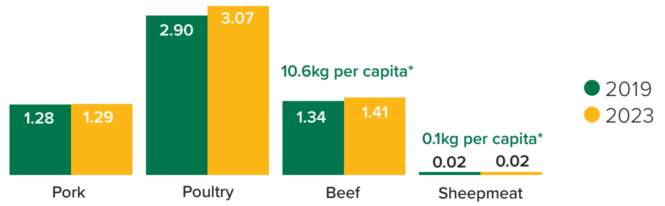
MARKET SNAPSHOT | BEEF & SHEEPMEAT

Japan

Globally, Japan has the second highest number of households earning disposable income over US$35,000/year after the US, with a highly sophisticated supply chain infrastructure. While the country's population and economic growth are subdued compared with many neighbouring markets in Asia, its affluent and urbanised consumers will continue to demand high volumes of quality imported proteins, such as Australian red meat.

Meat consumption

55.6kg per capita* total meat protein**



in million tonnes cwt * 2019e per person per year in cwt ** Excluding fish/seafood

Source: Fitch Solutions (2019 estimate and 2023 forecast), OECD Agriculture Statistics: OECD-FAO Agricultural Outlook (Edition 2018), GIRA

Population

126.9 in 2019

125.3 in 2023

in million

Source: Fitch Solutions, 2019 estimate and 2023 forecast

Households earning* >US$35k/year

28.7 in 2019

39.0 in 2023

in million households

Source: Fitch Solutions, 2019 estimate and 2023 forecast

Households earning* >US$50k/year

14.7 in 2019

24.1 in 2023

in million households

Source: Fitch Solutions, 2019 estimate and 2023 forecast

Households earning* >US$75k/year

5.2 in 2019

9.8 in 2023

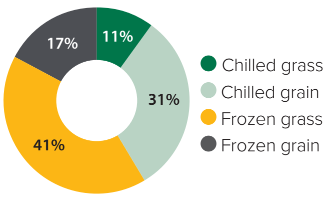
in million households

Source: Fitch Solutions, 2019 estimate and 2023 forecast

*Disposable income: earnings after taxes and social security charges.

Japan is the largest export destination for Australian beef for more than two decades, in both volume and value. It is also the largest market for grainfed beef, taking half of total grainfed exports.

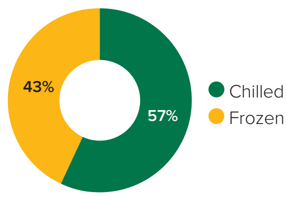
Australian beef exports – volume



Total 302,756 tonnes swt

Source: DAWR, 2018–19

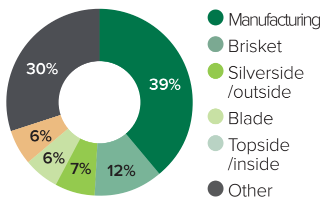
Australian beef exports – value



Total A$ 2.31 billion

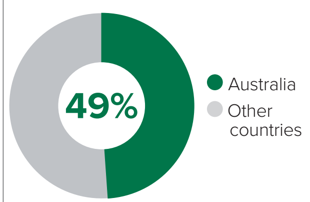
Source: ABS/IHS Markit, MAT (12 months ending May 2019)

Proportion of key cuts (beef)



Source: DAWR, 2018–19

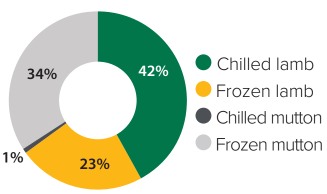
Australia's share of beef imports



Source: IHS Markit, FYTD (July 2018 – May 2019)

Japan is a consistent buyer of Australian sheepmeat and is the largest chilled lamb customer within Asia. 2018-19 exports fell 4% on year ago levels – due to a decrease in supply.

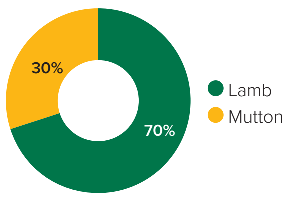
Australian sheepmeat exports – volume



Total 14,210 tonnes swt

Source: DAWR, 2018–19

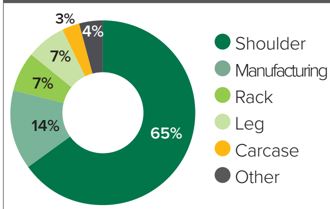
Australian sheepmeat exports – value



Total A$143.4 million

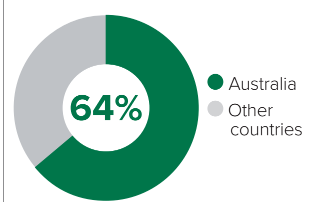
Source: ABS/IHS Markit, MAT (12 months ending May 2019)

Proportion of key cuts (lamb)



Source: DAWR, 2018–19

Australia's share of sheepmeat imports



Source: IHS Markit, FYTD (July 2018 – May 2019)

Beef

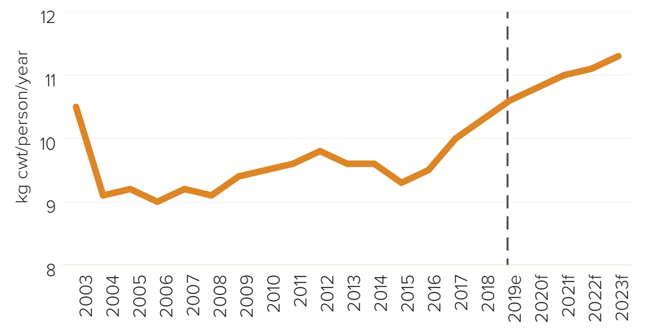
CONSUMERS

- 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, it is an indispensable part of the Japanese diet, underpinned by a strong emotional connection and a unique flavour experience.
- Beef continues to be used in traditional Japanese recipes, but consumers are also inspired by international beef menus, both western and Asian. Western-style steaks – as opposed to thinly cut *yakiniku* (table-top Japanese-style barbecue) pieces – have become one of the common items on the table, thanks to the ongoing *akami* (leaner meat) and barbecue popularity.

Barbecue with western-style steaks.

- Japanese consumers tend to opt for a diversity of proteins, although some seafood has gradually been replaced with chicken and pork, due to a shift in diet as well as the high price of seafood. Total beef consumption is expected to grow at a slow pace in coming years, with the flat to declining population being compensated by increasing per capita consumption.

Beef consumption per capita



Source: Fitch Solutions. Note: Drop in consumption in 2004 was due to US BSE outbreak (December 2003) and subsequent market disruption.

- Australia has opportunities to enhance per capita consumption into the future by continuously reinforcing the goodness of beef through consumer marketing and leveraging Australia's reputation as a safe, natural and trusted supplier.

FOODSERVICE

- Japan's restaurant sector is one of the most developed in the world in size and sophistication, with a diverse range of global cuisine and price points being available to consumers. It is estimated to be worth over US$2.81 billion, including cooked *nakashoku* (ready-to-eat dishes) food sales by retail outlets *(Source: Japan Foodservice Association, 2017 data).* The foodservice sector is a core distribution channel for Australian beef, accounting for an estimated 70% of Australian beef to Japan.
- 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.
- *Nakashoku* product sales are largely driven by supermarkets, convenience stores and takeaway specialists, while some casual to mid-range foodservice outlets are also offering take-out options. 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 person households for whom the convenience of this category of food is most appealing.

Japanese foodservice sector – key categories and suppliers

Sector	Major beef dish	Key suppliers
Western-style fast food	Hamburger	Australia
Japanese-style fast food	*Gyudon* rice bowl	Australia, US
Family and chain restaurants	Hamburg steak*	Australia, US
Steak houses	Steaks	Australia, US
Yakiniku outlets	Thinly cut beef and offal	Australia, US, Japan
High-end restaurants	Various	Australia, US, Japan
Nakashoku	Roast beef, grilled beef	Australia, US

Source: MLA ** Flat meatball steak*

Japanese-style yakiniku barbecue.

RETAIL

- The Japanese retail food market is highly sophisticated, but also very fragmented, with almost 70% of the grocery market occupied by many strong regional players. The estimated value of the grocery retail market in Japan is US$462 billion, including online and convenience stores *(Source: IGD, 2019 data)*.
- Knowing where food comes from is highly important for Japanese consumers, as the country heavily relies on imports. With its mandatory 'country of origin' (COO) labelling regulation, the Japanese retail sector is where consumers have a direct interface with global suppliers, and hence a critically important space for Australia to showcase quality underpinned by product integrity.
- More than a quarter of Japanese consumers are over 65 years old, and almost 60% of all families in Japan are either one or two person households *(Source: Fitch Solutions, 2019 estimate)*. This demography emphasises the need for variety, convenience and maintaining a healthy lifestyle.
- Australian beef is well-positioned to take advantage of this space, supported by perceived advantages in quality and safety of 'brand Australia' True Aussie *(Source: MLA Global Consumer Tracker 2018)* and commercial brand promotions.

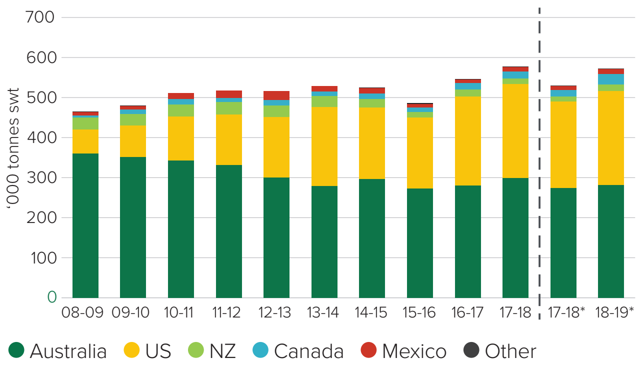
Key attributes consumers look for on a beef pack:	Key associations consumers have with the 'True Aussie' logo:
	"This beef is..."
● Safety	✓ Safe to eat
● Freshness	✓ Guaranteed/certified
● Value	✓ High quality/premium
● Origin	✓ Delicious

Source: MLA Global Consumer Tracker Japan 2018

OTHER SUPPLIERS

- Buoyed by *akami* popularity and favourable supply conditions from both the US and Australia, beef imports into Japan during Japan Fiscal Year 2018-19 (April 2018 to March 2019) reached 624,879 tonnes shipped weight (swt), the highest volume since 2001 with a record value of A$4.9 billion.
- Australia is the dominant imported beef supplier to Japan, but is facing strong competition from the US. Almost 65% of imports from the US are brisket/shortplate cuts (largely supplied to *Gyudon* rice bowl users), and another 25% are chilled shoulder/rounds for other foodservice and supermarket trade. The US is also a major supplier of beef offal (tongue in particular) to Japan's *yakiniku* restaurants.

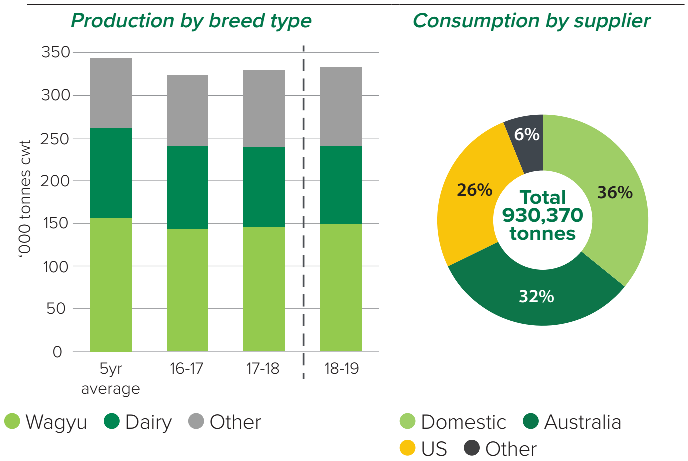
Japan beef imports by supplier



*Source: IHS Markit, Australian Fiscal Year. * YTD comparison (July to May)*

- Australia has the Japan-Australia Economic Partnership Agreement (EPA) as well as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (commonly called TPP-11* or CPTPP).
- In January 2020, the US-Japan Trade Agreement entered into force, lowering Japan's import tariffs on US beef to parity with CPTPP members.
- Albeit off a small base, Canada, New Zealand and Mexico have increased their shipments to Japan significantly since the CPTPP. Other competitors include Argentina and Uruguay but their collective volumes to date remain limited.
- Japanese beef production has seen a small recovery during Japan Fiscal Year 2018–19. Demand from the foodservice sector has largely supported this improvement, while Japan's ageing farming population and high calf prices continue to challenge the industry.
- Japan exports a very small quantity of premium beef (3,801 tonnes swt in JFY 2018–19), with the majority being highly marbled Wagyu beef. Albeit off a small volume, trade has been building up in recent years, with their main markets being North Asia, South-East Asia and the US. Australia imported 28 tonnes swt of Japanese beef during the same period.

Japanese beef production by breed type and consumption



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

Source: ALIC, IHS Markit, MLA estimate Product weight, JFY18-19

** Member countries are Australia, Japan, Canada, New Zealand, Singapore, Mexico, Chile, Peru, Malaysia, Vietnam, and Brunei.*

Market access overview – beef

Trade agreements	Import tariffs*	Competitors**	Volume restrictions	Technical access
Comprehensive and Progressive Agreement for Trans Pacific Partnership **(CPTPP)** Japan-Australia Economic Partnership agreement **(JAEPA)**	**Under CPTPP:** Until **31 March 2020** – 26.6% for chilled, and frozen beef From **1 April 2020** – 25.8% for chilled, and frozen beef	**US** The US-Japan Trade Agreement – tariff is matched with CPTPP **Canada, NZ, Mexico** Same condition as Australia under CPTPP	**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

* Visit DFAT Free Trade Agreement Portal (https://ftaportal.dfat.gov.au) for detailed tariff schedule under JAEPA and CPTPP, safeguard, prepared meat, offal and live animals.
**Beef sourced from specified states in Brazil is allowed to be imported into Japan, however there has been no commercial shipments recorded in imports data this year (imports data as of May 2019). India does not have access due to animal health concerns.

Australian beef exports to Japan – summary table

Volume – in tonnes swt

		2018–19	% out of total	2017–18	% out of total	5-year average (2013–14 to 2017–18)	% out of total	change 2018–19 vs 5-year average %	change 2018–19 vs 5-year average in tonnes swt
	Total	**302,756**		**307,339**		**282,607**		**7**	**20,150**
Storage	Chilled	126,647	42	123,726	40	121,437	43	4	5,210
	Frozen	176,110	58	183,612	60	161,169	57	9	14,940
Meat type	Grassfed	155,351	51	159,512	52	150,753	53	3	4,598
	Grainfed	147,405	49	147,826	48	131,853	47	12	15,552
Storage/meat type	Chilled grassfed	31,908	11	31,463	10	34,085	12	-6	-2,177
	Chilled grainfed	94,738	31	92,263	30	87,352	31	8	7,387
	Frozen grassfed	123,443	41	128,049	42	116,668	41	6	6,775
	Frozen grainfed	52,667	17	55,563	18	44,501	16	18	8,166

Source: DAWR

Value – in A$ 000

		2018–19	% out of total	2017–18	% out of total	5-year average	% out of total	%	in A$ 000
	Total	**2,312,608**		**2,116,327**		**1,827,335**		**27**	**485,273**
Storage	Chilled	1,311,858	57	1,160,773	55	1,034,611	57	27	277,247
	Frozen	1,000,750	43	955,593	45	792,724	43	26	208,026

Source: ABS/IHS Markit, 2018-19 = MAT (12 months ending May 2019)

Volume – by major cut (in tonnes swt)

	2018–19	% out of total	2017–18	% out of total	5-year average	% out of total	%	in tonnes swt
Manufacturing	118,643	39	120,719	39	107,621	**37**	10	11,022
Brisket	38,293	13	43,059	14	44,279	15	-14	-5,987
Silverside/outside	20,178	7	20,701	7	17,047	6	18	3,131
Blade	17,857	6	16,968	6	17,657	6	1	200
Topside/inside	17,395	6	16,804	5	14,469	5	20	2,926
Chuck roll	15,935	5	16,788	5	16,829	6	-5	-894
Striploin	14,285	5	14,218	5	12,127	4	18	2,158
Thin flank	8,817	3	7,996	3	6,609	2	33	2,208
Other	51,352	17	50,086	16	50,914	18	1	438
Total	**302,756**		**307,339**		**287,553**		**5**	**15,204**

Source: DAWR

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

	2018–19	% out of total	2017–18	% out of total	5-year average	% out of total	%	in tonnes swt
Tongues	8,792	35	8,079	33	8,718	35	1	74
Skirt	8,663	34	8,303	34	7,808	31	11	854
Intestines	2,172	9	2,733	11	3,028	12	-28	-855
Other	5,583	22	5,157	21	5,611	22	0	-28
Total	**25,210**		**24,272**		**25,165**		**0**	**45**

Source: DAWR

Value – in A$ 000

	2018–19	% out of total	2017–18	% out of total	5-year average	% out of total	%	in A$ 000
Total	**227,255**		**208,640**		**199,020**		**14**	**28,235**

Source: ABS/IHS Markit, 2018-19 = MAT (12 months ending May 2019)

Sheepmeat

CONSUMERS

- Sheepmeat has a minor but relatively established presence in Japan, in comparison to other niche proteins such as goatmeat and game meat. Lamb resonates with the market's tradition of seeking a variety of foods that deliver enjoyment, but also nutritional balance in the diet.
- Consumers appreciate lamb's eating quality, but also think lamb is hard to buy and not as versatile as other proteins *(Source: MLA Global Consumer Tracker Japan, 2018)*. Current per capita sheepmeat consumption is extremely low, indicating scope for future growth.
- Making lamb more accessible in an everyday environment remains a priority in a market where people place great emphasis on convenience, underpinned by the country's ageing population and increasing number of single/two person households.

Attributes important for all proteins and lamb associations

What attributes are important for Japanese consumers (all proteins)?	What associations do consumers have to lamb?
My/my family's favourite	Tastes delicious
Easy to prepare	Low in fat
Consistent quality standards	High nutritional value
Easy to purchase	Meat is tender
Meat is tender	My/my family's favourite

Source: MLA Global Consumer Tracker Japan, 2018

FOODSERVICE

- Australian lamb consumption to date has been largely led by *Genghis Khan* (sheepmeat barbecue on a table-top grill) outlets. They are particularly popular in Hokkaido (the north island of Japan) among locals and visiting tourists. New *Genghis Khan* venues have opened in major cities as well, largely focused on young consumers.
- Coincidentally, the number of mid to high-end restaurants serving lamb as a point of difference has been increasing, as grilled meat and global flavours are becoming a mainstream dining choice among Japan's sophisticated urban professionals.
- Lamb is regarded as healthy and topical among young social media followers, with some restaurants offering both *Genghis Khan* and *shabu-shabu* hot-pot style, or serving chilled lamb to promote its high quality.

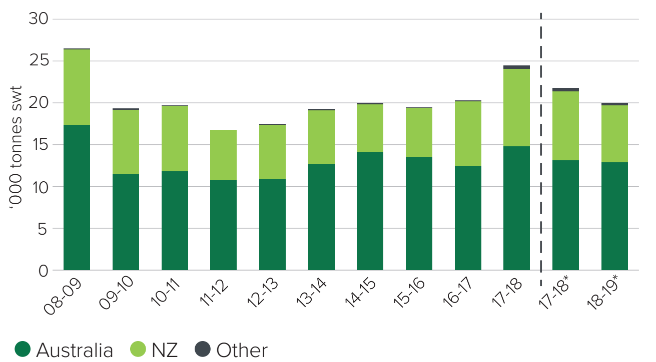
RETAIL

- Lack of familiarity and knowledge of how to cook lamb are major reasons for Japanese shoppers not purchasing lamb in the retail channel *(Source: MLA Global Consumer Tracker Japan, 2018)*. While major retailers in Tokyo are gradually increasing their shelf space for lamb, New Zealand has a competitive presence in the sector with its smaller-sized bone-in (lamb cutlet) products. Along with cutlets, Japanese-style lamb recipes and marinated products using Japanese flavours are perceived as more 'accessible' than western-style dishes and are popular among shoppers.
- When at the shelf, consumers look for markers of guaranteed safety, freshness, and value *(Source: MLA Global Consumer Tracker Japan, 2018)*. Country of origin labelling is mandatory at Japanese retail level, and provides opportunities to promote Australia as a safe, trusted and quality supplier of sheepmeat via 'brand Australia' (True Aussie) and commercial brand promotions.

OTHER SUPPLIERS

- The Japanese sheepmeat industry remains very small* and hence sheepmeat demand in Japan has been, and will continue to be, filled by imports.

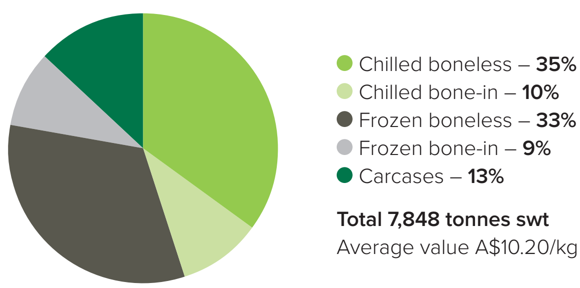
Sheepmeat imports by supplier



*Source: IHS Markit, *FYTD comparison (July to May)*

- Australia is the dominant imported sheepmeat supplier to Japan, but is facing strong competition from New Zealand, which has the same access conditions. The US gained sheepmeat access to Japan in late 2018, but commercial volumes have been limited to date.

Sheepmeat imports from New Zealand



Source: IHS Markit, MAT (June 2018 to May 2019)

** Last production data recorded in Japan was 2009, at 184 tonnes cwt.*

Market access overview – sheepmeat

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
Japan-Australia Economic Partnership Agreement **(JAEPA)** Comprehensive and Progressive Agreement for Trans-Pacific Partnership **(CPTPP)**	NIL (for all countries)	**New Zealand** (same access conditions as Australia)	Zero	No major hurdles

Best access — Major challenges

Source: Trade agreements, DFAT, MLA

Australian sheepmeat exports to Japan – summary table

Volume – in tonnes swt

		2018–19	% out of total	2017–18	% out of total	5-year average (2013–14 to 2017–18)	% out of total	change 2018–19 vs 5-year average: %	change 2018–19 vs 5-year average: in tonnes swt
	Total	**14,210**		**14,828**		**13,630**		**4**	**580**
Storage	Chilled	6,107	43	5,564	38	5,538	41	10	569
	Frozen	8,104	57	9,265	62	8,093	59	0	11
Meat type	Lamb	9,367	66	9,550	64	9,018	66	4	349
	Mutton	4,843	34	5,278	36	4,612	34	5	231
Storage/meat type	Chilled lamb	6,028	42	5,512	37	5,473	40	10	555
	Chilled mutton	79	1	52	0	65	0	21	14
	Frozen lamb	3,339	24	4,039	27	3,546	26	-6	-206
	Frozen mutton	4,764	34	5,226	35	4,547	33	5	217

Source: DAWR

Value – in A$ 000

		2018–19	% out of total	2017–18	% out of total	5-year average	% out of total	%	in A$ 000
	Total	**143,367**		**141,884**		**116,402**		**23**	**26,965**
Meat type	Lamb	100,663	70	97,979	69	82,924	71	21	17,739
	Mutton	42,704	30	43,905	31	33,478	29	28	9,226

Source: ABS/IHS Markit

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

	2018–19	% out of total	2017–18	% out of total	5-year average	% out of total	%	in tonnes swt
Shoulder	6,041	64	6,168	65	5,225	58	16	816
Manufacturing	1,283	14	1,599	17	1,958	22	-34	-675
Leg	702	7	554	6	636	7	10	66
Rack	652	7	610	6	677	8	-4	-25
Carcase	270	3	249	3	205	2	31	64
Other	419	4	371	4	317	4	32	102
Total	**9,367**		**9,550**		**9,018**		**4**	**349**

Source: DAWR