The Japanese Beef Market
A Study in Political Economy

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Department of Agricultural Economics
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by

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Preface

This research report was prepared at a time when fundamental changes, which have implications for Australia's prospects as a beef exporter to Japan, are occurring. The aim in the report is to provide detailed background material which will be of assistance to those directly engaged in the market as well as to those with research interests.

Much of the early research underlying the report was completed while Clare Johnson was employed as an officer of the Australian Meat and Live-stock Corporation. The authors wish to thank the Corporation for the assistance and guidance provided during the conduct of the project. In this respect the efforts of Mr Kenzo Kawabe (AMLC Tokyo Office) proved to be invaluable and have been greatly appreciated.

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Abbreviations

AA	Automatic Approval
AJMICA	All Japan Meat Industry Co-operative Association
AMLC	Australian Meat and Live-Stock Corporation
CAF	Cost and freight
CAPIC	Comprehensive Agricultural Policy Investigation Committee
CL	Chemical lean
Domei	Japanese Confederation of Labour
GATT	General Agreement on Tariffs and Trade
HQB	High quality beef
LDP	Liberal Democratic Party
LIPC	Livestock Industry Promotion Corporation
JETRO	Japan External Trade Organisation
JMC	Japan Meat Council (Conference)
JSP	Japan Socialist Party
Keidanren	Federation of Economic Organisations
MAFF	Ministry of Agriculture, Forestry and Fisheries
MITI	Ministry of International Trade and Industry
MOF	Ministry of Finance
MTN	Multilateral Trade Negotiations
Nisseikyo	Japan Living Co-operative Association
Nisshokuren	Japan Meat Industry Co-operative Federation
PARC	Policy Affairs Research Council
SBS	Simultaneous buying and selling tender
Shindowa	National Federation of New Dowa Meat Retailers Association
Sohyo	General Council of Japanese Trade Unions
Zenchikuren	National Federation of Livestock Agricultural Co-operatives
Zenchu	National Central Union of Agricultural Co-operatives
Zendoren	National Federation of Dowa Meat Retailers Association
Zenkairen	National Federation of Reclamative Agricultural Co-operatives
Zennichino	All Japan Federation of Farmers' Unions
Zennikuren	All Japan Meat Industry Co-operative Association
Zenno	National Farmer's League
Zennoh	National Federation of Agricultural Co-operatives Association
Zenrakuren	National Federation of Dairy Co-operative Associations
Zenyuren	Pan Japan Imported Meat Industries Co-operative Association

Chapter 1

Introduction

'The traditional and most vital role performed by Japanese farmers is supplying food to the nation, a function which alone has justified the preservation of Japan's agricultural production base in order to maintain a minimum level of food production for survival' (George forthcoming). This philosophy has strong historical roots in the centuries of isolation during which Japan relied entirely upon its farmers, and in the food shortages and famines which Japan periodically suffered. Moreover, this reliance has engendered the strong protection of farmers (BAE 1980), and fostered a large 'public interest' stake in the goals of assistance and protection for Japanese agriculture (George forthcoming). Although this protectionism has to some degree diminished in recent years (with Japan's increasing dependence on imports of food), the country's farm-related communities have entrenched a legacy in policies designed to minimise dependence on foreign food supplies and to insulate farmers from foreign competition through an institutional framework of supports and incentives.

Agricultural Protectionism

Within the framework of the Agricultural Basic Law (1961), the basic charter for rural policy in Japan, a policy environment for the production of agricultural products and the protection of Japan's agricultural industries has been created. Implicitly, this has meant the Government's pursuit of non-economic goals which focus on food security through food self-sufficiency and preservation of the rural community, by increasing and maintaining farmers' incomes at a level comparable with urban households.

In 1979, the Agricultural Policy Council was requested to review the Basic Law. In the subsequent report (MAFF 1980a), the Agricultural Policy Council advised on future agricultural policies. In particular, emphasis was placed on the following: (a) exerting efforts to maintain and strengthen self-sufficiency in foodstuffs, focussing on the upbringing and well-being of farmers who are to bear the burden of agricultural production and securing farmlands; (b) continue the re-structuring of agricultural production in line with demand; (c) furthering productivity improvements; (d) systematically arranging farming villages as affluent rural communities; and (e) arranging the system of food supply in response to trends in the desires and dietary interests of the population (MAFF 1980a).

Essentially, achievement of these objectives has been attempted by the promotion of domestic production through the control of price and regulation of imports. However, the outcome of this approach has been a domestic price structure for food which is far higher than that prevailing internationally, and insulation of the Japanese economy from the benefits of lower global food prices and the effects of substantial yen appreciation on food imports (Department of Trade 1986a). Coupled with an administered domestic price structure has been a framework of domestic farm policies which encapsulate producer incentives aimed at maintaining and expanding domestic output. Such policies have not

only prevented significant import growth, but also generated excess supply problems for commodities, such as rice, raw milk, sugar, pork and grapefruit.

Furthermore, the implicit costs associated with the implementation and maintenance of such incentives, through high food prices and direct income supports, have been generally accepted as the price for meeting the nation's goal for food security. Thus, it has not been surprising that when structural adjustments have become unavoidable, the Government has usually responded through encouraging adjustment by special incentives, with little or no reduction in the level of support. As a result high support prices for certain agricultural products and a range of producer incentives exist to encourage greater production of commodities already in excess supply.

Recent Developments within the Agricultural Environment

While Japan has moved to open its market to imports, the speed and the type of access has reflected an intensification of trade pressure from the United States and a rise of domestic opposition to the maintenance of trade barriers. The extent and the pace of change has remained constrained at all stages by the strength of forces working from within Japan to preserve the status quo (George 1984).

In relation to the degree of protection which remains in place, changes until recently have been minor. Essentially, reform of farm policies has failed to address the fundamental cause of domestic surpluses in many agricultural products. In other words, reforms have not been implemented so as to harmonise domestic prices with world parity, and as a result, the costs to Japanese consumers and the Japanese economy continue to be high (Miller 1986).

Undoubtedly, effective Government control of markets for basic food items such as grains, dairy products and beef has enabled the Government to maintain and increase farm income and to constrain, or in some cases, marginally reduce prices (for example, support prices for rice, milk and beef). As well, supplementary measures directly aimed at limiting output have been implemented (for example, the rice paddy diversion scheme, the dairy cow culling program, and reduction in milk quotas).

For agricultural commodities at the centre of trade friction, the Government has put forward more specific policies. In the case of citrus fruit it has sought to renew efforts to lower domestic surpluses in order to enhance the demand for foreign oranges and citrus juices, and for beef, to modernise and rationalise the beef and dairy industries with a view to reaching production levels and prices comparable with those in the European Community by 1990.

For the most part, the implementation of recent reforms has been prompted by the sharp appreciation of the Japanese yen and the overall competitiveness of the Japanese economy.[1] However, coinciding with the rise in the value of the yen has been a general decline in world prices for commodities in global over-supply. As a consequence, the disparity between international and domestically admin-

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[1] The nature of these reforms and guidelines for implementation have been expounded in reports such as the Report of the Advisory Group on Economic Structural Adjustment for International Harmony (Maekawa 1986); Final Report of the Special Committee on Economic Restructuring (Maekawa 1987); and Basic Direction of Agricultural Policies Toward the 21st Century (MAFF 1986a).

istered prices in Japan has widened, rather than narrowed. In turn, the costs of Japanese farm programs to the Government and the consumer have escalated.

Although agricultural policy measures must continue to be in response to shifts in factors influencing the balance of world trade, Japan's recent policy reforms have extended across the full spectrum of Japanese agriculture. Consequently, a comprehensive program of measures to specifically address the fundamental issues related to Japan's current domestic agricultural adjustment problem has not been developed nor implemented. Thus, a fundamental need to develop and implement measures which aim at eliminating the current differential between Japan's domestically administered prices for farm products and prices prevailing on the world market have continued to exist (Miller 1986).

Protectionism Versus Trade Bilateralism in the Domestic Beef Industry

In line with the broad goals of agricultural protectionism, the Japanese Government has pursued a policy of protecting the domestic beef industry to maintain returns to producers above world parity prices. The Government has, therefore, restricted access for imports so as to ensure wholesale beef prices remain within target price bands.

From this commitment there has stemmed, from an Australian perspective, the principal problem with Japan's beef import policies. Australian beef exporters have been unable to exercise their competitive advantage and Japanese consumers have been unable to freely choose from a range of possible imports. The trade has been subject to Government intervention, which has not only limited the total quantity of imports, but according to Australian industry critics, been increasingly re-directed away from Australian suppliers to packers in the United States (AMLC 1987).

From a Japanese perspective, imports have essentially represented the shortfall between domestic target levels for the demand and supply of beef. Moreover, the import system for beef has represented the vehicle by which the Government has co-ordinated its operation of the stabilisation scheme for domestic wholesale beef prices. Thus, it follows that beef import quotas have been set primarily in light of Japan's domestic wholesale beef price stabilisation criteria (that is, domestic supply and demand conditions) in order to preserve a domestic beef industry, and to meet Japan's goals of food security through food self-sufficiency.

During the 1980s a severe imbalance of trade developed in Japan's favour vis-a-vis the United States and it has been in this economic climate that pressure has mounted for Japan to 'open its doors' to foreign goods. Consequently, barriers to trade in beef and oranges have been singled out by the United States as symbolising its growing trade deficit with Japan, and therefore, Japan's intransigence with regard to trade liberalisation. From an Australian standpoint this has represented trade discrimination, which George (1984) has termed as 'United States-Japan bilateralism'.

Despite high prices, Japanese imports of beef have tended to expand in volume over time. More specifically, imports in recent years have risen under the terms of bilateral agreements drawn up between Japan and its major suppliers of beef; namely, the United States and Australia. Since the first of these trade agreements in 1978, Japanese Government assurances to overseas beef suppliers have become an additional determining element of annual beef import quota levels, supplementing domestic wholesale beef price considerations, and locking the Government into beef import purchases almost in

isolation from the domestic beef situation. While domestic factors are of prime importance politically, according to George (1984) these have been increasingly influenced by political considerations arising from Japan's external relations with the United States and, to a lesser extent, other trading partners such as Australia. In particular, the outcome of the 1988 round of beef access negotiations highlights Japan's increased receptiveness to such external considerations, as well as growing cognizance of its responsibilities within the international trading arena.

Japan represents Australia's second largest beef export market after the United States, with around 130 000 tonnes shipped during the 12 months ended June 1988, at a value of over $A470 m. Within a framework of global import quotas, bilateral agreements negotiated between the Australian and Japanese Governments have provided for stable and predictable access to the market. However, Australia's share of total beef imports (that is, imports of beef both under the quota and outside of quota arrangements), has declined substantially; from 64 per cent in 1979 to 42 per cent in 1987 (see Appendix 1). According to Australian industry officials, this has been caused by the increasing discrimination which has been exercised, directly and indirectly, against Australian beef products under Japanese importing arrangements (AMLC 1988).

More specifically, Australian Government and industry officials identified (and in turn, debated during the 1988 round of beef negotiations), three fundamental areas in which discrimination had been demonstrated: (a) bilateral agreements with Australia and the United States over the period 1984 to 1987 provided for 77 per cent of the annual growth in global import quotas to be allocated to 'high quality beef'; (b) the administration of various quota mechanisms increasingly disadvantaged beef imports from Australia; and (c) an unchecked increase in imports of diaphragm beef (that is, beef offals), which enter outside of quota arrangements and at a tariff advantage (15 per cent as opposed to 25 per cent for quota beef imports).

Beef access arrangements negotiated in 1984 between Australia and Japan, and the United States and Japan, expired on 31 March 1988. Under the terms of both agreements, the Japanese Government pledged to enter into consultations during the 1987 Japanese fiscal year on matters related to the importation of beef in 1988 and beyond.

Given this undertaking, and in the context of a 'liberalised' environment for agricultural commodities, and hence, arguments for the deregulation of import restrictions, both the United States and Australia sought a dismantling of regulations controlling imports of beef into Japan. In particular, the United States insisted on the total liberalisation of the Japanese beef market from 1 April, 1988 failing which they would file a case against Japan under the General Agreement on Tariffs and Trade (GATT). However, prior to the 31 March 1988, neither the United States or Australia had engaged the Japanese in 'formal' bilateral negotiations.[2]

'Formal' bilateral discussions on future beef access arrangements were finally commenced during April 1988. Whilst Government negotiations between the United States and Japan largely concentrated

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[2] Government to Government discussions on issues related to future access arrangements for beef imports had been held during late 1987 and early 1988, but Japanese officials insisted on terming these as 'informal', and not official bilateral negotiations.

on the question and timing of liberalisation (and subsequent border measures), negotiations between Australian and Japanese officials focussed on endeavouring to remove the discriminatory elements of the previous arrangements. Following parallel negotiations, details of the respective new bilateral settlements were officially released during the latter part of June 1988.

Concomitant with engaging the Japanese in official negotiations, the United States and Australia instituted separate proceedings against Japan under Article XXIII:2 of the GATT. In keeping with the broad objectives of the Uruguay Round of Multilateral Trade Negotiations (MTN),[3] both countries tabled requests at the 4 May, 1988 GATT Council meeting for the establishment of panels to review and adjudicate on the conformity of Japanese beef access arrangements with GATT guidelines.[4] However, both the United States and Australia formally withdrew their respective Article XXIII:2 complaints with the GATT after officially reaching their respective bilateral settlements with Japan.

As alluded to above, the United States' stance with respect to beef imports was symbolic of the continued strong pressure it had exerted on Japan to liberalise import restrictions on other agricultural items. Such demands culminated in recourse under GATT on twelve agricultural products, and a panel ruling in late 1987 against Japanese import controls on ten of these commodities. In turn, Japan agreed to phase out restrictions on eight commodities, including those on processed and preserved beef. Undoubtedly, such action created the precedent for United States (and Australia) to instigate further action under GATT in parallel to any negotiations with the Japanese on beef access.

Key Elements of the Australia/Japan Agreement

Reportedly, the principle elements of the United States/Japan and Australia/Japan bilateral agreements are similar (AMLC 1988). In particular, the agreements provide for a six year transition period, from Japanese fiscal year 1988 to 1993. During this period, Japan's global beef import quotas will be abolished from 1 April, 1991 after which the Livestock Industry Promotion Corporation (LIPC) will no longer be associated with the purchase and sale of imported beef. Beef imports will then be restricted by an ad valorem tariff, initially set at 70 per cent but declining over the following two years. Thereafter, Japanese importing arrangements will be GATT consistent, protected by a 50 per cent tariff which will be available for further reduction in negotiations during the Uruguay Round of MTN.

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[3] For the first time since the inception of the GATT, guidelines established for the Uruguay Round contain a comprehensive negotiating mandate for agriculture. Among other things, this new round of MTN will aim to 'achieve greater liberalisation of trade in agriculture and bring all measures affecting import access and export competition under strengthened and more operationally effective GATT rules and disciplines' (AMLC 1988b). Also, it has been declared that during the course of the negotiations participating countries observe commitments to the progressive phasing out current trade restrictions, or trade distorting measures, which are inconsistent with the GATT.

[4] During early 1988, Australian and United States' officials separately sought bilateral consultations with the Japanese Government on importing arrangements under Article XXIII:1 of the GATT. However, these discussions failed to satisfactorily resolve Australian and United States' concerns. Consequently, under the rules of the GATT both countries were then positioned to refer matters to a GATT panel under Article XXIII:2.

Prior to the introduction of the tariff regime (that is, during Japanese fiscal years 1988 to 1991), global quotas are to expand by 60 000 tonnes annually, from 214 000 tonnes in 1987 to 394 000 tonnes in 1990. The arrangement through which most of this expansion in imports will occur is through the simultaneous buying and selling (SBS) tender arrangement. In particular, purchases under this system are set to increase from ten per cent of the LIPC's Quota in 1987 (or around 17 500 tonnes) to 30 per cent in 1988, to 45 per cent in 1989 and 60 per cent in 1990 (or 196 700 tonnes).

Under the terms of the Australian agreement, minimum access commitments for imports of chilled and aged frozen beef were also obtained (48 000 tonnes in 1988, 58 000 tonnes in 1989 and 68 000 tonnes in 1990). Moreover, tonnage commitments were given for imports against the Private Quota and the various Special Quotas. Specific details of the Australia/Japan agreement, during the various transitional phases, are summarised in Appendix 2.

Clearly, Japan has been forced to re-assess current trading policies and importing regimes for agricultural commodities, in response to mounting international pressures, and to some extent, growing domestic pressure. Recent undertakings with respect to future access arrangements for beef imports represent the most fundamental re-structuring of import policies that Japan has conceded as being practicable and tolerable by domestic producers.

Notwithstanding any pressure the United States (and Australia) may have brought to bear and the changes which have occurred in economic circumstances in Japan, it was generally acknowledged by most industry critics that the Japanese would not agree to an immediate and significant dismantling of importing arrangements in light of the sensitivities of the domestic beef industry, the continued political strength of the rural lobby and the vested interests of certain sectors of the industry and Government in the systems of beef importation (AMLC 1987). Thus, it was not surprising that the Japanese Government sought to appease the demands of the United States' and Australian Government officials with a commitment to liberalisation according to a period of 'transition-to-liberalisation' arrangements. Moreover, in order to reconcile international demands with domestic resistance to market liberalisation, the Japanese negotiators sought to extend the period of transition arrangements for as long as possible before reaching a 'date certain' for liberalisation.

In principle, this 'recognition' of liberalisation on the part of the Japanese served to satisfy foreign negotiators. Also, it could be concluded that it was the United States' insistence on a 'date certain' of 1 April, 1988 and threatened retaliatory action which pressured the Japanese to agree to a liberalisation of the market after three years, compared with a time horizon of five to ten years. Similarly, it was the United States' strong stance against a system of variable levies, and the like, which forced the Japanese to concede to the introduction of a tariff regime following liberalisation.

However, while the objective of liberalisation was achieved, the time frame agreed to (by the United States) was longer than that which the United States had originally sought. Inevitably, in finally resolving the broader issues of market liberalisation both the United States and Japan were forced to accept certain compromises. Obviously, the consequences of trade-offs reached between the two countries are not apparent at this point in time. It could be envisage, however, that there may exist a 'longer term commitment' on the part of Japan to guarantee the United States a strengthened position within the Japanese market, vis-a-vis the position of the other foreign suppliers, such as Australia.

Outline of the Present Study

In the present study, the Japanese beef market is described and assessed within a qualitative framework. This focuses on the production, demand and importation of beef and beef offals, highlighting the extent to which Government intervention in the marketplace has had an impact on Japanese beef producers and consumers, and beef supplying countries. In turn, this descriptive analysis forms the basis for discussing and analysing the policy implications and likely repercussions of Japan's new access arrangements for beef imports.

In Chapter 2, current trends within Japan's domestic cattle industry are examined in the broader context of the agricultural economy. Both the Wagyu and dairy beef sectors of the industry are described in detail, comparing and contrasting past and present systems of production, and the marketing and management practices of each sector. In Chapter 3, changes in Japanese food consumption patterns are described, focusing particularly on the consumption trends for meats. Various categories of beef (domestically produced and imported) and beef offals, are assessed in terms of the various market profiles advanced in the literature and hypotheses on market segmentation. Against this background, supply and demand projections for beef are then presented and discussed in Chapter 4.

In Chapter 5, the political system and the Japanese agricultural policy making processes are examined. Included is an overview of the Japan's system of Government. In particular, the significance of the Liberal Democratic Party (LDP) within the electoral system and the influence of agricultural Diet members in the policy making process are discussed. Key policy issues and the related policy making processes are then examined, with specific reference to Japan's beef policy framework and the various pressure groups which impinge on this framework.

Japan's trade in beef is reviewed in detail in Chapter 6 from an historical perspective and in terms of the various quota arrangements which operated for the duration of the 1984-1987 beef access agreements, and will operate from 1988 and beyond. The emergence of the LIPC and the powers assigned to it are fully assessed. The diaphragm beef issue is also briefly discussed as a prelude to a section in which the importing arrangements for beef offals are outlined. Finally, the various methods for importing live cattle, and the future prospects for this trade are examined.

Finally, in Chapter 7 policy implications of the recently negotiated arrangements for the importation of beef are discussed, both from a domestic and international perspective. In light of these implications, attempts are made to evaluate Australia's potential performance under the new arrangements vis-a-vis its competitors and to assess the Australian industry's capacity to maintain a longer term position in the marketplace after liberalisation.

Chapter 2

The Production of Beef in Japan

Overview of Current Trends in the Agricultural Economy

As with most industrialised countries, the relative economic importance of Japan's agricultural sector has declined over time. Agriculture's contribution to Gross Domestic Product has fallen from 17 per cent in 1955 to about three per cent at present. However, the total value of agricultural output has increased in real terms. Further, Japan's agricultural output has expanded overall in volume and changed in composition as Japanese farmers, together with Government, have pursued the twin non-economic goals of: (a) preservation of the number of rural families and communities; and (b) food security, largely through self-sufficiency. Consequently, the rural sector has diversified and expanded since the 1950s largely in response to Government incentives.

Trends in Agricultural Output

In spite of short term fluctuations, the level of rice production has remained relatively stable, while production levels of farm products for which demand has rapidly expanded (for instance, livestock, vegetables and fruit), have increased (see Table 2.1).[1] Conversely, the production of field crops (other than rice), which require relatively large areas of farm land to ensure economic viability have declined (for example, wheat, barley and soybeans). However, in recent years with the success of paddy diversion schemes, this trend has to some extent been reversed. As shown in Table 2.1, the production levels of cereal grains and soybeans have trended upwards since 1980. Nevertheless, the levels of production of these crops in 1986 remained well below levels reached in 1960.

With the enactment of the Agricultural Basic Law of 1961, the significance of livestock industries in an agricultural policy context was officially acknowledged for the first time in Japan. Subsequently, national policies were developed with the aim of reducing rice production while fostering the 'selective expansion' of livestock (vegetables and fruit growing) industries. Although livestock production expanded in volume and value terms under policies implemented after 1961, as demonstrated in Table 2.1 rice production was not reduced nor the decline in the production of feedstuffs arrested, before the late 1970s. As a consequence, the rapidly growing livestock industries became increasingly dependent on imported feedstuffs (Longworth 1983).

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[1] George (1988) has claimed that rice remains the single most important farm commodity produced in Japan, with its production accounting for the largest acreage of cultivated land (about 44 per cent of total cultivated land) and the largest number of farm households (84 per cent of all Japanese farm households).

Table 2.1 : Production of Major Agricultural Commodities in Japan for Selected Years, 1960-1986

	1960	1965	1970	1975	1980	1983	1986
				('000 tonnes)			
Rice	12 858	12 409	12 689	13 165	9 751	10 366	11 647
Other Cereal Grains (a)	3 994	2 659	1 108	490	968	1 075	1 246
Soybeans	418	230	126	126	174	217	245
Vegetables							
- cabbage	686	1 157	1 437	1 423	1 545	1 568	1 666
- cucumber	462	773	965	1 023	1 018	1 048	1 040
Fruit							
- mandarin(b)	894	1 331	2 552	3 665	2 892	2 859	2 168
- apple	876	1 132	1 021	898	960	1 048	986
Dairy Products							
- milk	1 887	3 221	4 761	4 961	6 504	7 042	7 357
- butter	12	24	43	40	64	74	88
				('000 tonnes carcase weight)			
Meat							
- beef	142	216	278	353	418	495	559
- pork	147	407	734	1 039	1 475	1 429	1 552
- chicken	N/A	204	490	740	1 128	1 239	1 387

(a) Wheat, barley, oats etc.
(b) "Unshu"
N/A Not available
Source: MAFF (1987b).

While the development of dairying and raising of beef cattle received some attention, the Government initially concentrated its primary efforts on the production of pork and poultry. In response, production levels of these two meats expanded at least tenfold over the period 1960 to 1980. Beef (and milk) production levels, on the other hand, were only around three times greater in 1980 compared with recorded levels in 1960 (see Table 2.1). Since 1980, domestic meat production has continued to expand, and in particular, there has been a recent marked increase in pork production due to a downturn in the market.

Although the significance of beef production is gradually increasing, Japan's domestic beef industry remains relatively insignificant. According to preliminary figures for 1986, the value of livestock production represented about 27 per cent of the total value of agricultural output. Hence, the

value of beef production accounted for only around four per cent of the gross value of agricultural output.

Food Self-Sufficiency

Manifest in the overall decline in the economic importance of agriculture is the Japanese preoccupation with food security and self-sufficiency. Despite Government support and technical advances, agricultural production has failed to keep pace with demand, and as a result Japan's self-sufficiency in food has steadily declined from 90 per cent in 1960 to around 70 per cent in 1986, a level at which it appears to have stabilised. In a similar trend, Japan's self-sufficiency in beef has declined from 96 per cent to 69 per cent over the period (see Table 2.2).

The costs associated with upholding this policy have increased significantly. Nevertheless, high food self-sufficiency has remained a goal of agricultural policy, and until recently, the broad concept of food security has met with an unquestioning sympathy from the Japanese population.

Structure of the Rural Sector

In addition to shifts in the pattern and levels of agricultural output, significant changes in the structure of the rural sector over the post-war period have occurred. For example, there has been an overall decline in the total number of farm households, reflecting a trend toward fewer but larger farms. In 1960, farm households totalled 6.1 million and represented about 29 per cent of total households in Japan. By 1987, this proportion had fallen to under 11 per cent or less than 4.3 million households.

In prefectures excluding Hokkaido, total farm households decreased from about 5.2 million in 1970 to 4.2 million in 1986, a decline of over 19 per cent which has been mainly concentrated among holdings between 0.5 to 1.5 hectares. On the other hand, the numbers of farms under 0.5 hectares and over 2.0 hectares have marginally increased. Similar structural changes have occurred in Hokkaido, but with the trends more pronounced. For example, in 1970 farm households totalled 166 000, and by 1986 this had declined about 35 per cent to 108 000 households. While the proportion of farms under 10 hectares has declined, the proportion over 10 hectares, and in particular, the proportion (and absolute number) of farms 20 hectares or over has expanded markedly since 1970.[2]

In line with this decline in the overall number of farm households a marked decline in the farm household population has occurred. In 1970, Japan's farm household population totalled almost 26.6 million, but by 1987 this had fallen 27 per cent, to just under 19.5 million. Coupled with this decline has been a significant shift in the type of employment being sought by this dwindling farm workforce.

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[2] For agricultural purposes, Japan is divided into two major areas: (a) a traditional area which comprises the islands of Honshu, Shikoku and Kyushu; and (b) the island of Hokkaido, which is a more recently developed rural area characterised by larger land holdings than the southern traditional regions.

Table 2.2 : Self-Sufficiency Ratios in Food Commodities for Selected Years, 1960-1986

Item	Japanese Fiscal Year									
	1960	1965	1970	1975	1980	1982	1983	1984	1985	1986
	(per cent)									
Total Food	90	83	78	74	72	72	71	71	71	70
Cereals (a)	82	61	45	40	33	33	32	31	31	31
Cereals (b)	89	80	74	69	69	69	69	69	64	69
Rice	102	95	106	110	87	93	94	109	107	108
Wheat	39	28	9	4	10	12	11	12	14	14
Soybeans	28	11	4	4	4	5	4	5	5	5
Vegetables	100	100	99	99	97	98	96	95	95	95
Fruit & Nuts	100	90	84	84	81	79	81	73	75	73
Total Meat	91	90	89	77	81	80	80	80	81	78
Beef	96	95	90	81	72	71	70	72	72	69
Pork	96	100	98	86	87	87	85	84	86	82
Eggs	101	100	99	97	98	98	98	99	98	97
Milk & Milk Products	89	86	89	82	86	85	86	86	89	86
Sugar	18	30	23	16	29	31	30	32	33	33

(a) Includes cereals for feed
(b) As a principal food
Note: Self-Sufficiency Ratio = $\frac{\text{Total value of domestic production} \times 100}{\text{Total value of domestic consumption}}$

Source: MAFF (1987b).

Before the mid-1970s a dramatic decline in the proportion of full-time farm households, together with a moderate rise in part-time households occurred. However since 1975, the proportion of total households classified as full-time has tended to rise and in more recent years increased in absolute terms, while the number of part-time farms has declined, both proportionally and absolutely. Despite this recent decline in part-time farming, this practice remains the major form of employment for the Japanese farm household population.

In Japan, part-time farming is not a new phenomenon with the majority of total farm households (66 per cent) being classified as part-time, even in 1960. However, more recently this practice has offered a new dimension to Japanese agriculture (Kada and Longworth 1982). Since the 1960s the opportunities and rewards for off-farm work have increased and this has been reflected by the sustained high level of non-farm income in the rural sector.

According to calculations by Longworth (1983), the opportunities for part-time farming have resulted in farm households now enjoying on average higher incomes than their urban counterparts. This

situation has developed despite the widening gap in productivity between farm and secondary industries, and the resultant decline in the economic importance of agricultural production. Hence, increased participation in off-farm work has, in effect, offset the widening gap between farm household incomes and urban household incomes (BAE 1980).

Massive Government intervention in the rural sector has also promoted and reinforced the economic well being of Japanese farmers. Clearly, the protectionist demands which have arisen are the logical outcome of the declining comparative advantage of agricultural vis-a-vis other sectors of the economy. Thus, it has followed that the Government's attempts to appease farmers' demands (essentially to preserve its rural voting base) has allowed the farm sector to retain a demographic, social and political importance far greater than its economic importance to the nation. (See to Chapter 5 for a detailed discussion on the Japanese electoral system and the significance of Japan's rural gerrymander.)

Structural Characteristics of the Domestic Cattle Industry

With a little more than a 20 year history, cattle raising for commercial beef production is a relatively new industry in Japan. In these two decades, enormous changes have occurred in production methods and in the location of cattle raising. On the other hand, certain sectors of the industry have remained relatively undisturbed (Longworth 1983).

Japan's natural resources, and in particular, a severe land constraint exacerbated by Governmental policies (for example, the Land Law of 1952 which has kept farm sizes small and policies which have channelled resources into the production of rice), have made it difficult for beef and dairy producers to raise the efficiency of operations to levels attained by pork and poultry producers (Coyle 1983).[3]

Nevertheless, while the domestic beef industry fails to be outstanding in terms of physical output and its value, a perceived economic and political importance is evidenced by the industry's structure and geographic location. Recent trends in production are also indicative of the beef industry's present significance.

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[3] Japan's pork and poultry operations are characterised by intensive land use through confined feeding techniques and almost complete reliance on commercially purchased feed concentrates (processed mainly from imported grains and oilseeds). Moreover, in the case of poultry, border protection has been limited to relatively low tariffs on imports (20 per cent or less, as compared with 25 per cent on beef imports and 25 to 30 per cent on dairy products). Poultry imports are not restricted. Although pork imports are somewhat restrained with a variable levy system (which is waived from time to time), imports are not protected by quantitative measures and private traders, not Government agencies, manage the trade (Coyle 1983, p.9).

Size and Location of Cattle Raising Farms

The cattle population in Japan consists predominantly of two, very different breeds: the traditional and dominant beef breed, Wagyu, which until recently were used primarily for draught purposes; and dairy breeds, mainly Holstein, which were introduced to Japan in the post war years.[4]

Along with other sectors of the livestock industry, Japan's domestic herd has changed dramatically since the mid 1960s, both in terms of its size and distribution. As indicated in Table 2.3, a significant decline in the number and size of farms with cattle, coupled with marked increases in inventories has occurred. Similar trends are also apparent within Japan's pig and poultry industries.

More specifically, over the period since 1965 the number of beef cattle farms has declined by about four per cent per annum, from around 1.4 million to 260 000 farms in 1988. At the same time, inventories of beef cattle have increased by about 40 per cent, from 1.9 million to almost 2.7 million head. Thus, it follows that the number of beef cattle per farm has increased from less than two head in 1965 to over ten head per farm in 1988 (see Table 2.3).

Changes within the dairy industry have been similar, if not more pronounced than in the traditional sector. Inventories of female dairy cattle have risen from around 1.3 million to over 2.0 million head over the period 1965 to 1988. More recently, however, numbers have declined slightly (four per cent), primarily in response to the Government's effort to reduce the current over-supply situation in dairy products, and in particular, to the introduction of a culling program for dairy cows. Similarly, the number of farms raising dairy cattle has declined over the period, with the result that the number of dairy cattle per farm has risen from around three head in 1965 to over 28 head per farm in 1988.

In concert with average inventory per farm, the distribution of beef and dairy cattle has markedly changed. For example, in 1975 two thirds of the beef cattle herd were on farms with one to two head (see Table 2.4). Ten years later, this proportion had fallen to 44 per cent and then by a further three per cent in 1987. At the other end of the scale, less than one per cent of the herd were on farms of 50 head or more in 1975. However, by 1987 almost four per cent of the herd were on farms with 50 or more head.

Similar trends in the expansion of herd size have occurred within the dairy sector (see Table 2.5). For example, in 1975 farms with 10 or less head accounted for 57 per cent of the total dairy herd. This proportion had fallen to less than 30 per cent in 1987, with the greatest concentration of the herd (almost 60 per cent) tending to be on farms with between 10 and 50 head of cattle. Also, an increasing percentage of the herd is being located on farms of over 50 head. In 1987, almost 6 per cent of the herd were on farms of 50 head, compared with 0.6 per cent in 1975. The number of specialist farms for the raising of calves, on the other hand, has trended downwards from about 13 per cent in 1975 to around seven per cent in 1987.

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[4] There are several localised variations of the Wagyu strain, but about 90 per cent are the Black Wagyu, widespread throughout Japan. The other major type is the Brown Wagyu, with about 65 per cent concentrated in north Kyushu. In addition, there are small numbers of Herefords and other imported beef breeds.

Table 2.3 : Livestock and Broiler Inventories and Number of Farms for Selected Years, 1965-1988

Year	Cattle		Swine	Broilers
	Beef[a]	Dairy[b]		
		(head[c])		('000 birds)
1965	1 885 100	1 288 950	3 975 960	18 279
1970	1 789 000	1 804 000	6 335 000	53 742
1975	1 857 000	1 787 000	7 684 000	87 659
1980	2 157 000	2 091 000	9 998 000	N/A
1981	2 281 000	2 104 000	10 065 000	131 252
1982	2 382 000	2 103 000	10 040 000	130 585
1983	2 492 000	2 098 000	10 273 000	134 612
1984	2 572 000	2 110 000	10 423 000	143 024
1985	2 587 000	2 111 000	10 718 000	150 215
1986	2 639 000	2 103 000	11 061 000	155 788
1987	2 645 000	2 049 000	11 354 000	155 037
1988	2 650 000	2 017 000	11 725 000	154 869
		(farms)		
1965	1 434 580	381 600	701 560	20 490
1970	901 600	307 600	445 500	17 630
1975	473 600	160 100	223 400	11 540
1980	364 000	115 000	141 000	N/A
1981	352 800	106 100	126 700	8 309
1982	340 200	98 900	111 800	7 715
1983	328 400	92 600	100 500	7 445
1984	314 800	87 400	91 500	7 330
1985	298 000	82 400	83 100	7 025
1986	287 100	78 500	74 200	6 745
1987	272 400	74 500	65 100	6 321
1988[d]	260 000	71 000	58 000	6 000
		(head per farm)		(birds per farm)
1965	1.31	3.38	5.67	892
1970	1.98	5.86	14.22	3 048
1975	3.92	11.16	34.40	7 596
1980	5.93	18.18	70.91	N/A
1981	6.47	19.89	4.44	15 796
1982	7.00	21.26	89.90	16 926
1983	7.59	22.66	102.22	18 081
1984	8.17	24.14	113.91	19 512
1985	8.68	25.62	28.98	21 383
1986	9.20	26.79	149.07	23 086
1987	9.71	27.50	174.41	24 520
1988	10.20	28.60	203.90	25 500

(a) Includes dairy cattle for fattening
(b) Female dairy cattle
(c) As at 1 February
(d) Only rounded figures able to be obtained
Source: MAFF (1988a).

Table 2.4 : Number of Farms Raising Beef Cattle by Size of Herd, 1975-1987

Year[a]	Total* Farms	Number of Farms							
		1-2	3-4	5-9	10-19	20-29	30-49	50-99[b]	100 & over
					head[c]				
1975	473 600	315 300	86 080	44 360	14 760	5 800	3 759	-3 545-	
		(66.6)	(18.2)	(9.4)	(3.1)	(1.2)	(0.8)	(0.7)	
1979	380 800	219 900	77 500	48 000	17 800	6 480	4 950	3 860	2 250
		(57.7)	(20.3)	(12.6)	(4.7)	(1.7)	(1.3)	(1.0)	(0.6)
1981	352 800	185 000	78 800	51 800	18 300	6 560	4 960	4 500	2 800
		(52.5)	(22.3)	(14.7)	(5.2)	(1.9)	(1.4)	(1.4)	(0.8)
1982	340 200	167 900	79 800	53 800	19 200	6 800	5 020	4 600	3 000
		(49.4)	(23.5)	(15.8)	(5.6)	(2.0)	(1.5)	(1.4)	(1.8)
1983	328 400	157 600	77 800	53 200	19 900	6 970	5 150	4 620	3 260
		(48.0)	(23.7)	(16.2)	(6.0)	(2.1)	(1.6)	(1.4)	(1.0)
1984	314 800	143 000	76 500	53 300	20 200	7 070	5 500	4 930	3 530
		(145.7)	(24.3)	(16.9)	(6.4)	(2.2)	(1.8)	(1.6)	(1.1)
1985	298 000	131 400	73 400	51 900	20 300	6 670	5 540	4 820	3 860
		(44.1)	(24.6)	(17.4)	(6.8)	(2.2)	(1.9)	(1.6)	(1.3)
1986	287 100	123 100	70 600	51 000	20 700	6 920	5 570	5 070	4 120
		(42.1)	(24.6)	(17.8)	(7.2)	(2.4)	(1.9)	(1.8)	(1.4)
1987	272 400	111 800	70 200	48 700	20 100	6 840	5 410	5 100	4 270
		(41.0)	(25.8)	(17.9)	(7.4)	(2.5)	(2.0)	(1.9)	(1.6)

(a) As at 1 February
(b) Until 1976, this category was '50 and over'
(c) Includes farms fattening dairy cattle for beef
* Figures in parentheses refer to the percentage share of total farms
Source: MAFF (1988a).

In spite of the apparent trends to larger herds, a significant proportion of Japan's domestic cattle herd (about 85 per cent in the case of the beef herd and 30 per cent of the dairy herd) remain on farms with less than 10 head. This is particularly evident within the beef industry where such proportions (about 41 per cent on farms of one to two head, 26 per cent on farms of three to four head and 18 per cent on farms of five to nine head) not only exemplify the typically small scale of beef cattle operations in Japan, but also the persistence of these operations. For the majority of farmers, beef raising represents a sideline operation to either rice growing or some form of off-farm employment. Moreover, as pointed out by Longworth (1983, p 108), many of these operations are likely to be run by older, semi-retired members of the household.

Table 2.5 : Number of Farms Raising Dairy Cattle by Size of Herd, 1975-1987

Year(a)	Total* Farms	Number of Farms						Farms Raising Calves Only
		1-4	5-9	10-19 head	20-29	30-49	50 & over	
1975	160 000	56 830	34 830	30 717	11 537	4 936	957	20 540
		(35.5)	(21.5)	(19.2)	(7.2)	(3.1)	(0.6)	(12.8)
1981	106 000	23 400	21 000	22 930	13 500	12 000	3 140	9 980
		(22.1)	(19.8)	(21.6)	(12.7)	(11.3)	(3.0)	(9.4)
1982	98 900	19 500	18 500	22 740	13 500	12 600	3 130	8 700
		(19.7)	(18.7)	(23.0)	(13.7)	(12.7)	(3.3)	(8.8)
1983	92 600	16 700	17 000	21 540	13 500	13 100	3 360	7 350
		(18.0)	(18.4)	(23.3)	(14.6)	(14.1)	(3.6)	(7.9)
1984	87 400	14 700	15 500	20 280	12 800	13 900	3 390	6 540
		(16.8)	(17.7)	(23.2)	(14.6)	(15.9)	(3.9)	(7.5)
1985	82 400	12 600	14 100	19 130	12 600	14 100	3 870	5 920
		(15.3)	(17.1)	(23.2)	(15.3)	(17.1)	(4.7)	(7.2)
1986	78 500	11 100	12 900	18 230	12 100	14 100	4 130	6 000
		(14.1)	(16.4)	(23.2)	(15.4)	(18.0)	(5.3)	(7.6)
1987	74 500	9 780	12 100	17 030	12 300	13 900	4 250	5 140
		(13.1)	(16.2)	(22.9)	(16.5)	(18.7)	(5.7)	(7.0)

(a) As at 1 February
* Figures in parentheses refer to percentage share of total farms
Note: Statistics for 1979 were not available
Source: MAFF (1988a).

Geographically, the total cattle inventory is generally distributed throughout Japan, with the exception of south eastern Kyushu where there is the heaviest concentration of cattle. Also, a degree of regional specialisation in terms of the two breeds is evident. This reflects the breeding, rearing and fattening practices of the beef and dairy industries.

In line with different rates of contraction in the beef industry across Japan, a shift in the locational focus of the traditional sector to the more remote parts of the country has occurred. In particular, industrialisation and urbanisation from Tokyo westward has been a major force leading to the reduction in the number of farms and the number of Wagyu female cattle of breeding age in areas near the more industrial zones on the eastern seaboard of Japan. Hokkaido, on the other hand, is the only region in which an increase in the number of farms feeding cattle for beef and the number of breeding age females has occurred.

Today, the heaviest concentration of the Wagyu herd is in Kyushu, followed by the Tohoku (northern Honshu) and Kanto-Tozan (central Honshu) regions. Although, in common with the rest of

Japan these three regions have experienced net reductions in both the number of farms raising beef cattle and the number of breeding age females, together Kyushu and Tohoku account for over 70 per cent of the Wagyu breeding herd. The Kanto-Tozan region, on the other hand, is a relatively more important fattening area than breeding area for Wagyu cattle.

- In response to urbanisation and the development of a transportation infrastructure, the location of the dairy herd has shifted, from the traditional suburban areas to more distant areas where grazing land is more abundant. However, the relocation of dairying, and in particular the breeding base of the dairy herd, has not been as dramatic as in the Wagyu sector.

Hokkaido has the largest concentration of dairy cattle, followed by the Kanto-Tozan region, and Tohoku. Not surprisingly, these areas are where the largest concentrations of dairy steers are located. In particular, the Kanto-Tozan area is a major area for the fattening of dairy steers, accounting for 24 per cent of the total dairy steer herd, or over 63 per cent of total beef herd in the region. The Kyushu region is also a significant area for dairy steering fattening.

Production and Marketing of Beef

Production Trends and Influences

Domestic production has increased steadily over the past decade, from about 300 000 tonnes in 1976 to just over 550 000 tonnes in 1987, or around 70 per cent of total beef supplies. As demonstrated in the preceding section, the beef industry in Japan has undergone various changes since the 1960s. However, perhaps the most significant development has been the relative decline in importance of the traditional Japanese beef breed coupled with an upsurge in output from dairy breed cattle, and in particular, the emergence of dairy steer fattening for beef production.

In Table 2.6 production characteristics of the domestic cattle herd are provided for the period 1965 to 1987. Since 1965, beef output from the traditional sector has fluctuated between about 125 000 and 200 000 tonnes, without any apparent long term trend emerging. On the other hand, there has been a rapid expansion in beef production from the dairy sector, and since 1980, the output of dairy steer beef has exceeded that from the entire Wagyu sector. Today, dairy beef accounts for around 70 per cent of total domestic beef and veal production.

To a degree, trends in domestic beef production are reflected in the numbers of Wagyu and dairy cattle slaughtered over the period. While approximately equal numbers of Wagyu and dairy breed cattle were slaughtered in the 1960s and early 1970s, by the 1980s there were about twice as many dairy cattle slaughtered as beef cattle (see Table 2.6). Nevertheless, slaughterings of Wagyu females and steers trended upwards over this period, reaching about 289 000 head and 271 000 head, respectively in 1985. After almost ten years of increasing turnoff, slaughterings of Wagyu cattle, and particularly female cattle, declined in 1986. This trend continued during 1987, with slaughterings falling to around 470 000 head; a 16 per cent decrease on the 1985 level of turnoff of Wagyu cattle.

Conversely, the numbers of Wagyu bulls and calves slaughtered have declined and tended to stabilise in recent years at around 3 000 head and 2 000 head, respectively. In 1987, slaughterings further declined. In the case of Wagyu calves this was largely in response to firming calf prices.

Table 2.6 : Production Characteristics of the Cattle Herd for Selected Years, 1965-1987

	1965	1975	1981	1983	1985	1987
Cattle Numbers[a]			('000 head)			
Wagyu Female						
Under 2 years	395	340	353	392	414	391
Over 2 years	919	609	633	671	665	656
Wagyu Male						
Under 2 years	N/A	332	379	419	450	439
Over 2 years	572	10	113	125	118	142
Dairy Female						
Under 2 years	430	552	648	630	649	632
Over 2 years	859	1235	1457	1469	1462	1417
Dairy Steers*	N/A	476	803	886	941	1018
Slaughterings			('000 head)			
Wagyu Females	311	180	151	201	289	227
Wagyu Steers	252	213	214	240	271	243
Wagyu Bulls	125	14	4	4	3	2
Wagyu Calves	14	2	2	2	2	1
Dairy Females	228	95	486	473	490	500
Dairy Steers	N/A	341	467	460	468	482
Dairy Calves	239	125	42	43	37	20
Other Cattle	N/A	N/A	N/A	10	15	30
Carcase Weight			(kilograms)			
Wagyu Females	230	295	335	323	329	344
Wagyu Steers	231	342	385	381	387	402
Wagyu Bulls	236	342	385	381	379	394
Wagyu Calves	69	103	86	84	84	98
Dairy Females	220	281	333	339	338	359
Dairy Steers	N/A	314	369	371	384	406
Dairy Calves	28	29	54	50	58	71
Other Cattle	N/A	N/A	N/A	354	385	391
Production			('000 tonnes)			
Wagyu Females	72	53	51	65	95	78
Wagyu Steers	59	73	82	92	105	98
Wagyu Bulls	27	5	2	2	1	1
Wagyu Calves	0.9	0.2	0.1	0.2	0.2	0.1
Dairy Females	50	111	162	161	166	180
Dairy Steers	N/A	107	172	171	180	195
Dairy Calves	7	4	2	2	2	1
Other Cattle	N/A	N/A	N/A	3	6	12

(a) As at 1 February

* In recent years this figure has also included dairy female cattle raised for the purpose of beef production

N/A Not available

Source: MAFF (1987a, 1988a).

Slaughterings of dairy females and steers have both expanded. However, during the 1980s the rate of increase in slaughterings of dairy females has tended to exceed that of steers, reflecting Government policies aimed at reducing the current over-supply situation for dairy products. Slaughterings of dairy steers, on the other hand, have stabilised in recent years, at 460-470 000 head per annum. In 1987, slaughterings of female dairy cattle declined marginally to around 500 000 head, while steer slaughterings peaked at almost 482 000 head. Slaughterings of dairy calves have continued to steadily decline, while the slaughtering levels of other cattle have increased.

Coupled with the general rise in slaughterings has been an increase in average carcase weights, which in turn, has enhanced the expansion in output from the domestic herd (see Table 2.6). Despite a slight decline in 1981 to 1985, average carcase weights of adult Wagyu cattle have risen by 13 to 15 per cent since the 1975. In the case of Wagyu calves, average weights have trended downwards. In 1987, however, the average slaughter weight rose sharply to 98 kilograms, largely in response an the upturn in the calf market (see below). By comparison, average carcase weights of dairy cattle have increased by over 25 per cent, and in particular, weights of dairy steers have risen markedly, to 406 kilograms. Also, unlike Wagyu calves, the weights of dairy calves have increased over the period, peaking at 62 kilograms in 1987.

This expansion in carcase weights has involved a significant increase in inputs of feedstuffs, particularly imported grains from the United States. Continued low world prices for grains coupled with the recent phase of herd re-building in response to firmer calf prices are serving to reinforce these trends in all sectors of the domestic industry, as indicated by the significant rise in weights across all categories in 1987. Moreover, the appreciation of the yen between 1985 and 1988 also accommodated the greater usage of imported grains.

In light of the above, it is apparent that beef from both types of cattle is primarily derived from steers, and to a lesser extent, from surplus heifers and culled cows. Veal production, on the other hand, is limited and almost entirely derived from dairy calves of about 18 to 24 months of age. Thus, under Japan's system of beef production, feeder steer calves (that is, calves which enter feedlots for fattening to slaughter weight) are the major source of domestic beef supplies. More specifically, feeder cattle represent the primary product of the traditional sector and the by-product of the dairy sector (Simpson, Yoshida, Miyazaki and Kada 1985, p.55).

According to Longworth (1983, pp.208-211), under this system of production, feeder calf prices, or any other factor which influences the supply of feeder cattle, eventually has a critical impact on the levels of beef production. The demand for feeder calves is a derived demand, primarily influenced by the profitability of fattening cattle which, in principle, is determined by the feed conversion efficiency of animals, the cost of feed and the price of beef on the wholesale market. Therefore, a change or an expected change in the cost of feed or the price of beef can be reflected in a significant shift in the demand and price of feeder calves, and ultimately, the returns to breeding calf operations.

In general, an upturn (downturn) in the feeder calf market signals a fall (rise) in beef production in the short term and a rise (fall) in output in the longer term. Moreover, Longworth (1983, p.132) deduced that calf slaughterings are a key indicator of producer expectations in the Japanese industry. Due to biological time lags, however, variations in calf slaughter rates will not be reflected in the level

of beef production for at least 18 months in the dairy sector and not for more than two years in the Wagyu sector.

Recent moves to liberalisation of the beef market through negotiated expansions in the import quota have had a marked impact on the feeder calf market and therefore the domestic beef industry. For example, during 1983-1984, in the lead up to signing the 1984-1987 beef accords, producers and particularly Wagyu producers, were pessimistic about the future profitability of beef production. This anxiety manifested itself in increased slaughterings of calves, and consequently, a slumping calf market as farmers of feeding cattle were reluctant to increase cattle numbers, and so, refrained from buying calves.[5] Coupled with this downturn in the feeder calf market was a heavy liquidation of the Wagyu herd, and especially female stock, throughout 1984 and early 1985.

Producer uncertainty lessened through 1985, and in response to a firming of calf prices, a slowing in the rate of turn-off of stock has since occurred . As a consequence, production volumes of Wagyu beef have tapered off, reflecting the reduction in the breeding base of the Wagyu herd (see Table 2.6).[6] The relative movements in the prices of Wagyu and dairy feeder calves during this period are provided in Table 2.7.

The recent decline in Wagyu slaughterings has also been a major factor contributing to inflated wholesale prices for beef during 1987 and 1988. This situation, coupled with firming feeder calf prices would appear to have offset a re-occurrence of the 1983-1984 downturn in the calf market during the 1987-1988 rounds of access negotiations for beef imports. Since the signing of the new agreements, and hence, Japan's commitment to a 'date certain' for liberalisation of the beef market, calf prices have remained relatively firm and above prices a year ago (see Table 2.7). Similarly, wholesale carcase prices have been maintained at relatively high levels. In spite of the pending expansion in beef imports, present indications are that a situation of reduced domestic supply andinflated prices will continue during most of 1988. Moreover, recent sustained slaughterings of dairy cows can be expected to not only prompt the desired reduction in future levels of milk production, but also to limit the future production of dairy steer beef, and so, support a continuation of high prices for dairy male feeder calves, as well as a firming of dairy steer carcase prices.[7]

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[5] According to Mori and Gorman (1987) feeder calf prices dropped almost 40 per cent during this period (refer also to Table 2.7).

[6] The resultant decline in total beef and veal production was been minimal, largely due to the sharp rise in average slaughter weights, as discussed earlier.

[7] For more detailed discussion on recent movements in beef wholesale prices refer to the section on price stabilisation and see Table 2.14.

Table 2.7 : Average Feeder Calf Prices, 1965-1988

Year	Wagyu Calves*		Dairy Calves**
	Female	Male	Male
		(yen per head)	
1965	54 540	51 630	N/A
1970	83 780	87 330	N/A
1975	206 500	179 300	N/A
1980	371 500	347 200	166 700
1981	343 700	300 200	131 000
1982	258 000	245 700	145 800
1983	205 000	225 200	141 500
1984	203 500	238 900	146 200
1985	231 900	269 500	144 800
1986	278 400	322 100	167 900
1987	345 500	397 200	202 400
January 1988	364 100 (307 900)	421 200 (354 500)	209 900 (188 700)
February	362 000 (314 600)	417 000 (358 900)	204 100 (189 300)
March	359 800 (317 000)	414 800 (362 100)	219 400 (198 400)
April	360 600 (317 400)	418 900 (362 700)	192 500 (184 800)
May	366 100 (321 700)	426 900 (367 700)	207 800 (192 100)
June 1988	374 000 (324 900)	431 100 (372 300)	207 700 (204 900)

* Prices recorded on a Japanese fiscal year basis
** Prices as recorded in Hokkaido, on a calendar year basis
Note: Figures in parentheses refer to monthly prices recorded in 1987
Source: MAFF (1988b).

In addition to longer term, cyclical aberrations in beef production, seasonal variations in production are a feature of the Japanese industry. The regular fluctuations in output levels reflect the seasonality of other factors, and in particular, consumer demand for beef, the availability of cattle ready for slaughter and climatic factors. As such, these factors are distinct from, though influenced by, the longer term movements in beef production, and in general, economic activity. In line with demand, a pronounced peak in production is evident in December. Generally, this is followed by a sharp fall in production in January and output remains at a low level until the middle of the year. At that time, a definite lift in production occurs as a prelude to the usual large and sharp rise in December. Also, there are diverse seasonal variations in slaughterings for the two major breeds. However, the pattern is essentially the same as that for total slaughterings (BAE 1975, p.58).

Production and Management Systems

Coupled with production trends have been significant developments in management systems and techniques employed for the raising of cattle for beef in Japan (BAE 1975). As in the United States, beef production in Japan is based on grain feeding of stock and is generally characterised by separate calf rearing and cattle fattening activities. Calf rearing occurs on specialised 'cow-calf' operations and typically calves are sold at weaning age as feeder cattle for finishing (or fattening) in specialised feedlots.

Wagyu Beef Production

In line with the general description above, Longworth (1983) and others (BAE 1975, 1981; Coyle 1983) have divided the raising of Wagyu cattle for beef production into two broad subsectors: (a) a breeding stage; and (b) a fattening stage. In general, farms with smaller herds (typically one to four head) are cow-calf operations specialising at the breeding stage, while farms with larger herds tend to be feeding operations, and therefore, concentrating on the fattening stage of production.

Within each stage, some diversity exists. Nevertheless, Longworth (1983, pp.93-98) has highlighted some general features which characterise each subsector.

On breeding farms, calves are raised, with their mothers, confined in small pens or tethered in barns. The cows and calves are hand fed on various grains and compound feeds, as well as a range of roughages and fodders. Further, almost all Wagyu calves are creep fed with special concentrate rations from two to three months of age. Generally, there is no stocker or background phase (that is, a growing period just prior to entering the feed lot), because pasture land is limited. Thus, the calves are weaned at between eight to ten months old and sold as feeder calves for fattening, or as replacements to breeding farmers.[8] The majority are marketed at one time, on a per head basis, at special calf auction centres located in the major breeding areas. The sales, which occur only every couple of months, usually last for two to three weeks.

As a means to describing operations at the fattening stage, Longworth (1983) classified techniques according to four broad categories for which production statistics are collected: (a) the ideal fattening system; (b) cow fattening; (c) old steer fattening; and (d) young steer fattening.

Traditionally, the fattening of female cattle took one of two forms, either the 'ideal' method for specially selected or bred heifers, or the 'old cow' system. According to Longworth, probably less than five per cent of Wagyu cattle are fattened by highly specialised producers practising the ideal method. Today, as in the past, these farmers only fatten one or two head at a time and although heifers are preferred, steers are also fattened. The animals are fed a special ration with the energy level gradually being increased as the animal is finished for slaughter at almost 36 months of age. The beef produced from these very specialised feeding and management practises is regarded as top grade Wagyu beef; known by foreigners as 'Kobe', 'Matsuzaka' and 'Omi'.

Under the old cow system, specialist fatteners purchased cows which have finished breeding and/or work in the field. These animals were usually six to eight years (or older), or were fattened by farmers who usually kept the one cow for about five to eight months. Today, this method is still practised. However, there is a tendency now to slaughter breeding cows at an earlier age.[9]

The old steer fattening practice is no longer a significant system of beef production. In the past, castrated male cattle used for draught purposes were then fattened in a similar manner to old cows.

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[8] While some Wagyu heifers are fattened for slaughter, most are retained for breeding. As calving rates are low, the retention rate is relatively high so as to maintain cow numbers (Longworth 1983).

[9] Although the potential breeding life of most cows is more than eight years, carcase values decline sharply after this time. Therefore, farmers generally sell cows for fattening and slaughter at younger ages, when prices offered are more attractive.

Young steer fattening (or as commonly referred, 'ordinary' or 'popular' fattening system) was heavily promoted by the Government and farmer co-operatives during the 1960s. As a result, this represents the most important segment of the beef breed fattening industry. In general, steers enter the fattening stage around ten months of age at about 285 kilograms and are then slaughtered at about 27 to 28 months. Management techniques range from methods employed in the ideal system to modern, large scale feed lot systems.

Dairy Beef Production

As mentioned earlier, feeder calves, and in the main, dairy male calves are a by-product of the dairy sector. Calves are procured and raised for placement in feedlots under three systems. One is the dairy itself raising calves to seven to eight months of age and 250 to 270 kilograms, for sale to feedlots. The second, and most common system, is direct sale of new born calves to feedlot operators, at one to seven days of age. The last system involves a specialised operator who buys calves at seven to eight days of age from dairies to rear for the subsequent sale to feedlots, at seven to eight months of age (Simpson et al. 1985, p.55).

According to Longworth (1983, p.118) until the late 1970s quite a clear division between the calf rearing specialists and fatteners of dairy steers existed. Furthermore, the co-operatives had assumed a major role in collecting and distributing calves (one week old), and in turn, the assembly and distribution of feeder cattle. Such channels offered major alternatives to the traditional baby calf market and livestock auctions, and represented a major difference between the organisation of dairy steer beef sector and the traditional sector. Recently however, there has been an acceleration in the trend toward the integration of dairy calf raising and fattening operations; in other words, specialist calf raisers have integrated forward, while specialist fattening farmers have integrated backwards.[10]

Coupled with the emergence of specialised systems of production for the rearing and fattening of dairy male calves, has been an increased emphasis on the need to properly fatten cull dairy cows prior to slaughter. As a consequence, producers are now paying greater attention to preparing all dairy cows for slaughter. This, in turn, has been reflected in heavier carcase weights and higher proportions of dairy cow carcases achieving a recognised grade.

The majority of cull dairy cows are fattened for slaughter by dairy farmers as cows finish the last lactation. However, some households specialise in 'the old dairy cow fattening' system. In this system, farmers purchase cull cows from milk producers to fatten for five to ten or more months, in a manner akin to the 'ideal' fattening system used for Wagyu females. As in the Wagyu sector, specialist 'old cow fattening' in the dairy sector is predominantly a small scale, part-time undertaking (Longworth 1983).

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[10] As mentioned earlier, in the traditional sector most feeder calves are sold at public auctions, either direct to fatteners or to the co-operatives buying on behalf of fatteners. This difference in the organisational base of the two sectors has lead to a divergence in the administration of price support programs for dairy steer and Wagyu calves (Longworth 1983, p.118). These schemes are discussed in detail in the proceeding section on Government intervention.

While Japanese statistics on slaughterings of dairy females are not disaggregated as either cull cows from dairy herds or heifers raised along side dairy steers, there are indications that a specialised dairy heifer fattening industry has developed. For example, since the late 1970s the average carcase grade, and hence, relative price of dairy cow beef has substantially improved. According to Longworth (1983, pp.125-126), one reason for this recent increase in both the quality and quantity of female dairy beef is the growing proportion of heifers being raised for the purpose of fattening. With Government policy now aimed at stabilising or even reducing the number of dairy cows, Longworth concluded that dairy heifer fattening is likely to remain a permanent feature of the dairy sector.[11]

Also, a specialist market for veal in high class eating-out establishments has emerged. Although veal production has not become a major means of utilising dairy calves, a significant number are slaughtered on a contact basis for this restricted, but lucrative segment of the market.

Marketing and Grading of Beef

Almost all cattle fatteners in Japan arrange to have animals slaughtered and sold in carcase form. About one third of these beef carcases pass through the 31 official meat wholesale markets located throughout Japan (see Appendix 4).[12] These wholesale beef carcase auctions have a key role in the marketing of domestic beef. Not only are bench mark prices established at these markets, but it is according to price levels set at these auctions that the Government attempts to stabilise beef prices on national basis (Jarratt and Longworth 1987).

Tokyo Central Wholesale Market is the largest and most important auction centre for domestically produced beef carcases. According to Jarratt and Longworth (1987), arbitrage between Tokyo and other carcase auctions would ensure that Tokyo prices are a barometer of the national supply and demand situation in the wholesale beef market. As a result, market reports from the Tokyo market are widely used in Japan as a 'yardstick' by industry bodies and for private treaty sales outside the carcase auction system. Thus, Jarratt and Longworth concluded that the market should be a reliable source of information relating to meat quality attributes and other product characteristics which determine wholesale beef carcase prices in Japan.

Grades for live cattle do not exist, but a national non-mandatory grading system for carcases has been in effect since 1961. The system is administered by the Japan Meat Grading Association in wholesale meat markets and meat trading centres throughout Japan. With over 60 per cent of all beef carcases now graded according to Association standards, the grading system is a major determinant in the pricing of domestic beef carcases in Japan (Longworth 1983).

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[11] According to Japanese livestock statistics (MAFF 1988e), dairy female cattle raised for the purpose of beef production accounted for 22 per cent of total beef producing dairy stock in 1987, or 8 per cent of the total beef producing herd.

[12] Traditionally, auctions at these 31 designated wholesale meat markets have also represented an important channel for the distribution of LIPC stocks of frozen imported beef, and prior to October 1988, was the channel through which the LIPC released purchases of chilled grainfed beef carcases (see Chapter 6).

Prior to April 1988, there were six grades specified under Japan's beef grading system, as listed in Table 2.8. Eligibility for a specific grade was determined by the weight of the side of carcase and eight meat or carcase quality characteristics.[13] Jarratt and Longworth (1987) divided these eight factors into two groups: (a) four meat quality characteristics - fat marbling, meat colour, meat texture and fat colour; and (b) four carcase quality characteristics - appearance, shape, fleshing and fat cover.

Grades were determined on the basis of a side of carcase, and each characteristic was assessed visually in terms of written and/or pictorial standards. With the exception of marbling, each characteristic was ranked on a scale of 0 to 4, the highest score being 0. Conversely, marbling was ranked on a scale of 0 to 5, with 0 being the lowest scale. The minimum score which was required for a carcase to be eligible for each grade is shown in Table 2.8. Under this system of grading, there was no account of breed, sex, age or carcase yields. However, at auction, buyers were informed of weight and grade, as well as sex, breed and fattening district.

From 1 April, 1988 the Japan Meat Grading Association implemented modifications to this system of grading. In particular, a new system of grading guidelines, based on a combination of meat quality grades and yield grades, was introduced with the aim of reducing the costs of production of beef through promoting the production of lean beef, equivalent to the former second and third grade dairy beef, and third grade Wagyu beef (that is, graded chu or nami). In addition, the separation of carcases has been now standardised throughout Japan at the sixth to seventh ribs.[14]

As demonstrated in Table 2.9, the four meat quality characteristics specified and separately evaluated under the new guidelines are graded over a range 1 through to 5, with 5 the highest score. The attributes of meat quality considered include: marbling; meat colour; fat colour and quality; and meat texture and firmness. Each characteristic is judged visually, but unlike the former system, the first three of these characteristics are also assessed against standards specific to beef marbling, beef colour and beef fat, respectively. In conjunction with the new guidelines, these standards were developed to increase the objectivity of the grading process. The overall grade accorded for meat quality is

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[13] Technically, there are nine quality characteristics if minimum weight is included (Jarratt and Longworth 1987).

[14] Under the former system, the separation of carcases for grading was not mandatory. For example, at the Tokyo Central Market, Wagyu sides were cut between the fifth and sixth ribs for assessment by graders and buyers. Dairy carcases, on the other hand, were not cut, so meat quality characteristics had to be assessed by some other means (Jarratt and Longworth 1987).

Table 2.8 : Beef Carcase Grading Standards Prior to 1 April, 1988

Grade		Minimum Weight per side	Quality Characteristics*	Fat Marbling
Japanese	Official Statistics	(kilogram per side)	(score)	
Tokusen	Supreme	130	0	4
Gokujyu	Superior	130	0	3
Jyo	Excellent	120	1	2
Chu	Medium	120	2	1
Nami	Common	100	3	0
Togai	Utility	-	4	-

* Excludes fat marbling
Source: Jarratt and Longworth (1987).

the lowest of these four separate gradings. Yield, on the other hand, is separately evaluated and ranked on a scale A to C, with A the highest.score.[15]

Thus, unlike the former system, 15 separate grades exist, with an emphasis now being accorded to carcase yield and less of an emphasis to attributes such as marbling. These new criteria should lead to lower costs of production by, for example, promoting the feeding of cattle on more efficient rations and for shorter periods of time. A comparison of gradings under the new and previous systems is presented in Table 2.10.

Concomitant with the introduction of new grading guidelines was the re-specification of designated grades of beef under the price stabilisation scheme. In particular, the two price bands previously set for categories of beef carcases - namely, second grade Wagyu steer and second grade dairy steer - were replaced by one price band to coincide with the new grades of B3 and B2 (see Table 2.10).[16] By designating these two grades for the purposes of price stabilisation the stated objectives of the new grading system should be reinforced. For example, a meat grading of B3 or B2 relates to a marbling score of 0^{+} (that is, meat quality grading, 2 and beef marbling standard, No.2), and 1^{-} and 1 (that is, meat quality grading, 3 and beef marbling standards, No.s 3 and 4; see Table 2.9). As stated earlier, marbling scores range from 0 (that is, beef marbling standard, No.1),

[15] An example of the grading procedure is as follows. If marbling, meat colour and fat colour are each graded with a score of '4' while texture and firmness is accorded a score of '3', then meat quality grade would be '3'. If yield is graded as 'A', then the overall grade of the carcase would be 'A3', and labelled as follows, $\overset{A}{3}$.

[16] Refer to the following section of this chapter for a more detailed description of the new and former arrangements for beef price stabilisation.

Table 2.9 : New Beef Carcase Grading Standards[a]

	Meat Quality Characteristics				
	5 Excellent	4 Good	3 Average	2 Below Average	1 Poor
Marbling					
Score	2^{+}	1 - 2	1^{-} - 1	0^{+}	0
BMS	No.8-12	No.5-7	No.3-4	No.2	No.1
Meat Colour*					
BCS	No.3-5	No.2-6	No.1-6	No.1-7	Other
Fat Colour and Quality*					
BFS	No.1-4	No.1-5	No.1-6	No.1-7	Other
Meat Texture	Very Fine	Fine	Average	Below Average	Coarse
Meat Firmness	Very Good	Good	Average	Below Average	Inferior

	Yield		
	A Above Average	B Average	C Below Average
Average Yield	72^{+}	69 - 71	69^{-}

(a) Implemented from 1 April, 1988
* In addition to grading carcases against the colour standards, the quality of meat and fat colour are also assessed visually and graded in a manner similar to meat texture and firmness
BMS: Beef Marbling Standard
BCS: Beef Colour Standard
BFS: Beef Fat Colour Standard
Source: Japan Meat Grading Association (1988).

Table 2.10 : Comparison of Grading Systems

	Former Grading System[a]	New Grading System			
Wagyu Steer					
	Jyo	A5	A4	B4	B5
	Chu	A4	A3	B4	B3*
	Nami	A3	A2	B3*	B2*
Dairy Steer					
	Jyo	B4	C4	B5	A4
	Chu	B3*	C3	B4	
	Nami	B2*	C2	B3*	C3

(a) Prior to 1 April, 1988
* Designated grades under the current price stabilisation scheme
Source: Japan Meat Grading Association (1988).

which is the lowest, to 5 (that is, beef marbling standard, No.12), the highest. Hence, producers should be encouraged to obtain lower marbling scores and better yield ratios, rather than high marbling scores which has been the case to date.

Under the former system, the standards set for each grade essentially reflected the original intention of the grading system when it was introduced. At that time, the most important end use for beef was the traditional dishes which required thinly sliced beef suitable for boiling, and as a result, the degree of marbling was emphasised. Despite the greater diversity of end uses for beef in Japan today, and efforts by some authorities to de-emphasise marbling, the criteria has remained a major determinant in the production of beef. Thus, a belief among producers and participants in the marketing chain still exists that beef, and in particular Wagyu beef, should be as heavily marbled as possible.

Simpson et al. (1985) have described two classes of producers fattening Wagyu cattle: (a) a relatively small group who fatten stock to obtain supreme and superior grades; and (b) a group primarily targeting the middle grades. Both groups prolong the feeding period with the belief that a longer period will ensure a slower gain, and therefore, a higher degree of marbling than a shorter program of feeding. The result is that Wagyu cattle are fed for about 18 months and slaughtered around 27 to 28 months, at a weight of 630 to 635 kilograms. In spite of these practices, less than two per cent of all steers and heifers have been graded at the tokusen grade. Moreover, only about another four to five per cent made the gokujyu grade and 10 to 20 per cent were graded as jyo. Therefore, as shown in Table 2.11, the majority of Wagyu cattle graded during the period 1975-1987 were in the three lowest grades; namely chu, nami and togai.

Dairy cattle producers are more pragmatic about their feeding program and are more concerned with minimising cost per kilogram of gain than are Wagyu cattle feeders. In general, the cattle are on feed for a much shorter period, about 12 to 13 months, and although dairy cattle feeders attempt to attain the highest possible grade, the average grade of dairy cattle has been considerably lower than for Wagyu cattle. For example, dairy animals have not generally reached the tokusen and gokujyu grades, and only a small proportion of carcases have been graded excellent. The bulk of steer and female carcases were graded chu and nami. A significant proportion of female carcases were also graded togai (see Table 2.11).

In view of these proportions, almost 90 per cent of the beef produced up to 1987 (Wagyu and dairy beef) fell into the 'popular' grades; that is, chu, nami and togai grades. 'Very high quality' beef (that is, tokusen grade), on the other hand, occupied only a very restricted part of the market (Simpson et al. 1985, p.91). However, it is evident from Table 2.11 that the number of cattle graded as a proportion of the total number of cattle slaughtered, has steadily increased since the 1970s. This growth in grading has paralleled the development of a commercial feedlot industry for the production of both Wagyu and dairy beef. In the case of Wagyu cattle, the proportion of cattle graded has increased from about 33 per cent in 1975 to 69 per cent in 1987, while the proportion of graded dairy cattle has risen from 28 per cent to 61 per cent.

Table 2.11 : Proportions of Cattle Graded for Selected Years, 1975-1987

	Total Wagyu			Total Dairy		
	Slaughtered	Graded	Proportion	Slaughtered	Graded	Proportion
	(head)		(per cent)	(head)		(per cent)
1975	406 121	132 288	32.6	736 968	205 679	27.9
1978	491 930	205 302	41.7	706 204	269 591	38.2
1980	374 147	171 039	45.7	812 892	341 601	42.0
1984	554 016	315 457	58.0	938 585	453 567	48.3
1985	563 621	341 729	60.6	958 047	493 543	51.5
1986	525 721	337 332	64.2	974 927	546 536	56.1
1987	472 895	326 487	69.0	982 790	595 105	60.5

	Proportion Graded	Grade					
		Tokusen	Gokujyu	Jyo	Chu	Nami	Togai
				(per cent)			
Wagyu Steer*							
1975	59.6	1.8	6.3	27.5	54.6	8.9	0.9
1978	54.2	1.2	3.8	19.0	56.7	18.4	0.9
1980	60.1	2.0	5.7	25.9	50.8	14.7	0.9
1984	56.7	1.4	3.8	14.4	47.1	32.4	1.0
1985	55.0	1.2	3.3	13.5	45.1	36.0	0.9
1986	56.6	1.2	3.7	15.2	46.6	32.5	0.8
1987	59.6	1.3	4.3	19.3	48.3	25.9	0.8
Wagyu Female*							
1975	40.0	2.2	8.1	26.6	41.7	16.8	4.6
1978	44.4	1.1	4.2	19.2	52.4	20.5	2.6
1980	38.6	2.0	6.0	24.2	47.3	18.3	2.2
1984	42.8	0.8	2.4	10.4	36.4	43.4	6.4
1985	44.5	0.7	2.3	9.8	37.3	46.4	3.4
1986	43.1	0.9	2.7	11.1	39.7	43.1	2.5
1987	40.1	1.1	3.2	15.0	41.0	36.9	2.9
Dairy Steer**							
1975	49.6	0.0	0.0	0.7	40.5	53.5	5.3
1978	52.9	-	0.0	0.7	49.7	46.2	3.4
1980	52.3	-	0.0	1.0	52.9	42.5	3.6
1984	51.7	0.0	0.0	0.4	40.2	56.2	2.9
1985	52.8	0.0	0.0	0.3	37.9	58.4	3.5
1986	55.1	-	0.0	0.2	36.7	60.3	2.7
1987	57.9	-	0.0	0.3	33.2	64.2	2.4
Dairy Female**							
1975	49.4	0.0	0.1	1.4	17.3	43.3	37.9
1978	46.1	0.0	0.2	2.5	23.9	42.2	31.2
1980	46.9	0.0	0.4	3.9	23.9	41.0	30.8
1984	47.7	0.0	0.2	1.7	20.4	46.5	31.3
1985	46.8	0.0	0.1	1.2	17.0	49.0	32.7
1986	44.6	0.0	0.1	1.0	17.2	48.9	32.9
1987	41.8	0.0	0.1	1.3	19.9	50.9	27.8

* Proportion graded of total Wagyu cattle graded
** Proportion graded of total dairy cattle graded
Source: MAFF (1987a, 1988b).

The new grading arrangements and related modifications to the price stabilisation scheme, should, after an initial period of adjustment, serve to promote the future growth in the number of cattle graded, as well as raise the level of carcase quality. According to Japanese industry authorities, the two new grades designated under the price stabilisation scheme (namely, B3 and B2), represent the bulk of domestic beef supplies for domestic consumption. The proportions of steer carcases graded under each of the new categories of grades are provided in Table 2.12. As indicated, the B3 and B2 grades account for 45 per cent of graded steer carcases in Japan.

Producer Associations and Lobby Groups

Farm Co-operative Movement : Nokyo

Farmers exert enormous political influence in Japan. This power evolves from the nature of three institutions: the co-operative movement; the electoral system; and the Japanese political parties. The co-operative movement is now discussed in terms of its structure, objectives and broad business activities. The two latter institutions are discussed in Chapter 5, in conjunction with the political role of the co-operatives and the agricultural policy making process.

Unlike the situation in Australia, almost every farmer in Japan belongs to a city, town or village co-operative. These co-operatives represent the basic movement in Japan. Set up under the terms of Agricultural Co-operative Union Law of 1947, the co-operatives perform an extremely diverse range of services for their members, and facilitate the political representation of farming interests (George 1984).

Today, Nokyo represents the largest voluntary mass grouping in Japan with total individual membership of about eight million. In line with the decline in the number of farm households since 1960, individual farmer membership of the co-operatives has declined. However, this decline has been more than offset by a steady rise in associate memberships, largely from non-farm rural dwellers (George and Saxon 1986).

Table 2.12 : Steer Carcase Grading

	Meat Quality					
	1	2	3	4	5	Total
Yield Quality						
A	A1	A2	A3	A4	A5	
	0%	3%	8%	11%	6%	
B	B1	B2	B3	B4	B5	100%
	1%	23%*	22%*	4%	1%	
C	C1	C2	C3	C4	C5	
	2%	12%	8%	0%	-	

* Grades designated under the current price stabilisation scheme
Source : AMLC (1988b).

Structure

Nokyo's local agricultural co-operatives, around 7 000 in total, are organised in a pyramid-like fashion into a nationwide network of multipurpose and specialist groupings. The individual multipurpose co-operative at the city, town and village level combine to form federations at the prefectural level which are specialised along function and commodity lines. The prefectural federations, in turn, constitute the membership base of the national federations. Leadership bodies of the co-operatives at the prefectural level are the central unions, one for each prefecture. Under Nokyo Law, the central unions are empowered 'to make proposals to administrative authorities on matters concerning the agricultural co-operatives'. In this 'spokesman' like role, Nokyo can claim to speak for all farmers (George 1984).

In the case of beef, at the national level there are three relevant specialist co-operative organisations: the National Federation of Livestock Agricultural Co-operatives (Zenchikuren); the National Federation of Dairy Co-operative Associations (Zenrakuren); and the National Federation of Reclamative Agricultural Co-operatives (Zenkairen). Also, there is a general purpose co-operative organisation, the National Federation of Agricultural Co-operatives Association (Zennoh). Of these four beef related national Nokyo federations, Zennoh is the largest and most powerful.

Whilst in theory, local co-operatives and the federations which serve them at the prefectural and national levels, are not entitled to engage directly in political activities, the political arm of the co-operative movement is formally empowered to do so. This separate organisation is known as the National Central Union of Agricultural Co-operatives, or Zenchu.

Zenchu, organised by the prefectural unions, their member organisations and the national federations, is the national leadership group, and therefore, considered as the peak body of the agricultural co-operative unions. As an organisation it unifies overall aims and interests, and determines policy directions of the whole movement. Prefectural unions, on the other hand, are the organisations which consolidate the aims of all the agricultural co-operative organisations in the prefecture.

Objectives and Activities

The Agricultural Co-operative Union Law under which Nokyo has grown since 1947 has as its objective 'to promote the sound development of farmers' co-operative systems, thus improving the agricultural productivity and enhancing the living and social-economic standards of farmers, as well as secure the wholesome development of the national economy' (Central Union of Agricultural Co-operatives 1985a).

With a view to attaining this objective, the said by-laws provide for the following list of business activities: (a) guidance in the organisation, business activities and management of agricultural co-operatives; (b) auditing of agricultural co-operatives; (c) providing education and information services; (d) conducting liaison between, and mediating disputes among the agricultural co-operatives; (e) research and study of agricultural co-operatives; (f) other activities necessary for the realisation of the given objectives; (g) representing the interests and views of the movement before administrative authorities on relevant matters; and (h) business activities of the Unions which are considered to cover all the problems of agriculture and farmers, beside those listed above (Central Union of Agricultural Co-operatives 1985a).

Zenchu, on the other hand, deemed as the general guidance body for the entire agricultural co-operative movement has stipulated as its specific objective, 'to contribute to the wholesome development of the entire movement by enhancing the spirit of co-operation, formulating and propagating common policies relative to all the local societies as well as the federations of agricultural co-operatives' (Central Union of Agricultural Co-operatives 1985b). Activities undertaken by Zenchu to achieve this objective are as listed above. However, the guidance and liaison services for the prefectural unions are the exclusive functions of Zenchu.

Under the Co-operative Law and stated objectives, Nokyo's operations extend into every aspect of farm production and way of life, serving the economic, financial, production, welfare, social, and cultural needs of the agricultural population. Moreover, in seeking to represent farmers' interests, Nokyo has fostered a large commercial investment in the rural sector, which it readily seeks to protect.

In recent years, the co-operatives have played a major role in the modernisation of Japanese beef cattle raising, and especially the dairy sector. Today, these institutions are responsible for the supply of almost half the concentrate feed used for beef production, the provision of credit and veterinary services, and the marketing of a high proportion of cattle on behalf of producers. The co-operatives, also operate an increasing proportion of the cattle slaughtering facilities and have become heavily involved in the preparation and distribution of beef cuts. With these large commercial interests at risk, the four national organisations concerned with beef exert considerable influence through the political arm of Zenchu, and through more covert channels, so to protect the interests of beef farmers and Nokyo.

The impetus for the establishment of the co-operatives in the early post-war period and the controlled extension of Nokyo's functional base has come from the Government. By adhering to the notion that the source of farmers' prosperity, and hence, the health of the agricultural economy lies in the combined strength of the agricultural population working together on a co-operative self-help basis, the Government has in effect concentrated all services to farmers within one organisation. Consequently, the Government has established a convenient and all-embracing channel for the mobilisation and direction of the farm sector (George and Saxon 1986, p.96).

Nokyo was designed not only to perform services for farmers, but also to undertake semi-administrative duties for the Government in the execution of public policy. Nokyo's legal status as a statutory organisation has enabled the Government to allocate a range of tasks to the co-operatives under various laws. The performance of public duties carries with it substantial financial benefits for the co-operatives, either as the direct recipients of Government subsidies, fees or commissions, or as a channel for subsidies and other Government payments to farmers (George and Saxon 1986, pp.96-97). Also granted to Nokyo under the Co-operative Law is the formal right to represent farmers in policy discussions with the Government. By virtue of this privilege, Nokyo is considered to rank amongst the most powerful interest groups in Japan, as it is able to exert enormous influence over both the Government party and the Ministry of Agriculture, Forestry and Fisheries (MAFF) (George 1984).

The farmers and their co-operatives maintain direct and indirect links not only with the ruling LDP, but also with some of the opposition parties. Similarly, a number of politicians have close affiliations with both the staff and the elected leaders of the agricultural co-operatives in their constituency. These ties are particularly important in relation to the preservation of the domestic beef industry and beef policy objectives; and are discussed in detail, in Chapter 5.

It should be noted that although Nokyo, and in particular Zenchu, is acknowledged as a major lobbyist on behalf of farmers, it is not the only pressure group representing agricultural interest in Japan (Longworth 1976). Other pressure groups with major interests in beef policy issues are also discussed in Chapter 5.

Traditional Meat Trade : 'Dowa'

Historically, the slaughtering and the handling of meat, and associated activities such as the working of leather, were regarded as undesirable tasks and were assigned to particular social groups known as the 'burakumin', 'eta', or as more commonly known today, 'dowa'. This small segment of the population from which many people in the meat trade are drawn, were by the nature of their business discriminated against by the remainder of the Japanese people. Even to recent times extreme forms of discrimination have continued.

In particular, the meat trade in Japan has been traditionally organised in what has been termed as the 'butchers' guild' or 'meat mafia'. However, in recent years, separate dowa groups have emerged within the meat industry, suggesting perhaps some internal rivalry over spheres of influence, and modes of political action (Longworth 1983, p.74).

The largest and most powerful group at the national level is the National Federation of Dowa Meat Retailers Association (Zendoren). Other important dowa factions are represented in the meat trade by the Pan Japan Imported Meat Industries Co-operative Association (Zenyuren) and the National Federation of New Dowa Meat Retailers Association (Shindowa). Members of the butchers' guild also dominate many other regional meat trade organisations; for example, the Kansai Housewives Federation. In addition, the dowa groups have played an important role in the activities of the All Japan Meat Industry Co-operative Association (AJMICA or Zennikuren), the single most important national body representing the interests of the meat trade as a whole, and traditionally, a major designated importer of chilled and frozen beef.

Hence, the butchers' guild either directly or indirectly still controls a very large share of the importing, processing, distributing and retailing of meat. In particular, their interest lies with the handling of imported beef and the accruing of profits through exploitation of the various importing channels for beef. Moreover, in view of the future liberalisation of the beef market in Japan, certain dowa groups have sought to further enhance their profits through vertically integrating their current operations by securing investments (for example, in feed grain mills, feedlots, abattoirs, and meat processing plants) within Japan's major beef supplying countries. These issues are further addressed in Chapters 6 and 7.

In fostering these activities the guild has exerted a disproportionate amount of influence within the political parties, due to the sensitivity of all politicians to their cause. For example, as one United

States' official was quoted, 'the group has a moral coercive ability with the Government which serves to block efforts to open the market for products like leather where Japan has agreed under GATT to remove quotas. Beef is another commodity for which it could be said that the group exerts its coercive ability in order to maintain current importing arrangements and further entrench its presence within the regime' (Nihon Keizai Shimbun, Anon. 1986).

Although the representation of Diet members belonging to the disadvantaged group has dwindled in recent years, the butchers' guild has cultivated ties with all political parties. Traditionally, these links have been stronger with the opposition parties; that is, with the Japan Socialist Party (JSP), rather than with the LDP. However, in recent times, the dowa groups in the meat trade have taken on an active, behind the scenes, role within the LDP. Furthermore, issues concerning the burakumin (in a nation which prides itself on its homogeneity), have remained so sensitive that such matters are still rarely discussed openly in Japan; for example, the word 'burakumin' and 'dowa' are avoided in Japanese newspapers and official publications.

This continued reticence, which also extends to debates in the Diet, has provided the butchers' guild with a political influence which is not dependent on the number of their own 'people' they can elect to the Diet. However, in foreign countries like Australia and the United States, general knowledge about the 'dowa' has become more widespread, particularly within meat industry circles. For example, within the Australian beef industry, matters concerning the dowa have become recognised, as certain guild leaders have emerged as power brokers in the importation of beef, (particularly, chilled beef). Recently, such leaders have also been charged with bribing Government officials in order to increase their shares of imported beef tenders (for example, the SBS tender). Moreover, future growth in Japanese investment and acquisition of certain sectors of the meat industries in foreign countries will undoubtedly serve to promote the awareness, if not resentment, of the dowa within supplying countries, such as Australia,

Government Intervention in the Domestic Cattle Industry

Clearly, Japan's agricultural industries are confronted with many fundamental problems, relating to the over-supply of a number of farm products, on the one hand, and a declining demand for higher priced domestic products, on the other. High costs of production, a lack of international competitiveness and an ageing farm labour force are further problems facing the agricultural sector. Moreover, demands for increased efficiency in the farm industry are mounting, while calls for an opening of Japan's agricultural commodity markets are growing ever more insistent, both domestically and internationally.

The livestock industries in Japan, and in particular, the beef industry does not exist in isolation of these current problems. The small scale of Japanese beef farms, coupled with the industry's dependence on imported raw materials have imposed on the domestic beef industry high costs of production, and as a result, have inhibited attempts by the Government to attain some degree of international competitiveness.

As noted in the preceding sections, sectoral characteristics, coupled with Government policies have affected the economic performance of the respective livestock industries in Japan. For instance,

high and increasing nominal rates of protection afforded to beef and dairy products have assured profitability, while at the same time, reduced the speed of structural adjustment. In contrast, lower and declining rates of protection for pork and poultry (and eggs) have facilitated rapid structural change in these industries (Coyle 1983, p.9).

In attempting to protect its domestic beef industry, the Japanese Government has pursued a number of support policies. These fall under the categories of domestic beef price stabilisation schemes, calf support price policies, production and structural improvement policies, as well as service related policies. However, underpinning these supports has been the control of beef imports and it has been via this mechanism that the Government has sought to keep producer returns stable and above world parity, and therefore, attempted to encourage and ensure the survival of a domestic beef industry.

Although policies affecting producers of Wagyu cattle differ in some respects from those influencing the dairy sector, policy objectives are similar and are closely linked in their impact on beef output. These broad policy objectives are now discussed in the context of the measures and schemes currently being accorded to beef and dairy producers.

Price Stabilisation

The Law for Price Stabilisation of Livestock Products enacted in 1961 provided the legal and administrative machinery to conduct the broader intent of the Basic Agricultural Law. In particular, the LIPC was designed for the maintenance of wholesale livestock prices at predetermined levels, through programs which include the procurement, storage and sale of designated livestock products of both domestic and foreign origin (refer to the Chapter 6 for further details concerning the LIPC's emergence into trading beef and operations with respect to its price stabilising role in the marketplace).

The instability of the beef market through 1973 to 1975 led to a detailed examination of assistance for beef production, with the ultimate result being the establishment of a price stabilisation scheme for beef under the umbrella of the LIPC. Since, the LIPC has effectively maintained domestic wholesale prices for beef at levels about two to four times the equivalent import price level. Moreover, the quota rents which are implicitly accrued through the separation of domestic prices from world prices have ensured that very substantial funds have been available for the LIPC to use in providing subsidies to the beef industry.

In essence the scheme operates by limiting supplies of imported beef flowing onto the domestic market, such that wholesale prices remain within stabilisation bands that are set according to formulas which determine floor and ceiling prices for designated grades of beef. Prior to April 1988, two separate price bands were calculated. These related to second grade Wagyu steer and second grade dairy steer beef carcases. In line with recent changes to the domestic grading system for beef carcases (implemented from 1 April, 1988), grades of beef designated for the purposes of price stabilisation were re-specified, to 'B2' and 'B3'. A single price band relevant to these new grades replaced the two bands previously specified. As demonstrated earlier, B3 and B2 account for about 45 per cent of total steer carcases graded (see Table 2.12).

The formulas, which in effect, provide the basis for the agreed prices, have been essentially based on estimated costs of production.[17] However, the cost items incorporated in the formulas have been sufficiently loosely defined to permit degrees of flexibility and elements of discretion to enter into the setting of prices so as to ensure that in periods of falling input costs the real returns on beef production can be raised. For example, (notwithstanding changes to the price stabilisation scheme implemented in April 1988) falls in the costs of feed over the recent past should have been dictating a significant decline in price support (Miller 1986, p.91).

Unlike the Wagyu sector, the dairy beef sector has been undergoing extensive rationalisation in line with industry and Government efforts to curtail excess milk production. As demonstrated in the preceding discussion this rationalisation has been under way for some years with the culling of dairy cows and heifers for beef production, and the consolidation of dairy farms and feedlots into larger holdings. As a result, this sector is now attaining benefits from increasing returns to scale, and hence, lower costs of production.

The Wagyu sector, on the other hand, has not rationalised as rapidly, and as a consequence is unable to attain the similar benefits from increasing economies of scale and faces relatively higher costs of production. This situation, coupled with the strength of the Wagyu producer lobby has ensured the maintenance of the relatively higher levels of price support. However, in April, 1987 for the first time in five years, stabilisation prices for second grade Wagyu steer were lowered. The ceiling price was reduced by 40 yen to 1780 yen per kilogram, while the floor price was lowered 30 yen to 1370 yen per kilogram. These reductions represented a 2.2 per cent decline in the mid-point price of the stabilisation band (see Table 2.13).

Also, for the second consecutive year, support price bands for second grade dairy steer (and pork) were reduced by 6.6 per cent (and 15 per cent, respectively) in 1987. In the previous year, these bands were lowered by 2.5 per cent in the case of dairy steer (and about 6 per cent in the case of pork), for the first time in five years. At that time, MAFF altered the band for dairy steer for reasons mentioned above; namely, increasing returns to scale and lower production costs as a result of rationalisation within the industry. Continued rationalisation (in line with efforts to curtail excess milk production), accommodated the further, more substantial reduction in the support prices in 1987. In addition, feed costs remained low, due to the continued appreciation of the yen.

Under previous stabilisation arrangements, the dairy steer prices were generally set at about 75 to 80 per cent of the Wagyu steer price range. However, this percentage had been declining in line with reductions in the dairy steer support prices. Moreover, with the exception of the latter part of 1987, prices for second grade dairy steer had generally been contained within the upper half of the stabilisation band. Wagyu steer prices, on the other hand, had tended to fluctuate above the ceiling

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[17] The formulas used prior to April 1988 to calculate the mid-point price for Wagyu beef were based on the previous seven years' wholesale prices and estimates of current fattening costs. Floor and ceiling prices were then calculated on the basis of historical price variation. Dairy steer prices were also calculated on past prices, together with a factor to reflect the historical relationship between wholesale dairy and Wagyu beef prices at the Tokyo and Osaka wholesale markets.

price since late 1985, by up to as much as 280 yen per kilogram (see Table 2.14). As mentioned earlier, a marked decline in Wagyu slaughterings has been a major factor contributing to the continuation of inflated wholesale prices. Also, seasonally stronger demand for beef especially during the winter months of 1986 and 1987 served to exacerbate the situation.

These recent developments have been of considerable concern to the Japanese authorities, and it was in an attempt to dampen prices that the Government reduced the support prices for Wagyu steers in 1987. Coupled with this, the Government increased and maintained a heavy purchasing pattern for imported beef through the LIPC, and authorised the importation of chilled grainfed carcases.[18]

Table 2.13 : Support Price Bands for Designated Grades of Beef Carcases, 1975-1988

Japanese Fiscal Year	Wagyu Steers 2nd Grade			Dairy Steers 2nd Grade		
	Floor Price	(Mid-Point)	Ceiling Price	Floor Price	(Mid-Point)	Ceiling Price
	(yen per kilogram)					
1975	1 143	(1 330.5)	1 518	930	(1 083.0)	1 236
1976	1 240	(1 443.5)	1 647	1 009	(1 175.0)	1 341
1977	1 303	(1 516.6)	1 730	1 061	(1 234.5)	1 408
1978	1 303	(1 516.5)	1 730	1 061	(1 234.5)	1 408
1979	1 303	(1 516.5)	1 730	1 061	(1 234.5)	1 408
1980	1 357	(1 560.0)	1 763	1 105	(1 270.0)	1 435
1982	1 399	(1 608.0)	1 817	1 118	(1 285.0)	1 452
1983	1 400	(1 610.0)	1 820	1 120	(1 287.5)	1 455
1984	1 400	(1 610.0)	1 820	1 120	(1 287.5)	1 455
1985	1 400	(1 610.0)	1 820	1 120	(1 287.5)	1 455
1986	1 400	(1 610.0)	1 820	1 090	(1 255.0)	1 420
1987	1 370	(1 575.0)	1 780	1 020	(1 172.5)	1 325

	Floor Price	B3 B2 (Mid-Point)	Ceiling Price
1988	995	1 145	1 295

Source: MAFF (1988b).

However, the success of these actions has been questionable. It would appear from available wholesale price data that there has been no impact on Wagyu steer prices, and at best a marginal impact on second grade dairy steer prices (see Table 2.14) (AMLC 1988b).

[18] The first shipment of 88 head of chilled grainfed carcases occurred in October 1986. Regular purchases followed during the remainder of 1986, 1987 and part of 1988. The bulk of the imports were sourced from the United States and sold through Tokyo and Osaka Central Wholesale meat markets. In line with the introduction of new arrangements for the purchase of chilled beef under the SBS system, the importation of these carcases was discontinued during the second half of the 1988 fiscal year.

Prices since April 1988 for B3 and B2 grades are provided in Table 2.14. As indicated, prices for the B3 grade, and in particular, that for Wagyu steer carcases, have remained significantly above the ceiling price of the stabilisation band set for 1988. Prices for the B2 grade, on the other hand, for both Wagyu and dairy steers have been contained within the upper half of the band. The extent to which the Japanese authorities can maintain prices for B2 carcases within the stabilisation band, as well as lower B3 prices, will obviously depend on future supplies of these carcases.

For reasons discussed earlier (namely, higher costs of production), changes to the grading guidelines will undoubtedly have an impact on present production and management practices within the domestic beef industry, and particularly, the Wagyu sector. In turn, this can be expected to influence the supply of different grades of carcases in the market, and therefore, the prices received by domestic producers for specific grades. Moreover, it is inevitable that proposed arrangements for increased access for beef imports will have a significant bearing on future supplies of domestic beef, and therefore, prices and mechanisms for the support and stabilisation of prices.

Feeder Calf Price Support Schemes

A feeder calf price support policy was originally introduced in the late 1960s to help alleviate a general decline in Wagyu cattle numbers. Subsequently in 1972, a similar scheme was established for dairy male calves. The operations of both support schemes, while administratively complex, are an attempt to subsidise the price of feeder calves. Part of the rationale is to remove the incidence of risk associated with the breeding of feeder calves (Miller 1986, p.91).

The schemes are prefecturally based, and in principle, operate in parallel. More specifically, when feeder calf prices fall below a predetermined level, producer returns are supplemented from a stabilisation fund that is managed by prefectural and national Governments, as well as producers. Reserve and contingency funds are also available if the basic fund is depleted and almost 40 to 50 per cent of LIPC funds (accrued quota rents) are used for financing the schemes. However, in the past the dairy male calf scheme has been of lesser importance than that operating in the Wagyu sector. Moreover, the floor prices for dairy calves are usually more conservative than the Wagyu calf prices. Thus, payments in the dairy sector are fewer and more modest.

Longworth (1983, pp. 208-209) claimed that feeder calf price support schemes were significant for at least four reasons. First, the supply of calves is sensitive to the absolute level of anticipated returns and to the level of uncertainty associated with calf prices in both the Wagyu and dairy beef sectors. Under these circumstances, policy measures designed to stabilise and support the returns to raisers of feeder calves could have an impact on future beef production. Second, the price fatteners pay for feeder calves is a major component of their total costs of production. Third, the schemes

Table 2.14 : Average Monthly Beef Wholesale Prices, 1986-1988

Monthly Average	2nd Grade Wagyu Steer		2nd Grade Dairy Steer	
	Actual	Stabilisation Band*	Actual	Stabilisation Band*
		(yen per kilogram)		
January 1986	1 846	1 400-1 820	1 344	1 120-1 455
February	1 855	"	1 347	"
March	1 827	"	1 306	"
April	1 868	"	1 321	1 090-1 400
May	1 843	"	1 324	"
June	1 868	"	1 279	"
July	1 884	"	1 307	"
August	1 892	"	1 353	"
September	1 885	"	1 382	"
October	1 899	"	1 311	"
November	1 905	"	1 387	"
December 1986	1 973	"	1 348	"
January 1987	1 925	"	1 311	"
February	1 855	"	1 306	"
March	1 838	"	1 285	"
April	1 920	1 370-1 780	1 290	1 020-1 325
May	1 866	"	1 262	"
June	1 867	"	1 232	"
July	1 938	"	1 260	"
August	1 932	"	1 284	"
September	1 982	"	1 338	"
October	1 965	"	1 353	"
November	2 039	"	1 348	"
December 1987	2 067	"	1 343	"
January 1988	2 011	"	1 324	"
February	2 029	"	1 299	"
March	1 971	"	1 288	"

	Wagyu Steer		Dairy Steer		
	B3	B2	B3	B2	Stabilisation Band*
	Actual		Actual		
April	1 686	1 321	1 284	1 137	1 295-995
May	1 664	1 270	1 250	1 137	"
June	1 587	1 327	1 204	1 067	"
July 1988	1 728	1 506	1 222	1 100	"

* The range quoted is the lower and upper limits, respectively

Source: AMLC (1988a, 1988b).

require heavy subsidisation by the LIPC, which is in turn financed partly by funds accrued by the LIPC through beef imports. Hence, the Japanese have claimed that current importing arrangements must be maintained so to prevent feeder calf support programs becoming a burden on consolidated revenue. Finally, the price support mechanism in the feeder calf sector is a deficiency payments scheme. Therefore, in view of suggestions that a deficiency payments program is an alternative to the present beef wholesale price policies, the feeder calf schemes could represent an operational model to base

support or otherwise for such suggestions. The significance of the feeder price support schemes, particularly with respect to Longworth's last point, is further discussed in Chapter 7 in light of the negotiated changes to importing system for beef.

Production and Structural Improvement Policies

The Government has also been involved in stabilising the price of feed, by stockpiling feed grains and establishing a feed price stabilisation fund. In addition, the Government has sought to enhance the profitability of beef production by a host of mechanisms which relate to reducing the effective cost of inputs or to streamlining the marketing system.

For example, the Government provides low-interest loans for the purchase of machinery and livestock and for upgrading capital items, as well as for the consolidation of land and for the acquisition of land by co-operatives. Subsidies are paid for the development of large scale feedlots , as well as increasing and improving pasture land. Efforts to enlarge pasture area include increasing the area planted to grasses and forages, especially in upland areas, and developing public lands for pasture. Also, there have been subsidies paid to promote the double-cropping of hay and other crops on rice paddy land as a complement to the rice land diversion programs of the 1970s and 1980s.[19]

However according to Simpson et al. (1985, p.169), the system of subsidies and loans has been less than satisfactory because, in spite of low interest loans, it has placed excessive financial burdens on producers. Many of the structural policies, including land consolidation and improvement, have been intended to bring about a rapid expansion in farm size. Coupled with this have been revisions in land legislation to relax limits on farm size. Nevertheless, even though average farm size has continued to expand, the vast majority of farms have not expanded to the extent envisaged by policy makers designing the complementary loan and subsidy policies. As a result, most Japanese farm households have combined farming with off-farm employment.

Dairy Sector Support Schemes

The goals of policies and support schemes within the Japanese dairy sector are to ensure an adequate supply of reasonably priced milk and dairy products for consumers, to maintain dairy farmers' incomes and to promote the country's self sufficiency in dairy products (Coyle 1983).

A clear distinction exists between the fluid milk and manufacturing milk sectors.[20] In turn, different support measures are operative within each of the sectors. For example, health regulations effectively prevent the import of fresh fluid milk, while in the manufacturing sector, support is given

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[19] Domestic rural production and policies focussed on rice have continued to dominate the Japanese agricultural scene. Although the structure of rice farming has changed dramatically, rice, in effect, remains the sole dominant food crop and represents the key to structural adjustment in Japanese agriculture. As a consequence, rice production adjustment schemes are viewed by MAFF as central to achieving their goal of increased food self-sufficiency through increased productivity.

[20] Around 58 per cent of all milk is diverted to the fluid milk sector and returns to this sector are, on average, 20 to 30 per cent higher than those to the manufacturing milk sector (Miller 1986).

through the control of imports of designated dairy products by quotas and tariffs[21]; price support, via 'stabilised' domestic wholesale prices for designated products and LIPC management of stocks; income support via deficiency payments made direct to farmers through budgetary outlays; and industry agreements which preserve the premium for drinking milk.

In addition, incentives have been extended to encourage the upgrading of the dairy herd by importing breeding stock, while under current surplus conditions, the Government has paid incentives to farmers to cull cows to reduce milk production. The rice diversion program has also offered opportunities for farmers to shift land from rice to feed crops which, in effect, has offered a feed subsidy for some dairy farmers.

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[21] Products include: evaporated and condensed milk; powdered milk; whey, butter; cheese; lactose; and miscellaneous preparations containing mainly milk. Casein is the only product imported without restriction. In recent years increasing pressure has been exerted, particularly by the United States and the European Community, for the removal of these restrictions. This culminated in 1987, when the United States filed a GATT case against Japanese import barriers on 12 agricultural products. The GATT panel ruled that Japan lift restrictions on ten of these items, including the above dairy products. In turn, Japan has resisted a deregulation of control governing imports of powdered and condensed milk products, arguing that liberalisation would have a severe impact on the domestic industry. However, it has conceded to relax controls on cheese.

Chapter 3

The Demand for Beef In Japan

Changes in the Japanese Food Market

Since the 1950s, food consumption patterns in Japan have changed significantly paralleling diversification in the rural sector. This has had a profound impact on the world trade of many agricultural commodities.

From 1950 to 1970, total effective demand for food in Japan rose rapidly, in line with increases in real income and population. However, since the late 1960s there has been virtually no increase in per person calorie intake and a slowing in population growth rates. Combined, these two factors have served to almost eliminate the upward trend in the aggregate demand for food (in terms of calorie intake).

Rising affluence among the Japanese population since the early 1960s has, nevertheless, created significant changes in the composition of the average diet. Other factors such as declining real prices of many livestock products, changes associated with urbanisation and economic development, changing cultural values, increased numbers of women in the workforce and the school lunch program have also prompted shifts in consumption patterns.[1] Moreover, an expanding demand for imported food and feedstuffs has emerged.

Today, while there still remains a heavy reliance on foods such as rice, fish, miso and vegetables, the traditional diet has significantly changed. According to Longworth and Kada (1982, p.8), western eating habits have been incorporated into the traditional cuisines. In particular, there has been: (a) a decrease in the per person consumption of rice and an increase in that of flour based foods; (b) a rapid increase in the consumption of livestock products; (c) an increase and change in the consumption of fruit and vegetables; and (d) a decrease in the use of traditional seasonings (Simpson et al. 1985, p.18). These phenomena are highlighted in Table 3.1.

Coupled with these changes has been a decline in the proportion of family income spent on food items, from around 32 per cent of disposable household income in the early 1960s to about 20 per cent in the mid 1980s; a level comparable to most western countries. The Japanese now spend a larger proportion of the family food budget on meat and fish, less on dairy products and eggs, and substantially more on food consumed outside the home, than was the case in the 1960s. In addition, the proportion of expenditures on cereals, particularly rice, has declined while that spent on

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[1] According to Coyle (1983, pp. 7-8), separating economic from non-economic phenomena is often impractical; for example, cultural and religious values often underlie governmental policies that directly affect commodity prices, incomes and income distribution. Further, the residual prejudice against meat consumption and the negative attitude of the population to the 'dowa' (burakumin) have had a significant impact on dietary patterns in Japan.

Table 3.1 : Daily Per Person Caloric Intake for Selected Foods and Years, 1930-1986

Japanese Fiscal Year	Rice	Vegetables	Fruit	Meats	Milk & Dairy Products	Marine	Total[a]
				(kilocalories)			
1930	1 248	5	25	7	4	63	2 045
1935	1 185	51	28	7	5	67	1 996
1940	1 303	51	27	9	6	55	2 076
1945	872	38	9	3	3	36	1 449
1950	1 036	44	19	8	9	71	1 945
1955	1 063	73	17	17	20	84	2 217
1960	1 106	84	29	28	36	87	2 290
1965	1 090	74	39	52	6	99	2 458
1970	928	78	53	81	82	102	2 533
1975	857	76	57	108	87	119	2 586
1980	770	76	53	138	10	133	2 586
1985	727	78	52	155	110	136	2 585
1986	716	79	55	162	111	135	2 600

(a) Includes other grains, potatoes and starch, pulses, egg, sugar, fats and oils, beancurd and soybean
Source: MAFF (1986c).

vegetables, fruits and processed foods have remained relatively constant. However, it should be noted that these changes in expenditure levels do not totally reflect changes in quantities consumed. For example, a shrinking share of the food budget has been spent on dairy products, eggs and meats such as pork and chicken because declining real prices have more than offset increases in consumption.

At the same time, high prices have generally limited the consumption of many livestock products. Although real prices of certain livestock products have declined and therefore encouraged higher consumption, real prices for other products such as beef and fish have risen. As a result, the consumption of pork, chicken, eggs and fluid milk has expanded faster than consumption of beef and fish.

Due to deliberate Government policies great differences exist in relative food prices in Japan compared with other industrialised countries. Moreover, protectionist policies have lead to a distortion of relative prices within the Japanese food market. For example, in 1960 retail prices of pork and beef were roughly equal, while during the 1980s beef prices have been about three times those of pork. Highly protectionist trade policies in respect to beef have been essentially responsible for this divergence.

Beef Consumption in Japan

Trends and Patterns in Consumption

For reasons outlined above, beef consumption has increased significantly in the period 1960 to 1986, from 147 000 tonnes or 1.1 kilograms per person to 817 000 tonnes or 4.6 kilograms per person (see Table 3.2). However, the rate of increase in total beef consumption during this period has been lower than that for pork and chicken. Essentially, this has been the result of restrictions on its availability, and the consequent effect on price relative to other meats. As a consequence, the share of beef in total meat consumption has declined from 35 per cent in 1960 to 18 per cent in 1986, while pork has risen from 35 per cent to 42 per cent and chicken from 17 per cent to 35 per cent of the total. Furthermore, in spite of the apparent increase in per person beef consumption, Japan's current level remains less than half that of most industrialised countries and only about a tenth the quantity consumed in Australia and the United States.[2]

While a review of historical trends and an international comparison of Japanese dietary patterns would tend to suggest that per person consumption of beef will continue to steadily expand, according to Simpson et al. (1985, pp.40-41), any rate of increase will be modest. They argued that cultural factors are important in determining the rate of growth. Further, it was argued that there was no compelling economic or dietary reason for the westernisation process of consumption patterns to continue, now that economic growth had slowed and an 'optimal' diet achieved. Thus, the only reason for continued shifts in Japanese dietary habits would be due to changes in tastes and preferences.

Although not explicitly stated, changes in real prices were presumably viewed by Simpson et al. as having a minimal impact on future shifts in consumption patterns. In view of the significant expansion now expected in beef imports during the next decade (from approximately 222 000 tonnes in 1987 to around 700 000 tonnes), this presumption would seem rather narrow and simplistic. The impact that such a dramatic increase in imports will have on prices, must surely dictate more than a 'modest' rise in future levels of beef consumption during the medium term. This issue is re-addressed in Chapter 7 when analysing future consumer demand for beef vis-a-vis other sources of protein.

Coupled with the likely growth in beef consumption are likely changes in consumer purchasing patterns and cooking practices. Traditionally, the purchasing of beef by consumers in Japan displays a distinct seasonal pattern. Changes in preferred dishes, and therefore, cooking styles have generated a

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[2] Per person consumption of other red meats and chicken have also remained substantially below levels of consumption in Australia and the United States. Fish consumption, on the other hand, is well above average levels in most western countries.

Table 3.2 : Consumption Levels for Selected Meats, 1960-1986

Japanese Fiscal Year	Beef		Pork		Chicken	
	Total[a]	Per person	Total[a]	Per person	Total[a]	Per person
	('000 tonnes)	(kilograms)	('000 tonnes)	(kilograms)	('000 tonnes)	(kilograms)
1960	147	1.1	155	1.1	44	0.8
1961	147	1.2	241	2.1	97	0.8
1962	157	1.3	322	2.7	121	1.0
1963	203	1.6	279	2.3	147	1.2
1964	235	1.8	316	2.6	185	1.4
1965	201	1.5	385	3.0	213	1.9
1966	166	1.3	510	4.1	268	2.0
1967	164	1.2	569	4.6	313	2.4
1968	187	1.4	540	4.3	354	2.6
1969	248	1.8	561	4.4	443	3.3
1970	298	2.1	708	5.3	517	3.7
1971	341	2.4	784	5.7	600	4.3
1972	363	2.5	869	6.4	664	4.7
1973	357	2.4	1 012	7.2	731	5.0
1974	384	2.6	1 037	7.2	749	5.1
1975	407	2.5	1 058	7.3	781	5.3
1976	450	2.7	1 268	7.7	872	5.8
1977	497	3.0	1 373	8.3	983	6.5
1978	555	3.3	1 468	8.7	1 085	7.1
1979	584	3.4	1 626	9.6	1 166	7.6
1980	597	3.5	1 646	9.6	1 194	7.7
1981	632	3.7	1 642	9.6	1 238	7.9
1982	681	3.9	1 647	9.5	1 302	8.3
1983	724	4.2	1 681	9.6	1 359	8.6
1984	752	4.3	1 697	9.7	1 425	8.9
1985	774	4.4	1 813	10.3	1 466	9.1
1986	817	4.6	1 890	10.7	1 580	9.8

(a) Total supplies for domestic consumption; that is, domestic production plus imports minus exports and change in stocks

Source: MAFF (1986c).

strong seasonal pattern in terms of the quantity and type of beef consumed (Longworth 1983). For instance, higher grades of domestically produced beef, generally highly marbled and purchased in paper-thin slices, are in greatest demand particularly during mid-winter but also in April/May, for the traditional dishes of sukiyaki and shabu shabu. Lower grades of domestic beef and the bulk of imported beef (and beef offals[3]) tend to be relatively more popular during the summer months for grills and barbecues; for example, teppanyaki, yakiniku and Korean barbecue dishes. Largely as a result of the relatively recent extension of cooking facilities, the traditional beef cuisine using moist heat has broadened to dry heat cooking. Furthermore, there has been a diversification of traditional beef cooking methods

[3] According to research undertaken by the AMLC (1987) imported beef offals, and in particular diaphragm beef sourced from the United States, are increasingly being used all year round for yakiniku and Korean barbecue dishes.

along the lines of cooking methods using pork and chicken; for example, the cooking of stews and curries during winter.

The consumption of beef in Japan also reflects marked geographical differences. While consumption levels tend to be higher in the larger urban complexes, beef tends to be the preferred meat in areas south west of Tokyo, and in these areas beef consumption is well above the national average. In Tokyo and areas north west, pork tends to predominate, and in Hokkaido sheepmeats are preferred. Further, in some areas to the north west of Honshu little beef is consumed. However, in recent years consumption in these areas of Honshu, as well as Hokkaido and in small towns around Tokyo has tended to expand relatively faster than in other areas. Nevertheless, in absolute terms, levels of consumption have remained below current levels in central and southern Japan.

Market Profile and Segmentation

Many researchers of the Japanese market have described beef as a commodity which is far from homogeneous and one which displays many characteristics of a luxury good (BAE, 1975, 1981; Longworth 1983; Porter, Teal and Dickson 1987). Further, researchers have described the market for beef in Japan as highly segmented, and as a result, price and income elasticities of the demand for beef all differ from one market segment to another (Longworth 1983).

Given the large price differentials which exist between top quality domestic beef and imported beef of similar cuts, Mori (1986) has argued that domestically produced beef and imported beef (either from the United States or Oceania), are two different commodities, as for example, are pork and lamb. Moreover, given the diversity in the types of beef imported, and hence variations in prices, imported product types can be also differentiated according to source. In view of these observations, it has been widely concluded that economic analyses based on the assumption that imported beef is a close substitute for domestic beef are misleading (Porter, Teal and Dickson 1987).

The AMLC (1987) has categorised the Japanese beef market according to four major meat groups which influence the distribution and usage of beef in the marketplace. These groups are broadly defined as follows: (a) the fresh meat market, consisting of grainfed beef derived from the domestic cattle industry; (b) imported frozen grainfed beef from the United States, and from Canada, Mexico and Australia in limited volumes; (c) imported frozen, aged frozen and chilled grassfed beef from Australia and New Zealand; and (d) imported manufacturing beef mainly from Australia, and New Zealand and Vanuatu.

In accordance with the research findings, AMLC (1987) claimed that 'fresh meat' is preferred by end-users in all sectors of the table meat trade, but because of restricted domestic supply imported products have been increasingly utilised. In addition, the current import system was viewed as a mechanism which provided advantages in the usage of domestically produced beef and which limited its competition with imported beef, and in particular, grainfed beef sourced from the United States. In acknowledging these observations, the above profile was defined so that the domestic product was distinguished from imported beef products. In effect, domestic beef supplies were assumed to be isolated from direct competition with imported beef products in the market place. As recognised by the AMLC, this categorisation has obvious implications for usage patterns.

Given this broad profile, various hypotheses advanced about the segmentation of the Japanese beef market are now examined. The BAE (1975, p.5) distinguished three broad categories of demand for beef in Japan: (a) a fairly restricted, very high priced and prestigious segment, representing about 15 per cent of the total market; (b) a large middle area, representing the more general or popular demand for table beef, about 40 to 50 per cent; and (c) a very substantial demand for lower priced cuts and qualities for use in processed meat products and cheaper butchers' lines, accounting for about 35 to 50 per cent.

Longworth (1983) also analysed the segmentation of the beef market and acknowledged the three broad segments identified above. The relative size of each, however, differed to the those estimated in the BAE study. Segments (a) termed as 'the Kobe or super beef market segment' and (c) 'the processing beef segment', he claimed were clearly identifiable sub-markets for beef in Japan which accounted for about six per cent and up to 30 per cent of the total market, respectively. The middle segment, (that is, category b above), on the other hand, was perceived as that segment which had grown most rapidly in the last decade, and which represented about 65 to 70 per cent of the market. Furthermore, Longworth (1983, p.20) argued that since about 1980 this 'popular' segment of the market had split into two different but overlapping sub-markets.

More specifically, it was observed that at the upper-end of the popular beef trade there had emerged a 'high quality beef' market that included domestically produced Wagyu beef which did not attain 'super beef' status and the highest quality dairy steer beef. Lower quality beef, on the other hand, was seen to remain in the so-called 'popular' category. While the import trade in grainfed beef from the United States was also identified as servicing the higher quality sub-market, it was argued that the bulk of table beef trade (imported and lower grade domestic dairy steer beef) was utilised in the lower sub-market.

Given these respective market segments for table beef, Longworth (1983, p.20) concluded that demand for both 'super beef' and 'higher quality' beef is unlikely to be very price sensitive because there are no other substitutes for these types of beef. 'Popular style' beef, on the other hand, competed closely with pork and chicken, and to a lesser extent fish, and therefore, consumers were seen to be sensitive to the relative prices of these alternative sources of protein. Although not discussed in detail in this paper, such conclusions are in contradiction with elasticity estimates produced by Porter, Teal and Dickson (1987).[4]

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[4] Porter, Teal and Dickson (1987) summised that the market segmentation hypotheses advanced by the BAE (1975) and Longworth (1983) were based on assertions that there existed an inverse relationship between the price of beef and its price elasticity, and a positive relationship between quality and income elasticity; an interpretation from which it could be concluded that the growing proportion of United States' imports could be explained by a higher income elasticity for United States' grainfed beef, than lower quality Australian beef. The researchers, however, refuted such assertions. They claimed that the income elasticity of demand is much higher for that market segment supplied by Australia (that is, the lower priced market), than for the higher priced, higher quality beef market.

Longworth (1983, pp.12-14) also argued that one of the distinctive features of beef consumption in Japan is the substitution of various beef types; for instance, cuts of better quality dairy beef and imported United States' grainfed beef are often presented as Wagyu beef, and imported chilled beef as domestic dairy steer beef (ABARE 1987, pp.15-16). In light of this phenomena, ABARE (1987, p.16) claimed that a continuous spectrum of beef quality in Japan exists and, as a consequence, distinctive market sectors are not evident.

A further, relatively recent categorisation of segments of the Japanese beef market has been advanced by the AMLC (1987). In this study, five market segments were defined: (a) high class hotels and restaurants, and retail and supermarket outlets; (b) middle class hotels and restaurants, and retail and supermarket outlets; (c) lower class restaurants and fast food outlets; (d) food service sector; and (e) manufacturing, ham and sausage smallgood industries.

AMLC concluded that the high class segment, (that is, category a above), comprised the following: 'up-market' Japanese and western restaurants, and hotels; institutional and reception trade; speciality butcher shops and supermarkets with speciality butcher shops catering for up-market business. These areas of the trade were identified as being primarily serviced by domestically produced Wagyu beef.

The middle class segment, (that is, category b above), was also subdivided into: Japanese-style restaurants (that is, Korean barbecue and yakiniku bars) and Western-style restaurants (that is, speciality, family and coffee-shop restaurants; and the majority of supermarkets and butcher shops. The remainder of domestic beef production (that is, mainly dairy steer beef, but also limited quantities of lower grade Wagyu beef), as well as imports of grainfed beef, aged frozen and chilled beef were the product types identified as servicing these outlets in the middle segment.

In addition, the lower quality cuts of these imported beef types were identified as being utilised in the third segment, (c); that is, the lower class restaurants and fast food outlets. The last two segments identified, the food service and manufacturing sectors were, on the other hand, essentially seen as being serviced by imports of frozen grassfed beef.

Further, the AMLC (1987) claimed that imports of non-quota offals, and in particular diaphragm beef sourced from the United States, were being used across segments of the market, with the only exception being at the upper or high class end. While it was concluded that this product competed with both imported and domestic beef items in the marketplace, direct competition with Australian grassfed beef products was perceived to be most significant in both eating-out establishments at the lower end of the market and in the manufacturing sector.

Consumption of Beef Offals

Coupled with a sharp increase in imports of grainfed beef from the United States, there has been a significant unchecked growth in imports of beef offals outside of quota arrangements, from just over 50 000 tonnes in 1978 to almost 91 000 tonnes in 1987 (see Appendix 1).[5] These imports comprise

[5] Current arrangements governing the importation of beef offals, both inside and outside of the quota, are discussed in Chapter 6.

a range of products. However, it is estimated by AMLC (1987) that diaphragm beef constitutes around 80 to 90 per cent of current non-quota beef imports. Japanese officials, on the other hand, have conceded that about 60 per cent of non-quota imports are diaphragm beef. The future growth and composition of beef offal imports can be expected to be significantly influenced by liberalisation of the beef market (refer to Chapter 7 for a more detailed discussion on the impact of increased beef imports on the demand and usage of offals, and in particular, diaphragm beef).

Product Profile

Under Japanese and United States' Customs arrangements, diaphragm beef is classed as an 'offal' ('naizoniku'), while in Australia it is classified as 'beef'. More specifically, diaphragm beef refers to the pillars and costal sections of the diaphragm; or, as known in the United States: hanging tender and outside skirt; in Australia: thick skirt and thin skirt; and in Japan: sagari and harami, respectively.[6]

To a degree, usage of items of diaphragm beef has been restricted by the stigma associated with using an offal based product in a restaurant or eating-out establishment, particularly in the major cities of Japan. Nevertheless, AMLC (1987) research has shown that the distribution, and therefore, usage of imported diaphragm beef is widespread. For example, outside skirts and hanging tenders sourced from the United States are popular in the country areas because of price, as well as taste. In addition, product is extensively retailed in a marinated form, due to the poor shelf life of diaphragm beef.

In light of the above, it has been concluded that the bulk of the imported diaphragm product competes with all meat items, including domestic beef, at the middle and lower end of the market. Furthermore, each of the different items of diaphragm beef imported and sold in Japan, have different applications within the marketplace. For example, both hanging tender and outside skirt are sold extensively throughout middle class supermarkets and butcher shop outlets and service the eating-out trade at the middle to lower end of the market; thick and thin skirts are utilised in the manufacturing sector; and diaphragm beef (chilled and frozen) from selected prime carcases is imported (from the United States) and sold as an 'up-market' product in meat speciality stores and in higher class yakiniku and Korean barbecue restaurants (AMLC 1988b).

More specifically, outside skirt has been used exclusively as a table meat in natural or re-constituted form. To date, it has been generally presented as a sliced item or a steak, for use in yakiniku dishes or Korean style barbecues. Also, there has been a relatively strong demand for outside skirt for use as a reformed steak in the lower class family restaurants and eating-out establishments. However, the item is supplied skin on (pleura and peritoneum), and as a result, presents some disadvan-

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[6] On a natural fall basis the quantity of diaphragm beef gained from one head is: two pieces in the case of outside skirt/thin skirt (weighing about two kilograms); and one piece of hanging tender/thick skirt (about one kilogram). As a consequence, the importation of diaphragm beef has tended to be slanted towards outside skirts. However, more recently, equal volumes of hanging tender and outside skirt have been imported, largely due to the greater flexibility in usage of the former product.

tages to end-users because skinning leads to a loss in yield. Nevertheless, the diaphragm membrane remains an item sought by end-users as a protein additive in hamburger mince.

Whereas outside skirt must be served as a sliced or diced item, the hanging tender is much thicker than the outside skirt and this has allowed for a wider usage as a steak in eating-out establishments at the middle to lower end of the trade. However, the flexibility of this item as a reformed steak or manufacturing type product is limited due to the stringy conformation of the muscle tissue and the surrounding connective tissue. Thus, supermarkets and the eating-out trade have been the major users of imported hanging tenders.

Grassfed thick and thin skirts are not used in the eating-out trade, due to poor colour and a lack of marbling. Instead, the items have been directed into the manufacturing sector for mixing with domestic and imported products (and in particular, short plate sourced from the United States for the hamburger trade). In contrast, domestically produced diaphragm beef items (and beef skirt plates) are primarily utilised in yakiniku restaurants and, unlike imported products, have not been sold through retail outlets, nor utilised in the manufacturing sector (AMLC 1987).

Thus, it would appear that Japanese end-users of diaphragm beef products are essentially the same as for beef; that is, butcher shops, supermarkets and eating-out establishments including processing companies. However, in comparison with beef, the ratio of supermarket sales has been slightly lower, while eating-out establishments, and in particular yakiniku restaurants, have accounted for a higher proportion. Future demand, and hence, utilisation of diaphragm beef by the various end-users can be expected to change quite markedly during the coming years, in response to greater volumes of imported beef and the impact this will have on beef and offal prices (see Chapter 7).

Price Profile

The wholesale prices for diaphragm beef fluctuate widely.[7] Wholesale prices for individual cuts of diaphragm beef (as recorded at the Kansai spot market) are provided in Table 3.3. As indicated, prices generally declined over the two year period to 1988. Primarily, this has occurred in response to: (a) the general decline in the wholesale prices for imported beef products which MAFF and LIPC have sought to encourage; (b) a general over-supply of diaphragm beef products; and (c) introduction of the SBS tender system which has lead to the substitution of certain imported beef cuts for outside skirts and hanging tenders in the middle segments of the table meat trade. During the first half of 1988, however, prices for the different diaphragm beef items recovered and have even exceeded pre-1986 levels.

As expected comparable products (that is, hanging tenders and thick skirts, and outside skirts and thin skirts) have tended to fluctuate in parallel. Products sourced from the United States, however, have commanded premium prices over comparable diaphragm beef products sourced from

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[7] The primary reason for large price movements is that the product is imported outside of quota arrangements. Also, it may take up to two months from time of placing the order to delivery and fulfilment of the contract. Hence, the traders and more particularly the ham and sausage manufacturers, consider diaphragm beef as high risk products. As a result, there occurs a great deal of speculation and trading in the items.

Australia. Clearly, this reflects the usage of the individual cuts in the marketplace, and implicitly, that hanging tenders and outside skirts from the United States are derived from grainfed cattle while skirts sourced from Australia are from grassfed cattle.

Also, the relative price movements between the two diaphragm products sourced from the United States, and Australia, have been significant. In particular, the price differentials of hanging tenders and outside skirts, and thick and thin skirts have varied and reversed. These apparent cyclical movements in the respective prices largely reflect the supply ratio of the items in the marketplace, which to a degree reflects availability in the United States (of hanging tenders and outside skirts) and Australia (of thick and thin skirts). Furthermore, relative movements reflect supply availability of substitute table and manufacturing type beef cuts imported through LIPC channels, as well as seasonal variations in the demand for beef.

Wholesale prices for selected cuts of grainfed and grassfed beef which are imported through the LIPC frozen beef tenders are presented in Table 3.4, for the period December 1985 to July 1988. (For consistency, these prices relate to the Kansai spot market, the only market at which diaphragm beef prices are reported.) At the end-user level diaphragm beef cuts, and particularly items sourced from the United States, are substituted for those selected items of quota beef for which prices are provided in Table 3.4. However, unlike beef cuts, diaphragm beef items are generally utilised in totality. Competing beef cuts, on the other hand, need to be trimmed and further processed prior to usage.

In general, there has been an overall decline in wholesale prices for the selected cuts of imported beef shown in Table 3.4. Essentially this has been in response to increased supplies, and to a lesser extent, Government efforts to reduce the price of imported beef. Differences in the price levels of diaphragm beef and quota beef items, to a degree reflect the favourable tariff and levy treatment accorded to diaphragm beef compared with beef cuts imported under the quota. Also, unlike beef, diaphragm beef does not pass via the traditional, complicated route of distribution from importer to end-user/retailer. Hence, the products are not affected by the same mark-ups which are placed on beef as it is distributed from the importers through the marketplace.

A comparison of Tables 3.3 and 3.4 indicates that diaphragm beef products sourced from the United States were generally more expensive than cuts of both frozen 'other' (grassfed) beef and grainfed beef over the period. Thick and thin skirts, on the other hand, were priced well below the grainfed beef cuts and generally below the grassfed beef cuts.

Table 3.3 : Monthly Wholesale Prices for Imported Beef Offals, 1985-1988

	United States		Australia	
	Hanging Tender	Outside Skirt	Thick Skirt	Thin Skirt
	(yen per kilogram)*			
December 1985	1 455	1 450	955	945
January 1986	1 450	1 425	940	940
February	1 415	1 375	940	940
March	1 390	1 260	890	890
April	1 435	1 270	890	890
May	1 475	1 225	865	885
June	1 445	1 135	855	875
July	1 410	975	835	835
August	1 350	905	815	755
September	1 440	935	775	645
October	1 410	910	775	615
November	1 350	835	765	600
December 1986	1 365	835	765	605
January 1987	1 335	800	760	590
February	1 300	785	775	540
March	1 345	945	765	500
April	1 320	930	765	525
May	1 305	925	765	525
June	1 265	915	745	500
July	1 220	910	740	490
August	1 205	1 070	730	490
September	1 165	1 115	730	490
October	1 135	1 175	705	495
November	1 015	1 155	690	500
December 1987	955	1 110	635	540
January 1988	895	1 115	550	600
February	915	1 245	560	625
March	955	1 335	555	605
April	1 225	1 325	600	610
May	1 350	1 525	835	730
June	1 200	1 490	815	735
July 1988	1 375	1 650	835	790

* Prices as recorded at the end of the first week of each month, Kansai spot market

Source: Chikusan Nippo (1988).

Table 3.4 : Monthly Wholesale Prices for Selected Cuts of Imported Beef, 1985-1988

	Frozen Grainfed		Frozen Other (Grassfed)			
	Square Cut Chuck	Short Plate	Chuck & Blade	Topside	Point End Brisket*	Cowmeat
			(yen per kilogram)**			
December 1985	1 330	915	1 345	1 520	1 170	1 120
January 1986	1 345	965	1 335	1 500	1 180	1 110
February	1 315	1 075	1 300	1 500	1 190	1 130
March	1 265	1 060	1 275	1 455	1 190	1 125
May	1 100	1 045	1 175	1 340	1 210	1 135
June	1 065	1 090	1 160	1 280	1 235	1 130
July	1 040	1 190	1 160	1 255	1 230	1 115
August	985	1 195	1 170	1 180	1 235	1 060
September	1 025	1 250	1 200	1 190	1 190	1 045
October	1 035	1 120	1 160	1 140	1 200	1 000
November	1 025	925	1 035	1 060	965	935
December 1986	1 035	825	945	1 055	885	855
January 1987	1 025	825	865	1 055	885	840
February	975	830	800	1 040	880	810
March	925	865	855	1 015	855	825
April	885	940	825	995	875	815
May	885	940	855	990	865	800
June	870	815	855	935	830	840
July	880	790	835	920	850	835
August	990	770	835	935	825	840
September	1 100	800	885	1 020	900	910
October	1 075	710	835	965	870	885
November	870	675	785	930	845	790
December 1987	840	650	760	915	875	705
January 1988	990	665	755	925	940	710
February	845	635	740	915	930	710
March	825	650	760	885	900	690
April	855	635	815	950	970	725
May	820	650	780	930	1 235	755
June	810	600	735	815	1 265	695
July 1988	840	660	875	900	1 260	690

* Frozen aged beef

** Prices as recorded at the end of the first week of each month, Kansai spot market

Source: Chikusan Nippo (1988).

According to ABARE (1987, p. 3), during 1986 the pre-tariff import price of diaphragm beef sourced from the United States was twice that of Australian frozen grassfed beef. Consequently, grassfed beef, which has been restricted in import by quantitative controls, has continued to earn quota rents. The lack of quota regulations on diaphragm beef, on the other hand, has allowed its import price to act as a ceiling on rents available on the cheaper beef cuts for which it most readily substitutes. Given this market structure, the ABARE (1988, p. 24) concluded that any growth in demand, which in the absence of quota restrictions would largely be channelled to Australian frozen grassfed beef, has resulted in a significant expansion in imports of diaphragm beef from the United States.

Japanese Labelling Requirements

In October 1981 the Japanese Housewives' Federation sought the assistance of MAFF and the Fair Trade Commission in order to prevent the sale of hanging tenders and outside skirts as American steak, claiming that such labelling was a misrepresentation of 'offal' as meat.

In response, the Japanese Ministry of Health and Welfare now require that diaphragm beef products are labelled as offal, or 'naizoniku'. Similarly, the labelling of beef skirt plate (or 'fukuokin') as 'baraniku' is required, while reformed meat is to be identified according to the type of meat it comprises (that is, as 'naizoniku' for offal meat and 'baraniku' for beef skirt plate). In addition, the date of reforming or packaging must be indicated.

In the case of diaphragm beef, once identified as naizoniku, products can be further identified as 'harami' or 'sagari', but this is not legally required. Also, it is not required to specify diaphragm beef products, beef skirt plates or reformed products, as 'domestic' or 'imported'.

Following the implementation of these requirements, consumer demand for such products was temporarily depressed, primarily because of the negative connotations associated with the word 'offal'. In the short term, the large supermarket chains responded to the labelling requirements by marketing reformed steaks made from Australian topside beef rolled with Wagyu beef fat. However, in the longer term, it would seem that these labelling requirements have had little, if any, dampening effect on the level of consumption of diaphragm meat products. Furthermore, it would appear that the Japanese meat trade has adapted to the labelling requirements with practices (such as, retailing offals as reformed steaks and in marinades) which have ensured the profitability of trading diaphragm beef. Also, the favourable treatment accorded to diaphragm beef under the former importing arrangements has reinforced the profitability, and therefore, the popularity of these products.

Chapter 4

Demand and Supply Projections for Beef

In the policy arena in Japan, the goal of promoting and protecting agricultural industries has been further entrenched by the use of long term demand and supply projections for designated agricultural products (George and Saxon 1986). These projections, which are mandatory under the provisions of the Agricultural Basic Law (1961), have provided the framework for Japanese authorities to negotiate measured increases in imports of key agricultural products, including beef.

Conceptually the Japanese projections have differed from projections where the objective is to provide demand and supply forecasts based on strictly defined assumptions regarding prices, incomes and Government policies (BAE 1985). In effect, the Japanese projections are 'targets' of domestic supply and demand, which represent MAFF's perceptions of desirable production goals in both the livestock and horticultural sectors, assuming that domestic production reaches the maximum technically attainable (George and Saxon 1986).

Comparison of Long Term Projections

The most recent set of long term projections officially published by MAFF (1980b) have a base year of 1978 and a target year of 1990. For these and intermediate years, estimates for the production and consumption of key agricultural products were provided.

A number of researchers (for example, Coyle 1983; BAE 1985; and Simpson et al. 1985) have produced demand and supply projections for beef in 1990 and beyond. Also early in 1988, MAFF unofficially re-assessed their projections, in light of demand and supply conditions which had emerged since late 1986. Undoubtedly, this review was undertaken in an attempt to counter possible criticism from the United States and Australia that the 1978 projections provided an inappropriate benchmark from which to negotiate Japan's beef import requirements in 1988 and beyond.[1]

The BAE (1985, p.23), in a review of MAFF's 1980 projections, summarised the main aspects of the Japanese projections as: (a) a projected rise in beef consumption by between 290-360 000 tonnes (carcase weight), to a level of 850-920 000 tonnes in 1990; and (b) of this increase in consumption, 220 000 tonnes would be provided through greater domestic production, giving a potential growth in imports of 70-140 000 tonnes (carcase weight).

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[1] In view of Japan's recent commitment to a 'transition' to liberalisation of the beef market by 1991, predicted growth in beef imports, and therefore future supplies of domestically produced beef (and milk) and levels of demand, have been grossly under-estimated in projections prepared by Government and some researchers. However, it remains unclear as to what, if any, new projections will be prepared and (released) by MAFF.

The Japanese projections (MAFF 1980b) are presented together with projections produced by Coyle (1983) and the BAE (1985) in Table 4.1. Recent data on beef and milk production, beef consumption and trade are also provided. In the discussion which follows, demand and supply projections prepared by MAFF are considered in light of projections provided by Coyle and the BAE. The respective projections for beef imports implicit from each of these demand and supply projections are then briefly examined, while import projections advanced by Simpson et al. (1985) are discussed in detail. Finally, MAFF's most recent, 'unofficial' projections are examined.

Projections of the Demand for Beef

In preparing the MAFF (1980b) projections it was assumed that real personal expenditures would increase at a moderate rate during the 1980s; namely, at about 4.5 per cent. Further, a population growth rate of 0.8 per cent was expected. A growth in per person consumption expenditures of about 3.7 per cent per year was assumed through to 1990.

MAFF proposed that future growth in Japanese consumption of livestock products would depend primarily on income and population growth, changes in prices and Government policies. Coyle (1983, p.48) argued that the extent to which consumers increase expenditures on livestock products depended on responses to increases in real income. Consequently, Coyle (1983) sought to compare the MAFF projections with two sets of projections, which he claimed were based on income elasticity measures more appropriate than those implicit in the MAFF projections. In fact, the income elasticities used by Coyle were almost twice those employed in the MAFF calculations; that is, 1.4 and 1.7 compared with 0.9 in the MAFF projections.

Both the Coyle projections were based on the same assumptions, with the exception that in the second set (ERS2) per person fish consumption remained unchanged through to 1990, while the implicit loss of protein from fish was accounted for by other livestock products so as to achieve the same animal protein intake level as in the first set of projections (ERS1). Coyle assumed that relative prices and Government policies would remain constant over the period. Given these assumptions domestic consumption was projected at level of around 1.2 million tonnes in 1990 (see Table 4.1).

In contrast, the BAE (1985) projections for demand were rather modest. As a basis to the projections, which were prepared by the BAE during the 1984 round of beef negotiations, it was assumed that policies to achieve beef consumption and milk production targets would be maintained. Thus, it was concluded that for beef consumption to reach the mid-point of the projection range by 1990 (that is, 855 000 tonnes), the annual average growth rate from 1983 would need to be 3.6 per cent.

Table 4.1 : Demand and Supply Projections for Beef in Japan, 1990

Item	1978	1982	1986	Projections for 1990 MAFF	Coyle ERS1	Coyle ERS2	BAE
			('000 tonnes)				
Production[a]	410	481	559	630	529	596	545
Total Consumption[a,b]	560	662	821	850-920	1130	1278	850-920
Imports (a)	144	182	262	220-290[c]	601[c]	682[c]	350-375[c]
(d)	100	122	178	154-203[c]	420[c]	436[c]	214-263[c]
			(per cent)				
Self-Sufficiency Ratio	73	71	72	71	46.6	46.8	N/A
			('000 head)				
Cattle Numbers	4 010	4 485	4 742	6 430	)		4 940
Dairy Cattle	1 980	2 103	2 103	2 510	)N/A*		2 350
- dairy cows	1 380	1 461	1 315	1 800	)		1 630
Beef Cattle	2 030	2 382	2 639	3 920	)		2 590
- beef breeds	1 460	1 529	1 662	2 450	)N/A*		1 640
- dairy breeds	570	853	977	1 470	)		950
			('000 tonnes)				
Milk Production	6 260	6 750	7 380	8 420	9 298	9 298	8 420

(a) Carcase weight
(b) Excluding diaphragm beef
(c) Difference between projected consumption and production
(d) Product weight
N/A Not available
N/A* See Chapter 4, footnote 2
Source: MAFF (1980b, 1988b); Coyle (1983); BAE (1985).

This rate was somewhat below the actual growth rate over the period 1978 to 1983. Nevertheless, the BAE considered this projected growth rate consistent with a perceived slowing in the rate of decline in real beef prices and a continuation of the average annual consumption increase of 27 000 tonnes between 1978 and 1983. Thus, the mid-point of the Japanese projections was viewed a reasonable target and consistent with trends. However, it was noted that some outside influences could modify future consumption levels; for example, the continued growth in the importation of diaphragm beef and the growth of fast food outlets were not considered in the demand projections (BAE 1985, p.24).

Projections of the Supply of Beef

Parallel to demand projections, Coyle (1983) and the BAE (1985), prepared projections for beef production which, in turn, were compared with official MAFF projections (1980b).

In particular, Coyle (1983) derived a self-sufficiency rate of about 47 per cent for beef under the assumption that future beef production will be closely linked with milk production; that is, a function of yield per cow and numbers of cows. In 1990, Coyle assumed that 65 per cent of total beef supplies would be derived from dairy animals, and in turn, production would be between 529-596 000 tonnes. In light of a previous 60 to 70 per cent contribution of dairy beef to total beef production, this assumption was argued to be consistent given inefficiencies and apparent lack of growth within the Wagyu sector, and the unlikelihood of greater Government protection (Coyle 1983, p.51).

Under both sets of the Coyle projections it was concluded that beef would become a by-product of milk production. The demand for milk, on the other hand, was expected to grow less than the demand for beef. Thus, it was further concluded that the gap between production and consumption of beef would widen, and as a consequence, beef imports would expand.[2]

The Japanese beef production projection for 1990 of 630 000 tonnes was considered by the BAE (1985) as optimistic. Instead the BAE advanced a projection for beef production in 1990 of 545 000 tonnes. While this represented a difference of 85 000 tonnes on the Japanese projections, it was more in line with the Coyle projections for beef supply (see Table 4.1).

Essentially, the BAE's projected level of beef production was based on the premise that developments in the dairy industry over the period 1978 to 1983 would be maintained to achieve the target level of milk production in 1990; that is 8.4 million tonnes. Contrary to Japanese projections it was argued that this could be achieved with lower numbers of dairy cattle and increased average yields per cow. In particular, the BAE's projected average yield was 5 150 kilograms per cow compared with the Japanese estimated yield of 4 678 kilograms per cow. Coyle (1983), on the other hand, assumed a yield of 6 100 kilograms per cow.

Using this projected level of yield together with milk production figures, the BAE projected dairy cow numbers at 1.63 million in 1990. This represented a significant difference on the Japanese projected level of 1.80 million. Further, it was claimed that beef breed cattle numbers would expand at a much slower rate than implied by the Japanese projection of 2.45 million head by 1990. The BAE forecast a herd size of 1.64 million for beef breed cattle.

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[2] Coyle (1983) did not provide explicit projections for cattle numbers in 1990. However, the following assumptions, based on 1975-1979 values were made concerning the relationship of milk and beef production in 1990: (a) milk yields were 6.1 tonnes per milk cow; (b) milk cows represented 40 per cent of the dairy herd; (c) dairy steers and culled cows represented 22 per cent and eight to nine per cent of the dairy herd, respectively; (d) slaughter rates for dairy steers and culled cows were 60 per cent and 170 per cent, respectively; (e) average slaughter weights for dairy steers and culled cows were 340 kilograms and 310 kilograms, respectively; (f) beef from dairy steers and culled cows represented 65 per cent of total beef supply (Coyle 1983, p.51).

It was also assumed in the BAE study that there would be no further long run reduction in the slaughter rate of cattle other than dairy cows, and that average slaughter weights would continue to rise. More specifically, a slaughter rate of 31 per cent was adopted and an average slaughter weight of 360 kilograms in 1990 was assumed.

Projections of Beef Imports

Assuming beef imports represent the difference between production and consumption levels, MAFF's projections set beef imports at 154-203 000 tonnes in 1990.[3] Coyle, on the other hand, projected imports at around 430 000 tonnes. Due to Coyle's relatively high estimate of beef consumption in 1990, this projection was significantly higher than those advanced by both MAFF and the BAE (Table 4.1).

The BAE projected beef imports at 214-263 000 tonnes, or increases of about 14.6 tonnes a year over the period 1984 to 1990. It was claimed that such a level would still allow the Japanese to fulfil stabilisation and support commitments.

Given this difference in projections, Japan's negotiated commitments to increase beef imports to 177 000 tonnes by 1987 was significantly below the BAE estimate of 196 000 tonnes. The difference was an estimated 2.3 per cent of the BAE's projected level of beef consumption for 1987 (BAE 1985, pp. 30-31).[4]

Simpson et al. (1985) in a detailed study of the future supply and demand for beef in Japan, derived projections for beef imports for the years: 1990; 2000; and 2010. Following an analysis of changing dietary patterns and the potential impacts on productivity and cost reductions resulting from structural and technological change, demand and supply side factors were integrated to determine beef imports under three different scenarios; namely, a low, a medium and a high level of imports. In turn, two different situations were considered: (a) beef breed production over the projection period was unchanged; and (b) maintenance of beef self-sufficiency at around the current level of 72 per cent.

In the first instance, where the level of beef breed production does not change, beef self-sufficiency declined under the 'least import' scenario from the 1983 level of 72 per cent to 58 per cent in 1990, 54 per cent in 2000 and 51 per cent in 2010. Beef imports under this scenario increased from 196 000 tonnes in 1983 to 525 000 tonnes in 2010, while under the 'most import' scenario beef imports rose to 1.5 million tonnes in 2010 as self-sufficiency fell to 26 per cent.

The results of the second case, and according to Simpson et al. (1984, p.160), the more realistic situation of a sustained self-sufficiency level of 72 per cent through to 2010, are presented in Table 4.2. Beef breed production in 1990 under the 'least import' scenario needed to be 1.73 times that of the 1983 level, 2.14 times in 2000 and 2.39 times in 2010. Imports, on the other hand, were

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[3] Quota imports of beef are measured in product weight, which is 70 per cent of carcase weight (refer to Table 4.1 for comparable carcase weight tonnages).

[4] The BAE's 1987 projected level of beef consumption included diaphragm beef, and it was assumed that the trend in diaphragm imports since 1978 would continue.

Table 4.2 : Projected Level of Beef Imports*, 1990, 2000, 2010

	Scenario		
	Least Imports	Medium Imports	Most Imports
		(per cent)	
Self-Sufficiency			
1983-2010	72	72	72
		('000 tonnes**)	
Consumption			
1983	691	691	691
1990	847	877	964
2000	1 014	1 157	1 430
2010	1 071	1 364	1 990
Total Production (a)			
1983	495	495	495
1990	610	631	694
2000	730	833	1 030
2010	771	982	1 433
Imports			
1983	196	196	196
1990	237	246	270
2000	284	324	400
2010	300	382	557
Dairy Beef Production			
1983	333	333	333
1990	330	326	319
2000	384	370	354
2010	384	377	364
Beef Breed Production (b)			
1983	162	162	162
1990	280	305	375
2000	436	605	1 062
2010	387	605	1 069

* Under the assumption that the level of beef production is such to maintain self-sufficiency at 72 per cent
** Carcase weight
(a) 72 per cent self-sufficiency; that is 72 per cent of beef consumption
(b) Difference between total production and dairy beef production
Source: Simpson et al. (1985, p.163).

estimated to reach 300 000 tonnes in 2010. Under the 'most import' scenario the level would reach 557 000 tonnes and beef breed production would be almost 7 times greater than the 1983 level.

Given these results, Simpson et al. (1985, p.161) concluded that this latter situation was more realistic than the former situation where Wagyu beef production stabilised at the 1983 level and imports increased rapidly. Furthermore, it was argued that under a situation of maintaining self-sufficiency at 72 per cent the 'medium import' scenario was most reasonable. In other words, imports would increase from the 1983 level of 196 000 tonnes to 246 000 tonnes in 1990 (that is,

by 26 per cent), 324 000 tonnes in 2000 (65 per cent), and 332 000 tonnes in 2010 (95 per cent). In parallel, beef breed production would have to increase 186 per cent over the 17 year period from 1983 to 2000, and 273 per cent over the 27 year period to 2010 (see Table 4.2).

Recent Developments

The BAE (1985, p.32) noted the possibility that following the expiry of the 1984-1987 agreement, the rate of increase in beef imports could rise reflecting the restraint on imports imposed by bilateral agreements and the BAE's projected changes in production and consumption. Moreover, it was argued that if Japan viewed its import obligations to 1987 as a maximum, domestic wholesale prices for fattened cattle could be slightly above (about two per cent) those assumed in the BAE's calculations. In turn, it was claimed that higher prices would result in higher cost structures, primarily in response to feeding animals for longer periods to increase slaughter weights. Also, under the cost indexing price stabilisation for beef, higher costs would result in continued restraint on imports to levels envisaged as necessary to offset the higher costs.

Essentially, developments in the Japanese market since late 1986 have been consistent with the BAE's earlier scenarios; namely, high domestic beef prices associated with inflated prices for feeder calves, herd rebuilding and increased slaughter weights. Coupled with this has been a strengthening of consumer demand for beef in Japan.

However, a factor which was not fully appreciated, and therefore not accounted for in the BAE's projections was a continuing availability of relatively cheap supplies of grains, in line with worldwide grain surpluses, and more significantly, the strong appreciation of the yen in recent years. In particular, this has lead to lower costs of production, and in turn, prompted the Government to afford 'modest' reductions in the beef price stabilisation bands for designated grades of beef carcases.

Culmination of these supply and demand side factors was reflected by the 'forced' expansion in the 1987 negotiated level of the beef import quota, from 177 000 tonnes to 214 000 tonnes. This level was virtually equivalent to that level projected by MAFF for 1990; that is, 154-203 000 tonnes (or, 220-290 000 tonnes carcase weight). In terms of actual imports, 1986 and 1987 levels have exceeded the mid-point of MAFF's projected range for 1990 (see Table 4.1).

Against this background, it was not surprising that MAFF conceded, albeit unofficially, to review its earlier projections for the 1988 round of negotiations on beef access. In particular, the Livestock Industry Promotion Council predicted that the demand for beef would rise from 540 000 tonnes (or, 770 000 tonnes carcase weight) in 1985 to some 800-880 000 tonnes (1.14-1.26 million tonnes carcase weight) in 1995. On a per person basis, this increase in beef consumption translated to an increase of about two kilograms per person, from 4.4 kilograms in 1985 to 6.1-6.8 kilograms per person in 1995.[5]

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[5] The Japanese population was assumed to reach 127 565 million by 1995, representing a 0.5 per cent increase per annum on the 1985 population level.

Domestic beef production, on the other hand, was expected to increase by only 90 000 tonnes from 390 000 tonnes (or, 560 000 tonnes carcase weight) to 480 000 tonnes (690 000 tonnes carcase weight) over the period. In accordance with this projected rise, the beef herd was expected to increase (14 per cent) from 4.3 million head in 1985 to about 4.9 million head in 1995. The level of production of milk and milk products was also projected to rise (16 per cent) to around 8.6 million tonnes by 1995 from the 1985 level of 7.4 million tonnes.[6]

In light of these projections the Council proposed that Japan could afford to double beef imports from 150 000 tonnes (210 000 tonnes carcase weight) in 1985 to 320-400 000 tonnes (around 560-580 000 tonnes carcase weight) by 1995 (Japanese fiscal year). Further, it was recommended that the Government increase imports by 13 000 to 23 000 tonnes per annum over the next eight years, from the 1987 quota level of 214 000 tonnes. At the same time it was concluded that costs of production for beef should be reduced by 20 to 30 per cent.

Clearly, the revised projections were more in line with those advanced by the researchers discussed above, and in particular, the Simpson et al. (1985) scenario under which beef production is unchanged. However, it would appear that in the negotiating arena the Government was not able to actively pursue recommendations based on MAFF's rather 'modest' projections. The negotiated expansion of 60 000 tonnes per annum in the beef import quota through to 1991, and the subsequent liberalisation of the market, represents a massive increase on the 'measured' expansion in imports advocated by MAFF earlier in the year (that is, 13-23 000 tonnes per annum).[7] Undoubtedly, these most recent projections will need to be revised in light of the Government's international commitments with respect to future levels of beef imports. In particular, significant implications exist for future supplies of domestically produced beef (and especially Wagyu beef), which in turn raises questions concerning Japan's future self-sufficiency levels (see Chapter 7). Furthermore, it is conceivable that the Government's earlier projections for the supply and demand for milk and milk products, as well as other meats, will need to be re-assessed to take account of greater tonnages of beef imports and increased levels of beef consumption.

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[6] The consumption of milk and milk products was projected to rise from around 8.4 million tonnes (or, 67 kilograms per person) in 1985 to 9.5-9.9 million tonnes (72-75 kilograms per person) in 1995.

[7] The growth in beef imports now expected under the terms of current bilateral agreements on access is also significantly higher than those advanced in projections prepared the BAE (1985), Simpson et al.(1985). Coyle's (1983) projections, on the other hand, are more consistent with the negotiated expansion in imports (see Chapter 7).

Chapter 5

The Agricultural Policy Making Process : Beef Policy in Japan

Changes in the political and sociological forces which have accompanied Japanese economic development have generated a complex set of pressures that have thrust Japan's agricultural policies firmly in the direction of protectionism and have led to the development of a legal, institutional and ideological framework designed to preserve agricultural policies (George and Saxon 1986). Within this framework the Japanese Government has striven to regulate the agricultural economy, with the result that political factors have a great role in the determination and implementation of Government policy in the agricultural sector. More specifically, beef has emerged from under this umbrella of protection as one of the most politically sensitive commodities in Japan today.

Overview of the Japanese System of Government and Policy Making

Under the Japanese Constitution, there are three basic organs of state: (a) the National Diet (the legislature); (b) the Cabinet (the executive); and (c) the judiciary (the courts). Each represent the legislative power, the administrative power and the judicial power, respectively. This separation of powers, in turn, determines the Japanese power structure of the various institutions involved with policy making and implementation.

The Diet, or parliament, comprises the House of Representatives (the Lower House) and the House of Councillors (the Upper House) [Article 42]. Under the Constitution it is declared that members of both Houses are elected by the people [Article 43 (1)]. It is also stated in the Constitution that the Diet is the highest, and sole law-making organ of the State [Article 41]. Moreover, the Diet is the legislature and a legislature proposal becomes law when it has the approval of both Houses [Article 59(1)].

The power of the Lower House is superior to that of the Upper House. The House of Representatives has the right to pass a resolution of no-confidence in the Cabinet and in the event that such a resolution is passed, the Cabinet must either resign or dissolve the Lower House [Article 69]. In such a case an election would be held [Article 54(1)]. The House, currently composed of 512 members, may also be dissolved by the Prime Minister before the full term is up, at a time politically favourable.

The House of Councillors is also popularly elected, but in a different way from its counterpart. At present, 100 of the Councillors are chosen through the proportional representation system and 152 are elected from local constituencies. Half of each group is chosen every three years for a six year term of office [Article 46].

Each House has the same 16 standing committees and creates special committees for specific issues. Most of the committees correspond to major ministerial divisions of the Cabinet and bureaucracy; for example, international trade and industry, construction, and agriculture, forestry and fisheries.

While several provisions in the Constitution provide that the Diet controls the Cabinet, in practice, the Cabinet executes more important functions than the Diet and often has the real decision making power. The Cabinet, which comprises the Prime Minister and other Ministers of State [Article 66(1)] is vested with administrative power [Article 65]. The Prime Minister may be elected from the members of the National Diet by a resolution of the Diet [Article 67] but, in practice, is appointed from the Lower House. The Cabinet members (usually 20 members in total) are appointed by the Prime Minister, a majority of whom must be members of the Diet [Article 68(1)]. (In practice, however, all the ministers are appointed from the Diet.) In turn, the functions of the Cabinet are divided among and headed up by one of twelve Ministers of State.

The Cabinet is charged with executing general administrative duties [Article 73], including the implementing of laws, the establishment of international relationships and the conclusion of treaties. Thus, the power to engage in trade negotiations is included in the executive powers of the Cabinet and this can exercised without legislation which specifically delegates authority to the Cabinet. (In this sense, it would appear that Japanese ministers are in a freer position than their United States' counterparts in trade negotiations). However, this does not imply that the Japanese Government is under no legal constraint in trade negotiations nor in implementing the results domestically (Matsushita 1986). By virtue of these responsibilities considerable power can be exerted through the ministries, and as a result, the Cabinet has emerged with a greater influence over policy making than the Diet.

Since 1955, the LDP has maintained a majority in the House of Representatives and enjoyed both legislative and executive power. These political circumstances, coupled with changing social conditions have been responsible for a shift in power away from the Diet to the Cabinet. Moreover, in attempting to cope with an expanding range of problems, the administration has been forced to expand and become very specialised. Accordingly, the Cabinet and administrative agencies have come to predominate. As a consequence, the way in which law is implemented has altered.

Today, the Diet does not pass laws that provide detailed provisions concerning implementation. Instead, laws establish a guaranteed minimum framework to protect fundamental human rights and to provide the guidelines for the Cabinet administration activities. In addition, the superiority of the administrative arm of the Government and its increased specialisation, has influenced the means of administration. This has been highlighted by the increase in Government orders and the frequent use of administrative guidance (Okumiya 1986).

The third branch of Government is the judiciary. This comprises the Supreme and Lower Courts [Article 76(1)]. The Supreme Court is at the centre of judicial power. It nominates the judges of the inferior courts [Article 80(1)] and has the ultimate power to determine the constitutionality of all laws [Article 81] (Fukushima 1986).

Under the adopted parliamentary-cabinet system of Government fusion of the legislative and the administrative power exists. The judiciary, on the other hand, remains independent and although it can exercise judicial review of both the legislative and the administrative authorities, the Supreme Court has been reluctant to challenge the Diet and decisions of the LDP (Fukushima 1986).

In general, there are few conflicts between the legislature and the executive. However, tensions do exist among the more powerful ministries (for example, MITI and MAFF), which have a vital role in

formulating and executing national policies on trade. Co-operation, on the other hand, between the ministries and the ruling LDP exists to ensure that legislature bills are passed through the National Diet and implemented. As a consequence, an extra-parliamentary process is vital to the legislative or policy making process in Japan.

Even though policies often assume the form of bills which must be approved by the Diet, the process preceding the parliamentary process is of significance. Often ideas for policies originate with the various ministries and the LDP. For example, when an idea for a policy is formulated in a ministry, officials in charge discuss the matter with influential LDP figures, and after informal consent from these key LDP representatives, draft a legislative proposal which is sent to the Legislation Bureau of the Cabinet (Naikaku Hosei Kyoku). After being amended by the Bureau, the proposal is sent back to the LDP for a more formal examination. It is then examined in the Cabinet. When given Cabinet approval, it is introduced in the Diet. Provided the LDP holds the majority in both houses, a legislative proposal in the form of a Cabinet bill will usually pass without amendment. If it is very controversial, the opposition parties may put up strong resistance in the Diet. However, all they can do is engage in delaying tactics, and the proposal is usually enacted as law despite the opposition, if so decided by the LDP. Thus, the extra-parliamentary process is as important, if not more important, than the parliamentary process in formulating policy, with most bills being formulated by the Government according to this process (Matsushita 1986).

Electoral System and the Liberal Democratic Party

Recognition that agricultural policy decisions have implications for electoral performance has politicised the agricultural policy process in countries around the world. Political factors appear to play a greater role in the determination and implementation of Government policy in the agricultural sector in Japan than in any other sector (Hemmi 1982). Thus, the importance of electoral factors as an input into the Japanese Government's decision making on beef policy should not be discounted (George forthcoming).

The Liberal Democratic Party (LDP) derives a disproportionate amount of its political strength from rural districts which were delineated after World War II and reflected the predominantly rural character of Japan at that time. Despite rapid urbanisation and a steady depletion of population from rural constituencies, there have been insufficient changes in voting districts to take account of population movements. As demonstrated in Chapter 2, there has been a marked decline in the percentage of the workforce employed in agriculture coupled with a greater fall in the number of full-time farm households. However, these developments have not been matched by a corresponding reduction in the political strength of rural people.[1]

The Government's failure to substantially re-apportion Diet seats in response to these economic and demographic changes has, in effect, produced an electoral structure which is a gerrymander in

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[1] According to George (1988), rice farmers represent the largest single voting group within the total farming population at around 11 per cent.

favour of rural communities. According to George (1984), the effects of this gerrymander have become more, not less, severe over the last decade.

The spatial distribution of agriculture in Japan is another factor contributing to the retention of farmers' voting power. The nationwide spread of agriculture, with tiny farm plots interspersed between houses and commercial or industrial buildings even in highly urbanised areas, disperses the electoral influence of farmers across practically the entire country, in varying degrees (George 1984).

The political power of the farm vote also derives from the predominantly conservative alignment of rural and semi-rural voters (George 1984). This has provided consistent and predictable support for the LDP since its accession to power. Unlike the major opposition parties the LDP has always benefited from the rural gerrymander and rural conservatism, and as a result, has been commonly portrayed as a captive of domestic farming interests, bound by the dictates of an electoral strategy aimed at preserving the voting base in the rural areas (George 1981).

One implication of this disproportionate dependence on electoral support from the more rural constituencies is that the majority of all Japanese politicians in both Houses of the Diet are required, to varying degrees, to take account of the interests of farm votes in their electoral calculations. Moreover, in the face of strong countervailing economic and demographic trends, the LDP's electoral calculations have become increasingly influenced by the need to preserve its rural support base. Traditionally, the LDP has relied on Nokyo to provide the major organisational link with its rural base, and thus act as a vehicle by which to influence its electoral constituents.

There are very few electoral districts which do not include at least some farming areas. Moreover, the imbalance between rural and urban representation in the House of Councillors is said to be more pronounced than in the House of Representatives. In the House of Councillors the number of seats allocated to prefectural districts has not been revised since the war (Hemmi 1982), and according to George's (1988) calculations, in the 1986 election it took more than twice as many votes to elect a politician to the House from a non-agricultural region than was the case for an agricultural region.

The House of Representatives, on the other hand, is described as based on a medium sized constituency system, allocating from three to five seats to a district, rather than on a small constituency system. In an attempt to rectify the over-weighting of rural votes, a bill making marginal adjustments in the House of Representatives was passed in the Diet in May 1986. This allowed for the creation of eight new seats in the most populous constituencies and the abolishment of seven seats from the least populous constituencies (George 1988). Despite this re-apportionment it remains that even a member whose political support base lies in a regional consumer city cannot afford to ignore the demands of voters in the peripheral farming areas of the constituency. In fact, some members have willingly chosen to abandon their obligations as representatives of their urban constituents (Hemmi 1982).

The current 'profile' of agricultural representation in the Diet includes a nucleus of Nokyo officials (politicians who hold or have held official positions in the agricultural co-operative organisation), a broad group of politicians with special links to agricultural interests (ex-MAFF bureaucrats; politicians with connections to Nokyo-related agricultural groups; and representatives of the socialist farm-

ers' unions and Nokyo's farmers political leagues) and a broader group again who claim to represent farming constituencies (Diet men from rural and semi-rural seats).

Obviously, the composition of the LDP's support base, with its bias towards more rural constituencies, is reflected in the character of the Party's Diet membership. As one would expect a relatively large number of Government party politicians represent electoral districts where there is a significant rural component (George 1984). According to George (1988), approximately two-thirds (65 per cent) of the House of Representatives membership in 1986 represented rural, semi-rural and semi-urban seats, or just over half the total number of seats in the Diet (56 per cent). The corresponding figure for the House of Councillors membership in 1986 was 72 per cent, with rural, semi-rural and semi-urban seats averaging 60 per cent of all seats in the House. Together, these 'farm politicians' form a very vocal, pro-farmer lobby within the ranks of the LDP (George 1981).

In the 6 July 1986 double election, the LDP had an unprecedented victory. A record 300 seats were won by the LDP in the House of Representatives, a gain of 54 seats which more than guaranteed its control of all the standing and special committees in the House. It also won a substantial majority in the House of Councillors. Of the 76 seats up for election in local constituencies, the LDP secured 50 seats. In the national constituency, where the proportional representation system applies, the LDP won 22 of the 50 seats. Combined with the 126 seats which were not up for election, the LDP secured a total of 140 seats in the Upper House.

Obviously, the LDP's election victory meant heavy defeat for the opposition parties. The major opposition party, the JSP, had its pre-election strength of 109 seats reduced to 85 seats in the House of Representatives. It did, however, maintain its pre-election strength of 41 seats in the House of Councillors. Perhaps more importantly, however, the results of the July election showed that, despite a low voter turn out, voter support for the LDP had grown in the urban areas. At this election at least 29 new LDP urban politicians were elected to the Diet.[2] According to George (1988), this result reflected a declining dependence by the LDP on the farm vote, as it becomes less able to respond to demands for agricultural protection (largely because of budget deficits) and politicians less willing to supply it.

Key Diet Members within the LDP

An important characteristic of the LDP is that the majority of its Diet members are divided into factions. The factions are one of the main mechanisms through which the LDP creates co-ordinated action in the Diet (Fukushima 1986).

Generally, there are about four or five major factions with between 30 and 120 members. Each faction usually has a leader, who is an influential person in the LDP and the Diet. The factions do not have any existence other than as elements of the LDP. Furthermore, the factions, like the LDP itself, have no clear ideology, but serve to benefit the leaders and their followers.

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[2] At the 1986 Lower House elections, the LDP gained 16 seats in metropolitan constituencies, 13 in urban and 13 in semi-urban . This compared with only seven in semi-rural constituencies and two in rural (George 1988).

It is not until an influential Diet man of the LDP makes the best use of the power of his own faction that he can win the party presidency or another high-level post. By joining a faction, the average Diet man has a better opportunity to obtain political funds and win a post, such as a Committee Chairman in the Diet, a Parliamentary Vice-Minister or a member of the Cabinet. Factions are also responsible for selecting LDP candidates for the Diet. The important role factions play in the election campaign of the LDP Diet members is highlighted by the fact that the Diet members for any constituency are usually factional rivals and two rarely belong to the same factions (Fukushima 1986).

Factionalism, on the other hand, also results in a party consensus in the decision making process. The passing of legislation by the LDP depends on the co-ordinated voting of the Diet members. This requires a party consensus that is achieved through interaction of factions which act as units of votes. To obtain a party consensus among about four or five major factions is far easier than among more than four hundred LDP politicians in the two Houses of the Diet.

The party President (sosai) exercises strong leadership within the LDP, and as a result, the biannual election of the President usually involves open battle among factional coalitions of the party convention or private agreement among the faction leaders. (Providing the LDP holds the majority in both Houses, the party President may be appointed as Prime Minister.) The President has the right to appoint main party officials; for example, the Secretary-General, the Chairman of the Policy Affairs Research Council (PARC) and eight members of the thirty-member Executive Council (Somukai). He also exerts strong influence in the choice of the Chairman of the Executive Council.

The Secretary-General (kanjicho), the Chairman of the Executive Council (somu-kaicho), and the Chairman of the PARC (seicho kaicho) are the three top party executive posts. These positions, together with the office of the various party committees and posts in the Cabinet are selected so as to ensure a balance among the factions.

The Secretary-General, which is the second most powerful position in the LDP, directs all party activities, such as elections, Diet management, appointment of main officials in the party and in the Diet, and fund raising. Also, he is the spokesman for the party.

The Executive Council, which has both a factional and regional balance in its membership, is the major decision making body with respect to the daily activities of the party. The Chairman of the Council presides over its meetings, and in addition to its thirty members, the Secretary-General, the Chairman of the PARC and other officials attend. The Executive Council must deliberate and give prior approval to all legislative bills, the draft budget, and treaties, which the Government has the intention of submitting to the Diet. In addition, it takes up and discusses a wide range of subjects.

Finally, LDP factional considerations also dominate the choice of ministers. In general, ministerial appointments are factional appointments, and as a result do not necessarily reflect areas of expertise or influence.

Key Figures with respect to Beef Policy Issues

Recently, considerable attention has been given to the 'Zoku-giin', which are informal groupings of Diet men with interest in specific policy areas. According to George (1988), power over all agricultural policy matters lies with these politicians, who dominate executive leadership and extensively

engage in extra-parliamentary processes and negotiations with all major participants in the agricultural policy making framework. Given that factional considerations usually limit Cabinet appointments to less than a year, Zoku-giin have earned the reputation as 'shadow Cabinets' as they exert continuing political control over the Japanese ministries. In general, it is accepted that no policies can be introduced without their consent (George 1988).

Zoku-giin with particular interest and influence in agricultural matters attain their position by accumulated Party experience which in many cases has involved experience as MAFF Minister, Parliamentary Vice-Minister, Chairman of the Agriculture and Forestry Division, long service on LDP agricultural related committees and often reflects a constituency with strong beef interests. In general, the agricultural Zoku-giin have close ties with special interest groups, developed expertise in the agricultural area and play a major role in budget considerations.

It is also reported that they maintain close unofficial ties with senior MAFF officials and play a significant role in the promotion and selection of senior MAFF officials, as well as policy development and administration. Thus, it would appear that the key agricultural Zoku-giin work hand in hand with the Ministry assisting with its budgetary and regulatory requirements, in return for policy decisions which facilitate LDP electoral support.[3]

According to George (1988; personal communication), key persons influencing agricultural policy, and in particular beef policy issues, can be identified in terms of a group known as 'The Eight Men of Agriculture', or 'nosei hachininshu'.[4] The group represents the LDP's 'inner party Cabinet' and comprises members who have all held top positions within the party's formal agricultural policy making machinery; that is, at one time or another, have held at least one of the following three positions: (a) Parliamentary Vice-Minister of Agriculture and Forestry; or within the framework of the PARC; (b) Chairman of the Agriculture and Forestry Division; or (c) Chairman of Comprehensive Agricultural Policy Investigation Committee (CAPIC).

The majority are livestock politicians. At the local electoral level all members have connections with Nokyo and all maintain very close ties with the farming communities in their respective electorates. As well as being 'prime movers' in attaining party consensus on agricultural policy issues, these 'men of agriculture' are the primary target of pressure from MAFF, Nokyo, all the agricultural Zoku-giin, LDP agricultural policy committee members and the informal Diet leagues (George 1988).

Australian Government officials (Department of Trade 1986), on the other hand, have argued that the range of influential agricultural politicians extends beyond this 'gang of eight', and in turn, identified at least 15 Diet men (including the hachininshu) which they considered to be most influential

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[3] Presumably, relevant beef Zoku-giin were consulted by MAFF from the time negotiation of the new beef agreements commenced, and that the Zoku-giin influence was brought to bear prior to the submission of the policy proposal to the formal LDP party mechanism.

[4] In 1987, this group increased to eleven members and was so re-named as the 'nosei juichininshu' (George 1988).

in agricultural policy matters.[5] All are members of the agricultural Zoku-giin, and hence are ultimately involved in and exercise considerable control over MAFF's policies and activities.

Policy Making Framework

Historical Perspective

Structural developments in Japanese agriculture since World War II have led to problems which have required Government intervention, the consequences of which have made continued intervention inevitable. In the main, these problems relate to small farm size and the consequent high ratio of labour to land, which arose from the redistribution of land to tenant farmers, as well as the active encouragement of democratic institutions and individual initiative by the occupation authorities after the War. Three important facets in Japan's movement to democracy in agriculture can be identified: (a) the land reform law enacted in 1946, which served to abolish absentee land lordism and give former tenant farmers freehold title to land; (b) free elections, based on regional representation, to ensure that rural people secured representation in the Diet; and (c) the organisation of the strong farmers' co-operative movement, which served to enhance the influence farm people have through their representatives in the Diet (BAE 1981b).

These three facets, together with the community attitudes and political forces initiated at that time, and a lack of foreign exchange, promoted an early post-war policy which concentrated on increasing farm output in order to overcome serious food shortages. In effect, a major policy objective was to guarantee adequate production and constant supply of staple foods at stable prices, irrespective of cost or composition.

By 1955 the primary goals of this policy had been achieved; minimum food requirements were being met, foreign exchange earnings were increasing and certain foodstuffs were being imported. By the late 1950s however, growth in other sectors of the economy had gained momentum and began to exert a considerable impact on agriculture. With increased industrial exports, foreign exchange problems eased and imports of some foodstuffs were liberalised, exposing Japanese farmers to competition from foreign suppliers. Thus, the Government faced a problem of widening gaps in productivity between agriculture and other sectors of the economy. Moreover, the dietary revolution began to have

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[5] Among this list of 15 politicians, is perhaps the best known 'beef politician' in Japan - Yamanaka, Sadonori - described in his own words as the 'Godfather of the beef industry'. Despite very strong connections at the grassroots level of agriculture and particularly with the beef industry, Yamanaka has remained outside the hachininshu and recent ministerial positions. His exclusion from the group probably stems from his non-involvement in the formal agricultural policy making machinery of the LDP. Instead, his policy expertise and recent responsibilities have been in the areas of finance and taxation. Despite limited activity in the public arena in recent years, Yamanaka retains the position as key advisor on all issues concerning the beef industry, and remains the most well known, single influence in 'beef politics' in Japan today (and is still regarded as 'the Emperor on Beef'). In particular, his influence lies in his strong connections to local constituency beef interests in Kagoshima, and Chairmanship of the Livestock Industry Promotion Diet Members' League and National Beef Association.

an impact on the demand for traditional, Japanese-type foods, prompting a need for a more diversified agricultural production to satisfy food requirements (see Chapters 2 and 3).

Eventually, developments such as these signalled to policy makers a need for Japanese agriculture to become more productive and more responsive to demand. What emerged from this recognition was the enactment of agricultural policy guidelines which sought to clarify the role of the farm sector in the planned economic growth of the 1960s, and the Government's intentions to protect farm interests. These guidelines were incorporated in the Agricultural Basic Law of 1961, otherwise known as the 'Charter of Japanese Agriculture'.

Agricultural Basic Law

Specifically, the Agricultural Basic Law of 1961 called for an increase in farm size, a shift away from rice production to the production of commodities for which consumer demand was expanding, and for income parity between farm and urban households. In order to achieve this, the Law laid down both general policy guidelines and explicit directives to the Government, within which the following objectives were incorporated: (a) opportunities for farm people to earn incomes comparable with those of non-farm people; (b) selective expansion of farm production to meet changes in consumer demand; (c) improvements in farm structure and technology to promote higher productivity, increased scale to management, livestock improvement and farm mechanisation; (d) improvements in the marketing system; (e) price stabilisation and income support; (f) training of farm operators; and (g) promotion of rural welfare (BAE 1980).

Within this framework a number of related laws, and policy programs and measures were incorporated and implemented (see Table 5.1). However, while the Basic Law (and related laws) contributed greatly to the development of the livestock and horticultural industries, it failed to achieve its primary goals. As discussed earlier, the Law had virtually no impact on the average farm size, nor did it solve the rice surplus problem, which today remains a major rural policy issue.

Table 5.1 : Policy Guidelines Prescribed under the Agricultural Basic Law : Related Laws and Programs

Policy Guidelines	Related Laws	Policy Programs and Measures
Selected expansion of agricultural production	Dairy Industry Promotion Law, 1954 Fruit Raising Promotion Law, 1961	Issuance of long term prospect of demand and supply for major agricultural products Paddy Field Re-orientation Programme
Raising productivity through land and water development and others	Land Improvement Law, 1949 Agricultural Improvement Promotion Fund Law, 1956 Agricultural Research and Extension Promotion Law, 1948	Land and Water Development Schemes Agricultural Structure Improvement Schemes National and Prefectural Research Institutes Agricultural Land Use Promotion Schemes Group Farming Promotion Schemes
Improvement of agricultural structure	Agricultural Mechanisation Promotion Law, 1953 Agricultural Modernisation Fund Aid Law, 1961 Agricultural Co-operative Law, 1947 Law Concerning the Consolidation of Agricultural Promotion Areas, 1969 Farmer Annuity Law, 1970 Law for Facilitating Introduction of Manufacturing Industry into Rural Areas, 1971	Agricultural Structural Improvement Scheme Farmers' Annuity Fund Concessional Loans through Agriculture, Forestry and Fisheries Financing Corporation of Farmers' Co-operative Funds

Continued

Rationalisation of marketing of agricultural products	Agricultural Co-operative Law, 1947 Wholesale Market Law, 1971	Wholesale Market Modernisation Scheme
Price stabilisation and securing farm income	Food Control Law, 1947 Law concerning the Price Stabilisation of Livestock Products, 1961 Temporary Law on Deficiency Payment for Manufacturing Milk, 1965 Sugar Price Stabilisation Law, 1965 Temporary Law on Deficiency Payment for Soybeans and Rapeseed, 1961 Agricultural Disaster Compensation Law, 1947 (Crop Insurance Law)	State control on staple foods (rice, wheat) Price stabilisation system for beef, pork, milk products, sugar, vegetables, etc. Deficiency payment for manufacturing milk, soybeans and rapeseed Crop insurance scheme for major crops (major cereals, fruit, livestock, cocoon)
Rationalisation of marketing of agricultural inputs	Temporary Law on Fertilizer Price Stabilisation, 1961 Agricultural Co-operative Law, 1947	
Farmer training and others	Agricultural Research and Extension Promotion Law, 1948	Agricultural extension services
Promotion of welfare of farmers and rural areas		Rural Life Improvement and Extension Scheme Rural Village Rearrangement Scheme

Note: There is no clear distinction between policy guidelines and the laws or measures listed above because of the complex nature of agricultural products
Source: Tsubota (1985).

The literal application of the Law has continued since its enactment, despite marked economic and demographic changes within both the rural sector and the Japanese economy as a whole. Reasons for the continuation of these objectives can be found in the close association between those responsible for formulating and enacting policies, and the farm community. The inflexibility of many Japanese institutions and the ability of Japan's industrial sector to support the now relatively small rural sector have also accommodated a continuation of these policies (BAE 1981b). As a result, the general framework of Japanese agricultural policy in the late 1980s has not changed from what was encapsulated in the guidelines of the Agricultural Basic Law, some 25 years ago (see Table 5.2).

Clearly, the Law contains a mix of both support and adjustment objectives, the thrust of which are towards protecting the interests of the existing farm population. Although the wording of the Law is general, such objectives are often incompatible. Emphasis has been on support despite strong evidence that support measures reduce incentives for adjustment. Furthermore, pursuit of price and income objectives, in practice, has served only to impede adjustment.

Change in the contents of individual policy measures and priorities has been evidenced to some extent, albeit within the basic ideological, legal and policy parameters expounded in the Basic Law. In the two decades since the passage of the Law, the Government has gradually re-orientated its agricultural assistance strategy away from the use of price support measures as a policy instrument to support farm income. Similarly, policy measures aimed at further increasing production have been replaced by measures to re-orientate production or raise productivity. Expansion of farm size through leaseholding, instead of transfer of ownership, is also now a prime target of structural policy.

Recognition of the need for a re-orientation and adjustment of policy measures, however, did not fully emerge until 1979-1980 when the Government commissioned its Agricultural Policy Advisory Council to undertake an intensive re-examination of the basic aims and direction of agricultural policy (George 1988). The report which followed (MAFF 1980a), represented, in part, a turning point in the development of post-war Japanese agricultural policy. However, specific policy recommendations indicated, at most, a marginal shift in priorities (George 1984).

Essentially a de-emphasis of the price support mechanism was recommended in the report, because of the financial burden it imposed on the Government budget and the surpluses it encouraged in some crops (George 1988). It was argued that the primary function of price was to regulate supply and demand, such that 'zero-growth' price support policies were the recommended means of reducing the supply of some products. As well, a greater emphasis on structural improvement in farming was advocated. This facet of the policy adjustment (including expansion in the scale of farm management) was identified as the most important goal. According to the report, structural change would raise agricultural efficiency and productivity and hence, reduce the need for price support (George forthcoming).[6]

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[6] The thrust of these policy objectives have been reiterated in each of the MAFF White Papers published since 1980 and endorsed in subsequent reports by the Agricultural Policy Advisory Council (George 1988).

Table 5.2 : Overall Framework of Present Japanese Agricultural Policies

Policy Areas	Aims	Major Projects and Measures
Production policy	Improvement of agricultural infra-structure Promotion or re-orientation of production Contribution to overall agricultural production	Land and Water Improvement Scheme Paddy Field Re-orientation Program Plant Protection and Animal Quarantine Farm Mechanisation Scheme State Research Institute Extension and advisory services
Structural policy	Expansion of farm size Encouragement of joint farming	Farmland Use Promotion Scheme Farmland Use Rationalisation Scheme Farmers' Annuity Scheme Agricultural Structure Improvement Scheme Agricultural Production Corporation
Price and income policy	Price stabilisation and security of supply Disaster relief	State control of rice, wheat Price stabilisation regime for beef, pork, milk products, sugar products Agricultural insurance (major cereals, fruits, livestock) National Disaster Restoration Fund
Marketing and consumer policy	Rationalisation of marketing channels Improvement in food quality and safety	Wholesale Market Modernisation Scheme Japan Agricultural Standards Services on consumer information and grievances
Rural Life policy	Improvement in environmental factors in rural villages	Rural village Re-arrangement Scheme Extension service for home life

Source: Tsubota (1985).

Developments which have subsequently occurred as a result of policy objectives advocated in this report (and proceeding reports), have, in George's view, 'reflected and supported the growth of an adjustment mentality in the MAFF which has gradually extended to Nokyo and the farmers'. In effect, an expectation of reductions in agricultural support prices was created, as well as an acceptance of the need for Japanese farmers to become more efficient, productive and internationally competitive (George 1988). However, while a change in policy orientation was initiated, it needs to be remembered that an ideology of support for Japanese agriculture remains enshrined in the Agricultural Basic Law.

This 'Charter', even today, effectively serves to define the objectives of agricultural policy and the nature and extent of Government intervention to achieve these objectives (George forthcoming). Thus, it is inevitable that the Agricultural Basic Law of 1961 will continue to have far reaching implications for the structure and development of Japanese agriculture, at least in the immediate future.

Current Policy Making Framework

The political decision making process in Japan is essentially three-sided: (a) the LDP; (b) the bureaucracy; and (c) big business, or in the case of the agricultural policy process the farmer co-operatives. In essence, the LDP relies on the money of big business, big business relies on the administrative rulings of the bureaucracy and the bureaucracy relies on the political decisions and budgetary votes of the LDP. In addition, the role of the general public, pressure groups, the opposition or anti-establishment and mass media (especially the newspapers) influence the process to varying degrees (Fukushima 1986).

Decision making has been traditionally based on consensus rather than majority vote, and one in which a 'bottom-up' process rather than a 'top-down' process has been the adopted procedure (Hemmi 1982). Recently, however, the LDP has been assuming greater prominence in the policy making process by seeking to adopt the top-down policy making formula. As a result, the LDP now plays a more important role in the formation of policies, through the PARC.

As alluded to earlier, decisions affecting agriculture are of significant political consequence. Such decisions are not left entirely to the bureaucracy, even though, the bureaucracy has traditionally had an active and decisive role in the policy process. At the same time, the chief agent of state intervention in the farm sector remains the bureaucracy (particularly, the MAFF and its associated agencies).

These Government bodies are responsible for the implementation of Government controls over agriculture and the disbursement of agricultural supports. Moreover, the regulatory and budgetary instruments of agricultural protection over which they preside, are a source of administrative power and status (George 1984). The officers of MAFF and associated agencies have, in this respect, a common interest with the farm organisations in ensuring that agriculture secures the largest possible share of the national budget. In view of new policy priorities, which emerged in Japanese agriculture in the early 1980s, this commonality of interests, especially between MAFF and Nokyo, has intensified. Thus, little incentive exists for these bureaucratic agencies to advocate deregulation of the agri-

cultural economy, as it would inevitably reduce their functions and the rationale for Government subsidies to agriculture (George 1984).

In addition to the agricultural bureaucracy, the Government has created a large number of extra-departmental organisations and institutions (gaikaku dantai) which exist to supplement the operation of the Government and as an interface to bridge the policy implementation gap between administrators and agricultural producers. Within such organisations semi-public functions are performed, largely by means of allocations from the national budget. For MAFF, the gaikaku dantai justify their existence as organisational consumers of budgetary expenditure and as positions of retirement for MAFF officials (George 1984).

Some have a specific commodity interests such as the Central Livestock Association, the National Beef Association and the Japan meat Council (or Conference or JMC) in the case of beef, while others have a more general orientation, such as the Food Demand and Supply Research Centre, the National Agricultural Structure and Improvement Association and Japan Agriculture, Forestry and Fisheries Promotion Association. Most have formal executive and functional links with the agricultural co-operatives, and undertake economic and other activities complementary to Nokyo (George 1981).

Over time these bodies, together with MAFF, have developed vested interests in the maintenance of Government support to agriculture, both as a basis for their own existence and as a source of financial benefit. Collectively, this forms an organisational and institutional barrier against the abolition of the regulatory controls and the pecuniary gains flowing from Government intervention in the agricultural sector (George 1984).

Finally, an important ideological dimension to the 'politics of agriculture' also exists in which the Government and agricultural interests present agricultural protection to the Japanese public, and to agricultural trading partners, in a 'national interest' package (George 1984). From this perspective, the preservation of agriculture and the protection of farmers is aligned with national security, social and economic welfare, and cultural tradition, in order to counterbalance economic arguments underlining the costs of agricultural protection in terms of higher food prices, increased budgetary outlays for farm subsidies, losses in net social welfare, and international trade and price effects (George 1984).

Coupled with this exists a broad community based support for agriculture as a 'public good' and for agricultural protection as the political means of ensuring the preservation of farming. To date, the ability and willingness of non-farm groups to tolerate the costs associated with the Government's and Nokyo's support of agriculture, have been facilitated by rising real incomes which, in turn, have allowed the nation as a whole to afford rising levels of protection for part of the population.

In summary, therefore, the balance of political forces rest heavily on the side of maintaining the existing framework of agricultural protection and the levels of Government intervention and assistance needed to support it. Clearly, this has profound implications for the nature of change within the agricultural policy making process. Furthermore, policy making for agriculture becomes a process of formulating goals and measures for the farm sector that arguably promote both agricultural production and the health of the economy, while at the same time appease the political interests that have a stake in the maintenance of the status quo. Change, when it occurs, must therefore be accompanied by some compensation for those interests adversely affected by it, in order to enlist their co-operation and

compliance with the adjustment process and reduce the political costs to the Government (George 1984). The significance of providing compensation in order to facilitate change is re-addressed in Chapter 7, in relation to recent changes to Japan's beef importing policies.

Policy Issues and the Policy Making Processes

Four major policy issues face Japan's farm politicians and agricultural interest groups: (a) agricultural support prices; (b) the MAFF budget; (c) agricultural trade liberalisation; and (d) changes to agricultural laws. Over the last decade, change has been far more evident in Government policies affecting support prices and the levels of subsidies allocated through the MAFF budget, rather than in trade liberalisation and agricultural laws.[7]

Each of the major decision areas in agricultural policy has a special LDP policy committee set up within the LDP's policy making framework of the PARC to examine relevant issues. The PARC is central to the policy making process. Within this Council research in all fields of national policy is conducted and new policy measures initiated. All matters that are to be adopted as policy by the LDP must be approved by the PARC. It consists of 17 committees (bukai) corresponding to the Government ministries and agencies each covering specific fields, 31 research commissions (chosakai) which deal with fundamental problems spanning more than one ministry or agency and numerous special committees (tokubetsu iinkai) which deal with special issues.

Two committees that exist for agriculture are the Agricultural and Forestry Division (Norin Bukai; 170 members in 1987), and the CAPIC (Sogo Nosei Chosakai; 243 members in 1987). Membership on these policy committees is voluntary. However, Diet members with agricultural connections tend to gravitate to these positions in order to ensure their effectiveness as a 'mouth piece' for their supporting groups and constituents. Joint membership is common, with considerable overlap at the executive level. Many members also belong to the Diet Standing Committees on Agriculture, Forestry and Fisheries (George 1984).

Of the 17 committees, there are also three which play an important role in securing political funds and votes. These include the Commerce and Industry Division, the Construction Division, and the Agriculture and Forestry Division. The Directors of these divisions are referred as the 'the Ministry of the party' and are afforded opportunities to secure a senior political post.

In addition to formal policy committees on agriculture there are informal Diet Members' Leagues concerned with agricultural policy issues. These usually comprise the most extreme pro-farmer lobbyists. Membership of these groups is mainly from the LDP, each with 100 to 200 members. The leagues are organised around particular commodity interests or on a policy issue basis; for example Livestock Industry Promotion Diet Members' League. In turn, the primary function of these groups is to lobby the formal policy making machinery of the LDP and Government party leaders on key agricultural issues.

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[7] According to George (1988), there is a widely held belief that agricultural pricing policy (and especially the support price for rice), has a direct influence on the quality of the LDP's electoral support which it receives from Nokyo.

Often, however, there is overlap in agricultural policy leadership positions between the LDP's formal policy making committees and the informal lobby groups. This web of constituency, organisational, commodity and policy ties is typical in Japanese politics, and serves to bind the LDP's intra-party, pro-agricultural lobby per se. Moreover, this web ensures that the agricultural protection system and individuals' gains from Government intervention are maintained (George forthcoming).

Decisions relating to producer prices and Government allocations made through the MAFF budget are reviewed annually, and are the final responsibility of the Minister. (These decisions,therefore, require his official action.) For example, the MAFF budget as well as agricultural prices other than the rice producer price,.are submitted for consideration by the Agriculture and Forestry Division. These decisions are among the most 'institutionalised' within Government.

Although the determination of support prices for rice ('the most politicised agricultural commodity'), has retained political precedence as the major agricultural policy event of the year, other commodities, and particularly livestock products have emerged in recent years as highly politicised items in the price-setting process (George 1984; 1988). High prices for beef (and raw milk for processing) have been maintained through application of import controls. Thus, the issue of beef stabilisation prices (and the guaranteed price for milk) has become entwined with the issue of import liberalisation of beef (and dairy products), and therefore added political weight to these decisions (George 1984). A direct result of this pressure has been a change in the Government's and Nokyo's agricultural policy strategies. On the part of Government this has been reflected by a desire to keep price increases to a minimum to encourage a more efficient and competitive livestock sector. Recent change in Nokyo's stance on support prices has been to focus its campaigns on the agricultural budget, and against agricultural trade liberalisation and import quota expansion of livestock products.

One implication of the shift in Nokyo's strategies is that enhanced mutual interests between Nokyo and MAFF to maximise the Ministry's share of the total budget now exists. The MAFF budget involves the Government, the LDP and Nokyo. However, the extent to which common interests will provide for greater support of farmers is limited. There is currently strong pressure from within the LDP leadership to reduce the overall budget deficit, and increasingly constraints have been placed on MAFF to meet this fiscal objective. (The ministerial budgets are usually produced jointly by the Government and the LDP.)

Setting of the Price Stabilisation Bands for Beef

The LDP's basic decisions are the product of a complex process of consensus. The rituals of this consensus-type of decision making which annually resolve the MAFF budget and support prices will now be outlined in terms of the setting of stabilisation prices for beef.

Stage one begins simultaneously but separately within the parallel bureaucracies of MAFF and Nokyo, as each organisation develops technical and political input into the 'recommended price', in the case of MAFF, and the 'demand price' in the case of Nokyo (George 1988). Although MAFF applies the appropriate statistical formula into which it feeds relevant economic data collected in its surveys, it is largely a 'pseudo-objective gloss on an essentially political process' (George forthcoming). Some of the variables in the MAFF calculation can be interpreted and manipulated to produce a recommended

price which is determined by wider considerations and which allows in advance a margin for political adjustment by the LDP (George 1988).

Nokyo conducts its own independent surveys in order to justify its demand price, which like the MAFF price is a product of statistical calculation and political judgement. Its formulation involves extensive consultation and consensus-decision making within Nokyo. Beginning at the periphery and moving progressively towards the centre of the organisation, it is a process designed to elicit the agreement of the entire organisation to the final demand price in order to mobilise a nationwide campaign of support (George 1988). (The scale of Nokyo's price campaigns correspond to the political importance of the price decision.)

Preliminary discussions are also held between executives from Zenchu (Nokyo's official political arm) and MAFF officials (led by the Minister), before the respective organisations' prices are formally presented to the Livestock Industry Promotion (Advisory) Council. Representations from a cross-section of organisations outside of MAFF and Nokyo, public and private are also received by the Council. In general, the decision finally taken by the Advisory Council is that recommended by MAFF.

This decision is then submitted to the Agriculture and Forestry Division Sub-Committee on Agriculture and Livestock Commodity Prices under the PARC, in order to set the LDP's position on the price. Usually only after considerable debate between members of the formal committee and the informal Diet Members' Leagues is there a resolution. Nokyo's presence, and therefore, position at this stage of the debate is largely communicated through the lobbying activities of the leagues.

Once a decision is formally reached by this LDP Agricultural Committee it is submitted to the executive of PARC, the Policy Deliberation Commission, and then to the Executive Council of the LDP for endorsement. Finally, the position of the LDP is taken by the Chairman of the PARC and the Chairman of the Executive Council, together with the LDP's Secretary-General into negotiations with the Government, which is represented by the Chief Cabinet Secretary and Ministers from the MAFF and Mnistry of Finance (MOF).

This summit meeting between party and Government leaders is the most decisive stage of the policy process. It is here that relative weights are given to administrative-bureaucratic, Government-executive and party-electoral considerations (George 1981). In other words, the LDP amends the Government (MAFF) decision to give what George terms the 'political addition' (seiji kasan).

The respective prices advocated by the relevant bodies involved in the annual decision making process for beef support prices (as well as other farm support prices and the MAFF budget) could be plotted on a continuum. The MOF rarely recommends anything other than a basic minimum or no increase; MAFF's recommended price reflects a 'moderate' increase; the LDP position is an upward revision of the MAFF price; and Nokyo's demand price is an inflated version of the LDP price. (That of the farmers' unions is an extreme version of the Nokyo price.)

The final decision almost always corresponds to the LDP position or slightly below; that is, the MAFF recommended price plus a 'political addition' (George 1981). Since the late 1970s the margin for political additions has been reduced to zero for some commodity prices, including beef. This has re-

sulted for reasons mentioned earlier; namely, pressures for liberalisation, in addition to cheaper feed prices, increased supplies of domestic beef and slower growth in domestic demand.

Although the above refers to the setting of the beef stabilisation prices, it is representative of the consensus-decision making process which is pursued for all major issues in agricultural policy. Similarly in such policy matters it is the party's primary role to determine the limits of political acceptability, and therefore, to assess the electoral implications of any decision. Thus, it follows that the MAFF position is amended to take account of these explicit considerations.

Effectively, two critical stages of decision are involved in any agricultural policy decision: (a) the determination of the LDP's position; and (b) determination of the Government's position through negotiations between the Government (MAFF) and the party. At both stages, the leaders of the LDP's formal agricultural policy committees are the major decision makers. For this reason, Nokyo actively seeks to cultivate their allegiance (George 1984).[8]

Pressure Groups Concerned with Beef Policy Issues

The list of organisations that have interests in the Government's agricultural policies broadly includes: Nokyo; other statutory interest groups and farmers' organisations; consumer groups; business and industry organisations; labour unions; and the mass media (Hemmi 1982). In the following sections the main pressure groups with special interest in beef policy issues are identified.

Statutory Interest Groups

Nokyo : Farmer Co-operative Movement

Nokyo occupies a unique position vis-a-vis the Government. As discussed in Chapter 2, Nokyo is a vehicle for the administration of a whole range of Government policies. In exchange for this performance of public duties Nokyo secures the benefits of monopoly trading, Government subsidies, fees and commissions. Also, it is used as a channel for Government subsidies and payments to farmers.

Further, it was earlier shown that laws provide for the formal incorporation of Nokyo into the policy formulation process. Nokyo Law specifically allows the central unions to make proposals to Government on general policy matters of direct interest to the agricultural co-operatives. Other laws provide for optional or required consultation between Government agencies and Nokyo. Thus, the agricultural co-operatives are legally integrated into the system of agricultural administration and have a legitimised presence (through Zenchu) in the agricultural policy process. Nokyo's leadership is automatically represented on Government advisory councils and other consultative bodies, as the Government's principal intermediary in the rural sector.

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[8] In essence, the negotiation and formalisation of previous bilateral beef agreements between Japan and the United States, and Japan and Australia, also involved these same stages of decision making.

The agricultural co-operatives have had a long tradition of electing their own officials to Government, a practice which is not uncommon for many Japanese interest groups (George 1984).[9] Due to its concentration of membership in the rural and semi-rural areas, the scope for Nokyo to undertake such campaigning has been enhanced under the current electoral structure. Moreover, successful intervention by Nokyo in the electoral process has ensured that political supporters are placed in positions where they can most directly penetrate parliamentary and party structure, and influence policy formation.

Support is undertaken on behalf of current and former agricultural co-operative executives and staff members, seeking political office in the Diet as the direct representatives of Nokyo (Nokyo-giin), and, also, on behalf of a broader group regarded as sympathetic to the interests of Nokyo and the farmers. Not surprisingly the majority of persons from both groups belong to the LDP. According to one Nokyo spokesman, Nokyo has an established control of 80 to 90 per cent of LDP members in the Diet, and 80 to 90 per cent of Cabinet members in support of Nokyo policies. Despite this overwhelming show of established control, the relationship between the LDP and the co-operatives is one of predominant alignment with the LDP, rather than exclusive alignment (George 1984).

In addition, Nokyo sponsors a number of Diet members' groups, the largest being the Agricultural Policy Research Association (Nosei Kenkyukai). These groups are designed to feed political demands from Nokyo into the policy process, by influencing the policy inputs Diet members make on parliamentary committees, party policy making committees and in the Diet Members' Leagues (George forthcoming).

The majority of Nokyo-giin, from both conservative and socialist parties, are members of the Agricultural Policy Research Association and all have had some form of active backing from the co-operatives in elections. In addition to Nokyo officials, this Association embraces politicians with expertise in agricultural matters, those with a strong constituency dictated by interests in agricultural policy, those representing agriculturally related industry and those with connections to agriculture outside Nokyo mainstream organisations. Most groups in this last category are gaikaku dantai, and include the Central Bank for Agriculture and Forestry, the National and Prefectural Chambers of Agriculture, the Agriculture Insurance Association, the Central Dairy Council, and Livestock and Beef Associations (George forthcoming).

The activities undertaken by the co-operatives, the political organisations sponsored by the co-operatives and Nokyo officials (at all levels of the organisation) to mobilise votes for particular candidates are extremely diverse, encompassing both overt and covert operations, formal and informal connections. This results in Nokyo being intimately involved in the electoral process, at all levels of Government. As a consequence, it is difficult to gauge how many Diet members have received electoral backing from the agricultural co-operatives. However, Nokyo does maintain an official circle of Diet supporters, which George (1981) has estimated averages about 94 members.

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9 According to George (1988), in the current Diet there are 30 politicians who hold, or have held, official positions within Nokyo. This represents a decline from 43 politicians in the 1980-1983 Diet and 36 in the 1983-1986 Diet.

By having at its disposal direct representation in Diet and party policy groups and personal contact with party officials at the highest levels, Nokyo is able to exploit every channel and point of access into the policy making process, in addition to the mass-mobilising activities it can mount in the public arena. Nokyo's consent and co-operation are virtual prerequisites for every significant agricultural policy issue. Clearly the movement is motivated to maximise the welfare of its members. It follows, therefore, that Government policies need to be consistent with this philosophy if policies are to have the co-operatives' support. Often Nokyo's support can only be obtained by concessions to the agricultural co-operatives. As a consequence, this trade-off situation has proven significant, for without the support of Nokyo the Government would have been far less likely to meet its policy objectives.

Although the LDP still respects the power of the co-operatives, according to George (1988), Nokyo's ability to represent the farmers is now being challenged. Subject to increasing criticism from Japanese big business for obstructing agricultural reform, Nokyo has been forced to reconsider its traditional role of fighting for higher producer prices. In this respect, Nokyo's acceptance of a reduction in the 1987 producer rice price was particularly significant, for in George's view the agricultural co-operatives may have begun to engineer their own decline and undermine their credibility as a representative organisation for farmers.

Traditionally, the farm lobby has resisted all rationalisation of agricultural protection on the grounds of food security. This coupled with the political basis to food self-sufficiency and security, has ensured that the processes of reform have not been at the expense of Japan's agricultural industries. Thus, it is not surprising that the farm lobby has been the last to recognise the need for Japan to re-order its internal economy in light of its position within the international environment. Now, however, it would appear that Nokyo is prepared to acknowledge the principle of a more market-oriented agricultural economy, provided that the adjustment process remains subject to negotiation within the context of agricultural budget and price support policy making (George 1988).

To some extent, Nokyo's high profile in the past has obscured the role of a number of other agricultural organisations which are also players in the electoral system and policy process with respect to beef. Such groups include the agricultural committee system, the land improvement industry groups, the mutual aid unions and the farmers' unions. Farm membership of the groups is voluntary and overlaps that of Nokyo. However, each is more limited in terms of its focus of interests, scale of membership and functional range. Nevertheless, these other groups have contributed to the organisational strength of farmers and have had a supplementary role to the agricultural co-operatives in representing the interests of farmers (George forthcoming).

Before discussing each of these organisations an initial distinction needs to be made between the farmers' unions and the statutory interest-type groups, and between Nokyo and other statutory interest-type groups. Nokyo, the committee system, the mutual aid unions and the land improvement groups all operate under the terms of their own legislation, but with a primary purpose to perform economic and service functions defined by Government. This is not the case with the farmers' unions, which have no statutory backing. Like Nokyo, the other statutory interest groups also exert organisational influence in an attempt to penetrate the parliamentary and party systems. However, their di-

rect representation within the Diet is generally achieved by recruiting politicians directly into the national or prefectural leadership positions as chairmen or advisors. Nevertheless, all these groups (including the farmers' unions) form part of a politicians' organisational support base, along with the agricultural co-operatives (George forthcoming).

Agricultural Committee System

The three-tiered structure of city, town, and village agricultural committees (nogyo iinkai), prefectural agricultural councils (nogyo kaigi) and the National Chamber of Agriculture (Nogyo Kaigisho), set up under the Agricultural Committee Law of 1951, share a 'legally-sanctioned interest articulation function' with Nokyo (George forthcoming). They also perform duties relating to research, investigation and publicity relating to agricultural production, management and the farmers' livelihood as specified under legislation and Law. However, unlike Nokyo, individual membership of the agricultural committee system is very limited.

As a non-economic interest group, the agricultural committee system derives the bulk of its financial support directly from the national and prefectural Governments, in the form of full subsidies for functions carried out under legislation and partial funding for their own activities. As a consequence, it is regarded as a reliably conservative, pro-government organisation (George forthcoming).

Agricultural Mutual Aid Unions and Land Improvement Industry Groups

At the local level the agricultural mutual aid unions (nogyo kyosai kumiai) have an individual farmer membership. At the prefectural level these unions form federations with a national body entitled the Agricultural Mutual Aid Fund, for which the Government provides half the finance and the agricultural mutual aid federations the rest. The purpose of the Fund is to pay insurance money to farmers in the event of national disaster, and damage to crops and livestock.

Farmers may also belong to local land improvement districts (tochi kairyo ku), which are charged with the tasks of land reclamation and consolidation, and other types of land development activities. These groups form federations of land improvement industry groups at the prefectural level, which amalgamate into the National Federation of Land Improvement Industry Groups. Expenses for land improvement activities are provided from members and from those who benefit from the land improvement activities undertaken by the local districts. The Government may also be approached to undertake land improvement projects, and large amounts of money have been outlaid by MAFF for these purposes.

The receipt of subsidies by these statutory agricultural groups (including the agricultural committee system) is at the loss of some organisational autonomy, depending on the degree of group dependence on Government subsidies and their capacity to generate their own funding through levies on members and other undertakings. Nonetheless, the statutory interest groups share a compelling political objective in maintaining the flow of subsidies for their respective activities (George forthcoming).

Farmers' Unions

The farmers' unions (nomin kumiai) are purely voluntary associations of members (farmers) who join together to achieve some common cause. However, they lack widespread support in many rural areas partly because they are ideologically to the left of the political spectrum, and partly because they are seen to have little influence on Government policies (Longworth 1983). They do not perform public duties, and therefore, are not afforded funding from the Government. Hence, the unions cannot be classed as statutory interest groups.

The largest national grouping is the All Japan Federation of Farmers' Unions (Zennichino) which supports the JSP, while the smaller National Farmers' League (Zenno), incorporating prefectural federations of local farmers' unions, associates itself with the Democratic Socialist Party. Their leaders are Diet politicians and their primary function is to act as electoral support organisations for the socialist farmers in the rural areas. Their influence varies widely across regions; unions attached to Zennichino tend to be active in Tohoku, Chiba and Kanto, while those affiliated to Zenno are more powerful in the Fukuoka area. Although the unions view their primary electoral role as spearheading the organisation of progressive forces in the rural areas, their direct affiliation with the major opposition parties effectively excludes the unions from the agricultural policy deliberations of the LDP.

Institutional Interest Groups

In general terms, the institutional (or administrative) interest groups are known as gaikaku dantai, and a number with commodity specific interests were mentioned in an earlier section.

The gaikaku dantai are charged with implementing regulatory and promotional functions in relation to specialist areas of agricultural administration. Funding is provided from a mix of public and private sources. Membership absorbs statutory interests groups like Nokyo, and other institutional interest groups through legal, executive, advisory and financial links (George forthcoming).

Three noteworthy beef related gaikaku dantai are the National Beef Association, the Central Livestock Association and the JMC. Many others, such as the National Wagyu Cattle Registration Association, the National Association of Beef Cattle Price Stabilisation Funds and the Japan Meat Grading Association, also exist for the interests of the domestic beef industry and beef policy.

The National Beef Association

The National Beef Association (Zenkoku Nikuyogyu Kyokai) is a specialised organisation which also acts as a beef lobby group for the Wagyu beef sector. Together with its sister association, the National Wagyu Cattle Registration Association, it seeks to promote the interest of Wagyu cattle producers. Over the last decade the political influence of both groups has been enhanced by political connections within the LDP.[10]

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[10] In particular, influence has been exerted through Yamanaka, the Chairman of the National Beef Association and the Vice-Chairman of the Central Livestock Association, (refer also to footnote 5 of this chapter).

Central Livestock Association

The Central Livestock Association (Chou Chikusankai) is a national organisation representing the prefectural livestock associations, which are concerned with providing services to livestock farmers. It is a prime lobbyist on behalf of livestock farmers (including poultry farmers), and has in the past had a significant impact on livestock policy (Longworth 1983). Like the National Beef Association, this Association operates in the more political areas of agricultural administration, and recruits politicians into the upper levels of leadership.

Japan Meat Council (Conference)

The Japan Meat Council (JMC) is the vehicle by which the Government administers beef imports under the Private Quota and the Hotel Quota.[11] This semi-governmental institutional organisation is empowered to collect levies on imported beef under these quotas, which in turn, may be re-directed to the meat industry for developmental purposes (Longworth 1983). However, the JMC's more primary role is to co-ordinate policy discussions on all meat issues. In this capacity it frequently resolves disputes between various interest groups involved with meat production and marketing. It also serves as an important initiator and campaigner of specific beef related policies.

Membership is dominated by the traditional meat retail trade (AJMICA), processors (Japan Ham and Sausage Manufacturers' Co-operative Association and Japan Meat Canners' Co-operative Association), livestock producers (four national Nokyo livestock federations and the Central Livestock Association), regional wholesale meat market companies, approved meat importers (Japan Meat Importers Association) and other wholesalers directly connected with meat retailers (National Meat Buyers' Association). MAFF, on the other hand, is not directly represented. However, senior executives are almost always ex-MAFF officials.

Consumer Groups

Despite the recognised high cost of beef, consumer groups (and the Japanese public generally) are allies, rather than opponents of farmers, and traditionally, have not perceived high prices as a major burden. More specifically, the major consumer organisations - Federation of Housewives, Kansai Housewives Federation, Japan Living Co-operative Association (Nisseikyo) and National Liaison Council for Consumer Organisations - have tended to advocate lower prices, but given the national consensus on food security and self-sufficiency, this has not been at the expense of farmers.

Politically, the consumer groups are not powerful. Rarely do they have the access to the kind of direct influence enjoyed by the farmers' organisations. Furthermore, no political party has been willing to take up the cause of urban consumers at the expense of rural producers, and as a consequence, there is not a large consumer voice in Japan. However, in recent years the groups have become slightly more effective in terms of their ombudsman-like role in representing the voices of the general public. Largely this has been with the assistance of mass media (Hemmi 1982). Also, as demon-

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[11] The JMC also administered imports against the Demand Development Quota prior to the abolition of the quota in 1988.

strated earlier there is now a growing influence of the consumer vote in elections at all levels, with an increasing non-farm population now in areas which in the past had helped farm-oriented campaigners to the Diet.

Spasmodically, the housewives' associations have campaigned for cheaper beef prices and greater supplies of imported beef. While this may appear to be advantageous to consumers, it has been more likely for the enhancement of their own funds by securing a greater access to the profits earned from the importing regime for beef.

Business and Industry Organisations

While still defending the national food security goal, the major organisations representing business and industry - Federation of Economic Organisations (Keizai Dantai Rengokai or Keidanren), Japanese Federation of Employers Associations (Nihon Keieisha Remmei Nikkeinen) and Japan Committee for Economic Development (Keizai Doyukai) - have grown increasingly critical of Japan's agricultural and trade policies. For instance, in their criticisms of farm policy, such organisations have called for increased imports as a means of holding down the costs of living for their urban employees. Fears of a future food crisis however, have to date tended to dampen their arguments for a greater dependence on imported foodstuffs, and therefore, restricted their function as agricultural pressure groups, in the strict sense of the term (Hemmi 1982).

In effect, the ability and willingness of business and industry to tolerate protection has varied with domestic economic conditions and international developments. At times of sharp appreciation in the yen (in 1978 and since 1985) the nation's export industries have faced severe financial difficulties which have inevitably prompted public attention to focus on high food prices. Despite the Government's attempts to counter the impacts of the most recent upward movement in the yen (through a new set of economic measures introduced in April 1986), business and industry organisations continued to argue that the recent financial situation has undermined their performance, both domestically and internationally. Hence, their focus has once again turned to the high costs of living facing their employees.

Keidanren, which represents all the large enterprise sector companies in Japan, has launched strong attacks on the farmer co-operatives, and Zenchu in particular. For example, in 1983 Keidanren charged Zenchu with the accusation that the cost of inefficiencies within agriculture had become too greater drain on the national budget and that excessive agricultural protection was the fundamental cause of trade friction with the United States. Since 1985, Keidanren has been again prompted to publically criticise Zenchu as a result of the economic difficulties which recent exchange rate movements have placed on Japan's export-oriented businesses and industries. Moreover, in the 'emerging national consensus on the need for Japan to bring its internal economic arrangements into harmony with the international economic and trading system' Keidanren, as well as Nikkeinen, issued documents in which they demand a relaxation of controls on agricultural imports (George 1988).

Labour Unions

For similar reasons, the labour unions have also become increasingly critical of the 'food-security-at-any-price' doctrine. By 1981 the two major unions - General Council of Japanese Trade

Unions (Sohyo) and Japanese Confederation of Labour (Nihon Rodo Sodomei or Domei) withdrew their unqualified support for agricultural protectionism (Longworth 1983). However, with respect to beef import policies the position of the labour unions is complicated by involvement with the 'butchers' guild'. For example, Sohyo is a longstanding campaigner for the Dowa cause. Thus, it is unlikely that Sohyo would seek changes in beef trade policies which could disadvantage the traditional meat trade.

Mass Media

The mass media, as mentioned earlier in connection with consumer groups, has rarely functioned as a pressure group in its own right. Rather, it has worked in parallel to pressure groups by serving to amplify specific views. For example, during past United States-Japan negotiations over trade in farm products, the media in communicating the demands from the consumers-at-large have forced their views as a factor which required specific consideration by the Government. Further, the United States sought to press its demands concerning beef (and rice) by focussing on consumers' demands expressed through the media.

In the face of current external pressures the mass media have become increasingly critical of the Government, as well as the agricultural co-operatives. Following the revaluation of the yen since mid 1985, the dominant theme of media reports has been criticism of the Government for its failure to reduce agricultural prices, to bring about structural reform in the agricultural sector, and therefore, to reduce prices for Japanese consumers. Such criticisms have also pin-pointed the agricultural co-operatives as the major stumbling block to Government moves which attempt to address the changing economic environment.

Chapter 6

Japanese Importing Arrangements for Beef and Live Cattle

Historical Perspective

Trade in Beef

Japan commenced the importation of beef in substantial tonnages around 1955, when beef was categorised as an import item under the Automatic Approval system and subject to a ten per cent ad valorem tariff. However, in 1957 there was an unprecedented surge in beef imports, prompting Government concern at the speculative nature of beef importing. As a consequence, beef was included under the Fund Allocation system in April 1958.

This system of foreign exchange control restricted beef imports in value rather than quantity terms. As a result, importers responded by endeavouring to maximise the physical quantity imported, irrespective of quality. The bulk of imports comprised frozen grassfed beef from Australia, and in particular, the most purchased cut was brisket. This was used for table meat purposes, as well as in the institutional and processing sectors, with the result that Australia became known as a supplier of low quality product.

In 1964, direct foreign exchange restrictions were replaced as the major means of protecting domestic industries. All imported commodities still on the restricted imports list (beef was one of 174 such products) became subject to the Import Quota system and a 25 per cent ad valorem tariff. Despite changes in the administration of imports, beef has remained one of 12 agricultural items subject to the quota system (Longworth 1983).

Shortly after beef became subject to these arrangements, Australian exporters and industry officials sought to promote the trade of better quality beef from Australia. However, these attempts met with some resistance from the Japanese meat industry, who argued that Japanese consumers had a preference for fresh not frozen product. When opportunities emerged for imports of chilled beef, in the early 1970s, the Japanese trade was finally convinced that Australia could supply better quality products.

By Japanese standards this beef was cheap, and for this reason the market for Australian chilled beef rapidly expanded. As part of Government policy to maintain stable prices for beef and to restrain inflation, the import quota was allowed to rise from 24 200 tonnes in 1970 to a 'planned' 160 000 tonnes in 1973. In line with this expansion in the quota, chilled beef imports from Australia increased from an initial level of 550 tonnes in 1970, to 8 000, 16 000 and 43 000 tonnes during the following three years (Longworth 1983).

Between 1972 and 1973, beef prices soared in response to increased demand and a levelling-off in domestic production. However, the impact of the oil crisis and a general increase in commodity prices triggered a reversal. Accelerating inflation reduced the purchasing power of consumers and as

a result, the demand for beef was dampened. In addition, a sudden rise in the price of feed due to a worldwide grain shortage, prompted beef farmers to liquidate their herds. Hence, wholesale beef and calf prices fell to unprecedented levels. Subsequently, the Government ordered the suspension of the import quota in late 1973, and the complete closure of the market in June 1974 (except for a small Special Quota allocation of 5 650 tonnes for Okinawa and ship chandlers). Due in part to foreign pressure, the market re-opened one year later and the importation of grassfed chilled and frozen beef from Australia and New Zealand resumed.

The development of Japan's beef import market during the 1960s and 1970s was largely geared to the purchase of cheap bulk beef. In terms of price, Australian grassfed beef was more competitive than grainfed beef from the United States. Hence until 1978, based on both market and non-market factors, the Japanese showed a preference for Australian over United States' beef. Australian grassfed beef clearly filled a demand gap in certain, identifiable niches of the Japanese market. In frozen form, it was imported either as manufacturing beef (mainly cow meat and trimmings) for the processing sector, or for consumption as mince and stewing meat at the bottom end of the table meat trade. Other frozen grassfed Australian beef also sold at the lower end of the table meat trade, as sliced, minced or cubed meat. Chilled beef, which constituted a higher quality component of Australian exports, was mainly retailed through meat speciality stores or supermarkets, sometimes mixed with local dairy steer in sliced, minced or cubed forms (Longworth 1983).

Australian beef imports also offered the Japanese trade potentially greater profits and this provided an additional advantage over imports from the United States. Due to the lower quality type of product, and therefore the relatively lower import prices of Australian beef, there was a greater margin of difference between the landed price and the price for which it sold on the domestic wholesale market, than was the case for beef from the United States. This gap was exploited by certain semi-Government agencies (LIPC and JMC) to extract levies on imported beef for funding of the domestic livestock and meat industries. Similarly, this margin enabled private meat traders to make profits on the distribution and sale of imported beef, and in particular imports sourced from Australia provided traders with substantial profits. Such arrangements served to isolate domestic producers from competition of lower priced products, in the sense that the price of imported beef was raised to artificially high levels on the domestic market (Longworth 1983).

Although the United States' beef exporters could claim a quality edge on Australia insofar as they were exporting grainfed product, Japan continued to reserve the bulk of its import trade to the lower priced grassfed beef from Australia, and to confine beef imports from the United States to specialist sectors of the table meat trade. However, in 1978 Japan re-directed the trade from this course in order to meet demands from the United States for increased access to its market. To facilitate the selective expansion of grainfed beef purchases, the Japanese Government made quantitative and qualitative adjustments to certain sections of the quota system. These undertakings, in effect, formalised a separate grainfed beef or 'high quality beef' component within the global framework of the quota system (George 1984).

More recent developments in the Japanese beef market have served to reinforce the political decision taken in 1978. In fact, the Japanese have shown the ability to dictate the level and content of

the trade, and direct trade towards specific country suppliers. Officially however, they have claimed that the resultant change in the composition of imports has been in response to consumer demand, and in particular, an increasing consumer preference for grainfed beef because it offers a closer substitute for domestic beef (ABARE 1987). As a consequence, the United States has significantly increased its share of the Japanese market, at the expense of the traditional Oceania suppliers of grassfed beef, and in particular Australia (see Appendix 1).

Australia's virtual non-participation in the grainfed beef trade has also contributed to the contraction in its share of the Japanese market (George 1984). The earlier, unforeseen collapse in the Japanese market had serious repercussions within the Australian industry. During the 'boom' of 1970-1973 many Australian producers embarked on developing a feedlot industry (often in joint venture with Japanese companies) which was tailored to servicing the Japanese market. However, due to the specific nature of the product being supplied, the beef was not readily saleable on the domestic market or in other export markets. As a result, when the market closed many enterprises lost substantial amounts of money and today many producers still remember this collapse and the losses. Thus until recently, pursuits which have sought to re-develop and re-position an Australian lot-feeding industry to service the Japanese market have been limited (AMLC 1987).

Australia's entry into the grainfed beef segment of the market has also been hindered by the Japanese definition of the market as a 'selective cut market'. According to industry officials, the frozen grainfed beef market is a limited and selective cuts market which demonstrates a preference for particular cuts, rather than frozen grainfed full sets. Such a philosophy has made it very difficult for Australia to supply grainfed beef to Japan. To date, the majority of Australian packers have been only in a position to viably supply full sets because no profitable domestic or alternative export market exists to absorb the residual cuts not purchased under Japanese frozen beef tender arrangements.[1]

When the market opened up to the United States in 1978-1979, the frozen beef tenders called for a limited number (six) of part cuts of grainfed beef, principally forequarter cuts (square-cut chucks, briskets, short plates, shoulder clods), with the balance in hindquarter cuts (striploin, tenderloin). In 1982 two forequarter cuts and a further hindquarter cut were added to the list (chuck roll, rib eye roll, tenderloin), and under the terms of the 1984-1987 beef agreements, four butt cuts were included (knuckle, top round, bottom round and bottom sirloin butt). Although all twelve primal cuts of the carcase could be tendered for, this did not significantly improved Australia's ability to penetrate the

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[1] Australia has supplied limited tonnages of frozen beef full sets under SBS tendering arrangements. However, more successfully it has managed to secure access for beef full sets in chilled form and aged frozen form, which leaves Australia in a chilled state (see footnote 4 of this chapter). Increasingly exports of these products have been derived from grainfed or lot-fed cattle. For the twelve months ended June 1988, Australia shipped about 56 000 tonnes of chilled beef to Japan (or, 44 per cent of total exports); the bulk of which comprised full sets. However, recent developments would indicate that the Japanese authorities are attempting to further restrict the importation of chilled and frozen full sets, and in particular, through the new SBS tendering arrangements. Moreover, it has become apparent that during the current pre-liberalisation phase the LIPC will abolish its purchasing of chilled beef under the one touch allocation system. These issues are further discussed, below.

grainfed market. A major reason for this was that the twelve cuts were not called for on a natural fall basis (AMLC 1987).[2]

Livestock Industry Promotion Corporation

The Livestock Industry Promotion Corporation (LIPC) is a semi-Government institution established in 1961 for the stated purpose of ensuring the price stabilisation of livestock products and promotion of the livestock industry. However, its role as a 'price stabilisation' agent would seem to have been incidental to its primary purpose of maintaining high prices for the domestic beef industry.

Its involvement with beef began in July 1966, when it was authorised to import beef in parallel with private traders. At that time, the aim was to position a Government agency to sell beef in order to restrain upward movements in domestic beef prices, and since 1966, the LIPC has been allocated a share of the global quota. However, the powers assigned to the LIPC in 1966 did not provide for it to take action in the event of market decline, other than ceasing to sell beef. Consequently, when domestic wholesale prices dropped in 1973 the LIPC could do little to stabilise the market. Hence, the Government, itself, was forced to act by cancelling the quota, virtually all of which was LIPC allocation (Longworth 1983).

In May 1975, prior to the re-opening of the market, the Government categorised beef as a 'designated product' under the Price Stabilisation Law for Livestock Products 1961 (Chikuanho), and thus, introduced a stabilisation scheme for domestic beef prices. Since that time, the LIPC has been assigned the task of regulating the flow of beef onto the wholesale market so that prices of designated grades of beef, remain within specified price bands (Longworth 1983).

In general, it has been LIPC policy to operate the price stabilisation scheme through regulating the flow of imported beef onto the domestic market, and in turn, by manipulating stocks of imported beef to keep wholesale prices in the upper half of the price bands. If the market price appears likely to fall below the mid-point of the stabilisation band, stocks of imported beef are withheld from the market and the flow of imports retarded. If prices rise or appear likely to rise above the ceiling price, the LIPC releases stocks of imported beef, thereby placing downward pressure on prices (Longworth 1983). In addition, the LIPC can manage stocks of domestic beef previously purchased by the LIPC or the co-operatives.

By virtue of its role in the administration of the domestic beef stabilisation scheme, the LIPC has been the chief instrument of Government control over Japan's beef import trade, with the responsibil-

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[2] In light of these difficulties, the AMLC sought to develop specifications for a new product line, grainfed yearling beef. In 1988, the LIPC made provisions under the 'other' (grassfed) beef component of the competitive tender system for a trial shipment of 36 tonnes of yearling beef full sets. Due to higher than expected offer prices by the selected Australian suppliers, the LIPC chose to purchase and assess only 12 tonnes of product. Since delivery in July 1988, no further shipments have occurred through these arrangements. Given the increased opportunities which now exist for yearling beef to be purchased through the SBS tendering system, it would seem plausible to conclude that the LIPC will resist any future involvement with the 'establishment' of this product in the marketplace.

ity for the bulk of beef imports entering Japan, under the General Quota. Furthermore, the structure of the Japanese preference for imported beef, as defined by political and commercial forces, has been largely reflected in the purchasing patterns of this state trading agency.

Essentially, the LIPC's decisions concerning the purchase of beef have been determined with reference to two main sets of factors: (a) market (demand) factors; and (b) policy factors. The market factors have related to consideration of demand by Japanese meat traders, and therefore, have been affected by calculations on anticipated profits and the various components of this; namely price, quality, marketability and consumer preferences. The policy factors, on the other hand, have encapsulated domestic price stabilisation objectives, political considerations stemming from vested interests in the trade and trade policy objectives affecting the interests of Japan's beef suppliers. The integration of these two sets of factors, has seen the LIPC 'filter the demand factors through the policy considerations', with the result, that the LIPC has been endowed with an administrative discretion which has allowed it to shape, modify and channel market demand (George 1984). For example, Japan's decision to make staged increases in grainfed imports was translated by the LIPC into a shift in its purchasing policy, expressed in terms of changes in the composition of the beef it purchased through the frozen beef tenders. This was again demonstrated when, in parallel with the planned growth in imports through the SBS system, the LIPC restricted the number of frozen beef cuts it is to directly purchase and market so as to influence the types of product being imported through the SBS tender.

In the past the LIPC has used its quota allocation to order beef on its own behalf for resale or re-allocation to the trade, or to assign its right to import beef to various end-user or wholesaling groups. Traditionally, the LIPC has placed greater emphasis on the former, for to carry out its role of price stabilisation the LIPC has required the control over imports which can be achieved by regulating purchases of frozen beef. This preference has been evidenced by the fact that over 70 per cent of the total LIPC Quota has been allocated to the purchase of frozen as opposed to chilled beef, under tender arrangements.

Chilled beef, on the other hand, has entered and been distributed within Japan, largely outside of the direct control of the LIPC. Due to the nature of the product, it must be immediately disposed of through the marketplace. As a result, the Japanese have consistently argued that the short shelf life of the product has made it unsuitable for LIPC's requirements of beef stockpiling for the purposes of price stabilisation, and that it has a direct impact on the level of domestic wholesale beef prices (and in particular, dairy cattle prices).

In view of these arguments, the Government has continued to demonstrate a reluctance to allow the increased importation of chilled beef.[3] As a consequence, Australia's position in negotiating significant increases in chilled beef imports has been weakened. Moreover, the introduction of aged

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[3] It was significant, however, that in late 1986 the Government made a provision for 'emergency imports' of chilled grainfed beef carcases in an attempt to 'cool down' domestic wholesale beef prices (see Chapter 2). This facility has since been removed with new provisions under the SBS system for the importation of chilled beef. The LIPC , however, is positioned to re-commence the import of carcases should the need arise again.

frozen beef in 1980 further accommodated the Government's resistance to imports of chilled beef and in many ways has further reduced Australia's capacity to expand access for chilled product.[4] Essentially, the LIPC developed the concept of 'aged' beef to enable it to undertake the freezing and storage of imports of beef. In turn, imports of aged frozen beef have facilitated LIPC stock holding and enabled it to place relatively large quantities on the market at short notice, should the need arise.

Clearly, the LIPC's purchasing criteria and composition of purchases will continue to change from 1988. As outlined in Chapter 1, under the terms of agreements signed in June 1988, the liberalisation of the Japanese market to beef imports is scheduled for 1 April, 1991. Transition arrangements, pre-liberalisation, are to include the phasing down of direct LIPC involvement in the purchase and sale of imported beef. After April 1991, the LIPC's association with the import trade will no longer exist. Its role in the administration of domestic price stabilisation is expected to be maintained, but according to some mechanism, other than the current 'buffer stock-type' scheme based on supplies of imported beef. Moreover, with an increasing proportion of the trade now to be administered indirectly through the LIPC (namely, through the SBS system), the Government, in theory, should not be as well-positioned to dictate and influence the composition and source of Japan's beef imports. These issues are addressed in detail in Chapter 7.

Current Quota Arrangements Governing Beef Imports

As explained in the preceding sections, it has been the intention of Japan's policy makers to maintain tight restrictions on the entry of beef imports so to ensure domestic beef wholesale prices are stable and above world parity. Over time policies in this area have shifted toward specific controls on the types of imports and increasingly complex quota arrangements (ABARE 1987). Moreover, within the complexities of the importing framework, changes in the volume and composition of Japan's trade have occurred.

The categories of beef (as defined in official import statistics recorded by the MOF) presently subject to quota arrangements and a 25 per cent tariff are as follows:

0201.10.000 meat of bovine animals fresh or chilled, carcases or half carcases;
0201.20.000 meat of bovine animals fresh or chilled, other bone-in cuts;
0201.30.000 meat of bovine animals fresh or chilled, boneless cuts;
0202.10.000 meat of bovine animals frozen, carcases or half carcases;
0202.20.000 meat of bovine animals frozen, other bone-in cuts;
0202.30.000 meat of bovine animals frozen, boneless cuts;

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[4] Aged beef leaves Australia as a chilled product and by being stored at specific temperatures it 'ages' or 'conditions' (that is, tenderises and matures), during transportation. Upon arrival in Japan it is snap frozen by means of a special process at designated works. Once frozen it can be stored in LIPC rented stores and released onto the market as required. Although not readily accepted by the trade at the outset, according to the LIPC, aged frozen beef is now well established in the marketplace as a grassfed product unique to Australia. Japanese traders, on the other hand, are believed to be somewhat more sceptical about the acceptability of aged frozen beef products (AMLC 1987).

0206.10.090 other offals of bovine animals fresh or chilled; and

0206.29.090 other offals of bovine animals frozen.

As mentioned earlier, certain categories of beef offals are not classified as quota items. Currently, these include:

0206.10.010 internal organs and tongues fresh or chilled;

0206.21.000 tongues frozen;

0206.22.000 livers frozen; and

0206.29.010 other internal organs frozen.[5]

Offal items, such as livers, tongues, tripes, hearts, kidneys, tripe and diaphragm meat, can enter freely under the Automatic Approval (AA) System, subject to a 15 per cent tariff. Other items (for example lips, tails, ears and noses), were previously classified under quota arrangements for beef, but from 1 October, 1988 were re-specified outside of such regulations. However, a tariff of 25 per cent, and not 15 per cent, has been retained on these items. Categories of offal which remain subject to quota arrangements, and hence a 25 per cent tariff, are headmeat, cheekmeat and beef skirt plates. Importing arrangements for beef offals are discussed further in the proceeding section.

The category, 1602.50.292 other items simply boiled in water, was also formerly classified under beef quota regulations. However from 1 April, 1988 the Japanese Government opted to re-classify imports of boiled beef outside of these quota arrangements. A 25 per cent tariff still remains, but imports are to be liberalised from 1 April, 1990 and then subject to a revised tariff schedule. Arrangements governing the importation of boiled beef are discussed below.

In broad terms, the Japanese Government has regulated beef imports within a quantitative framework which has comprised a General Quota and Special Quotas. Under current 'transition-to-liberalisation arrangements, this basic breakdown of import controls has been retained.

The General Quota is the largest category of the total quota (90 per cent) and comprises a LIPC Quota and a Private Quota. Traditionally, the LIPC Quota has represented about 90 per cent of the General Quota and primarily consisted of frozen beef (grainfed and grassfed) and chilled beef (grassfed, lot-fed and some grainfed) imported by the LIPC through various tendering arrangements. Specific details of these LIPC importing arrangements, under the previous and present beef agreements, are discussed below.

The remaining ten per cent of the General Quota has been taken up through the Private Quota (frozen and chilled beef). Of this quota, 70 per cent is for allocation to the AJMICA (Zennikuren),

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[5] In January 1988, categories of imports collated in monthly statistics by the MOF were re-specified. Previously, monthly imports of beef subject to quota arrangements were recorded as follows: 02.01-111: meat of bovines, bone-in chilled; 02.01-119: meat of bovines, boneless chilled; 02.01-121: meat of bovines, bone-in frozen; 02.01-129: meat of bovines, boneless frozen; 02.01-139: meat offals of bovines not elsewhere included; and 16.02-233: preserved meat or meat offal of bovines, simply boiled in water. The following category of beef offals was not subject to quota restrictions: 02.01-131 internal organs, and tongue of bovine fresh, chilled and frozen.

while the remainder is allotted to two end-user organisations, the Japan Ham and Sausage Manufacturers' Co-operative Association and the Japan Meat Canners' Co-operative Association.

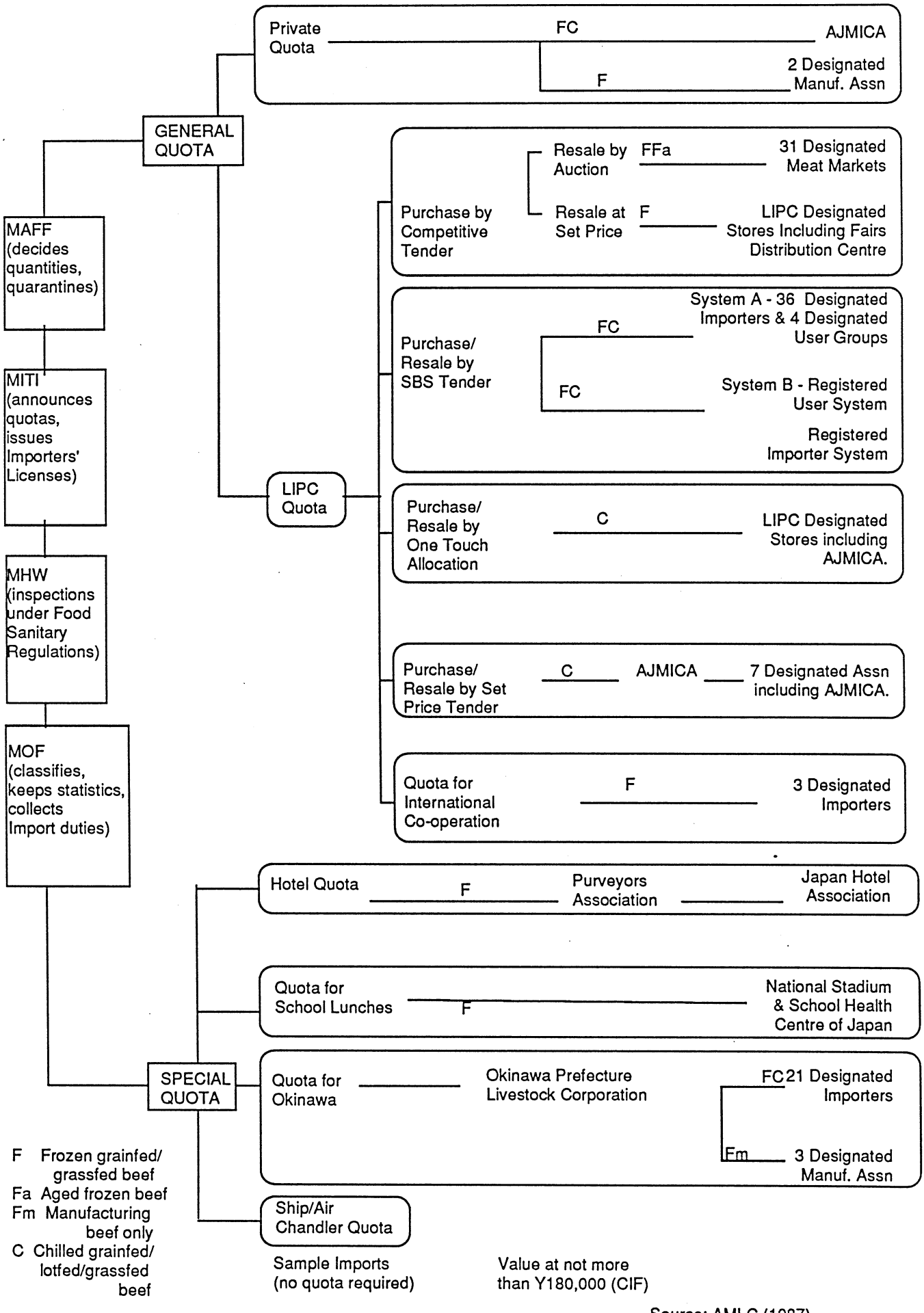
In the past, Special Quotas have accounted for about ten per cent of total quota and have covered imports of frozen beef for hotels, school lunches, boiled beef, the southern island prefecture of Okinawa, demand development, ship chandlers and air catering. Under current arrangements five separate categories of Special Quotas exist. As a result of negotiations in 1988, the Japanese Government abolished the Demand Development Quota, and as mentioned earlier, removed imports of boiled beef from beef quota.regulations. A diagrammatic presentation of the importing framework during the current pre-liberalisation phase (that is, from Japanese fiscal year 1988 to 1990, inclusive) is provided in Figure 6.1.

A breakdown of beef import quotas since 1973 is presented in Table 6.1. The allocation of quotas is announced twice a year by the Ministry of International Trade and Industry (MITI), with each allocation covering two six month periods: April to September (first half year quota), traditionally the slightly larger of the two allocations; and October to March (second half year quota). Also, MITI issues import licenses, while the MOF classifies product, compiles import statistics and collects import duties of 25 per cent on all beef imports. The MAFF, and in particular the Livestock Industry Bureau (Chikusan Kyoku) is responsible for overseeing the administration of the import quota.

In line with annual shifts in tonnage of the total import quota, the absolute tonnages allocated to the various components of the quota have changed over time. However, in general, the relative shares of the quota allocations have remained stable.

Domestic price stabilisation considerations, on the other hand, have resulted in the suspension, increase and decrease of beef quota imports during recent years. For example, as mentioned earlier in response to periods of unfavourable domestic supply and wholesale price conditions, the market closed in 1974, and between 1980 and 1981 total beef imports under quota fell by some 8 000 tonnes (six per cent). Furthermore, in response to continuing inflated wholesale prices the Government afforded an expansion in imports in 1987 which was substantially above (37 000 tonnes) that set down in the terms of the 1984-1987 bilateral agreements (see Table 6.1).

Figure 6.1 : Channels for the Importation and Distribution of Beef Under Quota Arrangements



Source: AMLC (1987)

Table 6.1: Beef Import Quotas, 1973-1988

Japanese Fiscal Year	General Quota			Special Quotas						
	LIPC	Private	Subtotal	Hotel	Okinawa	School Lunch	Boiled Beef	Demand Development	Subtotal	**Total**
					(tonnes)					
1973	146 000*	14 000	160 000	1 000	6 455	-	2 000	-	9 455	169 455
1974	-	-	-	-	5 650	-	-	-	5 650	5 650
1975	69 900	5 100	75 000	1 000	5 500	1 000	2 500	-	10 000	85 000
1976	71 000	9 000	80 000	1 000	5 500	3 000	7 000	-	16 500	96 500
1977	73 000	7 000	80 000	2 000	5 200	2 200	3 100	-	12 500	92 500
1978	86 500	8 500	95 000	3 000	5 600	3 000	5 400	-	17 000	112 000
1979	105 600	10 900	116 500	3 000	5 800	2 500	6 700	-	18 000	134 500
1980	106 800	12 200	119 000	3 000	5 850	2 250	4 700	-	15 800	134 800
1981	99 900	11 100	110 000	3 000	5 850	2 250	4 700	-	15 800	126 800
1982	107 280	11 920	119 200	3 000	5 850	2 250	4 700	-	15 800	135 000
1983	112 680	12 520	125 200	3 000	5 850	2 250	4 700	-	15 800	141 000
1984	119 880	13 320	133 200	4 000	5 850	2 250	4 700	-	16 800	150 000
1985	127 260	14 140	141 400	4 000	5 850	2 250	4 700	800	17 600	159 000
1986	134 460	14 940	149 400	4 000	6 050	2 250	4 500	1 800	18 600	168 000
1987(a)	174 600	19 400	194 000	4 000	6 250	1 750	6 000	2 000	20 000	214 000
1988(b)	228 240	25 360	253 600	10 000	8 000	1 400	1 000	1 000	20 400	274 000

* Approximately 40,000 tonnes of this quota was subsequently cancelled

(a) Includes a 37 000 tonne increase in the total quota which was negotiated in the 1984-1987 bilateral agreements between Japan and Australia, and Japan and the United States

(b) Excludes the allocation of 7 000 tonnes under the Boiled Beef Quota, due to the re-classification of the boiled beef imports outside of beef quota arrangements but incudes the 1 000 tonne allocation under the Demand Development Quota for the first half year quota

Source: AMLC (1987), with modifications.

It is official Japanese beef import policy, frequently reiterated, that Japan does not discriminate according to country of supply (George forthcoming). Apart from the Special Quotas, which need not be global and can specify particular countries of supply, allocations of the General Quota are not specific to countries. Rather, the quotas operate within a global framework and any country, provided it meets with Japanese quarantine requirements (in particular, free of foot and mouth disease), can apply to be registered as a supplier of beef. Somewhat contrary to these provisions, however, Japan has sought to restrict the general expansion of quotas according to agreements draw up bilaterally between itself and the United States, and Australia.

As a result of negotiations with the United States in 1978 and subsequent negotiations prior to 1988, the Government maintained within the overall quota a 'high quality beef' (HQB) component. This represented a specific category for grainfed beef imports, split between the LIPC allocation of the General quota, the Hotel Quota, and from 1985, the Demand Development Quota.

In the 1984-1987 (Japanese fiscal year) bilateral agreements with the United States and Australia, Japan undertook to increase the beef import quota by an annual average of 9 000 tonnes over four years, from 141 000 tonnes (1983) to 177 000 tonnes (1987).[6] Of this increase, the high quality beef component was to increase by annual increments of 6 900 tonnes (a 17 per cent annual increase), or by a total of 27 600 tonnes during the period of the agreement.[7] This compared with a negotiated annual expansion in the 'other' (grassfed) beef component of 2 100 tonnes, or by a total of only 8 400 tonnes during 1984-1987 (see Table 6.2).

Up to the second half of the 1987 fiscal year, Japan's importing practises were consistent with undertakings in bilateral agreements signed with both the United States and Australia in 1984. Within the overall commitment to increase total beef imports by 9 000 tonnes per annum, chilled beef imports were maintained at just above the 24 000 tonne floor level and aged frozen beef imports increased by annual increments of 1 000 tonnes. In an attempt to promote the demand for beef, largely as a result of United States pressure, Japan also introduced four new grainfed beef (hindquarter) cuts for purchase under LIPC frozen beef tenders and a new Special Quota, the Demand Development Quota. Pressure from the United States also prompted the introduction of the SBS tender arrangement.

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[6] Other elements of the 1984-1987 Australia-Japan agreement, included (a) a minimum level of 24 000 tonnes for imports of chilled beef; (b) an increase in aged frozen beef imports by 4 000 tonnes, from the 1983 level of 10 000 tonnes to 14 000 in 1987; (c) the two Governments will exert mutual efforts to exploit demand for high quality beef; (d) the two Governments will exert efforts to exploit demand for a greater variety of high quality beef cuts; (e) a new measure in LIPC transactions, to ensure more direct commercial contact between overseas suppliers and Japanese buyers; and (f) consultations during the 1987 fiscal year on matters related to access for beef imports in 1988 and thereafter.

[7] This was approximately the same rate of growth in imports as the 3 500 tonnes (16 per cent annual increase) during the previous agreement period, 1979-1983.

Table 6.2 : Negotiated Beef Quota Imports, 1984-1987 Agreement

Japanese Fiscal Year	HQB Component	[Hotel* +Demand Development]	Other Beef**	Total Quota
		(tonnes)		
1983	30 800	[3 000]	110 000	141 000
1984	37 700	[4 000]	112 300	150 000
1985	44 600	[4 000+800]	114 400	159 000
1986	51 500	[4 000+1 800]	116 500	168 000
1987***	58 400	[4 000+2 000(e)]	118 600	177 000
1987	80 200(e)	[4 000+2 000]	133 800	214 000

* Beef imported against the high quality beef component under the Hotel and Demand Development Quota allocations

** Includes purchases of grassfed beef and grainfed beef outside the high quality beef component

*** Anticipated expansion in the quota, in line with the negotiated terms of the 1984-1987 agreement

(e) Estimate

Note: LIPC purchases of grainfed beef skirt plates under frozen beef tenders were deducted from the HQB category

Purchases of chilled grainfed beef carcases since October 1986 were reportedly included under the HQB component (AMLC 1987)

Source: AMLC (1987).

As indicated in Table 6.2, under the terms of the 1984-1987 bilateral agreements the total beef import quota for 1987 was anticipated to reach 177 000 tonnes. In March 1987 a first half quota for 93 000 tonnes was announced, and consequently, it was expected that the second half quota would be for 84 000 tonnes. However as mentioned earlier, in a further attempt to 'cool down' the domestic wholesale market and to overcome the continuing shortage of beef in Japan, the authorities announced a second half quota for 121 000 tonnes. This represented a 37 000 tonne increase on the previously anticipated level.[8]

A continuation of the shortfall in beef supplies again forced an early announcement of the first half year quota for 1988. Significantly, this occurred prior to the start of formal negotiations on beef access for 1988 and beyond, and by May 1988, the LIPC had virtually tendered all its first half year allocation of the 102 000 tonne quota. This situation coupled with a further strengthening of consumer demand for beef, increased the need for Japan to reach a settlement to negotiations with the United States (and to a lesser extent, Australia).

8 In announcing details of this expanded quota, Japanese officials did not offer a breakdown of the increase between high quality beef and grassfed beef. According to MAFF, this was to depend on market demand during the second half of the 1987 fiscal year.

Consistent with the elements of agreements finally negotiated in late June 1988, the Japanese Government announced details of the beef import quota for the second half of the 1988 fiscal year. As indicated in Table 6.3, the quota for 1988 fiscal year totalled 274 000 tonnes; 60 000 tonnes above the 1987 quota level of 214 000 tonnes. As expected, the General Quota of 253 600 tonnes was allotted to the LIPC and Private Quotas in traditional proportions; namely, 90 per cent and ten per cent, respectively. Also, within the various Special Quota categories, the 1988 allocations under the Hotel and Okinawa Quotas were consistent with negotiated commitments, while the quota for demand development was abolished.

The future expansion of the quota during the current six year agreement period is shown in Table 6.3. Global quotas will continue to increase in annual increments of 60 000 tonnes, to 394 000 tonnes by the end of 1990. From the time of abolition of beef quotas (that is, 1 April, 1991) and the introduction of a tariff regime, provision for emergency actions will exist.[9] In effect, these arrangements will provide a 'trigger level' to imports equivalent to the 1990 quota level compounded by 20 per cent over each of the succeeding three years. In 1991, imports will be allowed to reach 472 800 tonnes, in 1992 about 567 360 tonnes and by 1993, beef imports can be estimated to total around 680 830 tonnes.

Reportedly, key elements of Australia/Japan agreement are similar to those negotiated in the United States/Japan agreement. The Australia/Japan agreement does not include reference to imports of high quality beef. However, minimum tonnage commitments for chilled and aged frozen beef were obtained.[10] From the previously negotiated level of 38 000 tonnes in 1987 (that is, the minimum commitment of 24 000 tonnes for chilled beef imports and 14 000 tonnes for aged frozen beef under the previous agreement), imports are to expand to 68 000 tonnes by 1990.

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[9] Initially the ad valorem tariff on beef imports will be set at 70 per cent, but reducing to 60 per cent in 1992 and 50 per cent in 1993. During this three year period, emergency action will be taken if imports appear likely to exceed a level calculated at 120 per cent of the previous year's imports, or a level of imports equivalent to the quota level in 1990 compounding by 20 per cent over each of the three years. Emergency action is to take the form of an additional tariff of 25 per cent, but would involve prior consultations with suppliers. As from 1 April, 1994 safeguard measures will be limited to only those permitted under GATT. The tariff on imports will remain at 50 per cent, but will be subject, at that level, to tariff negotiations in the Uruguay Round of MTN (see Appendix 2).

[10] It is not known if the United States' agreement contains specific guarantees on future access levels for 'high quality beef'. The preparedness of the Japanese to grant concessions to Australia with respect to chilled and aged frozen beef, may mean the existence of a similar commitment in the United States' agreement on access for high quality beef.

Table 6.3 : Estimated Breakdown of Negotiated Beef Quota Imports, 1988-1993 Agreement

Japanese Fiscal Year	General Quota				Special Quotas	Total Quota
	Private	LIPC	[SBS]*	Sub Total		
	(tonnes)					
1987	19 400	174 600	[17 460]	194 000	20 000	214 000
1988	25 360	228 240	[68 472]	253 600	20 400**	274 000
1989	30 925	278 325	[125 246]	309 250	24 750	334 000
1990	36 425	327 825	[196 695]	364 250	29 750	394 000

* SBS component of the LIPC Quota accounted for ten per cent in 1987 and has been set to expand to 30 per cent in 1988, 45 per cent in 1989 and 60 per cent in 1990

** Includes the one tonne allocation of Demand Development Quota for the first half of the 1988 fiscal year Excludes tonnages allocated under the Boiled Beef Quota

Separate commitments on the expansion of the chilled beef component vis-a-vis aged frozen beef were not obtained, but it could be expected that the Japanese authorities will seek to have the bulk of the 10 000 tonne annual increase as aged beef (that is, able to be frozen down) in order to meet price stabilisation objectives. Moreover, it is likely that the Japanese will attempt to have any increases in chilled beef imports (particularly through the SBS system) in the form of cuts, and not full sets. These issues are considered in more detail below and in Chapter 7.

General Quota

The General Quota is the largest category of the total beef import quota (around 90 per cent). The MAFF, in co-ordination with the LIPC determines the tonnage to be imported under the quota, which comprises a LIPC Quota and a Private Quota.

LIPC Quota

During the current three year pre-liberalisation phase, the LIPC Quota will expand significantly; from around 175 000 tonnes to over 327 800 tonnes, or by 88 per cent (see Table 6.3). Although the quota allocation will be retained at 90 per cent of the General Quota, the proportion and composition of LIPC purchases to be taken up through the various arrangements which it administers will alter dramatically.

As mentioned earlier, imports are restricted under this quota for the specific purpose of stabilising prices on the domestic beef wholesale market, as required by the Price Stabilisation Law, 1961. Although Australia has always provided the bulk of the beef purchased by the LIPC (65 to 75 per cent) and in 1987 still retained the major share of the total quota beef market, the United States' share of LIPC imports has increased considerably in recent years, in line with the negotiated increases in the high quality beef component of the global quota.

The LIPC is only empowered to purchase beef which has been imported. It is not permitted to purchase and import beef on its own behalf. Thus, it operates through designated importers, which to

date has totalled 36 (see Appendix 3).[11] Any foot and mouth disease free country can supply beef to the LIPC for importation provided it meets with LIPC product specifications and buying conditions. At present, only the United States, Australia, New Zealand, Canada, Vanuatu and Mexico supply beef products through LIPC channels.

Different types of beef (that is, grainfed, lot-fed and grassfed; frozen, aged frozen and chilled beef) have been imported against the LIPC quota under a global system of tenders and allocations, and according to specifications set in consultations with importers and exporters. To date, the arrangements which operated during the previous agreement period (1984-1987) have been maintained. These are as follows: (a) frozen beef tender system; (b) simultaneous buying and selling tender; (c) chilled beef set-price tender system; (d) chilled beef one-touch allocation; and (e) international co-operation quota.[12]

Prior to liberalisation, growth in the LIPC Quota will be dominated by imports through the SBS system. However, uncertainty associated with the type of beef which will be purchased remains, and in particular, the potential for expansion in imports of grassfed beef vis-a-vis grainfed beef, and chilled beef vis-a-vis frozen beef is unclear. Concomitant with increased emphasis on the SBS system, will be the 'winding back' of imports through the LIPC's more traditional purchasing channels, as listed above. The direct purchasing and handling of product by the LIPC is estimated to decline from around 157 000 tonnes in 1987 (around 73 per cent of total imports) to 131 000 tonnes in 1990 (33 per cent).

Presumably, the types and cuts of beef tendered for by the LIPC through the frozen beef tender system, set price tender and one touch allocation, will be increasingly determined by the nature of imports through the SBS system during this period. In fact, certain channels of importation are likely to be abolished prior to 1 April, 1991 (for example, the one touch allocation system). Moreover, certain channels of distribution administered by the LIPC have been already phased down (namely, the auction system) and abolished (namely, the sell-out tender system).

Relevant details concerning the various types and tonnages of beef purchased and distributed through the respective LIPC arrangements under the current and most recent bilateral agreements with Japan are discussed below.

Competitive Tender System

As chilled beef imports have remained outside direct LIPC control, the volume of beef imports entering Japan has been adjusted through each frozen beef tender according to domestic supply and de-

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[11] Under new SBS arrangements there are provisions for new entrants, both Japanese and (licensed) foreign importers and end-users, to trade in beef (refer to the following section on the SBS system, as well as Chapter 7). Thus, the recent listing of 36 designated importers is expected to increase.

[12] In late 1986, the LIPC also adopted the practice of importing chilled grainfed beef carcases through a system similar to the one-touch allocation (see Chapter 2). However as mentioned earlier, this activity was discontinued in the second half of 1988 with the introduction of the new SBS arrangements, and in particular, the facility to import chilled beef through this system.

mand, LIPC inventories, and other, more politically-related factors and pressures. As a consequence, over 70 per cent of the LIPC's Quota allocation has been utilised for the purchase of frozen beef, with the remainder for chilled beef.

To date, the main channel of importation for frozen grainfed and 'other' (grassfed) beef and aged frozen beef has been the competitive tender system.[13] The key aspect of this distribution channel is that the LIPC has acted as a purchasing agent, and hence, buffer between the trading companies and the domestic user groups. Consequently, the domestic user groups have been dependent on the selling actions of the LIPC. Although this arrangement will remain during the current transition-to-liberalisation period, the absolute volume and significance of purchases through this mechanism will decline, in line with the growth in imports through the SBS system.

The mechanics of the tendering process have remained unchanged. Before announcing a tender, the LIPC provides the 36 designated importers (see Appendix 3) with details of the beef items and quantities to be purchased according to the respective product specifications.[14] Similarly, the LIPC stipulates beef production and delivery dates. Maximum and minimum offer quantities are also set, each offer must comprise only one brand with the product sourced from one works. In addition, the LIPC maintains registered brand lists for each country of supply.

On the day a tender closes, (usually one week following the tender announcement), LIPC approved exporters submit offers (written in United States' currency), to approved importers in Japan who, in turn, present these offers, after adding a commission (in United States' currency and Japanese yen), to the LIPC. The LIPC accepts bids for each cut from the lowest price upwards, until the total volume for the particular tender is taken up.

Designated importers are allowed to offer supplies of up to 180 per cent of their previous tender performance. This gives individual importers the opportunity to increase their shares of LIPC tenders over time, by consistently offering lower priced bids, since the offer limit allocated for future tenders always depends on the success rate of past tenders.

Following delivery and inspection, all frozen beef imported by the LIPC is stored in rented cold storage warehouses, located near the major ports of Tokyo, Yokohama, Nagoya, Kobe and Osaka. In recent years the LIPC has held inventories of around 24 000 tonnes. However, at the end of the 1987 Japanese fiscal year, LIPC stocks of frozen imported beef rose sharply to around 36 000 tonnes. Generally, stocks run down from May through to about August, in line with a lull in deliveries against the second and first half year quotas. In view of recent undertakings to increase the volume of imports through revised SBS arrangements, it is likely that previous patterns in LIPC stock accumulation will significantly alter.

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[13] Traditionally, grassfed beef has constituted about 66 per cent of LIPC purchases under frozen beef tenders, of which Australia has supplied the greatest share.

[14] Following consultations with a number of specified domestic importers and users, usually twelve frozen beef tenders have been called each fiscal year. However, this number is expected to decline as tonnages under this component of the LIPC Quota decrease, in line with increased tonnages entering under the SBS system.

Prior to 1 October, 1988, product was later sold via wholesale meat market auctions (approximately 42 per cent), selling-out (closed) tenders (43 per cent) in which only designated end-user organisations could participate, and to LIPC 'designated stores' (15 per cent) including relatively small volumes, sold via 'co-operation stores' during 'meat days', 'meat weeks' and fairs held to promote sales of imported frozen beef.

In association with the expansion in the SBS component of the LIPC Quota, purchases through the competitive tender for distribution under the auction system were limited to twelve table beef cuts in October 1988. At the same time, fourteen other table beef cuts were no longer to be handled by the LIPC through auction and the sell-out tender was abolished.[15] Previously, the sell-out tender was utilised for the distribution of table beef cuts and was essentially the LIPC's only direct channel of distribution for manufacturing beef.[16] Future arrangements for the purchase and distribution of these manufacturing type products remains uncertain. However, it would appear that the Japanese authorities are seeking to have these items imported solely through SBS arrangements. Arrangements for the importation and distribution of products under the designated store program are continuing to operate. However, there is the likelihood that this system will be phased out within the next three years.

Auctions

Under the auction system, the LIPC sells stocks of imported frozen beef at wholesale meat markets throughout Japan. Presumably, the tonnages distributed through this channel will decline over the next three years, as direct purchasing by the LIPC is phased down.

Currently there are 31 designated wholesale meat markets, and of these, ten are central markets (see Appendix 4). The beef is consigned to the All Japan Meat Market Wholesalers' Association, which apportions the available imported beef to each market. In turn, the companies operating these markets auction the beef for the LIPC on a commission basis.

The auctions are held simultaneously throughout Japan usually on the first Thursday of every month. The variety of cuts and quantities offered for sale are based on the current demand and supply situation. Traditionally, when domestic beef prices are weak (strong), the quantities released to the markets have been reduced (increased), in line with beef price stabilisation requirements. Moreover, the LIPC has usually sold in very large lots, and as a result, only major wholesalers with large ware-

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[15] The twelve items now purchased under the competitive tender system for re-sale at auction, include: No.116 square cut chuck; No.114 shoulder clod; No.112A ribeye roll (lip on); No.180 striploin; No.189 full tenderloin; No.121B short plate (1); chuck and blade; topside; thick flank; full brisket; cow meat; and aged beef full sets. The following fourteen items are no longer directly imported by the LIPC for distribution through the auction system: No.116A chuck roll; No.184 top sirloin butt; No.168 top round; No.167 knuckle; No.120 brisket; No.121B brisket; No.121B short plate (2); No.121D beef skirt plate; crop; chuck; clod; cube roll; striploin; and tenderloin.

[16] In particular, the LIPC handled five designated manufacturing beef items through the competitive tender system, as follows: fore and hind beef; manufacturing beef; beef for manufacturing hind four cuts; beef trimmings; boneless beef 90CL (only supplied by Vanuatu).

houses have tended to purchase. Thus, meat sales have been concentrated among a few firms which have been able to manipulate the market.

Starting prices are generally equal to LIPC reserve prices, below which the beef cannot be sold. The LIPC is obliged, under the Price Stabilisation Law, to set reserve prices for imported beef at levels equal to the wholesale prices of domestically produced beef of equivalent quality. Prior to May 1985, LIPC reserve prices had remained unchanged for over three years. Since that time, there has been a downward revision of prices for most items in line with policy to return the benefits of the yen appreciation.

Selling-Out (Closed) Tenders

This method of distribution was abolished in October 1988. Prior to that, LIPC sell-out tenders were held on the day after the meat market auctions. In these tenders only member companies of designated organisations submitted sealed bids for frozen table and manufacturing beef items. The organisations concerned covered a broad spectrum of end-users, including wholesalers, retailers (including supermarkets), processors and institutional food service associations. However, usually more than 95 per cent of the imported beef offered for sale at these tenders were purchased by wholesaler, retailer and processor organisations. Participating organisations were not allocated a share of the tender according to past performance, and therefore, were not restricted in purchasing by a maximum bidding entitlement.

LIPC reserve prices also applied at the closed tenders. According to trade sources in Japan, reserve prices for tenders were similar to those which applied at auction. Thus, prices offered generally followed prices received for beef sold at auction (AMLC 1987).

Products were sold to designated organisations making the highest bid in the order of the lots; that is, a fixed volume of one product item. In sales made under the system to the five designated meat processing associations, products were limited to the five designated manufacturing beef items (see footnote 16 of this chapter).

Designated Stores

The designated stores scheme was initiated in the early 1970s (by AJMICA and the Australian Meat Board) to promote the retail sale of frozen and chilled imported beef at reasonable prices and under appropriate labelling. Since then, the LIPC has sold stocks of frozen (and chilled) imported beef to designated retail outlets in major cities throughout Japan. Such outlets include department stores, supermarkets consumer co-operatives and butcher stores, with most being located in or near Tokyo and Osaka.

In recent years the number of stores participating in the program has increased in line with efforts by the Government to pass exchange rate profits back to the consumer. As at 1 October, 1986, 1 011 stores were receiving stocks of frozen beef only, while 1 292 stores were entitled to receive supplies of imported frozen and chilled product (and 997 stores chilled beef only). However, effective from 1 July, 1987 the number of stores was further increased from 3 300 to 3 600.

Only a limited range of cheaper table-use frozen cuts (for example, grassfed chuck and blade and topside, and grainfed top round and square cut chuck) from the LIPC's frozen imported beef stocks are supplied to these stores. The stores purchase product directly from the LIPC at prices slightly lower than the auction reserve prices (and previously, closed tender reserve prices). In turn, there is a requirement that the product is labelled as 'imported beef' and retailed at prices below ceiling prices set by the LIPC.

In addition, small volumes of the frozen beef have been purchased by the LIPC for sale at special sales promotions and fairs throughout Japan. These activities are organised by designated users and organisations like the JMC, Japan Meat Information Centre and Japan Meat Trading Centre.

Arrangements for the supply of frozen beef products under the designated stores program are to continue in the short term. However, it is possible that the Japanese authorities may abolish the scheme prior to liberalisation.

Simultaneous Buying and Selling (SBS) Tender System

The arrangement through which most of the expansion in imports will occur during the lead up to liberalisation is the SBS tender; from around 17 500 tonnes in 1987 (about eight per cent of total quota beef imports) to almost 196 700 tonnes in 1990 (50 per cent of total beef imports) (see Table 6.3). This tendering system was introduced under the previous agreement during the second half of the 1985 Japanese fiscal year, in response to pressure from the United States. In negotiating for this 'add on' it was the aim of the United States to move as much of the trade outside the control of the LIPC as possible, in order to facilitate greater commercial contact between Japanese buyers and foreign suppliers. In accommodating these demands, the Japanese Government agreed to place a proportion of LIPC's share of the total quota under SBS arrangements for the purchase of frozen grainfed and grassfed beef. Furthermore, it was agreed that purchases of grainfed beef under the arrangement would be accounted against the 'high quality beef' component of the global quota.

Prior to 1988, tenders were called every six months, and accounted for ten per cent of the LIPC's half year quota allocation. Thus, during the previous agreement period tonnages awarded under each tender increased in line with the expansion in the LIPC component of the total quota; from an initial level of 5 911 tonnes (February 1985) to over 9 000 tonnes (October 1987). Under the current agreement, the SBS allocation of the LIPC quota is set to expand to 30 per cent (around 68 450 tonnes) in 1988, to 45 per cent (125 200 tonnes) in 1989, and to 60 per cent (196 700 tonnes) by 1990 (see Table 6.3).

At the outset of the previous agreement, the SBS system was judged favourably by foreign supply countries (including Australia), as it provided for greater market interplay between Japanese end-users and suppliers and indicated a move towards the 'freeing up' of the market. However, as Australia's share of tenders progressively declined, it became evident that an inherent bias against lower valued grassfed beef products existed in the administration of the system. By 1988, Australia's share of SBS tenders only amounted to between eight and fifteen per cent. The United States, on the other hand, was supplying around 80 to 90 per cent of tenders, and in particular, higher valued grainfed beef items were being sourced by Japanese end-users.

Essentially, Australia's poor performance in SBS tenders was attributed the structure of the SBS and its administration by the LIPC (AMLC 1988). The mechanism by which successful bids were selected and the way in which the tender was allocated encouraged the importation of higher quality cuts and completely ignored the price competitiveness of exporters to Japan. In particular, reserve sell-out prices for each of the designated product categories (of which there were 36) were set without regard to import prices of comparable products, while the quota allocations between the product categories were determined on the basis of the physical volume bid for the each category. Successful bids were awarded within each product category on the basis of the highest sell-out price, which in turn, promoted the purchase of the most expensive cuts and provided a disincentive to buy more price competitive products. Thus, the normal commercial process of trading-off price and quality was largely prevented.

The nature of LIPC purchases, particularly through the competitive tender system, reinforced this situation. As Australian grassfed beef items (namely, manufacturing type beef, full sets and full primal cuts) dominated LIPC purchasing, the shortfall in demand was for select high quality cuts which were not readily available through LIPC channels.

Against this background, in the recent beef access negotiations with Japan, Australian Government officials focussed on endeavouring to remove the discriminatory elements of the earlier SBS arrangements. Although the LIPC remains directly involved with the administration of the system, according to industry officials the negotiated changes should ensure that the mechanism by which bids are now awarded is neutral, and therefore, not biased against lower valued beef products (AMLC 1988).

More specifically, under the new simplified and less discriminatory arrangements product categories and related price bands have been reduced to twelve, from the former, 36. No segregation exists between grassfed and grainfed beef items, and as well as frozen beef (bone-in and boneless), chilled beef (bone-in and boneless) is now allowed access. Based on this framework, the LIPC has defined four broad product categories as follows: (a) carcase; (b) loins; (c) bulk; and (d) other.[17] Thus, as shown in Table 6.4, twelve separate categories are specified. In turn, bids are

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17 Eight broad product categories were defined under the previous system, namely: (a) forequarter cuts; (b) loin cuts; (c) butt cuts; (d) rib/brisket/short plate; (e) other cuts; (f) bone-in carcases; (g) boneless primal full sets; and (h) boneless primal manufacturing beef cuts. Based on these categories, the LIPC specified a total of 36 individual product categories.

Table 6.4 : Categorisation of Beef Imported under New SBS Tender Arrangements

		Chilled Beef		Frozen Beef	
		Bone-in	Boneless	Bone-in	Boneless
I	Carcase	1	-	2	-
II	Loin	3	4	5	6
III	Bulk	-	7	-	8
IV	Other	9	10	11	12

Source: AMLC (1988b).

simultaneously submitted to the LIPC according to these product categories. Assuming the prices bid meet reserve prices set for that product category, the LIPC accepts bids in order of the largest difference between the buy-in and sell-out price, until the scheduled tender quantity is filled.[18]

Also, under the new arrangements the number of participants has been expanded. In particular, SBS tenders are now conducted according to two systems: (a) System A, the 'registered importer and user system'; and (b) System B, the 'registered users (or 'juwari') system' and 'registered importers (or 'showari') system'.

Participants in System A include those traders and user organisations which operated under former SBS arrangements; namely, the 36 designated importers (see Appendix 3) and the previously registered user organisations and designated meat wholesale markets (see Appendix 5).[19] Tenders against this system are to be called twice a year (generally once each half fiscal year), while the tonnage allocation is to remain at ten per cent of the LIPC's annual purchases. The maximum bidding amounts will continue to exist with each participant being allocated a share of each tender according to past performances under LIPC frozen and chilled tenders.

System B, on the other hand, has two components: (a) the 'registered users system', which allows for the 36 designated importers and/or any 'juridical person' to submit bids to the LIPC simulta-

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[18] In determining successful bids under the former system, a two stage process also operated. Similarly, the LIPC automatically rejected bids which were above the set maximum buying-in price and/or below the minimum selling-out price, for the nominated product category. However, at the second stage of the selection process no account was taken of buying-in price. In contrast to the new system, the price at which the importer was willing to sell to the LIPC had no bearing in determining the success or otherwise of a bid. Rather, the awarding of bids was in descending order, commencing with the highest bid price (that is, selling-out price) offered by the user.

[19] Under the previous arrangements the individual user organisations were categorised into four groups for the purposes of classification, as follows: (a) Group 1 : meat wholesale markets; (b) Group 2 : meat wholesalers; (c) Group 3 : processed meat manufacturers' associations; and (d) Group 4 : retail and food service associations. Under System A, this classification has been retained.

neously with one of the presently registered user associations; and (b) the 'registered importers system' under which the 36 designated importers submit bids together with a registered user association, and/or juridical person, and/or 'individual person' associated with a designated importer.[20] Under these two new arrangements there is the facility for new entrants, both Japanese and foreign (Japanese registered) companies, to participate in concert with existing registered Japanese importers and users. New entrants are not, however, able to operate in association; that is, submit bids simultaneously to the LIPC.

Tenders under System B are to be called generally six times a year (three times each half fiscal year). Tonnages to be allocated under the system will expand from 20 per cent of total LIPC purchases in 1988, to 35 per cent in 1989 and to 50 per cent in 1990. In turn, these proportions will be divided equally between the two components of the system. Maximum bidding amounts are also specified, with each registered user receiving ten per cent of the scheduled tenders under the registered user component, and each importer ten per cent of tenders under the registered importer component.

In addition to apportioning tenders between the importers and the users the LIPC has continued to set price bands for each of the twelve product categories. These bands consist of an unannounced maximum price for the purchasing of beef from importers and an unannounced minimum price for selling to the user organisations. As with other 'reserve' prices these price bands are set to reflect international prices (in determining the buying-in price from importers), and domestic market conditions (in determining the selling-out price to users) for individual product items across each of the designated categories. In turn, the smallest price differential within each of the twelve categories is selected as the reserve buy-in and sell-out prices for that particular product category.

This mechanism of determining reserve prices has proven significant, especially with respect to the four 'other' product categories (namely, categories numbered 9, 10, 11 and 12 in Table 6.4). A wide variety of product items, including full sets (under categories 10 or 12) can qualify to enter within these four categories (that is, any frozen or chilled bone-in or boneless product, other than carcases, loin cuts and mixed cuts bulk packed).[21] Since the signing of new agreements, the Japanese have claimed that reserve buy-in and sell-out prices for beef full sets on a 'natural fall' basis (that is, comprising only the twelve primal cuts) are too high, compared with other products entering these categories. As a result, the LIPC has specified that full sets must enter without being trimmed, so as to lower the per unit value of the full set item to that of other products in the categories. This has met with strong resistance from the Australian industry, but to date, attempts to have full sets enter as

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20 'Juridical person' includes subsidiaries of foreign companies which are established in Japan under Clauses 479 and 480 of the Commercial Code of Japan. An 'individual person' must be a qualified operator of businesses defined in Clause 5 of the Administrative Ordinance under the Food and Sanitation Law of Japan.

21 As a concession to Australia, the Japanese allowed the entry of chilled and frozen beef full sets under the 'other' category. Originally it was the intention of the Japanese authorities to have the loin cuts from full sets enter under the relevant 'loin' category, and the remainder of the cuts under the relevant 'other' category. This was seen by the Australian industry as being a prohibiting factor in the production and import of full sets.

'natural fall' have been unsuccessful.[22] In effect, this move by the Japanese will serve to reinforce their 'official' stance against the import of full sets as opposed to cuts. Unofficially, on the other hand, it is believed that the Japanese authorities were pressed to implement these changes by certain groups keen to maintain restrictions on the importation of chilled beef and therefore, protect their profits from this trade (particularly, through the set-price tender system). Also, it could be seen as a move which will further strengthen the United States' position in this expanding sector of the market and afford to it opportunities to participate in the chilled beef trade.[23]

As before, the allocation of the total tender between the product categories is directly related to the percentage of bids received by the LIPC for each of the categories; that is, individual product quota limits are set based on the quantity of bids received for each category, as a proportion of the total bids received. The LIPC then reduces the total tonnes bid to the quota tonnage by taking account of quantities bid only, without taking any account of price.

In announcing tenders under both the Systems the LIPC specifies total tonnage, the tender closing date and the delivery period.[24] Minimum offer quantities also apply, however, maximum offer limits do not apply. A registered brands list specific to this tender arrangement is not maintained and offers need not comprise a single brand sourced from the one works.

Restrictions on the type of products purchased by each of the registered participants do not apply. Details concerning the type of beef (that is, grainfed or grassfed and chilled or frozen), cuts, specifications and prices remain subject to negotiation between designated user organisations, foreign suppliers and importers. Therefore, prior to the time of tendering, negotiations between these three parties are conducted in order to prepare bids and offers for submission 'simultaneously' to the LIPC for product according to one of the twelve product categories. However once a bid is accepted, the user can re-negotiate product specifications, provided that the product finally imported remains within the broad category originally nominated.

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[22] In light of Australia's response to these changes (both from a Government and industry level), MAFF and the LIPC are believed to be studying the re-specification of a full set, for introduction from the first half of Japanese fiscal year 1989.

[23] Traditionally, the United States has not been a major supplier of chilled beef to Japan, primarily because has not been able to compete with Australia, and New Zealand, on price. Systems of beef production in the United States are structured to service the domestic market, and not the export market. As a consequence, United States' export facilities are largely geared for the shipment of frozen and not chilled products.

[24] As at 1 October, 1988 the LIPC had finalised purchases against tenders under both System A and B. Purchases against the System A tender, totalled 14 549 tonnes (approximately ten per cent of the LIPC's second half year quota allocation) for deliveries through to March 1989. The two System B tenders were for around 5 000 tonnes each, with deliveries up to December 1988. In finalising the System B tenders, the LIPC registered five new importers and some 67 new user companies (mainly member companies of existing designated groups) to participate in the 'juwari' and 'showari' components of the System, respectively. The specific details of products purchased under both Systems will not be known until after the closing dates for delivery.

By allowing users this flexibility, details of the types of items actually imported are not known by the LIPC until the delivery periods for tenders close, some three to six months after the tender date. Given this time lag, the effectiveness of the LIPC to co-ordinate its own purchasing patterns under the frozen and chilled tenders with the importation of products under SBS arrangements, will be significant. Initially the LIPC will still be placed to dictate the needs of the SBS participants, and therefore, able to continue to monitor the supply and demand of different products in order to meet its price stabilisation objectives. However, as the direct purchasing activities of the LIPC are phased down and new entrants emerge as handlers of imported beef, its capacity to influence and gauge the flow of products onto the market will be reduced. The implications this will have for both wholesale and retail beef prices are examined in Chapter 7.

Set-Price Tender

Traditionally, the bulk of Japan's chilled beef imports have entered under arrangements administered by LIPC. In particular, about two-thirds of chilled beef imports authorised by the LIPC have been imported under the set-price (or modified) tender system, with the remaining third under the one-touch allocation system. Although both have been overseen by the LIPC, more direct contact between foreign suppliers and Japanese traders has been permitted as compared with the competitive tender system for frozen beef. Hence, for reasons mentioned earlier (namely, that the LIPC is unable to store and distribute the chilled product in accordance with domestic price support objectives), chilled beef imports have remained largely outside direct LIPC control.

In recent years, purchases of chilled beef have been in accordance with global minimum tonnage commitments negotiated and set down in bilateral agreements with Australia. Under the former agreement, a minimum access commitment of 24 000 tonnes existed. Australian industry officials, however, argued that this undertaking provided a ceiling to chilled beef imports. Consequently, Australian negotiators sought a commitment to an incremental expansion in imports during the lead up to liberalisation. A 10 000 tonne per annum increase in access was obtained for both chilled and aged frozen beef entering under LIPC tenders (including SBS arrangements), from 38 000 tonnes in 1987 to 68 000 tonnes by 1990. However, as mentioned earlier, this global commitment did not provided for specific levels of access for chilled beef vis-a-vis aged beef.

The operations of the set-price tender and one-touch allocation have not changed under the terms of the present agreements (at least for the second half of the 1988 Japanese fiscal year). Previously, chilled beef set-price tenders and one-touch allocations were announced simultaneously by LIPC, generally four times a year (that is, two tender announcements every six months). Purchases under set-price tender have totalled 16 400 tonnes per annum; with 8 400 tonnes usually being tendered for against the LIPC's first half year allocation and the remainder against the second half year allocation.

In announcing a set-price tender, the LIPC specifies the total tonnage and sets the tonnages of beef to be imported within set delivery periods. Killing dates are not stipulated by the LIPC, and nor does LIPC maintain registered brand lists of suppliers, due to the established contacts between the users and the foreign suppliers of chilled products. Minimum and maximum offer quantities, on the other hand, apply and these vary according to the product and country of supply. Also, only one brand

can be offered per lot and product is to be sourced from the same works. The types of chilled product imported under the set-price tender, include boneless full sets and bone-in full carcases (grainfed, lot-fed and 'other' or grassfed), and must be in accordance with LIPC minimum product specifications.

In addition to providing quantity and delivery details, the LIPC sets buying-in and selling-out prices, against which it approves bids submitted by the 36 designated importers on the day the tender closes (usually one week after the tender is announced). Also, it allocates the tender to individual importers based on past performance in the set-price tenders over the previous two years.

The importers negotiate direct with the seven designated user groups with respect to product items and price, and in turn, submit bids (which include an importer's commission) for up to 150 per cent of their individual share of the tender. The user groups also submit bids for product, however, these bids are up to and not in excess of their allocated share of the tender. The designated users of this tendering system includes the AJMICA (Zennikuren), and six other retail organisations, as follows: (a) Zennoh; (b) Japan Living Co-operative Association (Nisseikyo); (c) National Federation of Dowa Meat Retailers Association (Zendoren); (d) Japan Meat Industry Co-operative Federation (Nisshokuren); (e) Pan Japan Imported Meat Industry Co-operative Association (Zenyuren); and (f) National Federation of New Dowa Meat Retailers Association (Shindowa). Of the above, the last four organisations are known dowa associations, based in the Kansai area.

The LIPC accepts bids which provide for the largest gap between the importers' offer price and the agreed selling price to Zennikuren, until the total tonnage for tender is taken up. However, in setting these prices and awarding successful bids the LIPC does not purchase the product. Rather, it approves transactions on behalf of Zennikuren and the other six designated quota holders, and by doing so collects the margin between the buying-in price from the importers and the selling-out price to Zennikuren, on all transactions.

Following LIPC authorisation, documentation passes to AJMICA, which in turn collects a commission from designated user groups on all transactions. In its capacity as a designated user group, the AJMICA also collects a further commission from its prefectural member associations (Kennikuren).[25]

Apparent within this system of importation is an overriding influence of the known dowa groups, not only within Japan, but also the supplying market (that is, Australia). In particular, one of these groups as represented by its largest shareholder (a large wholesaler of imported and domestic beef in the Japanese market), is instrumental in determining and fixing the prices paid to Australian exporters. Under contracts drawn up between exporters and this Japanese user, the price paid by the major chilled beef importers to exporters is forced to a level that is below that price which importers submit to the LIPC in contracts drawn up with Zennikuren (that is, below the LIPC buying-in price). Moreover, the price settled upon in contracts signed by this user provides the 'benchmark' for prices paid by the other three dowa groups, and more recently, the remaining non-dowa groups (AMLC 1987).

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[25] The national association of AJMICA is known as Zennikuren, while the prefectural associations are known as Kennikuren, except for the Tokyo, Osaka and Kyoto associations which are known as Tonnikuren in the case of the former and Funikuren for the latter two.

Due to the dominance of the dowa groups in this sector of the trade, it is unlikely that the Japanese industry officials will be in a position to phase down purchases under the set-price tender system prior to liberalisation. Inevitably, as new participants enter the trade in beef, the influence of these groups will be reduced. Nevertheless, the authorities will still be expected to maintain this traditional (and more lucrative) channel of importation in order to preserve the status of certain dowa groups within the distribution chain.

One-Touch Allocation System

Traditionally, one third of the LIPC's chilled beef transactions have been under the one-touch allocation system, for distribution through the LIPC's designated stores program as well as to Zennikuren, whose members are included under this program. As stated earlier, the one-touch allocations have been announced simultaneously with the set-price tenders by the LIPC; that is, twice every six months. In recent years, chilled beef purchases under one-touch allocation have totalled about 9 400 tonnes; usually 4 800 tonnes being tendered for against the LIPC's first half year quota allocation and 4 600 tonnes against the second half year allocation. Under both the chilled beef purchasing arrangements, the LIPC has called for larger volumes of product during the first half of the fiscal year. This is in keeping with peak demand periods during the second half of the year. In particular, the second set-price tender and one-touch allocation announced against the LIPC's first half year quota, have provided for peak deliveries during December.

So far the operation of this arrangement has not altered. Increasingly however, designated users traditionally serviced through this channel of importation (namely, supermarkets, department stores and meat speciality shops) will be able to access products (both chilled and frozen) under the SBS tenders, either in their own right (particularly in the case of supermarkets and departments stores) or through parent associations. Thus, there is the likelihood that the system will be abolished prior to liberalisation, and possibly even as soon as 1 April, 1989.

As with calling set-price tenders, the LIPC in announcing one-touch allocations has stipulated the total quantity and the tonnages to be imported within the three specified delivery periods. Production dates are not specified, nor registered brand lists of suppliers maintained. Further, in the case of the one-touch allocation, the LIPC did not impose maximum and minimum offer tonnages.

A wider range of chilled beef products have imported under the one-touch system, than under the tender system; for example, full sets, and forequarter and hindquarter cuts (grainfed, lot-fed and 'other' or grassfed) have been included. Moreover, on purchases under the one-touch allocation the LIPC has imposed a levy, as opposed to buying-in and selling-out prices under the tender system. These levies varied according to the type of chilled product being transacted and usually accrued less than that under the tender system.

In addition to setting levies, it has been the responsibility of the LIPC to apportion the one-touch allocation among the 36 designated importers, and among the firms and organisations in the designated stores program. Individual importers received a share based on past performance in the one-touch system over the previous two years. In the case of supermarkets, the LIPC directly informed the individual companies of the quantity available for import. These specified tonnages remained virtually

stable from allocation to allocation. In turn, the supermarkets arranged for the purchase of required chilled beef products through a designated importer.

The associations to which these supermarkets are members, include the following: (a) Japan Chain Stores Association; (b) Japan Self Service Store Association; (c) Japan Department Store Association; (d) Japan Living Co-operative Association; and (e) National Federation of Agricultural Co-operatives Association (Zennoh). However, unlike the purchasing of frozen beef for the designated stores program (through direct selling by the LIPC), these associations are not involved in the transactions of chilled beef under the one-touch allocation system.

In allocating specific quantities to the participating speciality meat stores, the LIPC informed Zennikuren, which in turn, informed the other associations designated to purchase chilled beef product under the one-touch system. The other associations, all of which are known dowa groups, are as follows: (a) National Federation of Dowa Meat Retailers Association (Zendoren); (b) Pan Japan Imported Meat Industry Co-operative Association (Zenyuren); and (c) All Osaka Meat Retailers Associations.

Once the importers and the designated retailers agree on prices (subject to negotiations between the importer and foreign suppliers, and incorporating the importer's commission and the LIPC levy), orders are submitted to the LIPC for approval. Both individual importers and retailers can submit orders for up to 150 per cent of their individual allocations. Provided the submitted wholesale price was considered acceptable in relation to the LIPC's price schedule for that particular allocation, the LIPC authorised the transaction to proceed.

According to this system of one-touch allocation, the LIPC also administered the purchase of chilled grainfed beef carcases. As mentioned earlier, this practice was adopted in late 1986 with a view to lowering domestic wholesale prices of beef.[26] Although expanding tonnages were purchased under the system, the LIPC discontinued purchases from October 1988 in line with the negotiated modifications to the SBS tendering arrangement. However, the LIPC has retained the flexibility to re-commence imports should purchases of chilled grainfed beef carcases through SBS tenders be insufficient to have an impact on inflated domestic wholesale prices.

Quota for International Co-operation

A relatively small, yet increasing volume of frozen beef has been imported against the LIPC Quota for international co-operation. This category of imports, which represents the only non-global component of the General Quota, has been maintained under the present arrangements. Since 1979, Mexico has been the only country of supply. However, in the past, Madagascar and Ethiopia have utilised this quota.

The MAFF specifies the quantity of imports to be purchased under this quota each half fiscal year. Prior to the 1985 Japanese fiscal year, 1 800 tonnes were allocated per annum. Due to a

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[26] The extent to which these imports had the desired impact on wholesale beef prices is questionable (see Chapter 2). Product was supplied by both the United States and Australia, but with the former commanding the greater share. In turn, the carcases were allocated to one of three groupings of the 31 designated wholesale meat markets according to the 'one-touch' procedure.

supposed increase in the availability of the Mexican product (but more likely in response to the demands of one particular trader with vested interests in the import of product through this quota), the allocation expanded to 2 400 tonnes in 1985 and was set at this tonnage for the 1986 and 1987 fiscal years. Although not officially announced, it is believed that the quota has been further expanded in 1988, to 4 000 tonnes.

Under a 'one-touch' arrangement, only three importers are designated to handle product (frozen grainfed full sets) from Mexico, importing on behalf a single distributor of the product. The LIPC carries out the documentation on transactions and collects a set levy, which is approximately equivalent to levies collected by the JMC on frozen beef imports under the Private Quota.

Private Quota

The remaining ten per cent of the General Quota is taken up through the Private Quota, which is administered by a semi-Governmental body, the JMC (or Nihon Shokuniku Kyogikai), on behalf of the MAFF. Under current pre-liberalisation arrangements, the quota is to expand in line with the total quota from 19 400 tonnes in 1987 to approximately 36 400 tonnes by 1990 (see Table 6.3).

The Private Quota is divided into two components; namely, the 'Showari' (or importers') quota, for the purchase of frozen and chilled beef; and the 'Juwari' (or users') quota, for the purchase of frozen beef. On this basis the JMC assigns the Private Quota allocation to three designated user organisations (members of the JMC), as follows: seven per cent (of the General Quota) to Zennikuren for the purchase of beef under the Showari quota; and the remaining three per cent to the Japan Ham and Sausage Manufacturers' Co-operative Association and the Japan Meat Canners' Co-operative Association, on the basis of 2:1, for the import of frozen beef under the Juwari component.

According to the specific requirements of the member associations of these three organisations, products are purchased through the designated importers. Although product specification is open to negotiation between exporters and users (via importers), the products imported usually follow LIPC specifications. The JMC, in turn, conducts the documentation on transactions and collects a set levy according to the type of cut; that is, grainfed or grassfed, frozen or chilled table meat cuts, and frozen manufacturing-type cuts. The three designated user organisations also receive commission on the import beef as it is transacted through the respective channels of distribution.

Largely in response to the LIPC's former purchasing patterns especially through the frozen beef tenders, quota holders and in particular those receiving allocations of the Juwari quota, tended to trade higher valued cuts rather than frozen manufacturing type products. Although these processing organisations had limited access to SBS entitlement, supplies of manufacturing beef items were readily available through monthly LIPC sell-out tenders. Changes introduced under the current arrangements, and in particular, the significant expansion of the SBS system and the abolition of the sell-out tender system, can be expected to have important implications for the future purchasing patterns and performance of these two processing associations. Moreover, it could be expected that certain of the larger member organisations of the associations will emerge as major participants in the SBS tenders, both as designated users and registered importers. This issue is addressed in Chapter 7.

Special Quotas

Beef is imported through the Special Quotas essentially to meet the requirements of specific end-user groups, rather than to meet domestic price stabilisation objectives. Unlike the General Quota, the Special Quotas need not be global, and certain supplying countries can be specified. Currently, five such quotas exist, as follows: Hotel Quota; School Lunch Quota; Okinawa Quota; Ship Chandlers Quota; and Air Catering Quota. Under the terms of the current agreements, these quotas will represent around 7 to 8 per cent of the total beef import quota during the next three years (see Table 6.3).

As mentioned earlier, the Special Quotas previously comprised imports for demand development and imports of boiled beef. However, effective from the second half of the 1988 fiscal year the Demand Development Quota was abolished, while the Boiled Beef Quota was placed outside arrangements governing quota beef imports and re-classified under arrangements for processed and preserved beef in April 1988. Past and present arrangements for imports of beef under the Special Quotas (including the Demand Development and Boiled Beef Quotas) are discussed below.

Hotel Quota

This quota is for the import of frozen grainfed and grassfed beef by approved international hotels. From its establishment in 1969, the Hotel Quota slowly expanded, from 500 tonnes to 4 000 tonnes in 1987. In particular, under the terms of the 1984-1987 bilateral agreement between the United States and Japan, the Hotel Quota increased from 3 000 tonnes per annum in 1983 to 4 000 tonnes per annum for the duration of the four year agreement. Moreover, according to arrangements negotiated in 1978, imports of grainfed beef against the Hotel Quota were included under the global high quality beef component of the total import quota.

As a result of the most recent round of bilateral negotiations between the United States and Japan, the Hotel Quota expanded to 10 000 tonnes in 1988, and is set to rise to 13 000 tonnes in 1989 and to 16 000 tonnes in 1990. In spite of these negotiated increases, it can be expected that quota holders will also seek to obtain greater supplies of imported beef through the new SBS arrangements.

The administration of the quota is to remain unchanged. The quota is officially announced each half fiscal year by the MITI, in consultation with the MAFF and Ministry of Transportation. It is administered by the JMC. However, it is assigned to the National Federation of Meat Purveyors' Co-operative Association.

The number of international hotels authorised to utilise the quota has increased to about 500. Each hotel is allocated a share of the quota based on past import performance and hotel capacity, among other things.

Although frozen grassfed beef can be imported under the arrangement, the hotels' purchases have mainly comprised grainfed beef products, and in particular loin cuts. Consequently, the United States has been the major supplier of product, and in particular one packer has dominated the trade. Generally, the products imported have been according to specifications agreed upon by individual hotels and not according to set specifications.

School Lunch Quota

The School Lunch Quota was enacted in 1975 as a Special Quota for the import and utilisation of frozen grainfed and grassfed beef through Japan's school lunch program.[27] The quota allocation is announced each half fiscal year by the MITI, in conjunction with the MAFF and following consultations with the Ministry of Education.

Over the period 1980 to 1986, the tonnage allocated to the School Lunch Quota remained stable at 2 250 tonnes per annum; with the half year allocations usually for 1 250 tonnes and 1 000 tonnes, respectively. However, in 1987 the allocation fell to 1 750 tonnes. Due to limited utilisation in previous years, the quota was further reduced in 1988 to only 1 400 tonnes. Although not officially stated in the current agreements, the Japanese have undertaken to maintain the School Lunch Quota at around previous levels.

The administration of the quota is to remain the responsibility of the National Stadium and School Health Centre of Japan (formally known as the Japan School Lunch Association), and this involves the importation, processing and distribution of product to schools throughout Japan. Three importers are designated to handle beef under this arrangement. These importers purchase beef products at the request of the National Stadium and School Health Centre and sell direct to the Centre at a price which includes an importer's commission. The imported beef is then delivered to two processors before distribution in frozen form to schools, via sales to the Prefectural School Lunch Associations. The National Centre adds a levy on all sales of imported beef to the Prefectural Associations. These set levies are equivalent to those collected by the JMC on beef imports against the Private and Hotel Quotas.

Currently, all products imported under the School Lunch Quota are frozen grassfed beef from Oceania, and in particular, Australia. Product specifications are set out by the National Centre and have generally followed those developed by the LIPC for purchases of beef under the frozen beef tenders. The main item purchased has been chuck and blade, with small quantities of topside. While some of the beef has been minced or cubed, the bulk of the product has been thinly sliced.

Okinawa Quota

The Okinawa Quota was established in 1972, after the island was returned to Japan. Announced every six months by the MITI, the quota can be utilised for the import of chilled and frozen grainfed and grassfed beef. Between 1980 and 1985 Japanese fiscal years, the Okinawa Quota was set at 5 850 tonnes. However, in 1986 the allocation rose to 6 050 tonnes and then to 6 250 tonnes in 1987, in response to an increased demand for beef on the island. In effect negotiated as a concession to Australia, the Japanese have afforded incremental increases in the Okinawa Quota under current pre-liberalisation arrangements. In 1988, the quota rose to 8 000 tonnes and is set to further expand to 10 000 tonnes in 1989 and to 12 000 tonnes by 1990.

The quota remains divided into two components: a quota for table beef consumption (or importers' quota) and a quota for beef for processing (or users' quota). Just over 75 per cent of the total quota is generally allocated to the table beef component. Both components of the quota are ad-

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[27] Prior to 1975, beef requirements for the program were included under the LIPC Quota.

ministered by the Okinawa Prefecture Livestock Association on behalf of the MAFF. In turn, the Association collects levies on all transactions. These levies are 75 per cent of those which are applied by the JMC on beef imports under the Private Quota.

The beef items imported are predominantly in frozen form, reflecting the traditional usage of frozen beef and indifference for chilled product in Okinawa. Product specifications are not set, and the beef items are imported according specifications determined by the individual importers and users. Purchases of frozen beef under the table beef component comprise mainly cube rolls, and to a lesser extent, knuckles and chuck rolls.

Traditionally, Australia was the major supplier of these products, with the United States and New Zealand servicing the hotel and supermarket sectors, respectively, in limited volumes. However, in recent years, New Zealand has significantly expanded its share of the table beef market, at Australia's expense. Moreover, subsidised product from Ireland and Sweden has displaced Australian table and manufacturing beef products under both components of the quota. Respective market shares are likely to change again in the coming years in response to increased tonnages and an expected growth in demand for chilled beef products.

Demand Development Quota

As stated earlier, the Demand Development Quota was abolished from the second half of the 1988 fiscal year. In line with written commitments in the former agreements with the United States and Australia, the Demand Development Quota was introduced as a Special Quota during the second half of the 1985 fiscal year.[28] Clearly, this quota was a negotiated 'add on', provided by the Japanese in an attempt to appease United States' demands during the 1984 beef access negotiations. Moreover, the fact that the quota was specific to the import of frozen grainfed beef and that frozen grassfed beef was excluded from importation exemplified this concession.

The Demand Development Quota was administered by the MAFF and announced by the MITI every six months. On its introduction the quota was set at 800 tonnes, and this tonnage was also allocated for the first half of the 1986 fiscal year. In the second half of the 1986 fiscal year, however, the quota increased to 1 000 tonnes and remained at this tonnage for each half of the 1987 fiscal year and the first half of 1988.

All purchases of beef during the 1984-1987 agreement period were debited against the global high quality beef component of the total import quota. Further, on all transactions the JMC collected levies, equivalent to those applicable to beef imports under the Private Quota.

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[28] In the 1984-1987 bilateral agreement with Australia, it was stated that 'the two Governments will exert mutual efforts to exploit the demand in the Japanese market for high quality beef which will be imported on a global basis, with a view to realising by the 1987 Japanese fiscal year an increase in imports by 27 600 tonnes'. Although a similar clause was written into the United States' beef agreement with Japan, it was significant that in this agreement it was stated that 'the Government of Japan will exert efforts to exploit the demand for high quality beef'.

The quota was a 'Juwari' quota, allocated among nine designated national user groups, as follows: (a) AJMICA; (b) Japan Chain Stores Association; (c) National Supermarket Association; (d) Japan Living Co-operative Association (Nisseikyo); (e) Kansai Housewives Federation; (f) National Federation of Meat Purveyors' Association; (g) Japan Meat Trading Centre Wholesalers' Co-operative Association; (h) Japan Food Service Association; and (i) Japan Restaurant Association. Under the arrangements of the quota, these designated organisations were entitled to import grainfed beef, according to their respective quota allocations, for use in promotional activities, such as import fairs and food weeks throughout Japan.

Such activities, which needed to be approved by MAFF, were sponsored by the designated users, in conjunction with prefectural or local Governments, or trade organisations such as JETRO. Importers of the products had to be nominated and the source and type of the grainfed beef products specified. Products were imported according to specifications set by individual users and comprised mainly loin cuts from the United States.

Boiled Beef Quota

The Boiled Beef Quota (also known as the Cooked Beef Quota) is for the purchase of both cooked beef and pork products for the manufacture of curry, stew and canned meat with vegetables. However, in recent years the quota has been under-utilised, and only used for the importation of beef.

Prior to 1988, the Boiled Beef Quota was a component of the Special Quotas specified against the total import quota for beef. Under these arrangements, the quota allocation was announced biannually by the MITI, and until 1986 had been set at 4 700 tonnes for a number of years. In the 1986 Japanese fiscal year, the allocation fell to 4 500 tonnes, but in 1987, as a result of a new demand for such products, the quota increased to 6 000 tonnes.

In the context of the 1988 rounds of access negotiations, the Japanese Government pledged to place imports of boiled beef outside quota arrangements to govern beef imports from 1988 and beyond. In doing so the Government re-classified boiled beef imports with items purchased under the Miscellaneous Quota, and in particular, processed and preserved beef products.[29] This category of imports was one of the eight agricultural items which Japan conceded to liberalise following the GATT panel ruling in late 1987 against Japanese import restrictions on these commodities (see Chapter 1).

In negotiating the present agreement, the Japanese granted as a concession to Australia an expansion in the quota to 7 000 tonnes in 1988 and to 8 000 tonnes in 1989. Imports are to remain

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29 Among other things, the Miscellaneous Quota has been utilised for the importation of processed and preserved beef (and pork) products, such as corned beef, beef jerky, canned beef, beef patties and now, boiled beef. Quantitative restrictions on such items are, however, to be phased out. For example, imports of corned beef will be liberalised from 1 April, 1990 and subject to the current tariff rate of 25 per cent. Beef jerky imports are also to be liberalised from this time, but from 1989 the current 25 per cent tariff will be reduced to 10 per cent. Proposed arrangements for the liberalisation of beef patties are similar to those for boiled beef. Prepared beef products containing less than 30 per cent beef were also subject to this quota, but from 1 October, 1988 these items were liberalised. The 25 per cent tariff, however, was retained.

subject to a 25 per cent tariff during this period, but from 1 April 1990 quota restrictions are to be removed and replaced by a revised tariff schedule, as follows: 70 per cent in 1990 and 1991, but reducing to 60 per cent in 1992 and to 50 per cent in 1993.

Irrespective of these changes, the operation of the Boiled Beef Quota will not change prior to liberalisation. The quota comprises a 'Showari' (or importers') quota and a 'Juwari' (or users') quota. The former represents 40 per cent of the total quota and is allocated by MITI and MAFF among designated importers based on past performance. In turn, the importers sell the products to user companies.

Again, according to past performance, the 'Juwari' component of the quota is distributed to six user groups, as follows: (a) Japan Ham and Sausage Co-operative Association; (b) Japan Meat Canners' Association; (c) Japan Canners' Association; (d) Japan Frozen Food Association; (e) Hamburg Hamburger Association; and (f) National Stadium and School Health Centre of Japan. Through nominated importers these designated user groups purchase boiled beef products according to their allocated shares. Items purchased are mainly sourced from Australia and comprise cooked brisket. Levies are not remitted on transactions under either 'Showari' or 'Juwari' components.

Ship Chandlers and Air Catering Quotas

These categories of quota are for the servicing of ships and airlines. The tonnages imported under each are relatively small and, as a result, quota levels are not biannually announced by the Japanese authorities. Instead, each half year MITI invites and approves applications for quota to import beef products from the Ship Chandler's Association and individual air catering organisations. In recent years, the utilisation of both categories of quota have decreased, iargely in response to greater volumes of imported beef being traded in the wholesale market. During the lead up to liberalisation, this downward trend in quota utilisation can be expected to continue.

The Ship Chandlers Quota is generally utilised for the import of grassfed beef (mainly frozen cube rolls, striploins and bone-in hindquarter cuts) from Oceania. In recent years, the tonnages imported against this special quota have decreased to around 1 200 tonnes per annum.

The Air Catering Quota comprises two components: (a) for the purchase of portion control beef cuts, which remain in bond; and (b) for the purchase of beef cuts for processing and preparation in Japan. In recent years, the volume of products purchased against the second component of the quota has declined, while purchases of portion control cuts, have increased. Overall, however, the total size of the quota has declined to about 250-300 tonnes per annum.

Arrangements for the Importation of Beef Offals

Overview of the Diaphragm Beef Issue

As mentioned earlier, there has been a significant expansion in imports of beef offals (particularly diaphragm beef) outside of quota arrangements. Predominantly these imports have been sourced from the United States. For example, in 1987 the United States supplied 77 200 tonnes of

non-quota beef offals compared with the 1980 level of about 35 200 tonnes. Australia, on the other hand, has experienced a fall in its share of this market (see Table 6.5).

In light of market research (AMLC 1987) it has been argued that diaphragm beef competes with both imported beef and domestic beef, in all but the top segment of the market. For example, diaphragm beef is mixed with other beef for hamburgers as a protein additive; used in yakiniku dishes, Korean barbecue and as 'family steaks'; and chilled, air freighted diaphragm beef from prime grade United States' cattle competes with domestic beef cuts as a table meat.

Since 1986, Australian Government and industry officials have formally confronted Japanese officials on issues related to this unchecked growth and competition from diaphragm beef. In particular, it was strongly argued from the outset of bilateral recent discussions on beef access that a significant proportion of Australian beef exports under quota competed directly with the bulk of imports of diaphragm beef, without being afforded a similar freedom of access. Moreover, it was claimed by Australian officials that the recent growth in imports of diaphragm beef was evidence of an unsatisfied demand for beef in Japan, which highlighted the distortions that the quota system had introduced to the market.

In response, Japanese officials disputed all evidence of direct competition and argued that diaphragm beef does not compete with beef imports nor domestic beef as it is an 'offal' and a meat dark in colour with an unpleasant odour. Also, it was claimed that such products must be identified at retail outlets as 'offal', and so, distinguished from 'beef'.

Current Importing Arrangements for Beef Offals

As discussed above, there are two separate categories for beef and veal offals under Japanese customs classification and by virtue of this offals can be imported into Japan both inside and outside of quota arrangements. Following changes implemented in October 1988, only a limited number of offal items remain subject to beef quota restrictions and a 25 per cent tariff; namely, headmeat, cheekmeat, and beef skirt plates.[30] Other items, such as ear, nose, lip, udder, tail and spinal cord were removed from quota regulations. Although these products are now re-classified as AA items, the tariff rate has remained at 25 per cent.

Offal items which were already allowed entry under the AA System and a 15 per cent tariff included: diaphragm beef, tongue, tongue root, weasand meat, liver, tripe, kidney, heart, sweetbread, intestine and thyroid glands.[31] As evidenced by the dramatic expansion in imports in recent years,

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30 Current customs classification numbers are as follows: 0206.10.090, other offals of bovine animals fresh of chilled; and 0206.29.090, other offals of bovine animals frozen.

31 Current customs classification numbers are as follows: 0206.10.010 internal organs and tongues fresh or chilled; 0206.21.000 tongues frozen; 0206.22.000 livers frozen; and 0206.29.010 other internal organs frozen.

Table 6.5 : Japanese Imports of Beef Offals*, 1970-1987

Calendar Year	United States	Australia	Others	Total
		(tonnes)		
1970	-	-	-	2 560
1971	-	-	-	3 950
1972	-	-	-	4 986
1973	-	-	-	10 199
1974	-	-	-	5 942
1975	3 204	6 538	3 470	13 212
1976	7 854	9 302	5 295	24 977
1977	21 203	11 042	5 836	38 836
1978	32 991	11 077	6 332	50 400
1979	30 030	9 772	6 282	46 084
1980	35 267	8 704	5 495	49 466
1981	39 686	7 190	5 462	52 338
1982	43 291	6 520	5 504	55 315
1983	50 301	5 715	5 308	61 324
1984	54 501	5 337	5 219	65 057
1985	60 970	5 891	7 430	74 291
1986	74 201	6 998	7 214	88 413
1987	77 234	7 691	5 963	90 888

* Includes beef and veal offals imported under the former Japanese classification number, 02.01-131 'internal organs and tongue of bovine, fresh, chilled and frozen', and therefore, includes diaphragm beef
Excludes beef and veal offals imported under category, 02.01-139 'meat offals of bovine, not elsewhere included', which are subject to the international beef quota

Note: Individual country data not available prior to 1975
'Others' mainly include New Zealand, Canada and countries of the European Community

Source: 1970-1976 figures, Longworth (1983); Ministry of Finance (1987).

the apparent popularity of these items (and in particular diaphragm beef), has been primarily related to the exclusion of these products from quota restrictions and the favourable tariff treatment by comparison with beef and veal imported under quota. Under agreed MTN tariff reductions in 1979, Japan pledged to reduce the rate of duty on these 'internal organs and tongues of bovine animals' to 15 per cent by 1987 (Japanese fiscal year). In 1982, the duty was reduced from 22.5 per cent to 21.3 per cent, and then, in 1983 to 18.8 per cent. The rate was further reduced to 15 per cent in 1985.

Import Volumes and Distribution

In 1974, when the Japanese Government suspended beef imports in an effort to stabilise producer returns, importers responded to the closure by purchasing large quantities of product under the internal organs classification. For instance, in 1977 and 1978 imports were increased by 55 per cent and 30 per cent, respectively. However, in late 1978, the Government undertook to reduce imports of this category by re-classifying beef skirt plates (known as 'fukuokin' in Japan and as inside skirts in Australia) from the AA category to the import quota category.

Before the end of September 1978, beef skirt plates were cleared through Japanese Customs as offals because it was thought to constitute part of the diaphragm. However, when the Japanese

authorities realised an error in the interpretation of 'diaphragm', the apparent loop-hole was closed by re-classifying beef skirt plates as a quota item. Subsequently, the United States negotiated with the Japanese in 1979 for an 'unofficial beef skirt plate quota' of about 4 000 tonnes.[32]

Prior to its re-classification, imports of beef skirt plates were reportedly around 10 000 tonnes per annum and primarily sourced from the United States for use mainly in inexpensive restaurants and fast food outlets. However, since re-classification, the demand for this product has been sluggish, largely due to the duty and levy now applied. For example, in 1983 LIPC imports of beef skirt plates under frozen beef tender arrangements were less than 1 500 tonnes, and in 1987 totalled under 600 tonnes. Conversely, imports of diaphragm beef have dramatically expanded and are now being extensively utilised in niches spanning across all but the upper end of the marketplace (AMLC 1987).

According to industry sources (AMLC 1987) about 80 per cent of the offals imported outside of quota in 1985-1986 comprised diaphragm beef, ten per cent tongues, and 8 per cent livers and kidneys. In 1983-1984 these proportions were 70 per cent, 15 per cent and ten per cent, respectively. Moreover, it is estimated that supplies of diaphragm beef (including domestic production) now represent about 11 per cent of the total Japanese beef market, and of this, about 9 per cent is being sourced in frozen form from the United States.

General traders handle the bulk of imports (70 per cent), with the remainder of product handled mainly by specialist traders and ham and sausage manufacturers. The general traders, however, do not have access to the domestic distribution channel. Rather, it is the ham and sausage manufacturers who play the major role within the distribution system, and in practice, the general traders effectively act as the ham and sausage manufacturers' import agents. It is estimated that the manufacturers handle about 80 per cent of total imports, of which 60 per cent is distributed direct to end-users and 20 per cent via wholesalers (AMLC 1987).

The recently implemented and proposed changes to importing arrangements for beef have direct implications for the import and distribution of beef offals. It could be expected that the level of diaphragm beef imports will plateau, if not decline, as the trade in quota beef items is expanded and eventually liberalised. Import of other offal items are also likely to stabilise, if not decline. Significant increases in the volume of imports of items recently re-classified as AA, are unlikely due to the retention of the 25 per cent tariff rate (see Chapter 7).

Importation of Live Cattle

While Japan is a major buyer of meat and strictly controls imports of carcase meat, controls on the importation of live animals are not as strict. Nevertheless, sales of live cattle to Japan have remained relatively insignificant.

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32 Imports of grainfed beef skirt plates were purchased by the LIPC through frozen tenders (item No. 121) and sold via the sell-out tender system. Imports were not debited against the 'high quality beef' component of the global quota.

Although the Japanese cattle population has steadily increased over the last decade, imported cattle have generally represented about 0.4 per cent of total cattle numbers in any one year. However, in recent years, imports of cattle have substantially increased, albeit from a low base. Moreover, there has been a significant increase in imports sourced from Australia.

Methods of Importing Live Cattle

Traditionally, Japan has imported three different categories of cattle and any country free of foot and mouth disease is eligible to supply stock. The methods for importing the respective categories of live cattle are as follows:

(a) Breeding cattle (dairy and beef) imported free of quotas and duties but subject to a minimum quarantine period of 15 days within Japan;

(b) Slaughter cattle (over 300 kilograms liveweight) imported subject to a duty of 75 000 yen per head and a minimum quarantine period of usually 15 days or five days if the cattle are to be slaughtered immediately; and

(c) Feeder cattle (less than 300 kilograms liveweight) which are imported either under a duty free quota set by the MOF and administered by MAFF; or, outside of quota and subject to a 45 000 yen per head duty. The import quarantine period within Japan is 15 days.

In sharp contrast to the multitudinous regulations which have controlled carcase beef imports to Japan, imports of live cattle, and specifically feeder cattle, have been regulated solely through the operation of a duty-free quota system. Traditionally, it is through this system that Australia has almost entirely traded with Japan in live cattle. Until 1987, the importation of breeding stock from Australia through method (a) had not been readily utilised by traders. Similarly, it had not been until recent years that Japanese importers utilised access arrangements for the importation of slaughter cattle.

More specifically, since 1984 there has been a significant change in both the type of cattle imported and the supplying countries. In particular, imports of feeder cattle (both quota and non-quota) and slaughter cattle have reached significant levels. Imports of breeding cattle, on the other hand, declined to a minimal level of between 100 to 200 head during the period 1984 to 1985. However, more recently imports have increased markedly. Coupled with these changes, has been a pronounced shift in the country of origin, and in particular, a shift to Australia for imports of all three categories of live cattle (see Table 6.6).

Imports of Breeding Cattle

In the past, virtually all duty free imports of cattle for breeding purposes have been sourced from Canada and the United States. Although imports of breeding stock have had little impact on national herd numbers, imports of both dairy and beef have played a major role in developing and improving Japanese breeds.

Since the 1970s predominantly beef breeds have been imported. Up until 1986 an overall decline in imports of breeding stock had occurred. For example, in 1978, imports of breeding stock accounted

for almost 20 per cent of total live cattle imports, compared with about three per cent in 1987. However, in line with the overall expansion in the live cattle market in more recent years, imports of breeding stock significantly increased in absolute terms in 1986 and 1987. Further, this expansion has lead to the recent importation of beef breeding stock from Australia (see Table 6.6).

Previously, costs involved in purchasing breeding stock were high and, as a consequence, imports were primarily undertaken by Government organisations for research purposes. However, in line with the strong appreciation of the yen, these costs have been significantly reduced. As a result, total imports of breeding stock have risen and private purchases are now being conducted. Furthermore, the Government has recently approved the importation of semen from the United States and Canada, thus providing farmers with a cheaper alternative to imports of breeding cattle.

Imports of Slaughter Cattle

Prior to 1983, over 80 per cent of cattle imported for immediate slaughter (animals over 300 kilograms) were imported from the United States. Australia, on the other hand, had provided occasional shipments, but these were of little significance. Between 1978 and 1981, the number ofslaughter cattle imported annually remained fairly stable, at around 3 500 head. In 1983 imports rose to levels which prevailed in the late 1970s and early 1980s. Furthermore, Australia for the first time, secured a significant share of imports.

Since 1983, imports have increased to unprecedented levels with Australia now a dominant supplier. In 1986, imports of slaughter cattle peaked at almost 14 000 head, of which Australia supplied 63 per cent, compared with 37 per cent from the United States. In 1987, however, imports declined to 11 800 head. Moreover, due to greater competition from the United States and Korea's entry into the market, Australia's share of the market fell to 49 per cent (see Table 6.6).

In addition to the fixed per head tariff, imports of slaughter cattle are also constrained by the capacity of quarantine facilities in Japan. As a result, importers have sought to maximise turnover in value terms. Until recently, heavy grainfed steers from the United States were seen as the higher valued beast, and hence, the dominance of the United States in this segment of the market. Now, however, Australian (feedlot fattened) slaughter cattle are seen as an equally profitable investment for Japanese trading houses.

The purchase of slaughter cattle has been enhanced by the continuing appreciation of the yen since 1985, continued high domestic wholesale beef prices and declining feed prices. Given these factors, Japanese demand for imports of lot-fed feeder steers weighing around 450 kilograms, (rather imports of cattle ready for immediate slaughter or yet to be placed on feed) has expanded. Once imported, stock of this type are placed on feedlots in Japan for three to five months before sale on the domestic market. With improved feeding techniques, farmers are now able to finish the cattle to meet the demands of the Japanese market, and thus, obtain a premium price which more than covers the costs of importation and feeding of the stock.

Table 6.6 : Japanese Imports of Live Cattle, 1982-1987

Calendar Year	Breeding Cattle	Feeder Cattle Non Quota	Feeder Cattle Quota	Slaughter Cattle	Total
			(head)		
1982					
United Kingdom	5	-	-	-	5
Australia	-	-	3 496	120	3 616
Canada	525	-	-	3	528
United States	52	-	183	723	958
Total	582	-	3 679	846	**5 107**
1983					
Taiwan	-	-	-	-	38
Australia	-	5	2 402	1 071	3 478
Canada	299	-	-	-	299
United States	30	1		2 174	2 205
Total	329	44	2 402	3 245	**6 020**
1984					
Fed. Rep. Germany	-	-	-	2	2
Australia	-	60	-	3 684	4 044
Canada	71	-	-	2	73
United States	71	-	-	1 793	1 864
Total	142	360	-	5 481	**5 938**
1985					
Australia	-	2 883	-	9 944	12 827
Canada	59	-	-	3	62
United States	102	7	-	1 069	1 178
Total	161	2 890	-	11 016	**14 067**
1986					
Australia	-	9 315	9 965	8 758	28 038
Canada	106	-	-	12	118
United States	55	-	-	5 214	5 269
New Zealand	498	-	-	-	498
Korea	-	1 678	111	-	1 789
Total	659	10 993	10 076	13 984	**35 712**
1987					
Australia	218	4 618	20 372	5 764	30 972
Canada	213	-	-	-	213
United States	784	27	480	6 024	7 315
New Zealand	50	-	-	-	50
Korea	-	1 345	915	24	2 284
United Kingdom	9	-	-	-	9
Total	1 265	5 990	21 767	11 812	**40 843**

Source: Ministry of Finance (1987).

Feeder Cattle Imports and the Quota System

Generally at the start of each Japanese fiscal year (April), MAFF announces the quota for feeder cattle imports (that is, for cattle less than 300 kilograms liveweight). This system of duty free imports was first initiated in 1972 when it was thought that an imbalance existed between the demand for and the supply of beef. The aim of the quota was to foster the development of the domestic cattle industry and increase the country's self-sufficiency in beef production.

Under the arrangements, the Government has, until recently, divided the quota between four major producer co-operatives: Zennoh, the largest quota holder; Zenkairen; Zenrakuren; and Zenchikuren. In 1981, the Government set the global quota at 10 000 head (5 000 head allocated for each half of the Japanese fiscal year) and until 1987, the annually announced quotas remained at this level. Since however, a quota for 25 000 head has been announced for allocation to the four co-operatives, as well as, the Japan Livestock Traders' Association.

In the ten year period 1972 to 1982, the total number of feeder stock imported was approximately 50 per cent of the issued quota of 85 900 head. The co-operatives with quota allocations at this time showed very little interest in importing tariff exempt feeder cattle. However, from 1978 to 1981, imports rose to about 68 per cent of total live cattle imports. Also, a small proportion of feeder stock was imported outside of the duty free quota. Primarily this rise in imports was associated with a domestic shortage of dairy steer calves and an appreciation in the yen which, in turn, resulted in lower feed costs and cattle prices.

Over the period 1981 to 1985 the situation again changed, when imports of feeder cattle under quota steadily declined. In line with increasing beef production and depressed prices for Wagyu and dairy male calves, the Government pressured the producer co-operatives to reduce imports of feeder stock against quota allocations in order to protect the national cattle industry. As a result, the quota was only partially filled in 1982 and 1983, and was inoperative during 1984 and much of the 1985 Japanese fiscal year.

In response to improved calf prices at the end of 1985, the Government permitted the four co-operatives to import feeder cattle against quota during the latter part of 1985 fiscal year (that is, January to March 1986). The decision to permit imports of feeder steers under the duty free quota largely stemmed from an improvement in prices of Wagyu calves and dairy male calves. As mentioned earlier, calf prices had been progressively falling at this time, concomitant with a marked increase in slaughterings, and particularly Wagyu females, and rising beef production. However in 1985, as a result of the previous high slaughterings of females, the numbers of feeder calves available for market declined, prompting an increase in calf prices (see Chapter 2).

The quota for the 1986 fiscal year was again set at 10 000 and remained operative throughout the year. During the twelve months ending December 1986, Australia, as the traditional supplier of feeder cattle, shipped over 9 960 head of stock duty free to Japan, which represented 99 per cent of total imports under quota arrangements (see Table 6.6).

A continuation of high calf prices and the prospect of this situation prevailing in the short term (in response to the liquidation of both the Wagyu and dairy herd), prompted the Government to raise the

quota to 25 000 head in 1987 (Japanese fiscal year). During 1987, imports against quota totalled about 21 770 head, the majority of which were supplied by Australia.

In 1988, the quota was maintained at 25 000 head. However, in spite of high prices being sustained for feeder calves, imports against the quota have slowed. Essentially, this has occurred in response to the prospect of greater volumes of lower priced imports of beef.

Unlike the importation of other categories of cattle, the Japanese authorities give imports of feeder steers under quota preferential access to quarantine space. Nevertheless, in line with the recent strong growth in demand for feeder cattle, imports of feeder cattle outside the quota (that is, with a duty of 45 000 yen per head) increased dramatically, from 360 head in 1984 to around 11 000 head in 1986. However, in 1987, imports fell to just under 6 000 head, largely in response to the dramatic expansion in imports of feeder cattle under quota arrangements (see Table 6.6). For reasons just mentioned (namely, increased beef imports), imports of feeder cattle outside quota have continued to decline during 1988. While Australia has continued as the predominant supplier of these stock, growth in demand for feeder cattle (quota and non quota) has also seen the importation of stock from Korea.

Future Prospects for the Trade

Against a background of an expected continuation in the strength of the yen, low feed costs, recent liquidation of the cattle herd, and therefore, inflated domestic prices for calves, the environment for future expansion in the live cattle trade to Japan appeared extremely favourable, at least in the short term. However, the outcome of the recent negotiations on beef access would seem to have tempered future prospects.

Also, quarantine facilities in Japan remain a prohibiting factor to any significant growth in the trade. For the Government, limited quarantine space has represented a mechanism by which to control the trade and dictate the type of stock being imported. Thus, it is not surprising that the Government has resisted all demands, both domestic and foreign, for an expansion in facilities or alternative procedures for the quarantining of stock in the country of supply. Rather, it has undertaken to upgrade (by nine per cent in 1987) present facilities.

It is believed that present facilities can handle between 35 000 and 40 000 head of stock per year. With imports during 1987 in excess of present capacity, the Government may be pressured into adopting alternative locations or methods for quarantine. Conversely, it is probable (particularly in the face of falling calf prices) that guidance will be given to the co-operatives to reduced or curtailed imports over some future period.

As highlighted earlier, the most recent growth in demand for all categories of live cattle has not only prompted the expansion and diversification of Australia's trade, but also the entry of New Zealand and Korea, and even more recently, China (see Table 6.6).[33] Although growth in the trade has slowed in response to the pending liberalisation of beef imports, further diversification in sources of supply

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[33] During the seven months ended July 1988, China shipped 104 head of cattle. The majority were slaughter cattle (85 head), with the remainder feeder steers outside quota.

can be expected. In particular, provinces in China free of foot and mouth disease may emerge as consistent suppliers of live cattle to Japan in the longer term. According to market reports, Chinese cattle are of similar quality to the Japanese Wagyu with respect to marbling, and this coupled with low costs of transportation, offer an incentive for the importation of stock from China.

Chapter 7

Changes to Japan's Beef Importing Arrangements : Implications for Australia

While the growing public debate (both domestically and internationally) about Japan's agricultural and trade policies is indicative of a changing environment for agricultural reform (both in Japan and internationally), it was not until 1988 that policy makers demonstrated a degree of willingness to respond by seriously considering a substantial shift in policies. Undoubtedly, the outcome of recent beef access negotiations with Japan was better than originally envisaged by both United States' and Australian Government officials. Developments up to and during the negotiations (namely, GATT action by the United States against Japanese import restrictions on other agricultural items and Japan's forced 'high profile' at the current Round of MTN) strengthened the United States' (and Australian) case for a 'more than measured' response by the Japanese to demands for a 'date certain' for market liberalisation.

Given the focus of the current Uruguay Round, and in particular, the close scrutiny of trade restrictions on agricultural commodities that this MTN has prompted within the international arena, it could be concluded that Japan's commitment to the liberalisation of beef imports will be successful in raising the impetus of agricultural trade liberalisation, as well as preserving the credibility of international forums, such as MTN. Moreover, it could be envisaged that Japan's actions have set a precedent, which in turn, will provide the scope for beef supplying countries (such as Australia), to press for the termination of quantitative restrictions on meat imports into the United States, Canada, and to a lesser extent, the European Community. Domestically, however, the Japanese Government's ever-measured response to the need for policy reform will mean that the current debate on 'internationalisation' is likely to continue and strengthen in the immediate future, as internal and external pressures continue to have an unfavourable impact on Japanese consumers, businesses and industry organisations.

In the earlier chapters, the qualitative characteristics of the supply of and the demand for beef in Japan were described and the framework underpinning Japan's domestic and international stance with respect to agricultural policy and protectionism was reviewed. Against this background, arrangements for the importation and distribution of beef (as well as, beef offals and live cattle) were thoroughly examined in terms of the current (1988-1993) and former (1984-1987) bilateral agreements between Japan and the United States, and Japan and Australia.

In the following sections, the negotiated changes to importing arrangements are further considered with a view to assessing the policy implications of Japan's progression to a liberalised beef market. As a prelude to this discussion, Japan's pursuit of 'free trade' for agricultural commodities, and in particular for beef, is briefly reviewed. Implications of the 1988 agreements for domestic supplies of beef, as well as the demand for beef (domestically produced and imported) are then identified and analysed. Finally, an attempt is made to quantify Australia's potential performance under the new

arrangements in order to assess the industry's capacity to maintain a longer term position in the market after liberalisation.

Agricultural Trade Liberalisation from an Historical Perspective

During the post-war years, Japan has taken a number of significant steps toward dismantling barriers to agricultural trade. Essentially, these steps were initiated when Japan revoked its balance of payments justification for employing import quotas, and subsequently, became an Article 11 country under GATT in 1963. (In the following year, Japan also became an Article 8 country within the International Monetary Fund.) Since that time, Japan has emerged as a nation of increasing dominance within the international arena and, as a result, a major participant in the Kennedy, Tokyo, and current Uruguay Rounds of MTN.

During 1963-67 at the Kennedy Round of MTN, Japan undertook trade concessions which included tariff reductions and the elimination of non-tariff barriers on 270 agricultural, forestry and fishery items. Japan's liberalisation of agricultural trade continued following the MTN Round and by 1972 only 26 items remained subject to import quotas.

However, during much of the 1970s, domestic agricultural protectionism tended to overwhelm the pursuits of trade liberalisation. This occurred in response to a series of external 'shocks' and crises; namely, the food crisis caused by crop failures (1972), the effects of which were compounded by the 'soybean shock' (1973) and the 'oil shock' (1974), and thence the greater instability in world commodity prices. In turn, these events served to strengthen the position of the farmer co-operatives and other groups advocating agricultural protection. Coupled with this situation of growing domestic pressures, Japan emerged as a significant participant at the Tokyo Round of MTN (1973-1979) and was faced with strong external pressures for trade liberalisation (Longworth 1983).

Restrictions surrounding the import of beef and citrus dominated discussions at this Round, with the result that Japan yielded to an expansion in the quotas for beef, oranges, and citrus juice. More specifically, in the January 1978 bilateral settlement with the United States (the Strauss-Ushiba agreement), Japan agreed to almost double the quota on oranges to 45 000 tonnes, and to raise imports of grainfed beef from 6 800 tonnes in 1977 (Japanese fiscal year) to 16 800 tonnes in 1978. In a further bilateral agreement with the United States in December 1978, Japan undertook to expand its annual orange quota to 82 000 tonnes and to increase grainfed beef imports in a series of annual increments to 30 800 tonnes by 1983 (Japanese fiscal year). Separately, an agreement on beef was signed with Australia in January 1979 (the Anthony-Okawara agreement). In the terms of this agreement it was stated that Japan would endeavour to increase its total annual global beef imports to 135 000 tonnes by 1982 (Japanese fiscal year).

Following protracted negotiations, formally initiated in 1982, Japan announced a comprehensive trade package covering farm imports in 1984. However, while this was then perhaps the most extensive range of concessions ever granted by the Japanese, it was explicitly tailored to accommodate the demands of the United States. It incorporated a bilateral trade agreement reached in August with the United States (the Brock-Yamamura agreement), in which Japan again agreed to expand its beef, orange and citrus juice imports from the United States. Also, quotas were increased on nine other com-

modities (including corned beef) which had been a specific focus of United States pressure, while imports of six products were liberalised and tariffs on 37 agricultural items (including beef offals) reduced.

In a subsequent agreement with Australia in November 1984 (the Bowen-Yanagiya agreement), Japan granted a 'modest' increase in the level of imports from Oceania. The respective agreements signed in 1984 remained in place until the end of the 1987 Japanese fiscal year (31 March, 1988), but with specific provision for the re-negotiation of new agreements from 1 April, 1987.

Despite the protracted commencement to official bilateral negotiations, new agreements between Japan and the United States, and Japan and Australia were reached by the end of June 1988. However, as mentioned earlier, the terms of the respective agreements were not finalised before both the United States and Australia had separately instigated GATT proceedings against Japanese import restrictions on beef. These actions were in keeping with the precedent set by the United States earlier in the year when it successfully forced the 'phased removal' of import restrictions on eight processed and preserved agricultural commodities (see Chapter 1).

Although both agreements were negotiated bilaterally and outside the present round of MTN, the broad objectives and guidelines set down for the current Uruguay Round have served to highlight Japanese protectionist policies in agriculture. As a consequence, Japan has been 'publically' subjected to mounting international and domestic pressure for a 'freeing-up' of policies and liberalisation of agricultural commodity markets. Thus, it could be concluded that a fundamental shift in agricultural policies has now been attained, largely as a result of Japan's high profile in the Uruguay Round of MTN.

Until this Round, the pursuit and implicit costs associated with the implementation of agricultural protection had been accepted as the means by which to meet the nation's twin goals of food self-sufficiency and food security. Given this mandate, the Japanese Government, not surprisingly, responded to the needs for structural adjustment within the agricultural sector by introducing producer incentives and with little, if any, reduction in levels of support. Recent developments, however, are slowly prompting the Government to concede to the need for structural change through the implementation of more fundamental measures. To date, the negotiated liberalisation of the Japanese beef market has been the most significant outcome of Japan's recent attempts at 'internationalisation'.

Implications for Beef Supply and Demand in Japan

Following almost thirty years of quantitative restrictions on beef imports, the recently adopted six year program of 'transition-to-liberalisation' arrangements will have significant implications for Japan's future trade in beef. From an international perspective, this outcome is particularly important for the world's meat producing countries because, under the new arrangements, Japan will now emerge as a major importer of beef.[1] This development will expand total world trade, and therefore, should serve to assist in stabilising international trade in beef and world prices.

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[1] For example, total Japanese imports by 1992 have been estimated at a level which is equivalent to forecast total beef imports by the United States in 1988 (AMLC 1988c).

At a micro level the implications are as significant, and it is these that are of particular focus in the present study. Below, the policy implications of the new beef agreements are examined in terms of the future supply of domestically produced beef, the future demand for beef (domestic and imported) and market segmentation. As a basis to this discussion, some inadequacies in MAFF's latest projections for beef supply and demand are highlighted and discussed. Against this background, implications for beef imports (and particularly the nature and composition of future imports) are discussed in order to evaluate Australia's potential as a longer term supplier of beef to the market.

Significance of Japanese Supply and Demand Projections

As previously stated, it is conceivable that the Japanese Government will need to revise its earlier 'official' (MAFF 1980b) and 'unofficial' (1987) projections of beef supply and demand in order to take account of greater tonnages of beef imports. Such revisions are also likely to mean a re-assessment of earlier projections of the supply of and demand for milk and milk products, as well as competing meat types.

Conceptually, Japanese projections have been described as 'targets', rather than demand and supply forecasts based on defined assumptions concerning, among other things, prices, incomes and Government policies (BAE 1985). With a view to reaching production levels and prices comparable with those of the European Community by 1990, Japanese long term 'targets' of beef supply and demand (and therefore, beef imports), were constructed according to levels of production perceived desirable by MAFF and by assuming stable (wholesale and retail) prices for beef. Thus, any impact of an expansion in beef imports was, in effect, assumed negligible. Now, with a pending expansion in beef imports from 214 000 tonnes in 1987 to almost 700 000 tonnes by 1993, it would seem fundamental that MAFF modifies its earlier approach to forecasting, and in particular, evaluates the price effects that this growth in imports must have on the supply of and demand for beef, for related products (such as, milk and milk products) and for competing products (such as, pork and chicken).

In Chapter 4 details of the 'unofficial' projections prepared by MAFF early in 1988 were presented. To reiterate, domestic beef production was set to increase by only 90 000 tonnes, from 390 000 tonnes (product weight) in 1985 to 480 000 tonnes by 1995. In parallel, the beef herd was projected to rise to 4.9 million head in 1995, while beef consumption was predicted to reach 800-880 000 tonnes over the ten year period. Given these parameters, it was proposed that Japan's domestic industry could 'tolerate' an increase in beef imports of about 200 000 tonnes, from 150 000 tonnes in 1985 to 320-400 000 tonnes by 1995. Clearly this projected level of access was a gross under-estimate of that which was eventually granted.

In Table 4.1, projections prepared by Coyle (1983) were presented, and as indicated, beef imports in 1990 were estimated at around 420 000 tonnes. Of those projections reviewed in detail in Chapter 4, this estimate best compares with the negotiated quota level of 394 000 tonnes by 1990. In deriving this level of imports, Coyle projected beef production at between 530-600 000 tonnes, beef consumption at 1.13-1.28 million tonnes, and in turn, a self-sufficiency level for beef of 47 per cent by 1990. It was assumed that 65 per cent of beef supplies would be produced from the dairy sector,

with growth in the Wagyu sector limited due to apparent inefficiencies within the sector and the Government's reluctance to grant greater levels of producer support.

While on the one hand Coyle's projections were closer to the 1990 negotiated level of access, on the other hand, it would appear that Coyle has under-estimated domestic beef production. Since 1985, output has been at levels within the range projected by Coyle for 1990. From the assumptions provided about the relationship between milk and beef production it would now seem that he employed rather conservative estimates of average slaughter weights and under-stated the impact of the Government's efforts to reduce the number of dairy cows.[2] Also, it could be argued that he under-estimated the potential of Wagyu beef producers to maintain output in the face of falling levels of protection.

Coyle's estimated levels of beef consumption in 1990 could be judged reasonable, given the 1987 level of around 870 000 tonnes. However, due to the unexpected ability of domestic producers to raise output in recent years, it could be further argued that the projected decline in Japan's self-sufficiency ratio for beef (to 47 per cent) is too large.

Domestic Supplies of Beef

Compared with Australia, Japan has only a relatively short history of raising cattle commercially for the purposes of beef production. Moreover, for reasons outlined in Chapter 2 (namely, the small size of farms, dependence on imported feedstuffs and ageing farm workforce), the industry has been characterised by high costs of production and a lack of international competitiveness. With these factors still influencing beef production to varying degrees, the most significant development since the emergence of the industry has been the relative decline of the traditional Wagyu sector, and in parallel, the dramatic rise in beef production from the dairy sector.

In response to the proposed rapid expansion in beef imports, the structural trends associated with this shift in the production base of the industry are likely to become more pronounced in the future. In particular, recent trends toward larger herd sizes, consolidation of farms and feedlots, and therefore higher stocking rates, are likely to continue during the next three years. Also, it is conceivable that regional specialisation in the production of beef and milk will increase.

However, in spite of trends toward larger herds and larger farm sizes, a significant proportion of Japan's domestic cattle herd is still on farms with less than ten head. This is mainly evident within the beef industry (and particularly in the Wagyu beef sector), where according to Longworth (1983), the raising of cattle is a sideline operation run by older, semi-retired members of the household. The impact of the pending liberalisation of the market, and associated changes to price support arrangements, are likely to cause the demise of these smaller operations.

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[2] Coyle assumed an average slaughter weight of 340 kilograms for dairy steers and 310 kilograms for culled dairy cows in 1990. In 1987, the average slaughter weight for steers was 406 kilograms, while that for cows was 359 kilograms. It was also assumed that in 1990 milk cows would represent 40 per cent of the dairy herd and culled cows, eight to nine per cent of the herd. The slaughter rate for culled cows was assumed at 170 per cent. In 1987, dairy female cattle over two years of age accounted for 69 per cent of the dairy herd.

In contrast, other sectors of the industry and in particular Japan's dairy beef sector, have been undergoing extensive rationalisation for a number of years. As a result, many producers are now being afforded the benefits of increasing economies of size and lower costs of production. Increased beef imports can be expected to 'speed up' certain elements of the rationalisation process. Further, it is expected that in the case of the dairy beef sector the adjustment process will be increasingly influenced by producer response to the Government's recent culling program for dairy cows.

To date, the impact of this program has been to increase slaughter rates of dairy female cattle, and to cause feeder calf and beef carcase prices to firm. In the short to medium term, the sustained high slaughterings of cows can be expected to not only prompt the desired reduction in milk production, but to also serve to reduce the breeding base of the dairy herd, and by virtue of this, restrict future dairy beef production. As a consequence, prices for dairy male calves and dairy steer (and heifer) carcases should remain firm, and in turn, act as a 'buffer' to the price effects which are likely to be associated with the significant lift in beef imports. Furthermore, it is likely that the benefits already being attained within the sector from increasing economies of size will offer some cushioning effect.

The same cannot be said for the Wagyu beef sector. With production and management practices still heavily steeped in tradition, the Government has acted unquestioningly in unison with Nokyo to defend and support the existence of Wagyu beef producers. As a result, this sector of the beef industry has been afforded increasing rates of protection, and insulated from the need to rationalise and initiate structural reforms. Thus, not surprisingly, the Wagyu beef industry now obtains higher levels of price support and faces higher costs of production than the dairy beef sector.

As previously demonstrated, the signing of the 1984-1987 beef agreements had a significant impact within this sector of the industry. Moreover, the ramifications of Japan's international commitments at that time are still being seen in the marketplace.

To date, the signing of bilateral agreements in June 1988 has not prompted a repetition of the earlier series of events; namely, a downturn in the feeder calf market, the heavy slaughtering of Wagyu female cattle and decline in beef wholesale prices. Essentially, this apparent lack of producer response can be attributed to the present situation of restricted supplies and inflated prices, which has now arisen from producer reaction to the former agreements on access levels during 1983-1984. The current situation, however, cannot be expected to continue. Expanded access for beef imports must eventually have an impact on livestock prices, and in turn, on the future viability of operations and hence, beef supplies from the traditional sector.

In the medium to long term, Wagyu beef producers will be prompted to a more fundamental adjustment to increasing volumes of beef imports than dairy beef producers. Due to higher costs of production, the need to adjust will also be exacerbated by the need for Wagyu beef producers to rationalise production and management techniques in order to meet commitments placed on them by recent changes to grading guidelines and revisions to price stabilisation arrangements.

In particular, producers will be increasingly forced to focus production and management practices away from achieving high marbling scores to improving yield ratios in order to be assured of receiving reasonable carcase prices. Coupled with this, the LIPC's future capacity to influence and stabilise domestic wholesale beef carcase prices (and retail beef prices) will be reduced as its direct pur-

chasing activities are phased down during the lead up to liberalisation. Thus, the potential for greater variations in wholesale prices in response to fluctuations in the supply of certain imported frozen and chilled (grainfed) beef items is likely to be enhanced.

Inevitably the process of rationalisation within the Wagyu beef sector will promote the re-occurrence of a downturn in the feeder calf market and the repercussions associated with a decline in calf prices. Given these developments, the resulting contraction in the breeding base of the Wagyu herd is not likely to be reversed in the longer term. In other words, as market liberalisation is realised, sufficient incentives for producers to undertake significant herd re-building are unlikely to exist. As a consequence, producer expectations about the future profitability of Wagyu beef production will be reflected by a contraction in the production base of the industry, so that in the longer term, output from the Wagyu beef sector will account for a reduced share of total beef supplies (that is, less than the present level of around 20 per cent).

However, the ability of producers in the traditional sector to sustain significant downward movements in wholesale prices and import prices should be recognised and not be under-estimated. By producing to a price structure which is significantly above that which might have otherwise existed in the absence of past and present Government policies, it could be argued that domestic producers have been in a position to earn considerable excess profits. If, as likely, producers in the Wagyu beef sector are operating along an inelastic supply curve, it could be further concluded that only significant falls in the price of beef will result in any reduction in the level of output. Limited producer response to Japan's recent global commitments on beef access would be consistent with this scenario.

As demonstrated in the earlier chapters, Japan's preoccupation with food self-sufficiency (and security) has remained fundamental to the preservation of domestic agricultural industries. Price support and other protectionist measures provided to the beef industry are typical of the Government's efforts to raise self-sufficiency levels. Thus, regardless of present trends and inefficiencies within the industry (particularly within the Wagyu beef sector), it is doubtful that the Government will be in a position to 'publically' abandon future efforts to maintain beef self-sufficiency. One implication of this is that the levels of protection currently afforded to beef producers, via the quota system and price stabilisation scheme, will need to be maintained by some other mechanism. In fact, the general consensus within industry circles in Japan is that at the end of the present three year transition phase, current price support arrangements will be replaced with a deficiency payments scheme, administered by a 're-structured LIPC'.[3] Presumably, the rents which the LIPC is set to accrue from the pre-liberalisation arrangements (and particularly through the SBS system) will be utilised (together with funds already in LIPC reserves) for the establishment and operation of Japan's future support measures for domestic beef producers.

The extent to which this mechanism would serve to maintain self-sufficiency levels is obviously difficult to ascertain at this point in time. However, while a decline of any magnitude in the current level of around 70 per cent would be considered by the Government (and Nokyo) detrimental both to

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[3] In keeping with Longworth's (1983) predictions, this system of support will probably be modelled along the lines of that currently operating for feeder calves.

Japanese beef producers and consumers, it is inconceivable that the Government will succeed in supporting previous levels of self-sufficiency.

Domestic Demand for Beef and Beef Offals

During recent times, the beef industry, unlike other agricultural industries in Japan, has not been confronted with problems relating to over-supply. Tight supply, coupled with a continued appreciation in the yen and maintenance of a highly regulated import system, has afforded domestic producers high levels of protection from international competition and ensured that retail beef prices in Japan have remained significantly above world parity.

In theory, the dismantling of quota restrictions should assist in correcting these distortions. As the present differential between domestically administered prices and world prices is reduced, consumer welfare should rise. However, the extent to which consumers will respond to reduced prices of beef has been debated.

Simpson et al. (1985), concluded that there was no reason for a continuation of the westernisation process of consumption patterns, because an optimal diet had been achieved. While appreciating that cultural factors and a slowing of economic growth may serve to dampen the potential expansion which might otherwise result in the short term, in the medium to longer term, the impact on real prices from a dramatic rise in imports (which, in effect, was ignored by Simpson et al.) can be expected to cause more than a 'modest' rise in consumption levels. Marked changes in Japanese dietary habits, consumer purchasing patterns and cooking practices can also be expected to occur.

In response to falling real prices for beef, it could be assumed that Japanese consumers will increasingly substitute beef for some other competing protein sources. In other words, instead of purchasing beef say once every two weeks, consumers can be expected to increase the frequency of beef purchases to two or three times a week, at the expense of consuming some other meat (or fish) item. The greater availability of imported beef will also lead to the wider utilisation (and therefore, consumption) of beef outside of the home within the eating-out sector of the market.

The expansion in imported beef supplies can also be expected to prompt a decline in the utilisation and import of beef offals, and in particular, diaphragm beef products. Conversely, the consumption of processed and preserved beef items is likely to expand in response to greater availability and wider variety of products.

Given these conclusions, potential increases in the consumption levels of competing meat types such as, pork and chicken, are likely to be tempered. Even though real prices of both pork and chicken have decreased in recent years (and are likely to continue to do so, in the short term) due to increased levels of domestic production and increased imports, the expected fall in beef prices, and particular increased volumes of lower priced imported beef, will increase the price competitiveness of beef. In other words, the rate of increase in beef consumption can be expected to exceed that of pork and chicken. Increasing beef consumption levels will also have a negative impact on consumption levels of fish.

Largely in response to cultural factors, apparent seasonal patterns in the consumption of beef can be expected to continue, at least in the short to medium term. The extent to which increased sup-

plies will result in a greater and wider utilisation of imported beef for the preparation of traditional dishes (and particularly, the winter dishes of sukiyaki and shabu shabu for which consumers prefer a high degree of marbling), is questionable. As discussed in Chapter 3, higher grades of domestically produced (Wagyu) beef have been traditionally used for this purpose. On the other hand, lower grades of domestically produced beef (and mainly dairy steer beef), together with the supplies of imported beef and beef offals have been utilised in the preparation of the traditional summer dishes (such as, teppanyaki, yakiniku, and Korean barbecue dishes), as well as in dishes which have been developed from cooking methods using pork and chicken (for example, stews and curries).

In response to recent changes to the grading guidelines for domestic beef carcases and associated modifications to price support arrangements, a general rise in the quality of domestic beef carcases can be expected. In particular, an increase in the number of carcases graded B3 and B2, or above is expected. This lift in carcase quality, coupled with a forecast tightening of supplies from the domestic beef herd in the longer term (and particularly from the traditional beef sector), is likely to confine the usage of domestic beef to the higher priced end of the market, and hence, prompt the wider utilisation of dairy steer beef as a higher quality product in 'up-market' eating-out establishments and retail outlets. In parallel, the current levels of usage of domestic beef across the 'middle class' segments of the market (namely, lower grades of Wagyu beef and the bulk of dairy steer beef) will decline.

The expansion in supplies of imported beef will act as a catalyst to the 'specialised and selective usage' of domestic beef, and increasingly imported beef items will substitute for the domestically produced beef products currently being used in the middle sub-market. Furthermore, the increased competition between foreign countries within this largest sector of the Japanese market, will inevitably promote an upgrading of imported beef supplies, and a shift away from products traditionally purchased and distributed by the LIPC.

As end-users are afforded greater opportunities to negotiate directly with overseas suppliers (via SBS tendering arrangements), the future demand preferences of Japanese consumers should be more directly reflected by their purchasing patterns. Given that imported beef items will increasingly need to supplement domestic beef supplies, it could be assumed that imported beef purchases will need to become more specialised and better tailored to the particular requirements of end-users servicing consumers in the middle sectors of the market. To this end, higher valued cuts of frozen and chilled beef are likely to be preferred. A greater degree of 'versatility' in products is also likely to be sought so as to allow end-users more flexibility and opportunities to counter fluctuations in supply.

Essentially because the lower end of the market is not serviced by domestically produced beef, the general usage of imports of lower valued products (in the lower class eating-out establishments, and manufacturing and food service sectors) is unlikely to be influenced by the more confined usage of domestic beef supplies. As a result, current patterns of utilisation across these segments of the market are expected to be reinforced under the present transition arrangements. The specific nature of products utilised, however, is likely to change in response to future growth in the segment (and in particular, potential growth in the manufacturing and food service sectors), and the trading practices of the LIPC and end-users (particularly, those servicing the table meat sectors).

Implications for Imports of Beef and Beef Offals

On the surface Japan has maintained a global quota for beef imports, which the Japanese have consistently argued has been administered in a non-discriminatory way. In practice, however, it has been claimed that Japan has shifted the direction of trade toward specific country suppliers. Although not official policy, this has effectively been achieved through various administrative mechanisms which have been tailored to meet the demands of specific countries, and in particular, the demands of the United States for increased access for 'high quality beef'.

In light of evidence presented in the earlier chapters, it could be concluded that had Japanese trade policy not dictated increases in the supply of grainfed beef (since 1978 and the signing of bilateral access agreements), a relatively greater expansion in imports of grassfed beef may have occurred. However, due to the quantitative restrictions coupled with qualitative biases against the import of product from Australia which existed in the terms of previous agreements, it would appear that any short fall in the supply of beef to those sectors traditionally serviced by grassfed beef has been offset by increased imports of certain lower valued grainfed beef cuts and an unrestricted growth in imports of diaphragm beef.

Coyle (1986), claimed that the removal of trade barriers to beef imports and a resulting fall in retail prices and increased consumption, was dependent on, among other things, the comparability of domestic and imported beef, and the responsiveness of consumers to lower prices. Thus, in terms of the broader trade issue, he argued that ultimately the future shares of a liberalised Japanese beef market would depend on the relative competitiveness of products in a much larger market, and given lower prices, likely changes in Japanese consumer preferences for different kinds of beef (domestically produced and imported).

In the above sections, the first of these issues was discussed in light of perceived trends in beef supply and demand. In particular, the capacity of domestic producers to sustain output levels in the short to medium term (in spite of falling wholesale prices and inevitable costs to the Government), was asserted. However in the longer term, it was argued that the production base of the domestic industry would be reduced as producers rationalise their practices in accordance with increased volumes of beef imports, modifications to price stabilisation arrangements and falling real prices (both wholesale and retail). Further, it was concluded that higher priced domestic supplies would increasingly service consumer demands at the upper end of the market, while expanding quantities of lower priced beef imports would substitute for the domestic beef items currently being utilised across the middle to lower sectors.

Under this scenario, it is competition between foreign suppliers (and in particular, between the United States and Australia) which is expected to be most significant in determining the nature and composition of future beef imports. Furthermore, it would seem plausible to conclude that 'higher valued' and 'more flexible' items will be most preferred, and in particular, products derived from grainfed (or lot-fed) cattle. Hence, any significant growth in lower priced grassfed beef would seem doubtful in the longer term. Moreover, if the grassfed beef segment of the trade were to grow rapidly, then this may lead to the re-emergence of qualitative biases against the import of lower valued products.

Against this background, present levels of utilisation (and therefore import) of diaphragm beef can be expected to decline, particularly across the middle sectors of the market where these products have readily substituted for supplies of domestic dairy steer and imported beef products (which would otherwise be sourced mainly from Australia). Subject to price movements, any future usage of hanging tenders and outside skirts is likely to remain in the lower class food outlets. On the other hand, the use of thick and thin skirts (or even hanging tenders and outside skirts) within the processing sector is only likely to result in response to lower import prices vis-a-vis cuts of manufacturing type beef.

Potential competition between the United States and Australia (and other foreign suppliers) will be reflected by respective country performances under the SBS tendering arrangements. However as discussed earlier, uncertainty as to the type of products which will be negotiated for, and subsequently imported, through these tenders still remains (that is, grainfed beef or grassfed beef, chilled or frozen beef, bone-in or boneless beef). Thus, it is difficult to fully appreciate the potential performance of different suppliers in the market.

Nevertheless, in theory under the newly negotiated non-discriminatory arrangements, end-users are afforded the incentive to trade-off price and quality in order to more accurately service the needs of Japanese consumers. Moreover, the extent of the LIPC's influence in dictating the demands of Japanese user groups will be dissipated as its direct handling of imported beef is reduced and new entrants are registered to participate in the trade. Thus, in this emerging 'free trade' environment foreign packers will have the opportunity to directly market and promote products, and presumably, to secure a share of the potential gains from liberalisation.

New entrants into the trade will promote greater competition amongst the Japanese participants; that is, both importers and end-users. The mechanics of the SBS tendering arrangements, and in particular, the ten per cent maximum bidding entitlement awarded to importers and end-users under the respective System B arrangements (see Chapter 6), will also serve to strengthen competition between organisations registered to participate in tenders. Moreover, vertical integration within the meat trade as a result of increased activities relating to the acquisition and establishment of operations by Japanese end-users and importers in foreign supply countries can be expected to have a significant bearing on the nature of future competition and therefore, imports. (However, unless this integration of activities involves joint-venture operations between the Japanese traders and companies in the foreign supply countries, it is doubtful that overseas suppliers would be in a position to capture any of the potential gains from a 'freer' trade.)

One implication of greater market competition between Japanese companies is that the influence of the traditional wholesalers of beef and quota holders is likely to be diminished, rather than strengthened. On the other hand, a significant growth can be expected in the market share of user groups which up till now have only been afforded limited participation in the trade. Such groups are likely to include supermarket associations, manufacturing and processing associations, and restaurant and other related food service organisations. This will serve to exacerbate future trends in the nature and composition of imports.

At present, certain end-user groups are better suited to and therefore, prefer utilising frozen beef vis-a-vis chilled beef supplies, and vice versa. Moreover, the restricted distribution of chilled

beef supplies to date has limited the usage of such products by supermarkets and other consumer service associations. Developments during the next three years are likely to prompt a shift to the greater utilisation of imported chilled beef products. However, any increased usage is expected to be in the form of cuts and not full sets. A continued demand for frozen products can also be expected, and in particular, this is likely to be in the form of valued added items (for example, portion control cuts).

Although chilled beef products are likely to remain in limited use in the manufacturing sector (and food service sector), it can be expected that the processing associations will emerge as dominant players in the market, and particularly as purchasers of frozen beef products. The LIPC's decision to cease its direct involvement in the handling of manufacturing type products and lower valued cuts will reinforce the need for these associations to be active traders in the future. Their purchasing patterns (as formerly dictated by the LIPC) are likely to be maintained in the short term. However, the expected expansion in imports of processed and preserved products during the next few years (and in particular, beef patty-type products), may serve to re-direct future growth and dictate a shift in the type of products traditionally purchased.

While the increased dominance of the mentioned user groups is inevitable, as alluded to in Chapter 6 the extent to which the Government will be able to afford these sectors of the trade a significant growth in market share, at the expense of the more 'traditional elements' (and particularly organisations which have dominated the chilled beef trade), remains questionable.

Australia's Potential Performance under the New Arrangements

Australia's bilateral agreements with Japan have provided predictable access to the Japanese beef market, and in absolute terms, have allowed for total beef imports (that is, imports of beef inside and outside of quota arrangements) from Australia to rise from around 94 450 tonnes in 1978 to 134 750 tonnes in 1987. In percentage terms, however, Australia's market share has declined dramatically, from 60 per cent to 43 per cent over the same period.[4] As demonstrated in the earlier chapters, this shift in market shares resulted from the administration of apparently non-discriminatory systems of import and the effectiveness of the LIPC in removing the competitive advantage of Australian beef products in the Japanese marketplace. In the context of the most recent round of bilateral negotiations on beef access, Australian Government and industry officials sought to re-dress these biases through a significant liberalisation of quota restrictions, and more specifically, by endeavouring to remove the discriminatory elements of the earlier SBS arrangements.

Under former SBS tendering arrangements, the selection process for awarding successful bids effectively isolated grainfed beef from price competition with grassfed beef, and did not permit the end-user to trade-off between a relatively lower priced grassfed product and a grainfed beef item of equivalent specification. Such an arrangement had two significant implications for Australia's performance in tenders.

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[4] In sharp contrast, imports from the United States increased from about 46 430 tonnes in 1978 to 163 000 tonnes 1987, or in percentage terms, from 30 per cent to 51 per cent.

First, Australia's competitive ability to supply lower priced beef products was rendered somewhat irrelevant under the system. This was particularly significant with respect to the ability of Australian grainfed beef to successfully compete with product from the United States. As explained in Chapter 6, Australia does not have a history of being a supplier of grainfed product. As a result, Australian grainfed beef continues to attract lower offer prices from end-users until it becomes more firmly established in the market. Under the former SBS tendering process, Australian products were likely to be eliminated first, even though the prices paid by the LIPC to importers for the products were generally less than prices for comparable products from the United States. In theory, this difference could have more than compensated for the lower selling prices of Australian products, but this differential was not accounted for in the process of awarding bids. Consequently, the end-user with entitlement to the quota had no incentive to trade-off price and quality, so suppliers of Australian grainfed beef were prevented from gaining access to SBS tenders.

Second, because successful bids within any product category were those for which the end-user was prepared to pay the highest selling-out price, it was in the end-users interest to import a product specification which attracted the highest wholesale price. That is, end-users sought to import the highest quality, highest valued product specification within a product category.

Having identified and argued for the elimination of these areas of discrimination, Australian negotiators are confident that new SBS arrangements, which now take account of the import price, will ensure that the mechanism by which bids are awarded is neutral and not biased against the importation of products sourced from Australia.[5] Given this change, as well as the non-segregation of grainfed and grassfed beef and access for chilled beef, Australian industry officials are hopeful that Australia's share of the SBS quota will rise from around ten per cent to between 30 and 40 per cent (AMLC 1988b).

However, the existence of new and improved arrangements, and expanding levels of access, will not automatically mean that 'the flood gates are now opened' to beef imports from Australia. As explained in detail in Chapter 6, the traditional channels of importation and distribution through which the bulk of Australia's exports have entered in the past, will be phased down, if not abolished prior to April 1991. Most of the expansion in imports is scheduled to occur through that segment of the trade (namely, the SBS system) in which the United States, and not Australia, has dominated. Consequently, Australia's performance between now and 1 April, 1991 (particularly in the SBS component), will be crucial to its position as a major longer term supplier of beef to Japan.

Under the terms of the previous arrangements, pre-determined levels of access were set for imports of 'high quality beef' (and implicitly for grassfed beef). Thus, it was not so critical that SBS

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[5] In negotiating changes to the former SBS arrangements, Australian officials initially sought to have the awarding of bids on the basis of the largest difference between the buy-in and sell-out prices, calculated as a percentage of the import price. For various reasons (namely, that products with lower import prices would tend to always be successful, and that this mechanism was inconsistent with LIPC budgetary requirements under the Price Stabilisation Law), this mechanism was not acceptable to the Japanese. A process based on the greatest absolute price differential between the offered prices was, however, eventually agreed to.

tenders were then dominated by the United States, because the LIPC was required to buy more grassfed beef and less grainfed beef via non-SBS channels. Now however, commitments for the import of set tonnages of grainfed beef do not, in theory, exist in the terms of the current agreements. In accordance with the planned expansion in access and a declining role of the Japanese Government authorities in the handling beef imports, beef products from different supplying countries will have to compete on their own merits in the marketplace. Thus, the share that Australia is able to win will essentially depend on the industry's capacity to supply products which appeal to Japanese consumers (AMLC 1988c).[6]

At present, Australia's exports to Japan comprise about 60 per cent manufacturing beef and 40 per cent chilled/aged beef, which in general is derived from animals specifically prepared (primarily in Queensland) for the Japanese market (known as 'Jap ox'). According to AMLC (1988c), these proportions will remain more-or-less unchanged. Hence, it is likely that growth in the Japanese market will have an impact in two major areas: (a) in the manufacturing beef sector, where Australia's two largest markets (namely, the United States and Canada), will be forced to compete with Japan for Australian supplies; and (b) the chilled/aged frozen beef sector where a price incentive for producers to undertake preparation of animals tailored to the Japanese market is likely to result in greater production for the export market in the southern States, which in turn, will increase the competition for product for the domestic market.[7]

Outlook for Australia's Share of Quotas, 1988-1990

Under former Japanese importing arrangements, first mediated by Government and semi-Government agencies, and then complicated by the wholesale distribution system, not only did Australia's traditional market share decline, but also, few if any of the benefits of the high price of beef in Japan flowed onto Australian producers. As the traditional suppliers of beef to the market, export opportunities will be enhanced for Australian packers under the new arrangements. Moreover, provided apparent opportunities for growth are identified and exploited by the Australian industry then, in a liberalised market, it is plausible that a significant proportion of the rents previously captured by the Japanese authorities and traders will be able to be recovered by the industry.

At the same time, however, it has been argued that the Australian industry will need to work from the outset to re-position itself within the market (and particularly, with respect to the SBS tendering process) in order to realise any of the potential gains from market liberalisation. The United States' industry, on the other hand, will be facing an expansion in that sector of the market in which it has an already demonstrated capacity to service.

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[6] AMLC (1988c), projected that Australian exports to Japan will rise by 25 000 tonnes to 145 000 tonnes in 1988, and continue increasing at around that rate through to 1992.

[7] With an expected increase in exports of specialised, higher valued products for Japan (together with a forecast trend toward the supply of similar valued products to South East Asia and North America, and continuing strong demand for Australia's traditional exports), the AMLC (1988c) has predicted that a significant rise in the average unit value of Australian exports will occur during the coming years through to 1992.

In Table 7.1, Australia's market share of the various categories of quota has been estimated for 1987 and current three year period of transition-to-liberalisation arrangements. The assumptions underpinning calculations of Australia's estimated access are also presented. Essentially, these are based on Australia's traditional market shares of the various quotas, and perceived changes in the nature (and therefore, source) of products required by the various quota holders during the next three years.

In 1987, it was estimated that Australia supplied 60 per cent of total quota beef imports. As indicated in Table 7.1, the bulk of imports was assumed to enter through LIPC channels, and in particular, under arrangements other than the SBS system; namely, the frozen beef tenders, chilled beef set-price tenders and one-touch allocations. Prior to liberalisation (or abolition, as in the case of the one-touch allocation system), Australia's 66 per cent share of imports under these arrangements is assumed to remain unchanged. However, because total tonnages to be directly imported by the LIPC through these mechanisms are scheduled to decline (from around 157 000 tonnes in 1987 to 131 000 tonnes by 1990; see Table 6.3), the absolute volume of Australian imports will decline in parallel, from an estimated level of 103 700 tonnes in 1987 to just over 86 500 tonnes in 1990.

Table 7.1 : Australia's Potential Share of Beef Import Quotas, 1987-1990[a]

Japanese Fiscal Year	SBS[1]	LIPC[2] Other	Total LIPC	Private[3] Quota	Special[4] Quotas	Total	(%)
			(tonnes)				
1987	2 650	103 710	106 360	9 700	13 050	129 110	(60)
1988	20 550	105 450	126 000	11 410	8 300	145 710	(53)
1989	43 840	101 000	144 840	13 920	10 150	168 910	(51)
1990	78 680	86 550	165 230	16 390	11 900	193 520	(49)

[a] **Assumptions Concerning Australia's Approximate Share of Quotas**

Quota	Japanese Fiscal Year 1987	1988	1989	1990
		(per cent)		
1. SBS	15	30	35	40
2. LIPC Other	66	66	66	66
3. Private Quota	50	45	45	45
4. Special Quotas				
Hotel Quota	5	5	5	5
School Lunch Quota	100	100	100	100
Okinawa Quota	80	80	80	80
Boiled Beef**	100	100	100	100
Demand Development Quota**	5	-	-	

** From 1988, boiled beef was re-classified outside the beef import quota, and therefore, not included in the above calculations
From the second half of the 1988 Japanese fiscal year, the Demand Development Quota was abolished.

Based on AMLC (1988b) predictions, Australia's share of the expanding SBS component of the quota was projected to rise from 15 per cent in 1987, to 30 per cent in 1988, 35 per cent in 1989 and to 40 per cent by 1990. In absolute terms this translates to a increase of around 76 000 tonnes over the three year period, from 2 650 tonnes to almost 79 000 tonnes.

On the one hand, the significant rise predicted in Australia's share of SBS tenders during 1988 and subsequent 'measured' growth during the remainder of the period, reflects the opportunities now provided through the supposed 'neutral' administration of the tendering mechanism. On the other hand, however, Australia's forecast level of performance reflects a continued demand for higher valued (grainfed) products, which in turn, will serve to limit the industry's ability to improve its performance vis-a-vis the United States.

Future trends in demand, which should in theory become apparent from designated users' purchasing patterns under the SBS system, are also likely to be reinforced by certain qualitative biases which will inevitably emerge in the administration of the system. Irrespective of the apparent neutrality of the process for awarding bids, these inherent biases will afford certain products greater profitability and therefore, greater incentive for purchase by end-users. The authorities' recent actions with respect to the entry of beef full sets under the new SBS arrangements could be judged as one such discriminatory element (see Chapter 6).

Given Australia's estimated levels of performance under these two defined categories, potential imports under future LIPC allocations will increase by over 50 per cent, from around 106 400 tonnes in 1987 (or, 82 per cent of Australia's total share of imports quotas) to just over 165 200 tonnes in 1990 (or, 85 per cent of Australia's estimated performance under all quota categories). In spite of the relative decline in the LIPC 'other' arrangements vis-a-vis expansion in the SBS quota, it is significant that Australia maintains a higher level of tonnage imports under the directly administered arrangements.

Under the Private Quota (which is forecast to expand in line with the overall growth in the total quota), Australia's share is projected to remain stable at 45 per cent for the duration of pre-liberalisation arrangements. Due to limited market information, it is difficult to accurately assess Australia's traditional share of the quota. Nevertheless, based on general market information, it was assumed that Australia supplied 50 per cent of imports in 1987. Thus, in keeping with the assumed strengthening of demand for higher quality items, Australia's share was predicted to fall marginally to 45 per cent from 1988.

Of the various Special Quotas, Australia's share of imports during the next three years is projected to remain at levels estimated for 1987. Given the terms of the negotiated expansions in the Hotel and Okinawa Quotas, Australia's potential performance was estimated at five per cent and 80 per cent, respectively. Tonnage commitments were not provided for the School Lunch Quota. Rather, it was concluded that imports under this quota would remain at previous levels. Therefore, as the traditional supplier of this quota category, Australia's share was estimated at 100 per cent of the 1988 quota level of 1 400 tonnes, and at 100 per cent of the estimated 1989 and 1990 allocations of 1 500 tonnes.

Due to the exclusion of boiled beef imports from arrangements governing quota beef imports, Australia's potential share of the Special Quotas declined, from an estimated level of 13 050 tonnes in 1987 to 11 900 tonnes by 1990. On the other hand, it was assumed that Australia would continue to be the major supplier of boiled beef imports under the new arrangements.

Given the above series of calculations, Australia's market share of quota beef imports under the future arrangements is estimated to decline, from 60 per cent in 1987 to 49 per cent in 1990. Essentially this fall in market share reflects assumptions about the limited extent to which the Australian industry is able to re-position itself within the current SBS arrangements, while Japan's commitments under the more traditional systems of import and distribution, decline.

Obviously, the simple assumptions underpinning the above evaluation are open to question. Further, any alternate series of assumptions and calculations which may be proposed are likely offer a different perspective on Australia's longer term viability in the Japanese market. Nevertheless, it should be appreciated that at this point in time it is difficult to effectively assess the resilience of Japan's domestic beef producers to increased beef imports, consumer response to the increased availability of cheaper beef products, and the extent and nature of competition between beef items of different quality and price. Given these unknowns, it is therefore difficult to accurately gauge Australia's potential performance both under the current transition arrangements and following liberalisation.

Similarly, it is difficult to estimate the potential gains which the Australian industry will be afforded from a liberalised Japanese beef market and from the resultant expansion in overall international trade in beef. It is plausible, however, that provided the apparent opportunities for growth are identified and fully exploited by the Australian industry then, in a liberalising market, significant gains, which were previously appropriated by the Japanese authorities and traders under the former importing regime, will be made. The same opportunities for accruing gains are, of course, also available to the beef industry in the United States.

Appendix 1

Japanese Beef Imports, 1976-1987

Table 1 : Japanese Beef Imports under Quota (i)

Calendar Year	TOTAL Tonnes	AUSTRALIA Tonnes	AUSTRALIA Share (%)	UNITED STATES Tonnes	UNITED STATES Share (%)
1976	97 644	79 119	(81.0)	12 690	(13.0)
1977	89 079	75 780	(85.1)	7 548	(8.5)
1978	106 672	83 374	(78.2)	13 441	(12.6)
1979	138 391	107 580	(77.7)	24 940	(18.0)
1980	128 143	97 567	(76.1)	23 906	(18.7)
1981	127 970	91 054	(71.2)	27 799	(21.7)
1982	127 523	90 433	(70.9)	32 455	(25.5)
1983	142 439	95 413	(67.0)	38 158	(26.8)
1984	149 934	96 003	(64.0)	42 279	(28.2)
1985	155 093	97 115	(62.6)	46 697	(30.1)
1986	84 818	110 035	(59.5)	63 573	(34.4)
1987	227 047	127 066	(56.0)	85 763	(37.8)

(i) Fresh, chilled and frozen beef (02.01-111, 119, 121, 129, 139) and boiled beef (16.02.233)

Table 2 : Japanese Beef Imports Outside of Quota (ii)

Calendar Year	TOTAL Tonnes	AUSTRALIA Tonnes	AUSTRALIA Share (%)	UNITED STATES Tonnes	UNITED STATES Share (%)
1976	21 866	9 302	(42.5)	7 854	(35.9)
1977	37 953	11 042	(29.1)	21 203	(55.9)
1978	50 400	11 077	22.0)	32 991	(65.5)
1979	46 084	9 772	(21.2)	30 030	(65.2)
1980	49 466	8 704	(17.6)	35 267	(71.3)
1981	52 338	7 190	(13.7)	39 686	(75.8)
1982	55 315	6 520	(11.8)	43 291	(78.3)
1983	61 324	5 715	(9.3)	50 301	(82.0)
1984	65 057	5 337	(8.2)	54 501	(83.8)
1985	74 291	5 891	(7.9)	60 970	(82.1)
1986	88 413	6 998	(7.9)	74 201	(83.9)
1987	90 888	7 691	(8.5)	77 234	(85.0)

(ii) Internal organs and tongue (02.01-131) includes imports of hanging tender, and outside skirt (that is, diaphragm beef).

Table 3 : Japanese Beef Imports Inside and Outside of Quota

Calendar Year	TOTAL Tonnes	AUSTRALIA Tonnes	AUSTRALIA Share (%)	UNITED STATES Tonnes	UNITED STATES Share (%)
1976	119 510	88 421	(74.0)	20 544	(17.2)
1977	127 032	86 822	(68.3)	28 751	(22.6)
1978	157 072	94 451	(60.1)	46 432	(29.6)
1979	184 475	117 352	(63.6)	54 970	(29.8)
1980	177 609	106 271	(59.8)	59 173	(33.3)
1981	180 308	98 244	(54.5)	67 485	(37.4)
1982	182 838	96 953	(53.0)	75 746	(41.4)
1983	203 763	101 128	(49.6)	88 459	(43.4)
1984	214 991	101 340	(47.1)	96 780	(45.0)
1985	229 384	103 006	(44.9)	107 667	(46.9)
1986	273 231	117 033	(42.8)	137 774	(50.4)
1987	317 935	134 757	(42.4)	162 997	(51.3)

Note: The above statistics are actual imports on a calendar year basis, and therefore vary from quotas allocated on a Japanese fiscal year basis
The above categorisation of imports is consistent with that used in MOF monthly statistics prior to January 1988

Source: Ministry of Finance (1987).

Appendix 2

Australia/Japan 1988 Beef Settlement : Summary of the Major Elements

The Australia/Japan beef settlement, which is based on a six year transition period (from Japanese fiscal year 1988 to 1993), provides for the abolition of global import quotas by Japan from 1 April, 1991. At the end of this three year transition period the LIPC will no longer be associated with the purchase and sale of imported beef. Imports will be restricted by an ad valorem tariff, the level of which will be phased down over the succeeding three years. Thereafter, Japan's beef import arrangements will be GATT consistent, protected by a 50 per cent tariff which will be subject to negotiation for further reduction in the Uruguay Round of MTN.

Period 1 : 1988-1991

(a) Global quotas to increase by 60 000 tonnes annually from 214 000 tonnes in 1987 to 394 000 tonnes in 1990.

The current 25 per cent ad valorem tariff to be maintained over the period.

(b) The proportion of the LIPC Quota allocated to the SBS system to increase from ten per cent in 1987 to 30 per cent in 1988, 45 per cent in 1989 and 60 per cent in 1990.

(c) The SBS system to be modified and operated according to improved administrative mechanisms, as follows:

  (i) product categories to be simplified and reduced to 12 (see Table 6.4);

  (ii) grassfed and grainfed beef not to be segregated; and

  (iii) bids within each category to be accepted by the LIPC in order of the largest difference between the buy-in and sell-out prices, until the scheduled tender quantity is filled.

(d) Chilled beef, as well as frozen beef to be allowed entry under SBS tendering arrangements.

(e) Minimum of six SBS announcements per year, with a minimum of three announcements during the last half of 1988.

(f) Foreign companies to be eligible to participate under SBS arrangements in concert with existing registered Japanese traders and users, providing the companies are registered under the Commercial Code of Japan.

(g) The minimum access commitment for chilled beef and aged frozen beef purchased through LIPC channels (including SBS tenders) to increase by 10 000 tonnes per annum from the previously negotiated level of 38 000 tonnes in 1987 to 68 000 tonnes in 1990.

(h) The Private Quota to increase in line with total quota expansion.

(i) The Special Quotas to increase, as follows:

  (i) The Hotel Quota to increase from the 1987 level of 4 000 tonnes to 10 000 tonnes in 1988, 13 000 tonnes in 1989 and 16 000 tonnes in 1990;

  (ii) The Okinawa Quota to increase from the 1987 level of 6 250 tonnes to 8 000 tonnes in 1988, 10 000 tonnes in 1989 and 12 000 tonnes in 1990;

(iii) The Boiled Beef Quota to be maintained at not less than 7 000 tonnes in 1988 and 8 000 tonnes in 1989, after which time quota restrictions will abolished, (Boiled beef imports to be re-classified outside the global beef import quota and to enter under quota arrangements for processed and preserved beef); and

(iv) The Demand Development Quota to be abolished from the second half of 1988.

Period 2 : 1991-1993

(a) Import quotas to be abolished from 1 April, 1991 and replaced by an ad valorem tariff set at 70 per cent in 1991 but reducing to 60 per cent in 1992 and 50 per cent in 1993.

(b) Provision for emergency action to be taken during this three period if imports appear likely to exceed a level calculated at 120 per cent of the previous year's imports, or a level of imports equivalent to the quota level in 1990 compounding by 20 per cent over each of the succeeding three years, whichever is higher. (Emergency action to take the form of an additional tariff of 25 percentage points but to involve prior consultation with suppliers.)

Period 3 : from 1994

(a) As from 1 April, 1994, safeguard measures to be limited to only those permitted under GATT.

(b) The tariff on beef imports to remain at 50 per cent but to be subject to tariff negotiations in the Uruguay Round of MTN

Source: AMLC (1988a, 1988b).

Appendix 3

Designated Importers of Beef under Quota

C Itoh & Co., Ltd.
Itoman & Co., Ltd.
Kanematsu-Gosho Co., Ltd.
S. T. C. Inc.
Zenchiku Co., Ltd.
Daimaru Kogyo; Ltd.
Toshoku Ltd.
Toyo Menka Kaisha Ltd.
Nichiryo Ltd.
Nitchiku Ltd.
Nichirei Corporation
Nozaki and Co., Ltd.
Nomura Trading Co., Ltd.
Marubeni Corporation
Meidi-Ya Co., Ltd.
Mitsui & Co., Ltd.
Unicoop Japan
Taiyo Bussan Kaisha Ltd.
Mitsubishi Corporation
Sumitomo Shoji Co., Ltd.
Nissho-Iwai Co., Ltd.
Yuasa Ltd.
Nichimen Co., Ltd.
Okura Trading Co., Ltd.
Rasa Trading Co., Ltd.
Tokyo Maruichi Chikusan Co., Ltd.
Toho Bussan Kaisha Ltd.
Shibamoto & Co., Ltd.
Azabu Food Co., Ltd.
Japan Food Co., Ltd.
Fujita Shoten Co., Ltd.
Hoei & Co., Ltd
Tokyo Algas Co., Ltd.
Pacific Overseas; Inc.
Teijin Ltd.
Tokyu Trading Corporation

Daiichi Bussan Co., Ltd.*
C.G.C. Japan Ltd.*
Taiyo Fishery Co., Ltd.*
International Business Corporation*
Colonial Co., Japan*

* New companies registered by the LIPC (in September 1988) to participate in the SBS tenders under the 'juwari' component (or, 'registered users system') of System B

Source: AMLC (1987), with modifications.

Appendix 4

Central and Designated Meat Wholesale Markets in Japan

1.* SENDAI Central Wholesale Meat Market Co., Ltd.
2. GUNMA Prefecture Wholesale Meat Market Co., Ltd.
3. TOCHIGI Prefecture Livestock Corporation.
4.* OMIYA Wholesale Meat Co., Ltd.
5. KAWAGUCHI Wholesale Meat Co., Ltd.
6.* TOKYO Meat Market Co., Ltd.
7. TACHIKAWA Meat Co., Ltd.
8.* YOKOHAMA Wholesale Meat Co., Ltd.
9. YAMANASHI Prefecture Meat Corporation.
10. SHIZUOKA Prefecture Agricultural Co-operative Federation.
11. AICHI Prefecture Agricultural Co-operative Federation.
12.* NAGOYA Meat Market Co., Ltd.
13. AICHI Wholesale Meat Market Co-operative Association.
14. GIFU Prefecture Livestock Corporation.
15. MIE Prefecture YOKKAICHI Livestock Corporation.
16.* KYOTO Central Livestock Co., Ltd.
17.* OSAKA City Meat Market Co., Ltd.
18. MATSUBARA Wholesale Meat Co., Ltd.
19. MINAMI Osaka Wholesale Meat Livestock Co., Ltd.
20.* KOBE Central Wholesale Livestock Co., Ltd.
21. SHIKATA Central Wholesale Livestock Co., Ltd.
22. HIMEJI Wholesale Livestock Co., Ltd.
23. OKAYAMA Prefecture Wholesale Meat Co., Ltd.
24.* HIROSHIMA Meat Market Co., Ltd.
25. EHIME Meat Corporation.
26.* FUKUOKA Meat Market Co., Ltd.
27. SASEBO Meat Centre Co., Ltd.
28. KUMAMOTO Central Meat Market Co., Ltd.
29. KUMAMOTO Prefecture All Wholesale Livestock Co., Ltd.
30. IBARAKI Prefecture Central Meat Corporation.
31. MATSUDO Central Meat Market Co., Ltd.

* indicates Central market
Source: AMLC (1987).

Appendix 5

Authorised User Groups under the SBS Tender : Systems A and B

Group No. 1 : Wholesalers in Wholesale Meat Markets*

Refer to Appendix 4.

Group No. 2 : Meat Wholesale Distributor Associations**

Japan Institutional Meat Wholesalers' Co-operative Federation
Greater Metropolitan Meat Wholesalers' Co-operative Association
Dowa Meat Industry Co-operative Federation (Zendoren)
National Federation of Meat Purveyors' Co-operative
Hyogo Prefectural Meat Wholesalers' Co-operative Association
National Federation of Imported Meat Traders' Association (Zenyuren)
Shin-Dowa Meat Industry Co-operative Federation
National Federation of Livestock Products Promotion Co-operative Association
Chugoku-Shikoku Imported Meat Wholesalers' Co-operative Association
Japan Meat Trading Centre Wholesalers' Co-operative Association
National Minshu Dowa Meat Industry Co-operative
Nippon Meat Market Kyodo Co., Ltd** *

Group No. 3 : Processed Meat Manufacturers Associations**

Japan Ham and Sausage Processors Co-operative Association
Japan Meat Canners' Association
Canners Association of Japan
Japan Frozen Food Association
Japan Hamburg and Hamburger Association
Japan Meat By-Products Wholesalers' Association (Nihon Fukuseibutsu Kyokai)

Group No. 4 : Retailers and Food Service Associations**

All Japan Meat Retailers' Co-operative Federation (Zennikuren)
National Federation of Agricultural Co-operative Association (Zennoh)
Japan Private School Lunch Association
Okayama Consumers' Co-operative
Japan Food Service Association
Japan Lunch Service Association
Japan Consumers' Co-operative Union (Seikyoren)
Japan Chain Stores Association
Kansai Housewives' Federation
National Supermarket Association
Japan Self-Service Association
Japan Restaurant Association

* Designated to participate in System A tenders only
** Designated to participate in System A tenders and System B 'juwari' tenders
* ** Designated to participate in System B 'juwari' tenders only

Note: In September 1988, the LIPC authorised Nippon Meat Market Kyodo, Co., Ltd (a trading arm of Japan Meat Wholesalers' Association) as a designated user group to participate in the 'juwari' component of System B on behalf of the wholesale meat market
In addition to the designated user groups listed above, the LIPC registered 67 new companies and organisations to participate in the 'showari' tender called under System B on 28 September 1988

Source: AMLC.

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