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Report Highlights: The slow recovery of Japan's economy continues to impact consumer purchases of meat. Japan's total beef imports in 2000 are forecast at 677,000 MT, about equal to 1999, due to solid demand for less-expensive beef parts. The U.S. share of imported beef was 48%, one point ahead of Australia volume-wise. Japan's import ban on Korean pork will only slightly affect the supply and demand picture in 2000 as other pork suppliers fill the supply shortfall. Japan's total pork imports in 2000 are forecast at 595,000 (PWE), slightly below 1999 with a 30% U.S. share and 32% Danish share of imports.

Includes PSD changes: Yes
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Demand for Barbecue-Style Beef in 2000 Likely To Sustain Imports of US Beef at Last Year's Level

Japan's consumers continue to feel anxious about the economy's slow recovery, despite the government's repeated announcements that many sectors are on the mend. The financial, real estate and construction sectors are still reported to be in trouble due to bad loans and debt accumulated in the late 1980's during the "Bubble Economic Period". Tightened consumer expenditures have directly impacted consumer good sales in the retail sector.

Consumers remain value conscious when purchasing meat and prefer the lower value parts for barbecue purposes over higher value cuts. This trend, prevailing the last couple of years, continues to characterize Japan's beef market in 2000. Consumer purchasing and spending for table meat and processed meat products (beef, pork and poultry ham and sausages etc.) is down 2 - 4% across all commodities during the first half of 2000. Despite reduced overall expenditures on meat, sales of low value imported beef parts (chuck, clod, short plate, etc.) are fairing well both in the retail and HRI sectors. This trend is reflected in the rise of the first half beef import figures.

Japan's total beef imports for CY2000 are forecast at 677,000 MT (PWE), about equal to last year's 677,372 MT. The adjustment upward from the last semiannual report is due to better than expected demand for lower value imported beef parts (chilled and frozen) for barbecues, a hot summer climate, and favorable exchange rates of 105 - 110 yen per dollar. Total beef imports (chilled and frozen) during January - June were up 3% (345, 761 MT) from the last year's first half. Imports of chilled parts during the first half this year equaled 170,935 MT, up 6%, reflecting strong retail demand for short plate, chuck and clod for sliced barbecue items. The increase in frozen imports, was 174,826 MT, only an increase of 1%, mainly due to rising monthly frozen inventory levels. May ending stock was up 10% in May to 112,000 MT (PWE) since the year beginning.

Korean barbecue and beef bowl establishments in the HRI sector, major clients of U.S. short plate (mainly frozen), continue healthy sales this year according to industry sources. In the HMR sector, imported low value parts are extensively used to attract value-seeking consumers. During 2000, imports of U.S. beef are forecast to be slightly below the previous year at 326,000 MT, with a modest decline in frozen parts entries more than offsetting the rise of chilled parts for the year. The projected volume import shares between the United States and Australia are 48% and 47%.

In the retail sector, branded Aussie prime chilled cuts (under Japanese joint venture) are effectively competing with U.S. prime cuts based on price. Aussie short fed and grass fed beef is also featured in HRI menus for steak sets with competitive prices. Wholesale prices of Aussie tender loins and loins are said to be 20 - 30% less compared to U.S. cuts, even discounting quality (long fed) and yield (degree of portioning) factors.

The strong retail demand for lower grade domestic chilled parts, driven by strong spring and summer barbecue demand, has buoyed wholesale prices of medium-low graded domestic beef carcasses in the first half this year. The average wholesale carcass prices of Cross F1 steer (B-2) and Holstein steer (B-2) during the first half of this year were up 18% at 960 Yen per kilo and up 47% at 775 yen per kilo. Conversely, prices of upper medium A-3 and B-3 grade beef carcasses averaged flat or modestly down compared to the same period last year.

Demand for relatively expensive medium graded beef is expected to be pick up later this year when high winter season market for domestic beef begins in fall for traditional beef dishes such as sukiyaki and shabu-shabu. A popular trend in recent years is national retailers featuring, during the fall and winter, sliced packs of domestic beef loins and chucks derived from medium graded beef.

Though Japan's current beef market, driven by consumer preferences for value and convenience, is suited for affordable imported beef, growth prospects for Japan's beef consumption will be limited by tight household spending resulting from Japan's lagging economy. This economic effect is reflected in the PS&D forecast for beef and veal in CY2001 with flat beef consumption and a modest drop in total beef imports.

Japanese Pork Market Situation and Outlook

Japan Weathers FMD Crisis and Import Ban on Korean Pork Without Supply Shortage Panic

Despite outbreaks of foot-and-mouth disease (FMD) in Korea and Japan in March this year, Japan's meat industry reacted cooly and health authorities contained the disease. The incidents in both countries had no major impacts on Japan's overall pork demand and supply situation (see JA0036 and JA0041).

Despite the possibility of a major animal disease crisis back in March, Japanese authorities promptly executed the necessary animal quarantine control measures. Consequently, the quarantined area was contained to the producing area of only Miyazaki prefecture on the southern island of Kyushu. Imported straw (mainly used as a feed for cattle) was suspected as one of the possible causes. Then, similar traces of the FMD virus were detected from one beef cattle farm in Hokkaido shortly after the Miyazaki case through GOJ's surveillance to monitor livestock farms using imported rice straws. This later case was also successfully contained. No FMD outbreaks have occurred since, in contrast to the disastrous Taiwan FMD situation of 1997. Also notable was the sensitive handling of this incident by Japan's media who mostly cited facts about Korea's case.

Furthermore, unlike the Taiwan case in 1997, no shortage panic occurred in Japan's pork market following the Government's import ban of Korean pork. This is partly due to the relatively small import market share held by Korean, 14% in 1999, and because the Japanese meat industry built-up frozen inventories during the January - March period this year. The Japanese meat industry has made tremendous efforts to avoid the safeguard (SG) trigger during the JFY 1st Quarter (April - June Period). The inventory build-up effectively relieved any temporary frozen pork supply shortage which might have occurred.

According to the latest meat trade data, the SG trigger during JFY 1st Quarter did not occur because the estimated April - June pork import volume of 148,150 MT (PWE) came below the quarter trigger level of 162,590 MT.

Other Pork Suppliers Fill Supply Void Resulting From Korean Ban; Japan's Total Pork Import Level in 2000 Forecast to Be Slightly Below Last Year

Based on January - June 2000 meat trade data, the vacuum from the termination of Korean pork supplies after March was quickly filled by other major pork suppliers, namely the United States [up 15%, (or PWE: 93,401 MT)], Denmark [up 12%, (or 107,679 MT)], Canada [up 15%, (or 50,353 MT)] and Mexico [up 5%, (or 19,155 MT)]. Hence, post increased the forecast for Japan's total pork imports for CY2000 to 595,000 MT (PWE), slightly below last year's actual of 600,062 MT. For CY 2000, U.S. pork is forecast to total 180,000 MT, up 7% from the previous year due to increased shipments of chilled table pork previously supplied by Korea. The projected volume shares between the United States and Denmark are 30% and 32% respectively, followed by Canada at 18%.

The revisions are based on better than anticipated chilled pork imports during the first half of 2000, up 17% or 92,700 MT, and higher frozen pork imports, up 2% or 232,300 MT. Post expects the import pace will slow during the second half of 2000 mainly because of reduced frozen pork imports during the second half resulting from the rise in monthly frozen inventory during the first half. Japan's monthly ending frozen inventory of pork in May this year rose 44% to 96,200 MT (CWE: 137,000 MT) level from the year beginning of 63,200 MT (CWE: 90,290 MT). Smaller volume entries, mostly frozen, are expected from Denmark and EU countries.

Additionally, second half imports of chilled pork parts are expected to slow down, mainly offset by a seasonal rise in domestic table pork supply anticipated during the fall. Japan's hog slaughters normally rise during the fall season through the early winter, bringing domestic pork carcass prices down to a seasonal low.

Weak Japanese Household Table Pork Consumption Lowers Domestic Pork Carcass Prices

In the retail market, Japanese household purchases of table pork remained weak during the first half of 2000, down 2% on average compared to the previous year's first half. Analogous to the beef market, Japanese consumers are tightening their expenditures on foods due to the slow economic recovery. Since last year, market sources indicate that domestic chilled belly have sold well utilized in the retail sector for barbecue and Chinese dishes, while the demand for high value chilled table loins have been somewhat weak.

The lackluster retail market for pork put downward pressure on wholesale prices of domestic pork carcasses. For excellent grade and medium grade carcasses, the wholesale averages for January - June at the Tokyo Central Meat Market were 441 yen per kilo, down 3%, and 387 yen per kilo, down 4%, respectively, over the same period of the previous year. April's average price drop was very significant, down 11% (403 yen per kilo) for excellent grade and 10% (368 yen per kilo) for medium grade respectively temporarily impacted by the FMD outbreaks in Miyazaki prefecture.

False <u>E.coli</u> O-157 Detection in Ham and Sausage Products Affected Summer Gift Sales; Incident May Slow Down Imports in Second Half of 2000

The anticipated slow down of frozen pork imports during the second half of 2000 is also based on the impact of the mishandling of an <u>E.coli</u> 0-157 incident by Japan's local health authorities. In June 2000, Japanese ham and sausage manufactures struggled with the news that a local health authority in Saitama, a neighboring prefecture to Tokyo, ordered several meat processing plants to suspend operations due to detections of <u>E.coli</u> O-157 in their products.

Though the findings were found be false due to a laboratory mistake, wide press coverage of the incident came at a bad time during the start of the summer gift sales season. Despite the correction announcement, gift buyers reportedly switched from ham gifts to other items just to be sure. This type of client reaction is a typical behavior observed in Japan during similar food safety incidents.

Imported frozen loins, heavily used to make loin role hams, and second half frozen pork imports are expected to be affected by the weak sales of ham gift in Japan in 2000. MAFF data indicates that frozen pork utilized for ham and sausage during January - May 2000 rose 3% (PWE: 152,560 MT) from the same period of the previous year.

Japan has a gift season in the summer and another one at year's end. One of the most popular gift items in Japan is a ham. In recent years Japan's economic slump has led to tighter corporate and individual expenditures on gifts including ham products.

Japan's Domestic Pork Supply Forecast to Slightly Decline in 2000; Pig Producer Compensation Fund Scheme at Work

In 2000, Japanese domestic pig slaughters will slightly decline from the previous year. MAFF's livestock inventory data at the year beginning (February 1) illustrates that Japanese swine production is consolidating with fewer, larger farms (down 6% to 11,700 farms) with pigs numbers also down 1% (9.81 million heads) over the previous year.

Japan's pork production decline has not accelerated during recent years. One reason is a domestic support program for pig farmers, called *Regional Pork Funds*, which effectively cushions the impact of downward prices in the wholesale carcass markets in major pork producing regions. The fund is operated independently by each locality funded by farmer check-off and GOJ's farm budget. Participants are eligible for getting a deficiency payment when average carcass prices drop below a floor price set by each fund.

The GOJ earmarked (for 6 year period 1995 - 2000) a total of 11.1 billion yen to supplement the above fund as one of the Uruguay Round-related domestic farm protection measures. Post will submit a voluntary report focusing on Japan's domestic pork policy in the near future.

Japanese Live Cattle PS&D Table

PSD Table						
Country	Japan					
Commodity	Animal Numbers, Cattle				(1000 HEAD)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
Total Cattle Beg. Stks	4656	4656	4600	4588	4565	4530
Dairy Cows Beg. Stocks	1008	1008	1000	992	0	980
Beef Cows Beg. Stocks	644	644	640	636	0	630
Production (Calf Crop)	1505	1513	1490	1506	0	1500
Intra EC Imports	0	0	0	0	0	0
Other Imports	13	13	13	14	0	15
TOTAL Imports	13	13	13	14	0	15
TOTAL SUPPLY	6174	6182	6103	6108	4565	6045
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Cow Slaughter	622	623	610	615	0	610
Calf Slaughter	10	10	10	10	0	10
Other Slaughter	698	699	680	690	0	685
Total Slaughter	1330	1332	1300	1315	0	1305
Loss	244	262	238	263	0	260
Ending Inventories	4600	4588	4565	4530	0	4480
TOTAL DISTRIBUTION	6174	6182	6103	6108	0	6045
Calendar Yr. Imp. from U.S.	100	139	100	130	0	100
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Japanese Beef PS&D Table

PSD Table						
Country	Japan					
Commodity	Meat, Beef and Veal				(1000 MT CWE)(1000 HEAD)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
Slaughter (Reference)	1330	1332	1300	1315	0	1305
Beginning Stocks	125	125	155	146	162	162
Production	540	537	530	534	0	530
Intra EC Imports	0	0	0	0	0	0
Other Imports	965	967	957	967	0	955
TOTAL Imports	965	967	957	967	0	955
TOTAL SUPPLY	1630	1629	1642	1647	162	1647
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Dom. Consumption	1475	1483	1480	1485	0	1485
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumption	1475	1483	1480	1485	0	1485
Ending Stocks	155	146	162	162	0	162
TOTAL DISTRIBUTION	1630	1629	1642	1647	0	1647
Calendar Yr. Imp. from U.S.	461	467	457	466	0	457
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Japanese Live Cattle Import Matrix

Import Trade Matrix				
Country	Japan		Units:	Head
Commodity	Animal Numbers, Cattle		Partial Begin	
			Partial End	
Imports for:	1999	2000	2000	2001
	Full	Full	Partial	Partial
U.S.	139	130		
Others				
Australia	12527	12500		
New Zealand	396	400		
Canada	127	100		
Total for Others	13050	13000	0	0
Others not Listed	276	370		
Grand Total	13465	13500	0	0

Japanese Beef Import Matrix

Import Trade Matrix				
Country	Japan		Units:	MT. (PWE)
Commodity	Meat, Beef and Veal		Partial Begin	January
			Partial End	June
Imports for:	1999	2000	2000	2001
	Full	Full	Partial	Partial
U.S.	327583	326000	166000	160000
Others				
Australia	314682	316000	159100	155000
New Zealand	15322	14000	7400	7500
Canada	17391	18000	9100	10000
Total for Others	347395	348000	175600	172500
Others not Listed	2394	3000	4100	2000
Grand Total	677372	677000	345700	334500

Japanese Live Swine PS&D Table

PSD Table						
Country	Japan					
Commodity	Animal Numbers, Swine				(1000 HEAD)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
TOTAL Beginning Stocks	9873	9879	9860	9805	9890	9760
Sow Beginning Stocks	931	931	925	925	0	920
Production (Pig Crop)	17800	17600	17600	17600	0	17400
Intra EC Imports	0	0	0	0	0	0
Other Imports	1	1	1	1	0	1
TOTAL Imports	1	1	1	1	0	1
TOTAL SUPPLY	27674	27480	27461	27406	9890	27161
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Sow Slaughter	0	0	0	0	0	0
OTHER SLAUGHTER	16905	16871	16800	16750	0	16650
Total Slaughter	16905	16871	16800	16750	0	16650
Loss	909	804	771	796	0	796
Ending Inventories	9860	9805	9890	9760	0	9715
TOTAL DISTRIBUTION	27674	27480	27461	27306	0	27161
Calendar Yr. Imp. from U.S.	200	199	200	200	0	200
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Japanese Pork PS&D Table

PSD Table						
Country	Japan					
Commodity	Meat, Swine				(1000 MT CWE)(1000 HEAD)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
Slaughter (Reference)	16905	16871	16800	16750	0	16650
Beginning Stocks	106	106	100	90	96	110
Production	1280	1277	1275	1270	0	1260
Intra EC Imports	0	0	0	0	0	0
Other Imports	857	857	860	850	0	835
TOTAL Imports	857	857	860	850	0	835
TOTAL SUPPLY	2243	2240	2235	2210	96	2205
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Dom. Consumption	2143	2150	2139	2100	0	2100
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumption	2143	2150	2139	2100	0	2100
Ending Stocks	100	90	96	110	0	105
TOTAL DISTRIBUTION	2243	2240	2235	2210	0	2205
Calendar Yr. Imp. from U.S.	237	240	236	257	0	257
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Japanese Live Swine Trade Matrix

Import Trade Matrix				
Country	Japan		Units:	Head
Commodity	Animal Numbers, Swine		Partial Begin	
			Partial End	
Imports for:	1999	2000	2000	2001
	Full	Full	Partial	Partial
U.S.	199	200		
Others				
United Kingdom	651	670		
Canada	0	0		
Netherlands	0	0		
Total for Others	651	670	0	0
Others not Listed	59	30		
Grand Total	909	900	0	0

Japanese Pork Trade Matrix

Import Trade Matrix				
Country	Japan		Units:	MT. (PWE)
Commodity	Meat, Swine		Partial Begin	January
			Partial End	June
Imports for:	1999	2000	2000	2001
	Full	Full	Partial	Partial
U.S.	160214	180000	93400	90000
Others				
Denmark	124732	190000	107700	92500
Canada	61843	105000	50400	55000
Korea	90198	16839	16839	0
Mexico	30604	45000	19200	25000
Total for Others	307377	356839	194139	172500
Others not Listed	132471	58161	37442	30000
Grand Total	600062	595000	324981	292500