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CPTPP Changes to Japanese Beef Market

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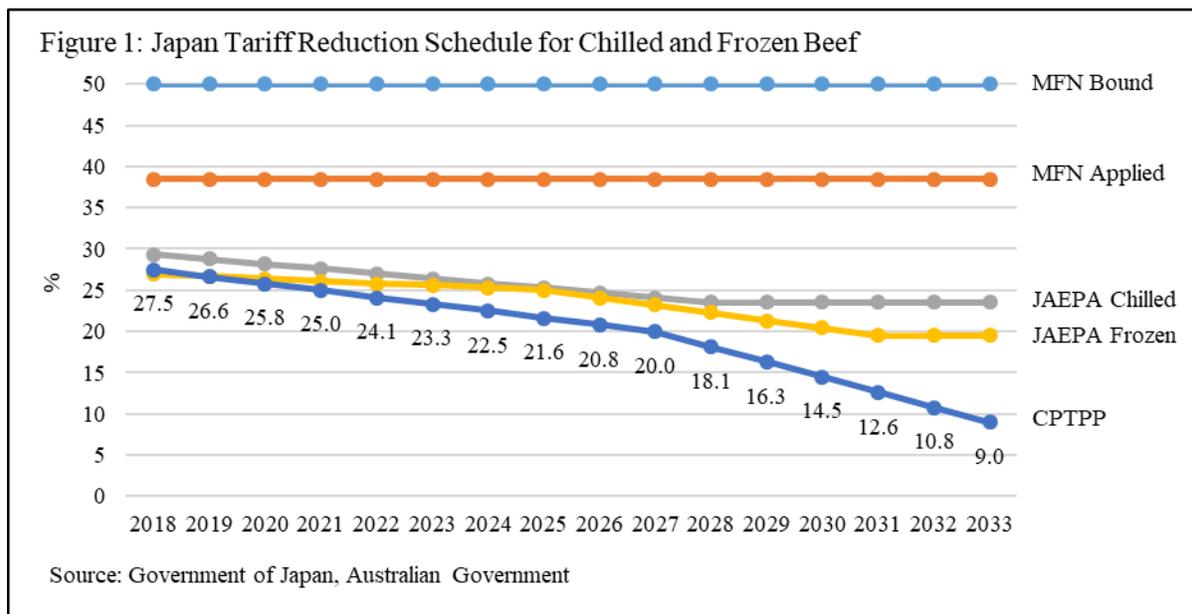
Report Highlights:

Under the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) which enters into force on December 30, 2018, Japan will lower duties on imported beef from CPTPP members including Australia, Canada, and New Zealand. On the same date, Japan will also revise the special safeguard mechanism for countries with which it does not have a free trade agreement as well as increase support for domestic beef producers under the “Marukin” program.

Preferential Tariff Treatment under CPTPP

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) will enter into force on December 30, 2018. For more detail, see [Japan's Cabinet Secretariat website](#). The members of CPTPP are Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam.

Under the agreement, tariffs on chilled and frozen beef will gradually decrease to nine percent over 15 years. Effective December 30, Japan will lower the tariff on chilled and frozen beef imported from CPTPP countries from the most-favored nation (MFN) rate of 38.5 percent to 27.5 percent. The tariff on cheek and head meat will drop from 50 percent to 39 percent. The tariff on frozen beef from Australia will continue to remain at 26.9 percent due to its existing bilateral free trade agreement with Japan (JAEPA).



A second round of tariff cuts will occur on April 1, 2019. The CPTPP tariff on chilled and frozen beef will fall to 26.6 percent. From this date, Australian frozen beef will also be subject to the CPTPP tariff rate. Cheek and head meat will fall to 36.8 percent. As seen in Table 1 below, tariffs will continue to fall each year on April 1, which is the beginning of the Japanese fiscal year JFY), before finally reaching nine percent in JFY 2033 (Year 16).

Table 1. Beef Tariff Reduction Schedule Agreement and Safeguard Triggers Level Under CPTPP

| | WTO | Year 1* | 2* | 3 | 4 | 5 | 6 | 7 | 8 |
|--|--------------------------------|---------------|---------|---------|---------|---------|---------|---------|---------|
| | | JFY** 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
| Chilled and Frozen Beef HS 0201, HS 0202 | 38.5 % | 27.5 % | 26.6 | 25.8 | 25.0 | 24.1 | 23.3 | 22.5 | 21.6 |
| Chilled and Frozen Cheek and Head Meat HS 0206.10.020, HS 0206.29.020 | 50.0 % | 39.0 % | 36.8 | 34.7 | 32.6 | 30.5 | 28.4 | 26.3 | 24.2 |
| Safeguard Trigger Level (Metric Ton) | | 590,000 | 601,800 | 613,600 | 625,400 | 637,200 | 649,000 | 660,800 | 672,600 |
| Safeguard Tariff Rate | Chilled and Frozen Beef | 38.5 % | | | 30.0 | | | | |
| | Cheek and Head Meat | 39.0 % | 38.5 | | 32.7 | 30.6 | 30.0 | | |

| | WTO | Year 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 |
|--|--------------------------------|-------------|---------|---------|---------|---------|---------|---------|---------|
| | | JFY 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 |
| Chilled and Frozen Beef HS 0201, HS 0202 | 38.5 % | 20.8 % | 20.0 | 18.1 | 16.3 | 14.5 | 12.6 | 10.8 | 9.0 |
| Chilled and Frozen Cheek and Head Meat HS 0206.10.020, HS 0206.29.020 | 50.0 % | 22.1 % | 20.0 | 18.1 | 16.3 | 14.5 | 12.6 | 10.8 | 9.0 |
| Safeguard Trigger Level (MT) | | 684,400 | 696,200 | 702,100 | 708,000 | 713,900 | 719,800 | 725,700 | 731,600 |
| Safeguard Tariff Rate | Chilled and Frozen Beef | 30.0 % | | | 20.0 | | | 18.0 | *** |
| | Cheek and Head Meat | 30.0 % | | | 20.0 | | | 18.0 | *** |

Notes:

* Year 1 is considered to be from December 30, 2018 to March 31, 2019 and Year 2 will start April 1, 2019.

** Japanese fiscal year (JFY) is from April 1 to March 31.

*** Tariff under safeguard in Year 16 and after will decrease 1 % from the previous year if safeguard was not implemented the year before.

Source: [Cabinet office, Government of Japan](#)

CPTPP member countries will be subject to a CPTPP-specific beef safeguard and exempt from the MFN special safeguard (SSG) described in the section below. The CPTPP-specific safeguard includes chilled, frozen, cheek, and head meat. The initial annual volume will be nominally set at 590,000 metric tons for JFY 2018. However in practice Japan will use one fourth of this amount (147,500 MT) as the safeguard volume for January-March 2019. The full year volume of 601,800 MT will be applied beginning April 1, 2019 and grow by 11,800 MT each year thereafter until JFY 2028. During this period, the CPTPP safeguard will be calculated on an annual basis rather than quarterly and only trigger a tariff increase if year-end imports exceed the safeguard volume.

The safeguard tariff for chilled and frozen beef starts at 38.5 percent in JFY 2018, declines to 18 percent by JFY 2032, and will continue to fall one percent each year if the safeguard does not trigger (otherwise it remains the same). The safeguard becomes quarterly from JFY 2028 through JFY 2032, growing annually by 5,900 MT. After JFY 2032, the safeguard volume will again increase by 11,800 MT

annually. However, if the safeguard does not trigger for four consecutive years after JFY 2032 then it will be eliminated completely.

The Japan-European Union (EU) Economic Partnership agreement anticipated to enter into force on February 1, 2019 contains identical tariff concessions for beef. The safeguard mechanism also functions similarly, however the first year volume will be 43,500 MT growing incrementally to 50,500 MT in ten years and continuing to grow annually thereafter. Similarly, if the safeguard does not trigger for four consecutive years after JFY 2032 then it will be eliminated.

Changes to the Special Safeguard (SSG) for non-EPA countries

Japan’s special safeguard (SSG) under the World Trade Organization (WTO) is applied to countries with which Japan does not have an economic partnership agreement (herein referred to as “non-EPA countries”). The safeguard is triggered when beef import volumes exceed 117 percent of the volume of imports in the previous JFY from (a) all trading partners and (b) from the non-EPA countries (see [JA7106](#)). Volumes are calculated on a cumulative quarterly basis and both conditions a) and b) described above must be satisfied to trigger the safeguard which increases the tariff from 38.5 percent to 50 percent for the remainder of the fiscal year. The SSG affects only chilled and frozen cuts and does not include head and cheek meat.

When CPTPP enters into force, the United States will become the only major beef supplier to Japan in the non-EPA category. To reflect this change, Japan will revise the previously announced safeguard trigger volumes for non-EPA countries for the third and fourth cumulative quarters of JFY 2018 (April-December and April-March, respectively) so that New Zealand, Canada, and other CPTPP countries are excluded from the calculation.

Table 2: FAS/Tokyo Projected SSG Volumes after CPTPP Revision

Unit: Metric Ton (Custom Clearance basis)

| | | JFY 2017 | JFY 2018 | |
|----------------------|----------------------------|---|----------------------------------|--|
| | | Actual Imports from Non-EPA Countries (excluding CPTPP members) | Current Non-EPA Safeguard Volume | Projected Revised Non-EPA Safeguard Volume (excluding CPTPP members) |
| Chilled Beef HS 0201 | Q1 - Q3 (April – December) | 107,379 | 133,837 | 125,633 |
| | Q1 - Q4 (April – March) | 138,906 | 173,251 | 162,520 |
| Frozen Beef HS 0202 | Q1 - Q3 (April – December) | 81,123 | 118,330 | 94,914 |
| | Q1 - Q4 (April – March) | 93,743 | 136,775 | 109,679 |

Source: Ministry of Finance, FAS/Tokyo estimate

Note: These are FAS/Tokyo estimates, subject to change, and not official Government of Japan figures

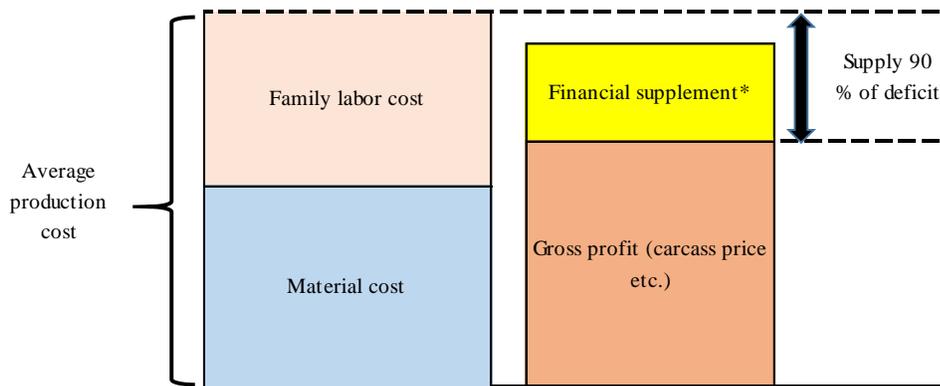
FAS/Tokyo anticipates that the Government of Japan will later conduct a second revision of the JFY Q4 trigger volume next year to account for the anticipated effectuation of the Japan-EU EPA on February 1,

2019 by removing EU countries from the non-EPA trigger calculation. In JFY 2017, Japan imported 84 MT of chilled beef and 894 MT of frozen beef from the EU.

Changes to Domestic Support Program for Beef Producers

As previously reported by FAS/Tokyo (see [JA8003](#)), the Government of Japan will increase support for domestic beef producers under the Beef Livestock Stabilization Program, also known as *Marukin*, when CPTPP enters into force. Under the program, support payments are issued to beef producers when average production costs exceed average revenue. Payments are made from a joint fund in which the Government of Japan contributes 75 percent and eligible producers contribute 25 percent. When activated, the program currently pays eligible producers 80 percent of the difference between costs and revenue. However payments will increase to 90 percent upon effectuation of the CPTPP agreement on December 30, 2018.

Figure 2: "Marukin", a Japanese Government's financial measure to stabilize the management of beef cattle and swine livestock growers



* Fund is prepared and deposited by government (3/4) and farmers (1/4)

Source: MAFF

For more information on the Japanese beef market, including payments made under the beef *Marukin* program, see the FAS/Tokyo Livestock and Products Annual Report: [JA8043](#).