

Maintaining and Expanding Pork Export to Japan

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■ Introduction

In 2000 Canada was the fourth largest food exporter to Japan, following the United States, China, and Australia. This is an increase of about 6% compared to the previous year representing over Can. \$4 billion. Remarkably, for the first time, pork was the largest imported food product from Canada to Japan, beating out traditional commodity products such as oilseed and cereal grain.

As many of you already know, western Canada is well positioned for exporting pork to Japan. Canada has at least three specific advantages:

- A surplus of feed grain, specifically barley, that keeps the cost of livestock production competitive;
- Canada's barley-fed pork is well suited to Japan's processing and table-meat requirements;
- Western Canada is geographically well positioned to supply chilled pork to the Japanese and Asian markets. It takes only 12 sailing days to ship containers from Vancouver to Japan.
- Canadian pork quality is recognized by importers, distributors and retailers.

Let me back up a minute to tell you a bit about the Japan market. As most people are aware the Asian population is extremely large. Japan has a population of 127 million; 4 times larger than that of Canada's. Of course China's 1.260 billion people may at first light seem like an even better target. However, the market challenges, food consumption habits and financial resources are quite different, so I will limit my comments to Japan.

Naturally, it is always important that one fully understands the characteristics of any market and endeavours to produce what the market demands. Japan is

particularly strict in its level and detail of requirements, so in order to achieve market success it may take a great deal of time, patience and determination. In order to be successful in Japan, it is essential that pork quality, price and service be competitive, and a solid, consistent supply system be established.

Equally important is the relationship side of doing business. The Japanese place a high value on long-term relationships and although sometimes challenging to establish, once in place a supplier will normally be rewarded with long-term loyalty.

■ Japanese Pork Market

Production base and imports

Japan's self-sufficiency rate as of 1999 in meat products was 54%; or more specifically, 36% self-sufficiency in beef and 58% self-sufficiency in pork (Table 1). Meat self-sufficiency rates have continued to decrease over the past 20 years because of factors such as an aging farm population, urban encroachment, disease and food safety concerns, and price differentials. These factors make imported meat products more attractive than domestic. Indeed, over a fairly short timeframe, self-sufficiency in beef and pork has dropped 34% and 24%, respectively.

Table 1. Japan's self-sufficiency rate for major agricultural products, %.

	1990	1995	1999
Rice	100	103	95
Wheat	15	7	9
Soybeans	5	2	4
Milk & dairy products	78	72	70
Meat	70	57	54
Beef	51	39	36
Pork	74	62	58
Fishery products	86	75	65

Source: Ministry of Agriculture, Forestry & Fisheries, Japan

During the past 20-year period, food intake per capita has remained relatively unchanged. The total meat consumption per person last year was 28 kg: pork 10.4 kg (Figure 1), beef 7.3 kg, and chicken 9.9 kg. Compared to Canadian average per capita meat consumption (the total meat consumption per person was 99.8 kg: pork 33.6 kg, beef 31.3 kg, and chicken 34.9 kg), this amount is very small. Some of this difference can be explained due to Japan's dependence on fish as a main source of dietary protein. But recent Japanese data shows a trend away from marine products and towards beef, pork and chicken – which is clearly exemplified by the young Japanese generation's preference and large appetite for western-style food, including fast food.

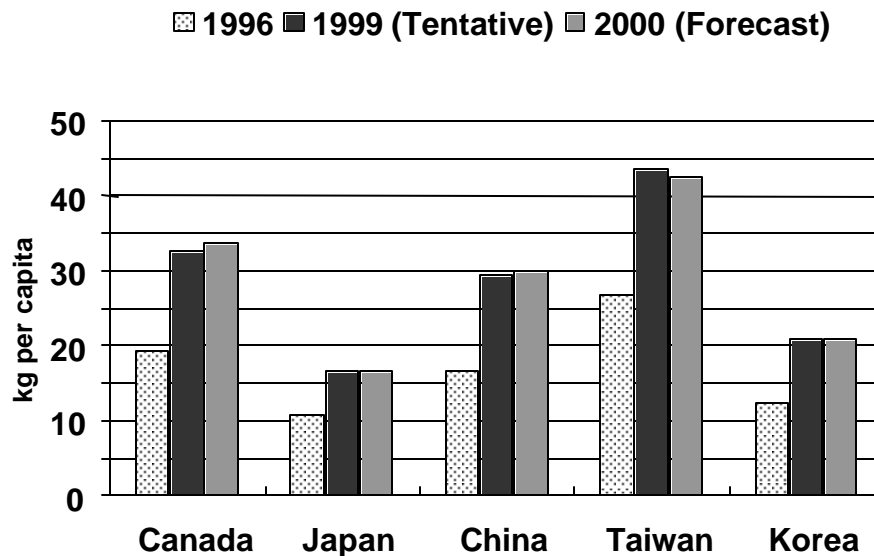


Figure 1. Per capita pork consumption, carcass basis.

Source: USDA "Livestock, World Markets and Trade"

Japanese domestic pork industry

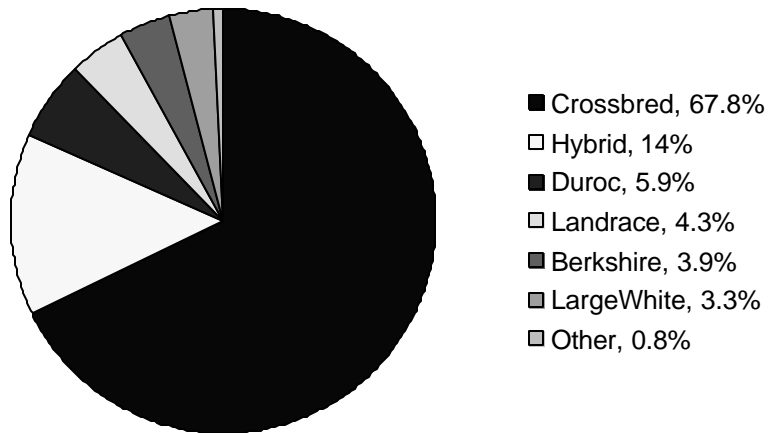
So we have established that the market is definitely there, but how does one tap it? To begin it is invaluable to study Japan's domestic pork industry. Although domestic pork production is in direct competition with imported products, it is highly responsive to domestic quality and taste preferences, and is a useful indicator of current and future market demand.

Although research of real substance would include an on-site visit, allow me to give you a brief overview. In Japan, there are some 9.8 million pigs in

inventory, averaging 838 pigs per farm. The major breed combinations (Figure 2) include Landrace, Large White, and Duroc, while the hybrid, like Kenborow, accounts for about 14% of total inventory. A note on this - when European and American hybrids were first introduced to Japan, the commercial animal productivity was good, however the meat quality from imported hybrids was unacceptable for this market and therefore initial attempts failed.

Figure 2. Distribution of breeding stock in Japan (Total = 963,485 head).

Source: Ministry of Agriculture, Forestry & Fisheries, Japan



In Japan, firmness of the meat is very important for distributors and consumers, particularly for table meat pork. Therefore, boneless meat, beginning with approximately 30 mm back-fat, then trimmed to a maximum 3mm - 8mm of external fat coverage is the normal domestic specification used in Japan.

In Japan, the hog is processed mostly by the method of hot skinning. The loins and belly are de-boned by single ribbing and the shoulder cutting position is between the 4th and the 5th rib. These processing techniques are not common in North America.

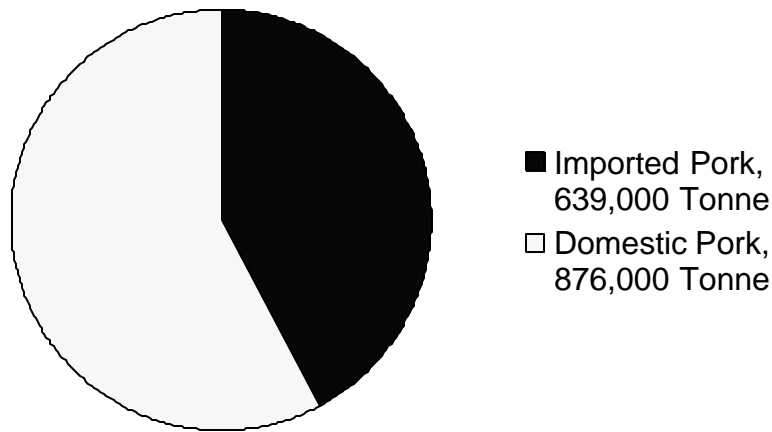
The Japanese grain-fed hog industry depends 100% on corn - imported mainly from the United States, which naturally results in high production costs. Additionally, we deal with expensive land cost and environmental pollution issues. Just 20 years ago the capital investment was only Can \$ 3,800 per sow, but today it is approximately one million yen, which is about Can \$13,000. In addition to these costs, like elsewhere in the world, successors for farm operations are becoming increasingly scarce.

■ Imported Pork Market

Size of market and volume of exporting countries

In 2000, Japan imported 639,000 tonnes of pork, or about 42.2% of total consumption (Figure 3).

Figure 3. Imported pork versus total Japanese demand, 2000.



The major export countries to Japan were Canada, Denmark, and the United States - accounting for approximately 80% of import volume. The United States had an overwhelmingly high share in chilled pork imports (67%), followed by Canada (21%). Mexico has gradually expanded their export volume to attain a 7% share. Regarding frozen pork, in 2000 Denmark held the lion's share of this market with a 46% share, Canada at 15.2%, followed by the United States with 13.3%.

Although domestic pork production in the United States is extremely large, gross export volume was only 7%. However, Canada and Denmark had comparatively large export ratios: Canada exported 46% of its total production, 24% of which was to Japan, and Denmark's export ratio was 34%, almost 50% of which headed to Japan (Table 2).

Table 2. Production and export of pork to Japan by major supply countries, 2000.

	USA	Canada	Denmark
Total pork production, 1000 tonnes	8596	1650	1639
Total pork exports, 1000 tonnes	592	755	564
Total pork exports, % of production	6.9	45.8	34.4
Exports to Japan, 1000 tonnes	287	183	279
Exports to Japan, % of total exports	48.5	24.2	49.5

In Japan imported pork is evaluated depending on a number of factors, including feed used in the fattening process, breed combinations, cutting and packing method, and overall quality and safety reputation of the exporting country.

■ How to Successfully Differentiate Canadian Pork from Our Competitors

The question you may be asking is:

How can Canadian pork successfully differentiate itself in the market from our competitors?

Barley fed pork has greater value

One method to increase the volume of pork from Canada to Japan would be to aggressively promote the fact that western Canadian pork is barley fed throughout the raising period. As I mentioned, the market greatly values the mild flavour and firmness that barley feeding yields, and it could remarkably differentiate Canadian pork from both Japanese domestic pork and the products of key competitors, such as the United States.

Brand name has value in the market

Whether it be frozen or chilled pork, Japanese buyers purchase pork on both a long-term and spot basis, specifying the name of the processing plant for the hog.

In Japan, quality is recorded by brand name under specific categories including: freshness, degree of fat trimming, weight range, amount of purge, quality of meat and the consistency of each piece.

For frozen pork, the processing data for each brand (plant name) supplied from overseas is also recorded, including: the rate of pale, soft, exudative (PSE) pork evident, degree of fat trimming, weight uniformity. This processing data is kept until the pork is processed into the finished product.

Products and brands that show consistently better performance will realize a higher price in the Japanese pork market, and as is natural in business, will be sought after and re-ordered on regular and increasing basis.

Quality requirements

Along with the importance of strong business relationships, I cannot emphasize enough that when dealing with Japan you must pay close attention to the very specific (some would say exceedingly picky) consumer and market demand. Japan is not a market that you can simply ship into with the same product that is coming off your domestic production runs – you must produce what the market wants to buy, rather than what you want to sell. It is something along the lines of... when shipping to Rome, do as the Roman's do.

For the Japan market, the carcass for chilled pork has unique selection standards different from that of frozen pork. Because the chilled and frozen pork market share many of the same key quality and specification criteria, but differ based on carcass weight, packers who can take advantage of the similarities as well as size differences can achieve higher productivity, access to differential markets and hopefully, higher profitability. Shipping chilled and frozen pork to Japan from the same plant will bring higher productivity and profitability. In the 'new math' of the Japanese pork market, one plus one has the potential to equal 3 in this case.

Quality required for chilled pork

The Japanese preference for firm meat means it should be processed from carcasses that have a thickness of back fat of approximately 3 cm, and a larger eye of loin, where the diameter of the eye of loin at the 10th rib bone is greater than 4 cm. The specification demand requires that the inter-muscular fat of the belly be less than 1.3 cm (at the 10th rib bone) with a high lean percentage.

In many cases, shoulders and hams are sliced thinly in Japan for a popular dish called shabu-shabu (boiled pork). This dish requires pork to be deli-sliced to about 1mm in thickness, roughly the thickness of a piece of paper. Therefore, firmness is a crucial criterion that is directly related to high quality and better taste and usability.

Chilled pork for processing has even more complex criteria, including a stringent carcass freshness standard. For instance the hot carcass must be washed, rapidly cooled, quickly de-boned and trimmed. The safety of chilled pork is also a major concern, and packers must be able to prove that even after 45 days in the cooler the bacteria count is less than 10^6 . Congruent with the cost and special processes that must be undertaken to meet these specifications, suppliers are rewarded with high sales price and consistently loyal trade.

Quality required for frozen pork

Typically in Japan frozen pork is, "processing pork" for ham and sausage production. Buyers appreciate lightweight carcasses because small loin size and thin belly results in the desired high lean meat supply.

Hams with a small eye of loin are generally liked because of a preference for this size of casing (diameter 90mm for ordinary use: 65mm for gift items). Two major markets for this type of product are loin hams for gift-giving purposes and ordinary, every-day use. A popular gift to give friends, co-workers and family includes loin hams. Japan traditionally has two gift giving seasons, beginning roughly in early July and mid-December respectively.

In the course of manufacturing hams in Japan, the amount of injection of curing solution varies from a minimum of 15% to more than 100%, with the average being about 70% compared to the weight of the raw material. Therefore Japanese ham and sausage manufacturers must reject inferior pork, such as PSE pork, that has poor water holding capacity in order to reduce the production of poor quality processed meats.

■ Improving Competitiveness in Quality and Price

The following points are suggestions in detail with respect to quality and price competitiveness.

Create and market products with a high-value brand

It is very important that products with high brand value are exported and the recognition of the brand in Japan is improved. This is particularly important to facilitate an increase in export volumes and values. In order to achieve this, improvements need to be made pertaining to the freshness of chilled pork, the security of food safety, cutting methods, and packing methods.

International diversification of business

For pig breeders and the hog processing industry in Canada, international marketing of pork products will reduce business risks, and bring long-term price competitiveness to the hog industry. In this regard, putting more focus on exporting to the Japanese market has great merit on the price side. A higher margin is possible by selling chilled or frozen sub-primal's to Japan, where retail prices are the highest in the world. Taking a value-based marketing approach that includes Japan as a key component can make your overall operation stronger and more profitable.

Exporting chilled and frozen pork

If possible, it is important for pork processing plants in Canada to sell into both the frozen and chilled pork markets - where quality demands are different, but complimentary combinations are possible whereby efficiencies and higher Japan market yield (percentage of sub-primals able to be shipped) can be realized. In this way, through productivity, efficiency, and value-based marketing, profitability can be improved.

Production of hogs for Japan market

As shown in Table 2, compared to other key exporters (USA & Denmark), Canada exports a relatively small percentage of pork to the Japanese market. Given the 'fit' of Canadian pork to the demands and needs of the Japanese market, there should be capacity available that could be earmarked to Japan – thus increasing market diversification, and profitability in the lucrative Japanese market.

Effective promotion of barley fed pork

As mentioned, earlier you must be able to differentiate your product around tangible attributes and benefits if you hope to sustain and increase pork sales to Japan. A competitive advantage, and indeed perhaps the key 'Alberta Advantage' in producing the high quality pork demanded by the Japanese market, is the grain we use to feed our hogs – barley. Barley-fed pork has a superior image and taste profile for Japanese customers compare to other grains such as corn. We need to market barley-fed attributes such as mild flavor, meat firmness, and white fat. There is an opportunity to greatly expand market share in Japan through tying the strong image of Canada together with the excellent qualities of barley.

■ Conclusion

Based on my earlier comments and observations, I would like to suggest that the following three points are very important to keep in mind as we strive for the expansion of the pork exports from Western Canada to Japan:

- Japanese customer needs and market trends must be understood and focused on. As discussed earlier, Japanese customers approach both the use and purchase of pork products in very unique and different ways than typical North American users. Although this of course is changing over time, close attention and study of trends and market needs is always the best way to ensure continuous success.
- Chilled pork has a high prospect for expansion in Japan, and it is important that the whole industry work together to achieve success. A teamwork approach needs to be maintained to produce better quality products in a consistent manner. Special attention needs to be given to meat quality, firmness, the size of loin eyes, and weight ranges.
- On the pricing side, the Japanese market likes prices to be maintained with little fluctuation throughout the year. It is essential to make offers that avoid creating significant disturbances in the annual price level. This is especially important for the chilled pork business because it is directly connected to retailers.

I sincerely hope that this presentation will give you a better understanding of the Japanese market, and contribute in a small way to the expansion of Canadian pork exports to Japan.

For those of you from the Province of Alberta, the Alberta Japan Office stands ready to assist you anytime with your market development efforts.