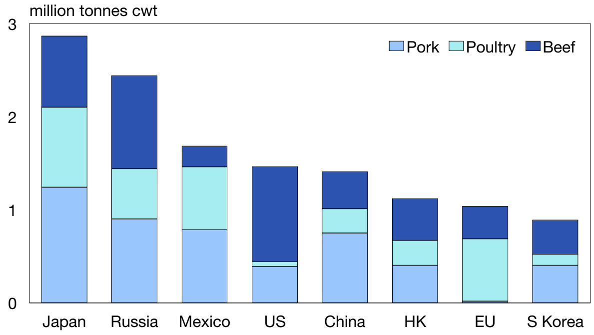
**Figure 12**
Japanese beef exports - by key destination (CY2013)




Source: MOF. Other includes Canada, Philippines, UAE, Bangladesh

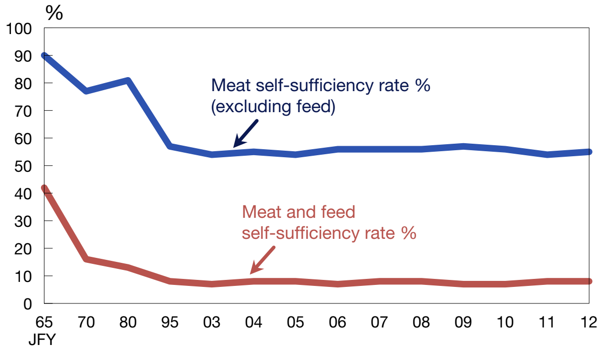
Some of Japan's other export markets include Canada, the Philippines, the United Arab Emirates and Bangladesh. Japan's *Nikkei* reported this month that the Japanese and Indonesian governments are jointly working to allow imports of Japanese beef into Indonesia.

**Figure 13**
World meat importers - 2013



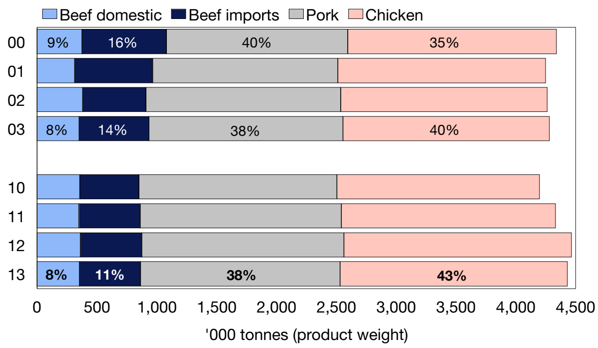

Source: USDA

**Figure 14**
Meat self sufficiency rate



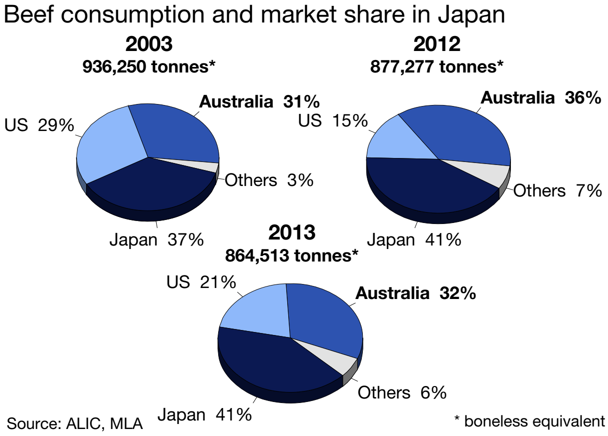

Source: MAFF JFY2012 = April 2012 to March 2013

**Figure 15**
Meat consumption in Japan




Source: Supply and demand data, ALIC. % out of total meat consumption

**Figure 16**
Beef consumption and market share in Japan




Source: ALIC, MLA

* boneless equivalent

# Market trends

## Meat requirements in Japan

■ Japan heavily relies on imports to fulfil its meat protein requirements. Japan was the largest importer of pork and poultry, and the third biggest buyer of beef in the world in 2013[3], taking almost 2.87 million tonnes cwt of these three meats.

■ Self-sufficiency of beef, pork and poultry during the Japanese fiscal year 2012 (April 2012 to March 2013) were 24% (up 2% points from JFY2011), 53% (down 1% point), and 66% (no change), respectively. Japan is also a major importer of corn, sorghum and wheat for livestock feed.

■ An aging farming population, high costs of agricultural production and reliance on imported feed suggest few opportunities for Japan to drastically improve its domestic supply in the near future, resulting in a continuing need for imported proteins.

## Beef consumption

■ Japan's beef consumption in 2013 totalled 864,512 tonnes swt (boneless equivalent), down 1% from the previous year, and 20% lower than 2000 (before the discovery of BSE in Japan, and the record year for beef consumption), or 8% less than 2003 (prior to Japan's ban on US beef due to BSE).

■ Consumption of imported beef in 2013 was almost identical with the previous year, at 509,517 tonnes (0.8% or 183 tonnes below 2012). The relaxation of the US beef import protocol didn't result in greater beef consumption, impacted by the strong US prices and the weak Japanese yen, combined with recovering yet fragile consumer spending in the market.

■ Comparing the total meat consumption in 2000, 2003 and 2013, and its proportion by individual proteins, it is evident that pork and chicken consumption in Japan grew at the expense of beef (Figure 15).

■ On average, a Japanese consumer ate 6kg of beef, 12kg of pork and 12kg of chicken, as well as about 28kg of seafood per year during the last Japanese fiscal year (April 2012 to March 2013, supply per capita).

## Beef market share

■ Australian beef was estimated to have occupied 32% of the total Japanese beef market in 2013, down four percentage points from 2012.

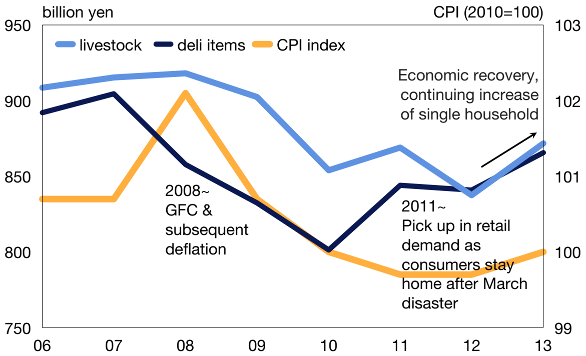
[3] If the 'grey channel' beef imports by China were included, Japan would probably be the fourth largest beef importer, behind China, the US and Russia.

## Retail

■ Assisted by the slow but upward economic trend, the Japanese retail sector saw a general improvement during 2013, with its sales reaching 12.7 trillion yen (A$ 134.8 billion), up 1.5% year-on-year (the Japan Chain Stores Association, all stores basis).

**Figure 17**

Retail sales - livestock products and delicatessen




Source: Japan Chain Stores Association, MLA

■ Sales of livestock products (6.9% of total supermarket sales) rose 4.1% to 871.7 billion yen (A$9.25 billion), while delicatessen item sales – 6.8% of total – were up 3% to 865.6 billion yen (A$9.19 billion). While beef specific sales figures are not available, the association quoted beef as one of the 'positive demand items' throughout the year.

■ Looking forward, the retail sector's performance will be heavily influenced by wage increases on the back of recovering economy, as increasing import costs (due to the eased yen) and upcoming hike in consumption tax (from current 5% to 8% in April 2014) are adding pressure to the businesses.

## Nakashoku/convenience stores

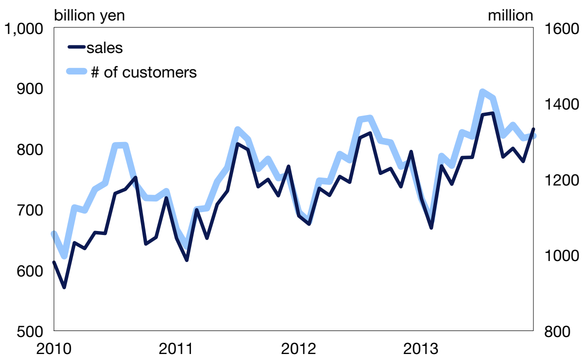
■ The meaning of the term nakashoku, comes from 'in-between eating' in Japanese, as it sits in between, and is a cross-over of, retail (including convenience stores) and foodservice sectors. It includes take away meals, bento boxes, delicatessen products and other cooked meals that are sold for consumption outside the commercial premises.

■ Increasing numbers of single person households in Japan – set to amount for 37% of total population by 2035 – and the Japanese traditional preference for variety in food and small proportions, have been a perfect backdrop for the nakashoku industry, along its convenience and comfort at home.

■ Japan's nakashoku market in 2013 is estimated to have grown 3% year-on-year, to 5.568 trillion yen (Fuji Keizai Group, October 2013). The Group forecasts the sector's sales to increase a further 1.2% in 2014, with convenience stores leading the largest growth.

**Figure 18**

Convenience stores - sales and customer numbers




Source: Japan Frainchise Association

***15.6 billion customers visited 49,323 convenience store outlets during 2013 – an average of 123 visits per year per person, or every three days.***

■ Convenience stores are the major seller of nakashoku meals in Japan, alongside supermarkets and take away shops. The convenience store sales during 2013 totalled 9.39 trillion yen, up 4% from the previous year, with 15.6 billion customers (also up 4%) visiting 49,323 outlets (up 5.2%) during the year – an average of 123 visit per year per person, or every three days.

■ Japanese major convenience store businesses – including the largest chain Seven Eleven which had originated in the US but is part of the Japanese Seven & I Holdings since 1991 – have further diversified it offerings to their customers in 2013, posing strong competition to the traditional retail (supermarkets) and foodservice sectors. Diversifications include cafe services, wider and more comprehensive range of take away meals, in-store kitchens and alliance with domestic food brands.

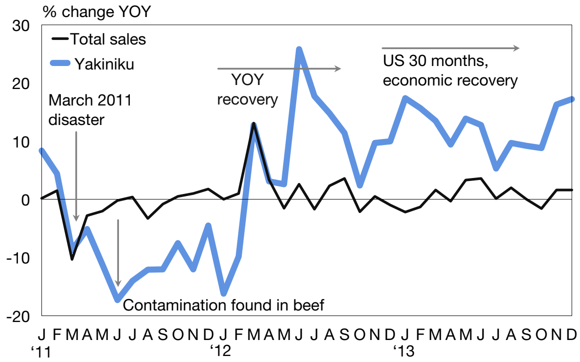
## Foodservice

- Annual sales in the Japanese foodservice sector during 2013 improved 0.7% year-on-year, underpinned by increased spend per customer (Japan Foodservice Association).

- The yakiniku (Japanese/Korean style barbecue) category registered the largest increase in sales, up 12.5% on 2012, reportedly assisted by increased supplies of US offal and beef cuts, but also revived popularity of the cuisine among consumers. Customer numbers and spend per customer were up 9.8% and 2.4%, respectively, indicating healthy business performance.

**Figure 19**

Japan yakiniku sales in the foodservice sector




Source: The Japan Foodservice Association, MLA

- In comparison, Japanese style fast food (mostly gyudon beef bowl) achieved a 3.6% rise in sales, by attracting more customers (up 4.2%) who spent less (down 0.6%), resulting in reduced returns for major gyudon chains.

- The western style fast food (hamburgers) endured subdued sales during the year, with its annual sales declining 3.9% year-on-year.

## Market access

- The current tariff on beef is 38.5% (with the safeguard[4] snapback provision to the 50% bound rate). Separate tariff rates are applicable to offal and processed beef.

- The sudden increase of US products in 2013 resulted in the Japanese trade having to collectively manage frozen beef import levels (customs clearance basis), with the triggering of safeguard for frozen beef being avoided largely at the expense of Australian products.

**Table 6**

Safeguard trigger levels

| | Chilled | | Frozen | |
|---|---|---|---|---|
| Cumulative quarters | **Trigger level JFY 2013** | Imports JFY 2013 | **Trigger level JFY 2013** | Imports JFY 2013 |
| April-June | **74,339** | 59,082 | **83,267** | 77,236 |
| April-Sept. | **152,456** | 112,561 | **184,749** | 177,323 |
| April-Dec. | **230,642** | 165,467 | **264,428** | 254,436 |
| April-March | **292,355** | | **334,320** | |

Notes:
Japan's Ministry of Finance sets the safeguard trigger levels for beef for the Japanese Fiscal Year (JFY), running from April to March.

The calculation method for chilled beef was altered for JFY 2013 (eighth time since the first alteration for JFY 2006) under the extended Temporary Tariff Measures Law, in recognition of the extraordinary circumstance generated by the lifting of the ban on imports from the US. The safeguard trigger level of chilled beef for JFY 2013 is based on an average of actual imports in JFY 2002 and 2003. In the event that the trigger level based on the JFY 2002 and 2003 import average is below the trigger level calculated on the basis of imports in JFY 2012, the 2012 figure will be employed instead.

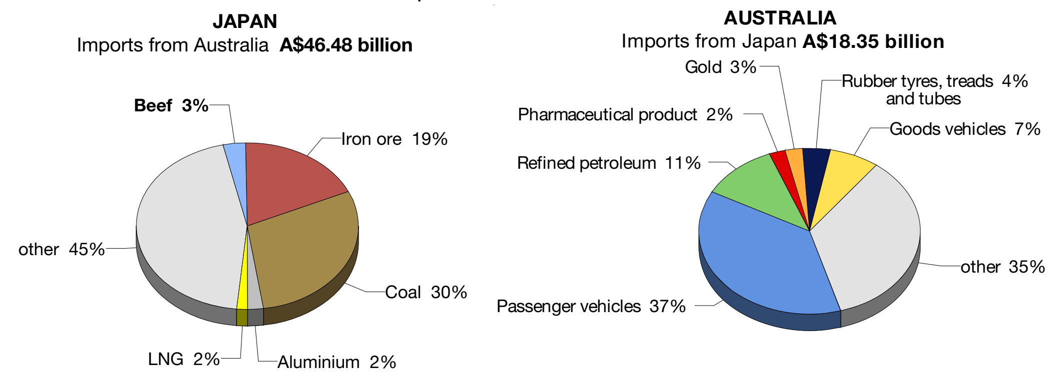
[4] The safeguard is a mechanism agreed upon with Japan in the Uruguay Round of World Trade Organization negotiations (1994). It gives Japan the option to increase the beef tariff from 38.5% to 50%, for the remainder of the Japanese fiscal year, once the trigger level is exceeded. The Japanese fiscal year (JFY) runs from April to March, with trigger levels calculated to be 17% higher than imports for the same period in the previous year (calculated on a cumulative quarterly basis and separately for chilled and frozen beef). Trigger levels and imports are calculated on a customs cleared basis.

■ Australia and Japan started negotiations on a Free Trade Agreement (FTA, as a part of an Economic Partnership Agreement, or EPA) in 2007, with negotiations continuing at the time of this publication in February 2014. Beef remains classified as a 'sensitive item' by Japan in the FTA/EPA negotiations.

■ Japan's strong focus on the multi-lateral Trans Pacific Partnership (TPP) trade framework reportedly slowed the progress of the bi-lateral AJFTA negotiation, while the anticipated conclusion of the TPP talks among the twelve members (US, Australia, New Zealand, Mexico, Canada, Peru, Brunei, Vietnam, Malaysia, Chile, Singapore and Japan – as of February 2014) didn't eventuate in 2013. Japan's resistance to eliminate or reduce import tariff on key agricultural items, including beef, is seen as one of the major obstacles, along with auto tariff negotiations in the TPP negotiations.

■ Regardless, Japan continues to be a crucially important and reliable trading partner for Australia, being the second-largest export market (overall trade, including beef) and third-largest source of foreign investment. For Japan, Australia is a prime supplier of coal, iron ore, liquefied natural gas and beef, as well as a strategic partner in the Asia Pacific regional security framework.

**Figure 20**
Trade status between Australia and Japan




Source: *Nikkei*, DFAT. 2012-2013 figures

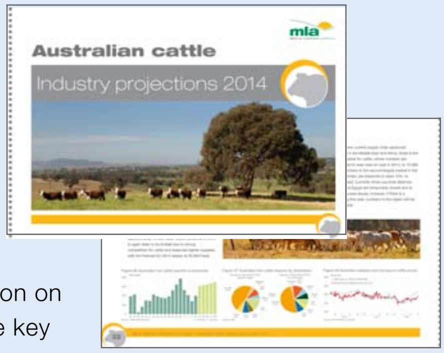
# Appendix 1 - Summary of BSE* incidents and US beef imports

| | |
|---|---|
| 1996 | Japan implemented a BSE surveillance program. 2,247 head of cattle were tested for BSE during 1996 to 2001. |
| Calender year 2000 | Beef consumption peaked at 1,082,325 tonnes. |
| September 2001 | Announcement of first case of BSE in Japan on 10th September. |
| October 2001 | Implementation of BSE testing on all slaughtered cattle of all ages . |
| Calender year 2002 | Beef consumption dropped to a record low since market liberation – 910,591 tonnes. |
| April 2003 | BSE testing target animals expanded to include dead cattle above 24 months of age. |
| Calender year 2003 | Beef demand recovered strongly, with imports from the US at 267,277 tonnes and Australia 283,698 tonnes. |
| December 2003 | First case of BSE in US announced on the 23rd December and imports from US suspended. |
| Calender year 2004 | Beef consumption of beef dropped again to 806,456 tonnes. |
| September 2005 | BSE test target age range for slaughtered cattle changed from all ages to above 21 months of age, after Japan's Food Safety Commission's BSE risk assessment. Despite this, voluntary testing of all ages was continued by prefectural governments, with funds for test kits provided by the Japanese government. |
| December 2005 | Resumption of US imports on 12th December, with bi-laterally agreed import protocols (age restriction of under 21 months** and removal of SRMs***). |
| January 2006 | Second suspension of US imports from 20th January, following the discovery of SRMs in one shipment |
| July 2006 | Resumption of imports approved by Japan's Food Safety Commission on 27th July. Mandatory inspections of all boxes were added to the existing import protocols. |
| December 2006 | MLHW confirmed in its budget paper that funding for BSE testing of cattle under 21 months of age will be discontinued by the end of July 2008. |
| Calender year 2006 | Japan imported 7,321 tonnes of US beef in 2006 – only 2.7% of the level in 2003. |
| May 2007 | The world animal health organization (OIE) granted US "controlled risk" BSE status. |
| June 2007 | Requirement of 100% box inspections was lifted. Random box inspections continue, as well as boxes containing beef offals are still subject to 100% inspections. |
| Calender year 2007 | Japan imported 34,148 tonnes of US beef in 2007 – 13% of the level in 2003. |
| April 2008 | SRM found in one of 700 boxes at a Yoshinoya gyudon (beef rice bowl) factory in Tokyo. Imports from a National Beef plant was suspended. |
| May 2008 | Retail giant Aeon group resumed sales of US beef at selected outlets. |
| June 2008 | Resumption of US beef imports in Korea, after months of political turmoil and public protests. |
| August 2008 | All prefectural councils with cattle processing facilities in Japan continue BSE testing of cattle under 21 months of age, despite the funds for test kits discontinued by the Japanese government. |
| Calender year 2008 | Japan imported 54,109 tonnes of US beef in 2008 – 20% of the level in 2003. |
| January 2009 | Announcement of the 36th case of BSE in Japan. |
| May 2009 | The world animal health organization (OIE) granted Japan "controlled risk" BSE status. |
| Calender year 2009 | Japan imported 69,193 tonnes of US beef in 2009 – 26% of the level in 2003. |
| April 2010 | Outbreak of foot-and-mouth disease in the Miyazaki prefecture. |
| August 2010 | Miyazaki prefecture declared 'FMD free" status. |
| September 2010 | The US-Japan technical meeting was held in San Francisco, concerning BSE counter measures. |
| December 2010 | Leading foodservice group Zensho resumed serving US beef at selected yakiniku outlets, while it continues to use Australian for gyudon dishes. |
| Calender year 2010 | Japan imported 91,618 tonnes of US beef in 2010 – 34% of the level in 2003. |
| March 2011 | The Great East Japan Earthquake and tsunami hit Japan, causing massive casualties and disrupting national supply chains. |
| November 2011 | The Japanese government announced that it had begun a process to review the current import protocols of US beef into Japan. |
| December 2011 | MHLW decided to relax the import protocols for the US beef, and consulted to Japan's Food Safety Commission. |
| Calender year 2011 | Japan imported 120,605 tonnes of US beef in 2011 – 45% of the level in 2003. |
| April 2012 | The United States Deparment of Agriculture (USDA) confirmed a fourth case of BSE. |
| September 2012 | Japan's Prion Expert Investigation Committee finalised their risk assessment report, supporting alterations to the import protocols for US beef . |
| November 2012 | MHLW approved a proposal by Food Safety Commission to revise BSE counter measures. New domestic measures (including a change in the BSE testing age to under 31 months) are expected to be implemented from April 2013. The age restriction on imports of beef (from the US and Canada) will be revised to under 31 months. |
| December 2012 | Japan halted beef imports from Brazil, following an announcement of a positive BSE test . |
| Calender year 2012 | Japan imported 131,921 tonnes of US beef in 2012 – 49% of the level in 2003. |
| January 2013 | MHLW announced that it will alter Japan's beef import procols from 1 February, allowing US beef sourced from cattle less than 31 months of age to enter the country for the first time since December 2003. |
| February 2013 | US beef imports with revised agreed import protocols (age restriction of under 31 months and removal of SRMs***) commenced from 1 February. US suppliers are required to take part of the USDA's quality program 'QSA LT-30' to verify the eligible products under the revised rule. |
| May 2013 | OIE granted "negligible BSE risk" status to Japan |
| July 2013 | MHLW revised its BSE testing requirement for domestic cattle over 48 months of age |
| December 2013 | Japan imported 186,056 tonnes of US beef in 2013 – 70% of the level in 2003. |

Source: ALC / MLA

* Bovine Spongiform Encephalopathy
** as verified by birth certificate or USDA A40 grade
*** Specified Risk Material

# MLA 2014 Australian cattle industry projections




MLA's 2014 Cattle Industry Projections outlines that growing export demand for beef and livestock, a lower A$ and robust global prices should point to an improvement in cattle prices in 2014 – albeit from the lows of 2013 caused by a drought-induced surge in supplies. However, the more positive outlook for Australian beef and cattle for 2014 hinges upon on one crucial factor – substantial rainfall across the key cattle producing regions of eastern Australia.

After the failed northern wet season in 2012-13 and the scorching start to 2014, drought stricken regions of Queensland and NSW are desperate for rain, with the previous 12 months seeing the number of cattle turned-off at near record highs. Adult cattle slaughter for 2013 is estimated at 8.36 million head – the highest annual level since 1978.The extent of the drought has not only "pulled forward" many cattle from early 2014 sales, but increased mortality rates and reduced branding percentages – which will reduce the available supply of cattle over the medium term. With seasonal conditions for 2014 assumed to be 'average' (at best) to 'below average' across the majority of Australia's cattle producing regions, Australian adult cattle slaughter is forecast to decline 9.1% year-on-year, to 7.6 million head.

After the unprecedented volume of beef exported in 2013, at a record 1.1 million tonnes swt, export volume are forecast to be constrained by the 9.1% decline in cattle throughput in 2014 – even with a lower A$ and robust demand in many markets. For 2014, Australian beef and veal exports are forecast to reach 1.02 million tonnes swt, with China and Indonesia increasing their share of Australian exports. Given the strong export outlook and forecast eventual tighter supply prospects for 2014, the basic market fundamentals all point to improved prices for cattle for 2014. However, after such a devastating drought and three-decade high slaughter rate in 2013, the question will be how many producers will have the cattle, and seasonal conditions, to make the most of the improved market.

**To read MLA's 2014 Cattle Industry Projections click here.**

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