MEAT & LIVESTOCK AUSTRALIA

MARKET SNAPSHOT | **BEEF**

Japan

Japan is Australia's largest beef export market and the countries share a long established trade relationship. It is the world's third largest economy and one of the world's major meat importers. Despite an ageing society and a flat to declining population, its affluent and urbanised consumer base will continue to demand high volumes of quality imported proteins, such as Australian beef.

Challenges and opportunities in Japan for Australian beef include:

- Buoyed by improving economic sentiment and ongoing interest in akami (leaner meat) /steaks, Australian beef exports to Japan during 2017–18 experienced an impressive 10% growth year-on-year, the highest since 2012.
- Australia's well established trade protocols and advantageous market access conditions into Japan over other beef suppliers, provide a competitive advantage and strong foundation for future growth.
- Australia's strong presence in supermarkets and a wide range of foodservice outlets has it well positioned to take advantage of key consumer trends, and collaborate with key influencing end-users.
- Australian beef is seen as a family favourite and is consumed most often among all imported beef in Japan, but is facing strong, increasing competition from the United States (US).
- Maintaining high awareness and a point of difference against other import supplier competitors in the minds of Japanese consumers will remain crucial, as its mature market status limits opportunities for significant growth in total consumption.

Population

127.2 in 2018 **125.7** in 2022

In million

Source: BMI Research, 2018 estimate & 2022 forecast

Households earning*

>US$35,000/year

29.4 in 2018 **37.6** in 2022

In million households

Source: BMI Research, 2018 estimate & 2022 forecast

* Disposable income

Households earning*

>US$50,000/year

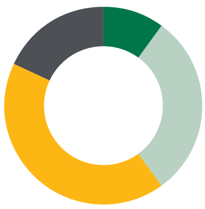
15.3 in 2018 **22.6** in 2022

In million households

Source: BMI Research, 2018 estimate & 2022 forecast

* Disposable income

Australian beef exports – volume



- Chilled grass – **10%**
- Chilled grain – **30%**
- Frozen grass – **42%**
- Frozen grain – **18%**

Total 307,339 tonnes swt

Source: Department of Agriculture and Water Resources (DAWR), 2017–18

Australian beef exports – value

- Chilled – **55%**
- Frozen – **45%**

Total A$2,117.1 million

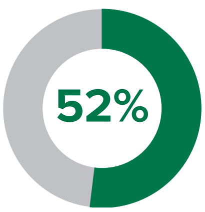
Source: ABS/GTA, 2017–18

Proportion of key cuts

- Manufacturing – **39%**
- Briskets – **14%**
- Loins* – **8%**
- Silverside/outside – **7%**
- Other – **32%**

Source: DAWR, 2017–18. * Striploin, tenderloin and cube roll

Australia's share of imports

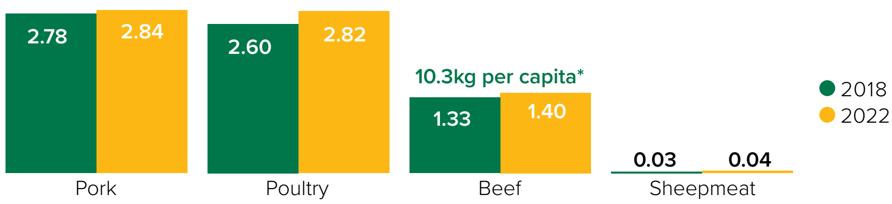


- Australia
- Other countries

Source: GTA, 2017–18

Meat consumption

52.8kg per capita* total meat protein**



In million tonnes cwt

Source: BMI Research, GIRA, 2018 estimate and 2022 forecast

* 2018e per person per year in cwt ** Excluding fish/seafood

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Consumers

- Japanese consumers consider beef the most premium protein, and associate it with good taste and being a family favourite. While beef lags behind pork for versatility and convenience, its strong emotional connection underpinned by taste means it is an indispensable part of the Japanese diet.

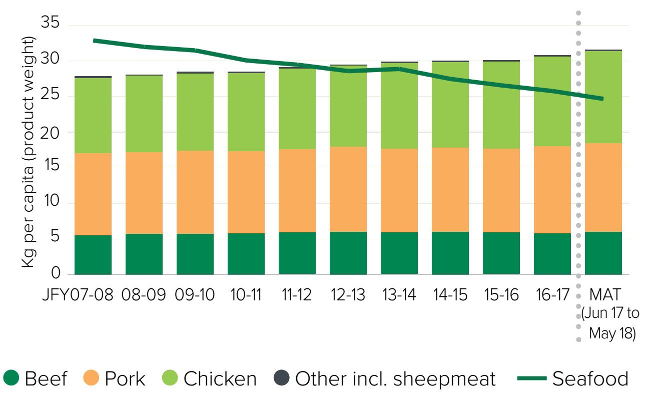
Attributes important for all proteins and beef associations

What attributes are important for Japanese consumers (all proteins)?	What associations do consumers have to beef?
My/my family's favourite	Most superior meat
Easy to prepare	Tastes delicious
Consistent quality standards	My/my family's favourite
Easy to purchase	Can be used in different meals
Meat is usually tender	Easy to purchase

Source: MLA Global Consumer Tracker Japan, 2018

- Beef continues to be used in traditional Japanese recipes, but consumers are also inspired by international beef menus, both western and Asian. The *akami** meat boom made steak one of the common items on the table, however it is often served as one of many sharing dishes, rather than as a main meal.
- This sharing format is popular because consumers traditionally seek variety in foods to deliver enjoyment as well as nutritional balance. This means Japanese consumers tend to opt for a diversity of proteins, although some seafood has gradually been replaced with chicken and pork. Total beef consumption has been relatively stable, and is expected to remain so in coming years due to an increase in per capita consumption coinciding with the declining population *(Source: BMI, based on 2017 consumption and 2022 forecast)*. Australia has opportunities to enhance the per capita consumption increase into the future by continuously reinforcing the goodness of beef through consumer marketing and leveraging Australia's reputation as a safe and trusted supplier.

Protein consumption per capita



Source: Ministry of Agriculture, Forestry and Fisheries of Japan (MAFF).
JFY = Japan Fiscal Year (April-March)

- Japan's population and economic growth are subdued compared with many neighbouring markets in Asia. That said, a high number of wealthy households and concentration in major cities, coupled with a sophisticated supply chain infrastructure, provide businesses with easy access to large groups of potential customers.

*When meat is called akami or 'leaner' in Japan, it is in comparison to highly marbled Wagyu beef or pork belly cut with a very high level of intermuscular fat. Most Australian beef is generally seen as akami, as it is comparatively less marbled.

Demographic comparison – Japan, China and the US

	Japan	China	US
Households with disposable income US$50,000+ (in million)	15.3	4.99	64.9
Urban population (% of population)	95	59	82
Households – 1 or 2 persons (% of total)	59	39	62

Source: BMI, 2018 data

Beef bento box

Foodservice

- Consumers appreciate highly marbled Japanese Wagyu beef for special occasions and high-end dining, while leaner/less marbled Australian beef is used across the foodservice sector. The younger generation is a driving force of the *akami* trend, with a recent survey indicating their preference for meat with less fat *(Source: MLA Global Consumer Tracker Japan, 2017)*. Interest in high protein diets among middle-aged consumers is also a positive development for Australian beef. Banking on these trends, there are an increasing number of steakhouses and meat-specialised bistros opening in the marketplace.
- The Japanese foodservice market is estimated to be worth over US$289 billion, including cooked *nakashoku** food sales by retail outlets *(Source: Japan Foodservice Association, 2016 data)*. The foodservice sector is a core distribution channel for Australian beef, accounting for an estimated 70% of Australian exports to Japan.

Major outlets for Australian beef (and key cuts used):

Hamburgers and *gyudon* chains (manufacturing beef, brisket)
Family and chain restaurants (manufacturing beef, various cuts)
High-end restaurants (loins, roast cuts)
Yakiniku – Japanese style table-top barbecue (loins, rib cuts, skirts, offal)
Canteens – schools, hospitals, catering (manufacturing beef, various cuts)
Steakhouses (loins, shoulder cuts)

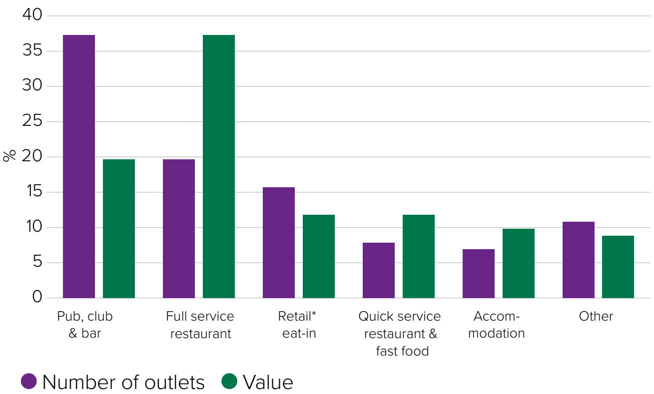
Source: MLA

* Nakashoku refers to ready to eat dishes and is a food category between retail (cooking at home) and foodservice (dining out).

Hamburg and steak dish (image courtesy of Sawayaka restaurant)

- Full service restaurants are a clear leader in terms of overall value in the Japanese foodservice sector, while *nakashoku* retail and quick service/fast food categories compete with each other by offering convenient and affordable meal solutions. Beef usage volume and value are proportionally higher in the full service and fast food categories *(Source: GlobalData, 2018)*.
- *Nakashoku* retail sales are largely driven by delicatessen products offered by supermarkets, convenience stores and takeaway specialists where chicken and pork are currently more prevalent. Overcoming the price barrier and making beef more appealing to this segment will open up more opportunities for Australian beef, on the back of the country's ageing population and increasing numbers of single/two people households for whom the convenience of this category of food is most appealing.

Outlet number and value by key foodservice channel (% out of total) – 2018



Source: GlobalData
* Retail includes cooked food sold by supermarket, convenience stores and take out specialists.

Japanese style yakiniku BBQ

Retail

- More than a quarter of Japanese consumers are over 65 years old, and almost 60% of all families are either one or two person households *(Source: BMI, 2018 data)*. This 'older and smaller' household trend will continue into the future, as will the emphasis on variety, convenience and maintaining a healthy lifestyle. Small portioned takeaway meals, easy to read and open packaging, and menus with reduced sugar or salt are some of the offerings of many supermarkets to appeal to this trend.
- Knowing where food comes from is also highly important to health-conscious Japanese consumers. Country of origin labelling is mandatory at Japanese retail level, and Australian beef is well positioned to take advantage of this, supported by perceived advantages in quality and safety of 'brand Australia' ('True Aussie') *(Source: MLA Global Consumer Tracker Japan, 2017)*.

TRUE AUSSIE BEEF
オーストラリア産牛肉

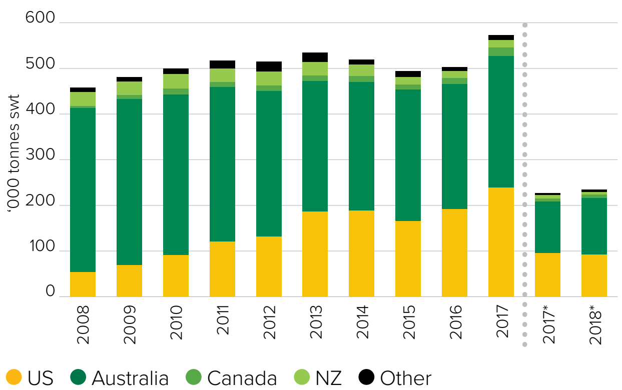
Key attributes consumers look for on a beef pack:	Key associations consumers have with the 'True Aussie' logo:
	"This beef is..."
● safety	✓ safe to eat
● freshness	✓ guaranteed/certified
● value	✓ high quality/premium
● origin	✓ delicious

- Backed by increased supply, many Japanese retailers run special price promotions featuring US products. In most cases, Australian and US products co-exist in a retail space. Supermarkets often focus on the US for chilled brisket (shortplate) slices and chuck roll steaks, and on Australia for loin steaks and shaved/sliced packs from various cuts. Mixed *yakiniku* plate (a combination pack of several pork cuts, beef cuts and beef offal) is popular among variety-seeking consumers.

Other suppliers

- Australia is the dominant imported beef supplier to Japan, but is facing strong competition from the US. Chilled beef imports from the US have risen significantly since August 2017. This is largely as a result of the safeguard tariff snapback on frozen beef, which lasted until the end of the Japanese fiscal year on 31 March 2018.
- The tariff increasing safeguard mechanism was applicable to all supplying countries without an Economic Partnership Agreement (EPA), and imposed a 50% import duty instead of an applied tariff rate of 38.5%. Australia is exempt from this increase mechanism under its Japan-Australia EPA, and maintains an advantageous tariff rate of 29.3% for chilled beef, and 26.9% for frozen (as of September 2018).
- Other suppliers include New Zealand (NZ), Canada and Mexico but their collective share of the market remains less than 10%. Beef sourced from specified states in Brazil and Argentina is allowed to be imported into Japan, however there has been no commercial shipments recorded in imports data this year *(imports data as of June 2018)*. India does not have access due to animal health concerns.

Beef imports by supplier



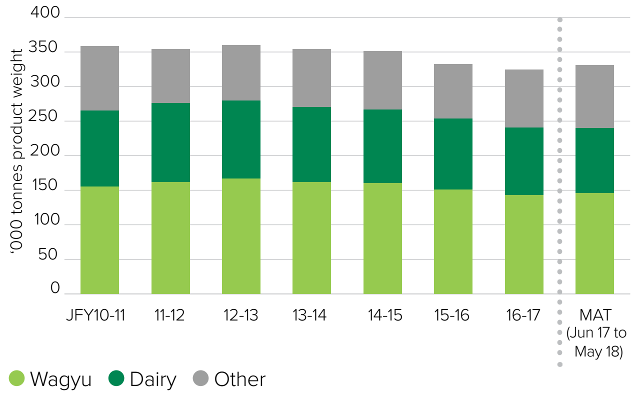
*Source: GTA. * YTD (Jan to May) comparison*

- The Comprehensive and Progressive Agreement for Trans-Pacific Partnership, or commonly called TPP-11*, will enter into force on 30 December 2018 without the US. Japan's beef import tariffs for member countries, including Australia, will be reduced to 9 per cent within 15 years of entry into force.

* member countries are Australia, Japan, Canada, NZ, Singapore, Mexico, Chile, Peru, Malaysia, Vietnam, Brunei.

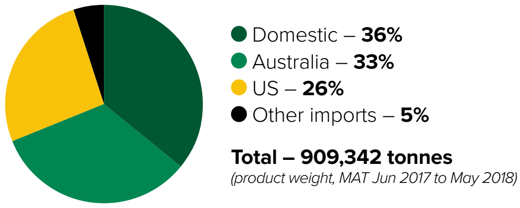
- In terms of Japanese domestic production, 331,179 tonnes (product weight) of beef was produced from June 2017 to May 2018, down 4% in comparison to the five-fiscal year average (344,368 tonnes). Key influencing factors for the decline include Japan's ageing farming population, high calf prices, and diversification of consumer preferences.

Japanese beef production by breed type



Source: Agriculture and Livestock Industries Corporation of Japan (ALIC)
JFY = Japan Fiscal Year, April to March

Beef consumption by supplier



Source: ALIC, Ministry of Finance (Japan), MLA estimate

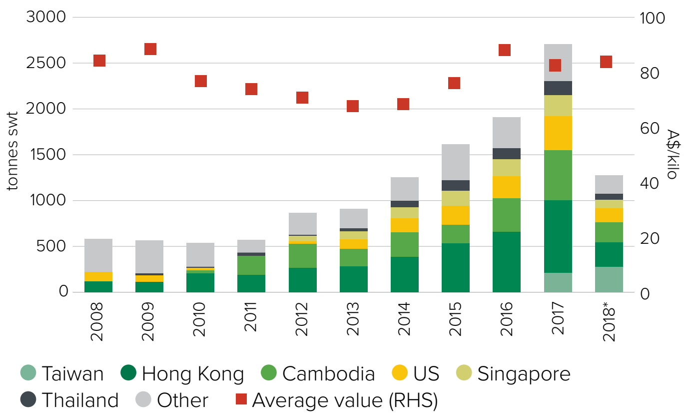
US shortplate is largely used for Gyudon beef rice bowl.

Japan's beef exports

Japan exports a very small quantity of premium beef to overseas markets, with the majority being highly marbled Wagyu beef. The trade has been growing since the late 2000s, underpinned by the growing reputation of Wagyu as a premium product, and the strong commitment by the Japanese central and prefectural governments to promote exports of agricultural products.

- Hong Kong, the US and Singapore have traditionally been the key export destinations.
- Taiwan opened its market for Japanese beef in 2017, and has taken more volume than Hong Kong from January to May 2018.
- Japan gained access to send chilled and frozen beef to Australia in May 2018.
- Japan's beef production is forecast to remain relatively steady.

Beef exports from Japan by destination



*Source: GTA. *=Jan to May 2018*

Market access overview

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
Japan-Australia Economic Partnership agreement **(JAEPA)**	**Under JAEPA:** Until **31 March 2019** - 29.3% for chilled, 26.9% for frozen From **1 April 2019** - 28.8% for chilled, 26.7% for frozen	**US** The US has no FTA/EPA with Japan and a 38.5% tariff is applied	**Safeguard** Tariff bounces back to 38.5% if Australian imports exceed trigger level*	No major hurdles

Best access — Major challenges

Source: Trade agreements, DFAT, MLA

* Trigger level for chilled: 136,700 tonnes swt for JFY2018 (until March 2019). For frozen: 201,700 tonnes swt.

Australian beef exports to Japan – summary table

Volume – in tonnes swt

		2017–18	% out of total	2016–17	% out of total	5-year average (2012–13 to 2016–17)	% out of total	change 2017–18 vs 5-year average %	change 2017–18 vs 5-year average in tonnes swt
	Total	**307,339**	**100**	**278,799**	**100**	**285,853**	**100**	**8**	**21,485**
Storage	Chilled	123,726	40	114,361	41	122,011	43	1	1,715
	Frozen	183,612	60	164,438	59	163,842	57	12	19,770
Meat type	Grassfed	159,512	52	144,699	52	156,091	55	2	3,422
	Grainfed	147,826	48	134,100	48	129,763	45	14	18,064
Storage/meat type	Chilled grassfed	31,463	10	29,518	11	35,748	13	-12	-4,284
	Chilled grainfed	92,263	30	84,843	30	86,263	30	7	5,999
	Frozen grassfed	128,049	42	115,181	41	120,343	42	6	7,706
	Frozen grainfed	55,563	18	49,257	18	43,499	15	28	12,064

Source: DAWR

Value – in A$ 000

		2017–18	% out of total	2016–17	% out of total	5-year average	% out of total	%	in A$ 000
	Total	**2,117,116**	**100**	**1,910,154**	**100**	**1,697,338**	**100**	**25**	**419,778**
Storage	Chilled	1,160,996	55	1,098,891	58	962,263	57	21	198,733
	Frozen	956,120	45	811,262	42	735,075	43	30	221,044

Source: ABS/GTA

Volume – by major cut (in tonnes swt)

	2017–18	% out of total	2016–17	% out of total	5-year average	% out of total	%	in tonnes swt
Manufacturing	120,719	39	109,902	39	103,292	36	17	17,426
Brisket	43,059	14	42,930	15	47,207	17	-9	-4,148
Silverside/outside	20,701	7	19,298	7	15,978	6	30	4,723
Blade	16,968	6	16,285	6	17,922	6	-5	-953
Topside/inside	16,804	5	15,862	6	14,384	5	17	2,420
Chuck roll	16,788	5	13,148	5	16,935	6	-1	-147
Striploin	14,218	5	11,945	4	11,155	4	27	3,063
Thin flank	7,996	3	5,617	2	6,383	2	25	1,613
Other	50,086	16	43,812	16	52,598	18	-5	-2,512
Total	**307,339**	**100**	**278,799**	**100**	**285,853**	**100**	**7.52**	**21,485**

Source: DAWR

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

	2017–18	% out of total	2016–17	% out of total	5-year average	% out of total	%	in tonnes swt
Skirt	8,303	34	7,220	32	7,725	31	7	578
Tongues	8,079	33	7,585	33	8,762	35	-8	-683
Intestines	2,733	11	2,897	13	3,078	12	-11	-346
Other	5,157	21	5,169	23	5,718	23	-10	-560
Total	**24,272**	**100**	**22,871**	**100**	**25,283**	**100**	**-4**	**-1,011**

Source: DAWR

Value – in A$ 000

	2017–18	% out of total	2016–17	% out of total	5-year average	% out of total	%	in A$ 000
Total	**209,960**		**229,622**		**192,455**		**9**	**17,505**

Source: ABS/GTA