

A U.S.-Japan Trade Agreement: Potential Benefits to U.S. Beef

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Executive Summary

A trade agreement between Japan and the United States would significantly benefit U.S. beef exports to Japan if the agreement reduces the tariffs on U.S. beef imported by Japan. A reduction in the 38.5 percent ad valorem tariff imposed by Japan on U.S. beef would make it more competitive with Australian beef. Japanese imports of Australian beef enjoyed a lower tariff rate than U.S. beef due to a Japan-Australian bilateral agreement. But Australia receives an even lower rate under the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). The lower tariff rate of 9 percent that Australia will eventually receive under the CPTPP places U.S. beef at a competitive disadvantage and will lead to a decline in U.S. beef exports to Japan.

The lower tariff under the CPTPP could increase the value of Australian beef exports annually to Japan by \$215 million and decrease the value of U.S. beef exports to Japan by \$204 million if the tariff rate on U.S. beef remains at 38.5 percent. If the tariff rate on U.S. beef exports were also reduced to the CPTPP rate of 9 percent then the value of annual beef exports from Australia and the U.S. to Japan would increase by \$100 million and \$292 million, respectively.

U.S. exports of fresh, chilled or frozen beef to Japan have grown steadily over the past decade since a 2003 ban due to Mad Cow disease. In 2018 U.S. exports to Japan of fresh, chilled and frozen beef were over \$1.7 billion at 47 percent of the value of all beef exports to Japan. From 2005 to 2017, annual growth in export value has exceeded 10 percent in every year except 2015.

However Australia is a close competitor with 45 percent of the value of all beef exports to Japan in 2018. Implementation of the CPTPP, of which Australia is a member, will gradually reduce tariffs for CPTPP members on beef to 9 percent over 15 years placing the U.S. at a significant disadvantage to Australia. The CPTPP entered into force in 2019.

Beef Exports

Japan is the fourth largest importer of agricultural products in the world. The U.S. exported agricultural products valued at \$12.9 billion to Japan in 2018. Corn was the largest U.S. export product to Japan followed by beef. In 2018 the U.S. exported over \$1.7 billion in fresh, chilled and frozen beef to Japan plus over \$300 million in other beef products; almost \$2.1 billion in total.

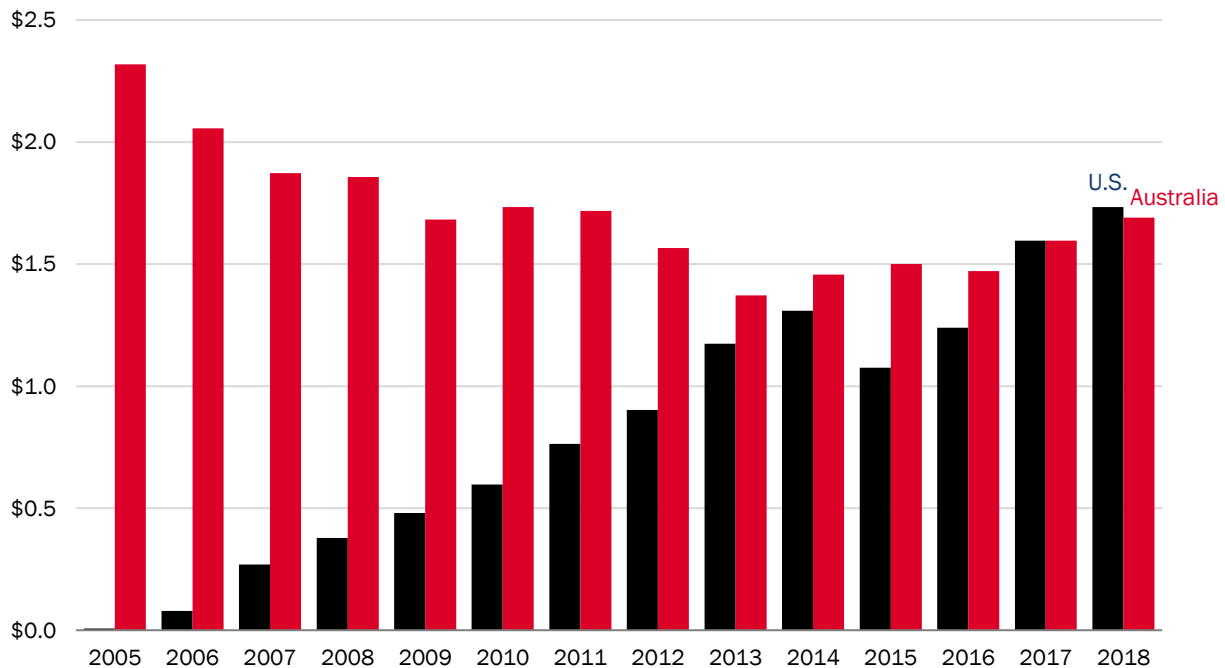
The U.S. is the world's largest producer of high quality, grain fed beef. Cattle destined for slaughter are born and raised on pasture, then sent to feedlots for finishing. Gross income from cattle in the U.S. in 2017 was \$67.8 billion. U.S. exports of beef to the world were nearly \$7.3 billion in 2018. Australia has a large cattle sector as well. Cattle amounted to \$9.77 billion (USD) in production value in 2015-16. Total exports of Australian beef were over \$6.4 billion (USD) in 2018.

Japan has a small domestic beef industry that produces very high quality beef. In 2016-2017 Japan's beef production was 326 thousand metric tons compared to 11.9 million metric tons in the U.S. Japanese consumption of meat was 48.3 kg per capita in 2016 of which 9.4 kg was beef.

Because of the incidence of bovine spongiform encephalopathy (BSE), i.e. mad cow disease, Japan banned imports from the U.S. in 2004 and 2005 but opened the market again to U.S. beef in July 2006. Despite the setback of the ban, U.S. beef exports quickly regained market share.

Value of Beef Exports to Japan: U.S. and Australia

Beef exports (2018 USD billions)



Source: Trade Data Monitor; Federal Reserve Bank of St. Louis; Calculations by author.

Trade Barriers and Agreements

In addition to a 38.5% ad valorem tariff on beef imports, a Special Safeguard (SSG) tariff mechanism raises the tariff rate to 50% when imports from a country that does not have an economic partnership agreement (EPA) with Japan meet two conditions. The first condition for beef is that cumulative quarterly imports from the world exceed 117 percent of the previous year's imports. The second condition is that cumulative beef imports from countries without EPAs exceed 117 percent of the prior year's imports. Countries without EPAs, of which the U.S. was the largest, triggered the SSG for frozen beef in the quarter April-June of the Japanese fiscal year 2017. The 50 percent tariff remained on U.S. frozen beef until the end of March 2018.

Australia is not subject to the SSG because Australia had an EPA with Japan (JAEPA) and now has the CPTPP. Under JAEPA in 2017 Australian fresh/chilled and frozen beef faced tariff rates of 29.9 and 27.2 percent, respectively. The tariffs would have been reduced to 23.5 percent and 19.5 percent over 17 years, for fresh/chilled and frozen beef, respectively. However Australia is a member of the CPTPP. The CPTPP supersedes JAEPA. Under the CPTPP the Japanese tariff rate on

Australian beef will be reduced to 9 percent over 16 years. Table 1 gives the tariff schedule for beef imports to Japan under the CPTPP.

Table 1. Tariff Schedule for Beef Imports (HS0201 & HS0202) by Japan for CPTPP Countries.

Yr.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
%	27.5	26.6	25.8	25.0	24.1	23.3	22.5	21.6	20.8	20.0	18.1	16.3	14.5	12.6	10.8	9.0

Impacts of Changes in Tariff Rates

The economic impacts on U.S. and Australian fresh, chilled and frozen beef exports to Japan under two tariff rate scenarios were examined. The first scenario examines the impacts of a reduction in the tariff rate on Australian exports to 9 percent, as will be the case in the CPTPP, and where the tariff rate on U.S. beef remains at 38.5 percent. In the second scenario tariff rates on both Australian and U.S. beef exports to Japan are reduced to 9 percent.

The scenarios were evaluated using the model and elasticity estimates developed by Muhammad et al. (2018) in which they examine the impacts on beef exports of the JAEPA entered into force in 2015 between Australia and Japan. Over 17 years JAEPA would have lowered tariff rates on chilled and frozen beef exported from Australia to Japan from 38.5 percent to 23.5 and 19.5 percent, respectively. The study estimates that under JAEPA by the end of the transition period Australian beef exports to Japan increase \$166 million while U.S. exports to Japan decrease \$100 million.

Prior to entry to the CPTPP Australian beef faced lower Japanese tariffs (in 2017 29.9 and 27.2 percent on fresh/chilled and frozen) than U.S. beef (38.5 percent). The CPTPP supersedes JAEPA and as expected has considerably larger impacts. CPTPP lowers the Japanese tariff rates on both fresh/chilled and frozen to 9 percent for Australia beef.

Table 2 shows the changes in the value (2018 USD) of U.S., Australia (AU) and rest-of-world (ROW) under the two scenarios of 1) Japanese tariffs on Australian beef declining to 9 percent with no change in tariffs on U.S. beef and 2) Japanese tariffs on Australian and U.S. beef declining to 9 percent. When the tariff is reduced to 9 percent on Australian beef (as with the CPTPP) but not changed for U.S. beef, then the value of Australian exports to Japan rises by 13 percent and the value of U.S. exports to Japan declines by 12 percent.

When the tariff rate on beef from both the U.S. and Australia is reduced to 9 percent then the value of beef exports from Australia and the U.S. increases by 6 and 17 percent, respectively. Note that Japan buys \$391 million more beef from both the U.S. and Australia when both face tariff rates of 9 percent. The results of this simulation emphasize the importance of reducing the tariff on U.S. beef imports to Japan, especially in the context of tariff reductions under the CPTPP on beef imports from Australia, the closest competitor to U.S. beef.

Table 2. Impact of Tariff Changes on Australian (AU) and U.S. Beef Exports (HS0201, HS0202) to Japan

Country/Product	Initial Tariffs (2019): 27.5 and 26.9 percent on Australian Fresh/Chilled and Frozen, respectively. 38.5% on U.S. Fresh/Chilled and Frozen		Scenario 1: Tariffs 9 % on AU, 38.5% on U.S.	Change in Value	Scenario 2: Tariffs 9 % on both AU and U.S.	Change in Value
	2018	(Million USD)	(Million USD)	(Million USD)	(Million USD)	(Million USD)
AU CHILLED	\$941	\$1,030	\$90	\$958	\$17	
US CHILLED	\$1,174	\$1,019	-\$155	\$1,339	\$165	
ROW CHILLED	\$130	\$128	-\$2	\$124	-\$7	
AU FROZEN	\$749	\$874	\$125	\$831	\$82	
US FROZEN	\$560	\$511	-\$49	\$687	\$126	
ROW FROZEN	\$178	\$189	\$11	\$201	\$23	
TOTAL	\$3,733	\$3,752	\$19	\$4,140	\$407	
AU Fresh, Chilled +Frozen	\$1,690	\$1,905	\$215	\$1,789	\$100	
US Fresh, Chilled + Frozen	\$1,734	\$1,530	-\$204	\$2,026	\$292	
ROW Fresh, Chilled +Frozen	\$309	\$317	\$8	\$325	\$16	

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