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The Japanese beef market in transition

The signing of the Beef Market Access Agreement (BMAA) in 1988 between the governments of the U.S., Australia and Japan was supposed to increase U.S. beef export, but some doubted that it would. Now that beef import quotas have been replaced by import tariffs for more than two years, what has happened?

Developments following the removal of import quotas

The Japanese beef market has experienced several important changes since import quotas were replaced by import tariffs at the beginning of Japan's fiscal year 1991 which begins April 1.

(1) Market liberalization changed the composition of beef imports. Chilled beef imports increased sharply while imports of frozen beef declined significantly. In 1992, as much as 52 percent of total Japanese beef imports were in chilled form, compared to only 27 percent in 1987. Also, in 1992 more than 57 percent of the total volume of beef imported was from grain fed cattle compared to only 5 percent in 1987.

(2) Wholesale beef prices changed sharply. In the Tokyo area wholesale prices of most types of imported beef have dropped significantly since 1989, while prices of higher grades of domestic beef (for example, Wagyu Steers) were generally firm until the end of 1991. The wholesale prices of beef from domestic Wagyu declined slightly in 1992, perhaps as a result of competition from Wagyu beef imported from the US.

(3) Total beef imports did not increase as anticipated. Prior to the replacement of import quotas by import tariffs of 70 percent in 1991, speculation led to a general build-up of beef inventory in 1990. Consequently, beef imports in 1991 declined by approximately 15 percent despite continued steady growth in beef consumption. Even though 1992 beef imports increased by 28 percent over 1991 levels to reach 423,427 metric tons, 1992 imports were only 7 percent greater than the import quota of 394,000 metric tons in 1990. And under the old

import quota system, the volume of beef imports was allowed to increase by 60,000 metric tons per year and total Japanese beef imports could have been 454,000 metric tons and 514,000 metric tons in 1991 and 1992 respectively. In this respect Japanese beef imports did not increase as fast as anticipated by some analysts (see figure).

Why were expectations too optimistic?

Experts gave a wide range of estimates for Japanese beef imports following trade liberalization, but most projections have so far proved to be unrealistically high. Here's why.

Researchers overestimated Japanese beef imports primarily because they failed to properly recognize the quality differences between imported and domestic beef in the Japanese market. Most studies of beef imports have relied heavily on the wedge between international and Japanese beef prices. However, to the extent that beef in Japan is a highly differentiated product, the comparison of beef prices in Japan is not straightforward. Using the appropriate approach, we estimated the *rate of protection (ROP)* for nine of the most popular beef cuts Japan imported from the U.S. and Australia between 1988 and 1991. The ROP simply expresses the difference between the wholesale and the border price for beef as a proportion of the border price. In effect the ROP shows the degree to which beef prices in Japan are insulated from international prices.

Our estimates of ROP provide clear evidence that several researchers overestimated the difference between international and Japanese beef prices and consequently overestimated Japanese beef imports

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following market liberalization. In addition, our estimates of the ROP suggest that the tariff in 1991 was more protective than the quota. This finding could partly explain the drop in beef imports in 1991 following the replacement of the import quota by a tariff.

Some concluding comments

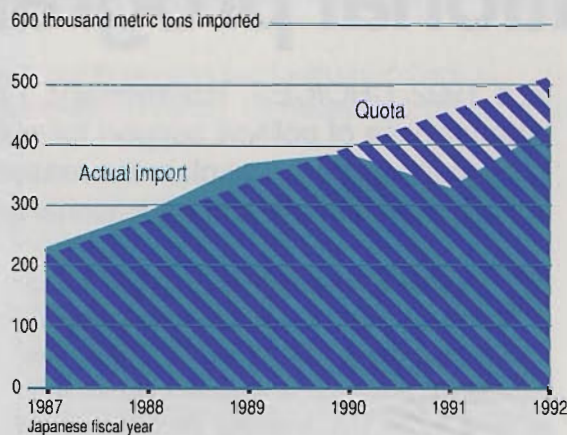
Japan imported more beef under the quota system in 1990 than in 1991 after quotas were removed. Had the system of import quotas been maintained and imports allowed to increase at the same rate as under the previous import regime, Japanese beef imports in 1992 could have been much higher.

Will Japanese beef imports increase substantially in 1993 with the lower tariff of 50 percent? This will depend largely on the extent to which Japanese beef consumption is likely to increase. If reductions in wholesale prices are passed on to consumers, then beef consumption and imports will likely grow much faster than in the last two years. However as most imported beef (approximately 75 percent in 1986) is consumed "away from home" (e.g., through institutional outlets, family restaurants, fast food outlets, curry houses etc.) consumers are unlikely to fully benefit from lower imported beef prices. Because the cost of meat (beef) in an average restaurant meal constitutes only a minor proportion (15-20 percent) of the total cost of a meal, it is highly unlikely that restaurants reduce their menu prices following reductions in imported beef prices. Consequently, the consumption of imported beef (and imports) is not likely to grow as fast as predicted by several analysts.

Will wholesale prices improve? Wholesale prices in Japan have declined since market liberalization but were expected to stabilize in 1993. This did not happen, partly because both the U.S. and Canada invoked their respective *Meat Import Laws* to limit beef imports from Australia and New Zealand. Since the North American market is the major market for both Australia and New Zealand, limited access to that market in 1993 has led to important shipments of beef from these countries to be diverted to the Japanese market. The result is increased price competition in Japan as the major suppliers struggle to maintain their respective market shares. For example, in the first half of 1993 the U.S. lost approximately 4.6 percent market share to Australia and New Zealand compared to the same period last year. Hence, wholesale prices for imported beef in Japan are unlikely to improve in the short term due to

increased competition.

What does all this mean to the U.S.? Since market liberalization, the U.S. has increased its beef exports to Japan, but not as much as anticipated. Price differences between the internal Japanese market and the world market were not as great as indicated by some analysts because quality differences were not properly accounted. Too, most beef imports go to the Japanese institutional and restaurant sector. Be-



Japanese Beef Imports: 1987-1992

Note: Quota levels for JFY 1991 and JFY 1992 are based on the import quota for 1990 and assume that imports were allowed to increase by 60,000 metric tons annually as they did in JFY 1989 and JFY 1990.

cause the cost of beef is only a small share of the total cost of a restaurant meal, a drop in imported beef prices won't be matched by proportionate cuts in restaurant prices or increases in consumption. Finally, the case of Japanese beef illustrates how world markets for beef are truly interconnected. When the U.S. and Canada raise import restrictions to protect their markets from Australian and New Zealand beef, those suppliers divert exports to the Japanese market which keeps Japanese beef prices lower and reduces U.S. market share. In the final analysis, the continued reduction in Japanese beef import tariffs through the Beef Market Access Agreement will likely increase U.S. beef exports and export prices to Japan, but not as much as many had hoped. ■

■ For more information

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