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RESEARCH OPPORTUNITIES IN
BEEF EXPORT MARKETS:
UNITED STATES AND PACIFIC RIM COUNTRIES

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**UNDERSTANDING THE STRUCTURE AND OPERATING PROCEDURES
OF JAPANESE BEEF IMPORT QUOTAS**

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Chapter 2: Japan's Beef Import System

Import Quota System

Japan regulates its beef imports with a general quota and four major special quotas. Quotas are not allocated to specific countries—rather they are global, and each country must compete for its share. The allocation for the quotas is announced twice a year by the Ministry of International Trade and Industry (MITI) with each allocation covering 6 months. The allocation periods are April-September and October-March. The total import quota for JFY 1983 was 141,000 tons, of which 125,200 tons belonged to the general quota and 15,800 tons belonged to the special quotas, including the Hotel Quota, the Okinawa Quota, the School Lunch Quota and the Boiled Beef Quota. Table 34 shows the allocations for these quotas over the past ten years.

Table 35 gives an overview of how the imports of beef from the major exporting countries are allocated to domestic users in Japan via the quota system. Australia supplies the lion's share of the general quota, 69 percent, while the U.S. holds a 28 percent share and New Zealand a 3 percent share. These shares are roughly equivalent for the LIPC share of the general quota as well. However, in the Private Quota, the U.S. has 77 percent of the Traders' Quota (Zennikuren, i.e., All Japan Meat Industry Co-operative Association) but a zero share of the Manufacturers-Users Quota (Processors), reflecting the relatively higher quality and cost of U.S. beef compared to Australian beef.

These quality/cost differentials are also reflected in the special quotas. The U.S. has a 90 percent share of the Hotel Quota, but only low or zero shares of the other three quotas because of the lower quality beef used in those areas.

General Quota

The majority of the general import quota (90 percent) is allocated to the Livestock Industry Promotion Corporation (LIPC). The remaining 10 percent is allocated to the Private Quota, which in turn is divided between the Traders Quota (7%) and the Manufacturers-Users Quota (3%).

The general quota is announced semi-annually (for the first and second half of each fiscal year beginning in March) and establishes the amount of beef Japan will import from all countries. The Ministry of Agriculture, Forestry and Fisheries (MAFF) in coordination with the LIPC determines the tonnage to be imported under the quota. MITI announces the quota and issues import licenses, while the Ministry of Finance classifies products, monitors import statistics and collects import duties.

TABLE 34

JAPANESE BEEF IMPORT QUOTAS

(unit: metric tons)

JFY	General Quotas				Special Quotas				TOTAL
	LIPC	Private	Subtotal	Hotel	Okinawa	School		Boiled	Subtotal
						Lunch			
1974					5,650				5,650
1975	69,900	5,100	75,000	1,000	5,500	1,000		2,500	10,000
1976	71,000	9,000	80,000	1,000	5,500	3,000		7,000	16,500
1977	73,000	7,000	80,000	2,000	5,200	2,200		3,100	12,500
1978	86,500	8,500	95,000	3,000	5,600	3,000		5,400	17,000
1979	105,600	10,900	116,500	3,000	5,800	2,500		6,700	18,000
1980	106,800	12,200	119,000	3,000	5,850	2,250		4,700	15,800
1981	99,900	11,100	110,000	3,000	5,850	2,250		4,700	15,800
1982	107,280	11,920	119,200	3,000	5,850	2,250		4,700	15,800
1983	112,680	12,520	125,200	3,000	5,850	2,250		4,700	15,800
1984	119,880	13,320	133,200	4,000	5,850	2,250		4,700	16,800

Source: MAFF

TABLE 35

ESTIMATED BEEF IMPORT QUOTA ALLOCATIONS FOR RECENT REPRESENTATIVE PERIOD*

Quotas	Quota Allocation	Supply Sources**				Total Imports
		U.S.	Australia	N.Z.	Others	
General						
To LIPC	109,080	27,500	79,000	2,500	80	109,080
To Zennikuren	8,484	6,500	1,500	400	84	8,484
To Processors	3,636	0	3,300	336	0	3,636
Subtotal	121,200	34,000	83,300	33,236	164	121,200
Special						
Hotel	3,000	2,700	150	150	0	3,000
School Lunch	2,250	0	2,250	0	0	2,250
Okinawa	5,850	1,000	1,900	2,950	0	5,850
(Time Lag & quota Adm.)		13	2,852	1,388	875	5,128
Total Fresh/Frozen	132,300	37,713	90,952	7,724	1,039	137,428
Boiled Beef	4,700	0	4,292	89	1	4,382
Total	137,000	37,713	95,244	7,813	1,040	141,810

* Quota allocation for the second half of Japanese fiscal year (JFY) 1982 (October 1982-March 1983) and the first half of JFY 1983 (April 1983-October 1983).

**Quotas are not allocated by country but on a global basis.

Source: American Embassy, Tokyo

Figure 5 shows the flow of imported beef which enters via the general quota through to the end user, identifying the major methods of sale, the volumes of beef passing through each trading system, and the end users associated with each system. These systems and their participants will be explained in detail below. It should be noted that there are different routes for frozen, chilled and aged beef.

Within the General Beef Quota, the government also maintains a High Quality Beef Quota, the current level of which is 30,800 MT and is split between the LIPC Quota and the Hotel Quota. This quota will be increased by 27,600 metric tons over the next four years. In Japan, high quality beef must satisfy either of the following conditions:

(1) The beef comes from a carcass satisfying the following conditions:

- the carcass weighs between 600 and 850 lbs;
- is derived from cattle 30 months of age or less;
- the thickness of the flesh below the skin of the roast (from the 12th rib) is between 0.4 and 0.9 inches;
- the roast (from the 12th rib) is at least 9 square inches in area and well-marbled;
- the color of the meat is bright-red.

(2) The cattle must be 30 months old or less; and must have been raised on a nutritionally-balanced, high energy feed ration containing no less than 70 percent grain and at least 20 pounds total feed per day for at least 100 days.

Beef graded USDA Choice or Prime automatically meets this definition.

LIPC System

Background: As noted above, the Livestock Industry Promotion Corporation (LIPC) controls 90 percent of beef entering Japan through the general quota, or about 80 percent of all beef imported under quota. The LIPC is a governmental institution established in 1961 to stabilize the price of major livestock products and to promote the domestic livestock industry. To achieve these goals, the LIPC controls the purchase and sale of beef in order to ensure that wholesale prices are within the official price stabilization range.

The LIPC imports beef through public tenders, which are issued 10 or 12 times a year. The tenders are for grain-fed beef, mostly from the United States, and other beef products, mostly grass-fed beef from Australia and New Zealand. The volume of imports is adjusted for each tender based on domestic supply and demand, current LIPC inventories, and other factors.

As shown in Figure 5, the LIPC imports beef through several different systems. The first is the merchant system, through which almost 80 percent of the LIPC quota passed in 1983. In this system, the LIPC acts essentially as a purchasing agent. Others include the "one-touch" system and the modified tender system, which are also overseen by the LIPC, but which permit more direct contact between foreign exporters and Japanese distributors. However, the importance of these two systems is declining in both relative and absolute terms. This reflects the LIPC's unwillingness to expand the share of imports which it cannot fully control. A very small amount of beef is also purchased under the category of "special imports for international cooperation", of which Mexico is the only exporter.

Merchant System: This system enables foreign suppliers to bid on LIPC tenders through trading companies by presenting a bid to one of the 36 designated Japanese importing companies. The LIPC then selects its U.S. and other foreign suppliers based on the lowest price offered, subject to the company's ability to meet LIPC volume and product specification guidelines.

In order to participate in LIPC tenders, it is recommended that a packer register with the U.S. MEF.

Appendix 4 provides data on beef products from the U.S., Australia and other countries which are purchased through this system.

Export Beef Specifications: The criteria for high quality beef were given in the previous section. No specific criteria are imposed for non-high quality beef. There is a 25 percent tariff on the delivered price of imported beef. The LIPC also imposes rigid certification standards on all cuts that it purchases. This grading certification required on U.S. high-quality beef exported to Japan adds extra handling, trimming and grader costs on U.S. products. As is explained in the section below *Recent Changes*, U.S. producers have the option of having their beef products certified by the U.S.D.A. or of certifying its quality themselves.

Every six months, the 36 Japanese importers are informed by MITI of their individual share of the tender limit. Importers are approved to bid on as much as 180 percent of their share. At each tender, the LIPC stipulates the beef production date and delivery date. As a rule, grain-fed beef products must be produced on or after the bidding date and the delivery of the purchased products to the LIPC must be within three months after the bidding date. As mentioned above, U.S. packers need only be pre-registered with the MEF in order to participate in the tender. Japanese importers receive price and volume offers for the pre-registered brands from U.S. and foreign exporters and present bids to the LIPC in hopes of receiving LIPC purchase orders.

LIPC Sales System: The LIPC sells this beef to domestic wholesalers/retailers and end users through three channels: (1) competitive tender, (2) the 26 official wholesale markets, and (3) the designated stores program. A description of these three channels follows.

Open Auction at Meat Markets: As indicated in Figure 5, LIPC beef sold at market prices includes that sold in open auction and that sold by competitive tender. The 28 wholesale markets (including 29 major distributors) account for about 39 percent of the imported chilled and frozen beef sold by the LIPC in 1983 (34 percent in 1982 and 25 percent in 1981). The LIPC consigns the imported beef to the All Japan Central Wholesale Meat Markets Association, which apportions the available beef according to the amount of domestic beef handled by each market. The companies operating these markets auction the beef for the LIPC on a commission basis.

According to its mandate, the LIPC can sell 500 kilograms to 50 MTs in one lot. In practice, however, it sells only in very large lots. As a result, only major wholesalers with large warehouses are able to purchase these lots, which concentrates meat into the hands of a few firms which can manage the beef market. Smaller and medium-size wholesalers and processing companies have to secure products from the large wholesalers, who collect a commission from the sale. The medium-size firms in turn mark up their beef products when selling them to firms at the retail level.

Competitive Tenders: The LIPC sold 42,000 tons to the meat trade through the competitive tender system in 1983. Under this system, 25 user groups are permitted to submit sealed bids to the LIPC for frozen table beef, and five of these groups may bid for frozen processing beef (see Appendix 3 for a list of these groups and the tender results). Products are sold to those making the highest bid in the order of the lots. A lot is a fixed volume of one product item. Tender participants receive information such as the packer/brand name, factory number and beef characteristics, and can inspect the beef before bidding.

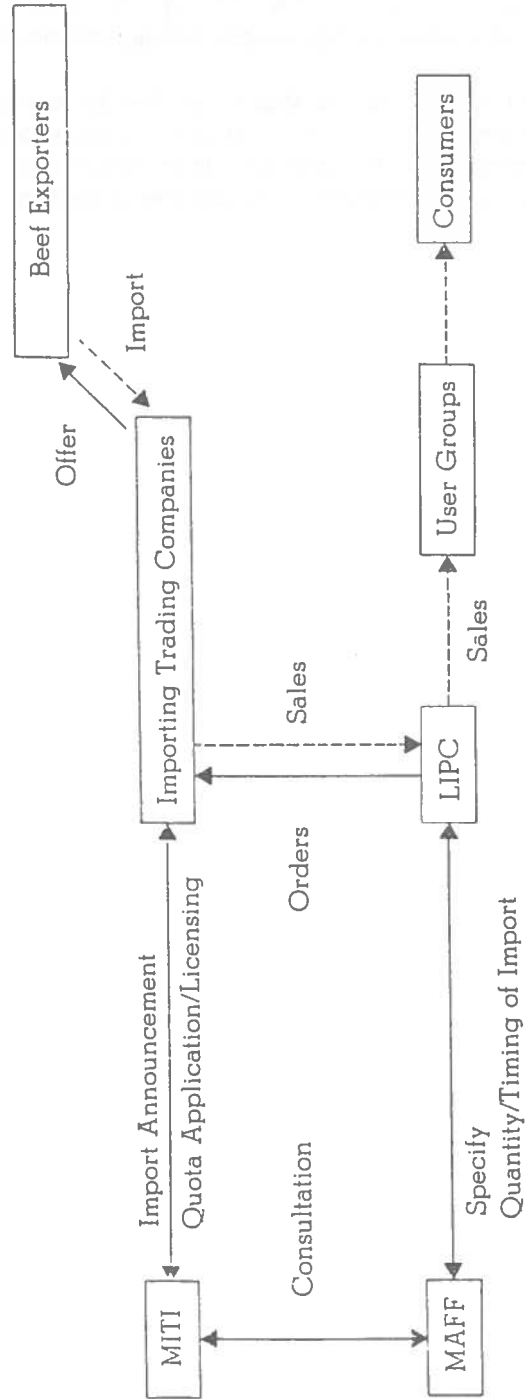
Sales are also made under the tender system to the five designated Beef/Meat Processing Associations. Each lot is sold to the highest bidder. Products sold are limited to: fore/hind beef, mixed crops, diced beef and manufacturing beef. The five organizations are:

- Japan Ham & Sausage Manufacturers Cooperative Assoc.
- Japan Meat Canners Cooperative Assoc.
- Japan Hamburg/Hamburger Assoc.
- Japan Canning Assoc.
- Japan Frozen Foods Assoc.

Retail Sales at LIPC-Designated Stores: To promote the retail sale of imported beef at reasonable prices and under appropriate labelling, the LIPC has designated some 3000 retail stores for imported beef in major cities throughout Japan. These stores sell imported and domestic meat at prices set below the ceiling prices fixed by the LIPC.

The distribution channel for the LIPC quota share handled by the merchant system is shown in Figure 6. As can be seen, the key aspect of this system is that the LIPC acts as a buffer between the trading companies (the sole agents for exporters) and domestic user groups. This leaves the domestic use groups crucially dependent on the selling actions of the LIPC.

Figure 6: Import/Distribution System for Beef Imported under the LIPC Quota



Source: Central Association of Livestock Industry

Other LIPC Purchase Systems: The LIPC uses two other major purchase systems, the modified tender system and the one-touch system, for importing chilled beef.

Modified Tender System: Every two months the LIPC purchases chilled beef for the Federation of All Japan Meat Retailers Cooperative Association (*Zennikuren*) through bids from the 36 importers. This beef is usually distributed two months following purchase. The LIPC notifies importers of their individual percent share of the import limit calculated on their sales for the past two years or on import results. Each importer is allowed to receive orders from exporters for up to 180 percent of this notified share. The results of these tenders are shown in Appendix 3.

The importers make the *Zennikuren* the co-signer and make a bid to the LIPC. The LIPC buys from importers whose bid prices are the furthest below the LIPC's agreed selling price to the *Zennikuren*.

One-touch System: The LIPC distributes a certain amount of chilled beef to the designated retail stores for their sale 1—2 months following purchase. Use of this system enables the LIPC system to avoid the costs of storing beef. However, as noted above, the LIPC is trying to reduce the share of beef imported under this system because of the lower degree of control it exercises over it. The LIPC notifies licensed importers of their individual import shares calculated on the basis of their import levels for the past two years. Importers are allowed to receive orders from stores for up to as much as 150 percent of their share.

The LIPC informs companies operating "super" stores and the associations representing the designated stores shops participating in the program that they can arrange to import a specific quantity of chilled beef. These companies and national organizations qualified to import beef (see Appendix 3 for list) contact an authorized importer who obtains quotes from foreign suppliers. Once the importer and the retailer agree on a price (which includes the appropriate LIPC levy on "one-touch" imports), the proposed deal is submitted to the LIPC for review.

If this wholesale price is considered acceptable in relation to the floor price, the LIPC authorizes the importer to proceed. The importer obtains an import license from MITI and places an order with the foreign exporter. Once the beef arrives in Japan, it is checked by the LIPC to ensure that it conforms to the specifications in the documentation. The LIPC pays the importer and the designated retailer pays the LIPC (the difference being the LIPC levy on "one-touch beef"). Finally, the importer delivers the beef directly to the retailer.

The LIPC scrutinizes the orders given by each store to the importers and checks the import prices to confirm that they are lower than those set by the LIPC. The stores must sell the imported chilled beef under the guidance of LIPC, and pay a surcharge to the LIPC for each kilogram of meat bought. These surcharges are described in greater detail below.

While Japanese wholesalers and retailers can only exploit the one-touch system according to market conditions, the assertiveness of the LIPC and other factors, traders with access to the right to import beef under the LIPC quota strongly prefer the one-touch system. Because U.S. beef packers have only a 10 percent share of chilled beef imports, it presents an important area of opportunity, provided that exporters can offer chilled beef at prices competitive with Australian beef. It must also be kept in mind that the total size of this quota may not grow much because of the LIPC's desire to concentrate on frozen beef.

Private Quota

As shown in Figure 5, 10 percent of general quota imports (12,500 tons in 1983) entered through the private quota which is not controlled by the LIPC. Of this quota, 70 percent goes to the Traders Quota and 30 percent goes to the Manufacturers-Users Quota (for beef processors).

Figure 7 shows the distribution system for beef imports under the private quota. In this case, the trading companies supply beef either to the *Zennikuren* or to beef processors.

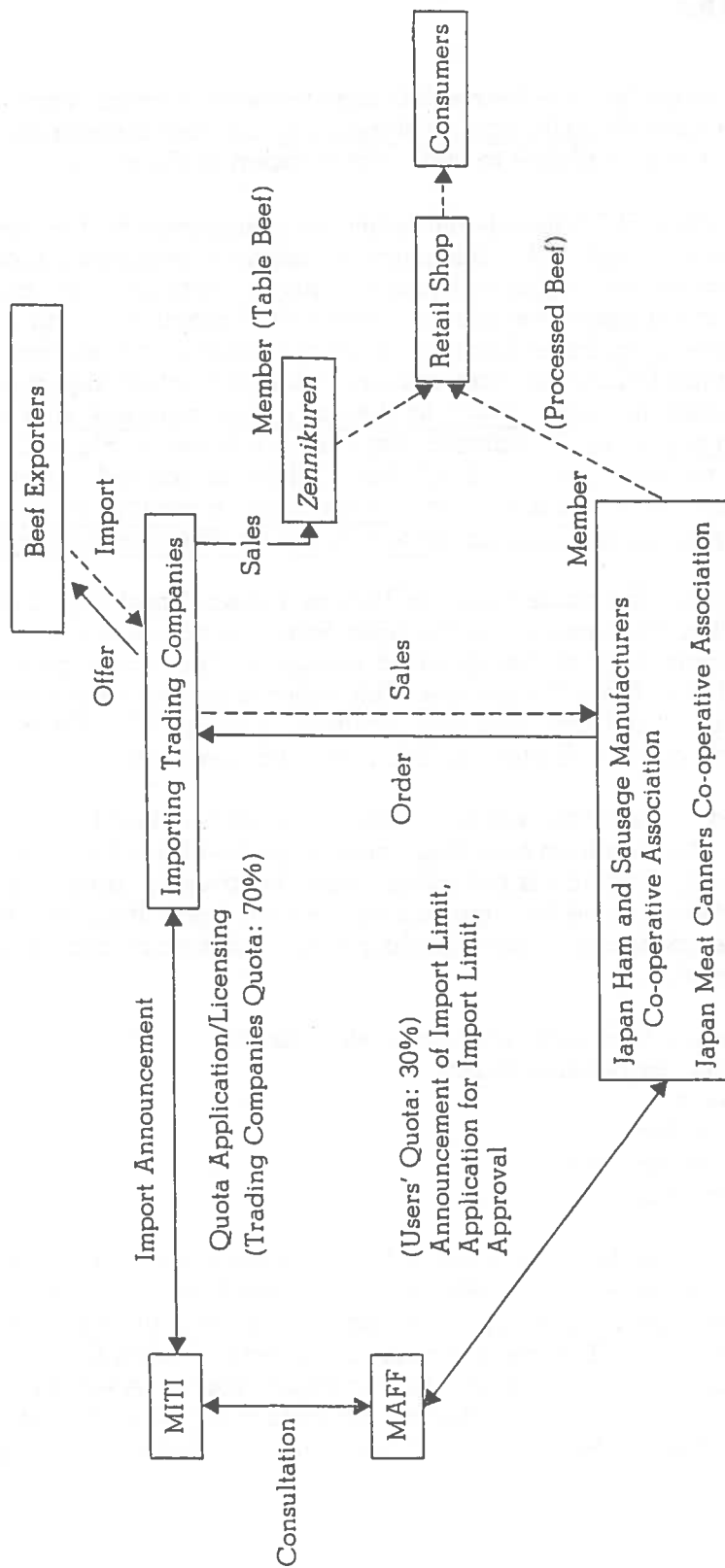
Traders Quota: This quota allocation is distributed to 36 beef importers listed in Appendix 3, based on their actual beef imports for the same period during the previous year. They are obligated to sell all beef imported under this allocation to the Federation of All Japan Meat Retailers Cooperative Association (*Zennikuren*). Both chilled and frozen beef can be imported under this quota. Importers buy and sell those product items required by the *Zennikuren*. A surcharge is added by the *Zennikuren* to The Japan Meat Conference.

Most beef imported under this quota is U.S. frozen beef because the quota is controlled by the *Zennikuren*, which rates U.S. beef to be better quality than Australian beef, and because it can be stored for a longer period. Most imports consist of high quality cuts such as ribeye, tenderloin, cube roll and striploin. Important criteria determining the purchases of the *Zennikuren* include (1) LIPC stocks, (2) seasonal fluctuations of domestic prices, and (3) LIPC purchase plans.

Manufacturers/Users Quota: MAFF distributes this quota to two groups: the Japan Ham and Sausage Manufacturers Cooperative Association and the Japan Meat Canners Cooperative Association. They share the quota on a two-to-one basis. Members of the associations are given their import allocations through formulas calculated by their organizations based on production levels and contributions to the association. These member companies first place orders through their associations, who in turn pass them along to their nominated importers.

Importers and buyers directly clear payment and delivery of the landed products. Importers pay a fixed handling charge to the association the buyer belongs to and a surcharge to the Japan Meat Conference. Beef imported under this quota is limited to frozen products for manufacturing use such as cow meat, fore-hind blended beef, mixed crop, diced beef, first grade manufacturing beef, brisket, chuck and blade, and U.S. IMPS no. 121D beef skirt plate.

Figure 7: Import/Distribution System for Beef Imported under the Private Quota



Source: Central Association of Livestock Industry

Special Quotas

A number of special quotas have been established to meet the needs of specific end user groups. These are also outside the control of the LIPC. The four major special quotas are described below. The overall flow to end users is shown in Figure 8.

Hotel Quota: In 1984, 587 international hotels were approved by the government to apply for beef imports under this allocation as officially registered hotels with the Ministry of Transportation. (This represents a major increase over the 424 hotels qualified in 1981, and suggests that this is a major area of potential growth.) The quota is administered by the Japan Hotel Association. Semi-annually, the government informs each hotel of its import allocation after examining the past actual import record. Each hotel then dispatches an import order to the approved importers either directly or indirectly through purveyors. The distribution system is shown in Figure 9. Any frozen beef cut can be imported under this allocation. Ribeyes, tenderloins and other top quality cuts are imported under this quota. The surcharge is remitted by the importers to the Japan Meat Conference. One U.S. packer currently dominates the Hotel Quota.

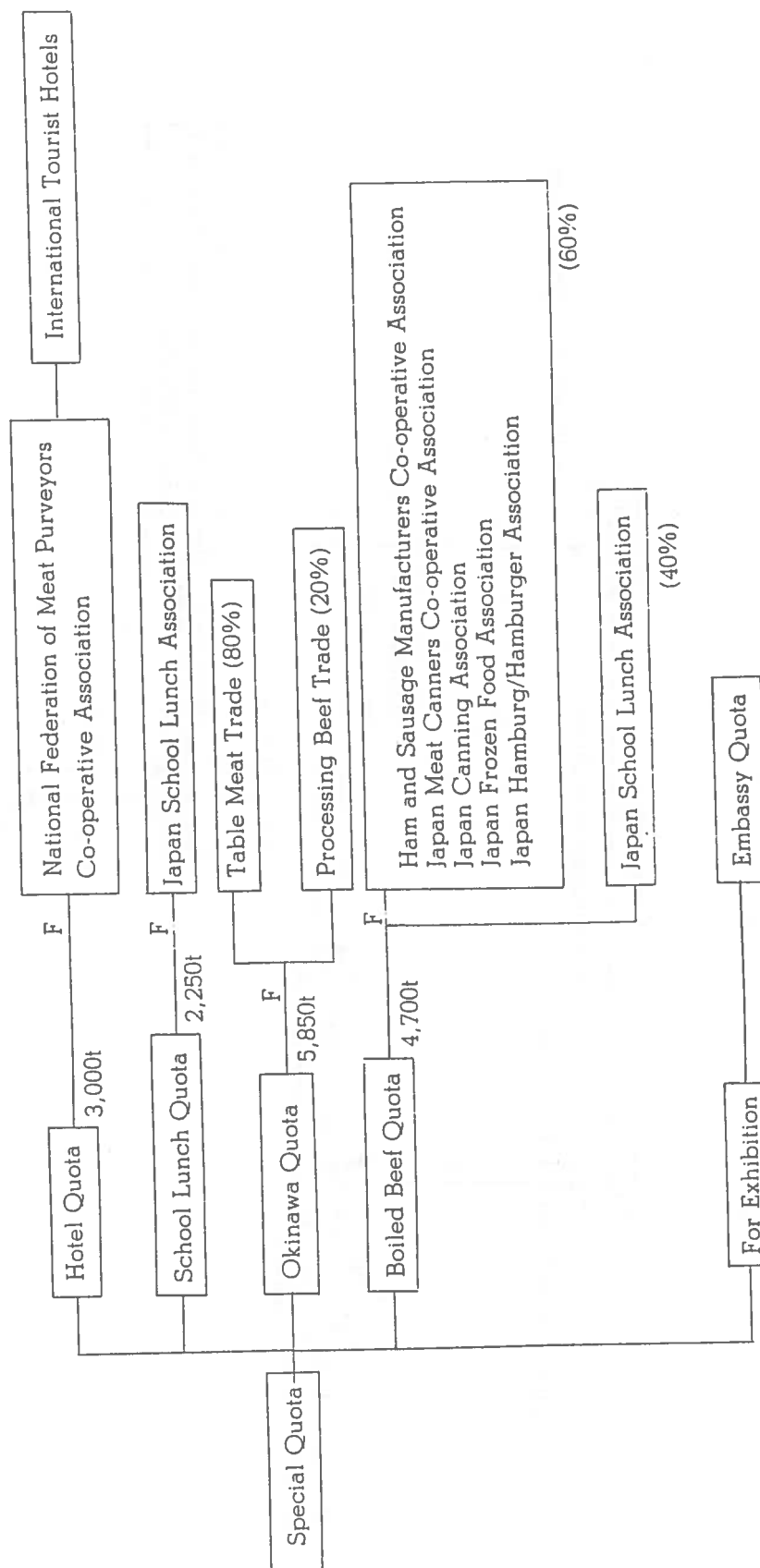
School Lunch Quota: The quota began in 1975 as a special beef import quota for the Ministry of Education. The president of the Japan School Lunch Assoc. is responsible for dispatching an import order to the approved importers. The surcharge is remitted by importers to the Japan Meat Conference. The major importers under this quota are Nitchiku Co., Mitsubishi Corp. and the Sumitomo Trading Co. All beef currently imported under this quota is Australian, because of its lower price.

Boiled Beef Quota: This quota was originally established so that Japan could import beef for manufacturing use from countries contaminated with hoof and mouth disease. At present, however, Australia is the major exporting country using this quota. The quota is divided into two: one for importers and one for users. Importers receive their allocation from the government based on their actual business record for the previous year. Users consist of:

- Japan Ham & Sausage Manufacturers Cooperative Assoc.
- Japan Meat Canners Cooperative Assoc.
- Japan Canning Assoc.
- Japan Frozen Foods Assoc.
- Japan Hamburg/Hamburger Assoc.
- Japan School Lunch Assoc.

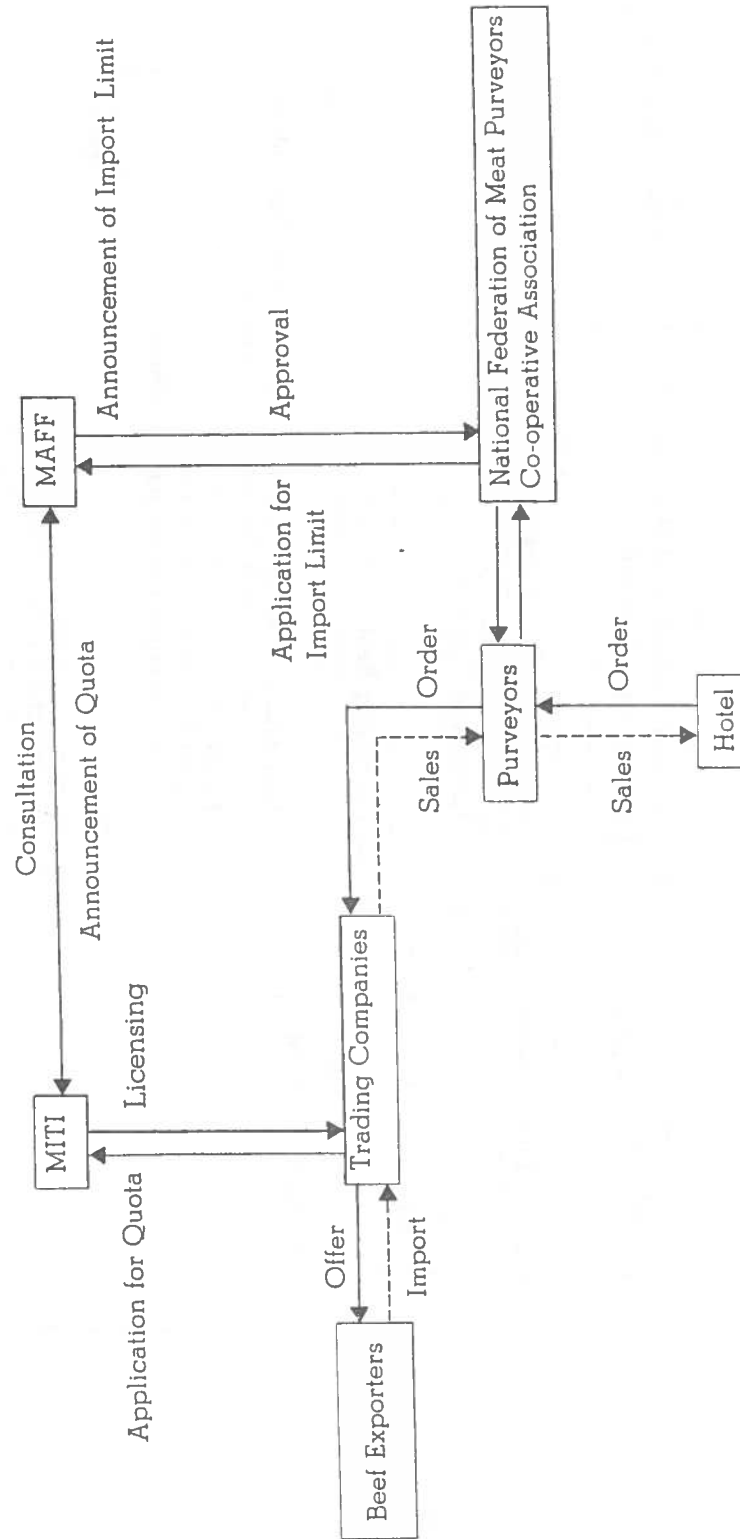
Okinawa Quota: This quota was enacted in 1972 after the island was returned to Japan. It is divided into an importers and a users quota. The importers allocation is given to 20 companies, including the Okinawa Meat Co., based on their actual import results for the same period a year before. The users allocation is given to Daiichi Kigyo K.K. and the Asia Livestock Industry K.K. based on their past import results. A surcharge set by the Okinawa Livestock Corp must be remitted by importers to the Corporation to be used for the development of the livestock industry in the island. The distribution system is shown in Figure 10.

Figure 8: Distribution Channels for Beef Imported under Special Quota in FY 1983



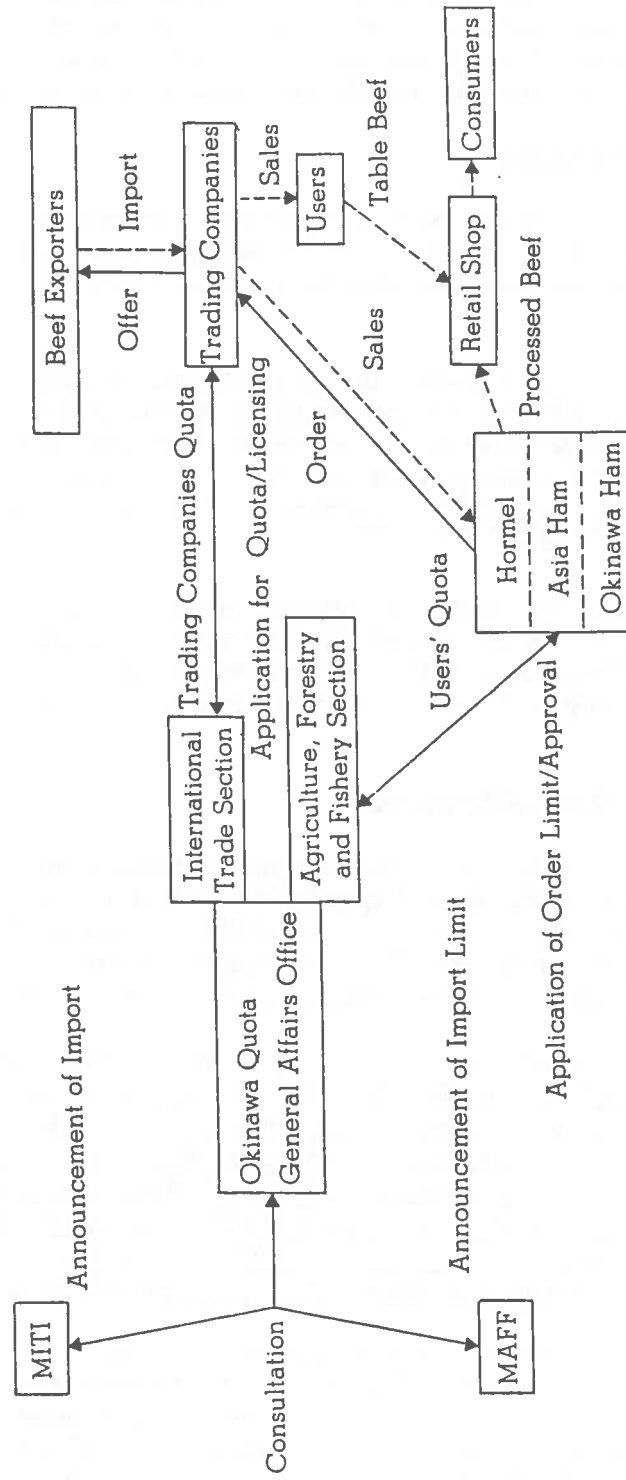
F = frozen meat

Figure 9: Import/Distribution System for Beef Imported under Hotel Quota



Source: Central Association of Livestock Industry

Figure 10: Import/Distribution System for Beef Imported under Okinawa Quota



Source: Central Association of Livestock Industry

Recent Changes

A number of recent changes have taken place in Japan's beef import system, including revision of the quotas, self-certification of beef product exports, and the simultaneous buy-sell (SBS) system. Although the details have not yet been entirely determined in some cases, this section gives an overall description of these developments.

High Quality Beef Imports

On August 14, 1984, after two years of negotiation, Japan agreed to increase its high quality beef imports by an average of 6,900 MTs per year over the next four years, creating the opportunity for an estimated \$300 million in new U.S. beef sales to Japan by 1988.

In this agreement, Japan said it would increase grain-fed beef imports from 30,800 MT to 58,400 MT by March 1988, an average annual increase of 17.3 percent. In comparison, the previous high quality beef import agreement held with Japan from April 1979 to March 1984 increased grain-fed beef imports by only 3,300 MT a year. In addition, Japan agreed to increase its hotel quota from 3,000 MT per year to 4,000 M/T per year, retroactive to April 1, 1984.

Figure 11 shows how the quotas for grainfed (high quality) and grassfed beef will increase through 1987. As can be seen, the total quota will increase from 141,000 MT to 177,000 MT, an increase of 36,000 MT. Of this total increase, 27,600 MT, or 77 percent, will be for high quality beef. Imports of chilled beef will be maintained at at least their current level.

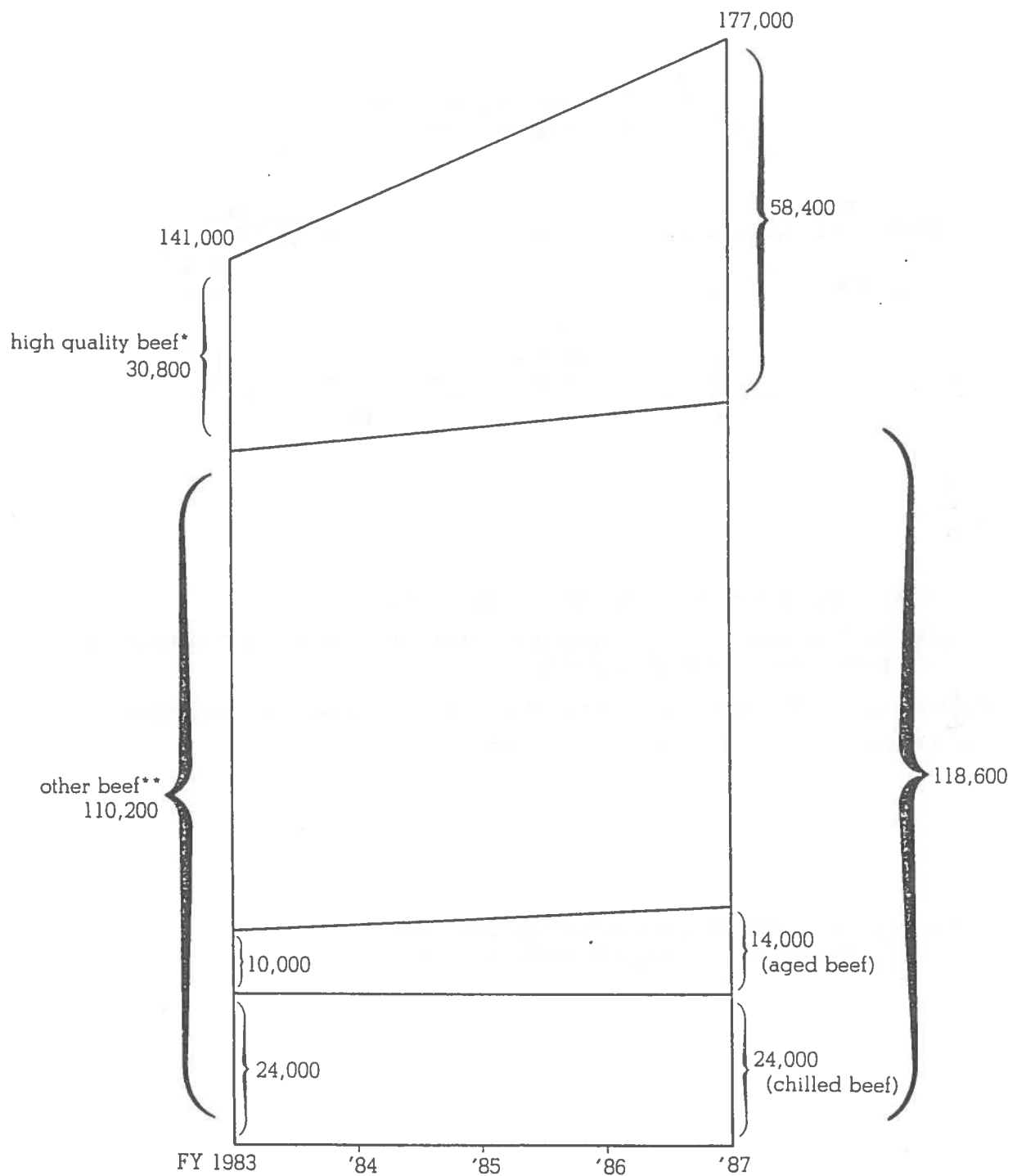
Simultaneous Buy/Sell (SBS) System

A continuing concern expressed by U.S. suppliers has been that they have been unable to provide adequate quantities and specific cuts that are demanded in the Japanese market, because the LIPC dictates which cuts shall be purchased. For example, a review of LIPC grain-fed beef tenders for FY 1983 reveals that 98 percent of the beef purchased by the LIPC was forequarter cuts—primarily short plates, briskets and chucks.

In response to this problem, the U.S. and Japan negotiated a new "simultaneous buy-sell" (SBS) system which will allow for complete freedom in the choice of cuts to be imported, and will promote closer contact between Japanese buyers and U.S. sellers. Under this system, any U.S. supplier, even those not on the approved list, can sell any type of product, any cut, any grade and any amount of primal cuts within the confines of the quota. Ten percent of the general quota (13,320 tons under the 1984 quota) will be allocated under this system. Therefore, suppliers who until now had to rely primarily on the hotel quota for the middle meats will have an additional quota of this amount.

The structure of the system is outlined in Figure 12. The LIPC will announce tenders at multiple intervals within the year. Unlike the ordinary tendering procedure, the LIPC will not specify price, cuts, specifications, or delivery schedules, although it will still differentiate between high quality beef and grassfed beef. Final negotiations will take place between packers, buying organizations and trading companies in order to prepare bids for submission to the LIPC during the period of time set between the tender announcement and the time of tendering.

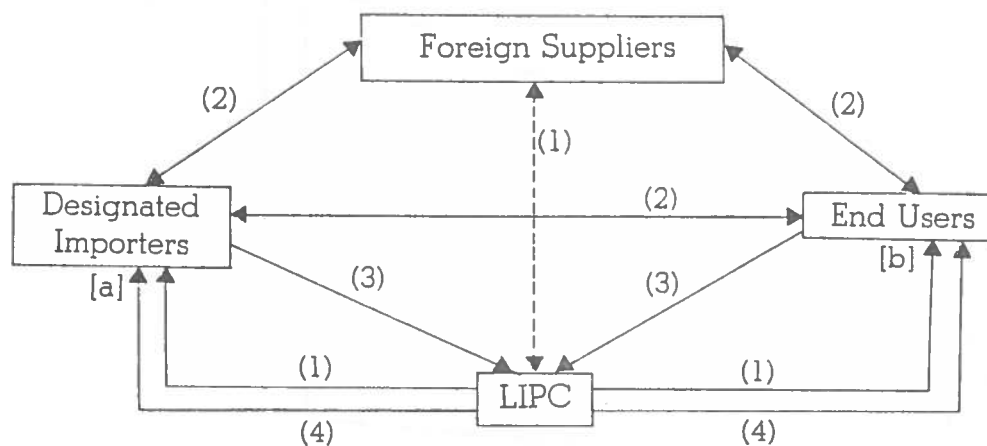
Figure 11: New Japanese Import Quota (unit: metric ton)



* Total amounts distributed to LIPC and Hotel Quota.

** Mostly grassfed, but includes some grainfed beef which is not included in HQB statistics.

Figure 12: New Simultaneous Buy/Sell System under LIPC Quota



- (1) Pretendering Meeting (Notify tender/amounts conditions)
- (2) Discussion between end users, designated importers and foreign suppliers (items, specs, prices, quantity and other terms)
- (3) Bidding to LIPC (bids in joint names of end users and designated importers)
- (4) Awarding bids (issue notices of buy/sell awards)

Notes: [a]...Designated 36 Japanese trading companies
 [b]...Buying organizations designated by LIPC

The LIPC will set price bands for each product category which consist of an unannounced price ceiling for buying beef from importers and an unannounced floor price for selling to purchasing organizations. Price bands will be set for each primal cut and portion control, including separate bands for bone-in and boneless and for high quality and grassfed beef. The price bands will be set to reflect international prices, domestic market conditions and the requirements of Japanese law.

Selling and buying bids are submitted to the LIPC "simultaneously" by importers and purchasing organizations based on the above negotiations. For the process to be a true tendering system, it is expected that bids will exceed tender amounts by a certain percentage. Successful bids will be awarded on the basis of the highest bid price of the purchasing organization, subject to the requirement that the selling price of the exporter be below its respective ceiling price, not the greatest spread between buying and selling price as is the case with LIPC's ordinary tendering system. This provision is expected to benefit U.S. suppliers because it will favor higher-quality, higher-priced products. Information on all bids will be available.

Only the 36 currently licensed Japanese trading companies will be authorized to convey orders preliminarily decided on between exporters and end users to the LIPC and to sell to the LIPC. There will be no limitations on foreign suppliers.

Eligible buyers will include the 25 meat industry associations designated by the LIPC to participate in the regular tendering system and a national association of the 28 designated meat auction markets eligible to buy from the LIPC. In order to facilitate contact with foreign suppliers, the buyers will be combined into four major categories: processors, wholesalers and purveyors, LIPC-designated meat markets, and others. However, it should be noted that these groups are for classification purposes only, and are not represented by a specific organization. Additional organizations may become eligible provided that they are bona fide national or regional organizations.

The designated organizations will be given a percentage share of the total SBS releases based on their previous shares of the regular LIPC tendering system. A system for allocating shares to newcomers has not yet been developed.

Based on the above formulas, each organization will be able to calculate the tonnage it is eligible to buy. Based on previous experience, both buying and selling organizations will be able to predict LIPC's unannounced floor and ceiling prices. Given this information, it will be possible to develop a pro-forma contract. It is assumed that the buying organization would develop a pro-forma commitment with the importer (trading company) and the importer would develop a pro-forma commitment with the U.S. packer.

Self-Certification

U.S. packers now have the option of either having their beef export products certified by the U.S.D.A. for LIPC specifications or certifying the quality of the beef themselves (self-certification). If packers self-certify, they will be required to submit an LIPC Self-Certification Certificate on company letterhead along with the shipment, the form for which may be obtained from the U.S. MEF.

If U.S. packers elect to self-certify, all details regarding the scope and time period of the certification by the packer must be worked out between the supplier and importer on a case-by-case basis at the time the purchase order is filled out. The purchase order becomes the legal document determining what claims may be made.

Role of Trading Companies

Japanese trading companies have played and will continue to play an important role in popularizing U.S. beef in Japan. They provide a pivotal link in terms of their knowledge of and contacts within the distribution system, their Japanese language capability, and their ability to finance exports.

Currently, there are 36 trading companies which are designated for importing beef into Japan. (See Appendix 3 for their names.) No other trading companies or other organizations may engage in the beef import trade. Large general trading companies are not always strong in the beef trade, and there are a number of companies which specialize in this area. This section describes their role in the import process.

The activity and role of the trading company varies somewhat depending on the specific quota through which the beef is being imported. In the case of LIPC purchases by the tender system, trading companies get price quotations from foreign packers and participate in the tender. (This procedure was described in greater detail in a previous section.) It is important to remember that trading companies are not agents for packers, and that they always put priority on the profitability of the tender for them.

In preparation for tender announcements by the LIPC, trading companies maintain contacts with many foreign packers, and also do research on forecasting what the LIPC will purchase. For those companies large enough to finance a sufficient research effort, this information allows them to identify the packers which they feel are best suited for the tender. In this regard, trading companies are always on the lookout for new packers which can satisfy their product specifications and pricing requirements.

Appendix 3 shows the amounts purchased by the trading companies under the LIPC quotas for both frozen and chilled beef. For frozen beef, the major firms are: Zenchiku, Nitchiku, C. Itoh, Kanematsu-Gosho, and Singapore Trading. These firms control about 33 percent of the total quota. For chilled beef, the major firms are: Nitchiku, Zenchiku, Nippon Reizo, and C. Itoh, which have 37 percent of the quota.

Trading companies can take greater initiative in arranging deals involving beef imported under the Traders Quota within the Private Quota, and the similar portions of the Okinawa Quota and the Boiled Beef Quota, since these are not under LIPC control. However, in the case the Private Quota, the trading companies are basically restricted to the types of beef preferred by the *Zennikuren*.

In transactions involving these quotas, the trading companies consult with the importing user organizations about the types of meat, packers, country of origin, etc. and help them to set up the transaction. Because the total amount that a trading company can import in a given year depends on its import performance in previous years, competition among trading companies in this area is very severe.

Structure and Overview of Beef Price Support System

Japan's beef price stabilization system is set up to keep fluctuating wholesale prices of beef within the stabilization price range through the buying and selling operations of the Livestock Industry Promotion Corporation (LIPC). In consultation with the LIPC, MAFF determines the upper and lower stabilization prices of domestically produced beef at the beginning of each fiscal year. Factors taken into account include domestic cattle production, the current beef supply and demand situation, and overall economic conditions.

Figure 13 shows schematically how the price stabilization system works. The upper and lower bands represent the upper and lower price limits, respectively (e.g., ¥1,455/kg and ¥1,120/kg, respectively). The wavy line depicts the movement of the carcass price in response to both market forces and the actions of the LIPC.

Suppose, for example, that carcass prices come to exceed the upper limit because of increased demand (point a in Figure 13). In order to bring prices back within the limits, the LIPC sells imported meat, which it controls, and its holdings of domestic meat into the market, until the price declines to within the price bands (point b). If wholesale beef prices fall below the lower stabilization price (point c), the LIPC purchases beef or otherwise restricts domestic supplies until the price rises to the lower limit (point d).

The beef stocks which the LIPC sells into or holds back from the market to manage prices are available from four different sources: (1) domestic beef previously purchased to bolster prices, (2) beef held back from the market by farmer cooperatives due to low prices, (3) imported beef stocks controlled by the LIPC, and (4) beef imported at short notice to meet LIPC needs.

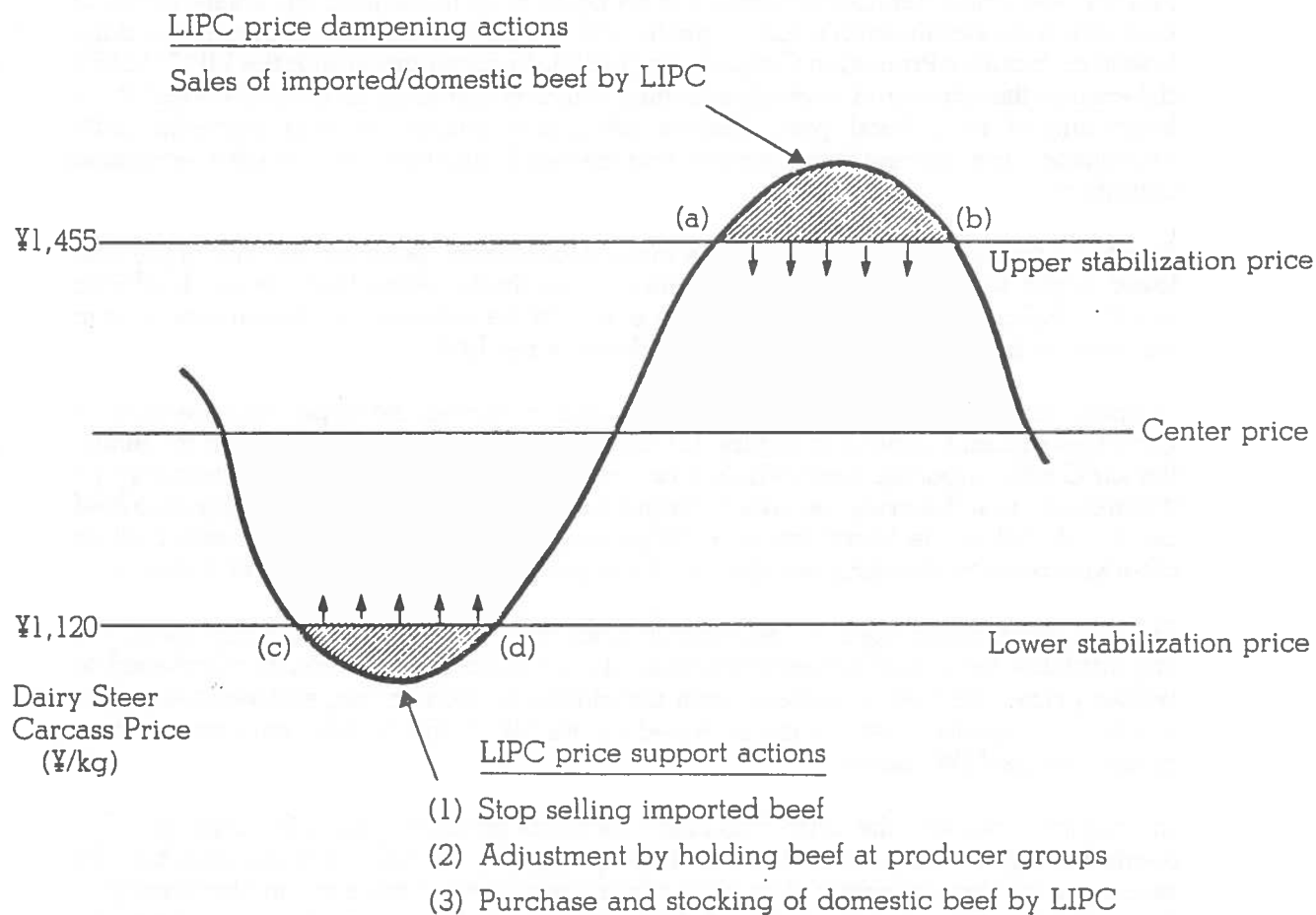
In practice, however, the price stabilization scheme operates mainly through the LIPC manipulating the sale of imported beef into the market. The LIPC achieves this both by setting current import quotas to meet a certain target level of demand, and by managing the stocks of previously imported beef. The government determines the required volume of beef imports, in principle, for every half fiscal year taking into account the domestic supply-demand situation in the relevant period.

In selling imported beef, the LIPC adjusts the quantities of beef for sale through wholesale markets and users' associations so that the wholesale prices of domestic beef can be kept within the range of lower and upper stabilization prices. When wholesale prices are within the range of the stabilization prices, the LIPC sells the imported beef by tender on the market corresponding to the current price of domestically produced beef.

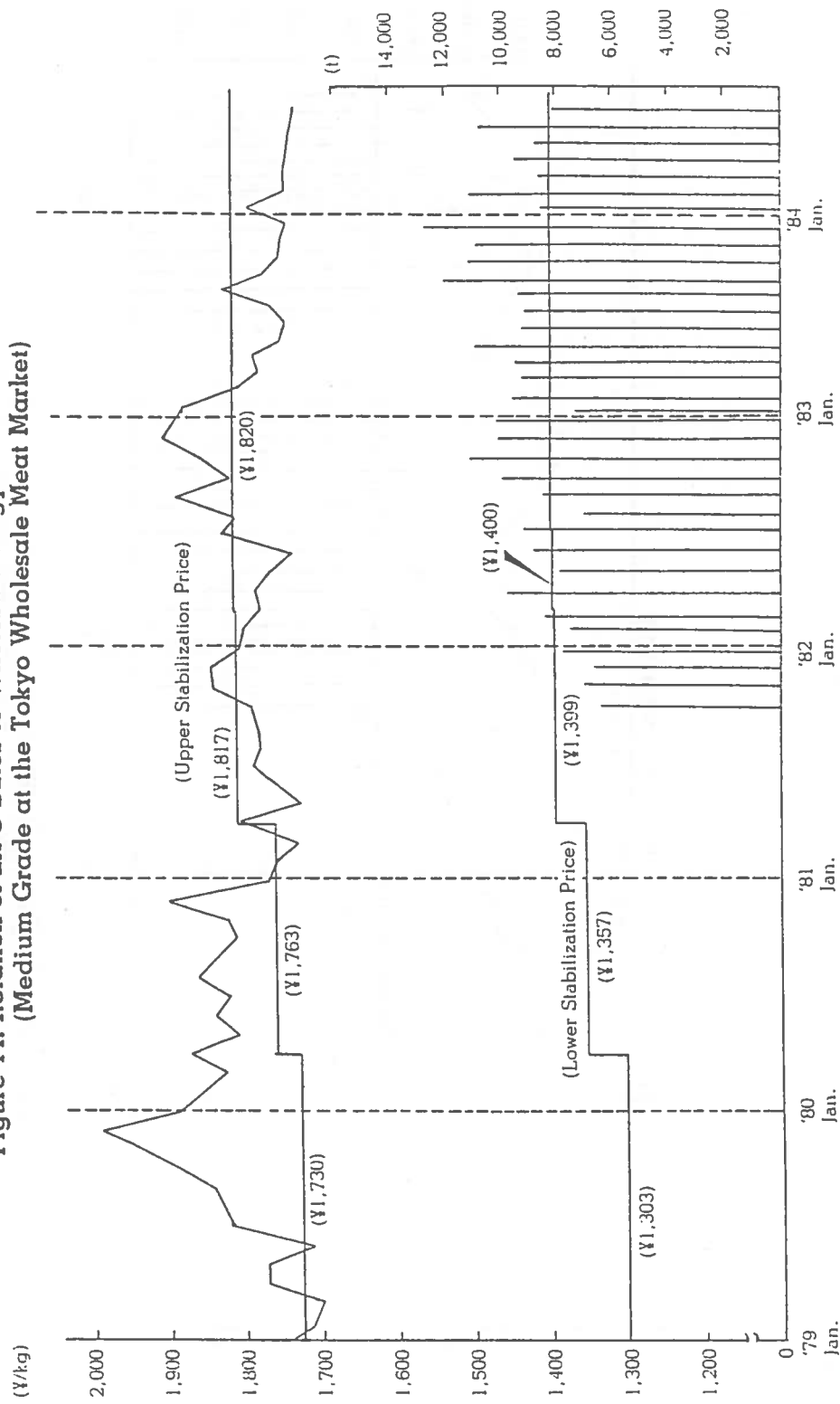
Figures 14 and 15 show the relationship between carcass prices and LIPC sales for *wagyu* steers and dairy steers, respectively.

Table 36 shows an international comparison of wholesale beef carcass prices. Japanese prices are still well above those of other major producing areas, and the ratios have been roughly stable since 1981. In 1983, U.S. prices were 43 percent of the Japanese level, while EC prices were 62 percent of the Japanese level.

Figure 13: LIPC Mechanisms for Stabilizing Domestic Beef Prices



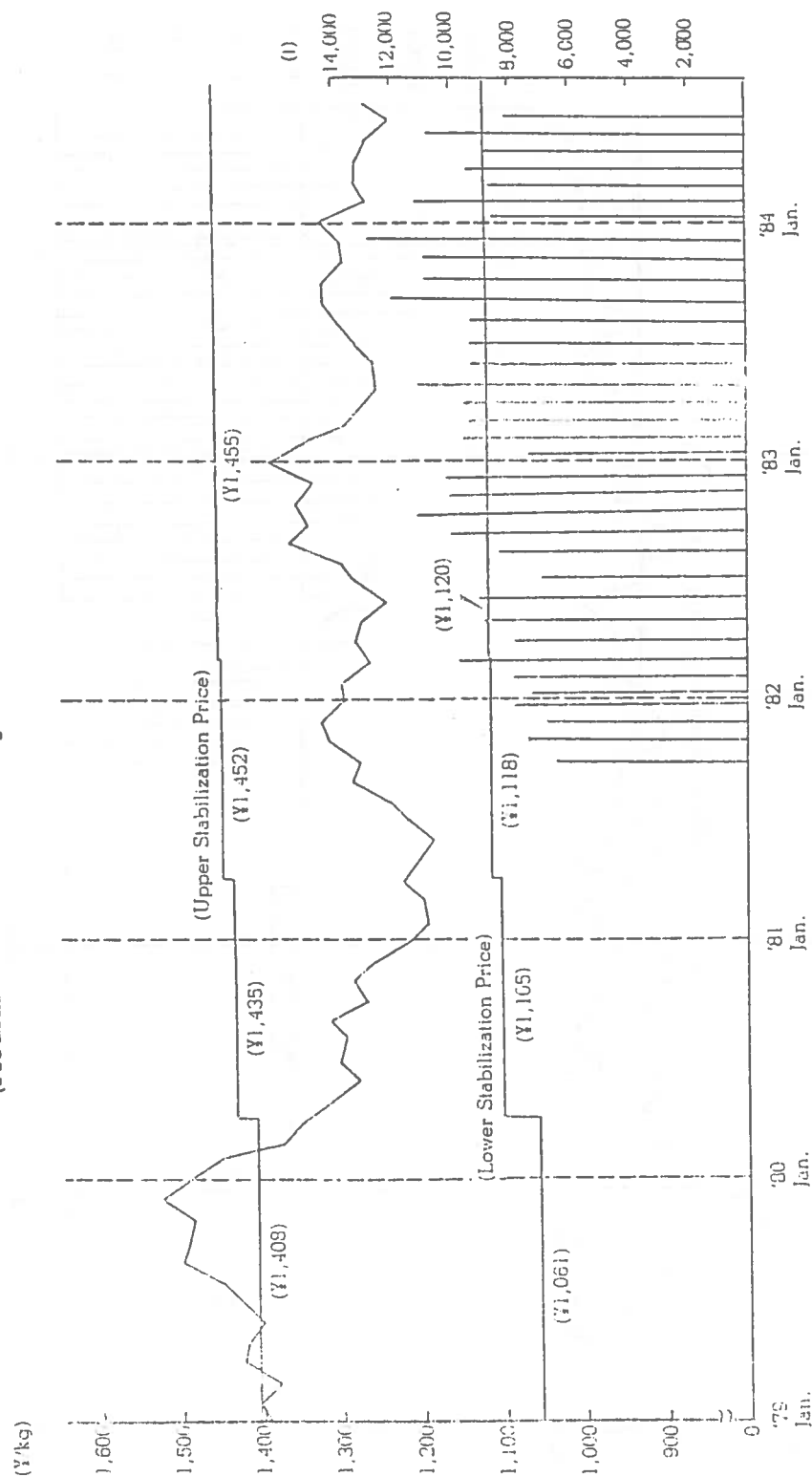
**Figure 14: Relation of LIPC Sales to Wholesale Wagyu Carcass Prices
(Medium Grade at the Tokyo Wholesale Meat Market)**



Note: vertical bars indicate the amount of sales from LIPC inventory

Source: Meat Distribution Statistics, Ministry of Agriculture, Forestry and Fisheries.

Figure 15: Relation of LIPC Sales to Wholesale Dairy Steer: ~~Consumers Prices~~
(Medium Grade at the Tokyo Wholesale Meat Market)



Note: vertical bars indicate the amount of sales from LIPC inventory

Source: Meat Distribution Statistics, Ministry of Agriculture, Forestry and Fisheries.

TABLE 36

INTERNATIONAL COMPARISON OF WHOLESALE BEEF PRICES (CARCASS)
(unit: yen/Kg)

	U.S.	Australia	EC	Japan
1978	376 (32.5)	177 (15.3)	563 (48.6)	1,158 (100)
1979	494 (37.2)	367 (27.7)	774 (58.3)	1,327 (100)
1980	528 (43.9)	397 (33.0)	846 (70.4)	1,202 (100)
1981	488 (42.8)	331 (29.1)	715 (62.8)	1,139 (100)
1982	559 (46.5)	298 (24.8)	783 (65.1)	1,202 (100)
1983	514 (43.4)	345 (27.2)	733 (62.0)	1,183 (100)

Note: Figures in parentheses are relative prices assuming Japanese prices equal 100.

Source: MAFF

Margins and Rebates

One function of the LIPC is to capture for the government as much of the profit margin as possible on beef imported under the LIPC share of the general quota. This money is then in theory employed to modernize the livestock industries. The Japan Meat Conference (JMC) also is empowered to collect levies. The idea of the JMC levies, presumably, is to siphon off some of the margin on private and certain special quota imports and use it for the general good of the whole meat trade rather than allow that particular section of the Japanese trade with access to private and special quota beef to enjoy the full benefit of their access.

Tables 37—39 show trends in the surcharges for sales to designated stores, frozen beef and chilled beef, respectively. For sales to designated stores, in general the levels of surcharges have declined substantially from the high levels reached in 1981 and 1982 (see Table 37). Table 38 shows that surcharges on frozen beef have declined steadily from 1978 to about one-third of their levels at that time. A similar trend is evident for chilled beef (see Table 39). This appears to reflect the policy of the LIPC of maintaining constant nominal prices of beef (implying a decline of real prices) while preserving the returns for producers and the distribution network.

TABLE 37

SURCHARGE ON SALE TO DESIGNATED STORES (LIPC)

(unit: yen/kg)

	July '79-	Oct. '79-	May '81-	June '81-	July 20 '81-
full set	100	30	250	200	150
fore-quarter set	80	20	220	175	130
hind-quarter set	120	35	275	220	165
full carcass	70	20	175	140	105
fore-quarter	50	15	155	120	90
hind-quarter set	80	20	190	155	115
With Bones					
full set	200		100	30	90
fore-quarter set	175		90	25	80
hind-quarter set	220		110	35	100
full carcass	140		70	20	60
fore-quarter	120		60	15	55
hind-quarter set	155		75	25	75

Source: LIPC

TABLE 38

SURCHARGE ON FROZEN BEEF (unit: yen/Kg)

	Private Quota				LIPC Quota	
	Oct.15 '78	Mar. '79-	July '79-	Jan. '83	Applied to	July '79- Mar.5 '7
Boneless	470	410	230	170	full set	230 110
	440	380	210	155	parts in fore-quarter and cow meat	210 105
	580	510	280	210	parts in hind-quarter	280 125
	330	290	160	120	thick tail	160 80
	300	260	150	110	processing	150 70
With Bone	330	290	160	120	full carcass	160 75
	300	270	150	110	parts in fore-quarter	150 70
	360	310	170	145	parts in hind-quarter	170 80

Source: LIPC, JMC

TABLE 39

SURCHARGE ON CHILLED BEEF (unit: yen/kg)

		Private Quota				
		Mar. '79-	July '79-	Aug. '81-	Aug. 16 '82-	Jan. 1 '83-
Boneless	full set	520	300	440	310	200
	fore-quarter set	390	230	380	270	175
	hind-quarter set	620	360	480	340	220
With Bone	full carcass	360	210	310	220	140
	fore-quarter	270	160	270	190	120
	hind-quarter	430	250	340	240	155

Source: JMC

Chapter 3: Japanese Beef Distribution System

Overview of Key Domestic Marketing Channels

The marketing system for beef and other meats in Japan is complex and involves a diversity of routes to end user groups. Some of the most prominent participants are the meat wholesalers and supermarket chains. There are estimated to be approximately 7,000 meat wholesalers in Japan, of which about 70 percent are small scale (less than 10 employees). As for supermarket chains, there are approximately 500 companies with an average of three stores each. At the retail level, due to increased competition, butcher shops are becoming increasingly franchised in order to offer better quality products at cheaper prices.

Figure 16 attempts to summarize the major players in the domestic beef distribution system. U.S. beef exporters, depending on the sales strategy they adopt, may have cause to deal with one or more of these organizations. In this case, more detailed information than is available in this report can be obtained from the MEF Tokyo office.

Livestock Markets

Direct Sales by Breeders: Approximately 50—60 percent of beef domestically produced is sold directly by producers to the major wholesalers shown in the second tier of Figure 16. Cattle are then contracted out to abattoirs for processing on behalf of the wholesalers, or processed internally by the five major meat processing companies.

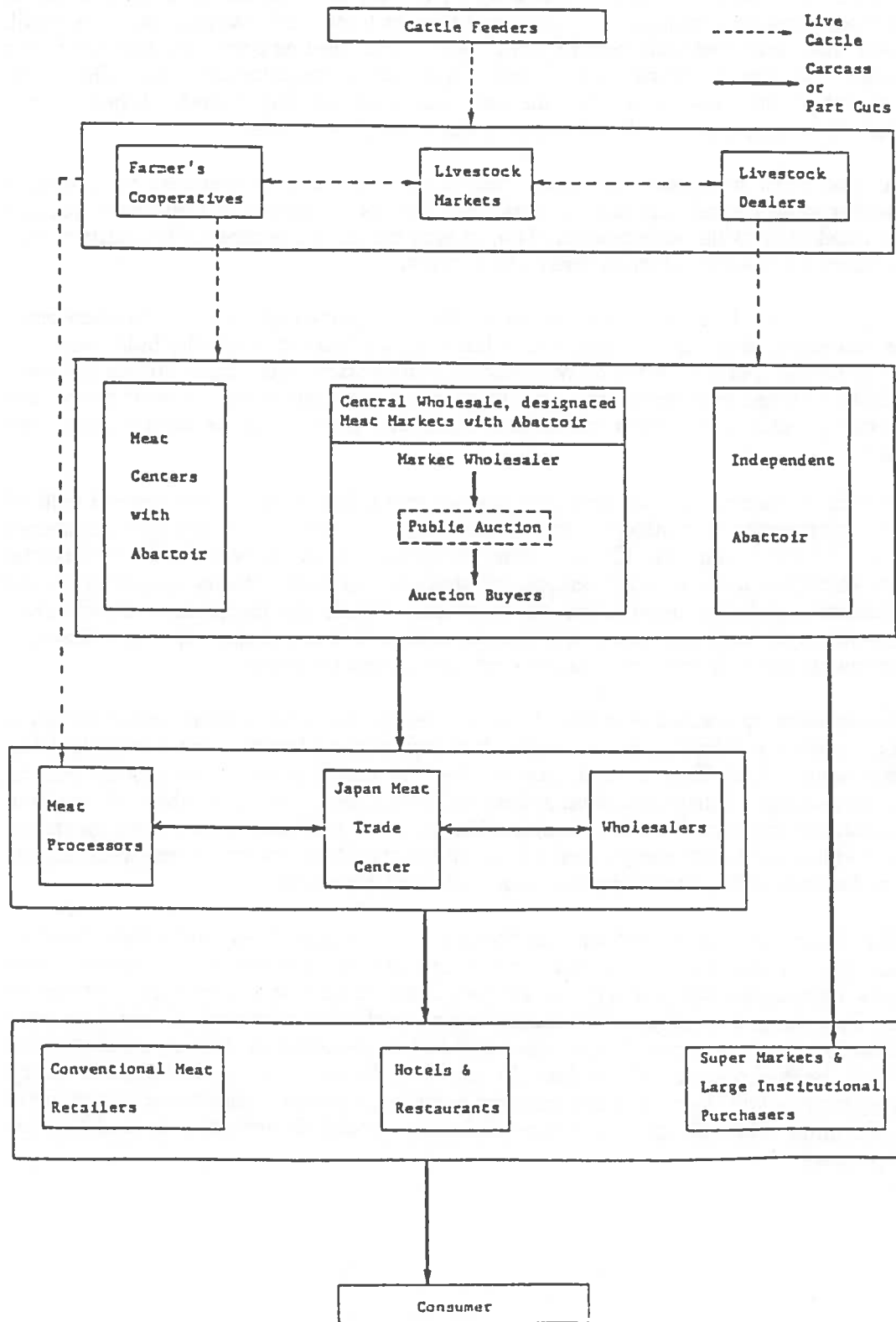
Meat Centers, Major Wholesale Markets

Shokuniku and Other Meat Centers: *Shokuniku* meat centers are large modernized facilities which integrate slaughtering, boning, cutting and packing activities. These centers account for about 20 percent of all cattle slaughtered. There are about 100 centers located in producing areas, of which the 21 largest centers are given tax-exempt status. There are also specialist meat centers located near major abattoirs/meat markets which operate on a custom basis. These centers prepare boxed beef as well as consumer packs for immediate sale in supermarkets.

Major Wholesale Markets: There are 30 major meat markets in Japan, 10 central and 20 sub-central markets. These 30 markets account for the preparation of approximately 25—30 percent of all beef carcasses. Tokyo and Osaka are the dominant central markets, and Tachikawa, Matsubara and Habikino are the major sub-central markets.

The 10 central wholesale markets have been established by local government authorities, and each market is administered by a single wholesale company (except for Osaka where two companies are involved). This wholesale company is normally controlled by the larger wholesaler/retailer companies in that market, farmer organizations, and the local municipal government.

Figure 16: Japanese Domestic Beef Distribution System



Meat Processors, Traditional Wholesalers

Meat Processing Companies: About 20—25% of all beef consumed in Japan is processed beef, most of which is hamburger. In addition, the major meat processing companies have also emerged as dominant forces in fresh beef distribution. As a result, between 1971 and 1980, the proportion of beef distributed as part-cuts increased from 7 percent to almost 56 percent. These firms have traditionally controlled over 60 percent of the processed meat market, and over the last decade, together with *Zennoh*, have become heavily involved in the boxed beef trade.

These five firms purchase cut parts from *shokuniku* centers operated by producer cooperatives and local authorities, and also process carcasses in their own packing plants located in cattle raising areas. They supply the cut parts directly to retailers, thus by-passing the traditional small meat wholesalers.

Also, given their financial strength, these five companies are able to finance small independent specialty meat shops, which has enabled them to gradually hold sway over an estimated 40 percent of the forty thousand independent retail meat outlets in Japan. In addition, these companies are able to supply supermarket chains with prepacked consumer parcels of chilled or frozen beef by further processing the meat in their meat factories.

Traditional Wholesalers: This group of distributors actually comprises several distinct types of companies. Included on the commercial side are: (1) wholesalers connected with the 30 meat markets, (2) secondary wholesalers, (3) brokers and commercial agents. Included on the industry association side are: (4) meat industry cooperatives and associations supplying member meatshop owners. While the particulars of individual organizations should be investigated when deciding on a particular exporting strategy, the following general comments about each group can be made.

(1) Wholesalers connected with the 30 major meat markets have preferential access to meat processed and traded at their respective markets and hence can be considered as primary distributors. They maintain control over the supply of carcasses and cut beef by restricting smaller distributors from accessing the markets. This gives them leverage in setting prices and supplying their major clients (hotels, restaurants and retail meatshop chains) with sought-after *wagyu* beef. Given the distribution power of these wholesalers, they make attractive potential partners for U.S. beef exporters.

(2) The main role of secondary distributors is to supply beef and other meat to restaurants, meatshops and smaller meat processing companies. Compared with primary distributors, they have less preferred access to beef and have higher wholesale prices. Therefore, their share of the market is believed to be shrinking. Given their need for better access to sources of beef, they should be interested in striking arrangements with U.S. beef exporters. While they do not have the same distribution power as the primary distributors, they have the industry knowledge to sell a considerable amount of beef. Forming relationships with these wholesalers could be attractive to medium-size U.S. packers.

APPENDIX 1: Beef Products which are not Subject to Import Quota

Tongue-Long Cut
Tongue-Short Cut
Tongue-Swiss Cut
Heart
Aorta
Liver
Diaphragm (Skirt)
Kidney
Fat Surrounding Intestines
Lung
Rumen-Unscalded
Rumen-Scalded
Mountain Chain Tripe
Reticulum/Honey Comb
Omasum/Mini Plies
Abomasum
Small Intestine
Blind Gutt
Large Intestine
Rectum
Spleen (Melts)
Thymus Gland/Sweetbread
Trachea/Windpipe
Weasand
Brain
Spinal Cord
Uterus
Achilles Tendon

APPENDICES

APPENDIX 2: Comparison of Major Primal Cuts between Japanese and Imported Beef

Japanese	U.S.A.	Australia
Hire	Tender loin	Tender loin
Rosu	Short loin	Strip loin
	Ribeye roll	Cube roll
Kata	Shoulder clod	Shoulder clod
	Chuck	Chuck
	Chuck tender	Chuck tender
Bara	Brisket	Brisket
	Short Plate	
Momo	Inside round	Top side
	Outside round	Silver side
Sune	Fore-shank	Shin

APPENDIX 3: Firms and Organizations in Japanese Beef Market

TABLE A1

36 TRADING COMPANIES

C.Itoh and Co., Ltd.
Itoman and Co., Ltd.
Kanematsu-Gosho Co., Ltd.
Singapore Trading and Industry Co., Ltd.
Zenchiku Co., Ltd.
Daimaru Kogyo Kaisha, Ltd.
Toshoku Ltd.
Toyo Menka Kaisha Ltd.
Nichiryo Ltd.
Nitchiku Ltd.
Nippon Reizo Co., Ltd.
Nozaki and Co., Ltd.
Nomura Trading Co., Ltd.
Marubeni Corporation
Meidi-Ya Co., Ltd.
Mitsui and Co., Ltd.
Unico-op Japan
Taiyo Bussan Kaisha Ltd.
Mitsubishi Corporation
Sumitomo Shoji Co., Ltd.
Tokyo Maruichi Shoji Co., Ltd.
Nissho-Iwai Co., Ltd.
Yuasa Ltd.
Nichimen Co., Ltd.
Okura Trading Co., Ltd.
Rasa Trading Co., Ltd.
Toho Bussan Kaisha Ltd.
Shibamoto and Co., Ltd.
Azabu Food Co., Ltd.
Japan Food Co., Ltd.
Fujita Shoten Co., Ltd.
Hoei Trading Co., Ltd.
Tokyo Arugasu
Pacific Overseas, Inc.
Teijin Limited
Tokyu Trading Corporation

TABLE A2

CENTRAL AND DESIGNATED MEAT WHOLESALE MARKETS
IN JAPAN (AS OF NOVEMBER 1984)

1. Sendai (*)	15. Yokkaichi
2. Gunma	16. Kyoto (*)
3. Utsunomiya	17. Osaka (*)
4. Omiya (*)	18. Matsubara
5. Kawaguchi	19. Habikino
6. Tokyo (*)	20. Kobe (*)
7. Tachikawa	21. Shikata
8. Yokohama (*)	22. Himeji
9. Yamanashi	23. Okayama
10. Hamamatsu	24. Hiroshima (*)
11. Toyohashi	25. Ehime
12. Nagoya (*)	26. Fukuoka (*)
13. Aichi	27. Sasebo
14. Gifu	28. Kumamoto

* indicates central market.

Note: There are also wholesale meat markets in Ibaraki and Matsudo, but these are not designated by the LIPC.

Source: LIPC

TABLE A3

SHARES OF TRADING COMPANIES FOR FROZEN BEEF PURCHASED BY LIPC
AFTER LIPC CALLS FOR COMPETITIVE OFFERS

Trading Companies	(Unit: Metric ton)						
	JFY1984 First Half						
	JFY1981	JFY1982	JFY1983	June 28	July 18	July 26	Aug. 29
C.Itoh and Co., Ltd.	4,185	4,596	5,018	978	595	461	466
Itoman and Co., Ltd.	2,885	3,231	3,393	638	437	296	333
Kanematsu-Gosho Co., Ltd.	4,305	4,709	5,128	957	606	487	411
Singapore Trading and Industry Co., Ltd.	2,762	3,329	4,912	1,107	620	496	496
Zenchiku Co., Ltd.	6,097	6,532	7,180	1,403	849	669	640
Daimaru Kogyo Kaisha, Ltd.	1,929	2,122	2,179	411	259	193	196
Toshoku Ltd.	2,182	2,377	2,526	540	219	243	228
Toyo Menka Kaisha Ltd.	928	1,068	723	364	154	170	135
Nichiryo Ltd.	1,111	1,312	1,280	186	187	111	87
Nitchiku Ltd.	5,281	5,439	6,126	1,308	592	580	555
Nippon Reizo Co., Ltd.	2,960	3,252	3,505	734	357	335	309
Nozaki and Co., Ltd.	1,842	2,053	2,106	386	249	184	181
Nomura Trading Co., Ltd.	2,025	2,292	2,419	494	247	226	219
Marubeni Corporation	3,746	3,979	4,303	1,034	469	398	384
Meidi-Ya Co., Ltd.	1,332	1,530	1,552	213	266	139	121
Mitsui and Co., Ltd.	2,202	2,515	2,603	533	251	219	247
Unico-op Japan	2,079	2,261	2,391	512	214	214	203
Taiyo Bussan Kaisha Ltd.	2,440	2,604	2,866	331	561	257	256
Mitsubishi Corporation	2,345	2,751	2,842	608	267	216	301
Sumitomo Shoji Co., Ltd.	2,526	2,804	3,063	564	362	318	280
Tokyo Maruichi Shoji Co., Ltd.	1,723	1,973	2,069	609	188	149	258
Nissho-Iwai Co., Ltd.	2,332	2,463	2,636	502	309	237	197
Yuasa Ltd.	1,568	1,757	1,776	374	165	156	156
Nichimen Co., Ltd.	2,484	2,689	2,941	626	290	242	290
Okura Trading Co., Ltd.	1,379	1,565	1,597	309	176	138	142
Rasa Trading Co., Ltd.	736	1,055	935	195	85	75	84
Toho Bussan Kaisha Ltd.	834	992	940	179	100	83	78
Shibamoto and Co., Ltd.	853	1,010	966	189	94	70	94
Azabu Food Co., Ltd.	942	1,082	1,079	191	102	110	93
Japan Food Co., Ltd.	1,339	1,544	1,574	218	250	111	213
Fujita Shoten Co., Ltd.	741	882	841	137	78	66	70
Hoei Trading Co., Ltd.	708	829	766	117	102	63	64
Tokyo Arugasu	731	864	797	140	86	65	66
Pacific Overseas, Inc.	900	1,036	1,031	181	92	85	75
Teijin Limited	191	519	442	89	42	48	29
Tokyu Trading Corporation	208	548	470	78	29	49	39
Total:	72,975	81,557	86,973	17,434	99,949	7,959	7,996

Note: Total for JFY1981 includes the amount imported by a trading company which was expelled in JFY1982.

Source: LIPC