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## **Japan**

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## **Japan Livestock 1998 Annual Report**

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#### **Report Highlights:**

Despite weak demand in the processing and retail sectors resulting from Japan's economic recession coupled with the weak yen, strong demand in the HRI/HMR sector is sustaining the market for beef, pork, lamb, mutton, and tallow. Japan's beef imports are forecast to reach 675,000 MT, customs clearance basis, a 4% increase over last year, while pork imports are forecast at 515,000 MT, just slightly above last year. Imports of U.S. beef are estimated at 316,000 MT, a 3% increase from last year, while imports of U.S. pork are forecast at 150,000 MT, a 9% increase over last year. The market for finished leather goods will remain sluggish in 1998, limiting imports of raw hide. Despite Japan's economic slump, strong barbecue demand exists for lamb and mutton for outdoor barbecue and HRI use, equaling last year's import level of 64,000 MT. Though market demand for tallow and grease in Japan had been gradually declining due to increased use of plant-based substitutes, in 1998 demand is expected to equal last year's level, and tallow imports in 1998 are projected at 95,000 MT due to solid demand from HRI users.

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## Executive Summary

Post projects a downward trend in total domestic total beef production in 1998, based on numbers of beef calves coming to slaughtering age. Japan's beef consumption in 1998 will slightly exceed last year's level at around 1,485,000 MT on CWE basis as solid growth occurring in the HRI/HMR sector offsets lethargic consumption in the retail sector. During January to May 1998, Japanese beef imports, chilled and frozen, totaled 275,530 MT on customs clearance basis (PWE), up 15 percent from the previous year. In terms of country share, U.S. beef led Australia by 4 percent at 49 percent. During January to May 1998, Japan's imports of U.S. beef surged 24 percent due to increased imports of frozen beef. By year-end, total beef imports are forecast to slacken but still reach 675,000 MT, customs clearance basis, a 4 percent increase over last year. Equal annual shares between the United States and Australia are forecast in 1998 as reduced imports of U.S. beef in the second half will result in Aussie beef narrowing the share gap. The weak yen and relatively high local beef prices in the United States will remain factors affecting Japan's import demand for U.S. beef in the second half.

Japan's pig slaughters and pork production in 1998 are forecast to be slightly above last year, reflecting

increased sow numbers raised at the year beginning. Relatively higher Japanese wholesale carcass prices have prevailed the last couple of years, providing an incentive for producers to channel more pork to the market. Total pork consumption in 1998 is forecast to about the same as 1997. Strong pork demand in Japan's HRI/HMR sector will offset flat retail and processed pork demand. Retail consumption in the first half of 1998 fell one to two percent, while a summer recovery will compensate for some of the earlier decline. Post forecasts Japan's imports of pork to reach 515,000 MT, customs clearance basis, just slightly above last year due to lower domestic pork production and consumption. Total U.S. imports will be 150,000 MT, a 9 percent increase over last year for a leading 29 percent market share. During 1998, high demand in the HMR sector for imported frozen pork, a trend expected to continue through the year, is partially offsetting the anticipated decline in raw material frozen pork imports for processing coupled with flat retail consumption.

As forecast in post's February 1998 semiannual report, due to Japan's economic recession, the market for finished leather goods remains sluggish in 1998, considerably limiting raw hide imports.

Despite the dampening effects of Japan's economic slump, strong barbecue demand existed for lamb and mutton for outdoor barbecue and HRI use in major consuming regions such as Hokkaido, maintaining last year's pace. Despite the weak yen, post forecasts roughly the same level of imports as the last year, totaling about 64,000 MT on CWE basis (PWE: 37,000 MT) because of the stable consumption prevailing in 1998.

Though market demand for tallow and grease in Japan had been gradually declining due to increased use of plant-based substitutes, in 1998 demand is expected to equal last year's level. Annual tallow imports in 1998 are projected at 95,000 MT. Solid demand from HRI users is driving the import growth.

## **1. Japanese Beef Market Situation and Outlook Summary (1998)**

### **Overall Situation and Outlook 1998**

Post projects the annual beef consumption in 1998 to stay only slightly above the previous year level at around 1,485,000 MT on a CWE basis as solid growth occurring in the HRI/HMR sector is slightly offset by lethargic consumption in the retail sector. Japan's overall beef consumption continues to recover, but the pace of the recovery has been slowed by the slumping economy.

On the supply side, the annual beef supply in 1998 is projected to increase slightly from last year to total 1,615,000 MT (CWE), with total annual beef imports rising modestly to 964,000 MT (PWE: 675,000 MT), up 4 percent, while the domestic beef production in 1998 will decline to 520,000 MT (CWE), down 2 percent, compared to 1997 final figures. As a result, beef inventories at the year beginning will equal 130,000 MT (CWE).

The stagnant economy and the weak yen are the two economic factors influencing this year's Japanese beef market situation. The weak economy is considered to have helped to increase import quantities for the first half this year due to the prohibitively high cost of domestic beef, more than offsetting the negative effect of the weak yen. However, if the yen value remains weak for the remainder of 1998 at the current rate of 140 yen per dollar, beef imports in the second half could slacken.

Food safety concerns, though this year less important compared to the economy and the yen value, remain a critical factor influencing overall demand for beef. To date no major food poisoning outbreaks have been reported nor traced to contaminated beef or beef offal. Japanese media and consumers appear to be focusing

now on adverse effects to human health of food safety concerns from contamination by toxic chemicals like dioxin. In the event that chemical concerns are directed to imported beef, general information should be immediately provided to the Japanese market on U.S. regulations and standards for environmental hormones that assure the food safety regime.

Post's forecast for Japan's 1999 beef market is based on a constant growth scenario similar to 1998, but with slightly increased total beef consumption. On the supply side, slightly reduced domestic beef production is more than offset by moderate import growth. As was the case this year, the same economic factors are assumed to be affecting the Japanese beef market in 1999. However, if the overall Japanese economic situation changes for the better or worse next year, the import outlook will change accordingly.

### **Japanese Beef Import Situation and Outlook 1998**

Increased demand in Japan's HRI/HMR sector is largely responsible for the beef consumption recovery in 1998, boosting demand for frozen beef in the first half. Though post expects the HRI/HMR sector to continue driving increased frozen imports throughout the year, the weaker retail demand for high-value chilled parts in 1998, combined with the weak yen, could result in reduced imports for these products.

During January to May 1998, Japanese beef imports, chilled and frozen combined, totaled 275,530 MT on a customs clearance basis (PWE), up 15 percent from the previous year. The U.S. market share of 49 percent led Australia by 4 points. During the same period, U.S. beef shot up 24 percent over last year, owing to excellent expansion of frozen beef, which surged 45 percent compared to the same period last year. Aussie beef also rose 7 percent, with the 31 percent rise of frozen beef offset by a 6 percent reduction of chilled beef during the same period.

The U.S. and Australian market shares for the full year 1998 are projected to become about even since a slackening in the import pace of U.S. beef in the second half may result in imports of Aussie beef narrowing the gap. Trade sources predict that the weak yen and relatively high local beef price in the U.S. will become factors affecting Japan's import demand for U.S. beef in the second half.

### **Japanese Domestic Beef Production Outlook 1998**

Post projects a downward trend in total domestic total beef production in 1998, based on numbers of beef calves coming to slaughtering age. The live cattle and slaughter PS&D table shows more slaughters in dairy beef cattle than wagyu, which appears contradictory to the calf delivery figures. Post attributes the discrepancy to increased wagyu being crossed with holstein cows to create the F-1 cross breed. Because the F-1 offsprings are counted as dairy calves, there is a possibility that the same cow is counted as wagyu at the time of slaughtering.

According to live cattle statistics, the number of F-1 cross breed cattle raised, as of February 1, 1998, was 566,000 heads, comprising 51 percent of the total dairy beef cattle herd. The F-1 beef cattle are viewed by the industry as between pure wagyu and holstein in the market, increasingly supplying medium grade beef to the retail sector as locally branded domestic beef. In 1997, the auction price of the F-1 cross breed steer in Tokyo averaged 1,374 yen per kilo for B-3 Grade, up 8 percent from a year before. Correspondingly, the average prices of wagyu steer A-3 grade and dairy steer B-3 grade in 1997 were 1,645 yen per kilo, up 9 percent, and 988 yen per kilo, up 6 percent from a year ago.

## HRI/HMR Situation and Outlook 1998

The growth in Japan's beef imports during the first half of 1998 was attributed to increased frozen beef imports, which surged 38 percent during January to May, reaching 149,940 MT. The sharp rise is the result of bullish demand in the HRI/HMR sector, a performance expected to continue through this year, thus favoring sales of both U.S. and Australian product.

As shown in the table below, demand for imported frozen beef during the first half (Jan. - May data) has been concentrated on inexpensive frozen parts. The best customers for these frozen parts, such as short plate, brisket, chuck lib, and clods, are barbecue, beef bowl and lunch box consumers. Conversely, HRI demand for frozen loin parts in the first half has reportedly been modest. Demand for loins from steak houses and dinner restaurants has been weak, offsetting strong demand in shabu-shabu restaurants and chains.

Imports of U.S. and Australian beef increased most as the result of the above situation. During January to May 1998, frozen beef import quantities were up 45 percent for the United States and up 31 percent for Australia compared to the same period last year. According to trade sources, Australia is price competitive and aggressively making inroads into the HRI sector. However, U.S. beef still maintains a competitive edge because of quality (i.e. grain fed) and a wider range of specific parts that can be offered. Australia is traditionally constrained by trade of a full set.

### Japanese Beef Imports by Parts

Period: Jan. - May 1998

Unit: Metric Ton (Customs Clearance Basis)

Frozen Beef	<u>1997</u>	<u>1998</u>	<u>% Chg.</u>
	Jan./May	Jan./May	
Loins	9,136	10,287	13%
Chuck, Clod, and Round	20,102	24,372	21%
Brisket and Short Plate	48,227	68,923	43%
Other Parts	29,539	42,414	44%

Note: Above data exclude carcasses (full, half and quarter).

Source: NIMEX Trade Data

## Retail Situation and Outlook 1998

Japan's economic recession has taken a toll on retail beef consumption in the first half of 1998. Average household consumption of beef in Japan, during January to May 1998, fell 3 to 4 percent compared to the same period last year. This drop has particularly affected fresh/chilled beef imports. During the period, Japanese chilled beef imports were 125,590 MT, down 3 percent from a year ago. Including ALIC's estimate for June chilled imports of 27,500 MT, the first half chilled total will be about the same as last year.

In the retail market, industry sources report that Japanese consumers, since last year, prefer more affordable

imported beef. Analogous to the HRI sector, barbecue packs of both domestic and imported, containing sliced short plate, etc. for yakiniku have been selling well and attracting value-conscious consumers. Lethargic sales are reported for relatively expensive chilled loin cuts for steaks and sliced packs for shabu-shabu and sukiyaki, affecting sales of medium grade domestic beef as well as imported chilled loins. The only exception to this trend is strong sales of medium grade domestic beef and tataki, half roasted beef, mostly using imported loins and round.

Consequently, both Aussie and U.S. chilled beef imports in the first half were less impressive compared to the frozen beef, with Australian chilled down about 6 percent and U.S. chilled unchanged during the Jan. - May period. The industry attributes the lethargic performance of chilled beef for the first half to the weak economy, stagnant demand, and the weak yen, dampening prospects for improved chilled beef imports in the second half of 1998.

#### Japanese Beef Imports by Parts

Period: Jan. - May 1998

Unit: Metric Ton (Customs Clearance Basis)

Chilled Beef	<u>1997</u>	<u>1998</u>	<u>% Chg.</u>
	Jan./May	Jan./May	
Loins	29,546	26,653	-10%
Chuck, Clod, and Round	70,338	67,983	- 3%
Brisket and Short Plate	26,652	27,851	5%
Other Parts	605	600	0%

Note: Above data exclude carcasses (full, half and quarter).

Source: NIMEX Trade Data

## 2. Japanese Pork Market Situation and Outlook Summary (1998)

### Overall Situation and Outlook 1998

For the first time in three years, Japan's pork supply and demand is expected to balance in 1998, free of the safeguard. Japan's monthly pork imports in 1998 have been more even since the ending of the annual safeguard in June 1997 and the ban on pork imports from Taiwan due to FMD. No market developments have occurred to change post's February 1998 semiannual report's forecast for flat national pork consumption at 2,080,000 MT (CWE) for 1998, less affected by Japan's economic slump than expected.

On the supply side, domestic pork production is forecast to reach around 1,290,000 MT (CWE), up one percent from a year before, reflecting slightly increased sow numbers at the year beginning. Japan's annual pork imports in 1998 are now projected to rise only marginally from a year ago level to 735,000 MT on a CWE basis (PWE: 515,000 MT), a revision downward from the previous import forecast. A recovery in chilled pork imports was offset by a reduction in frozen pork.



With Japan's pork consumption unchanged in 1998, the year-ending inventory level is further lowered from post's semiannual forecast to 135,000 MT (CWE), a normal level according to the industry. Total pork distribution for the year is now 2,215,000 MT (CWE), down 2 percent from a year ago.

Post's 1999 forecast, based on stable demand and supply, is similar to 1998. No safeguard trigger is assumed in the projection. A moderate rise in pork imports is projected, combined with a marginally lower domestic pork production and slightly decreased annual pork consumption.

### **Japanese Pork Import Situation and Outlook 1998**

Japan's total chilled pork imports in 1998 are forecast to reach 160,000 MT, on a customs clearance basis (PWE), a level approaching the 1996 volume. The United States is forecast to capture the largest share, followed by Canada and Korea aggressively supplying the Japanese retail and some HRI sectors.

During January to May 1998, Japan imported 54,915 MT of chilled pork, up 2 percent compared to the same period last year. Sharply increased chilled pork supplies from the above three countries filled the supply vacuum left by Taiwan's departure from the market last year. Before FMD caused import ban last March, chilled pork entries from Taiwan in 1997 amounted to 12,331 MT. For January to May, U.S. pork's market share was 75 percent followed by Canada's 13 percent and Korea's 10 percent.

Industry sources predict the rapid pace of chilled imports may be slowed by increased supplies of domestic fresh/chilled pork in the second half of 1998.

Japanese major retail chains, gearing up the summer sales promotions for the peak pork consumption season, are featuring store-branded imported chilled pork. This pork possesses the quality and specifications requested from packers in the supplying countries. At the retail level, quality and healthy aspects of pork are featured in promotions.

For frozen pork, post estimates the total demand in 1998 to reach 355,000 MT, down 7 percent from a year ago. With little likelihood of the safeguard being triggered this year, industry sources indicate this year's purchases of raw material frozen pork for processing will reflect actual market demand. Sluggish pork utilization by ham and sausage companies is expected this year, with extra inventories estimated at 190,000 MT (CWE) at the beginning of the year, thus slowing down frozen pork imports in the first half of 1998. However, high demand in the HMR sector is contributing to increased use of imported frozen pork for prepared dishes, and the trend is expected to continue through the year, partially offsetting the anticipated decline in raw material frozen pork imports for processing in 1998.

During January to May 1998, frozen pork imports totaled 117,070 MT (PWE), up 18 percent compared to the same period of the previous year. The rise during the above period is mainly attributable to the low level of imports during the same period of last year due to the annual pork safeguard and reduced entries of Taiwan pork. Even this year, the monthly import levels of frozen pork during January to May are fairly low, despite the lack of safeguard. The adjustment of stocks is the main reason for modest import pace. For example, imports of Danish and EU frozen pork parts this year have been relatively low, particularly loins and bellies, said by the trade to have been over-purchased since last year.

Japan's imports of frozen pork during January to May grew rapidly from Korea (27,954 MT, up 254%), Mexico

(11,834 MT, up 117%), and U.S. (28,739 MT, up 96%), outpacing other suppliers such as Denmark (28,739 MT, up 22%), other EU countries (11,650 MT, up 21%), and Canada (15,938 MT, up 56%).

As a result of the ban on pork supplied by Taiwan due to the FMD outbreaks last year, in order to minimize risk, Japanese traders and end-users continue to diversify their sources of pork. According to trade sources, an over-supply in the U.S. hog market is causing historic low hog prices attractive to Japanese buyers. Similarly, the pork market in Korea, coupled with its sharp currency devaluation, favors imports from this country as well. Additionally, both Canada and Mexico are highly regarded as suppliers with an ability to meet the specification requirements of Japanese end-users.

At this early date in the year, an accurate 1998 annual summary, by country share, is difficult to forecast. However, the United States, Korea, Canada, and Mexico will likely advance their shares in 1998, displacing Denmark. Shares of other EU countries are projected to be about the same as the last year. In the second half of 1998, industry sources anticipate a large volume of Danish frozen pork imports, with loin and belly combinations, exceeding the first half volume because monthly ending stocks, estimated at 135,000 MT on CWE basis (PWE: 94,400 MT), were already been depleted by the end of May. Danish single-rib bellies are essential for Japanese ham and sausage manufacturers for making the less-fat bacon preferred by Japanese consumers.

### **Japanese Domestic Pork Production Outlook 1998**

Japanese slaughters and pork production in 1998 are forecast to rise slightly above last year, reflecting increased sow numbers raised at the year beginning. Japan's total sow numbers on February 1, 1998, rose one percent compared with February 1997, according to MAFF livestock statistics. Relatively higher wholesale carcass prices have prevailed the last couple of years, averaging 490 yen per kilogram for excellent grade in 1996 and 460 yen per kilo for medium grade in 1997 on the Tokyo market, creating an incentive for larger-scale Japanese hog producers to expand production, offsetting departure of smaller-scale operators. For the first half of 1998, average pork carcass prices in Tokyo were modestly below last year's level, reflecting increased slaughters. The total number of Japanese hog farms continue to drop, totaling 13,400 in 1998, down 7 percent from the previous year.

Monthly hog slaughters, which slowed somewhat after entering the summer due to abnormally hot weather in May and June, are expected to pick up in the later part of the year. In this year's report post incorporated the sow slaughter figures, reported in the PS&D, into "other slaughter" for reporting convenience because reliable sow slaughter estimates are not available. MAFF does not report sow slaughter figure.

### **Retail Situation and Outlook 1998**

Post forecasts Japan's retail pork consumption in 1998 will be unchanged from last year's level. Consumption, in the first half of 1998, remained lackluster, with consumption falling one to two percent compared with the same period last year. Demand has reportedly begun to recover during June and July, particularly for sliced loin items for season dishes such as yakiniku barbecue and cold shabu-shabu.

As discussed earlier, as summer pork campaigns attract value and price seeking consumers, major Japanese retail chains are gearing-up sales of uniquely named store-brand pork. These campaigns are also featuring U.S. chilled pork supplied by major U.S. packers. For instance, Seiyu, one of top four Japanese retail chains,



kicked-off July sales of store-branded U.S. chilled pork named Oklahoma Natural Pork in Kanto region. Plans exist to expand the promotion to other regions. The product is supplied by a major U.S. packer with dedicated lines of integrated production and finishing system, according to an industry paper. In general, U.S. loins, tender loins, and spare ribs are featured in sliced packs for barbecue, pork ginger, and shabu-shabu consumption.

Specially store-branded U.S. pork, such as Seiyu's, is produced under specific quality requirements by the company stipulating long-fed, original feed formula, and quality and safety controls under integrated operations with lines dedicated to the Japanese market. The U.S. Meat Export Federation (USMEF) is helping to sponsor Seiyu's campaign. Other major U.S. packers, who operate processing lines dedicated to Japan, are also supplying to different retail chains original store brands under different names.

U.S. suppliers are increasingly demonstrating the willingness and dedication to meet the requirements of end-user clients. Volume-wise, the quantity of Japan-dedicated pork shipments still comprises a relatively small portion of total U.S. chilled exports to Japan. In the long run, this approach will lead to sustainable growth in the share of U.S. chilled pork in the Japanese market, and USMEF's programs supporting such promotions of American pork, backed by quality with value, contribute to these efforts.

### **Processing Sector Utilization Situation and Outlook 1998**

During 1998 demand by Japanese ham and sausage manufacturers for raw material frozen pork is forecast to be lethargic, with annual pork utilization for processing to reach 390,000 MT to 400,000 MT (PWE). Of the above total, imported frozen pork will likely be around 270,000 MT (PWE), with increased shipments from the U.S., Canada, Korea, and Mexico.

Frozen pork from the United States, Canada, and Mexico is also increasingly utilized by Japan's growing HMR sector for prepared dishes such as pork cutlet, pork ginger, and roasted pork. This sector has a more diversified clientele than the ham and sausage manufacturers, partly explaining why imported frozen pork from the above three countries rose in the first half. According to industry sources, Korean frozen pork is more geared toward ham and sausage utilization than HMR uses because Korea can supply desirable cuts.

### **HRI/HMR Situation and Outlook 1998**

Relatively strong pork demand in Japan's HRI/HMR sector is expected in 1998. Sales of regular pork dishes have been stable. Some restaurants and tonkatsu chains are said to be increasingly use of imported chilled and frozen loins and hams for barbecue, shabu-shabu, and tonkatsu menus, facilitating the growth of imported pork in 1998. In particular, U.S., Mexican, and Canadian products are said to be competitive in Japan's HRI/HMR sectors.

## **3. Japanese Cattle Raw Hide and Skin Market Situation and Outlook Summary (1998)**

As forecast in post's February 1998 semiannual report, due to Japan's economic recession, the market for finished leather goods remains sluggish in 1998, considerably limiting raw hide imports. In fact, the situation is worse than expected. The market for finished leather goods in Japan is down for use in furniture, automobiles, bags, and leather wear.

As a result, demand for imported raw hide by Japanese tanners remained extremely weak. For January to May 1998, Japan's total hide and skin imports dwindled, totaling only 28,214 MT, down 31 percent over the same period last year. In the same period, U.S. hide imports were down 21 percent to total 19,181 MT, a 68 percent share of total hide and skin imports during the period. Hides imports from Australia and New Zealand also plunged. Overall, the weak yen is slowing Japan's raw hide purchases this year.

The wholesale market price for Texas heavy steer has risen gradually during 1998 from 8,300 yen per hide in January to 8,900 yen in June. Japanese tanners had reportedly been hesitant to buy even to replenish already depleted raw hide stocks.

Given the gloomy outlook for the finished goods market, post projects Japan's raw hide and skin imports and inventories in 1998 to be substantially low.

#### **4. Japanese Lamb and Mutton Market Situation and Outlook Summary (1998)**

Despite the dampening effects of Japan's economic slump, strong barbecue demand existed for lamb and mutton for outdoor barbecue and HRI use in major consuming regions such as Hokkaido, maintaining last year's pace. During January to May 1998, Japan's total lamb and mutton imports were unchanged over the same period of the previous year at 15,947 MT (PWE). Despite the weak yen, post forecasts roughly the same level of imports as the last year, totaling about 64,000 MT on CWE basis (PWE: 37,000 MT) because of the stable consumption situation prevailing in 1998.

Australia and New Zealand, major mutton and lamb producers, are dominant in Japan's lamb and mutton market. Although a couple of U.S. suppliers are maintaining sales of some grain-fed lamb and mutton for limited HRI end users, import quantities have been on the decline. In 1997, the United States supplied only 29 MT of lamb and mutton, about the half the volume of last year. In 1998, January to May, imports from the United States reached only 7 MT, about the half the level of last year. Opportunities for U.S. lamb and mutton appear limited.

#### **5. Japanese Tallow and Grease Market Situation and Outlook Summary (1998)**

The overall market demand for tallow and grease in Japan had been gradually declining due to increased use of plant-based substitutes. In 1998, demand for tallow and grease is expected to be stable, equaling last year's level. Annual tallow imports in 1998 are projected be modestly above last year's level at 95,000 MT. During January to May, Japan's tallow imports totaled 33,638 MT, up 4 percent compared to the same period of last year, with Canada and the United States the two major suppliers. Solid demand from HRI users is driving the import growth..