USDA

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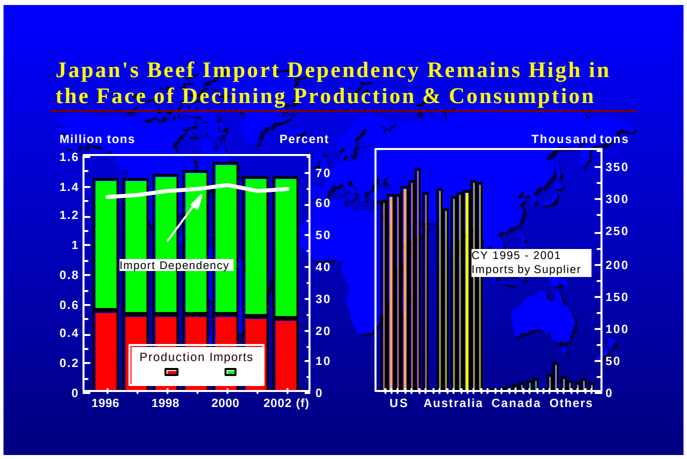
Dairy, Livestock, & Poultry Market Report: The Japanese Beef Market

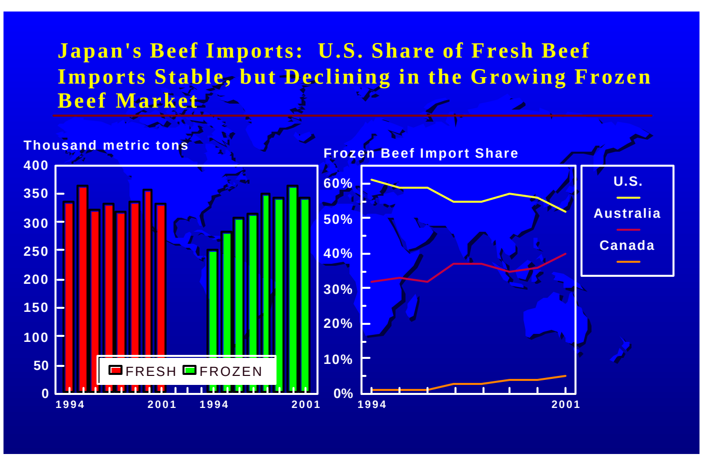
Fight for Japan Beef Market Intensifies, U.S. Share Pressured



The Japanese beef market, long synonymous with U.S. beef export success, was dealt a serious blow when the presence of Bovine Spongiform Encephalopathy (BSE) in the domestic herd was confirmed on September 10, 2001. The appearance of BSE brought a new challenge to U.S. exports to Japan which were already facing a market share challenge from Australia and Canada.

Japan's beef consumption grew without interruption through the mid-1990's, but has since stagnated at a million and a half tons annually. Imports have grown to account for about two-thirds of the annual consumption in recent years, but import growth has come as a result of a steady decline in domestically produced beef supplies since 1995. With Japan's beef imports falling in 2001 and little optimism for significant gains in 2002, competition for market share has intensified. U.S. beef has not fared as well in this new environment.

Consumption and Import Growth Stagnates

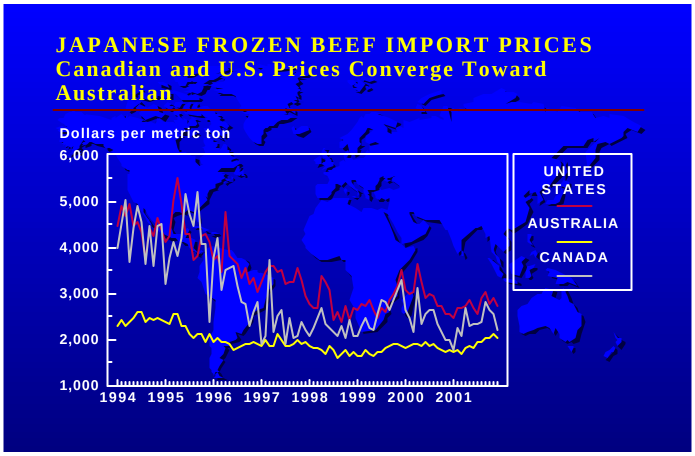


Japan relies on imported beef to supply about two-thirds of its beef consumption. Imported beef supplies surpassed domestic production in 1993, but further gains since then have slowed. As a consequence, competitor market gains in Japan must now focus more on market share than simple access and participation in the market place.

The United States and Australia vie for the lead in the Japanese market. Canada, in a distant number three position, is making steady inroads. The competitive pressures are especially felt in the frozen beef market and are reflected in the unit values for both frozen and fresh/chilled beef.

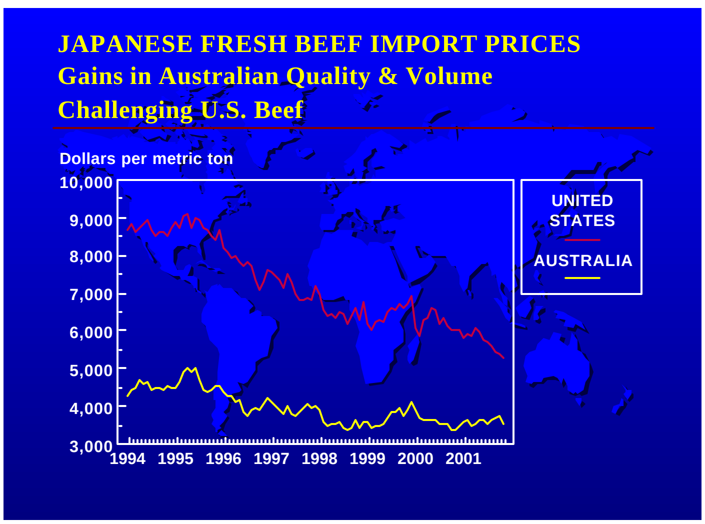
Japan imported a record 720,000 metric tons of beef in 2000, but weak consumer demand dropped beef imports to 675,000 tons in 2001. In the record year of 2000, total Japanese beef imports were evenly split between fresh/chilled beef and frozen beef. In recent years, the Japanese beef import market has been characterized by fairly stable demand for fresh/chilled beef, and fairly regular growth in frozen beef imports. In 2000, Japanese imports of frozen beef expanded to a record 363,000 tons, and, despite the fall in 2001 imports to 344,000 tons, still account for 50 percent of the total beef import market.

Frozen Beef Imports: Growth of Lower Unit Value Products



Total Japanese frozen beef imports grew with little interruption from 284,000 tons in 1995 to a record 363,000 tons in 2000. In contrast to fresh/chilled beef, the United States is the number one supplier of frozen beef to Japan. Japanese imports from the United States rose from 167,000 tons in 1995 to a record 203,000 tons in 2000. The gains for U.S. product, however, were not enough to avoid market share loss over the period.

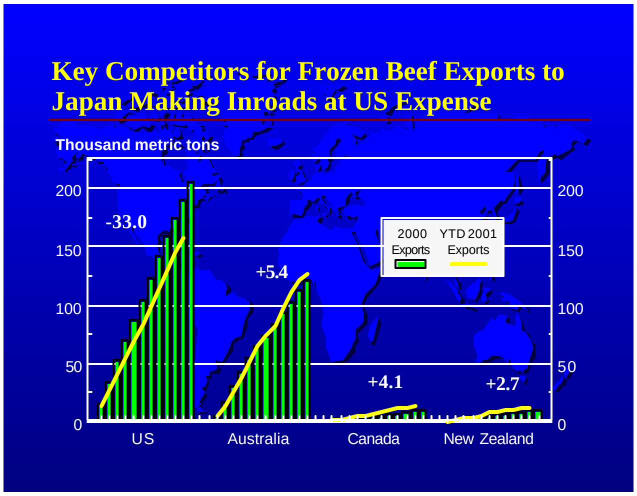
Australia and Canada have bid away U.S. market share in the frozen beef market and reduced U.S. dominance from 61 percent in 1994 to 52 percent in 2001. The impact of this competition is clearly reflected in the unit values of frozen beef imports. Japan's average import value for frozen beef fell from $3,700/ton in 1994 to the December 2001 level of $2,450/ton. In the meantime, the average import value for Australian frozen beef has only eroded slightly from roughly $2,400/ton in 1994 to the December 2001 level of $2,050/ton.



The average import value of fresh/chilled beef has fallen from about $5,700/ton in 1994 to the December 2001 level of $4,190/ton. These reduced fresh/chilled beef import prices occurred as U.S. domestic boxed beef prices, especially for prime and choice cuts, reached all-time highs in the summer of 2001. This trend in reduced average U.S. import unit values may be explained by a change in the mix of U.S. products, but is probably also an indicator of the pricing structure necessary to be competitive in Japan, whose economy has been lackluster for the last several years.

Australia continues to dominate the fresh/chilled sector. Although it is well-known as the world's largest grass-fed beef exporter, Australia throughout the 1990's has expanded its grain-fed herd, with approximately 25 percent of its two-million-ton annual beef production now consisting of grain-fed beef.

Multiple Challenges Ahead



Consumer Confidence in Beef Needs Rebuilding: The first detection of BSE in Japan occurred in September of 2001. Three cases have now been confirmed and others are pending investigation. While Japan's Ministry of Agriculture, Forestry and Fishery on September 13 ordered the on-site inspection of all of Japan's 146,000 dairy and beef cattle farms, reaction by Japanese consumers to the confirmation of BSE in Japan's cattle herd is having a devastating effect on overall demand and on beef imports. Recently released national household consumption data for October showed a decline in average household beef consumption of 60 percent compared to a year earlier. Japan's beef stocks are reportedly nearly 50 percent above pre-BSE levels as traders are unable to move product.

Restoring the Japanese consumers' confidence in beef, whether domestic or imported, in order to expand beef demand and consumption is a top priority. Confidence restoring measures will not in themselves be sufficient to address the other factors that have increased competition for the Japan beef market.

Competitors Initiating Innovative Campaigns: Australia is actively promoting its beef as a national brand. The Australians in the 1990s launched an "Aussie Beef" campaign to create a positive image for their products. This effort has significantly helped Australia to gain market share. Also, Australian manufacturers in 2000 created user-friendly packaging and in-store signage, informing the consumer which cut would be the best buy for a particular dish. Since September 10th, the Australians have added a new campaign, reassuring Japanese consumers of the safety of "Aussie Beef", reinforcing the concept that the "Aussie Beef" brand is BSE-free.

The Canadian Beef Export Federation (CBEF) is also becoming more active in the Japan market. In November of 2001, the CBEF held a "Canadian Beef and Veal Seminar" in Osaka and more events are planned for 2002. Imports of Canadian beef have been increasing. CBEF is targeting an 8-10 percent market share of beef imports by 2010. Their share in 2000 was 2.5 percent, but rose to 3.4 percent in 2001.

Devalued Currencies Putting Pressure on U.S. Product: Both the Australian dollar and Canadian dollar significantly devalued in recent years, compelling U.S. exporters to face another challenge that is beyond their ability to influence. Both the Australian dollar and Canadian dollar have declined by roughly 10 percent since January of 2000.

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