

Voluntary Report – Voluntary - Public Distribution

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Report Name: Falling Wagyu Prices Trigger Supports Amid COVID-19

Country: Japan

Post: Tokyo

Report Category: Agricultural Situation, Livestock and Products

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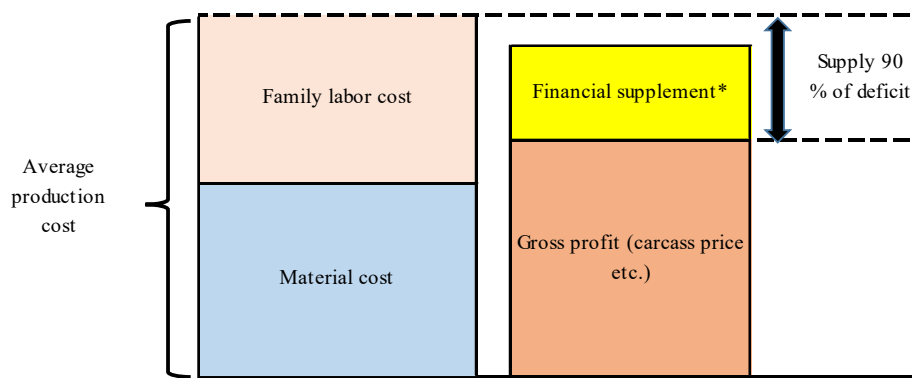
Report Highlights:

Falling wagyu beef prices since 2019 have triggered increased support payments under the Beef Livestock Stabilization Program, also known as Beef Marukin. Short-term demand for wagyu is projected to continue falling as a result of COVID-19, leading to additional payment increases. To further support livestock producers, the ruling party in Japan has proposed temporarily waiving the 25 percent funding contribution requirement for producers to participate in the Beef Marukin program.

Background on Beef Marukin Program

The Government of Japan provides support to domestic beef producers under the Beef Livestock Stabilization Program, also known as Beef Marukin (see [JA8109](#)). Under the program, support payments are issued to beef producers when average production costs exceed average revenue. Payments are made from a joint fund in which the Government of Japan contributes 75 percent and eligible producers contribute 25 percent. When activated, the program pays eligible producers 90 percent of the difference between costs and revenue (Figure 1).

Figure1: " Marukin", a Japanese Government's financial measure to stabilize the management of beef cattle and swine livestock growers



* Fund is prepared and deposited by government (3/4) and farmers (1/4)

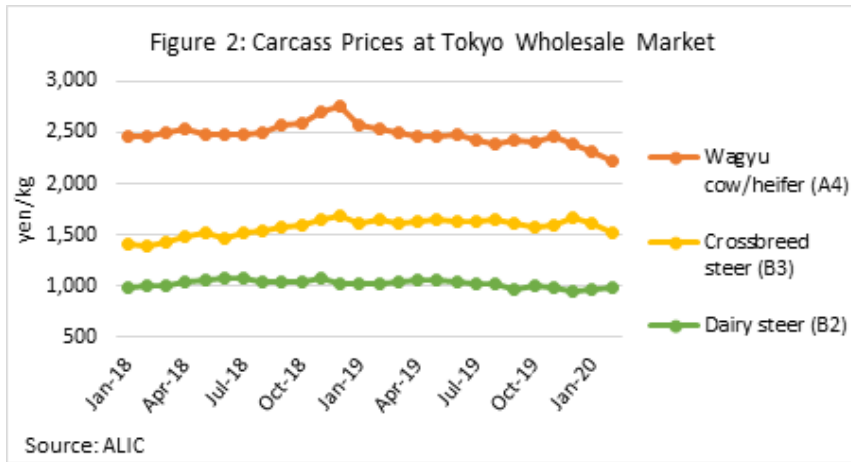
Source: MAFF

Average production costs are determined by regional fund managing associations in every prefecture which have the option of using a general calculation method or developing an original calculation method. Original calculation methods must be submitted to the Agriculture and Livestock Industries Cooperation (ALIC) and approved by the Japanese Minister of Agriculture every year. Only wagyu breeds are eligible for original calculation methods. Cross-breed and dairy cattle are subject to general calculations only. In Japanese Fiscal Year 2019 (April 1, 2019 to March 31, 2020), 35 prefectures used the original calculation method for wagyu.

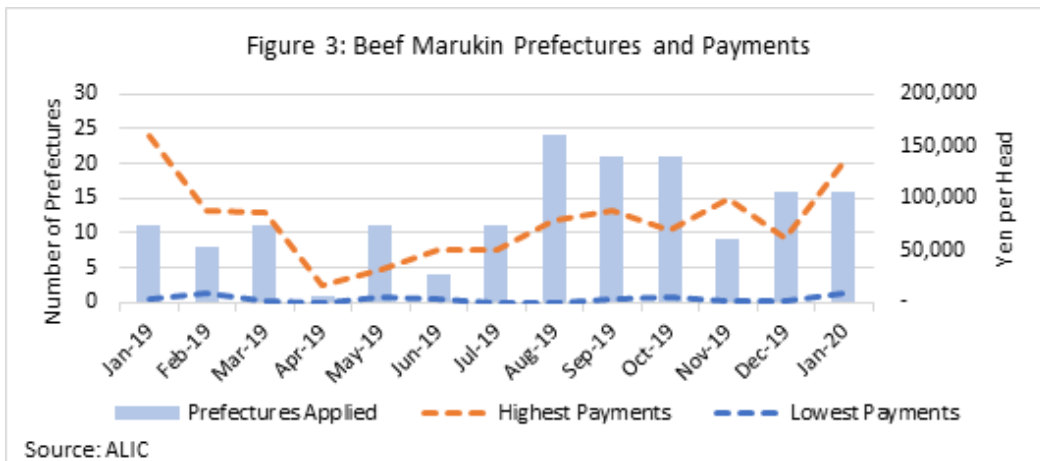
Recent Payments Issued under Beef Marukin

Wagyu prices had ticked upward in recent years as a result high calf prices due to contraction in the number of calf-cow operators. Because wholesale prices increased in tandem with higher input costs, Beef Marukin payments were not triggered. However, weak demand in 2019 pulled prices downward while production costs remained high. As reported in the FAS/Tokyo Livestock and Products Semi-annual (JA2020-0040), consumer preferences trended away from heavily marbled wagyu toward leaner beef from crossbred cattle and imported beef. Between February 2019 and February 2020, A-4

grade wagyu cow/heifer carcass prices at the Tokyo market dropped 12 percent from 2,526 yen (\$23) to 2,225 yen (\$20) per kilogram. Crossbred and dairy beef carcass prices remained stable (Figure 2).



Falling wagyu prices triggered increased payments under Beef Marukin in 2019. Because production costs are calculated differently by prefecture, the value of payments varies widely. Figure 3 below shows the highest and lowest monthly payments. In January 2019, producers in 11 prefectures received payments. That number rose to 24 prefectures in August 2019 before falling to 16 by January 2020. Throughout the year, payments varied between 174 yen (\$1.60) to 159,811 yen (\$1,466) per head.



The full impact of COVID-19 on wagyu beef demand is not yet clear. However, industry sources have reported significant declines in consumption due to reduced inbound tourism, particularly from China, as well as lower foodservice demand. Most of these impacts began in mid-February and continued through March. Due to lag in Beef Marukin payments, COVID-19-related impacts have not yet been taken into consideration. However, FAS/Tokyo anticipates that the value of payments and the number of eligible prefectures will increase as a result.

A similar program exists for pork producers called the Hog Growers Business Stabilization Program, known as Pork Marukin. This program was expanded in December 2018 ([JA9006](#)), however payments have not been activated since JFY 2012. Industry sources have not yet reported any significant impacts on pork demand due to COVID-19.

Implications of COVID-19 Going Forward

To provide additional relief to wagyu producers, the ruling Liberal Democratic Party (LDP) proposed on March 31 that the government temporarily waive the 25 percent producer contribution requirement for Beef Marukin during the COVID-19 outbreak. The government is expected to review this proposal within April and determine whether or not to include it in the supplemental budget for JFY 2020. The LDP had also considered issuing vouchers to families to purchase domestic beef at reduced prices, but this proposal was ultimately withdrawn.

As a result of depressed demand, industry sources reported that beef carcass storage in Japan is reaching near-full capacity. This is not expected to affect imported beef, which arrives in cuts rather than full carcasses. To help unwind carcass stocks, the Japan Agriculture Central Union of Agricultural Co-operatives (JA Zenchu) announced on March 27 it would increase the amount of wagyu given away during its annual lottery contest. Originally, JA Zenchu planned to give 800 grams of premium wagyu steak to 20 contest winners (16 kilograms total). Now it will give 800 grams to 5,000 contest winners (4,000 kilograms or 4 metric tons).

Attachments:

No Attachments.