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U.S. Pork Faces Tariff Headwinds in Japan

Report Categories:

Agricultural Situation

Livestock and Products

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Report Highlights:

The agreement in principle between Japan and the European Union (EU) on a free trade deal in July 2017, and a potential Trans-Pacific Partnership (TPP-11) arrangement, could leave U.S. pork exports at a significant tariff disadvantage relative to competitors. The two agreements are likely to contain similar tariff concessions for a wide range of pork products including fresh, chilled, and frozen pork as well as processed products such as ham, bacon, sausage, ground seasoned pork, and canned ham. The Japan-EU agreement could enter into force as early as 2019 while Japan continues to advocate for a TPP-11 arrangement without the United States.

General Information:

On July 6, 2017, Japan and the European Union (EU) announced a framework agreement for the Japan-EU Economic Partnership Agreement (EPA). Japan's Ministry of Agriculture, Forestry, and Fisheries (MAFF) published on its [website](#) a summary of the tariff reductions for several EU agricultural products which largely resemble the concessions that Japan made in the Trans-Pacific Partnership agreement. Meanwhile, Japan is advocating for modifications to the Trans-Pacific Partnership (herein referred to as TPP-11) that would allow it to enter into effect without the United States. It can be reasonably expected that Japan's concessions for pork will remain largely unchanged in a TPP-11 agreement, meaning that key pork suppliers to Japan such as Mexico and Canada would enjoy virtually the same treatment as EU suppliers (primarily Denmark and Spain) under the Japan-EU EPA.

Duty Treatment for Fresh, Chilled, and Frozen Pork Cuts

Under World Trade Organization (WTO) most-favored nation (MFN) treatment, Japan applies a variable duty to imported fresh, chilled, and frozen pork up to 482 yen/kg for products valued below a specific price threshold (524 yen/kg) in addition to a 4.3 percent ad valorem tariff on all fresh, chilled, and frozen pork imports. This gate price system is explained in further detail in [Pork Policies in Japan](#) by the USDA's Economic Research Service (March 2003).

Under the Japan-EU EPA, the maximum variable duty levied on imports valued below the gate price will immediately fall from 482 yen/kg to 125 yen/kg in Year 1 of the agreement entering into force. In Year 5, the duty will drop to 70 yen/kg. The duty will continue to decrease annually until it reaches the final level of 50 yen/kg in Year 10. It is not yet publicly known if the annual tariff reductions occur in equal stages. The ad valorem tariff of 4.3 percent will immediately drop to 2.2 percent in Year 1, then decrease annually until the tariff is eliminated in Year 10. TPP-11 will have the same tariff schedule if the terms negotiated in the original Trans-Pacific Partnership remain unchanged. See Table 1.

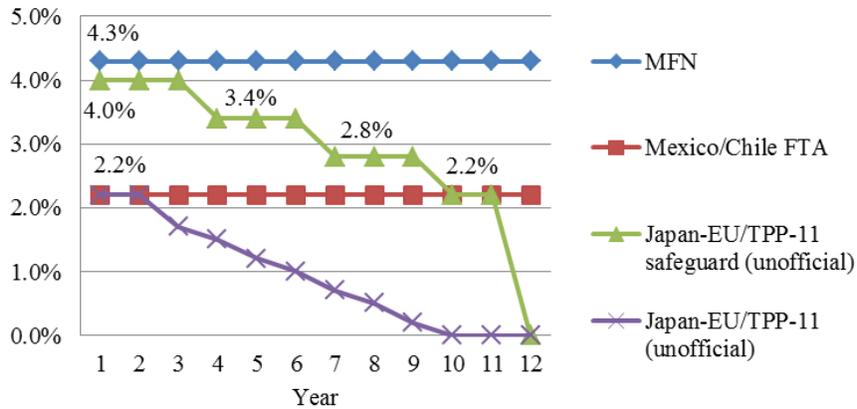
Table 1: Duties for Fresh, Chilled and Frozen Pork Cuts subject to the Gate Price System

Treatment	Variable duty	Ad valorem duty
WTO MFN Tariff	Up to 482 yen/kg	4.3%
Japan-EU EPA Tariff	Year 1: 125 yen/kg ↓ decrease annually Year 5: 70 yen/kg ↓ decrease annually Year 10: 50 yen/kg	Year 1: 2.2% ↓ decrease annually Year 10: 0%

Source: MAFF

Chart 1 below demonstrates how the ad valorem duty in the Japan-EU EPA and TPP-11 is expected to decrease over time compared to Japan's MFN commitments and existing trade agreements with Mexico and Chile.

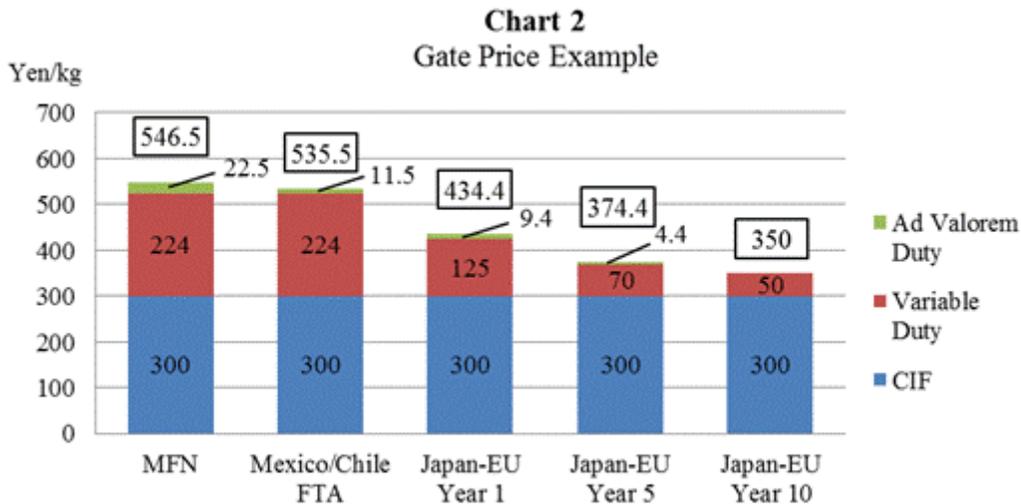
Chart 1
Gate Price Ad Valorem Duty for Fresh, Chilled, Frozen Pork



Source: FAS Tokyo

Note that the above annual phase-out levels for the EU and TPP-11 countries are illustrative and have not been confirmed by the Government of Japan. The current 2.2 percent tariff for Mexico and Chile is applied only to imports coming in under a tariff-rate quota (out of quota imports pay the MFN rate). TPP-11 treatment would likely replace the current FTA treatment for Mexico and Chile.

Chart 2 below shows illustratively how the variable duty and ad valorem duty would apply to fresh, chilled, or frozen pork product priced at 300 yen/kg CIF under the current MFN rates and at various stages of implementation of the Japan-EU EPA.



Source: FAS Tokyo

Table 2 below describes the safeguard mechanism for fresh, chilled, and frozen pork imports under the Japan-EU EPA. There are separate volume-based safeguard triggers for the variable duty and ad valorem duty. If one of the safeguards is triggered, the corresponding duty will increase for the remainder of the fiscal year in which the trigger occurred. Import volumes are calculated on a Japanese

fiscal year basis (April-March). Both safeguards will end in Year 12 of the agreement. TPP-11 is expected to have a similar percentage-based safeguard volume based on the TPP-12 outcome, but the quantity-based safeguard volume could be modified slightly to reflect fewer members of the agreement.

Table 2: Safeguards for Fresh, Chilled and Frozen Pork Cuts subject to the Gate Price System

Treatment	Variable duty	Ad valorem duty
Japan-EU EPA Safeguard Trigger Volume	Year 5: 63,000 MT ↓ increase annually Years 10-11: 105,000 MT Year 12: Safeguard eliminated	Based on average of previous three years of imports: Years 1-2: 112% Years 3-6: 116%* Years 7-11: 119%* Year 12: Safeguard eliminated *From Year 5 onwards only imports valued 399 yen/kg and above count against safeguard
Japan-EU EPA Safeguard Duty	Years 5-9: 100 yen/kg Years 10-11: 70/kg Year 12: Safeguard eliminated	Years 1-3: 4.0% Years 4-6: 3.4% Years 7-9: 2.8% Years 10-11: 2.2% Year 12: Safeguard eliminated

Source: MAFF

Duty Treatment for Processed Pork Products subject to Gate Price (Cured Ham, Bacon, etc.)

Certain processed products, including cured ham and bacon, are also subject to a gate price system under WTO MFN treatment. The gate price is set at 897.59 yen/kg with a maximum variable duty of 614.85 yen/kg and an ad valorem duty of 8.5 percent. Under the Japan-EU EPA, the variable duty will be cut to 307.87 yen/kg and the ad valorem duty will be cut to 4.3 percent in Year 1. The duties will decrease annually, reaching 154.38 yen/kg and 2.2 percent in Year 5. The duties will continue to fall annually until they are eliminated in Year 11, making the corresponding products tariff free. See Table 3.

Table 3: Processed Pork Products (including Ham and Bacon) subject to the Gate Price System

Treatment	Variable duty	Ad valorem duty
WTO MFN Tariff	Up to 614.85 yen/kg	8.5%
Japan-EU EPA Tariff	Year 1: 307.87 yen/kg ↓ decrease annually Year 5: 154.38 yen/kg ↓ decrease annually Year 11: 0 yen/kg	Year 1: 4.3% ↓ decrease annually Year 5: 2.2% ↓ decrease annually Year 11: 0%

Source: MAFF

The safeguard mechanism for these products is described in Table 2. If the safeguard is triggered, duties will increase for the remainder of the fiscal year in which the trigger occurred. The safeguard

ends in Year 12. See Table 4.

Table 4: Processed Pork Products (including Ham and Bacon) subject to the Gate Price System

Treatment	Safeguard Remedy
Japan-EU EPA Safeguard Volume	Based on average of previous three years of imports: Years 1-2: 115% Years 3-6: 118% Years 7-11: 121% Year 12: Safeguard eliminated
Japan-EU EPA Safeguard Duty	Years 1-4: 85% of MFN duties Years 5-9: 60% of MFN duties Years: 9-11: 45% of MFN duties Year 12: Safeguard eliminated

Source: MAFF

Duty Treatment for Processed Pork Products not subject to Gate Price (Canned Ham, Sausages, Ground Seasoned Pork, etc.)

Certain processed pork products such as canned ham, sausages, and ground seasoned pork are not subject to the gate price system. Under the Japan-EU EPA, tariffs for these products, which range from 10 to 20 percent, will be reduced in equal annual stages upon entry into force until the tariffs are eliminated in Year 6. TPP-11 is expected to contain similar, if not identical, tariff treatment for the same products. See Table 5.

Table 5: Processed Pork Products not subject to Gate Price

Product	MFN Tariff	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Sausage	10%	8.3%	6.6%	5.0%	3.3%	1.6%	0%
Other processed pork not subject to gate price (including ground seasoned pork, canned ham)	20%	16.6%	13.3%	10.0%	6.6%	3.3%	0%

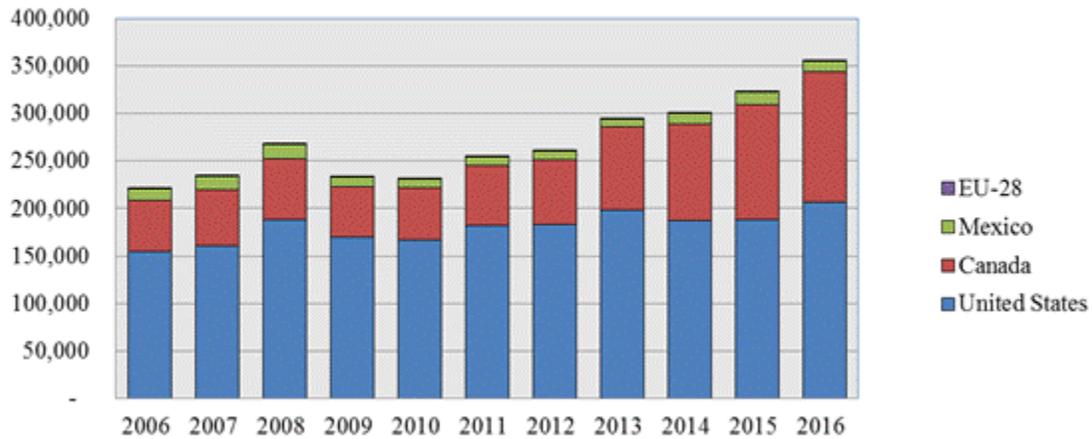
Source: MAFF

A safeguard mechanism is not expected to be established for these products under the Japan-EU EPA or the TPP-11 agreement.

Current Market Trends for U.S. Pork Exports to Japan

In 2016, Japan was the leading export market for U.S. pork valued at \$1.6 billion. In the fresh and chilled market, the United States was the top exporter to Japan accounting for 58 percent of the market. Canada, which has increased its share in recent years, accounted for 39 percent while Mexico, the third largest importer, accounted for just 3 percent. Both Canada and Mexico are members of the TPP-11 negotiating group. The EU is largely uncompetitive in this sector due to the long transport distance required for fresh/chilled product. See Chart 3.

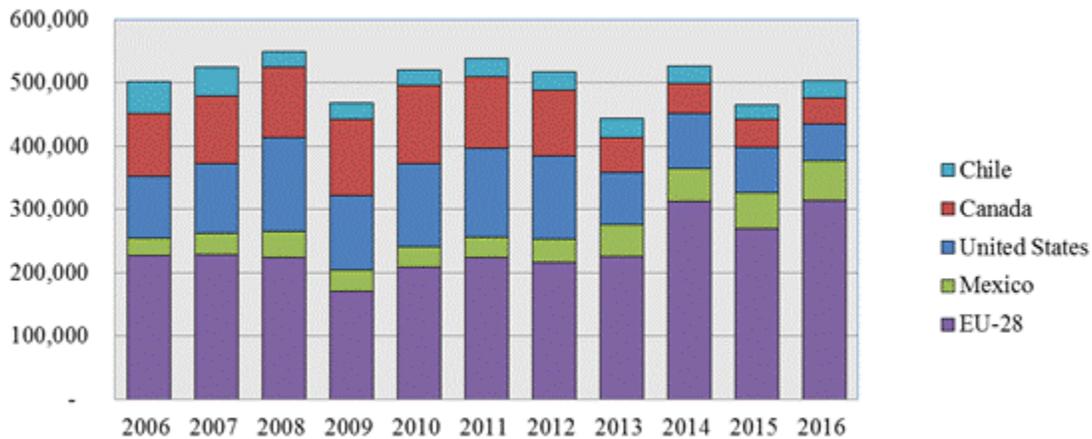
Chart 3
Japanese Pork Imports, Fresh/Chilled Cuts (MT)



Source: Global Trade Atlas. HS: 020311, 020312, 020319

The EU was the largest frozen pork exporter to Japan with a 62 percent share of the market in 2016. Within the EU, Denmark and Spain were the leading suppliers. Mexico was the second largest exporter, accounting for 13 percent of the market, followed by the United States at 11 percent and Canada at 8 percent. In recent years, both the EU and Mexico have increased their shares relative to the United States and Canada. See Chart 4.

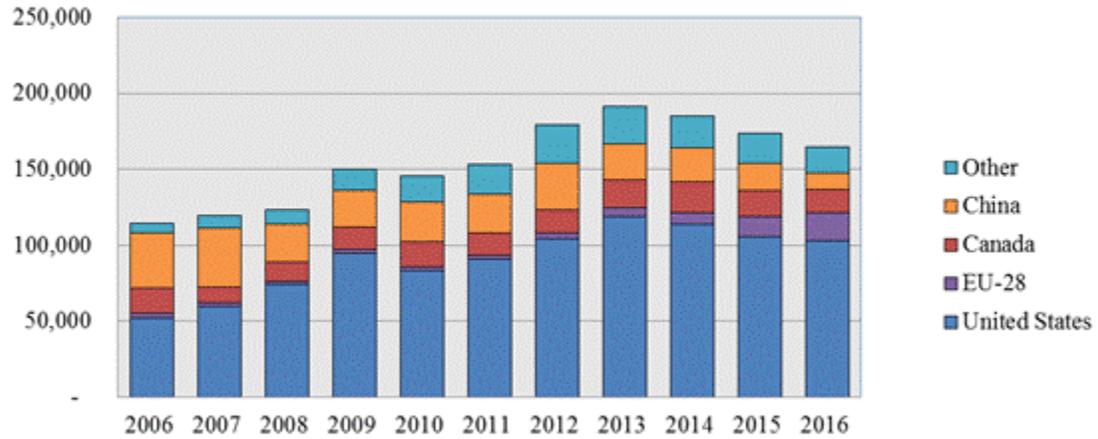
Chart 4
Japanese Pork Imports, Frozen Cuts (MT)



Source: Global Trade Atlas. HS: 020321, 020322, 020329

For cured ham and bacon subject to the gate price system, domestic industry dominates the Japanese market with over a 95 percent share, according to MAFF. For processed products not subject to the gate price system, such as sausages, ground seasoned pork, and canned ham, the United States was the largest importer with a 63 percent market share in 2016. The EU has continued to gradually make inroads into this market, becoming the second largest importer in 2016 with an 11 percent share. Canada maintained the third largest share at 8 percent. See Chart 5.

Chart 5
Japanese Pork Imports, Processed Pork not subject to Gate Price (MT)



Source: Global Trade Atlas. HS: 160100000, 160241090, 160242090, 160249090

More information on the Japanese pork market can be found in [JA7110](#) (Livestock and Products Annual) dated September 20, 2017.