National Pork Producers Council
Comments on Negotiating Objectives for a
U.S. Japan Trade Agreement
Docket Number USTR-2018-0034

The National Pork Producers Council (NPPC) submits the following comments in response to a Federal Register Notice issued by the United States Trade Representative, "Request for Comments on Negotiating Objectives for a U.S. – Japan Free Trade Agreement" (Docket Number USTR-2018-0034, Document Citation 83 FR 54164).

NPPC is a national association representing a federation of 42 state producer organizations. It represents the federal and global interests of 60,000 U.S. pork operations. The U.S. pork industry is a major value-added component of the agricultural economy, and a significant contributor to the overall U.S. economy. U.S. pork producers shipped 2.5 million tons, valued at $6.5 billion, to over 100 nations in 2017.

Background

Japan is an enormously important market for the U.S. pork industry, ranking as the number one value market in the world for U.S. pork exports ($1.6 billion) and the number two volume market (397,766 metric tons). Pork exports to Japan support over 13,000 U.S. jobs.

Given the importance of the Japanese market to the U.S. pork industry, NPPC is an enthusiastic supporter of the U.S. trade negotiations with Japan. Achieving a significant improvement in access to the Japanese market through these negotiations is of paramount interest to our industry. For reasons explained later in this report, it is also of vital interest to our industry that the trade negotiations with Japan take place on an expedited basis. An extended negotiation with Japan poses the very real threat of a major loss of U.S. market share to our biggest foreign competitors, who will in the very near future benefit from free trade agreements with Japan.

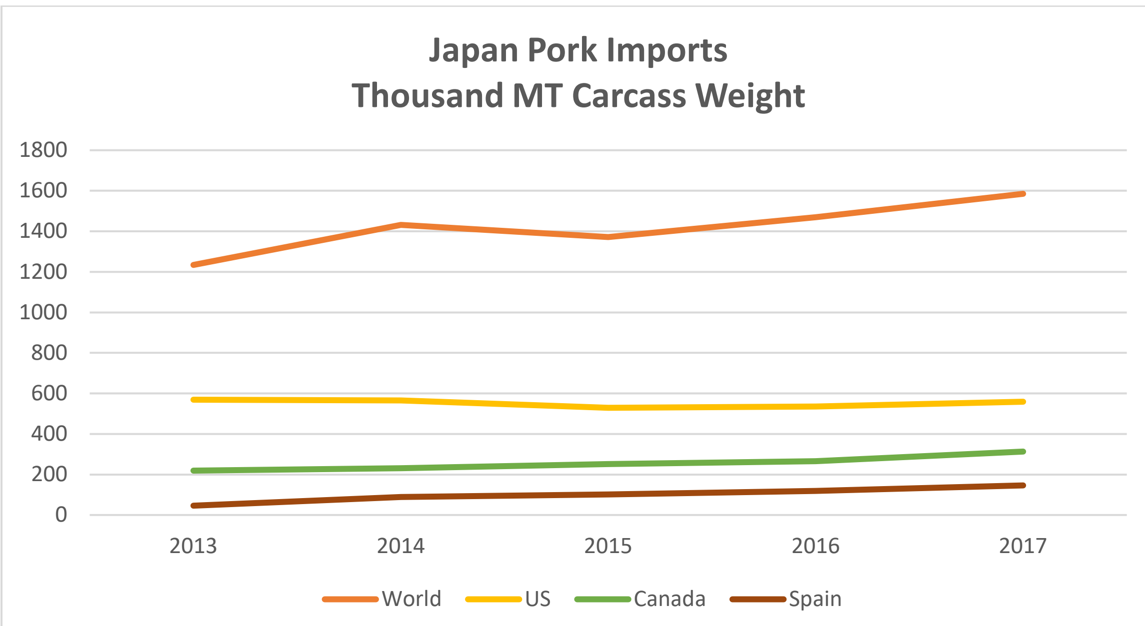
Maintaining or expanding our access in the Japanese market is particularly important as our industry faces retaliatory duties in two of our other largest markets. In the case of Mexico, our number one volume market for exports, we face a retaliatory duty of 20 percent, a response to the U.S. Section 232 duties on steel and aluminum. U.S. pork exports to Mexico have already begun to decline in response to these tariffs, a trend that will accelerate as long as the 20 percent duty remains in place.

In the case of China, our third largest volume market, we face cumulative duties on pork that range from 45 percent to 70 percent, imposed in response to the U.S. Section 232 duties on steel and aluminum and the Section 301 duties related to intellectual property. U.S. pork exports to China have plummeted in response to China's high retaliatory duties.

Given the problems we are facing in other major markets, Japan takes on even greater importance for our industry. While the United States remains the number one single country supplier of pork to Japan, we have seen a gradual erosion in our overall share of the Japanese market over the past five years because of increased sales by two of our main competitors in the market: Spain and Canada.

In the case of Spain, there are widespread industry reports that it has begun dumping frozen pork into the Japanese market at low prices because of the EU's loss of the Russian market, which is currently closed to EU pork because of African Swine Fever. While we know of no specific allegations of unfair trade practices in Canada, it is difficult to explain that country's sudden surge in fresh pork sales to Japan based on market conditions alone.

Graph 1



Although we view the recent loss of U.S. market share in Japan with concern, of far greater concern is the impending implementation of Japanese free trade agreements (FTAs) under the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and with the European Union. According to Iowa State Professor Dermot Hayes, these agreements pose the risk of a massive loss of U.S. sales to Japan after those FTAs go into effect.

On January 1, 2019, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) will go into effect for the six countries that have so far ratified the agreement – Japan, Canada, Australia, Mexico, New Zealand and Singapore. Under the terms of the agreement, Japan will provide other CPTPP countries with very large tariff reductions for pork, thus putting the United States at a major disadvantage in the Japanese market.

In addition, a free trade agreement between Japan and the European Union is likely to come into force in 2019. That agreement will provide tariff reductions for EU pork virtually identical to those Japan affords other CPTPP countries. With the Japanese tariff preferences in place, the EU, along with CPTPP suppliers such as Canada, Mexico and Chile (once that country ratifies the agreement), will be in a position to completely dominate the Japanese market, with the United States incurring a huge loss in market share.

Japan's Gate Price System

During the WTO Uruguay Round, Japan established WTO commitments for imported pork that involve the use of a "Gate Price" system. Under this system, most pork entering Japan above a pre-established gate price of 524 yen per kilogram is assessed a low *ad valorem* import duty of 4.3 percent, while pork entering below the gate price is assessed a variable specific duty that is based on the difference between the gate price and the Cost, Insurance and Freight (CIF) price of the imported product. Under Japan's WTO commitments, the maximum duties that Japan can apply to most pork products entering below the gate price is 482 yen per kilogram.

The effect of the Gate Price system is to significantly limit U.S. pork imports to Japan, particularly for lower priced pork cuts that are subject to higher duties.

Following are Japan's WTO bound duties under the Gate Price system. These duties apply to all world suppliers of pork to Japan that do not benefit from free trade agreements, including the United States.

Japan Gate Price System for Pork

Product	Tariff Line	WTO Gate Price Base Rate	Final Bilateral Gate Price	WTO Bound Duty
Carcasses, half carcasses	0203.11, 0203.21	553 yen/kg	393 yen/kg	
		--- below gate price		361 yen/kg
		--- above gate price		4.3%
Hams, shoulders	0203.12, 0203.22	738 yen/kg	524 yen/kg	
		--- below gate price		482 yen/kg
		--- above gate price		4.3%
Other Cuts	0203.19, 0203.29	738 yen/kg	524 yen/kg	
		--- below gate price		482 yen/kg
		--- above gate price		4.3%
Pork Offals	0206.38, 0206.49	738 yen/kg	524 yen/kg	
		--- below gate price		482 yen/kg
		--- above gate price		4.3%

Pork, edible offal, salted in brine, dried or smoked	0210.11, 0210.12, 0210.19	1245 yen/kg	897.59 yen/kg	
		--- below gate price		1035 yen/kg
		--- above gate price		8.5%
Other prepared or preserved pork	1602.41, 1602.42, 1602.49	1245 yen/kg	897.59 yen/kg	
		--- below gate price		1035 yen/kg
		--- above gate price		8.5%

Japan's Tariff Concessions to CPTPP Countries and the EU

Based on our examination of the relevant tariff schedules, Japan's tariff concessions on pork under its free trade agreements with the CPTPP countries and with the EU are virtually identical. Under the CPTPP and the Japan – EU FTA, Japan offers the following major tariff reductions for pork for the participating countries:

Gate Price

- For those pork products subject to Japan's Gate Price system under HTS 0203, duties applied for shipments arriving above the Gate Price are immediately reduced from 4.3% to 2.2%, then gradually phased out over an 11-year period.
- For those pork products subject to Japan's Gate Price system under HTS 0203, maximum duties applied for non-carcass shipments arriving below the Gate Price are immediately reduced from 482 yen per kilo to 125 yen per kilo, then gradually reduced to 50 yen per kilogram over a 10-year period.
- For those pork offal products subject to Japan's Gate Price system under HTS 0206, maximum duties applied shipments arriving below the Gate Price are immediately reduced from 482 yen per kilo to 125 yen per kilo, then gradually reduced to 50 yen per kilogram over a 10-year period.
- For processed pork products under HTS 0210 and 1602 subject to the Gate Price, maximum duties applied are immediately reduced from 1035 yen per kilogram to 307 yen per kilogram, then phased out over an 11-year period.

Tariff Only Products

- For tariff-only pork offal products (HTS 0206) and processed pork products (HTS 0210, 1601 and 1602), tariffs ranging from 8.5 to 20 percent will be phased down and eliminated over a range of seven to 11 years.

Given the scope and depth of these tariff concessions, they will provide the EU and CPTPP countries with an enormous competitive advantage in the Japanese pork market. Of equal concern, both the CPTPP and EU – Japan FTA concessions will be implemented in the very near future. In the case of the CPTPP, the agreement will go into effect for the six countries that have ratified (Japan, Canada, Mexico, Australia, New Zealand and Singapore) on January 1, 2019. In the case of the EU – Japan FTA, the agreement will go into effect sometime in 2019. Once these agreements are implemented, the United States will immediately be operating at a major competitive disadvantage in the Japanese market.

For these reasons, it is of vital interest to the U.S. pork industry that the U.S. trade negotiations with Japan be successfully completed on an expedited basis. It is also extremely important that 1) Japan's tariff reductions on pork match those provided to the CPTPP countries and the EU, and 2) that, once the U.S. - Japan agreement is implemented, Japan's tariff concessions to the United States on pork be frontloaded in a way that synchronizes those concessions with Japan's tariff reduction schedule for the CPTPP or the EU, thus allowing the U.S. pork industry to operate on a level playing field with other pork suppliers to the Japanese market.[1]

Japan's *Marukin* Subsidy Program

Japan's Hog Growing Stabilization Program (commonly referred to as the "Marukin Program") is an income deficiency payment scheme that has been in place for several years. In 2016, the Marukin Program was substantially revised in a manner that provides Japanese hog farmers with enhanced subsidy levels designed to protect farmers from anticipated price declines from the implementation of the TPP agreement.

Under the terms of the revised Marukin Program, Japan's Ministry of Agriculture, Forestry and Fisheries (MAFF) calculates average hog farm production costs on a quarterly basis, then compares those costs to market prices for average quality carcasses. If revenue generated by market costs is below the cost of production, MAFF provides a subsidy payment equal to 90 percent of the difference.

For example, if a hog farmer's revenue is 7,000 yen and production costs are 10,000 yen, the farmer will get a 2,700 yen subsidy ((10,000 – 7,000) x .90). Very large pork production facilities with over 300 workers are not eligible for the subsidy.

Prior to the 2016 reform, farmers received 80 percent of the difference between costs and revenue and financed half of the subsidy program through a pork check off program, the other half being covered by government subsidy. Under the terms of the new program, the subsidy is based on 90 percent of the difference between costs and revenue, and the government covers 75 percent of the subsidy.

Dr. Hayes has projected that the effect of the enhanced Marukin Program will be to significantly buffer Japanese farmers from the impact of Japan's trade agreements, thus generating

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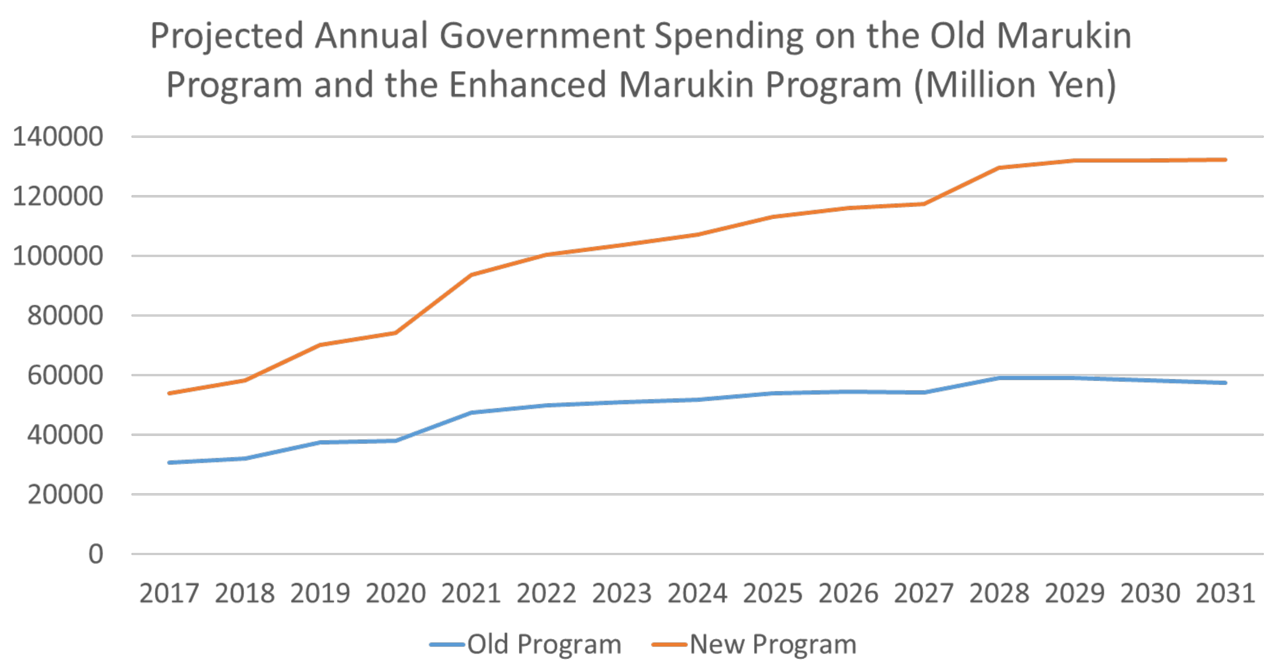
[1] The CPTPP agreement is scheduled to be implemented on January 1, 2019, earlier than the EU – Japan FTA. In this scenario, Japan's tariff concessions on pork to the United States should be frontloaded to match and synchronize with the tariff concessions on pork in the CPTPP agreement.

increased production and decreased import opportunities compared with what would take place in the absence of the program.

While NPPC views the Marukin Program with concern, we consider the reduction of Japanese tariffs on pork to levels Japan has provided under its other trade agreements to be by far our highest priority. Given our concern with an expedited conclusion of the U.S. – Japan trade negotiations, we would not want to see negotiations over the Marukin Program hold up the conclusion of the negotiations, and we view this as an issue that could be addressed after the negotiations are concluded.



Summary

As noted in this submission, it is of vital interest to the U.S. pork industry that the U.S. trade negotiations with Japan be successfully completed on an expedited basis. Failure to achieve a trade agreement with Japan would likely result in a major loss of U.S. pork sales to Japan, one of our most important export markets.

It is also extremely important that 1) Japan's tariff reductions on pork match those provided to the CPTPP countries and the EU, and 2) that, once a U.S, - Japan agreement is implemented, Japan's tariff concessions to the United States on pork be frontloaded in a way that synchronizes those concessions with Japan's tariff reduction schedule for CPTPP and the EU, thus allowing the U.S. pork industry to operate on a level playing field with other pork suppliers to the Japanese market.

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